

# CORPORATE GOVERNANCE REPORT

Corporate governance is an important instrument in the process of building long-term value for the shareholders. With a clear and transparent framework for the division of responsibilities, reporting and follow-up, Kungsleden prioritises the most important and thus reduces the risks in the business.

As a listed company, Kungsleden has a corporate governance which meets the requirements listed in the Swedish Companies Act, the Annual Accounts Act, the Swedish Code of Corporate Governance (the Code) and the Nasdaq Stockholm's regulation framework for issuers.

The company applies the principles of corporate governance as agreed in the Annual General Meeting and which can be found in the Articles of Association and in the instruction for the nomination committee. These documents are available on Kungsleden's website. In addition to these Kungsleden also applies a series of instructions for corporate governance which the Board of Directors has agreed upon, including rules of procedure for the Board of Directors, instructions for the CEO,

instruction for financial reporting to the Board of Directors, instructions for the Board committees, code of conduct, finance and a communication policy.

## APPLICATION OF THE CODE

The code should be applied by all Swedish companies whose shares are listed for trading on the regulated market. In accordance with the principle 'comply or explain', Kungsleden reports any deviations from the Code and justifies such differences in the annual corporate governance report. During the financial year 2016, Kungsleden has not deviated from any provision in the Code.

## WORD FROM THE CHAIRMAN OF THE BOARD

As spokesperson for Kungsleden's Board of Directors I can state that, on reflection, 2016 lived up to our expectations. Market conditions were favourable with high demand for commercial premises, low interest rates, good access to financing and an active transaction market. Kungsleden's Group Management and other employees have also consistently and successfully adhered to the "Kungsleden 2020" strategy and the company has applied itself well to the set objectives.

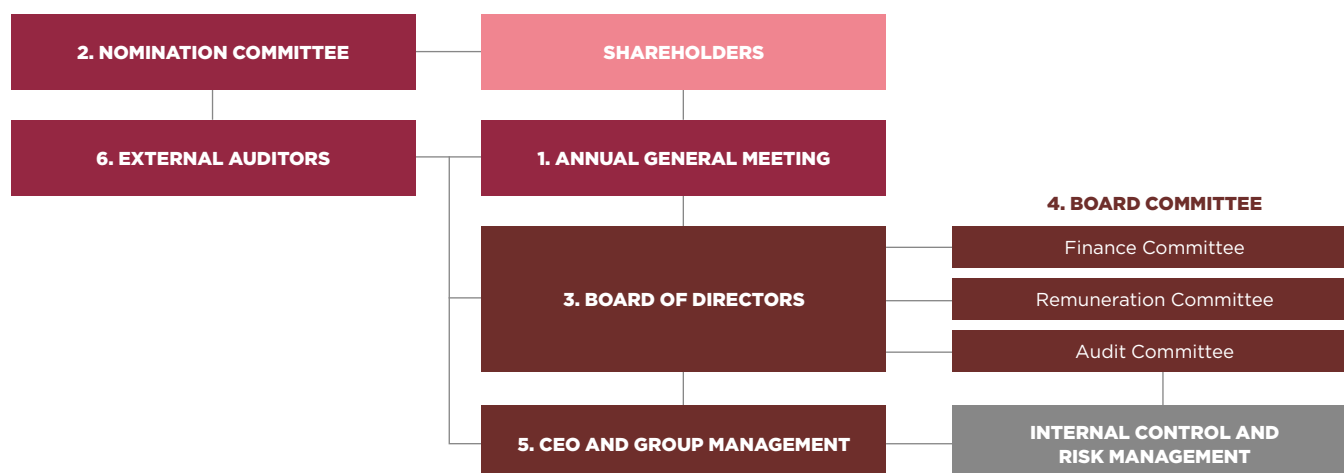
During the year, the Board of Directors have continued to actively examine and take a position on the strategic divestments and acquisitions. Also the measures which have been taken to strengthen the financial position and to reduce the LTV (loan-to-value) ratio have been the focus at our Board meetings. Towards the end of the year carrying out a new share issue came on to the Board of Director's agenda. The purpose was to strengthen Kungsleden's balance sheet and enable continued profitable growth with financial control, primarily through value creating investments in the property portfolio. At this point, a rights issue has been approved by an extra General Meeting and fully guaranteed by our largest owners. I see it as a sign of strength that further increases Kungsleden's opportunities for the future. The company will be able to refine the portfolio at a good pace while the LTV (loan-to-value) ratio can be reduced.

For the last three years the composition of the Board of Directors has been the same with board members who work well together. At this point we know the company and its strengths, weaknesses, opportunities and risks very well. For this year's Annual General Meeting, Lars Holmgren declined to be re-elected. I would therefore, on behalf of the Board of Directors, like to take the opportunity to thank him for all his great work and cooperation over the years.



Corporate governance is the responsibility of the Board of Directors to ensure that the company is managed in a way that is as favourable as possible for the shareholders. The Board of Directors need to ensure there is a well functioning split of responsibilities and clear processes for reporting and follow-up. In addition to this, I believe the corporate governance work should be characterised by commitment, a climate of open discussion and solid understanding of the company's operations.

Göran Larsson, Chairman of the Board



Examples of external regulations affecting the management of Kungsleden:

- Swedish Companies Act
- Accounting legislation including the Swedish Annual Accounts Act and IFRS
- Nasdaq Stockholm Regulation for issuers
- Swedish Code of Corporate Governance

Examples of internal regulations affecting the corporate direction of Kungsleden:

- Articles of Association
- Board instructions and rules of procedures
- Documents

## 1. ANNUAL GENERAL MEETING

At the Annual General Meeting the issues arising from Kungsleden's articles of association and the Swedish Companies Act are dealt with. We give notice that the Annual General Meeting is taking place on the basis of the Kungsleden's articles of association. The Annual General Meeting decides in accordance with the majority requirements specified in the Swedish Companies Act. A shareholder in Kungsleden, Gösta Welandson with company, owns shares which directly or indirectly represents at least one tenth of the voting rights of all shares in the company. Gösta Welandson with company at 31 December 2016 has a total holding of 14.2 per cent of the shares and votes.

The Annual General Meeting 2015 was held on 28 April 2016. At the Annual General Meeting, decisions were made on profit distribution, election of the Board of Directors, election of Ernst & Young AB as new auditor, remuneration to the Board of Directors and auditors, guidelines for remuneration to senior executives as well as the election of the nomination committee. The Chairman of the Board and the CEO reported on the operating activities, the Board of Director's and the management team's work and events during 2015. Minutes of the Annual General Meeting are available on the Kungsleden's website.

The Annual General Meeting 2016 will be held on 25 April 2017 at Kungsleden's head office on Warfvings väg 31 in Stockholm. For more detailed information on the Annual General Meeting see the end of this annual report and Kungsleden's website.

To note, the Annual General Meeting will be available in English. The Board of Directors has to take into account Kungsleden's ownership structure and considers it is financially viable that other materials ahead of the meeting should only be available in Swedish. For the same reason no long-distance participation will be offered or simultaneous interpretations of meeting negotiations. After the implementation, a video link

and sound recording of the CEO's speech and the minutes from the meeting will be available on Kungsleden's website.

*Read more about the Annual General Meeting at [www.kungsleden.se/agm](http://www.kungsleden.se/agm)*

## 2. NOMINATION COMMITTEE

The Nomination Committee leaves the proposal for the election of Chairman of the Annual General Meeting, the Board of Directors and its Chairman, as well as fees and other compensation to other board members. The Nomination Committee also makes suggestions for the election of auditors and fees for the audit. The Nomination Committee shall protect all shareholders' interests. The Nomination Committee applies the Code's provisions on the size and composition of the Board of Directors. The instruction for the work of the Nomination Committee is available on the company's website.

The members of the Nomination Committee are elected at the Annual General Meeting for the period until the next Annual General Meeting. The Nomination Committee shall consist of no less than three and no more than five members. Three of the board members should represent the shareholders which on 31 January are among the owners with the largest voting share and also wish to participate in the Nomination Committee's work as well as the Chairman of the Board. If significant changes in the ownership structure are made the composition of the Nomination Committee can be changed to reflect this. At least one of the members shall be independent in relation to the company's shareholders as described in the Code. The composition of the Nomination Committee is published as soon as the Nomination Committee has been appointed.

At the Annual General Meeting 2016, Eva Gottfridsdotter-Nilsson, Göran Larsson, Krister Hjelmstedt and Martin Jonasson

were elected as members of the Nomination Committee. Göran Larsson is also included in the Nomination Committee as the Chairman of the Board. As Chairman of the Nomination Committee, Eva Gottfridsdotter-Nilsson was appointed.

Shareholders who wish to submit proposals to the Nomination Committee can do so by sending an e-mail or letter to the Nomination Committee. The Nomination Committee's proposal and statement are presented on the company website concurrently with the issuance of the notice to the Annual General Meeting.

### Nomination Committee

Composition in March 2017

- Eva Gottfridsdotter-Nilsson, nominated by Länsförsäkringar Fund Management, Chairman
- Göran Larsson, nominated by Gösta Welandson with company, and Chairman of the Board in Kungsleden
- Krister Hjelmstedt, nominated by Olle Florén with company
- Martin Jonasson, nominated by the Second AP Fund

*For further information about the Nomination Committee please visit [www.kungsleden.se/nomination-committee](http://www.kungsleden.se/nomination-committee)*

### 3. BOARD OF DIRECTORS

The Board of Directors is tasked with actively and effectively supporting the management team in the development of Kungsleden. The Board of Directors should also comply with and control operations. Skills and experience within the property industry, financing, business development and capital market issues are therefore of particular importance within the Board of Directors.

According to the Articles of Association, the Board of Directors should consist of a minimum of three and a maximum of eight members with two deputies. The members of the Board and any deputies are elected at the Annual General Meeting for the period up until the next Annual General Meeting. At the Annual General Meeting 2016, Göran Larsson, Charlotte Axelsson, Joachim Gahm, Liselotte Hjorth, Lars Holmgren, Kia Orback Pettersson och Charlotta Wikström were re-elected. No deputies were elected. At the Annual General Meeting Göran Larsson was elected as the Chairman of the Board. All board members are considered to be independent in relation to the company and the Group Management, while one of the members of the Board is considered to be dependent in relation to the company's larger shareholders in accordance with the Code's definitions.

#### Responsibility of the Board of Directors

The Board of Directors is responsible for ensuring that the company follows the Swedish Companies Act, the regulations for stock market companies, including the Code as well as other regulations and laws, the Articles of Association and the internal control tools. The Board of Directors decides on strategies and objectives, internal control tools, larger acquisition and divestment of properties and other major investments and financing. The Board of Directors is responsible for continuously following up and ensuring that guidelines as well as the organisation and Management team are appropriate, that sustainability issues are taken into account and that the internal control is

appropriate. The Board of Directors is also responsible for evaluating the operational management and succession planning.

The Board of Directors work to ensure a high and consistent quality in the financial reporting. This is partly done through instructions for the financial reporting to the Board of Directors by the communication policy and by taking into account any observations, recommendations or suggestions from auditors or the Audit Committee.

The annual, interim and year end reports are dealt with and approved by the Board of Directors. The Board of Directors has delegated to the Group Management to issue the interim reports for the third quarter 2016 and first quarter 2017 as well as to ensure the quality of financial presentations and press releases.

#### Responsibility of the Chairman of the Board

The Chairman of the Board of Directors leads the Board and must ensure that the Board decisions are implemented. The Chairman represents the Company in ownership matters.

The Chairman has an ongoing dialogue with the CEO and is responsible for ensuring that other board members receive the information and the supporting documents required in order to make informed decisions.

#### Duties of the Board of Directors

Board of Directors carries out its duties in accordance with the annually defined rules of procedure. The rules of procedure regulate the Board of Directors and the CEO responsibilities, the Chairman's tasks, how and when the Board meetings should take place and the agenda for such meetings. The Board of Directors also adopt the instructions for the work of the Board Committees and sets forms for the financial reporting to the Board of Directors.

The Board of Directors should meet at least nine times per year. Each meeting follows an approved agenda. Supporting documents for decisions concerning any proposal on the agenda is sent in advance to all members.

The rules of procedure also dictate that the Board of Directors should ensure that Kungsleden's auditors, at least once a year, are personally present and present their observations to the Board of Directors on the audit of the company and its assessment of the company's internal control.

*Proposals to the Board of Directors can be submitted via email to [styrelsen@kungsleden.se](mailto:styrelsen@kungsleden.se)*

#### Work of the Board of Directors during 2016

During 2016 the Board of Directors met 15 times. In addition, meetings were held by correspondence on two occasions in connection with acquisition and divestment matters. Attendance at the Board meetings is listed in the table below. The tasks that the Board of Directors have dealt with include Kungsleden's strategy, objectives, business plan, market, organisation, external reporting, acquisition and divestment of properties, investments in existing properties, evaluation of properties, raising of loans and other financial issues and principles for variable compensation. At the meetings of the Board of Directors the company's CEO, Deputy CEO /Chief Financial Officer and Head of Legal and the secretary of the Board have also attended.

### Evaluation of the work of the Board of Directors

The Board of Directors carries out an annual evaluation of its working methods and routines. The aim of evaluation is to ensure proper functioning processes for the information gathering, reporting, analysis, planning and decision-making. The evaluation also seeks to ensure that the Board of Directors has the necessary expertise. The results of the evaluation will be reported to the Nomination Committee and is the basis for the nomination work.

The evaluation in 2016 was carried out with support from the external advisory firm Nordic Investor Services, which for the last number of years have provided assessment services for Kungsliden's Board of Directors. The evaluation 2016 consisted of a bespoke web-based questionnaire tailored to the company's operations. A number of key areas were reviewed. The most important of these was the composition of the Board of Directors and its expertise, the dynamic among the board members, Kungsliden's continued development with a focus on the strategy work as well as the Board of Directors' future challenges. The result was then compiled by Nordic Investor Services and was presented by the Chairman of the Board in the December Board meeting. The results of the evaluation shows that the Board are working efficiently and have a broad experience and good base of skills. The working climate is open and there trust between the board members. All the board members are working efficiently and show great commitment in their roles.

### Remuneration to the Board of Directors

Fees are paid to the Board of Directors according to the resolution at the Annual General Meeting.

APPROVED FEES AMG 2016 (SEK)	Chairman	Board member
Board of Directors	450,000	200,000
Committee	40,000	40,000

### Remuneration to senior executives

The Annual General Meeting adopts guidelines for remuneration and other terms of employment for senior executives on an annual basis. According to the guidelines adopted at the Annual General Meeting 2016, Kungsliden should apply the

level of remuneration and employment terms required in order to be able to recruit and retain senior executives with a high level of expertise and capacity to reach the outlined objectives. The remuneration should motivate the senior executives to deliver their best to protect the interests of the shareholders. The remuneration should be competitive, simple and measurable.

The remuneration of the senior executives should normally consist of a fixed and variable component. The variable component should be based on the senior executive's performance in relation to the previously set objectives, or in relation to Kungsliden's total share return and have a predetermined top limit. The fixed salary for senior executives should be adapted to the market and is based on the expertise, responsibilities, experience and performance. The size of remuneration paid for 2016 is shown in note 7.

The proposal for guidelines on remuneration and other employment terms that will be proposed to the Annual General Meeting 2017 are adjusted as regards to variable remuneration to senior executives. The Board of Directors has decided to introduce a cash long-term based incentive program (LTI) for the CEO and Deputy CEO that runs over three years. The LTI is linked to Kungsliden's total return and can be a maximum of 50 per cent of the fixed salary for the three-year period. There is still a chance to receive short-term variable remuneration for senior executives that can be equivalent to a maximum of 50 per cent of the fixed annual salary. The purpose of adjusted guidelines for remuneration to senior executives is to better link the senior executives' interests with the interests of the shareholders. The optimum variable remuneration is still proposed to be limited to a maximum of 100 per cent of the fixed salary for the CEO and Deputy CEO and 25–50 per cent of the fixed salary for other senior executives.

## 4. BOARD COMMITTEES

The Board of Directors has within the Board set up financial, audit, and remuneration committees with responsibility for dealing with issues within each area. The work is based on instructions that have been drawn up for each committee. The Board of Directors appoints the committee members within the Board.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2016	Board of Directors	Finance Committee	Remuneration Committee	Audit Committee
Göran Larsson	○ 17/17		5/5	○ 4/4
Charlotte Axelsson	17/17			4/4
Joachim Gahm	16/17	○ 3/3		
Liselotte Hjorth	17/17	3/3		
Lars Holmgren	15/17	3/3		4/4
Kia Orback Pettersson	16/17		5/5	
Charlotta Wikström	16/17		○ 5/5	

○ - Chairman of the Board/Committee

### Finance Committee

The Finance Committee gives the financial work a specific forum. The committee should assist the Board of Directors in finance matters, financial objectives in the short and long-term, issues relating to the company's financial risks and hedging activities, as well as other information within the framework of the company's financial policy.

The Finance Committee that was elected at the statutory Board meeting consists of Joachim Gahm (Chairman), Liselotte Hjorth and Lars Holmgren. During 2016, the committee has met three times. At the meetings Kungsliden's CEO, Vice President/CFO and Head of Finance attended.

### Audit Committee

The Audit Committee creates a specific forum for Accounting and Auditing. The committee works with Kungsliden's internal audit and control systems to secure the quality of the external financial reporting. The Audit Committee also assists the Nomination Committee in proposing the election of auditors as well as the proposals on the auditors' fees.

The Audit Committee that was elected at the statutory Board meeting consists of Göran Larsson (Chairman), Charlotte Axelsson and Lars Holmgren. During 2016, the committee has met four times. At the meetings Kungsliden's Deputy CEO/CFO, Head of Accounting, as well as the Group's external auditor have attended.

### Remuneration Committee

The Remuneration Committee makes proposals to the Board of Directors regarding terms of employment for the CEO, framework for remuneration to senior executives as well as relating to pensions, salaries, fees, benefits and severance pay. The committee adheres to the guidelines for remuneration to senior executives that were agreed in the Annual General Meeting.

The compensation committee that was selected at the statutory Board meeting consists of Charlotta Wikström (Chairman), Göran Larsson and Kia Orback Pettersson. During 2016, the committee has met five times.

## 5. GROUP MANAGEMENT

The Group Management consists of a management team which as of March 2017 consists of the company's CEO, Vice CEO/Chief Financial Officer, Head of Property Development, Property Directors, Head of Marketing and Communications as well as Head of Legal. They are responsible for their respective areas within Kungsliden and alongside the CEO, they prepare reports for the Board. The CEO takes the decisions in the operating activities that falls within the scope of the Deputy CEO's instruction after consultation with the Group Management.

### CEO

Kungsliden's CEO is responsible for practically managing and coordinating the operating activities. The CEO carries out its work based on an instruction that is adopted annually by the Board of Directors. The CEO instruction states that the CEO is responsible for the company's property management, Board of Directors' reporting as well as issues requiring a decision by or application to the Board of Directors such as the establishment of the interim reports and the annual report, decisions on major acquisitions and divestments, major investments or capital allocations, raising of larger loans or guarantees above a certain level.

## 6. EXTERNAL AUDITORS

The external auditors review the Board of Directors and the CEO's management of Kungsliden and ensure the financial statements are drawn up in accordance with the current regulations. Ernst & Young AB was elected at the Annual General Meeting 2016 to be new auditor for the parent company for the period up to and including the Annual General Meeting 2017. The authorised auditor, Ingemar Rindstig, is Chief Auditor. Fees are paid according to approved accounts. During 2016 audit fees amounted in the Group to SEK 3 (3) million.

## INTERNAL CONTROL AND RISK MANAGEMENT

Internal control is important to ensure that the agreed objectives and strategies provides desired results, that laws and regulations are followed and that the risk of adverse events and errors in the reporting are minimised.

Below describes how the internal control of financial reporting is organised.

### Control environment

The Board of Directors has the overall responsibility for the company's internal control. The CEO is responsible for maintaining the internal management and control. Kungsliden's internal control is based on the environment that the Board of Directors and Management team continuously adhere to, but also the decision-making process, powers and responsibilities that have been communicated through the organisation.

### Risk assessment

An essential element of the internal control is to have a clear picture of the risks of error that may exist in the external reporting and that an organisation and processes exist to manage these risks.

An assessment of the risk of error in financial reporting is performed annually for each row in the income statement, the statement of financial position and the cash flow analysis. For

the items that are essential and/or have increased risk for error, processes exist to minimise this risk. The processes are not just for the financial processes but also include business controls, business plan processes as well as IT systems.

An example of a governing document is the business monitoring tool that has been developed. They are used as preparation for acquisition and divestment of properties and for overall monitoring of the operating activities and as a basis for evaluations.

### **Control Activities**

Kungsleden has designed its internal control so that the control activities are carried out routinely on an overall level and are more process-oriented in character. An example of overall control is the on-going profit analysis based on the Group's operational and legal structure and analysis of key figures. Formal reconciliations, required signatures and similar controls are examples of routine or process-oriented controls to prevent, detect and correct errors and deviations. The control activities have been designed to handle the significant risks relating to the financial reporting.

### **Information and Communication**

The Board of Directors receive on-going financial reporting and at each scheduled Board meeting the Group's financial situation is dealt with. The company's auditor reports their observations from the audit and their assessment of the internal control once a year.

Kungsleden has a policy which ensures that employees anonymously and without consequence can contact a third party to report behaviours or other defects anomalies that signify a breach or suspected violation of the laws or other guidelines and regulations.

All information that may have an impact on the share price is communicated to the market via press releases. The company has ensured that information reaches the market at the same time. The CEO and Deputy CEO are chosen as spokespersons on financial issues.

### **Follow-up**

The Board of Directors requests continuous assessments of the risks to the business from the Group Management. The results are summarised in reports and reported to the Audit Committee.

Kungsleden has no internal audit function. The internal control is expected to be good and appropriate for an organisation of Kungsleden's size, which is why the Board of Directors and Group Management does not currently see any need for an internal audit function.

# BOARD OF DIRECTORS



Upper row: Joachim Gahm, Lars Holmgren, Charlotte Axelsson and Liselotte Hjorth.  
Bottom row: Charlotta Wikström, Göran Larsson and Kia Orback Pettersson.

## **GÖRAN LARSSON**

### **CHAIRMAN OF THE BOARD**

Born 1944, Maset of Political Science. Elected to the Board of Directors in 2013. Other current assignments: Chairman of the Board in Hestra-Handsken AB, Hestraviken AB and Mappa Invest AB. Board member of Bratt International AB and Heliospectra AB. The member is considered to be independent in relation to the company and Group Management but not independent in relation to the larger shareholders in the company. Holds 20,000 shares in Kungsliden.

## **CHARLOTTE AXELSSON**

### **BOARD MEMBER**

Born in 1948, BSc Sociology/Management. Elected to the Board of Directors in 2014. Other current assignments: Chairman of the Board of AFF Service AB, Föreningen AFF-Forum och Vasallen AB. Board member of Slättö Förvaltning AB. The member is considered to be independent in relation to the company and Group Management and to the larger shareholders in the company. Holds 5,833 shares in Kungsliden.

## **JOACHIM GAHM**

### **BOARD MEMBER**

Born in 1964, MSc in Business and Economics. Elected to the Board of Directors in 2011. Other current assignments: Chairman of the Board of Arise AB and Sustainable Growth Capital SGC AB. Board member of Catella AB and S & A Sverige AB. The member is considered to be independent in relation to the

company and Group Management and to the larger shareholders in the company. Holds 2,666 shares in Kungsliden.

## **LISELOTTE HJORTH**

### **BOARD MEMBER**

Born in 1957, MSc in Economics. Elected to the Board of Directors in 2014. Other current assignments: Chairman of the Board of White Intressenter AB. Board member of East Capital Explorer AB, Hoist Finance AB and Rikshem AB. The member is considered to be independent in relation to the company and Group Management and to the larger shareholders in the company. Holds 10,166 shares in Kungsliden.

## **LARS HOLMGREN**

### **BOARD MEMBER**

Born in 1952, Masters degree in Chemistry. Elected to the Board of Directors in 2011. Other current assignments: Board member of Cliens Kapitalförvaltning AB, Nordic Modular Group Holding AB. Board Deputy in SÄKRA Stockholm, Solna AB. The member is considered to be independent in relation to the company and Group Management and to the larger shareholders in the company. Holds 6,666 shares in Kungsliden.

## **KIA ORBACK PETERSSON**

### **BOARD MEMBER**

Born in 1959, MSc in Business and Economics. Elected to the Board of Directors in 2010. Other current assignments: Chairman of the Board of Fastighetsaktiebolaget Riksdalen

and Teracom Group AB. Board member of Bosjö Fastigheter AB, JM AB, Odd Molly International AB and Visual Art Sweden AB. Board Deputy of Petterslott AB. Chairman of the Board of the non-profit association Friskis&Svettis Riks. The member is considered to be independent in relation to the company and Group Management and to the larger shareholders in the company. Holds 2,266 shares in Kungsliden.

## **CHARLOTTA WIKSTRÖM**

### **BOARD MEMBER**

Born in 1958, MSc in Business and Economics. Elected to the Board of Directors in 2009. Other current assignments: Chairman of the Board of Ekbacken Fastigheter AB. Board member and CEO of Ekbacken Konsultbyrå AB, Fastighets AB Kannängen, Fastighets AB Oxtorget, Floréna Fastighets AB and Kampnilen Förvaltnings AB. Board member of African Nuts & Seeds AB, Forsen AB, Stallmästaren 5 & 6 AB, Stardust Consulting AB, Stardust Holding AB and Stardust Search AB. Board Deputy of Stardust Communications AB. The member is considered to be independent in relation to the company and Group Management and to the larger shareholders in the company. Holds 2,180,465 shares in Kungsliden.

Information on shareholdings refer to holdings at 31 December 2016 and include holdings through companies and related parties.

# GROUP MANAGEMENT



Upper row: Gert Ternström<sup>1</sup>, Ylva Sarby Westman, Sven Stork, Anders Kvist and Mats Eriksson.  
Bottom row: Malin Axland, Frida Stannow Lind, Biljana Pehrsson, Nicklas Arfvidsson<sup>2</sup> and Marie Mannholt.

## **BILJANA PEHRSSON, CEO**

Born in 1970. Employed since 2013. Previous experience: Deputy CEO/Head of Real Estate at East Capital Private Equity, CEO Centrumutveckling, Board member of Kungsliden years 2011-2013. Holds 37,000 shares in Kungsliden and 5,000 shares within the frame of capital insurance which refers to the pension scheme.

## **ANDERS KVIST, DEPUTY CEO AND FINANCE DIRECTOR/CFO**

Born in 1958. Employed since 2012. Previous experience: Head of Group Treasury at SEB, responsible for asset management activities of DnB and Skandia and CEO of Skandia Liv. Holds 40,333 shares in Kungsliden.

## **YLVA SARBY WESTMAN, DEPUTY CEO/CHIEF INVESTMENT OFFICER**

Born in 1973. Employed since 2009. Previous experience: Deputy CEO of Newsec Investment AB, Property Development Director at NCC Property Development AB. Holds 7,333 shares in Kungsliden.

## **MARIE MANNHOLT, HEAD OF MARKETING AND COMMUNICATIONS**

Born in 1966. Employed since 2014. Previous experience: Senior Consultant in property development at Mannholt Consulting, Head of Marketing/Senior Project Manager at Centrumutveckling, Head of Marketing at BMW/Rover, Regional Director at Volvo Cars. Holds 2,666 shares in Kungsliden.

## **FRIDA STANNOW LIND, HEAD OF PROPERTY DEVELOPMENT**

Born in 1967. Employed since 2010, in current position since 2013. Previous experience: Property Director at Drott, Investment Manager at Niam, Property Development Director at Ebab. Holds 2,953 shares in Kungsliden.

## **SVEN STORK, HEAD OF REAL ESTATE STOCKHOLM**

Born in 1967. Employed since September 2014. Previous experience: Key Account Manager at Newsec Asset Management AB, Asset Manager at Niam AB, Project Manager at NCC Property Development AB. Holds 300 shares in Kungsliden.

## **GERT TERNSTRÖM, REGIONAL MANAGER MALMÖ**

Born in 1962. Employed since 1999, Member of the Group Management as from 31 December 2016. In current position since 2003. Previous experience: Supervisor at Skanska AB and Interoc AB, Construction Engineer at JM Bygg AB, Property Manager at JM Industrialfastigheter AB. Holds 9,333 shares in Kungsliden.

## **MATS ERIKSSON, HEAD OF REAL ESTATE MÄLARDALEN**

Born in 1963. Employed since March 2015. Previous experience: Business Director Retail at Asset Management AB, Head of Property Development at ICA Fastigheter AB, Business Area Director at NIAM AB and Property Director at SIAB AB. Holds 0 shares in Kungsliden.

## **MALIN AXLAND, HEAD OF LEGAL**

Born in 1974. Employed since 2007, in current position since 2013. Previous experience: Lawyer at Mannheimer Swartling Advokatbyrå, law clerk at Huddinge District Court. Holds 266 shares in Kungsliden.

Information on holdings refer to holdings at 31 December 2016 and include holdings by companies and related parties.

1. Gert Ternström was a member of the Group Management until 31 December 2016.
2. Nicklas Arfvidsson was a member of the Group Management until 11 November 2016.



# AUDIT REPORT

To the general meeting of the shareholders of Kungsleden AB (publ), corporate identity number 556545-1217

This is a translation from the Swedish original.

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Kungsleden AB (publ) except for the corporate governance statement on pages 44–51 for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 1–3, 12–43 and 54–83 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 44–51. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and statement of financial position in the consolidated financial statements.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Valuation of properties

Kungsleden records properties at fair value and the property portfolio was valued at SEKm 29,169 at December 31, 2016 and changes in value amounted to SEKm 1,690. The group's properties amount to 99% of the total balance sheet as at December 31, 2016. The valuation is based on judgments and estimates, which may have a significant impact on the group's result and financial position.

The basis for the valuation is an individual assessment of each property's future earnings and the market yield. Changes in unobservable inputs used in the valuation have been analyzed by management each quarter, and compared to information from external appraisals. A description of the property valuation is found in note 13 and critical assessments made in note 3.

Our audit included but was not limited to the following procedures: We have reviewed Kungsleden's internal valuation procedures and evaluated assumptions and application of these in the internal valuation model. We have reviewed input and calculations in the internal valuation model, on property level for a selection of properties, for our assessment of completeness and valuation. We have compared the information used to known market information, and we have analyzed

assumptions made referring to yield, vacancies, rental income and operational costs. We have reviewed relevant disclosure notes to the financial statements. Our property valuation specialists have been involved in the procedures.

### Accounting for income taxes

According to the income statement of the group, taxes amount to SEKm 490, and further the group account for SEKm 629 as deferred tax asset and SEKm 1,390 as deferred tax liabilities. A description of the tax calculation of the group is found in note 10.

The calculation of current and deferred taxes are complex and include a high degree of judgment. I.a losses carried forward, tax depreciation, deductible reconstructions, result from disposals and value changes of properties and derivatives have to be considered. Any incorrect judgment could have a significant impact on the group's result and financial position.

Our audit included but was not limited to the following procedures: We have reviewed Kungsleden's procedures for calculating current and deferred taxes and also reviewed calculations of current and deferred taxes against underlying documentation and evaluated the calculations against current tax legislation. We have reviewed relevant disclosure notes to the financial statements. The assumptions made by management regarding utilization of loss carry forwards have been reviewed to business plans and budgets. Our tax specialists have been involved in the review procedures.

### Initial audit

Initial audit engagements involve a number of considerations not associated with recurring audits and therefore is a key audit matter. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan for an initial audit include: Gaining an initial understanding of the Group and its business including its control environment and information systems, sufficient to make audit risk assessments and develop the audit strategy and plan; Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles and communicating with the previous auditors. We presented our audit plan to the Company's Audit Committee in May 2016, and we have reported key findings from our audit process throughout the year.

During the planning of the audit, we have developed an understanding for the Company's business risks and the way this impacts the Company's financial reporting and internal controls framework. Our procedures included for example: Interaction with the previous auditor, including a process of review of reporting documents and formal hand over procedures as prescribed by our professional standards; evaluation of key accounting positions and audit matters from prior years, review of management's control documentation to assist in obtaining an understanding of the company's financial reporting processes.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 4–11, 52–53 and 87–96. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Kungsleden AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 44–51 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm March 24, 2017  
Ernst & Young AB



Ingemar Rindstig  
Authorized Public Accountant



Jonas Svensson  
Authorized Public Accountant