

Press release

15 August 2014

## Interim Report January – June 2014

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### RESULTS IN BRIEF

#### Second quarter (April – June)

- Net sales increased to SEK 691 (564) million and gross profit increased to SEK 423 (313) million.
- Profits from property management improved and were SEK 215 (133) million, which corresponds to SEK 1.58 (0.98) per share.
- Net letting was SEK –3 (7) million.

#### Interim period (January – June)

- Net sales increased to SEK 1,398 (1,051) million and gross profit increased to SEK 831 (594) million.
- Profits from property management improved and were SEK 410 (221) million, which corresponds to SEK 3.00 (1.62) per share.
- Net letting was SEK 9 (2) million.

### COMMENTS ON EVENTS DURING AND AFTER THE QUARTER

- During the interim period, properties were sold for SEK 1.5 billion. The year's sales during the first half of the year including the start of the third quarter total SEK 2.2 billion. Profit on sales during and after the second quarter total approximately SEK 160 million and the year's total sales are expected to result in a profit after tax of approximately SEK 190 million.
- In operations, there is still a strong focus on active administration. Gross profit for the quarter increased by 35 per cent during due to larger property holdings and a higher net operating income. Borrowing costs did not increase at a corresponding rate to operating income, which also contributed to the sharp increase in profits from property management of 62 per cent to 215 (133) million.
- A successful refinancing of syndicated bank credit of SEK 4.5 billion was executed and the average interest rate was reduced to 5.1 per cent as of 1 July compared to 5.8 per cent at the beginning of the year.
- Profit before tax, excluding changes in the value of financial instruments, improved to SEK 427 (136) million. There was a significant impact on profit after tax and cash flow from negative tax rulings by the Court of Appeal. A

reserve for ongoing tax processes was made for SEK 1,640 million and tax was paid to the Swedish Tax Agency of SEK 1,000 million.

- During the summer, Kungsliden started a process aimed at selling its subsidiary, Nordic Modular Group.
- Kungsliden's Board of Directors has decided to convene an extraordinary general meeting on 16 September 2014. The Board is recommending a new issue of approximately SEK 1.5 billion with preferential rights for the share owners aimed at creating greater financial freedom and the conditions that will enable the company to achieve its growth goals, thus generating extra value for its shareholders.

### **Comments from Biljana Pehrsson, CEO**

Refinement of the property portfolio accelerated during and after the second quarter, not least due to the sale of 39 properties in Northern Sweden. Already in July, we exceeded our goal to divest non-strategic properties in 2014 for SEK 1–1.5 billion. The portfolio was further consolidated via sales of a large number of smaller properties or individual properties in one region in order to achieve a more administratively efficient portfolio. During the year, we will exit 15 municipalities and as of 1 September, we will be present in 95.

The year's sales through July total just over SEK 2.2 billion and the prices obtained were very good. On average, the carrying amount was exceeded by more than 10 per cent and the sales are expected to give a profit after tax of approximately SEK 190 million.

In operations, the focus is on active administration. Gross profit for the quarter increased by 35 per cent to SEK 423 million due to larger property holdings and a higher net operating income. Operating surplus margin increased to 68.0 (64.1) per cent. Central administrative costs were at the same level as the corresponding period in 2013. Borrowing costs increased at a slower rate than operating net, which also contributed to the sharp increase in profits from property management to 215 (133) million.

As expected, the financial occupancy rate fell to 88.0 (90.6) per cent due to a lower occupancy rate at the GE properties. During the quarter, the rate of new letting increased and new leases were signed for a total of 40,000 sq.m. However, net letting was SEK 3 million lower due to two major terminations. These spaces are already being leased.

Due to a successful refinancing of our syndicated bank credit of SEK 4.5 billion, we were able to increase the average maturity on overall borrowings by almost 1.5 years to an average of more than 3 years and the average interest rate was reduced to 5.1 per cent compared to 5.8 per cent at the beginning of the year.

Profit before tax was SEK 302 (332) million, despite the impact on the quarter from negative unrealized changes (i.e. losses) in the value of financial instruments of SEK –125 (196) due to falling long-term interest rates. Realized and unrealized changes in

the value of properties of SEK 212 (3), which are primarily attributable to sales, had a positive impact on profits.

Profit before tax, excluding changes in the value of financial instruments, improved to SEK 427 (136) million. There was a significant impact on profit after tax from the provision for previously communicated tax rulings in the Court of Appeal for SEK 1,640 million. The tax rulings pertain to transactions that occurred during the years 2004 until 2007 and the outcome is within the scope of estimated maximum negative tax effects (see page 11) and the liquidity that the company has at its disposal.

Kungsleden's new strategy, as of 2013, is to create a larger, more concentrated and high quality property portfolio within chosen segments and regions that demonstrates good economic growth and local demand. During the summer, Kungsleden initiated a process aimed at selling its subsidiary, Nordic Modular Group. Having concluded its property sales this year, Kungsleden will once again start to pursue a bold purchasing strategy. We will achieve an attractive total return and we have an explicit plan to grow the property portfolio to SEK 30 billion over time.

By concentrating and expanding property holdings, we can become larger and better in selected regions and markets. A market-leading property owner and landlord is much more capable of meeting the customer's local needs with a larger offering and, at the same time, having more efficient administration.

Kungsleden is going through a major transformation and all of our employees are very committed. With a high level of success in achieving our goals last year, and thus far in 2014, along with strong profits from property management, Kungsleden is well equipped and has the momentum for continued profitable growth. The Board therefore recommends a new issue of approximately SEK 1.5 billion with preferential rights for the share owners aimed at creating greater financial freedom and the conditions that will enable the company to achieve its growth goals, thus generating extra value for its shareholders.

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Kungsleden's business concept is to own, manage and improve commercial properties in growth regions in Sweden and to deliver attractive total returns. Kungsleden's strategies to create value are based on meeting the premises requirements of customers by managing, improving and developing properties and planning consents and by optimising the company's property portfolio. Kungsleden has been quoted on NASDAQ OMX Stockholm since 1999.