

Platform for Kungsleden's continued focus in place

RESULTS IN BRIEF

Interim period (January–March)

- Net sales decreased by 12 per cent to SEK 487 (556) m and gross profit reduced by 8 per cent to SEK 281 (305) m due to a smaller property portfolio.
- Profit from property management was SEK 88 (117) m, equivalent to SEK 0.60 (0.85) per share.
- Profit before tax was SEK 236 (374) m, and SEK 208 (113) m after tax, or SEK 1.50 (0.80) per share. The profit increase after tax is mainly due to the first quarter 2012 being charged with a large provision for tax risks.
- Cash flow from operating activities was SEK 131 (120) m, or SEK 1.00 (0.90) per share.
- The property portfolio as of 31 March 2013 consisted of 278 (278) properties with a book value of SEK 15,823 (15,777) m.

SIGNIFICANT EVENTS

Interim period (January–March)

- On 15 February 2013, Kungsleden transferred possession of the shares of Hemsö to AP3 (the Third Swedish National Pension Fund), which also redeemed a shareholder loan. Accordingly, Kungsleden significantly strengthened its liquidity. Simultaneously, Kungsleden took possession of 11 properties purchased from Hemsö for SEK 1,549 m.
- No properties were purchased or sold in the first quarter.
- In anticipation of planned property purchases, Kungsleden made substantial repayments on interest-bearing loans.
- Thomas Erséus resigned as Chief Executive of Kungsleden and left the company coincident with the Annual General Meeting on 18 April.

After the end of the period

- Anders Kvist was appointed Interim Chief Executive of Kungsleden, effective 19 April.

A COMMENT FROM ANDERS

Kungsleden took the first steps in implementing its new strategy in the first quarter. The sale of its interest in Hemsö was completed, which significantly strengthened Kungsleden's liquidity. Simultaneously, the company took possession of the 11 properties, worth SEK 1.5 billion, which were purchased from Hemsö. Kungsleden is now engaged in goal-oriented efforts to identify and evaluate other appropriate acquisition opportunities. Kungsleden has the capacity to purchase properties with a value of SEK 4 billion over the next 12 months, but we are allowing the search and purchase process to take the time necessary to achieve a positive outcome. In this period, the liquidity freed up is being invested by amortising bank borrowings, which will result in lower interest costs over time.

Results for the quarter The property portfolio was smaller than in the first quarter of last year as a result of property sales in the course of 2012. Accordingly, in the first quarter, net sales decreased by 12 per cent to SEK 487 m. However, in like-for-like portfolio terms, rents held up well, and vacancies continued to decrease somewhat.

Lower rental revenues due to a smaller portfolio also fed through to gross profit, which fell by 8 per cent to SEK 281 m. A long and severe winter, which increased costs, mainly for heating, contributed to the downturn.

With Kungsleden's new strategy, profit from property management is now the most important earnings indicator, which accurately reflects the long-term value creation and fundamental cash flow. Profit from property management consists of gross profit less costs for central administration and net financial items. The profit from property management for the quarter was SEK 88 m, down SEK 29 m year on year, mainly due to a decrease in gross profit.

In the quarter, Kungsleden commenced its cost reduction programme. The target is to downscale the central cost base by approximately 10 per cent on 2012, with full impact by 2014. The company has made good progress after the first quarter in terms of the underlying trend. Sales and administration costs for the first quarter were SEK 52 m, which although up SEK 4 m on the previous year, also includes a non-recurring cost of SEK 9 m for salary and other personnel costs for the departing Chief Executive.

The net financial position is consistent with the corresponding period of the previous year. Lower interest costs after amortisation and downscaling the swap portfolio affected this cost item positively, while items including higher bank margins from re-financing last year had a negative effect.

Profit for the period after tax was SEK 208 m, against SEK 113 m for the corresponding period of 2012. Profit for the first quarter 2012 was charged with provisioning for tax risks.

Lettings market Kungsleden's lettings market remains stable. The company is focusing on industrial/warehouse, office and retail properties in Greater Stockholm, Mälaren Valley, south-western Sweden and growth locations in northern Sweden. These are segments and regions that exhibit high total yields and low market risk historically. Kungsleden has reported positive net letting in recent years. However, net letting was

negative in the first quarter of the year, at SEK –5 m, but we are still optimistic regarding our lettings business. In terms of results, the trend remains positive because positive net lettings in the previous quarter are greater than this quarter's negative figure, and there is a time delay between new signings/terminated contracts and the actual rental period.

Tax position and financial capacity No major changes occurred on the tax front in the quarter. Kungsleden judges that the risks in the company's current tax proceedings have not changed since the previous quarter. Negative rulings were received from the administrative court level on tax cases regarding impairment of lagerandelar¹ in March, for more information, see pages 10–11. Another case that the Administrative Court of Appeal ruled against Kungsleden in 2012 took legal effect in April 2013 when the Supreme Administrative Court rejected leave of appeal.

The sale of Hemsö freed up funds that enable Kungsleden to maintain a contingency to satisfy the potential liquidity requirement from ongoing tax proceedings. Temporarily, this liquidity has been used to amortise borrowings, but Kungsleden has agreed with its banks that its credit facilities can be drawn down again as required. The liquidity contingency for this purpose is currently SEK 2.9 billion.

Outlook All of Kungsleden's focus is now on executing its new strategy. Within the company, we are full of confidence that in the long term, Kungsleden will be able to create shareholder value by managing, improving and purchasing properties. The company has had a strong principal owner for some time now. This ensures stability and a long-term approach.

We are now focusing on investing in properties on those partial markets that are returning sustainable and stable turnover over time. In a horizon of several years, we may make SEK 5–6 billion of investments. We regard supply on the market as fully sufficient, and we are noting good investment opportunities in medium-risk properties with property yields of between 7.0 and 8.5 per cent.

We will be working on our net financial position and reducing administration costs. Through these measures, and the results we generate from a larger property portfolio, we intend to achieve our target of restoring cash flow from the period when Kungsleden held 50 per cent of Hemsö within 18–24 months.

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Interim Chief Executive

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Kungsleden's business concept is to own, manage and enhance properties in Sweden's growth regions, and to generate sustainable high and stable returns. The focus on value creation is by satisfying customers' needs for premises, managing and enhancing properties, and optimising the company's property portfolio. Kungsleden has been quoted on Nasdaq OMX Stockholm since 1999.