

Profits from property management remain strong, Kungsleden well prepared for potential tax rulings

RESULTS IN BRIEF

The interim period (January–September)

- Net sales increased by 8 per cent to SEK 1,616 (1,497) m and gross profit increased by 8 per cent to SEK 1,019 (941) m with a larger property portfolio.
- Profit before tax was SEK 488 (345) m. Profit after tax was SEK –571 (335) m, or SEK –4.20 (2.50) 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 97 (449) m.
- Profit for calculating dividends for the period was SEK 185 (462) m, equivalent to SEK 1.40 (3.40) per share.
- As of 30 September 2012, the property portfolio consisted of 281 (324) properties with a book value of SEK 14,779 (15,693) m.
- Estimated profit for calculating dividends for the full year 2012 is unchanged at SEK 300 m, or SEK 2.20 per share.

Third quarter (July–September)

- Net sales decreased by 10 per cent to SEK 499 (554) m and gross profit decreased by 10 per cent to SEK 347 (385) m as a result of a smaller property portfolio.
- The loss before tax amounted to SEK –42 (–247) m. The loss after tax was SEK –13 (–173) m, or SEK –0.10 (–1.30) per share. For both periods, the loss is due to unrealised value changes on financial instruments.
- Cash flow from operating activities was SEK –146 (144) m.
- Profit for calculating dividends for the third quarter was SEK 240 (239) m, equivalent to SEK 1.80 (1.70) per share.

SIGNIFICANT EVENTS

The interim period (January–September)

- 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 44 (4) properties for SEK 1,115 (179) m, generating a profit of SEK 17 (34) m. These sales affected profit for calculating dividends by SEK 46 (45) m. No properties were purchased, compared to 44 properties, for SEK 4,127 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. Accordingly, 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.

Third quarter (July–September)

- Kungsleden sold 41 (1) properties for SEK 1,022 (133) m with a profit of SEK 0 (11) m. The largest sale was of 39 public properties in Härnösand to Hemsö, for SEK 912 m. These sales affected profit for calculating dividend by SEK 32 (17) m. No properties were purchased, compared to one property for SEK 24 m in the corresponding period of 2011.

After the end of the period

- Kungsleden has received a statement of opinion from the Swedish Tax Agency, which questions the indirect sale of properties through Dutch subsidiaries in 2006. The reassessment of income could cause a liquidity effect of SEK 1,650 m and affect equity negatively by SEK 1,700 m. Kungsleden will be filing an appeal against potentially forthcoming decisions at the administrative court, and does not consider that the definitive outcome will be negative. Accordingly, there has been no provisioning for this.
- Against the background of uncertainty regarding the outcome of tax proceedings, with the support of the dividend policy, the Board of Directors intends not to propose any share dividend, with the aim of increasing the company's financial strength.
- Three properties in Norrköping, Sollentuna and Västerås, were sold in three separate transactions for a total of SEK 84 m. The sales price exceeded book value by SEK 10 m and acquisition cost by SEK 17 m.

A COMMENT FROM THOMAS

Kungsleden's profit from property management is still progressing well, even in the current market conditions. Kungsleden has stable tenants with long-term contracts. In the property portfolio we have held for the most recent two-year period, operating net, for example, has increased by 13 per cent as a result of increased rental revenues, lower costs and lower vacancies. In five years, the operating net of our commercial property portfolio has grown by nearly 25 per cent, or just less than SEK 100 per square metre.

Tax proceedings Despite the improvement in profit from property management in recent years, the stock market's view of Kungsleden is heavily influenced by the ongoing tax disputes. The market wants us to indicate a worst-case scenario, and this is something we also want to provide. Now, the Swedish Tax Agency has issued a statement of opinion, which as far as we can judge, is the last matter that could influence a worst-case scenario of tax proceedings for the company.

With this case, and the information available to us at present, Kungsleden is not aware of any further cases that could imply new tax claims. If all cases we are currently aware of were to be ruled fully against us, we estimate the maximum negative effect on equity at SEK 3,080 m over and above the provisioning of SEK 1,050 m already made. Simultaneously, we estimate the maximum outstanding negative liquidity effect including tax surcharges and interest at SEK 3,200 m. Kungsleden's firm opinion remains that the company has fully complied with the laws and practice in place when submitting each tax return. Against this background, we will complete an appeals procedure in each applicable case. It is reasonable to assume that these will be partly or wholly upheld in several cases.

Court rulings on tax cases will run for several years ahead, and mean that the final tax we may be required to pay will be allocated correspondingly over time. Accordingly, even in the worst-case scenario, the financing of these payments will be possible via ongoing cash flow, and the funds freed up as a result of us concentrating our strategy and focusing on managing wholly owned properties.

Details on our current tax position with provisioning, potential effects on equity and liquidity, are stated on page 10 of this Report.

Results for the period In the third quarter, net sales decreased to SEK 499 (554) m and gross profit to SEK 347 (385) m, mainly because of the sale of our Härnösand portfolio to Hemsö in August. Lower unrealised depreciation on financial instruments contributed to the profit/loss after tax for the quarter improving to SEK -13 (-173) m.

For the nine-month period, net sales increased by 8 per cent to SEK 1,616 (1,497) m compared to the corresponding period of the previous year, and gross profit increased by 8 per cent to SEK 1,019 (941) m. The increase in gross profit is explained by both the net effect of purchased and sold properties and an improvement of our portfolio in like-for-like terms. The net of properties on which purchases and sales were completed increased gross profit by SEK 38 m. In like-for-like terms, profit increased by SEK 40 m, mainly explained by increased rents and a milder winter in 2012.

For our wholly owned properties, i.e. excluding Hemsö and Nordic Modular, and also excluding those public properties sold in Härnösand, rental revenues increased by 12 per cent to SEK 1,143 (1,020) m and gross profit increased by 10 per cent to SEK 809 (731) m for the nine-month period.

Profit from property management, which also includes administration and funding, increased by 17 per cent to SEK 385 (330) m.

Active letting work contributed to new lettings with annual rental value of SEK 63 m. Economic occupancy for the period was 89.6 per cent compared to 88.3 per cent in the previous year.

We saw signs of a deteriorating business cycle after the summer, but this has not noticeably affected that part of the lettings market where Kungsleden is active. As we previously stated, Kungsleden is late cyclical, which means there will be a delay before we are affected by variations in market sentiment.

Strategic review In light of the exogenous factors that affect the property market, and with the desire to concentrate our business, the Board of Directors and management have been working on reviewing Kungsleden's strategy and direction for some time. The management of wholly owned properties has been a strong contributor to Kungsleden's profits over time. This business is based on in-depth knowledge of property and close, long-term relationships with customers. In addition, property management offers stability in turbulent times. This business will be the core of Kungsleden's strategy, where we will also be reviewing our diversification by region and property type. Accordingly, we are endeavouring for strategic concentration, and against this background, Hemsö and Nordic Modular—profitable businesses in their own right—will be sold when market conditions are right.

Estimate and dividend Fundamentally, Kungsleden is profitable and generates a profit for calculating dividends that enables attractive share dividends. We are reiterating our estimate of profit or calculating dividends, which is SEK 300 m for the full year. However, our dividend policy stipulates that we must also consider the company's capital structure and position otherwise. Against the background of the current uncertainty regarding the outcome of tax proceedings, then with the support of the dividend policy, the Board of Directors does not intend to propose any dividend to the Annual General Meeting, with the aim of improving the company's financial strength.

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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 25 October 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 September 2012, the property portfolio comprised 281 properties with a book value of SEK 14.8 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.