

Corporate governance report

Kungsleden AB (publ), corporate identity number 556545-1217 ("the Company"), is a quoted property company. Kungsleden's property holding comprised 591 properties with a book value of approximately SEK 23.1 bn as of 31 December 2006. These properties were located in a total of 128 Swedish municipalities. The company has been quoted on the Stockholm Stock Exchange since 14 April 1999.

ADOPTION OF THE SWEDISH CORPORATE GOVERNANCE CODE

The company adopted the Swedish Corporate Governance Code ("the Code") on 1 July 2005 and has prepared this corporate governance report as part of its adoption of the Code.

The corporate governance report reviews how the company has adopted the Code in the financial year, its divergences from individual Code stipulations and the justification for these divergences. Readers should note that the report, including the section on internal controls, has not been reviewed by the company's auditors.

SHAREHOLDERS' MEETINGS

The Annual General Meeting for the financial year 2006 was held on 6 April 2006. The AGM resolved issues including a 3:1 share split, whereupon the quotient value of shares was revised from SEK 1.25 to SEK 0.42. Minutes from the AGM are available on the company's website: www.kungsleden.se

The AGM for 2007 will be held at Hotel Rival, Mariatorget 3, Stockholm, Sweden on 18 April 2007. For more information on the AGM, please refer to the last page of this Annual Report and the company's website.

Proceedings at shareholders' meetings

Considering the company's shareholders and economic viability, the Board of Directors can not justify offering shareholders the opportunity to participate at shareholders' meetings remotely, nor offering simultaneous interpretation of shareholders' meetings or translations of the material the Company presents as stipulated by the Code.

The notice convening the AGM will be available in English, while other material for the AGM will only be produced in Swedish. After conducting the Meeting, an audiovisual recording of the Chief Executive's statement, and minutes from the Meeting, will be available at the Company's website, www.kungsleden.se.

Considering the ownership structure, the Board of Directors can not justify providing minutes in languages other than Swedish.

THE NOMINATION PROCESS

The AGM in 2006 adopted instructions on Election Committee activities, which stipulated the Chairman of the Board being accountable for creating an election committee no later than six months before the AGM. The Election Committee's tasks include preparing and submitting proposals to the AGM regarding the Board composition, Directors' and auditors' fees, and when applicable, appointment of auditors.

Election Committee

The Election Committee for the AGM in 2007 comprises KG Lindvall (Election Committee Chairman, representing Swedbank Robur Fonder), Gunnar Balsvik (representing Kåpan Pensioner Försäkringsförening), Charlotta Wikström (representing Olle Florén and companies) and Chairman of the Board Bengt Kjell. The composition of the Election Committee was published on 18 October 2006. A statement of the Election Committee's activities has been uploaded to the company's website, www.kungsleden.se.

BOARD OF DIRECTORS

The company's current Articles of Association stipulate the company's Board of Directors comprising a minimum of three and a maximum of eight members with a maximum of two deputies. The Board members and deputies are elected annually at the AGM for the period until the end of the next AGM. The AGM in 2006 increased the number of Board members to seven, re-elected the incumbent Board of Directors and elected Jan Nygren. No deputies were elected.

Board activities and procedural rules

Board activities conform to the procedural rules adopted, and the instructions issued regarding the division of responsibility between the Board of Directors and Chief Executive, and the forms for financial reporting to the Board. The Board must meet a minimum of six times annually, with each meeting following an approved agenda. Matters for consideration regarding each proposal on the agenda are sent to each Board member in advance. The procedural rules also stipulate that the Board ensures that the company's auditors personally attend at least one Board meeting per year, presenting their observations from their audit, and their evaluation of the company's internal controls.

Board composition

The Board comprises seven members. The Chairman of the Board, Bengt Kjell, was appointed at the AGM in 2006. The Board has been composed to actively and efficiently support the management in the company's development. Moreover, the Board will observe and monitor operations. Skills and experience of segments including the property sector, funding, business development and capital market issues are important to the company. Referring to Board members, pursuant to the definitions of the Code, Mats Israelsson is not independent with regard to him being a Board member for over 12 years and Jens Engwall is not independent with regard to him having been the company's Chief Executive for the last five years. Other Board members are independent of the company, the corporate management and major shareholders. Information on the Board composition, and a presentation of each Board member, is on page 37.

Board activities in 2006

In 2006, the Board met on seven occasions, all in Stockholm. Per capulam meetings were held on 16 occasions coincident with acquisition, divestment and funding issues. For attendance and occasions,

please refer to the table below. The Board considered issues including hiring a new Chief Executive, Company strategy, objectives, business plan, markets, external reporting, property acquisitions and divestments, investments in existing properties, raising loans and other funding issues, preparing sales mandates and incentive contracts. The company's Chief Executive, both Deputy Chief Executives, and the Company Lawyer, also the Board secretary, have also attended Board meetings.

Directors' fees

Fees are payable to the Board pursuant to AGM resolution. The Meeting resolves on proposals from the Election Committee on the division of fees between the Chairman and Board members. No fees are payable to Board members employed by the Company. The AGM 2006 resolved on fees to ordinary members not employed by the Company of SEK 175,000 annually and fees of SEK 350,000 annually to the Chairman of the Board. The AGM also resolved on fees to members of the Remuneration Committee not employed by the company of SEK 10,000 annually, fees of SEK 40,000 annually to the Chairman of the Audit Committee and fees of SEK 20,000 annually to members of the Audit Committee not employed by the company.

BOARD COMMITTEES

The Board has inaugurated two internal committees, a Remuneration Committee and an Audit Committee, responsible for preparing issues in their relevant areas of responsibility.

Remuneration Committee

The Board meeting following election in April 2006 appointed a Remuneration Committee comprising Bengt Kjell and Mats Israelsson. This Committee submits proposals to the Board regarding the Chief Executive's employment terms, the terms for staff that report directly to the Chief Executive and principle issues relating to pensions, salaries, redundancy pay, fees and benefits.

Audit Committee

The Board meeting following election in April 2006 appointed an Audit Committee comprising Jan Nygren, Jonas Nyrén, Per-Anders Ovin and Anna Weiner Jiffer. Jonas Nyrén has been Chairman of the Audit Committee. The purpose of the Audit Committee is to provide a dedicated forum for accounting and audit issues. The Audit Committee's areas of responsibility include the company's internal monitoring and control systems, and quality-assuring external financial reporting.

Attendance at meetings in 2006

	Board of Directors		Audit Committee		Remuneration Committee	
No. of meetings, total		23		4		6
Bengt Kjell	x	o 23			x	o 6
Mats Israelsson	x	23			x	6
Jonas Nyrén	x	23	x	o 4		
Anna Weiner Jiffer	x	23	x	4		
Per-Anders Ovin	x	20	x	4		
Jan Nygren ¹	x	19	x	2		
Jens Engwall	x	23				
Average attendance, %		98		100		100

x - Member of Board/Committee o - Chairman of Board/Committee ¹ - Elected at AGM 2006

The Committee held four meetings in 2006. The company's auditors and representatives of the company attended all meetings.

INTERNAL CONTROLS

Pursuant to the Swedish Companies Act and the Code, the Board is responsible for internal controls. This report has been prepared pursuant to section 3.7.2 and 3.7.3 of the Code, and is thus confined to internal control of financial reporting.

The control environment the Board and management continually utilises forms the foundation of internal controls, although decision-paths, authority and responsibility delegated and communicated within the organisation are also important. The company works continuously and actively on mapping, evaluating and managing the risks the company is exposed to in its operations. The company is a process-oriented corporation, and integrates risk assessment routines into its essential business processes. The risks identified regarding financial reporting are managed through the company's control structure encompassing business controls and business planning processes including supporting IT systems. Tools for monitoring operations, prepared and used both for preparations ahead of property acquisitions and divestments, and for overall monitoring of operations, and as support in valuations, are examples of the company's control documents.

The company has designed its internal controls so that it conducts expedient control activities at an over-

all level (such as ongoing profit analysis on the basis of operational and legal group structures and analysis of key figures) and more routine and system-oriented controls such as reconciliation, and certification and similar controls intended to prevent, discover and rectify errors and deviations. Control activities have been designed to manage the essential risks associated with financial reporting.

The Board of Directors receives ongoing financial reporting and each scheduled Board meeting considers the group's financial position. The Company's auditors also personally report their observations from their audit, and their evaluation of internal controls, each year.

On assignment from the Board, the corporate management is conducting a project to document the company's internal control of financial reporting. The company has no internal audit function. At present, internal controls are considered satisfactory and expedient for an organisation of the company's scale. No indication that internal controls are insufficient has arisen, and accordingly, the Board and management do not perceive any need for an internal audit function.

AUDITORS

At the AGM in 2003, Authorised Public Accountant Thomas Thiel from KPMG was appointed as the company's auditor for the period until the AGM 2007 inclusive. The deputy auditor is Björn Flink. The auditors have been elected since the AGM in 1998. In addition to auditing, over the past three years, KPMG has also provided tax advisory services to the company. Fees are payable pursuant to approved account. In 2006, audit fees were SEK 6,251,000 for the group.

GROUP MANAGEMENT

The group management comprises the Chief Executive, the Deputy Chief Executive/Chief Financial Officer, the Deputy Chief Executive/Transaction & Analysis, the Regional Directors and the Company Lawyer. Please refer to page 36 for information on each executive.

Remuneration to the group management

Basic salary, performance-related pay, other benefits and pension are payable to the group management. A review of the principles of remuneration to the Board and group management and the scale of remuneration payable in 2006 is stated in Note 6 and 7 of the Annual Report. There are no equity or share price-related incentive schemes for the Board of Directors and Chief Executive. The terms of bonus agreements are stated in Note 7 of the Annual Report.

The Board of Directors will submit the principles for remuneration and other employment terms for senior executives for resolution at the AGM in 2007.

Johan Risberg

Deputy Chief Executive/Chief Financial Officer. Born in 1961, has a B.Sc. (Econ.) from the Stockholm School of Economics. Mr. Risberg has been a Kungsliden employee since 1996 and took up his current position in 1998. He holds 150,000 Kungsliden shares. No other shares/holdings in companies Kungsliden has significant business relationships with.

Thomas Erséus

Chief Executive/Acting Foreign Divisional Manager. Born in 1963, has a B.Sc. (Eng.) from Chalmers University of Technology, Gothenburg. Mr. Erséus took up his current position on 1 September 2006. Mr. Erséus is a Board member of HQ AB, Hallvarsson & Hallvarsson AB and DSV Miljö A/S of Denmark. He holds 50,000 Kungsliden shares. No other shares/holdings in companies Kungsliden has significant business relationships with.

Lars Thagesson

Deputy Chief Executive/Transactions & Analysis. Born in 1959, has compulsory schooling qualifications. Mr. Thagesson has been a Kungsliden employee since 1993 and took up his current position in 2005. He holds no Kungsliden shares, nor has shares/holdings in companies Kungsliden has significant business relationships with.

Göran Linder

Divisional Manager, Public Properties. Born in 1968, has a B.Sc. (Econ.) from the University of Örebro, and has held this position since 2006. Mr. Linder has been a Kungsliden employee since 1998. He holds 18,000 Kungsliden shares.

Eskil Lindnér

Divisional Manager, Commercial Properties. Born in 1959, has a B.Sc. (Eng.) from the University of Technology, Lund, and has been Kungsliden's Divisional Manager of Commercial Properties since 2006. Mr. Lindnér has been a Kungsliden employee since 1999. He holds 19,440 Kungsliden shares.

Åke Theblin

Company Lawyer. Born in 1961, LL.B. from the University of Stockholm. Mr. Theblin has been Kungsliden's Company Lawyer since 2001. He holds 31,000 Kungsliden shares.



Board of Directors



Bengt Kjell

Chairman of the Board. Born in 1954, Chairman of the Board and has a B.Sc. (Econ.) from the Stockholm School of Economics. Mr. Kjell is Chairman of Indutrade AB and has been a Kungsliden Board member since 1996. Other Board positions include Höganäs AB, Isaberg Rapid AB, Munters AB, Pandox AB and Helsingborgs Dagblad. He holds 40,000 Kungsliden shares.

Per-Anders Ovin

Board member. Born in 1956, has a B.Sc. (Econ.) from the Stockholm School of Economics and is an independent consultant. Mr. Ovin has been a Board member since 2003. Other Board positions include Men-gus Stockholm AB, Catella Capital AB, ABG Sundal Collier A/S and EDX Ltd. He holds 0 Kungsliden shares.

Jan Nygren

Board member. Born in 1950, senior high school graduate. Senior Advisor, Saab AB. Mr. Nygren has been a Board member since 2006. Other Board positions include ISAK Information AB, GE Moneybank, SEMA's (the Swedish Emergency Management Agency) Business Council, the Confederation of Swedish Enterprise Security Delegation, the Swedish High Command's council on societal contacts, IVA (the Royal Swedish Academy of Engineering Sciences) etc. He holds 0 Kungsliden shares.

Mats Israelsson

Board member. Born in 1940, has a B.Sc. (Eng.) and is an independent consultant. Mr. Israelsson has been a Kungsliden Board member since 1993. He is the Chairman of Forsen Projekt AB. Other Board positions include Castellum AB (resigning spring 2007), LjungbergGruppen AB, Akademiska Hus i Stockholm AB and Veidekke Bostad AB. He holds 28,800 Kungsliden shares.

Anna Weiner Jiffer

Board member. Born in 1971, has a B.Sc. (Eng.) and is Deputy Chief Executive of biotech enterprise Ellen AB. Anna Weiner Jiffer has been a Board member since 2003. Other Board positions include Ellen AB and Connect Väst AB. She holds 1,200 Kungsliden shares.

Jens Engwall

Board member. Born in 1956, has a B.Sc. (Eng.) and was formerly Kungsliden's Chief Executive. Mr. Engwall was a Kungsliden employee from 1993 to 2006. Other Board positions include Vasallen AB, FastPartner AB, Tengbomgruppen AB, Ruric AB, North European Properties Ltd., Cheng de Intressenter AB, Runsven AB and Reinhold Polska AB. He holds 200,000 Kungsliden shares.

Jonas Nyrén

Board member. Born in 1951, has a B.Sc. (Econ.) from the Stockholm School of Economics. Mr. Nyrén has been a Kungsliden Board member since 2001. Other Board positions include SkandiaBanken AB and Bonnier Holding. He holds 22,050 Kungsliden shares.

Audit Report

TO THE ANNUAL GENERAL MEETING OF KUNGSLEDEN AB (PUBL.)

Corporate identity number 556545-1217

I have examined Kungsleden AB's Annual Report, consolidated financial statements, accounts and the Board's and Chief Executive's administration for the year 2006. The company's Annual Report is included on pages 38–56 in the printed version of this document. The Board and Chief Executive assume responsibility for the accounts, management and for the Swedish Annual Accounts Act being observed when preparing the Annual Report and for IFRS, as endorsed by the EU, and the Swedish Annual Accounts Act, being observed when preparing the consolidated financial statements. My responsibility is to comment on the Annual Report, the consolidated financial statements and the management on the basis of my audit.

The audit has been completed in accordance with generally accepted accounting practice in Sweden. This means that I have planned and completed the audit in order to ensure with a high degree of but not absolute certainty that the Annual Report and consolidated financial statements do not contain any material misstatement. An audit comprises the examination of a selection of the documentation relating to amounts and other information contained in the accounts. An audit also includes examining the accounting principles and the Board's and Chief Executive's

application thereof, as well as evaluating the significant estimates the Board of Directors and Chief Executive have made when preparing the Annual Report and the consolidated financial statements as well as evaluating the overall presentation of information in the Annual Report and consolidated financial statements. As the basis for my statement regarding discharge from liability, I have examined significant decisions, measures and circumstances in the company in order to assess whether any Board member or the Chief Executive is liable for compensation to the company. I have also examined whether any Board member or the Chief Executive has otherwise contravened the Companies Act, the Annual Accounts Act or the Articles of Association. I consider that my audit provides me with a reasonable foundation for the following statements.

The Annual Report has been prepared in accordance with the Annual Accounts Act and thereby provides an accurate impression of the company's profit and financial position in accordance with generally accepted accounting practice in Sweden. The consolidated financial statements have been prepared pursuant to IFRS as endorsed by the EU and the Swedish Annual Accounts Act, and provide a representative impression of the group's profit and position. The Report of the Directors is consistent with the other parts of the Annual Report and consolidated financial statements.

I recommend that the Annual General Meeting approves the Income Statement and Balance Sheet for the parent company and the group, appropriate the profit in the parent company in accordance with the proposal in the Report of the Directors and discharge the Board members and Chief Executive from liability for the financial year.

Thomas Thiel

Authorised Public Accountant

Stockholm, Sweden, 16 March 2007