

## **Profit above estimate and increased dividend**

### **RESULTS IN BRIEF**

#### **The financial year (January – December)**

- Net sales increased by 25 per cent to SEK 2,882 (2,304) m and gross profit increased by 21 per cent to SEK 1,877 (1,545) m due to a larger property portfolio.
- Profit before tax amounted to SEK 828 (1,186) m. Profit after tax was SEK 638 (841) m, or SEK 4.70 (6.20) per share. Largely, the profit decrease is due to negative unrealised value changes on financial instruments.
- Cash flow from operating activities was SEK 666 (510) m.
- Profit for calculating dividends for 2011 was SEK 703 (530) m, equivalent to SEK 5.20 (3.90) per share. This is SEK 53 m above the reported estimate.
- As of 31 December 2011, the property portfolio consisted of 636 (592) properties with a book value of SEK 26,122 (21,501) m.
- The Board of Directors is proposing a dividend of SEK 2.60 (2.00) per share.
- The forecast of profit for calculating dividends for the full year 2012 is SEK 600 m, or SEK 4.40 per share.

#### **Fourth quarter (October – December)**

- Net sales increased by 28 per cent to SEK 768 (599) m and gross profit increased by 28 per cent to SEK 492 (385) m due to a larger property portfolio.
- Profit before tax amounted to SEK 373 (781) m. Profit after tax was SEK 303 (524) m, or SEK 2.20 (3.80) per share. The lower profit is primarily due to negative unrealised value changes on financial instruments.
- Cash flow from operating activities was SEK 150 (159) m.
- Profit for calculating dividends for the quarter was SEK 241 (151) m, or SEK 1.80 (1.10) per share.

## **SIGNIFICANT EVENTS**

### **The financial year (January – December)**

- 60 (64) properties were purchased for SEK 4,798 (2,356) m. Kungsleden also sold 20 (63) properties for SEK 1,224 (2,929) m generating a profit of SEK 56 (33) m. These sales affected profit for calculating dividends by SEK 114 (54) m.
- The largest transaction was the acquisition of 36 properties from NRP for SEK 3.6 billion.
- Through active portfolio enhancement involving the purchase of high-yielding properties and the sale of low-yielding properties, property yields, measured as earnings capacity, increased from 6.4 per cent to 7.2 per cent.
- The 50:50 owned joint venture Hemsö has been an independently functioning company with its own management since the beginning of the year.
- Kungsleden was recognised as the best workplace among property companies in the Great Place to Work Survey.

### **Fourth quarter (October – December)**

- 11 (52) properties purchased for SEK 305 (1,517) m. 16 (22) properties were also sold, for SEK 1,044 (1,901) m, generating a profit of a SEK 22 (21) m. The sales affected profit for calculating dividends by SEK 69 (40) m.
- Purchases of well-let properties, Kungsleden's own new lettings and sales of one development property in Slagsta, southern Stockholm, contributed to occupancy increasing to 91.6 (90.3) per cent.
- The initial investment in Nordic Modular, made in 2007, was fully repaid in the fourth quarter.

### **After the end of the year**

- Kungsleden syndicated loan was rearranged with a new SEK 4,500 m facility in January 2012, meaning that half of year-2012 maturities are now refinanced.

**“Results for the quarter** Net sales increased by 28 per cent to SEK 768 m, while gross profit increased by 28 per cent to SEK 492 m in the fourth quarter. Profit from property management, i.e. profit before tax excluding unrealised value changes and property sales, were the best ever for a fourth quarter. A larger property portfolio is the primary exclamation, but very positive work in our management organization was also a contributor. However, profits were charged with negative value changes on financial instruments of SEK –127 (556) m. This contributed to profit after tax being SEK 303 (524) m.

The value of properties increased by SEK 285 m. The increase is primarily sourced from properties recently acquired from NR Nordic & Russia Properties (NRP), which progressed beyond expectations.

**Summary of the full year 2011** Net sales increased by 25 per cent to SEK 2,882 m while gross profit rose 21 per cent to SEK 1,877 m. Unrealised value changes were SEK 81 m net, of which properties represented SEK 690 m and financial instruments SEK –609 m. Profit before tax was SEK 828 (1,186) m.

In total, Kungsleden purchased 60 properties for SEK 4.8 billion and sold 20 properties for SEK 1.2 billion in 2011. The return on purchased properties was approximately 10.2 per cent, while the sold properties had returns of 5.0 per cent. Late in the year, we also succeeded in selling a fairly high number of properties, despite a somewhat weak transaction market. Combined with better-than-expected returns from newly purchased properties, this contributed to us beating our estimate of profit for calculating dividends by SEK 53 m, to a total of SEK 703 m.

Our investment in Nordic Modular has been positive, not merely in 2011, but also viewed over time. The initial investment in Nordic Modular from 2007 was fully repaid in the fourth quarter. During the holding period, return on equity has been well over 20 per cent per year. Hemsö also grew robustly in 2011, which also benefits us. Hemsö was a net buyer of properties for nearly SEK 1 billion.

**Market condition** Activity on the transaction market fell in the fourth quarter, for reasons including a gloomier credit market. For the lettings market, I can conclude that generally, businesses are more vigilant now, with recent experience of the previous financial crisis of 2008–2009. So far, we haven’t seen any negative change. Economic occupancy was unchanged in like-for-like terms. Actual results were an improvement of 1.3 percentage points to 91.6 per cent at year-end through purchases and sales in the year.

Of Kungsleden’s utilised credit facilities of SEK 8.5 billion to be refinanced in 2012, refinancing of half of these facilities has already been arranged. Higher borrowing costs as a result of more stringent regulation are another reason for us to work more on extending our funding sources.

**Outlook** Hemsö will be consolidated into the Kungsleden group in accordance with the equity method from 1 January 2012, instead of as previously, being reported according to the proportional method. We are doing this ahead of a forthcoming regulatory change, which permits the equity method only. This is also reasonable accounting, now that Hemsö is an independent company. This change means that half

of Hemsö's profits will be reported on its own line in the Income Statement and half of -Hemsö's equity will be an asset item in the Statement of Financial Position.

I am viewing the transaction market for the coming year with some confidence, even if volumes do prove to be somewhat lower than 2011.

The Board of Directors is proposing that the dividend is increased by 30 per cent from the previous year to SEK 2.60 per share. If the AGM approves this proposal, this means that over the past five years, Kungsliden will have transferred SEK 29 per share to its shareholders. Kungsliden's estimate of profit for calculating dividends in 2012 is SEK 600 m."

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Kungsliden's strategy is to ensure sustainable high and stable returns proceeding from its existing holding, and through acquisitions and divestments. As of 31 December 2011, the property portfolio comprised 636 properties with a book value of SEK 26.1 bn. The portfolio was located in a total of 143 municipalities, mainly in southern and central Sweden. Kungsliden has been quoted on the Nasdaq OMX Stockholm since 1999.