

PRESS RELEASE**13 07 2016**

Improved profit from property management and strong net leasing

THE REPORT IN BRIEF

Second quarter (Apr – Jun)

- Rental revenue increased 9 per cent to SEK 609 (560) million and operating net increased 10 per cent to SEK 397 (362) million
- Profit from property management improved by 24 per cent and was SEK 250 (202) million, which corresponds to SEK 1.37 (1.11) per share
- Value changes in the property portfolio amounted to SEK 415 (412) million, primarily due to lower yield requirements, along with improved future cash flows and investments
- Profit for the period was SEK 384 (596) million, which corresponds to SEK 2.11 (3.27) per share. The lower level of profit is primarily explained by falling long-term interest rates during the quarter, which resulted in unrealised negative value changes on interest rate swaps of SEK –183 (187) million
- Net leasing amounted to SEK 32 (–2) million

Comments on events during and after the second quarter

- Access was gained to the newly built, and fully leased, office building called Isblocket in Hyllie, just outside Malmö on 1 April
- A 20-year lease was signed with Kista Hotel Apartments to lease the 6,000 sq. m. property, Holar 1 in Kista in order to open an apartment hotel
- Net leasing was SEK 32 million, which resulted from a high volume of new leases and a low level of termination notices in the holdings
- Non-strategic properties for a value of SEK 193 million were divested, resulting in a capital gain of SEK 29 million. Geographic concentration will fall to 60 municipalities once the properties are vacated
- An unsecured 3-year bond loan for SEK 600 million, with loan limit of SEK 1 billion, was issued

Comments from Biljana Pehrsson, CEO

Kungsleden's trend of positive development continued in the second quarter. New leasing and net leasing are both good, development projects are on schedule and profit from property management increased by 24 per cent. Our operations are running in a good pace and our leasing results are strong.

Profit from property management increased by 24 per cent to SEK 250 (202) million. The earnings improvement primarily results from a higher operating net, which was due

to higher rental revenue stemming from the fact we now have a higher percentage of office properties in Stockholm.

The value of property holdings increased by SEK 415 million during the quarter. Nearly two-thirds of the value increase is attributable to our properties that belong to a cluster. The value increase is equally attributable to improved future cash flows and investments, as well as lower yield requirements. The leasing potential is good in our prioritised (and largest) markets: Stockholm, Gothenburg, Malmö and Västerås. This means that the long-term value potential is also good.

During the quarter, we issued a bond loan. The funds will be used to refinance the bond loan that is soon maturing and for general corporate purposes.

STRATEGY: VALUE-GENERATING CLUSTERS

Our strategy involves concentrating property holdings in clusters that are located in growth areas, at locations with high accessibility and a high demand for premises. By keeping a long-term perspective and continually improving and actively managing our properties, we are able to develop not only the properties themselves, but also the environments around the buildings. This is how we create attractive places that enrich the everyday working lives of people and lay the foundation for a high overall return.

We further concentrated the property portfolio during the quarter by exiting five municipalities. We are now present in 60 municipalities and the long-term goal is to concentrate the property portfolio to the three major metropolitan regions along with around 15 other municipalities. In total, we divested non-strategic properties and residential building rights during the quarter for a value of SEK 193 million, resulting in a capital gain of SEK 29 million. The total value of the property portfolio now amounts to SEK 28.3 billion, with more than three quarters of the value derived from the priority markets. Stockholm accounts for 43 per cent, and the eleven clusters for 62 per cent, of the portfolio.

We are continually fortifying our organisation in the clusters. For example, during the quarter we set up a local office at Gärdet/Frihamnen. The cluster strategy is enabling Kungsleden to grow increasingly stronger.

UPWARD TREND IN RENTS CONTINUES

The rental market remains very strong in our most important markets thanks to low vacancy levels and a high demand for premises. New leasing amounted to SEK 48 million. Fewer properties were vacated in conjunction with lease termination and net leasing amounted to SEK 32 million. Demand has been particularly high at our clusters, where net leasing was SEK 28 million.

In total, rental revenue increased by 9 per cent to SEK 609 (560) million during the quarter. We renegotiated leases during the quarter for a value of SEK 28.3 million resulting in a rental increase of 6 percent, on average. Rental revenue for adjusted comparable holdings increased by 1.4 per cent.

In Hyllie, just outside Malmö, the newly built office property, Vagnslidret 1 (Isblocket), which we acquired about a year ago, is now fully leased. The value of this property was written up by SEK 36 million thanks to higher rents and lower yield requirements.

At Warfvinges väg in Stockholm, we leased out 750 sq. m. to the restaurant operator, Matdistriktet i Stockholm AB in the property Lustgården 12. The restaurant will be a

destination where people can eat and meet. It also makes an important contribution to creating an attractive, vibrant environment in the western part of Kungsholmen.

DEVELOPMENT PROJECTS IN THE IMPLEMENTATION PHASE

Property development is becoming increasingly important to us and significant progress was made in several projects during the quarter.

In Växjö, our vision is to transform the sub-optimal, Tegnégallerian, into an attractive retail destination, with shops lining the pedestrian street. Subsequent to the end of the quarter, we signed a long-term lease for 3,000 sq. m. with a prominent anchor tenant. This means that the outlook on realising our vision for Tegnégallerian is very good.

Nobis will open a design hotel on Gävlegatan in Stockholm, in the property Blästern 14. During the quarter, zoning for the block gained legal force, which means that we are now able to add on two-stories, totalling 860 sq. m., along with a roof terrace on the courtyard building. Nobis has also signed an agreement to lease that space as well.

In Kista, we signed a 20-year lease with Kista Hotel Apartments pertaining to the property Holar 1, where an apartment hotel will be set up. The new leases at Holar 1 in Kista and Tegnér 15 in Växjö mean that these properties now enter the implementation stage.

WE WELCOME OUR FIRST TRAINEES

During the quarter, we welcomed three young trainees to the organisation. A number of new employees under the age of 30 have also been hired into our property management and leasing functions. This is in line with our efforts to revitalise Kungsleden and improve age diversification at the company.

To inspire and develop our employees, we hold the Kungsleden Property Days every other year. In June, around 40 employees from our management, leasing, development and transaction functions participated in this year's event, where the theme was "offices of the future". We also focused on ways of increasing our revenue. These "Property Days" are part of our continual efforts to remain on the forefront when it comes to future customer needs and customer relations.

BREXIT AND OUTLOOK

European financial markets reacted negatively to Brexit and there is a high level of political unrest in the UK and EU. The question remains as to the effect this will have on growth in Europe, and whether there will be any impact on the property market. We can already see that the effects on the British economy and property market are negative and profound. For the rest of Europe and Sweden, my best assessment at this time is that Brexit will first and foremost have political consequences. I anticipate a slight drop in European growth, but the European central banks appear to be acting in unison in order to keep interest rates low. Sweden's growth will remain strong compared to the rest of Europe, since it is primarily fuelled by domestic demand.

Accordingly, I anticipate that the demand for premises will remain strong, along with an upward trend in rents, particularly in regards to high quality properties in good locations in Sweden's largest cities. For Stockholm, already 8th on the list of cities in the world with the most global headquarters, Brexit may also result in new opportunities if companies relocate from London to other cities. Risk tolerance could fall in the transaction market, particularly if access to financing worsens as a result of Brexit. It is difficult to predict how this will play out. There could be benefits, such as a higher level

of investment in property types regarded as “safe”. But, the overall market might also cool down.

However, it is important to point out that Kungsleden’s strategy is not reliant on a persistent macroeconomic or market upswing. Our focus on flexible, attractive, clustered properties in major metropolitan areas and growth regions is based on an analysis of long-term trends that fundamentally impact the property market. I am convinced that we are generating lasting value by realising this strategy in our everyday efforts with customers and properties.

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This press release is available in English at www.kungsleden.se/press

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Kungsleden owns, manages, and develops offices and other commercial properties in Stockholm and Sweden’s other growth regions. We create value by offering attractive and functional premises in the right locations at the right price. A significant part of our properties are gathered in clusters that enrich people’s working day. Kungsleden’s goal is to deliver attractive total return on our properties and to our shareholders.