

The fourth quarter marked a turning-point for Kungsleden strategically and financially—Chief Executive handing over the reins

We strengthened our property management activities further in 2012, and executed a number of transactions late in the year with good results, which improve Kungsleden's property portfolio. The sale of our holdings in Hemsö in the fourth quarter brought Kungsleden greater financial flexibility, as well as the security to manage a potential worst case in the tax proceedings we are involved in.

“After tax risks and the effects of high fixed borrowing rates in recent years compelled us to adopt a more defensive attitude, we were able to leave 2012 well positioned to execute the strategic realignment the Board of Directors and management had been working on in the year—a realignment focused on long-term value creation through managing and enhancing wholly owned properties. Against this background, and after nearly seven years leading Kungsleden, this is an appropriate time for me to hand over to someone new. Accordingly, I will be leaving Kungsleden in tandem with the AGM on 18 April.” commented Kungsleden's Chief Executive Thomas Erséus.

RESULTS IN BRIEF

Full year 2012

- Net sales increased by 3 per cent to SEK 2,110 (2,047) m and gross profit increased by 4 per cent to SEK 1,328 (1,277) m with a larger property portfolio.
- Profit before tax was SEK 1,165 (693) m and profit after tax was SEK 352 (638) m, or SEK 2.60 (4.70) per share. The decrease in profit after tax is mainly due to provisions for tax risks, while profit before tax increased due to the sale of the Hemsö Fastighets AB shares.
- Cash flow from operating activities was SEK 163 (585) m.
- Profit for calculating dividends for the full year 2012 was SEK 1,917 (703) m, corresponding to SEK 14.00 (5.20) per share.
- As of 31 December 2012, the property portfolio consisted of 278 (324) properties with a book value of SEK 15,777 (15,693) m.
- The Board of Directors is proposing a dividend of SEK 1.00 (2.60) per share. This marks a change from the previous stated intention, of not proposing a dividend. Even if uncertainty regarding tax proceedings persists, the Board of Directors considers that financial strength has increased significantly after the sale of Hemsö.

Fourth quarter (October – December)

- Net sales decreased by 10 per cent to SEK 494 (550) m and gross profit decreased by 8 per cent to SEK 309 (336) m as a result of a smaller property portfolio. The operating surplus margin increased by just over 1 per cent to 69.7 (68.4) per cent.
- Profit before tax amounted to SEK 677 (348) m and profit after tax was SEK 923 (303) m, or SEK 6.80 (2.20) per share. The profit increase was attributable to the sale of Hemsö.
- Cash flow from operating activities was SEK 66 (136) m.

SIGNIFICANT EVENTS

Full year 2012

- 59 (18) properties were sold for SEK 1,666 (1,199) m with a profit of SEK 16 (56) m. Sales affected profit for calculating dividends by SEK 125 (114) m. 11 (44) properties were purchased for SEK 1,549 (4,200) m after deducting for deferred tax.
- Tax rulings affecting Kungsleden and external companies increased the risk of negative outcomes for Kungsleden in a number of ongoing tax proceedings. Accordingly, SEK 340 m of provisioning was charged to profit for calculating dividends, and a tax cost of SEK 985 m was charged to the Income Statement.
- A major portion of the loan portfolio was refinanced in the year. Current credits and credit facilities have an average maturity of 2.2 years.

Fourth quarter (October – December)

- Kungsleden reached an agreement to sell the remaining 50 per cent of the shares of Hemsö to AP3 (the Third Swedish National Pension Fund) including repayment of a shareholder loan for a total purchase price of SEK 3,320 m. This transaction created a capital gain of SEK 631 m and affected profit for calculating dividends by SEK 1,507 m. Kungsleden simultaneously purchased 11 properties from Hemsö for SEK 1,549 m, at a property yield of 7.0 per cent.
- 15 (14) properties were sold for SEK 552 (1,019) m with zero profit, against a gain of SEK 22 m in the previous year. The biggest sales transaction was of 9 properties in Stockholm and Malmö to Castellum for SEK 380 m. 11 (3) properties were purchased for SEK 1,549 (11) m.

After the end of the period

- On 15 February 2013, Kungsleden will transfer possession of Hemsö shares to AP3 as planned, and will also receive repayment of its shareholder loan. Simultaneously, Kungsleden will take possession of 11 properties purchased from Hemsö for SEK 1,549 m. These properties will be financed through raising borrowings of SEK 1,017 m and SEK 532 m from cash reserves.
- The details of the previously communicated strategy process were finalised in the first quarter of 2013. This has implications including:
 - The overall target is to maximise cash flow growth within the financial restrictions set, to secure a healthy balance sheet in the short and long term:
 - Liquidity contingency (cash and available credit facilities of SEK 2.9 billion, corresponding to the worst case of tax proceedings until the company has gained clarity as to the outcome)

- Loan to value ratio 60 per cent for new credits
- The equity ratio should be over 30 per cent
- o The return on equity target of 15 per cent is difficult to attain. In current market conditions, a return on equity of less than 10–12 per cent is not expected.
- o Review of central costs to generate a saving of 10 per cent.
- The Board intends to transfer to a new dividend policy from 2013 onwards, which should better reflect Kungsleden's long-term value creation. Profit for calculating dividends will no longer be a target.
- Thomas Erséus has resigned as Chief Executive of Kungsleden and will be leaving the company in tandem with the AGM on 18 April.

A COMMENT FROM THOMAS

Kungsleden is completing the sale of the remaining shares of Hemsö in February, which marks a turning-point for the company strategically and financially. Both our wholly owned properties and modular lettings produced higher gross profits, and Kungsleden's lettings market demonstrated its resilience in weaker economic conditions.

We reinforced our property management operation further in 2012, and completed a number of transactions, with good results, late in the year, which enhance Kungsleden's property portfolio. By selling our holding in Hemsö in the fourth quarter, Kungsleden attained greater financial flexibility and the security to cope with a potential worst case for the tax proceedings we are involved in. After tax risks and the effects of high fixed borrowing rates in recent years compelled us to adopt a more defensive attitude, we were able to leave 2012 well positioned to execute the strategic realignment the Board of Directors and management had been working on in the year—a realignment focused on long-term value creation through managing and enhancing wholly owned properties.

Against this background, and after nearly seven years leading Kungsleden, this is an appropriate time for me to hand over to someone new. Accordingly, I will be leaving Kungsleden in tandem with the AGM on 18 April.

Results for the quarter Over the past five quarters, Kungsleden has been a net seller of properties, which for the fourth quarter 2012, is evident in sales decreasing by 10 per cent year on year. Gross profit was down 8 per cent. However, the operating surplus margin improved by 1 percentage point to nearly 70 per cent. Profit after tax increased by SEK 533 m as a consequence of us selling our holdings in Hemsö. Undoubtedly, the Hemsö sale was the highlight of the quarter. The transaction is significant in two senses. Firstly, it finally realises the substantial values we have created for Kungsleden's shareholders over the past 11 years by building and developing a portfolio of social services properties. Secondly, we could free up funds tied up in Hemsö, increasing our financial readiness, and enabling us to invest in wholly owned properties in accordance with our new strategy. In the short term, the sale means Kungsleden losing earnings from Hemsö, but over time, the reinvestment of freed up funds will generate increased

profits. In tandem with this transaction, Kungsleden purchased 11 properties from Hemsö for SEK 1.5 billion, which even in the short term, will start to make up for the lost earnings.

A summary of 2012 Kungsleden continued to build values in property management in the year by attracting good tenants, as well as endeavouring to secure long lease contracts and high occupancy levels. Even if economic progress in Europe and Sweden featured uncertainty, Kungsleden's lettings market proved resilient. Net lettings for the year were positive, at SEK 15 m, and new lettings increased to SEK 80 m.

Profits from property management, which indicate the company's gross profit less net financial items and sales and administration costs, increased by 2 per cent to SEK 485 m. This is a lower rate of increase than previously in the year, as the effect of the large-scale property purchase in the second quarter 2011 is now starting to taper off in the comparative figures.

Further down in the Income Statement, there were effects that partly cancelled each other out in the year. The unrealised value increases on properties were lower this year, while on the other hand, the negative unrealised value changes on financial instruments were significantly lower than the previous year. Overall, profit before tax increased sharply for the full year, amounting to SEK 1,165 (693) but decreased after tax to SEK 352 (638) m, after having been charged with SEK 985 m of tax provisions in the first half-year.

Our portfolio optimisation process continued in 2012. The Swedish transaction market concluded the year on a brisk fourth quarter, largely due to large transactions in city centre locations, and our own sale of the remaining holdings in Hemsö. For Kungsleden's part, the transaction market brightened through the autumn, when access to funding eased, and lending terms improved somewhat. In total for the year, 59 properties were sold with a value of just over SEK 1,600 m. Two of the larger property sales were 39 properties for SEK 912 m in the third quarter, and a package of nine properties for SEK 380 m in the fourth quarter.

Outlook going forward Through the autumn and winter, the Board and management worked on preparing a new strategy for the company. I think the result is really positive, and in the spring, work will move to an implementation phase.

Executing this change and ensuring the company gets the full pay-off from the transition is a fairly long-term commitment, and accordingly, a task for the new Chief Executive. My time at Kungsleden has been exciting and interesting. I was appointed at the end of a strong economic upturn, when there were a lot of transactions. I'm leaving after a period when we've focused sharply on property management and enhancing our properties. I think these initiatives have been successful, and we have reason to be proud of them. We've also had to manage a number of tax proceedings from previous transactions and high fixed interest costs. Our share price has been negatively affected by the tax risks, but underlying property values in Kungsleden have grown, and SEK 5.5 billion has been transferred to shareholders through dividends and redemptions.

From 2013 onwards, the Board of Directors intends to adopt a new dividend policy to better reflect Kungsleden's long-term value creation. In a few years' time, when

Kungsleden's definitive tax position is clear, the target is for dividends to amount to 50 per cent of profit from property management. However, in the coming years, dividends will be lower and adapted to the need for liquidity contingency and investments in properties for future earnings. Thanks to Kungsleden's increased financial strength after the sale of Hemsö, the Board of Directors is proposing a dividend of SEK 1 per share for 2012, instead of the previous intention to cancel the dividend.

Thomas Erséus

Chief Executive

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Kungsleden's strategy is to ensure sustainable high and stable returns proceeding from its existing holding, and through acquisitions and divestments. As of 31 December 2013, the property portfolio comprised 278 properties with a book value of SEK 15.8 bn. The portfolio was located in a total of 99 municipalities, mainly in southern and central Sweden. Kungsleden has been quoted on the Nasdaq OMX Stockholm since 1999.