

## **Increased gross profit for the first half-year**

### **RESULTS IN BRIEF**

#### **The interim period (January–June)**

- Net sales increased by 18 per cent to SEK 1,117 (944) m while gross profit increased by 21 per cent to SEK 672 (556) m with a larger property portfolio and milder winter.
- Profit before tax was SEK 530 (592) m. Profit after tax was SEK –558 (509) m, or SEK –4.10 (3.70) per share. The profit decrease is mainly due to provisioning for tax costs and lower profits from Hemsö, which reported lower unrealised value changes on properties.
- Cash flow from operating activities was SEK 242 (305) m.
- Profit/loss for calculating dividends for the period was SEK –55 (223) m, equivalent to SEK –0.40 (1.60) per share.
- As of 30 June 2012, the property portfolio consisted of 322 (324) properties with a book value of SEK 15,750 (15,693) m.
- In the second quarter, the estimated profit for calculating dividends for the full year 2012 was downgraded to SEK 300 m, from SEK 600 m previously after tax rulings for Kungsleden companies and external companies increased the risk of negative outcomes in Kungsleden's outstanding tax proceedings. This estimate corresponds to SEK 2.20 (4.40) per share.

#### **Second quarter (April–June)**

- Net sales increased by 5 per cent to SEK 561 (536) m and gross profit increased by 3 per cent to SEK 337 (328) m after this year's rent indexation.
- Profit before tax amounted to SEK 72 (100) m. The loss after tax was SEK –671 (102) m, or SEK –4.90 (0.70) per share. The lower profit is mainly due to provisioning for potential tax payments and lower profits from property sales.
- Cash flow from operating activities was SEK 122 (268) m.
- Profit for calculating dividends for the second quarter was SEK –177 (145) m, equivalent to SEK –1.30 (1.10) per share.

## **SIGNIFICANT EVENTS**

### **The interim period (January–June)**

- From 1 January 2012 onwards, the portfolio in Hemsö Fastighets AB is recognised according to the equity method. Compared to the proportional method, the results of operations and financial position from the holding in Hemsö are reported on an individual line.
- Kungsleden sold 3 (3) properties for SEK 93 (46) m, generating a profit of SEK 17 (23) m. These sales affected profit for calculating dividends by SEK 14 (28) m. No properties were purchased, compared to 43 properties, for SEK 4,103 m in the corresponding period of 2011.
- A number of tax rulings for Kungsleden companies and external companies increased the risk of a negative outcome for Kungsleden's tax proceedings. As a consequence, profit for calculating dividends has been charged with SEK 340 m, and the Income Statement with a tax cost of SEK 985 m.
- Kungsleden's syndicated loan was rearranged with a new SEK 4,500 m facility in January, and additionally, further loans of SEK 2,894 m have been refinanced. Accordingly, basically all of Kungsleden's refinancing requirement for 2012 is secured.
- Kungsleden came second in the Great Place to Work Survey 2012 out of medium-sized organizations in Sweden.

### **Second quarter (April–June)**

- Kungsleden sold 1 (1) property was sold for SEK 5 (41) m with a profit of SEK 0 (20) m. This affected profit for calculating dividend by SEK 0 (25) m. The sale of five properties that was agreed and included in the first quarter was discontinued ahead of completion. No properties were purchased, compared to 6 properties for SEK 355 m in the corresponding period of 2011.
- A number of tax rulings for Kungsleden companies and external companies increased the risk of a negative outcome for Kungsleden. As a consequence, profit for calculating dividends has been charged with SEK 260 m, and the Income Statement with a tax cost of SEK 725 m.

### **After the end of the period**

- In July, the Swedish Tax Agency claimed that the Administrative Court should consider further transactions Kungsleden executed in 2006–2007. If Kungsleden is unsuccessful in this matter, the liquidity effect would be approximately SEK 500 m. As recently as 2011, the Administrative Court of Appeal in Stockholm found that the Swedish Tax Evasion Act was not applicable in a similar case. No further provisioning has been made for these claims.
- Kungsleden made two sales in August. Two properties in Poland were sold for SEK 104 m to a local buyer and 39 public properties in Härnösand were sold to Hemsö, and completed, for SEK 912 m. These sales affect profit after tax in the third quarter by SEK 39 m, and will increase profit for calculating dividends by SEK 26 m. Simultaneously, these transactions increase the equity ratio by two percentage points.

**“Results for the period** Kungsleden’s net sales increased by 18 per cent to just over SEK 1.1 billion and gross profit increased by 21 per cent to nearly SEK 672 m in the first half-year, compared to the corresponding period of the previous year. A milder winter and larger property portfolio are the primary exclamations.

Simultaneously, the operating surplus margin expanded by one percentage point to 69.1 per cent.

The lettings market continued to perform positively. Despite financial uncertainty in the surrounding world, the Swedish economy has fared relatively well. As previously reported, we signed new lease contracts in the first half-year with an annualized value of SEK 43 m.

Despite us provisioning a total of SEK 985 m for tax proceedings and paying out SEK 355 m to shareholders, our equity ratio only decreased by 2.3 per cent on year-end, and as of 30 June, was 34.6 per cent. After us transferring possession of the Härnösand portfolio to Hemsö in August, our pro forma equity ratio increases to 36.4 per cent.

The derivative portfolio is now comparable to our loan portfolio, after us cancelling swaps corresponding to SEK 1.8 billion in the first half-year, simultaneous with us having lower interest costs. This means that we reduced our average interest rate by 0.3 percentage points.

With an earnings capacity of some 8 per cent, the aforementioned performance in the period means that overall, I feel secure with our underlying business and financial position.

A continued strained credit market and greater concerns in the eurozone were a contributor to general restraint on activity on the transaction market in the second quarter. Banks are restrictive in issuing credit, even if in earnings terms, property is performing as well as previously.

**Tax and profit estimate** Our estimated profit or calculating dividends decreased by a total of SEK 250 m in the second quarter to SEK 300 m for 2012 after the tax rulings reported that could affect Kungsleden’s future tax payments. The fact that, as we see it, applicable tax legislation is being re-interpreted is unfortunate because it creates uncertainty not just for Kungs-leden, but for the whole sector and investors generally, Swedish and foreign.

In addition to previous press releases on tax updates, in July, Kungsleden received information that the Swedish Tax Agency is claiming that the Administrative Court should reconsider whether the Swedish Tax Evasion Act is applicable to further transactions Kungsleden executed in 2006 and 2007. If Kungs-leden is unsuccessful in these proceedings, the liquidity effect would amount to some SEK 500 m. As recently as 2011, and in a similar case, the Administrative Court of Appeal in Stockholm ruled that the Swedish Tax Evasion Act was not applicable. We still think that on every occasion, Kungsleden has complied with the laws and practice in place when submitting each tax return.

**Liquidity and funding** As of 30 June, our cash position and un-utilised credit facilities were nearly SEK 1,460 m. Apart from us yielding possession of the Härnösand portfolio and the sale of two properties in Poland, a vendor note of SEK 184 m to SveaReal was redeemed after the end of the period. In addition, an unusually high amount of rent was received in the early days of July, because the end of the quarter was on a weekend. Overall, these events mean a cash injection of another SEK 350 m in the third quarter. The loan to value ratio on our property portfolio was 68 per cent as of 30 June, or 57 per cent in relation to all earning assets, which consist of properties, participations and receivables from Hemsö and vendor note receivables.

With refinancing of loans for the year totaling SEK 7.4 billion in place, good access to liquidity and a surplus in our operating activities, Kungsleden has a strong financial position.

In the second quarter, we hired Anders Kvist as our Deputy Chief Executive and new CFO, who will take up his position on 1 October. Anders joins us from northern European banking group SEB where he was responsible for the bank's capital structure as well as liquidity planning. With continued challenges on the credit market and Kungsleden's endeavour to extend its funding sources, Anders' know-how and experience will be a welcome addition to Kungsleden.

**Outlook** Challenges, primarily in the credit and tax segments, affect ourselves and the rest of the property market. Simultaneously, there are opportunities for Kungsleden to build shareholder value for the long term. The state of the economy remains uncertain, primarily in the eurozone, but for Kungsleden's part, our underlying management is performing well and we still have a healthy lettings market. Our equity ratio is favourable, and we still have strong and stable cash flows. As previously reported, our estimate for the full year is SEK 300 m."

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Kungsleden AB (publ) discloses the information in this press release according to the Swedish Securities Markets Act and/or the Swedish Financial Trading Act. The information was provided for public release on 16 August 2012 at 8:00 a.m.

Kungsleden's strategy is to ensure sustainable high and stable returns proceeding from its existing holding, and through acquisitions and divestments. As of 30 June 2012, the property portfolio comprised 322 properties with a book value of SEK 15.8 bn. The portfolio was located in a total of 101 municipalities, mainly in southern and central Sweden. Kungsleden has been quoted on the Nasdaq OMX Stockholm since 1999.