Strategic focus 2018

Summary:
TK Development's Board of Directors has determined a number of strategic goals and initiatives for the period until 2018. The aim is for TK Development to become an undiversified developer company and to create attractive shareholder value.

- *The Group's future strategic focus will be property development in Denmark, Sweden and Poland. The return on equity from this business area is expected to amount to 15-20 % p.a. before tax as from the 2017/18 financial year.*
- *The operation of the Group's asset management activities is to be matured and optimized, with a view to selling the activities within a three- to five-year period, and the plan is to distribute the freed-up equity to TK Development's shareholders.*
- *TK Development will continue its strong focus on substantially reducing the portfolio of land.*
- *The narrower future strategic focus will continuously reduce the Group's capacity costs in the period until 2018.*

As part of the strategy, Management has decided:

- *To initiate a process to sell the Czech activities. The Czech plots of land will be written down by DKK 35.0 million to cover the risks associated with this sale.*
- *To start the third of four phases of a major residential project in Poland. Current budget estimates necessitate making a DKK 37.8 million writedown for impairment on these plots of land, after which their value will amount to DKK 189.1 million. In step with the startup of the last two phases, the plots will be transferred to projects in progress. In addition, another Polish plot of land has been written down by DKK 7.5 million. Negotiations about the partial sale of this plot are currently ongoing.*
- *To discontinue reporting separately on the Group's discontinuing activities, with a DKK 78.0 million writedown for impairment being made to cover the special risks associated with these activities.*
- *To include land and development projects in the countries where the Group wishes to discontinue its activities in the longer term under asset management in the Group's future reporting.*
- *To write down goodwill and tax assets by DKK 56.0 million.*

Results outlook:

- *The previous profit estimate for 2015/16 for the continuing activities before tax will be adjusted downwards by DKK 140 million to about DKK -100 million.*
- *The results realized on the discontinuing activities for the period Q1-Q3 2015/16 amount to DKK -84.8 million. The reporting on this business area will cease after that period.*
- *Consolidated results for 2015/16 are expected to total about -190 million before tax.*
- *Consolidated results for 2016/17 are expected to total 10-30 million before tax.*

TK Development determines new strategic goals and initiatives for the period until 2018, and aims over time to become an undiversified developer company that creates attractive shareholder value

Property development
The Group's future strategic focus will be property development. Management believes that property development can continue to generate satisfactory earnings, a forecast underpinned by current market conditions in terms of land prices, construction costs, occupancy level and investors' return requirements.

a) The market focus will be narrowed further to comprise Denmark, Sweden and Poland exclusively in future.
   - On the Group's current main markets, the market and business potential is assessed to be greatest in Denmark and Sweden.
   - The Group currently has the largest risk exposure towards Poland, and will focus on reducing this exposure.

b) In terms of segments, the Group focuses on shopping centres, retail parks and – increasingly – residential projects. In its Annual Report for 2015/16, the Group will provide a more detailed description of these segments and its market expectations.

c) The return on equity from this business area is expected to amount to 15-20 % p.a. before tax as from the 2017/18 financial year, and capacity costs will be allocated to the property development and asset management business areas as from the 2016/17 financial year.

d) At 31 October 2015 the property development business area had total recognized assets of DKK 1,108.0 million and allocated equity of DKK 656.2 million.

Asset management
The Group's asset management activities comprise the operation of the Group's completed properties, as well as plots of land and development projects on the markets where the Group wishes to discontinue its activities in the longer term.

a) Relative to the carrying amount of the portfolio of completed properties, the net rent from current leases amounts to 4.3 % p.a., which is not considered satisfactory. Based on full occupancy, the net rent is expected to reach 6.2 % p.a.

b) The operation of the assets is to be matured and optimized, and the plans drawn up in this respect will be reviewed in more detail in the Annual Report for 2015/16.

c) The aim is to sell the assets within a three- to five-year period and to distribute the freed-up equity to TK Development's shareholders.

d) At 31 October 2015 the asset management business area had total recognized assets of DKK 1,611.5 million and allocated equity of DKK 582.0 million.

Reduction of capital tied up in land

The Group currently has a substantial amount of equity tied up in projects not initiated (land), which hinders optimal capital allocation and the generation of satisfactory returns. Thus, there will be continued strong focus on substantially reducing the portfolio of land.

a) The Group will attempt to sell its activities in the Czech Republic; see the above description of the Group's geographic focus. There is a risk attached to selling these projects, and the Group will provide for this risk by writing down its plots of land in the Czech Republic by a total amount of DKK 35.0 million. The Czech assets will be transferred to asset management effective as of 31 October 2015. The phase-out of the Czech activities will reduce capacity costs by a minimum of DKK 8.0 million p.a., equal to about 10 % of the Group's capacity costs.

b) The Group will initiate the third of the four phases of the Bielany residential project in Poland in spring 2016. A decision has been made to redesign the project and downsize apartment sizes due to greater demand for smaller units. At the same time this means that the overall project will comprise less floor space (m^2). Moreover, the selling prices per m^2 are slightly lower than previously anticipated. Thus, current budget estimates result in the need for a writedown for impairment of the project land values by a total of DKK 37.8 million to DKK 189.1 million at 31 October 2015. In step with the startup of the last two phases, these plots of land will be transferred to projects in progress. They represent the Group's largest single asset among the projects not initiated (land).

c) Another Polish plot of land has been written down by DKK 7.5 million. Negotiations about the partial sale of this plot to an investor are currently ongoing.

The concept "discontinuing activities" no longer to be used

The concept "discontinuing activities" will no longer be used, effective as of 31 October 2015. Management has regularly pointed out that a major risk attaches to the timing, progress and discontinuance of these activities, and has decided to make a DKK 78.0 million writedown for impairment to cover these special risks. Total assets in this business area amount to DKK 165.8 million after the impairment, and subsequently these activities are considered to have the usual risk profile. The reporting will include the operation of the discontinuing activities for the period Q1-Q3 2015/16, and the assets will be transferred to asset management with effect from 31 October 2015.

Other matters

The narrower future strategic focus will continuously reduce the Group's capacity costs in the period until 2018.

Based on the decision made regarding the Czech activities and the low earnings expected on the Polish activities in the years ahead, Management has decided to write down the goodwill amount of DKK 33.3 million related to the Central European activities to DKK 0. This means that goodwill is no longer recognized in the Group. It has also been decided to fully expense the recognized tax assets of DKK 22.7 million related to the Central European activities. Accordingly, the Group's remaining recognized tax asset relates to the Danish activities exclusively.

Results and outlook
The above matters have all been incorporated into the Group's Interim Report for Q1-Q3 2015/16, which will be published later today.

The Group's results for the period 1 February to 31 October 2015 amount to DKK -180.7 million before tax and DKK -212.1 million after tax. The Group's equity amounted to DKK 1,301.1 million at 31 October 2015 out of a balance sheet total of DKK 2,811.2 million, equal to a solvency ratio of 46.3 %.

Based on the initiatives described, the previous profit estimate for 2015/16 for the continuing activities before tax will be adjusted downwards by DKK 140 million to about DKK -100 million. The estimated results include the impairment of plots of land in Poland and the Czech Republic in the amount of DKK 80.3 million, the impairment of goodwill in the amount of DKK 33.3 million and timing differences of DKK 19.2 million relating to income budgeted for the 2015/16 financial year, which will now be recognized in 2016/17 instead.

The results realized on the discontinuing activities for the period Q1-Q3 2015/16 amount to DKK -84.8 million before tax, which includes the above-mentioned impairment of DKK 78.0 million, after which period the reporting on these activities will cease.

The Group will announce its future results estimates on the basis of total consolidated results before tax.

Consolidated results for the 2015/16 financial year are expected to total about DKK -190 million before tax.

The Group's results are affected by the timing of completed project sales and handovers, and the Group expects results of DKK 10-30 million before tax for the 2016/17 financial year, based on the activities known.

The expectations mentioned in this announcement, including earnings expectations, are naturally subject to risks and uncertainties, which may result in deviations from the expected results. Expectations may be affected by various factors, as mentioned in the section "Risk issues" in the Group's Annual Report 2014/15.

TK Development A/S
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