

PRESS RELEASE**16 02 2017**

Strong leasing and value-creating projects

THE REPORT IN BRIEF

The Year in Brief

- New leasing amounted to SEK 216 (133) million and net leasing to SEK 99 (7) million. SEK 89 million of lease agreements were renegotiated, which resulted in increased average rental values of 8.8 per cent.
- Rental revenues increased to SEK 2,422 (2,238) million and operating increased to SEK 1,602 (1,545) million.
- The profit from property management increased by 5 per cent to SEK 990 (942) million.
- Positive changes in the value of the property portfolio amounted to SEK 1,658 (970) million, following reduced yield requirements and improved operating net revenue.
- Net revenue for the period increased to SEK 1,869 (505) million, which is equivalent to SEK 10.27 (2.78) per share.
- Equity continued to increase and accounted for SEK 59.55 per share compared with SEK 51.28 at the beginning of the year. At the same time, EPRA NAV amounted to SEK 69.32 per share.
- LTV (loan-to-value) ratio fell further and amounted to 56.4 per cent. At the beginning of the year the LTV (loan-to-value) ratio was 61.9 per cent.
- The Board of Directors proposes a dividend of SEK 2.00 (2.00) per share on the higher number of shares entitled to dividends as long as the proposed new share issue is approved by the extra general meeting at 6 March 2017.

Important events during and after the fourth quarter

- Continued streamlining of the portfolio with disposals of six non-strategic properties as well as the acquisition of the modern Emporia Office building – just over 10,000 sq.m. within the cluster in Hyllie.
- Properties with potential for residential building rights were divested in the fourth quarter at a price of SEK 205 million. Earn-out of approximately SEK 205 million will be reported when the zoning plan has been legally approved.
- Three more equally large asset and property management units have been created.
- Kungsleden's Board of Directors has called an extra general meeting on 6 March to process the Board's resolution to conduct a fully guaranteed preferential rights issue of approximately SEK 1,600 million. The purpose of the rights issue is to allow continued profitable growth with financial balance by ensuring value-creating investment and additional acquisitions.

Biljana Pehrsson, CEO, comments:

Kungsleden completed 2016 strongly. Favourable progress in leasing continued during the fourth quarter and led to a satisfactory full year outcome for both new leasing and net leasing. This is due to favourable rental market conditions in our prioritised markets and the strong drive within the organisation.

Thanks to the newly signed leases in 2016 and a full pipeline of refurbishment and development projects, Kungsleden will now double the investment pace for the coming years. Gradually we want to raise the quality of our portfolio whilst increasing the earning capability.

On 2 February 2017 Kungsleden's Board resolved to conduct a new share issue that allows us to achieve our ambitious investment program, whilst strengthening the balance sheet. This will enable further profitable growth with financial discipline.

Much progress has been made within Kungsleden during 2016. The organisation has become more established and strengthened, and I see a positive energy and engagement resonating throughout the company. The streamlining of the property portfolio has continued at a good pace. Almost 80 per cent of the portfolio is now allocated in our prioritised markets, whilst the proportion of offices has increased. Properties located in clusters achieve overall better results than other areas in the property portfolio. We have also benefited from strong economic growth and a robust property market. From the current starting point, I expect that these favourable conditions will apply throughout 2017.

STRONG NEW LEASINGS AND PROFITABLE INVESTMENTS

Rental activities accelerated towards the end of the year and new leasing for 2016 reached a historic high of SEK 216 (133) million with net leasing of SEK 99 (7) million. In the fourth quarter new leasing totalled SEK 67 (40) million and net leasing amounted to SEK 50 (10) million. Particularly strong were net leasing in our clusters: SEK 72 million for the full year. Robust new leasing enable profitable investments in tenant improvements and the modernisation of our properties. This will have an effect on rental revenues and net operating revenue from 2018 onwards.

Kungsleden's four large refurbishment and extension projects are entering intensive construction stages and one of these projects will be completed towards the end of 2017. In addition, we have a strong pipeline of new projects including new constructions which we are planning to secure during 2017 and deliver from 2018 onwards. All in all, we are doubling the pace of our projects and investments within our existing portfolio. Previously these have equated to an annual total of SEK 300 to 500 million and are set to increase up to an average of SEK 1,000 million per year from 2017 to 2019.

VALUE INCREASES AND IMPROVED FINANCIAL KEY FIGURES

In 2016, the realised and unrealised changes in value of the property portfolio amounted to SEK1,690 million. Reduced yield requirements, improved net operating revenue and investments had a positive effect on the value of the property. The increase in value, combined with reduced borrowing, led to the borrowing rate dropping to 56.4 per cent (61.9). The equity ratio has risen to 36.8 per cent (33.1). Also, the long-term net asset value (EPRA NAV) has risen during the year and amounted to SEK 69.32 (56.76) per share. Return on equity increased to 18.5 per cent against the 5.5 per cent last year when the outcome of Kungsleden's previous tax process negatively impacted on earnings.

STRATEGIC TRANSACTIONS

The streamlining of our property portfolio continued during 2016. The total divestment of non-strategic property equates to approximately SEK 700 million. Thus, we are on our way toward the objective to divest for SEK 2 billion over the two years 2016–2017.

In 2016 we began realising values in properties with potential for residential development. During the year, we completed five transactions with potential residential building rights at a

price of SEK 321 million. Earnings amounted to SEK 42 million of which SEK 13 million will be reported in 2017. In addition, we will obtain earn-outs for created building rights of approximately SEK 240 million when the zoning plans have been legally approved. The divestment means that the future residential building rights are priced from SEK 5,000 to 10,000 per square metre. The prospects are favourable for continued development of zoning plans and the divestment of properties with potential for residential building rights from Kungsleden's portfolio.

An important element in the portfolio's optimisation is the reinvestment of those resources released through the divestments. I am very pleased with the strategic acquisitions we completed in December, especially the agreement with Steen & Ström AB to buy the Emporia Office building – just over 0,000 sq.m. of modern office space in Emporia shopping centre in Hyllie in Malmö. Hyllie is Malmö's most expansive area with great potential. This diverse city with its strategic communication hub location has just the right conditions to develop and become one of our primary clusters.

GOOD STARTING POSITION

On 16 November, Kungsleden was selected as the best equal opportunities company of the Exchange by the Foundation AllBright. The appointment was, to a great extent, based on the survey responses from the employees which had a 94 per cent respondent rate. The fact that so many participated makes me proud because it shows great commitment, which is fully in line with our values of professionalism, consideration and positivity. Kungsleden's professional leasing team has also attracted attention externally at the beginning of 2017 when we won several titles in the "Leasing People of the Year 2016" award. With effect from 1 January 2017, we have merged two asset and property management regions and created the three more equally large asset and property management units – Stockholm, Gothenburg/Malmö and Mälardalen. The local organisation within the property management areas has also been strengthened through more market areas established with locally anchored employees.

We will now proceed towards the aim to be one of the most successful and profitable listed property companies by 2020. The recently announced new share issue will give us the resources for continued profitable growth with financial balance.

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Kungsleden is a long term property-owner that provides attractive, functional premises that enrich people's working days. We create value by owning, managing and developing offices and other commercial properties in Stockholm and Sweden's other growth regions. A large portion of our properties belong to attractively located clusters where we also engage in the development of the whole area. Kungsleden's goal is to deliver an attractive total return on our properties and for our shareholders. Kungsleden is listed on NASDAQ Nordic Large Cap.