

# Report of the Directors—corporate governance

Corporate governance is an important instrument in the work on building and developing long-term shareholder value. Risks are limited by a clear and transparent framework for the division of responsibility, reporting and monitoring.

## CHAIRMAN OF THE BOARD'S FOREWORD

**Initially, I can state that Kungsleden's property management operations performed very positively in 2012, with improved profits, greater efficiency and improved key figures otherwise. The Board of Directors continued its work on focusing the company's strategy in the year. This strategic review will result in greater focus on Kungsleden's core operations, such as good property management and portfolio enhancement.**

This focus and work on strengthening Kungsleden's financial position was achieved through means including selling 59 properties for a value of SEK 1,666 m. As part of the strategic focus, we also liquidated our part-ownership of Hemsö, generating profit and liquid-

ity injections that secure Kungsleden's financial position.

Accordingly, the Board's main work in the year was to strengthen our Balance Sheet and safeguard good liquidity to enable the company's positive future progress, and to maintain a contingency for the increased tax claims that arose in the year, relating to transactions conducted in 2004-2007.

Focusing Kungsleden is a process that actually began several years ago. Hemsö was incorporated in 2009, and in 2010, Kungsleden sold its portfolio of German retirement homes to Hemsö. Hemsö, or Public Properties as it was known as a division within Kungsleden, represented nearly 60 per cent of Kungsleden's total book value for a time. This was a holding that brought stability during the financial crisis.

The company also strengthened its financing activities in the year by hiring a new CFO, and creating a Finance Committee. The Board's work in the year made a positive contribution to what is an important part of our corporate governance—building an efficient, predictable and transparent governance system. Good corporate governance helps bring stability and creates trust for the long term. A simpler and clearer group structure facilitates governance of the company, simultaneous with increasing transparency. We judge that the focusing process will clarify and facilitate the understanding of Kungsleden's property management business.

Håkan Bryngelson  
*Chairman of the Board*

## CORPORATE GOVERNANCE

Kungsleden has the corporate governance of a listed company and satisfies the standards stipulated by sources including the Swedish Companies Act, the Swedish Annual Accounts Act, the Swedish Code of Corporate Governance (the Code) and NASDAQ OMX Stockholm's rules for issuers.

The company applies the corporate governance principles the AGM has decided, and as stated in the Articles of

Association and in the instructions for the Nomination Committee. These documents are available from the company's website, kungsleden.com. Over and above these, a series of corporate governance instructions that the Board of Directors has decided are applied, including rules of procedure for the Board of Directors, the Chief Executive's instructions, instructions for financial reporting to the Board, instructions for the Audit and Remuneration Committee,

Code of Conduct, Finance and Corporate Communication Policies.

## COMPLIANCE WITH THE CODE

The Code should be applied by all Swedish companies whose shares are listed for trading on a regulated marketplace. In accordance with the Code's 'follow or explain' principle, Kungsleden reports all potential instances of non-compliance with the Code, explaining these instances in its annual Corporate Governance Report. In the financial year 2012, Kungsleden did not have any instances of non-compliance with the Code.

## NOMINATION COMMITTEE

### Composition in March 2013

Eva Godtfriidsdotter-Nilsson, nominated by Länsförsäkringar Asset Management, Chairman

Göran Larsson, nominated by Gösta Welandson and companies

Peter Gustafson, nominated by Olle Florén and companies

Peter van Berlekom, nominated by Nordea Fonder

Håkan Bryngelson, Chairman of the Board of Kungsleden

*A review of the work of the Nomination Committee is available at Kungsleden's website.*

**AGM**

The AGM (Annual General Meeting) deals with matters ensuing from Kungsliden's Articles of Association and the Swedish Companies Act. Invitations to the AGM are as stipulated by Kungsliden's Articles of Association. The Meeting resolves in accordance with the majority requirements stated in the Swedish Companies Act. One shareholder of Kungsliden, Gösta Welandson and companies, owns shares that represent one-tenth or more of the number of votes for all shares in the company directly or indirectly. As of 31 December 2012, Gösta Welandson and companies held 13.1 per cent of the company's shares and votes. The AGM for the financial year 2011 was held on 19 April 2012. AGM resolutions included dividends, election of the Board of Directors and Auditors, remuneration to the Board and Auditors, guidelines for remunerating senior managers and election of a Nomination Committee. The Chairman of the Board and the company's Chief Executive presented operations, the work of the Board of Directors and management and events in 2011. Minutes from the AGM are available from Kungsliden's website.

The AGM for the financial year 2012 will be held on 18 April 2013 at Hotel Rival, Mariatorget 3, Stockholm, Sweden. More information on the AGM is provided in the final section of this Annual Report, and on Kungsliden's website.

The invitation to the AGM will be available in English. Considering the company's ownership and what is financially justifiable, the Board has considered that other material for the Meeting should only be produced in Swedish. For the same reason, no remote participation or simultaneous interpretation of the proceedings of the Meeting will be provided. An audiovisual recording of the Chief Executive's statement and minutes from the Meeting will be available at Kungsliden's website after the Meeting closes.

**Nomination Committee**

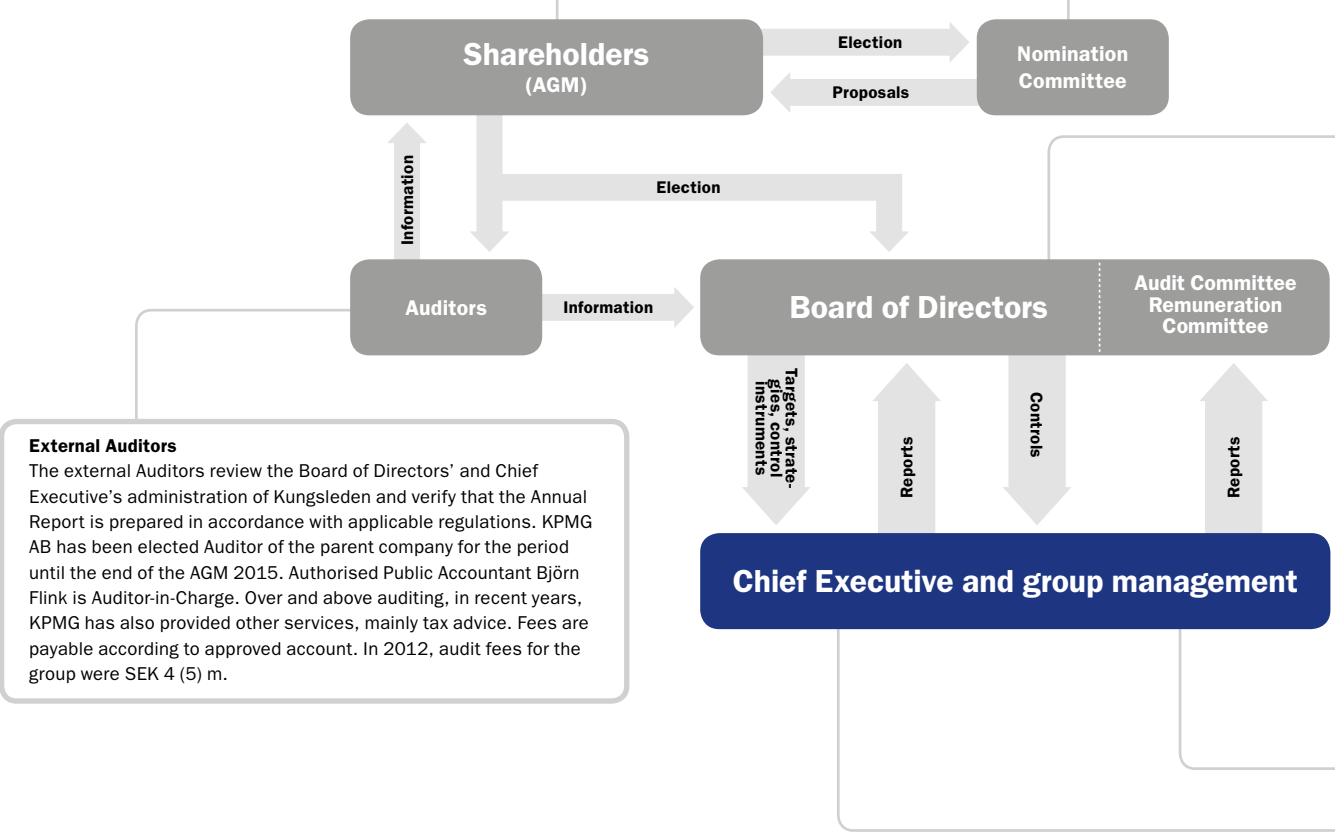
The Nomination Committee submits proposals for the election of the Chairman of the AGM, the Board of Directors and its Chairman, fees and other remuneration to Board members. The Nomination Committee also submits proposals for the election of the Auditors and remuneration for the audit. In its work, the Nomination Committee should protect all shareholders' interests. The Instructions for the work of the Nomination Committee are available from the company's website. Members of the Nomination Committee are elected at the AGM for a period that extends until the next AGM.

The Nomination Committee should consist of a minimum of three and a maximum of five members. Three of the members should represent those shareholders that are the largest shareholders in terms of the number of votes as of 31 January, and also, that wish to participate in the work of the Nomination Committee, as well as the Chairman of the Board. If there are significant changes of control, the Nomination Committee's composition may be altered to reflect this. At least one of the members should not be affiliated to the company's shareholders in the manner stated in the Code. The Nomination Committee's composition will be published as soon as the Nomination Committee is appointed.

The AGM 2012 elected Peter Gustafson (nominated by Olle Florén and companies), Peter van Berlekom (nominated by Handelsbanken Fonder) and Eva Gottfridsdotter-Nilsson (nominated by Länsförsäkringar Asset Management) as members of the Nomination Committee. Håkan Bryngelson is a member of the Committee in his capacity as Chairman of the Board. Peter Gustafson was appointed Chairman of the Nomination Committee.

In October, Frank Larsson resigned as a member after Handelsbanken Fonder reduced its holdings. In December, Göran Larsson was appointed as a new member, nominated by Gösta Welandson and companies, which increased its holdings. In February 2013, Eva Gottfridsdotter-Nilsson was appointed as the Nomination Committee's new Chairman. Åke Theblin, Kungsliden's General Counsel, served as the Nomination Committee secretary.

Shareholders that wish to submit proposals to the Nomination Committee can do so on the company's website or by sending a letter to the Nomination Committee. The Nomination Committee's proposals and reasoned statements are uploaded to the company's website by no later than the issuance of the invitation to the AGM.



**External Auditors**

The external Auditors review the Board of Directors' and Chief Executive's administration of Kungsliden and verify that the Annual Report is prepared in accordance with applicable regulations. KPMG AB has been elected Auditor of the parent company for the period until the end of the AGM 2015. Authorised Public Accountant Björn Flink is Auditor-in-Charge. Over and above auditing, in recent years, KPMG has also provided other services, mainly tax advice. Fees are payable according to approved account. In 2012, audit fees for the group were SEK 4 (5) m.

### Board of Directors

The company's Articles of Association state that the Board of Directors should consist of a minimum of three and a maximum of eight members with a maximum of two deputies. The Board members and potential deputies are appointed by the AGM for the period until the end of the next AGM. Håkan Bryngelson, Joachim Gahm, Lars Holmgren, Magnus Meyer, Biljana Pehrsson, Kia Orback Pettersson and Charlotta Wikström, were re-elected as Board members by the AGM 2012. Former Board member Thomas Erséus declined re-election. No deputies were elected. The AGM appointed Håkan Bryngelson Chairman of the Board. Proposals for the Board of Directors can be submitted via the website [kungsleden.se/om/bolagsstyrning/styrelse](http://kungsleden.se/om/bolagsstyrning/styrelse) (in Swedish).

### Board composition

The Board consists of seven members. The Board is composed to be able to support management in developing Kungsleden actively and effectively. The Board of Directors should also monitor and control operations. Accordingly, competence and experience of the property sector, finance, business development and capital markets issues are especially important on the Board. According to the Code's definitions, all Board members are not affiliated to Kungsleden, management or major shareholders.

The Board of Directors adopts rules of procedure for its activities each year. These rules of procedure formalise matters including the areas of responsibility of the Board of Directors and Chief Executive, the duties of the Chairman, how and when Board meetings are arranged, agendas for meetings. The Board also adopts instructions for the work carried out in the Remuneration Committee, Finance Committee and Audit Committee.

The work of the Board of Directors conforms to the rules of procedure adopted, instructions issued regarding the division of responsibility between the Board of Directors and Chief Executive, and the forms of financial reporting to the Board. The Board must meet a minimum of seven times annually, with each meeting following an approved agenda. Decision support data for each proposal on the agenda is sent to each Board member in advance. The rules of procedure also stipulate that the Board ensures that Kungsleden's Auditors personally attend at least one Board meeting per year, presenting their observations from their review of the company, and their evaluation of the company's internal controls.

### Responsibilities of the Chairman

The Chairman of the Board leads the work of the Board of Directors and should ensure that the Board's decisions are executed. The Chairman also represents the company in ownership-related matters. The Chairman maintains ongoing dialogue with the Chief Executive and is responsible for other Board members receiving the information and supporting data required to be able to reach well-anchored decisions.

### Responsibilities of the Board of Directors

The Board is responsible for the company complying with the Swedish Companies Act, rules for listed companies including the Code and other ordinances and laws, the Articles of Association and internal control instruments. The Board decides on strategies and targets, internal control instruments, large-scale purchases and sales of properties, other major investments and funding. The Board is responsible for the continuous monitoring of operations; for guidelines, organisational resources and management being expedient and for good internal control. The Board is also responsible for appraising executive management and planning for leadership succession.

The Board works to ensure the high and consistent quality of financial reporting, through means including instructions for financial reporting to the

Board and corporate communications policy and by considering potential observations, recommendations or proposals from Auditors or the Audit Committee.

The Annual Report and all interim reports are considered and approved by the Board. The Board has delegated the quality-assurance of financial presentations and press releases to management.

### The work of the Board in 2012

In 2012, the Board met on 16 occasions. Per capsulam meetings were also held on seven occasions to deal with purchase, sale and funding issues. Attendance at each Board meeting is stated in the table on page 49. The Board considered issues including Kungsleden's strategy, targets, business plan, market, external reporting, property purchases and sales, investments in existing properties, arranging loans and other funding issues, tax position, preparing sales mandates and the principles governing incentive payments. The Chief Executive, Deputy Chief Executive and the General Counsel, also the Board Secretary, also attended Board meetings.

### Board committees

The Board has inaugurated three internal committees, a Remuneration Committee, an Audit Committee and a Finance Committee, responsible for consulting on issues in each individual segment. Work is based on instructions prepared for each Committee. The Board of Directors appoints committee members internally.

### Remuneration Committee

The Remuneration Committee submits proposals to the Board regarding the Chief Executive's employment terms, the terms for the group management and principle issues relating to pensions, salaries, fees, benefits and severance pay. This Committee works from the guidelines for remunerating senior managers resolved by the AGM.

The Remuneration Committee elected at the Board meeting following election has the following members: Håkan Bryngelson (Chairman), Joachim Gahm and Charlotta Wikström. In 2012, the Committee met on three occasions.

### Audit Committee

The purpose of the Audit Committee is to provide a dedicated forum for accounting and audit issues. The Committee works on items including Kungsleden's internal control and governance systems and quality-assuring financial reporting to the public. The Audit Committee also supports the Nomination Committee in its work on proposing the election of Auditors, and for proposing audit fees.

The Audit Committee elected at the Board meeting following election has the following members: Kia Orback Pettersson (Chairman), Lars Holmgren and Biljana Pehrsson. The Committee held six meetings in 2012. Kungsleden's Chief Financial Officer, Financial Manager, Financial Controller, Tax Lawyer and the company's external Auditor attended meetings.

### Finance Committee

The Finance Committee was inaugurated in 2012, and provides a dedicated forum for work on funding. The Committee should support the Board of Directors with proposals on funding issues, financial targets for the short and long term, questions relating to the company's financial risks, hedging measures and other duties within the auspices of the company's finance policy. The Finance Committee elected at the Board meeting following election has the following members: Joachim Gahm (Chairman), Håkan Bryngelson and Magnus

Meyer. The Committee met on four occasions in 2012. Kungsleden's Chief Executive, Chief Financial Officer and Financial Manager attended meetings.

### Group management

Group management consists of Kungsleden's Chief Executive, Deputy Chief Executive/CFO, Property Manager, Business Development Manager, President of Nordic Modular, HR & Corporate Communications Manager and General Counsel. They are each responsible for their areas of responsibility within Kungsleden, and consult on matters for the Board jointly with the Chief Executive. Members of the Group management take decisions on operating activities that fall within their mandate. Group management structures and ensures that the company has a skilled organisation.

### Chief Executive

Kungsleden's Chief Executive is responsible for the practical management and co-ordination of operating activities. The Chief Executive does his work on the basis of instructions adopted by the Board each year. These formalise matters including the Chief Executive being responsible for the company's administration, reporting to the Board and matters requiring a decision by, or reporting to, the Board, such as adopting interim reports and annual reports, decisions on major purchases, sales, major investments and allocations of capital, and arranging major loans or guarantees above a threshold level. These instructions also cover the approval of remuneration and employment terms for senior managers.

#### APPRAISAL OF THE WORK OF THE BOARD

Each year, the Board undertakes an appraisal of its working methods and processes. This appraisal is intended to ensure well-functioning processes for compiling information, reporting, analysis, planning and decision-making. The appraisal is also intended to ensure that the Board has the necessary competence. The results of this evaluation are reported to the Nomination Committee and constitute the supporting data for work on nominations.

#### REMUNERATION TO THE BOARD

Fees are payable to the Board as resolved by the AGM, and were unchanged compared to 2011. No fees are paid to members employed by Kungsleden. Over and above Directors' fees from Kungsleden, Håkan Bryngelson also received Directors' fees of SEK 350,000 from Hemsö Fastighets AB, where he was Chairman of the Board, and Magnus Meyer received SEK 150,000 of Directors' fees from Hemsö Fastighets AB, where he was a Board member. Both left Hemsö's Board of Directors on 15 February 2013 when Kungsleden relinquished possession of its shareholding in the company.

#### REMUNERATION TO SENIOR MANAGERS

Each year, the AGM adopts guidelines for remuneration and other employment terms for senior managers. According to these guidelines, which were approved by the AGM 2012, Kungsleden should offer the remuneration levels and employment terms necessary to be able to hire and retain management with high skills levels and the capacity to achieve set targets. Remuneration structures should motivate group management to do their utmost to protect shareholders' interests.

Accordingly, remuneration structures should be on market terms, straightforward, long-term and measurable. Normally, remuneration to group management should include a fixed and incentive payment component. The incentive payment component should reward improvements clearly related to targets in straightforward and transparent structures, and with a predetermined ceiling. The basic salary of group management should be on market terms and based on competence, responsibility and performance. Normally, management's incentive payments should not exceed 12 months' salary and be related to the achieve-



## Board of Directors

**Charlotta Wikström.** Board member. Born in 1958, B.Sc. (Econ.) Elected to the Board in 2009. Main employment: Senior Partner of Stardust Consulting AB. Board member of Telge Energi AB and Forsen Projekt AB. Kungsleden shareholding: 10,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

**Joachim Gahm.** Board member. Born in 1964, B.Sc. (Econ.) Elected to the Board in 2011. Main employment: self-employed. Board member of Arise Windpower AB. Kungsleden shareholding: 2,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

**Biljana Pehrsson.** Board member. Born in 1970, B.Sc. (Eng.) Elected to the Board in 2011. Main employment: Deputy Chief Executive of East Capital Private Equity. Board member of Vasallen AB. Kungsleden shareholding: 3,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

#### FEES APPROVED BY THE AGM 2012

SEK	Chairman	Member
Board of Directors	525,000	220,000
Remuneration Committee	30,000	30,000
Audit Committee	60,000	30,000

ment of forecasts and targets for levels of the company's and each segment's results of operations and growth.

Long-term incentive schemes in the company should primarily relate to the

share price and involve senior managers of the company that have a material impact on factors including the results of the company's operations, financial position and growth, and the achievement of set targets. Incentive schemes should ensure long-term commitment to the company's progress and be implemented on market terms. There was no long-term incentive scheme for 2012. The scale of remuneration payable for 2012 is stated in Notes 8 and 9.





**Magnus Meyer.** Board member. Born in 1967, B.Sc. (Eng.) and Licentiate of Technology. Elected to the Board in 2008. Main employment: CEO of Tengbomgruppen AB. Board member of Hemsö Fastighets AB, Kinnarps AB, Tengbomgruppen AB and Culmen AB. Kungsliden shareholding: 5,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

**Kia Orback Pettersson.** Board member. Born in 1959, B.Sc. (Econ.) Elected to the Board in 2010. Main employment: Partner of Konceptverkstaden. Chairman of NAI Svefa AB, Forsen Projekt AB and Ponderus Invest AB. Board member of Jernhusen AB, JM AB, Tengbomgruppen AB and Garbergs Reklambyrå AB. Kungsliden shareholding: 1,700. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

**Håkan Bryngelson.** Chairman of the Board. Born in 1948, B.Sc. (Eng.) Elected to the Board in 2011. Main employment: self-employed. Chairman of the Boards of Almega and Almega Tjänsteförbunden, Tengbomgruppen AB, Hemsö Fastighets AB and Deputy Chairman of the Confederation of Swedish Enterprise. Kungsliden shareholding: 15,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

**Lars Holmgren.** Board member. Born in 1952, graduate in chemistry and industrial management. Elected to the Board in 2011. Main employment: self-employed. Board member of Svensk Markservice AB. Kungsliden shareholding: 5,000. Affiliation: this member is considered as not affiliated to the company, its management or major shareholders.

*The above information is for shareholdings as of 31 December 2012, and includes holdings through companies and related parties.*

Proposed guidelines for remuneration and other employment terms that will be proposed to the AGM 2013 largely correspond to those adopted by the AGM 2012. The maximum cost of remuneration that may be payable according to the guidelines that will be proposed to the AGM will be SEK 30 m, including social security contributions, pensions and employer's contributions, and if maximum incentive payments become due.

#### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2012

	Board of Directors	Remuneration Committee	Audit Committee	Finance Committee
Håkan Bryngelson	0 23/23	0 3/3		4/4
Joachim Gahm	22/23	3/3		0 4/4
Lars Holmgren	22/23		5/6	
Magnus Meyer	21/23		2/2	4/4
Biljana Pehrsson	20/23		6/6	
Kia Orback Pettersson	23/23		0 6/6	
Charlotta Wikström	22/23	3/3		
Thomas Erséus <sup>1</sup>	5/5			

0 – Chairman of Board/Committee

1. Member until AGM 2012

## INTERNAL CONTROLS AND RISK MANAGEMENT

Internal controls are important to ensure that the targets and strategies set produce the desired results, that laws and regulations are complied with and the risk of undesirable events and misstatements in reporting are minimised. The organisation of internal controls over financial reporting is described below.

### Control environment

The Board of Directors has overall responsibility for the company's internal controls. The Chief Executive has ongoing responsibility for maintaining and establishing internal governance and controls. Kungsleden's internal controls rest on the control environment the Board and management operate from on a continuous basis, but also the decision-paths, authorisations and areas of responsibility communicated within the organisation.

### Risk assessment

Having a clear view of the risks of the misstatements that may arise in external reporting, and that an organisation and processes are in place to manage these risks, is an important component of internal controls. Kungsleden works continuously and actively on charting, assessing and managing the risks the company is exposed to in its financial reporting. Kungsleden is a process-oriented company and integrates risk assessment routines in its business processes. A judgement of the risk of misstatement in financial reporting is conducted each year for each line of the Income Statement, Statement of Financial Position and Cash Flow Statement. For those items that are significant and/or are subject to increased risk of misstatement, there are processes in place to minimise this risk. These processes do not only apply to actual accounting processes but also encompass activities including operational control and business planning processes, as well as IT systems. The tool for operational monitoring that has been prepared is an example of a governance document. Such documents are used partly for consultations ahead of purchases and sales of properties, partly for the overall updates of operations and supporting data for valuations.



## Management

**Eskil Lindnér.** Portfolio Manager. Born in 1959, B.Sc. (Eng.) in Civil Engineering from the university of Technology, Lund. Kungsleden employee since 1999, has been in current position since 2006. Previous experience: Property Manager, JM AB, Property Manager, Nordbanken Fastigheter AB. Kungsleden shareholding: 27,500.

**Cecilia Gannedahl.** HR & Corporate Communications Manager. Born in 1962, B.Sc. (Econ.) from the University of Linköping. Kungsleden employee since 2007. Previous experience: Chief Executive of GCI Stockholm AB, Marketing/Business Area Manager, Roche AB. Kungsleden shareholding: 1,600.

**Thomas Erséus.** Chief Executive. Born in 1963, B.Sc. (Eng.) in Civil Engineering from Chalmers University of Technology, Gothenburg. Kungsleden employee since 2006. Other assignments: Board member of Hemsö Fastigheter AB and Chalmersfastigheter AB. Previous experience: President and CEO of WSP Europe AB, CEO of AB Jacobson & Widmark. Kungsleden shareholding: 140,000.

The risks in funding and operations otherwise and management of these risks are reviewed in Note 2.

### Control activities

Kungsleden has designed internal controls so that control activities are conducted as a routine matter at an overall level, or alternatively, are of a more process-oriented nature. Examples of overall controls include ongoing profit analysis based on the operational and legal group structure,

and by analysing key figures. Formal reconciliations, certification and similar controls are examples of routine or process-oriented controls that are intended to prevent, discover and rectify misstatements and variances. Control activities have been designed to manage the significant risks regarding financial reporting.

### Information and communication

The Board receives continuous financial reporting, and each scheduled Board



**Anders Kvist.** Deputy Chief Executive and Chief Financial Officer. Born in 1958, B.Sc. (Econ.), the Stockholm School of Economics. Kungsliden employee since October 2012. Previous experience: Head of Group Treasury at SEB, Head of Asset Management for DnB and Skandia, CEO of Skandia Liv. Kungsliden shareholding: 10,000

**Per Johansson.** President of Nordic Modular. Born in 1959, B.Sc. (Eng.) Civil Engineering, from the Royal Institute of Technology, Stockholm. Kungsliden employee since 2007. Previous experience: Chief Executive of Spokesman AB and of Skanska Modul AB. Kungsliden shareholding: 5,000.

**Ylva Sarby Westman.** Head of Business Development. Born in 1973, B.Sc. (Eng.), land surveying, focusing on real estate economics, from the Royal Institute of Technology, Stockholm. Kungsliden employee since 2009. Previous experience: Deputy Chief Executive of Newsec Investment AB, Property Development Manager at NCC Property Development AB. Kungsliden shareholding: 0.

**Åke Theblin.** General Counsel and Board Secretary. Born in 1961, LL .B. from the university of Stockholm. Kungsliden employee since 2001. Previous experience: General Counsel, AP Fastigheter AB, Advokat Hellström Advokatbyrå AB. Kungsliden shareholding: 23,000.

*The above information is for shareholdings as of 31 December 2012, and includes holdings through companies and related parties.*

meeting considers the group's financial position. The company's Auditor personally reports his observations from his review and assessment of internal controls once yearly. All potentially share price-sensitive information is reported to the market via press releases. The company has ensured that this information reaches the market simultaneously. The Chief Executive and Chief Financial officer are the appointed spokespeople on financial matters.

Kungsliden has a policy that guarantees that its staff can contact a third party to report actions or other anomalies that imply breaches or suspected breaches of laws or other guidelines and regulations anonymously and without consequences.

#### **Follow-ups**

The Board of Directors requests regular assessments of the risks of operations from management. The results are compiled in reports, which are pre-

sented to the Audit Committee. Kungsliden has no internal audit function. Internal controls are considered satisfactory and expedient for an organisation of Kungsliden's size, and accordingly, the Board and management do not see any need for an internal audit function.



# Audit Report

## TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF KUNGSLEDEN AB (PUBL.) CORPORATE IDENTITY NUMBER 556545-1217

### REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Kungsleden AB (publ) for the year 2012. The annual accounts and consolidated accounts of the Company are included in the printed version of this document on pages 44–90.

### Responsibilities of the Board of Directors and the Chief Executive Officer for the Annual Accounts and Consolidated Accounts

The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Chief Executive Officer 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit proce-

dures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive Officer, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

### Opinions

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 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 2012 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance report has been prepared. The statutory administration report and the corporate governance report are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the Income Statement and Balance Sheet for the parent company and the Consolidated Income Statement and Statement of Financial Position.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the Company's profit or loss and the administration of the Board of Directors and the Chief Executive Officer of Kungsleden AB (publ) for the year 2012.

### Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss, and the Board of Directors and the Chief Executive Officer are responsible for administration under the Companies Act.

### Auditors' Responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the Chief Executive Officer. We also examined whether any board member or the Chief Executive Officer has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

### Opinions

We recommend to the annual 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 Chief Executive Officer be discharged from liability for the financial year.

Stockholm, Sweden, 15 March 2013  
KPMG AB



Björn Flink  
Auktoriserad revisor