



KUNGSLEDEN

THIRD QUARTER EARNINGS AND INTERIM REPORT

24 October 2014

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- Third quarter and interim period in summary
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Third quarter and interim period in summary

Third quarter in summary

- New share issue of close to SEK 1.6 billion marks another important step in implementation of Kungsleden's strategy and business plan.
- Continued focus on active management. Operating net improved by 30 percent to SEK 404 (310) million and profits from property management from the continuing operations increased by 46 percent to SEK 217 (149) million.
- Despite a smaller property portfolio due to divestments of non-strategic properties, gross profit for the third quarter increased by 6 percent compared to the second quarter.
- The average interest rate continued to decrease and was 5.0 percent at the end of the quarter, compared with 5.8 percent at the beginning of the year.
- Kungsleden is again an active buyer with a goal to grow the property portfolio to SEK 25 billion in medium term and to SEK 30 billion over time. During the third quarter Kungsleden acquired strategic properties at a value of close to SEK 400 million.
- Decision to relocate the head office to a Kungsleden owned property.
- Process to divest Nordic Modular continues according to plan.

Third quarter in figures

- Rental revenue for the third quarter amounted to SEK 552 (419) million.
- Operating net improved to SEK 404 (310) million.
- Profits from property management from the continuing operations rose 46 percent (SEKm 68) to SEK 217 (149) million, corresponding to SEK 1.81 (1.31) per share.
- Profit before tax increased 59 percent (SEKm 120) to SEK 322 (202) million.
- Unrealized changes in the property portfolio amounted to SEK 169 million and unrealized changes in value of financial instruments amounted to SEK -70 million.
- Earnings from Nordic Modular, net of tax, amounted to SEK 23 (23) million.
- The profit for the period increased 28 percent (SEKm 59) to SEK 273 (214) million. The improvement is primarily due to unrealized appreciation in the property portfolio and increased profits from property management.

Financial performance and Key Figures

Income Statement

1 January – 30 September 2014

SEKm	2014 Q3	2013 Q3	Δ	2014 Jan-Sept	2013 Jan-Sept	Δ
Rental income	552	419	133	1 669	1 210	459
Property costs	-148	-110	-38	-517	-394	-123
Net operating income	404	309	95	1 152	815	337
Selling and administration expenses	-23	-18	-5	-68	-83	15
Net financial items	-164	-143	-21	-508	-420	-88
Profits from property management, excluding Nordic Modular	217	149	68	575	313	262
Gains/losses on properties						
Profit/loss on property sales	7	0	7	73	4	69
Unrealised gains/losses	169	-4	173	335	-23	358
Unrealised gains/losses financial instruments	-71	57	-128	-319	418	-737
Profit (loss) before tax	322	202	120	664	712	-48
Tax	-72	-11	-61	-1 821	-121	-1 700
Profit/loss excluding Nordic Modular	250	191	59	-1 157	591	-1 748
Profit/loss from Nordic Modular and Hemsö holdings, net after tax	23	23	0	34	92	-58
Profit/loss for the period	273	214	59	-1 124	683	-1 807

Statement of Financial Position

SEKm	30-sep-14	31 dec -13
ASSETS		
Goodwill	-	201
Investment properties - properties	18 982	20 338
Investment properties - modular buildings	-	1 509
Property used in business operations	-	22
Equipment	9	15
Deferred tax receivable	147	35
Other non-current receivables	10	239
Total non-current assets	19 148	22 359
Inventories	-	15
Current receivables	124	272
Assets held for sale - properties	1 528	-
Assets held for sale - other assets	381	-
Cash and bank balances	896	323
Total current assets	2 929	610
TOTAL ASSETS	22 077	22 968
SHAREHOLDERS EQUITY AND LIABILITIES		
Shareholders equity	7 161	8 453
Interest bearing liabilities		
Liabilities to credit institutions	10 182	10 579
Bond loans (unsecured)	1 699	2 299
Liabilities related to assets held for sale	373	-
Interest bearing liabilities	12 254	12 879
Non interest bearing-liabilities		
Provisions	5	60
Derivatives	1 026	708
Income tax liability	410	-
Other non interest-bearing liabilities	751	869
Liabilities related to assets held for sale	469	-
Non interest bearing-liabilities	2 662	1 637
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	22 077	22 968

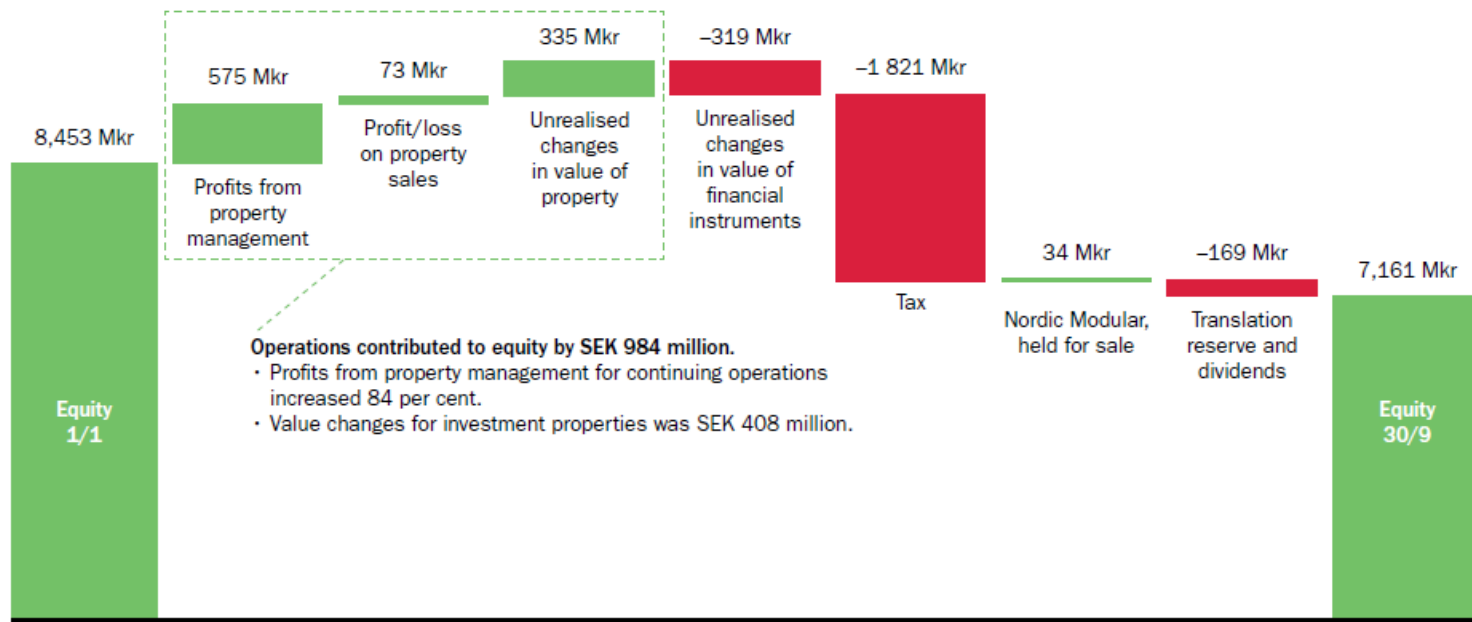
Interest coverage ratio 2.3x
(1.9)

Loan/value 56% (48)

Equity and financial position

As per 30 September 2014, Kungsleden's equity amounted to SEK 7,161 (8,453) million or SEK 52 (61) per share with a corresponding equity ratio of 32 (37) percent.

2014

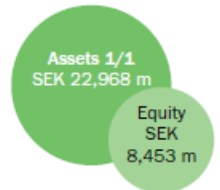


Operations contributed to equity by SEK 984 million.

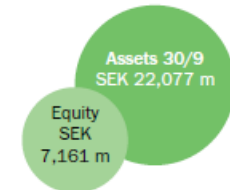
- Profits from property management for continuing operations increased 84 per cent.
- Value changes for investment properties was SEK 408 million.

Change in equity/assets ratio

- Operations contributed to a strong equity/assets ratio
- Tax reserves that were made during the second quarter lowered the equity/assets ratio,
- The goal of an equity/assets ratio >30 per cent remains.



Equity/assets ratio: 37%

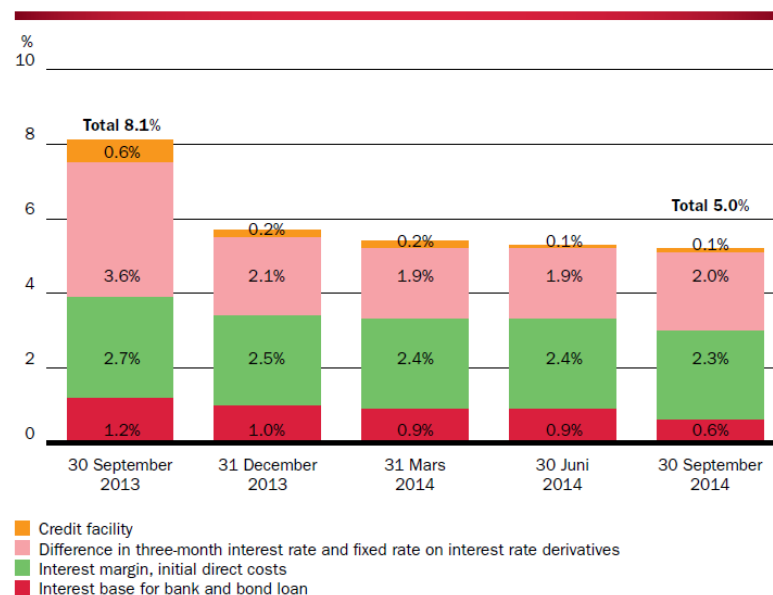


Equity/assets ratio: 32%

Continued favorable financing conditions

- The loan portfolio amounted to SEK 12,254 million at the end of the quarter, compared with SEK 12,978 million at the beginning of the quarter.
- The average interest rate as per September 30 was 5.0 percent, compared to 5.1 percent at the end of the second quarter (5.8 percent at the beginning of the year).

AVERAGE INTEREST RATE



Update on tax issues

Estimate of the maximum negative effects for ongoing tax processes

SEKm	Effect on equity	Liquidity effect
Reserve 2009-2012	368	–
Reserve 2014	1,640	1,635
Paid in, pending a decision	–	–1,160
Total provision on tax issues	2,008	475
Tax issues, no provisions made	1,360	1,325
Total	3,368	1,800

- Available liquidity (cash balance and un-utilized committed credit facilities) as per 30 September 2014 amounts to SEK 2,537 million.

Business plan with growth targets

Outlook

Kungsleden's strategy and long term targets

To be Sweden's most profitable and successful real estate company

■ Concentration to regions with good economic growth and local demand

- Focus on the customers needs
- Attractive locations in local markets with good accessibility
- Concentration to less than 70 municipalities in the medium term
- Efficient management of clusters in each property segment

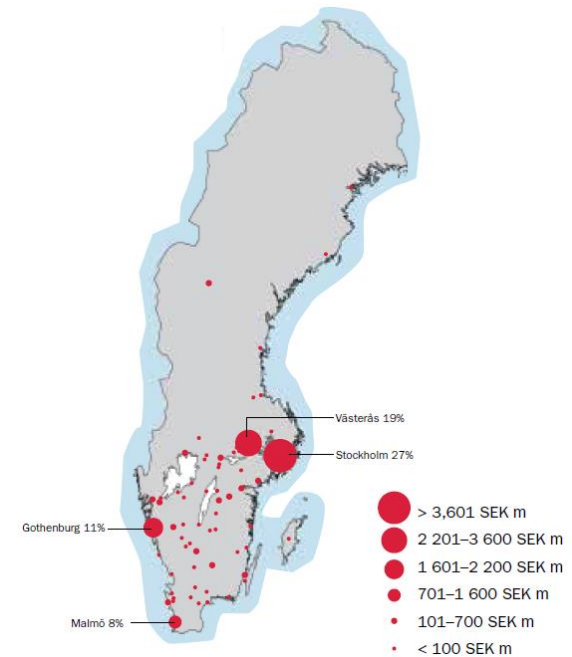
■ Three focus segments of commercial space

- Offices
- Industrial and warehouses
- Retail

■ Quality and size

- Modern and effective premises
- Stable earnings
- Aim to grow the property portfolio to around SEK 30 billion over time and to significantly increase the profits from property management

FROM 141 TO 93
MUNICIPALITIES



Kungsleden shall be present where there is local demand

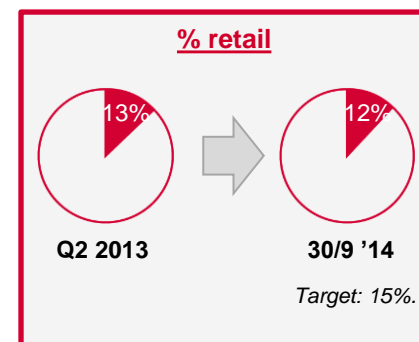
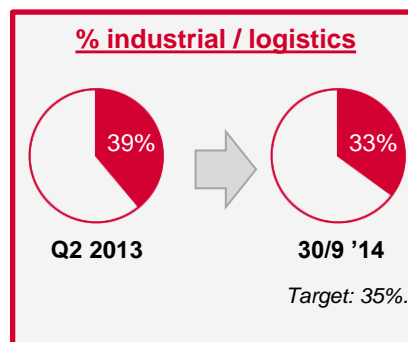
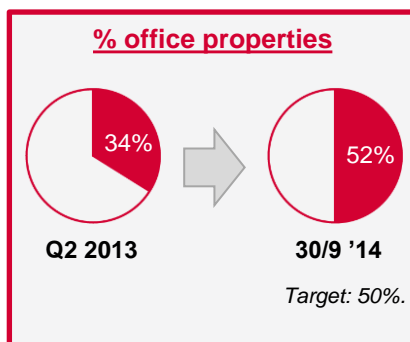
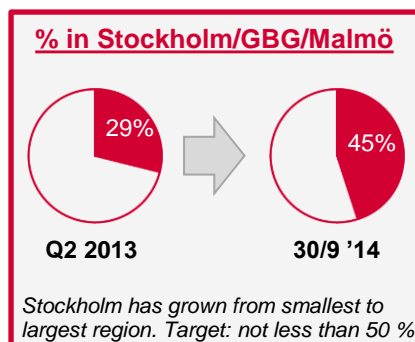
Optimization of the property portfolio

Optimization targets of the property portfolio in 2014

- Divestment of non-strategic properties from the "old" portfolio (book value SEK 1.1 billion)
- Divestment of non-strategic properties from the "GE" portfolio (book value SEK 0.9 billion)
- Concentration through the divestment of real estate in smaller regions or in regions with single properties
- Goal to divest properties amounting to SEK 1-1.5 billion and acquire strategic properties for SEK 1.5 billion

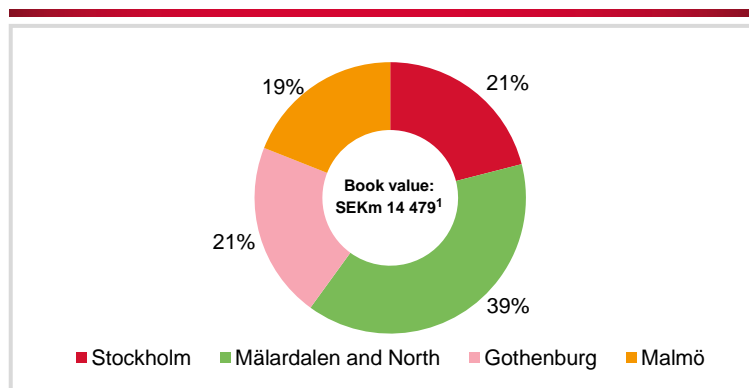
Total sales proceeds of SEK 2.4 billion and a capital gain of SEK 190 million

Progress during the last 12 months

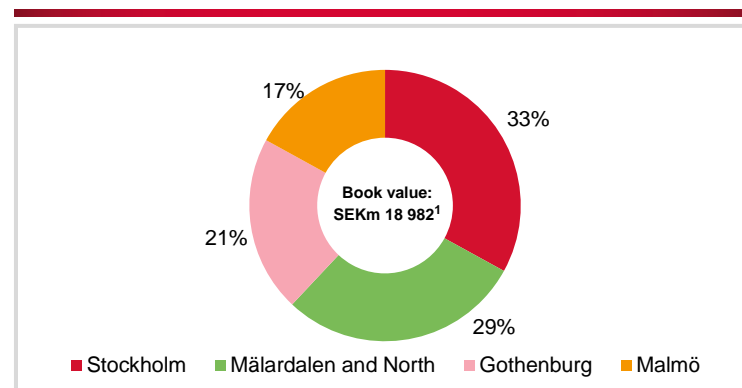


Portfolio development

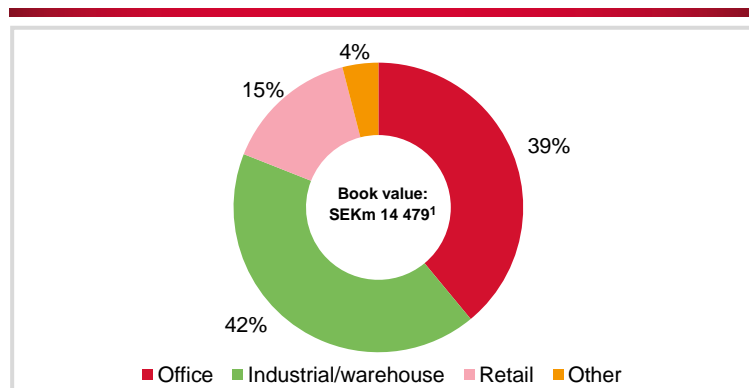
Regions, 30 September 2013



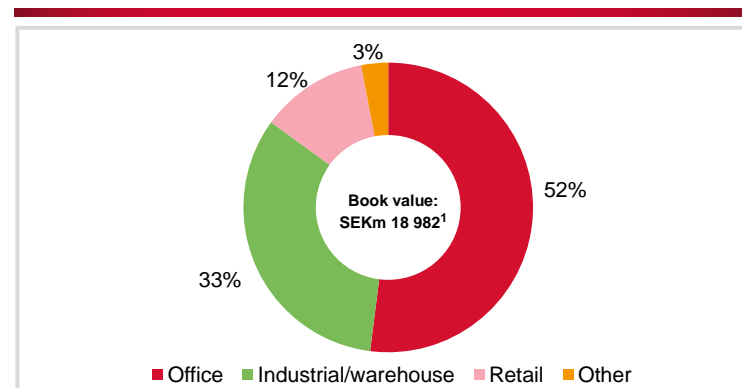
Regions, 30 September 2014



Segments, 30 September 2013



Segments, 30 September 2014



1) Excluding modules and operational properties

Clusters as part of our strategy

Effective from both a customer and management perspective

- Concentration to regions with good economic growth and local demand
- Tenants with changing needs can be offered new efficient alternatives
- More efficient management and lower operating costs
- Local presence and knowledge provides lower vacancies in the long term
- Clustered activities in order to increase the attractiveness of the area: marketing, strategic investments for better service and supply, etc
- Close dialogue with the municipality and other community stakeholders
- Kungsleden's clusters at present are:
 - Danderyd Kontor (99,411 sqm)
 - Västerås C – Mimer Property (127,935 sqm)
 - Högsbo/Sisjön lokaler (86,525 sqm)
 - Västerås – Finsslätten (253,220 sqm)
 - Östersund C (77,041 sqm)
 - Eskilstuna C (81,515 sqm)



Identified acquisition and investment opportunities

- Kungsleden's strategy is to acquire properties in identified micro locations, primarily in Stockholm, Gothenburg and Malmö/Lund as well as selected regional centers by:
 - single property acquisitions
 - acquisitions of real property portfolios
 - Investments in development projects
- Strategic acquisition opportunities of approximately SEK 3-4 billion have been identified
- 18 micro locations with growth potential in terms of rental levels and yields with an average return rate of 9 percent or higher have been identified
- Approximately 20 development projects within the existing portfolio, with a total investment volume of SEK 0.5-1 billion and a return rate of at least 9 percent have been identified

Outlook for the fourth quarter and onwards

■ Favorable market conditions

- Improved demand for premises in Kungsleden's segments and markets
- Cautiously optimistic rental market
- Opportunities to enhance the earning capacity of the existing portfolio
- Opportunity to acquire good properties with a yield of around 7 percent and with a low cost of funding (large yield spread)

■ Continued implementation of Kungsleden's new strategy

- Active management
- Build project portfolio
- Refinement and optimization of the current property portfolio
- Acquire strategic properties with high expected total return
- Build effective clusters
- Favorable acquisition opportunities presently that fit well with Kungsleden's long term strategy

Long-term outlook and targets

- New share issue creates financial conditions to reach at least half way towards the long term growth target of a property portfolio amounting to SEK 30 billion
- **Balanced financial growth**
 - Equity/assets ratio of at least 30 percent
 - Continued cost efficiency measures
 - Return on equity of 10-12 percent
 - Dividends of 50 percent on profits from property management in the medium term
- New profit target: to achieve a profit before tax of SEK 1-1.2 billion by 2017

Questions

