



Interim Report **January–March** 2013

A comment from Anders

Kungsleden took the first steps in implementing its new strategy in the first quarter. The sale of its interest in Hemsö was completed, which significantly strengthened Kungsleden's liquidity. Simultaneously, the company took possession of the 11 properties, worth SEK 1.5 billion, which were purchased from Hemsö. Kungsleden is now engaged in goal-oriented efforts to identify and evaluate other appropriate acquisition opportunities. Kungsleden has the capacity to purchase properties with a value of SEK 4 billion over the next 12 months, but we are allowing the search and purchase process to take the time necessary to achieve a positive outcome. In this period, the liquidity freed up is being invested by amortising bank borrowings, which will result in lower interest costs over time.

RESULTS FOR THE QUARTER

The property portfolio was smaller than in the first quarter of last year as a result of property sales in the course of 2012. Accordingly, in the first quarter, net sales decreased by 12 per cent to SEK 487 m. However, in like-for-like portfolio terms, rents held up well, and vacancies continued to decrease somewhat.

Lower rental revenues due to a smaller portfolio also fed through to gross profit, which fell by 8 per cent to SEK 281 m. A long and severe winter, which increased costs, mainly for heating, contributed to the downturn.

With Kungsleden's new strategy, profit from property management is now the most important earnings indicator, which accurately reflects the long-term value creation and fundamental cash flow. Profit from property management consists of gross profit less costs for central administration and net financial items. The profit from property management for the quarter was SEK 88 m, down SEK 29 m year on year, mainly due to a decrease in gross profit.

In the quarter, Kungsleden commenced its cost reduction programme. The target is to downscale the central cost base by approximately 10 per cent on 2012, with full impact by 2014. The company has made good progress after the first quarter in terms of the underlying trend. Sales and administration costs for the first quarter were SEK 52 m, which although up SEK 4 m on the previous year, also includes a non-recurring cost of SEK 9 m for salary and other personnel costs for the departing Chief Executive.

The net financial position is consistent with the corresponding period of the previous year. Lower interest costs after amortisation and downscaling the swap portfolio affected this cost item positively, while items including higher bank margins from re-financing last year had a negative effect.

Profit for the period after tax was SEK 208 m, against SEK 113 m for the corresponding period of 2012. Profit for the first quarter 2012 was charged with provisioning for tax risks.

LETTINGS MARKET

Kungsleden's lettings market remains stable. The company is focusing on industrial/warehouse, office and retail properties in Greater Stockholm, Mälaren Valley, south-western Sweden and growth locations in northern Sweden. These are segments and regions that exhibit high total yields and low market risk historically. Kungsleden has reported positive net letting in recent years. However, net letting was negative in the first quarter of the year, at SEK -5 m, but we are still optimistic regarding our lettings business. In terms of results, the trend remains positive because positive net lettings in the previous quarter are greater than this quarter's negative figure, and there is a time delay between new signings/terminated contracts and the actual rental period.

TAX POSITION AND FINANCIAL CAPACITY

No major changes occurred on the tax front in the quarter. Kungsleden judges that the risks in the company's current tax proceedings have not changed since the previous quarter. Negative rulings were received from the administrative court level on tax cases regarding impairment of *lagerandelar*¹ in March, for more information, see pages 10–11. Another case that the Administrative Court of Appeal ruled against Kungsleden in 2012 took legal effect in April 2013 when the Supreme Administrative Court rejected leave of appeal.

The sale of Hemsö freed up funds that enable Kungsleden to maintain a contingency to satisfy the potential liquidity requirement from ongoing tax proceedings. Temporarily, this liquidity has been used to amortise borrowings, but Kungsleden has agreed with its banks that its credit facilities can be drawn down again as required. The liquidity contingency for this purpose is currently SEK 2.9 billion.

OUTLOOK

All of Kungsleden's focus is now on executing its new strategy. Within the company, we are full of confidence that in the long term, Kungsleden will be able to create shareholder value by managing, improving and purchasing properties. The company has had a strong principal owner for some time now. This ensures stability and a long-term approach.

We are now focusing on investing in properties on those partial markets that are returning sustainable and stable turnover over time. In a horizon of several years, we may make SEK 5–6 billion of investments. We regard supply on the market as fully sufficient, and we are noting good investment opportunities in medium-risk properties with property yields of between 7.0 and 8.5 per cent.

We will be working on our net financial position and reducing administration costs. Through these measures, and the results we generate from a larger property portfolio, we intend to achieve our target of restoring cash flow from the period when Kungsleden held 50 per cent of Hemsö within 18–24 months.

Anders Kvist
Interim Chief Executive



1. Defined in Swedish law as a construction company's shareholding in a property management company.

Results in brief

INTERIM PERIOD (JANUARY–MARCH)

- Net sales decreased by 12 per cent to SEK 487 (556) m and gross profit reduced by 8 per cent to SEK 281 (305) m due to a smaller property portfolio.
- Profit from property management was SEK 88 (117) m, equivalent to SEK 0.60 (0.85) per share.
- Profit before tax was SEK 236 (374) m, and SEK 208 (113) m after tax, or SEK 1.50 (0.80) per share. The profit increase after tax is mainly due to the first quarter 2012 being charged with a large provision for tax risks.
- Cash flow from operating activities was SEK 131 (120) m, or SEK 1.00 (0.90) per share.
- The property portfolio as of 31 March 2013 consisted of 278 (278) properties with a book value of SEK 15,823 (15,777) m.

Significant events

INTERIM PERIOD (JANUARY–MARCH)

- On 15 February 2013, Kungsleden transferred possession of the shares of Hemsö to AP3 (the Third Swedish National Pension Fund), which also redeemed a shareholder loan. Accordingly, Kungsleden significantly strengthened its liquidity. Simultaneously, Kungsleden took possession of 11 properties purchased from Hemsö for SEK 1,549 m.
- No properties were purchased or sold in the first quarter.
- In anticipation of planned property purchases, Kungsleden made substantial repayments on interest-bearing loans.

- Thomas Erséus resigned as Chief Executive of Kungsleden and left the company coincident with the Annual General Meeting on 18 April.

AFTER THE END OF THE PERIOD

- Anders Kvist was appointed Interim Chief Executive of Kungsleden, effective 19 April.

PROFIT FROM PROPERTY MANAGEMENT

SEK m	2013 Jan–Mar	2012 Jan–Mar
Gross profit	281	305
Sales and administration costs	–52	–48
Net financial position	–141	–140
Profit from property management	88	117

8.2%

Property yield as of 31 March 2013
(including modular buildings)

90.5%

Economic occupancy
January–March 2013

Kungsleden—facilitating opportunities

Facilitating opportunities defines the way we stand out in the property sector. What our customers emphasise is that we're entrepreneurial—we're there, innovative and easy to deal with. Facilitating opportunities means we see opportunities in properties, sites and premises that other people don't. Our starting-point is sustainable high and stable returns with diversified risk and stable cash flow as key ingredients.

VISION

Through good entrepreneurship and high skills levels, Kungsleden will become Sweden's most profitable and successful property company.

BUSINESS CONCEPT

Kungsleden will own, manage and improve properties in Sweden's growth regions, and generate high and stable returns for the long term.

STRATEGY

Kungsleden will create value by satisfying customer needs for premises, managing and improving properties and optimising the company's property portfolio.

Satisfy customer needs for premises

- Provide properties where customers can operate and progress.
- Create strong customer relationships through responsiveness, flexible actions and short decision-paths.

Manage and improve properties

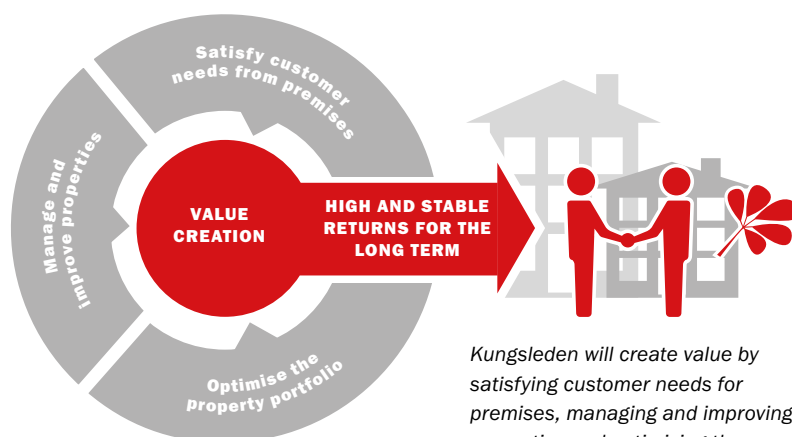
- Actively manage and improve properties to increase stable cash flows, and thus the value, of the property portfolio.
- Attract good tenants and endeavour to secure long lease contracts, high occupancy levels and a balanced cost level.

Optimise the property portfolio

- With good knowledge of the market and strong relationships with participants on the market, identify and exploit purchase and sales opportunities to increase risk-adjusted returns.

A platform for creating value for shareholders, customers, employees and wider society is a strong corporate culture where people enjoy their work, develop and deliver.

KUNGSLEDEN'S STRATEGY



Kungsleden will create value by satisfying customer needs for premises, managing and improving properties and optimising the company's property portfolio.

BUSINESS MODEL

Kungsleden's business model relates to owning, managing and improving properties that generate high risk-adjusted returns in the following types:

- Industrial/warehouse
- Office
- Retail

By focusing on three property types, Kungsleden achieves superior competence regarding customer needs and market conditions. This helps strengthen customer relationships and improves Kungsleden's capacity to manage and improve properties. One key prerequisite for value creation is focusing on the following growth regions:

- Greater Stockholm
- Mälaren valley
- South-western Sweden
- Growth locations in northern Sweden

Long-term value creation and improvement of stable cash flows is achieved through active management and improvement. Simultaneously, the property portfolio is optimized through purchases and sales, to increase risk-adjusted returns.

FINANCIAL TARGETS

The overall target is to maximise cash flow growth within the financial limits set to secure a strong Balance Sheet for the short and long term.

- Liquidity contingency of SEK 2.9 billion
- Loan to value ratio of 60 per cent on new credit facilities
- Equity ratio of over 30 per cent

Through Kungsleden's strategy, which focuses on value creation, the company will be managed towards a targeted group-wide profit from property management for 2015, with phase targets in 2013 and 2014.

For the long term, Kungsleden will generate a return on equity exceeding the return the stock market requires of the company's share. In the short to medium term, in current circumstances, the estimated required return on Kungsleden is not less than 10–12 per cent.

1 January–31 March 2013

RESULTS FOR JANUARY–MARCH

Profit after tax for the period was SEK 208 (113) m, with the higher figure mainly due to the previous year being charged with provisioning for tax risks.

Net sales for the period were SEK 487 (556) m, divided between rental revenues from properties of SEK 382 (412) m and modular buildings of SEK 64 (63) m, as well as sales revenues from manufactured modules of SEK 41 (81) m. The reduction in rental revenues is due to the property portfolio in 2013 being smaller than in the corresponding period of the previous year as a consequence of property sales in 2012. Additionally, those properties Kungsliden purchased from Hemsö at year-end 2012 did not generate revenues until 15 February this year, when the transaction was completed.

Gross profit decreased by 8 per cent to SEK 281 (305) m due to property sales in 2012. Vacancies decreased, but the resulting positive effects could not compensate for increased heating costs from the long and severe winter of 2013.

Two accounting principles have been amended effective 1 January 2013 to improve comparability with other property companies, which affected the scale of gross profit. Firstly, property administration and administration of module manufacture are recognised

as property costs and costs for manufacturing modules respectively, rather than as previously, as sales and administration costs. Secondly, the property costs of modular buildings are being charged with the cost for re-investment. The outcomes of comparative figures have been restated correspondingly, which for the full year 2012, meant an increase of operating costs to SEK 71 m for administration and SEK 40 m for re-investment respectively. Sales and administration costs and the negative unrealised value changes on investment properties decreased by the corresponding amounts. Profit before tax was not affected by these amendments.

Sales and administration costs were SEK 52 (48) m. SEK 10 (10) m of these costs were sourced from Nordic Modular and SEK 42 (38) m from group-wide operational costs and central administration within Kungsliden.

Essentially, the cost increase relates to provisioning for personnel costs for the departing Chief Executive's notice period, which was charged to the quarter because employment was terminated in mid-April.

The net financial position was largely unchanged and amounted to SEK –141 (–140) m. With the aid of liquidity from the sale of the Hemsö shares, interest-bearing liabilities were amortised. Consequently, interest costs reduced,

which offset higher interest margins and arrangement fees after re-financing the majority of bank borrowings in 2012.

Effective 2013, Kungsliden is reporting profit from property management directly in its Income Statement. Profit from property management for the interim period was SEK 88 (117) m, and indicates profit from operating activities after financing costs. The fact that profit was down SEK 29 m on the previous year is due to a smaller property portfolio, costs resulting from a severe winter and cost provisioning for the departure of the Chief Executive.

The profit contribution from module sales reduced because of upscaled manufacture for future module leasing occurred, which made a lower contribution to fixed costs in this period. In return, rental revenues increase effective from April when modular buildings have been delivered. Profit from property sales was SEK 0 (20) m.

The value changes on investment properties were minor in the period, at SEK –16 (11) m.

Value changes on financial instruments were SEK 164 (226) m. The value change was primarily sourced from rising long interest rates year to date. Payments of the higher fixed interest in the period also reduced the negative market value of interest swap contracts, which affected the value changes by SEK 59 m.

INCOME STATEMENT

SEK m	Properties		Nordic Modular		Other/group-wide		Total Kungsliden	
	2013 Jan–Mar	2012 Jan–Mar	2013 Jan–Mar	2012 Jan–Mar	2013 Jan–Mar	2012 Jan–Mar	2013 Jan–Mar	2012 Jan–Mar
Rental revenues	382	412	64	63			446	475
Sales revenues, module manufacture			41	81			41	81
Net sales	382	412	105	144			487	556
Property costs	–142	–155	–28	–24			–170	–179
Costs for manufacturing modules			–37	–72			–37	–71
Gross profit	240	257	41	48			281	305
Sales and administration costs	–42	–38	–10	–10			–52	–48
Net financial position	–135	–134	–6	–6			–141	–140
Profit from property management	63	85	25	32			88	117
Value changes, properties								
Profit/loss from property sales	0	20					0	20
Unrealised value changes	–16	11					–16	11
Unrealised value changes, financial instruments	164	226					164	226
Profit/loss before tax	211	342	25	32			236	374
Tax	–47	–78	–5	–7	–	–260	–52	–345
Profit/loss from continuing operations	164	264	20	25	–	–260	184	29
Discontinued operation: Hemsö holding after tax					24	84	24	84
Net profit/loss	164	264	20	25	24	–176	208	113

Tax on profit for the period was SEK –52 (–345) m. Tax corresponds to the reduced corporation tax rate of 22.0 per cent.

The profit from the Hemsö holding is recognised in discontinued operations in 2013 at the bottom of the Income Statement in accordance with applicable accounting principles. This figure primarily consists of the participation in Hemsö's profit. Interest income from the shareholder loan to Hemsö and Kungsleden's interest costs for financing the holding is also recognised net on this

line. However, this did not have any net impact because interest income corresponded to the Hemsö holding's share of historical interest cost. This profit/loss item was SEK 24 (84) m, corresponding to Kungsleden's share of estimated profit for Hemsö until possession of the shares was transferred to AP3 on 15 February 2013.

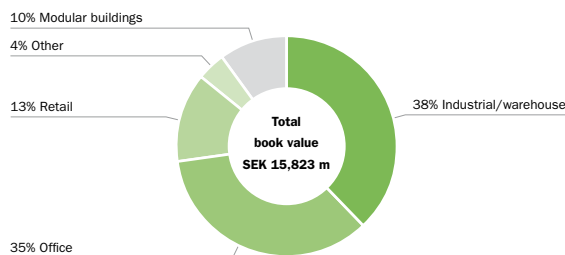
PROPERTY PORTFOLIO

The property portfolio as of 31 March 2013 consisted of 278 (278) properties.

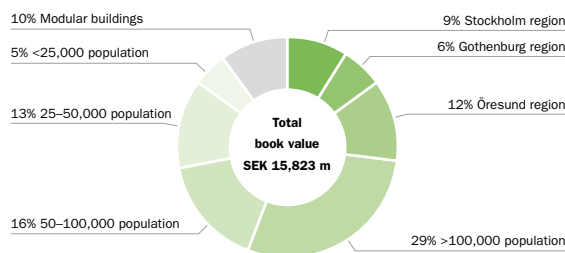
The total area of properties and modular buildings was 2,439,000 (2,442,000) sq.m., and they had a book value of SEK 15,823 (15,777) m.

The value increase is mainly due to investments in existing properties. 90 (90) per cent of book value was attributable to properties and 10 (10) per cent to modular buildings. Kungsleden values its properties on the basis of an internal valuation model, which is an integrated component of its business process, where each property has a business plan. A combination of location-price method and present value calculations of cash flow with a forecast period of five years plus a subsequent residual value is the basis of the valuation. Factors considered include rent levels, vacancies, operation and maintenance costs, property age, status and usage. Of property book value, 56 per cent was located in the three major city regions of Stockholm, Gothenburg and Öresund, and cities with populations of over 100,000.

PROPERTY PORTFOLIO BY TYPE, 31 MARCH 2013



PROPERTY PORTFOLIO BY SIZE OF LOCATION, 31 MARCH 2013



PROPERTY PORTFOLIO

SEK m	2013 Jan-Mar	2012 Jan-Mar
Properties at beginning of period	15,777	15,693
Purchases	-	-
Investments	69	40
Sales	-2	-210
Exchange rate fluctuations	-5	-1
Value changes	-16	11
Properties at end of period	15,823	15,533



Malin Sloan, Assistant Technical Manager.

Investments in existing properties were SEK 69 (50) m, in which over half in three properties in Västerås and Nyköping. Investments are mainly in conversions and extensions of existing properties, and in consultation with the tenant, so their operations can be conducted better and more effectively. Investments increase property value, through higher rent levels and often, also longer contract terms.

PROPERTY TRANSACTIONS

The transaction market showed signs of increased activity in early 2013, even if the number of transactions executed still remains low.

EARNINGS CAPACITY¹

	2013 31 Mar.	2012 31 Dec.
No. of properties	278	278
Leasable area, 000 sq.m.	2,439	2,442
Book value, SEK m	15,823	15,777
Rental value, SEK m	2,067	2,063
Rental revenues, SEK m	1,857	1,843
Operating net, SEK m ^{2,3}	1,293	1,303
Economic occupancy, %	89.8	89.3
Property yield, % ^{2,3}	8.2	8.3
Operating surplus margin, % ^{2,3}	69.6	70.7

Consistent with its new business strategy, Kungsleden is actively screening acquisition opportunities. However, no properties were purchased in the first quarter. Nor did any sales occur.

EARNINGS CAPACITY

Kungsleden reports earnings capacity to supplement the Income Statement with a better view of the underlying profitability of current property operations. Earnings capacity illustrates Kungsleden's results as if the property portfolio as of 31 March 2013 had been held for the past 12 months, and thus offers an estimate of future earnings capacity in unchanged circumstances.

Progress of the existing portfolio and completions in the period resulted in a reduction of the operating net to SEK 1,293 m, compared to SEK 1,303 m at the beginning of the year. The decrease was mainly a result of a longer and more severe winter than the previous year. At the end of the period, economic occupancy was 89.8 (89.3) per cent and the average property yield was 8.2 (8.3) per cent.

NORDIC MODULAR

Nordic Modular is a unit within Kungsleden alongside conventional properties. Operations encompass the letting and sale of modular buildings. Flexible, production-efficient and cost-efficient modular buildings are a strong alternative to traditional premises. Approximately 75 per cent of modular buildings are let to local government.

As of 31 March, modular buildings had a total area of 230,000 (231,000) sq.m. and book value of SEK 1,509 (1,509) m. Rental revenues for modular buildings were SEK 65 (63) m in the period with gross profit of SEK 37 (39) m. Occupancy varied in the most recent period, but has been tracing an upward trend, and was 80 (80) per cent at the end of the period.

Value impairment due to use is greater over time in modular buildings in letting operations than fixed asset properties, or alternatively, re-investments are required. The Income Statement has been charged with costs of SEK 12.5 m corresponding to re-investments being made in the modular portfolio.

EARNINGS CAPACITY¹ BY TYPE

	Industrial/ warehouse	Office	Retail	Other	Modular buildings	Total
No. of properties	116	84	56	22	–	278
Leasable area, 000 sq.m.	1,197	667	266	79	230	2,439
Book value, SEK m	6,079	5,527	2,078	630	1,509	15,823
Rental value, SEK m	738	706	228	73	322	2,067
Rental revenues, SEK m	675	643	213	68	258	1,857
Operating net, SEK m ^{2,3}	504	422	153	43	171	1,293
Economic occupancy, %	91.5	91.1	93.4	92.8	80.1	89.8
Property yield, % ^{2,3}	8.3	7.6	7.4	6.8	11.3	8.2
Operating surplus margin, % ^{2,3}	74.6	65.6	71.9	63.3	66.2	69.6

EARNINGS CAPACITY¹ BY SIZE OF LOCATION

	Stockholm region	Gothenburg region	Öresund region	Other cities by inhabitants, '000				Modular buildings	Total
				>100	50–100	25–50	<25		
No. of properties	31	25	40	53	40	50	39	–	278
Leasable area, 000 sq.m.	155	147	244	683	306	414	260	230	2,439
Book value, SEK m	1,482	990	1,890	4,512	2,558	2,053	829	1,509	15,823
Rental value, SEK m	161	110	193	625	306	242	108	322	2,067
Rental revenues, SEK m	154	89	165	587	283	219	102	258	1,857
Operating net, SEK m ^{2,3}	109	52	126	387	191	173	84	171	1,293
Economic occupancy, %	95.5	80.5	85.8	93.8	92.6	90.6	94.6	80.1	89.8
Property yield, % ^{2,3}	7.3	5.3	6.6	8.6	7.5	8.4	10.2	11.3	8.2
Operating surplus margin, % ^{2,3}	70.5	58.7	75.9	65.9	67.5	79.3	82.8	66.2	69.6

1 Earnings capacity shows the appearance of the Income Statement as if the portfolio as of 31 March 2013 had been held for the past 12 months.

2 In the Income Statement, the group's operating net is charged with costs for property administration, which is not included in individual property operating nets in earnings capacity. In the past 12 months, property administration was SEK 60 m.

3 The operating net for modular buildings was previously subject to a standard charge of SEK –86 m. Due to the fact that effective 2013, property costs in the Income Statement are charged with re-investments in modular buildings, there is no longer any standard charge when measuring earnings capacity. The information for earnings capacity as of 31 December 2012 has been restated for comparability, which increased the property yield at year-end of Kungsleden's whole property portfolio from 8.0 per cent to 8.3 per cent.

NORDIC MODULAR

SEK m	2013	2012
	Jan-Mar	Jan-Mar
Rental revenues	64	63
Property costs	-28	-24
Gross profit, modular lettings	37	39
Sales revenues	41	81
Costs for manufacturing modules	-37	-72
Gross profit, module manufacture	4	9
Sales and administration costs	-10	-10
Net financial position ¹	-6	-6
Profit from property management	25	32
Value changes, properties		
Profit/loss from property sales	-	-
Unrealised value changes	-	-
Unrealised value changes, financial instruments ¹	-	-
Profit before tax	25	32
Tax	-5	-7
Profit for the period¹	20	25
Properties	1,509	1,509

¹ The allocation of interest for the Nordic Modular segment is based on directly attributable loans effective 2013. Nor will any interest derivatives be allocated to Nordic Modular going forward. The comparative period for 2012 has been restated.

Recognising a cost in operating net for re-investments in modular buildings in this way is an amended accounting principle effective 2013 designed to improve comparability with conventional properties at the operating net level. A charge for higher wear that requires re-investments in the portfolio is now considered in operating net instead of risking incurring a negative value change in the longer perspective. For the full year 2012, an amount of SEK -40 m of the SEK -60 m recognised as unrealised value changes has been reclassified as a property cost. The first quarter of 2013 has been charged with SEK 12.5 m corresponding to 25 per cent of the expected cost amount for the year and Kungsleden judges that no unrealised value changes occurred in the period. Administrative costs have also been reclassified to be recognised as property costs to the extent these costs are attributable to letting. Accordingly, when restating 2012, the operating surplus margin in the Income Statement reduces from 83 per cent to 62 per cent and that property yield as of 31 December 2012 from 14.1 per cent to 10.1 per cent.

Sales of modules decreased on the first quarter of 2012, which featured high activity. Sales amounted to SEK 41 (81) m with a gross profit of SEK 4 (9) m. The profit contribution from module sales reduced because of upscaled manufacture for future module leasing occurred, which made a lower contribution to fixed costs in this period. In return, rental revenues increase effective from April when modular buildings have been delivered. The plants' order books were better at the end of the quarter compared to year-end 2012, and one year ago. The lay-off of 54 employees at Anneberg effected in the previous quarter were withdrawn, with some re-appointments from previous staff downsizing actually possible. In the quarter, 20 employees were issued with notices in Gråbo, although no terminations have occurred as yet.

FINANCIAL POSITION

In mid-December 2012, Kungsleden sold the remaining 50 per cent of its shareholding in Hemsö. This was an important element of its strategic concentration, with a focus on its own



Cristoffer Högberg, Project Manager, Development Properties and Karin Hedvall, Assistant Technical Manager.



Tobias Nilsson, Assistant Property Manager.

directly owned properties, as Kungsleden reported in autumn 2012. The sale of the remaining shareholding in Hemsö improves Kungsleden's financial flexibility and affects its financial position in the short and long term.

Coincident with the transfer on 15 February 2013, Kungsleden received payment of SEK 3,400 m from AP3, most of which was recognised as a receivable at year-end. Simultaneously, Kungsleden paid SEK 1,549 m as a pur-

chase price when taking possession of 11 properties from Hemsö. These properties conferred Kungsleden with extended borrowing capacity of over SEK 1,000 m, which was partly utilised through raising new loans of SEK 714 m. There was still significant surplus liquidity after these transactions. This liquidity was utilised to amortise existing credit facilities, so that interest-bearing liabilities at the end of the period amounted to SEK 7,384 m, down SEK

2,320 m on year-end. The outcome was a lower loan volume and lower interest costs combined with un-utilised credit facilities of over SEK 4 billion.

Accordingly, the financial position includes a very high equity ratio and low loan to value ratio at the end of the period. However, this is a temporary situation in anticipation of the execution of planned property purchases.

CUSTOMERS

Kungsleden's success is based on satisfied customers and the company's ability to do good deals. Kungsleden's customers represent a cross-section of the Swedish business community and public services. Its tenants are small enterprises and large corporations, active in sectors such as manufactured goods, transportation and retailing.

The largest tenant is ABB, which represents 16 per cent of total rental revenues.

Customers—key facts:

- Net lettings in 2013: SEK –5 m of annual rent (signed contracts less signed terminations).
- Remaining contract term: average 4.8 years.

STATEMENT OF FINANCIAL POSITION

SEK m	31 Mar. 2013	31 Dec. 2012
ASSETS		
Properties	15,823	15,777
Other fixed assets	597	666
Receivable from AP3	–	3,363
Other current assets	243	373
Cash and bank balances	331	721
Total assets	16,994	20,900
EQUITY AND LIABILITIES		
Equity	7,929	7,726
Interest-bearing liabilities	7,384	9,704
Derivatives	960	1,125
Other non interest-bearing liabilities	721	2,345
Total equity and liabilities	16,994	20,900

KEY FIGURES

	31 Mar. 2013	31 Dec. 2012
Loan to value ratios, multiple	47	62
Equity ratio, %	47	37

FUNDING

Kungsleden's loan portfolio is based on bilateral loan agreements with banks, two syndicated bank credit facilities and bond issues. Loan agreements normally have three to five-year maturities. Fixed-interest terms on loans are short (variable), and Kungsleden manages interest risk at an overall group level. The desired risk level in the interest fixing structure is achieved using derivative instruments (interest swaps).

Interest-bearing liabilities

At the end of the period, the loan portfolio totalled SEK 7,384 (9,704) m. SEK 1,599 (1,599) m of borrowings were unsecured bond issues. There was significant amortisation in the period, mainly using the liquidity freed up from the sale of the participations in Hemsö. This amortisation increased un-utilised available credit facilities by the corresponding amounts. At the end of the period, Kungsleden had SEK 4,160 m of committed, un-utilised credit facilities.

Financing costs

In the first quarter of 2013, the interest costs in the net financial position were lower than in the corresponding period of 2012 thanks to a lower average loan volume in 2013 after the repayments made. The cancellation and extension of interest swaps in 2012 also had a positive effect. However, higher arrange-

INTEREST COSTS AND AVERAGE INTEREST RATE¹

Loans, derivatives and fees on the reporting date	Annual cost, SEK m		Average interest rate, %	
	2013 31 Mar.	2012 31 Dec.	2013 31 Mar.	2012 31 Dec.
Interest on bank borrowings and bond issues ² (Stibor 90 days, interest margin and arrangement fees)	-294	-402	4.0	4.2
Difference between Stibor 90 days and fixed interest on interest derivatives	-260	-242	3.5	2.5
Commitment commission for additional liquidity reserve due to tax risks	-29	-	0.4	-
Commitment commission, other liquidity reserve	-12	-11	0.2	0.1
Interest costs and average interest rate	-595	-655	8.1	6.8

1 The average interest rate is calculated by setting interest costs from loans and interest swaps, arrangement fees and costs for un-utilised credit facilities in relation to outstanding loan volume on the reporting date.

2 Interest-bearing liabilities were SEK 7,384 m as of 31 March 2013 and SEK 9,704 m as of 31 December 2012.

ment fees from 2012 and commitment commissions on larger un-utilised credit facilities made a negative contribution. Overall, Kungsleden's net financial position was largely unchanged compared to the first quarter of the previous year.

To gain a comprehensive view of the net financial position, the results figures should be supplemented by an overview of the relevant underlying funding cost. This consists of a number of components, as illustrated in the above table. A few years ago, Kungsleden fixed interest rates on basically all its borrowings using interest swaps. In this way, the company fixed its interest at a level of just over 4 per cent for several years ahead. This interest fixing meant that Kungsleden's financing costs were not favoured by short interest rates subsequently falling and remaining at low levels. On the other hand, Kungsleden's

interest costs are not negatively affected if short interest rates increase. In addition to interest, the company pays margins to banks and other financiers on its loans. Arrangement fees are additional when new borrowings are arranged. These fees are allocated over the term of loans. Finally, commitment commissions are paid for un-utilised committed credit facilities from banks.

The table also illustrates what is termed the average interest rate, which is a simplified way of describing finance costs and can be calculated by combining all the interest costs from loans and interest swaps, allocated arrangement fees and costs for un-utilised credit facilities, in relation to outstanding loan volumes on a certain date. At the end of the first quarter, Kungsleden's average interest rate was 8.1 per cent as of



Andreas Norberg, Project Manager, Transactions

MATURITY STRUCTURE, FIXED INTEREST PERIODS

As of 31 March 2013	Loan, SEK m	Interest derivatives, SEK m ¹	Average interest, %	Average interest, loans and derivatives, %	Average fixed interest period, years
2013	7,384				
2014		800	3.9		
2015		1,400	4.2		
2016		500	3.9		
2017		500	4.1		
2018		3,650	4.2		
2019		800	3.5		
2020		800	3.7		
2021		400	3.8		
2022		500	3.8		
Total	7,384	9,350		8.1²	6.3
Market valuation of derivatives	959				
Total	8,343				

1 Kungsleden's interest derivatives involve the company receiving variable interest and paying fixed interest on longer maturities. The variable interest received in the derivative matches the variable interest paid in underlying bank loans, thus creating a traditional interest fixing.

2 The group's average interest rate of 8.1 per cent is due to Kungsleden fixing interest rates in market conditions when interest rates were higher than at present, and that interest swaps after amortisation in the first quarter exceeded outstanding loans. The average interest rate in the table corresponds to the interest cost of loans, arrangement fees and derivatives in relation to current loan volumes at the reporting date.

31 March 2013, compared to 6.8 at the beginning of the year.

The table also indicates that the underlying interest cost decreased in the period, but that the average interest rate rose. The interest cost paid decreases and net financial position improves when loan volumes contract thanks to loan amortisation effected. The percentage average interest rate increases, due to the higher, fixed interest cost for interest swaps being allocated over a lower loan volume.

The average interest rate only offers a snapshot of financing costs and is sensitive to the exact loan volumes. Accordingly, the average interest rate is not at all appropriate for estimating forthcoming financing cost because it will automatically reduce when borrowings increase again as Kungsleden purchases properties that are loan financed. When new loans with short fixed-interest periods are arranged to fund planned property purchases, then basically only an interest cost corresponding to current Stibor and a loan margin will be additional. The stated swap interest payments are then allocated over a larger loan volume.

The weighted average remaining fixed-interest period for loans and derivatives has increased to 6.3 (5.1) years since year-end. The change is also an effect of loan amortisation, and the fixed-interest period will reduce again when new loans with short fixed-interest periods are arranged to fund planned property purchases.

Kungsleden has covenants to lenders regarding interest coverage and loan to value ratios, all of which were satisfied as of 31 March. Including discon-

tinued operations, the interest coverage ratio was a multiple of 1.7 (2.7). The loan to value ratio for secured credits, i.e. outstanding borrowings excluding bond issues, was 37 (57) per cent at group level. The loan to value ratio has improved sharply compared to the previous year-end, explained by amortisation effected in the period. Once the planned property purchases have got underway, the loan to value ratio will

increase again, but as a guideline, will not be above 60 per cent for new credit facilities.

Value growth, financial instruments

The negative market value of financial instruments (interest swaps) improved in the period, and was SEK -959 m as of 31 March, compared to SEK -1,121 m at the beginning of the year. The improvement in negative market value

MATURITY STRUCTURE, CREDITS (INCL. UN-UTILISED CREDIT FACILITIES)

As of 31 March 2013, SEK m	Utilised credits	Un-utilised credits	Total credits
2013	613	260	873
2014	1,496		1,496
2015	2,595	3,900	6,495
2016	2,680		2,680
Total	7,384	4,160	11,544
Average conversion term, years	2.2		2.0

SENSITIVITY ANALYSIS, INTEREST RATE FLUCTUATIONS

Effect on net financial position, SEK m	31 Mar. 2012
Average interest of the loan portfolio changes, +/- 1% point	-/+ 74
Short market rate (<6 mth.) changes, +/- 1% point	+/- 17
Effect on unrealised value change/reserve, SEK m	31 Mar. 2012
Market interest rate changes on all maturities, +/- 1% point ¹	+448/-486

1 The valuation of interest derivatives means that future cash flows are discounted to present value using the current market interest rate for each maturity. To judge the interest sensitivity of the portfolio, the calculation has been conducted on the basis of a one percentage point change to market interest rates for all maturities.

is due to both market interest rates on long maturities increasing in the period, and because year to date, Kungsleden has paid the higher fixed interest rate agreed in the swap contract. The change in negative market value is recognised as unrealised value changes on financial instruments. The value of other financial instruments (share swaps) improved by SEK 2 m, which resulted in total realised value changes in the Income Statement in the period being SEK 164 m.

Through ongoing payments of the high fixed interest rate, reported as an interest cost, the negative market value of interest swaps gradually reduces. This means that there is a value increase over time, which affects profit before tax and equity positively, and thus counterbalances the interest cost paid, which is charged to profit from property management. Because swap contracts are continuously measured at market value, this underlying positive value change may sometimes go faster, sometimes slower, or may reverse temporarily. However, the trend is a positive value change, and once all interest swaps have eventually expired, all fixed interest has been paid, and in the Income Statement, is matched by a reversal of the negative market value previously charged to equity.

Maturity structure

Kungsleden continuously reviews the maturity structure of its borrowings, so that it can extend the maturity of its loan portfolio when necessary. This is conducted through ongoing discussions regarding loan agreement maturities with existing and potential lenders, and by using alternative funding sources such as borrowing via the capital markets through bond issues, for example. The average conversion time for utilised loans was 2.2 (2.3) years.

Credit facilities with a total nominal amount of SEK 1,257 m mature in the next 12 months. Discussions with lenders have commenced, and Kungsleden judges that these credits can be refinanced on market terms.

Liquidity

Cash and un-utilised granted credit facilities amounted to approximately SEK 4,491 (1,881) m as of 31 March. Un-utilised credits represented SEK 4,160 (1,160) m of this total. A liquidity reserve will be maintained at an amount that corresponds to the worst case of ongoing tax proceedings, until their out-

ESTIMATE OF MAXIMUM NEGATIVE EFFECT OF OUTSTANDING TAX PROCEEDINGS

SEK m	Effect on equity	Liquidity effect
Provision, Q2 2009	325	0
Provision, Q2 2012	383	160
Total provisioning for tax cases	708	160
Tax cases not provisioned	2,930	2,920
Deposited in anticipation of ruling	–	–160
Total	3,638	2,920

come is clear. This amount was SEK 2,920 m as of 31 March 2013.

TAX POSITION

In recent years, the Swedish Tax Agency and courts have altered their view of how laws and practice should be interpreted in several tax segments. Against this background, the Swedish Tax Agency's view of certain transactions executed has differed from Kungsleden's, which has resulted in a number of court proceedings. Kungsleden is contesting the tax claims that the Swedish Tax Agency and courts have ruled on to date, and the company either has, or will be, appealing against all rulings. Kungsleden continuously evaluates the risk of a definitive negative outcome in ongoing tax proceedings, and after consulting with independent tax experts, makes provisions for potential negative outcomes. This includes an evaluation of the effects of relevant tax cases that are progressively ruled by the courts. The total provisions for ongoing tax proceedings totalled SEK 1,050 m at the end of the first quarter. During the first quarter, nothing emerged that alters the company's fundamental view of ongoing proceedings, and accordingly, there was no change to provisioning.

After the end of the quarter, a ruling against Kungsleden in the Administrative Court of Appeal became definitive by the Supreme Administrative Court not granting leave of appeal. Kungsleden previously provisioned for this outcome in 2012, see also page 12.

It is not possible to offer any precise estimate of the outcome of tax proceedings at present. If the Swedish Tax Agency's claims prevail, Kungsleden judges that the reassessment of income may be partly offset by deductible loss carry-forwards, which means that taxes payable (corporation tax, and in certain cases, tax surcharges and interest) will be less than the reassessment of income that the Swedish Tax Agency is claiming. This limits the negative liquidity effect for Kungsleden. The group also has deductible loss carry-forwards that have not been capitalised in the Con-

solidated Accounts. The background lies in the regulations of IFRS regarding deferred tax. These loss carry-forwards can also offset a portion of the charge of negative outcomes of tax proceedings, and limit the negative effect on equity.

Estimate of maximum negative effects

Kungsleden has attempted to estimate the possible scale of the negative effects on equity and liquidity as a result of a negative outcome in all transactions that the Swedish Tax Agency is questioning. If all outstanding proceedings are found against the company, Kungsleden judges the maximum negative effect on equity at SEK 2,930 m over and above the provisions of SEK 708 m made. Simultaneously, Kungsleden estimates the maximum negative liquidity effect, including tax surcharges and interest, at SEK 2,920 m, over and above the SEK 160 m already paid in anticipation of definitive ruling. Kungsleden judges that its estimate of the maximum negative effect covers all cases that the Swedish Tax Agency could question. This estimate is unchanged since the previous Interim Report. However, the total amounts and table of all proceedings above has been adjusted due to one case concluding in April 2013, and thus no longer being outstanding. This case, for which SEK 342 m had been provisioned in 2012, and for which SEK 100 m was paid in advance, was ruled consistent with Kungsleden's view, see Concluded cases below.

Contested situations

The various tax proceedings relate to three segments: property sales, property purchases and restructuring within the Kungsleden group. A review of ongoing tax proceedings by segment follows:

Property sales

Sale of participations in partnerships
In the financial year 2006, Kungsleden sold 172 properties indirectly by selling participations in partnerships. These sales were from two Dutch group companies, and the capital gain was free

of tax in the Netherlands. In a decision, the Swedish Tax Agency stated that this should be considered as two Swedish group companies being party to the transaction instead, and that accordingly, the capital gain should be subject to taxation in Sweden. Kungsleden appealed against this decision at the Administrative Court, where proceedings commenced. If the Swedish Tax Agency wins this case, Kungsleden estimates the liquidity effect at SEK 1,360 m (including tax surcharge and interest of SEK 350 m) and the profit effect at SEK 1,400 m. The Swedish Tax Agency has also made a secondary claim, where the Agency considers that the Swedish Tax Evasion Act should be applied to the procedure. Given a negative outcome in proceedings pursuant to tax evasion, the estimated profit and liquidity effect on Kungsleden would be approximately SEK 500 m lower than the amounts stated above. Kungsleden's best judgement, based on advice from external tax specialists, is that the final outcome of proceedings, based on the two alternative claims, would be positive, and against this background, has not made any provision.

BV proceedings

Kungsleden sold a number of properties via what are known as BV companies in the Netherlands in 2005 and 2006. The

Swedish Tax Agency initiated proceedings in this matter and the Administrative Court ruled that remuneration from the sale of participations in partnerships from Dutch companies should be reallocated. Appeals have been filed against the rulings, and proceedings are ongoing at the Administrative Court of Appeal in Stockholm, whose ruling is expected shortly. A provision for these proceedings of SEK 340 m was made in 2012. If the Administrative Court's ruling is upheld, this would mean a liquidity effect of SEK 160 m including tax surcharge and interest.

Property purchases

Impairment of lagerandelar¹ on external purchases

In March 2013, the Administrative Court in Stockholm ruled on cases regarding the impairment of *lagerandelar*² for external purchases. These cases regarded transactions Kungsleden conducted in the years 2005 to 2007, when trading companies within the group purchased several properties packaged into incorporated form by the vendor. After the purchase, these properties were transferred to other companies within the group, which created impairment of the purchased participations in accordance with generally accepted accounting practice. These impairment losses were also claimed in tax terms. The Court

ruled that deductions for this impairment should not be permitted according to the Swedish Tax Evasion Act. Kungsleden's view is that these transactions were executed fully in accordance with applicable practice from the Supreme Administrative Court. This practice was corroborated by the Administrative Court of Appeal in Stockholm in autumn 2011 in what is known as the Steen & Ström case (a case that has taken legal effect through the Swedish Tax Agency being denied leave of appeal by the Supreme Administrative Court in January 2013). Against this background, no provision has been made.

Kungsleden has filed appeals in its cases at the Administrative Court of Appeal in Stockholm. If Kungsleden loses these cases that be final court of appeal, the liquidity effect is estimated at SEK 1,400 m. The profit effect would be SEK 1,580 m.

Other proceedings

In 2012, the Administrative Court ruled on three cases relating to transactions Kungsleden conducted in the fiscal years 2004 and 2006. The Administrative Court ruled that the Swedish Tax Evasion Act would be applicable, and accordingly, loss carry-forwards would not be permitted for impairment losses received as a result of restructuring. In 2009, Kungsleden made provisions for

1. Defined in Swedish law as a construction company's shareholding in a property management company.



Frida Stannow Lind, Manager of Development Properties and Urban Zackrisson, Controller.

one of these proceedings, corresponding to SEK 325 m. These rulings implied Kungsleden provisioning another SEK 48 m in 2012. The majority of the reassessment of income could be offset by loss carry-forwards, and accordingly, the liquidity effect that arose was limited to SEK 18 m. Kungsleden has filed appeals against these rulings at the Administrative Court of Appeal in Stockholm, where proceedings are ongoing.

Concluded cases

In 2012, the Administrative Court of Appeal in Stockholm ruled on the impairment of *lagerandelar*¹, similar to the above proceedings, with the difference that the court applied transition rules in new legislation of 2008 in a manner that Kungsleden did not agree with. In April 2013, the Supreme Administrative Court rejected the company's application for leave of appeal. Accordingly, the Administrative Court of Appeal's ruling took legal effect. This means that the previous provision of SEK 342 m from 2012 is being utilised. The tax Kungsleden is liable to pay of SEK 100 m including interest and tax surcharges was already paid in 2012. Accordingly, no further profit or liquidity charge will occur in this case.

EQUITY

Equity was SEK 7,929 (7,726) m at the end of the period, or SEK 58 (57) per share, corresponding to an equity ratio of 47 (37) per cent.

SEASONALITY

The property sector is subject to seasonality. The six months of the year

including winter, especially the first quarter, have higher property costs for heating and snow clearance, for example. Correspondingly, costs are lower, while activity in operations and administration is generally lower in the summer months. Transaction activity is normally higher in the second and fourth quarters than in the first and third.

ORGANISATION AND HUMAN RESOURCES

Thomas Erséus resigned from his position as Chief Executive of Kungsleden in the quarter, and left the company coincident with the Annual General Meeting (AGM) On 18 April. Deputy Chief Executive and CFO Anders Kvist became Interim Chief Executive on 19 April 2013.

As part of Kungsleden' efforts to simplify its organisational structure, the number of regions in property management was reduced from five to four at the beginning of the quarter. These regions are South, West, Central and North, with Stockholm included in North region.

The average number of employees in the interim period was 265 (272). 179 (189) people worked for Nordic Modular, 145 (158) of them on manufacturing modules.

The AGM 2013 re-elected Joachim Gahm, Lars Holmgren, Biljana Pehrsson, Kia Orback Pettersson and Charlotta Wikström as Board members of Kungsleden AB (publ). New members elected were Göran Larsson, Magnus Fernqvist and Peter Gustafson. Göran Larsson was elected as the new Chairman of the Board. Håkan Bryngelson and Magnus Meyer had notified the Nomination Committee that they were not available for re-election.

PARENT COMPANY

The profit of the parent company for the period was SEK 95 (151) m. Profit was primarily sourced from reversed provisions for the group's interest derivatives, whose negative market values decreased due to interest rates with longer maturities increasing in the period. Sales were SEK 12 (21) m, which were revenues from group companies.

Assets at the end of the period mainly consisted of shares in subsidiaries of SEK 8,044 (7,801) m. Funding was primarily through equity, which was SEK 6,026 (5,931) m at the end of the period, implying an equity ratio of 41 (43) per cent.

THE SHARE AND SHAREHOLDERS

The closing share price on 31 March 2013 was SEK 42.00. Compared to the closing price at the end of 2012, which was SEK 35.40, the price increased by 19 per cent. The OMX Stockholm Real Estate PI rose by 8 per cent in the same period. As of 31 March, Kungsleden had 20,027 shareholders, a 1 per cent increase on year-end. The number of outstanding shares at the end of the period was 136,502,064, the same as at the beginning of the year.

RISKS AND UNCERTAINTY FACTORS

Kungsleden's operations, results of operations and financial position are affected by a number of risk factors, which in some cases, particularly in terms of property valuations, are based on judgments.

The risks affecting profits and cash flow relate mainly to changes in rent levels, occupancy, the general progress of costs, interest levels and property market liquidity.

The financial position is dominated by properties and funding. The aggregate risk in property values depends on geographical diversity, property type, property size, contract term, tenant structure, technical standard, etc. Property values are appraised individually and progressively through the year based on a large number of judgments and estimates of future cash flows and required rates of return in a transaction. The methodology of internal valuations is reviewed in Note 18 of the Annual Report for 2012.

Financial risks are primarily liquidity risk, re-financing risk and interest risk and are managed on the basis of the group's finance policy. More information on managing financial risks is stated in

1. Defined in Swedish law as a construction company's shareholding in a property management company.

SHAREHOLDERS

As of 31 March 2013	No. of shares	% of vote and capital
Welandson Gösta and companies	17,861,810	13.1
Länsförsäkringar Funds	5,043,017	3.7
Norges Bank Investment Management	3,733,783	2.7
Florén Olle and companies	3,489,250	2.6
SHB Funds	2,875,050	2.1
Second AP Fund/AP2	2,759,730	2.0
Danske Invest Funds (Sweden)	2,204,429	1.6
BlackRock Funds (USA)	2,120,021	1.6
Fourth AP Fund/AP4	1,784,160	1.3
Swedbank Robur Funds	1,609,791	1.2
Total, ten largest shareholders	43,481,041	31.9
Board and management	277,800	0.2
Foreign shareholders, other	31,539,949	23.1
Other shareholders	61,203,274	44.8
Total	136,502,064	100.0

Source: SIS Ägarservice



Gunilla Virdeborn, Property Controller.

'Funding' on pages 8–10, and on pages 68–69 of the Annual Report for 2012.

Reporting of taxes conforms to accounting standards, but it is notable that over time tax paid usually differs from that reported. Additionally, tax rules are complex and difficult to interpret. The application of rules can also change over time, see also the review of the tax position on pages 10–12, and on pages 68–69 of the Annual Report for 2012. A more detailed review of Kungsleden's risks and uncertainty factors is provided in Notes 2 and 3 of the Annual Report for 2012.

The parent company's results of operations and financial position are significantly affected by group companies' situations, and accordingly, the above review also applies to the parent company.

ACCOUNTING PRINCIPLES

Kungsleden observes IFRS (International Financial Reporting Standards) as endorsed by the EU and IFRIC interpretation statements. This Interim Report has been prepared pursuant to IAS 34 Interim Financial Reporting. Applicable stipulations of the Swedish Annual Accounts Act and the Swedish Securities Markets Act have also been applied.

The earnings component profit from property management, which illustrates profit from operating activities after financing costs, has been added to the Income Statement. Profit or loss from property sales is also recognised net on one line, compared to the previous gross accounting on several lines that added up to trading net. From this financial statement onwards, Kungsleden is reporting costs for property administration and re-investments for modular buildings as a property cost. Correspondingly, administration in module manufacture is being recognised as a cost for manufacturing modules (see the relevant section above). Comparative figures have been restated correspondingly, and have only implied transfers between different profit lines, and did not affect profit before or after tax.

IFRS 13 Fair Value Measurement is being applied for the first time in 2013 and involves new disclosures in the Interim Report regarding which financial instruments are held and how they are measured. This information is stated below. Kungsleden has a number of OTC derivatives used to financially hedge interest risks, primarily interest swaps. There is also one share swap. These financial instruments are measured at fair value in the Statement of Financial

Position on the derivatives line, and the value changes of these instruments is recognised in the Income Statement. Derivatives are measured using valuation techniques that are based on observable market data (tier 2).

Otherwise, the accounting principles and computation methods are unchanged compared to the Annual Accounts for the financial year 2012.

DIVIDEND POLICY

From 2013 onwards, the Board of Directors has adopted a new dividend policy that will better reflect Kungsleden's long-term value creation. In a few years' time, once Kungsleden's definitive tax position is clear, the target is for the dividend to amount to 50 per cent of profit from property management. However, in the coming years, the dividend will be lower, and adapted to the need for a liquidity contingency and investments in properties for future earnings.

The AGM on 18 April approved the Board of Directors' proposal of a dividend of SEK 1 (2.60) per share, to be disbursed on 26 April.

POST-BALANCE SHEET EVENTS

Anders Kvist was appointed Interim Chief Executive of Kungsleden, effective 19 April.

Progress in South region

South Region managed nearly 60 properties at the end of the first quarter, corresponding to about 17 per cent of Kungsleden's total portfolio. This region is responsible for Kungsleden's properties in the counties of Scania, Blekinge and parts of Småland.

The region's portfolio corresponds to a total of approximately 420,000 square meters with rental value of SEK 279 m. Bring Frigoscandia was the largest tenant in terms of area and rental value. South region is managed by a team of eight people.

LETTINGS MARKET

The seasonal pattern of a somewhat slower start to the year was repeated this year. In individual cases, tenants faced a slightly more challenging market, but there were also several bright spots. When required, Kungsleden took precautionary action to find alternative solutions in consultation with its tenants, including potential reductions to premises areas. As of 31 March, economic occupancy was 88.3 per cent

for the region, compared to 89.8 per cent for the group. The operating surplus margin was 76.8 per cent, against 69.6 per cent for the group. The higher operating surplus margin is mainly due to the high share of industrial and warehouse properties in the region, which often have lower operating costs.

NEW CUSTOMERS

The Swedish Tax Agency was one of the major new lettings in the period, signing a contract on about 1,700 sq.m. Tenant adaptations are continuing in the second quarter, ahead of the agency relocating.

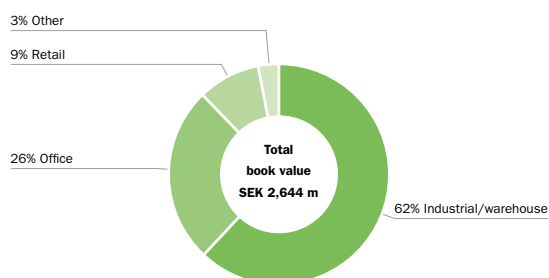
Kungsleden also conducted tenant adaptations for Inspecta Sweden AB to move into premises of around 1,500 sq.m. in Malmö on 1 February. In Växjö,

eye care clinic Memira became a new tenant from 1 March, with a contract on approximately 300 sq.m.

A number of warehouse lettings were also conducted in the locations of Burlöv and Tågarp in the quarter.



PROPERTY PORTFOLIO BY TYPE, SOUTH REGION



Gert Ternström, Manager of South region.

Malmö



Brännaren 8 Good location near districts that are in development, mainly due to new housing.

Type: **Office** Area: **5,395** sq.m.



Påskbuketten 8 Good property close to the inner and outer ring roads.

Type: **Office and warehousing**
Area: **1,796** sq.m.



Långhuset 1 Well-located retail property in a good trading estate.

Type: **Retail** Area: **894** sq.m.



We can conduct conversions quickly and at a good price, which means new tenants can have clean premises that match their needs, at rent levels that remain attractive for the customer. This is one of our strengths in this region.

– Gert Ternström, Manager of South region

Financial Reporting, 1 Jan. – 31 Mar. 2013

INCOME STATEMENT¹

SEK m	Interim period/reporting period		12 months	
	2013 Jan–Mar	2012 Jan–Mar	2012/2013 Apr–Mar	2012 Jan–Dec
Rental revenues—properties	381.9	411.8	1,553.2	1,583.1
Rental revenues—modular buildings	64.7	63.1	258.2	256.6
Sales revenues, module manufacture	40.8	80.8	230.3	270.3
Net sales	487.4	555.7	2,041.7	2,110.0
Property costs—properties ¹	-141.7	-155.2	-524.1	-537.6
Property costs—modular buildings ¹	-27.9	-23.7	-100.9	-96.7
Costs for module manufacture ¹	-36.9	-71.5	-223.5	-258.1
Gross profit	281.0	305.3	1,193.3	1,217.6
<i>of which operating net—properties</i>	<i>240.2</i>	<i>256.6</i>	<i>1,029.0</i>	<i>1,045.4</i>
<i>of which operating net—modular buildings</i>	<i>36.9</i>	<i>39.4</i>	<i>157.5</i>	<i>159.9</i>
<i>of which gross profit—module manufacture</i>	<i>4.0</i>	<i>9.3</i>	<i>6.8</i>	<i>12.2</i>
Sales and administration costs¹	-52.4	-48.1	-191.6	-187.3
Net financial position				
Financial revenues ²	4.5	8.9	26.6	31.0
Interest costs ²	-131.1	-142.9	-566.9	-578.7
Other financial costs	-14.1	-6.0	-45.9	-37.8
	-140.7	-140.0	-586.2	-585.5
Profit from property management	87.8	117.2	415.4	444.8
Value changes, investment properties				
Profit/loss from property sales	-0.4	19.5	-3.7	16.2
Unrealised value changes ¹	-16.2	10.7	-47.2	-20.3
	-16.6	30.2	-50.9	-4.1
Unrealised value changes, financial instruments	164.4	226.5	-132.0	-69.9
Profit/loss before tax²	235.6	373.9	232.5	370.8
Tax	-51.8	-345.4	-519.7	-813.3
Net profit/loss from continuing operations	183.8	28.5	-287.2	-442.5
Discontinued operation²				
Profit/loss from Hemsö holding, net after tax	24.0	84.2	734.2	794.4
Net profit/loss after tax³	207.8	112.7	447.0	351.9
Earnings per share⁴	1.50	0.80	3.30	2.60
Earnings per share from continuing operations⁴	1.30	0.20	-2.10	-3.20

1 In 2013, all costs of an administrative character that are directly attributable to letting or module sales are recognised as property costs and costs for manufacturing modules respectively. Previously, all these costs were recognised as sales and administration costs. In addition, re-investments of up to SEK 50 m per year corresponding to wear of modular buildings are recognised as property costs—modular buildings. Results for previous periods have been restated, where in the case of re-investments, a reclassification of SEK 40 m has occurred for the full year 2012 from unrealised value changes. Profit before tax was not affected by these changes.

2 Kungsleden relinquished possession of the Hemsö holding in 2013, which was previously an independent segment. All profit/loss items from the Hemsö holding are recognised in 2013 in the Income Statement as discontinued operations at the bottom of the Income Statement. Comparative figures have been restated, without any effect on net profit/loss after tax.

3 All comprehensive income for the period is attributable to the parent company's shareholders.

4 Before and after dilution effect. The outstanding and average number of shares is 136,502,064 for all periods.

STATEMENT OF COMPREHENSIVE INCOME

SEK m	Interim period/reporting period		12 months	
	2013 Jan-Mar	2012 Jan-Mar	2012/2013 Apr-Mar	2012 Jan-Dec
Net profit/loss after tax	207.8	112.7	447.0	351.9
Other comprehensive income (items that can be reclassified to net profit/loss)				
Translation differences transferred to net profit/loss	–	–	16.9	16.9
Participation in Hemsö's other comprehensive income (discontinued operation)	–	–1.9	–5.5	–5.5
Translation differences for the period when translating foreign operations	–5.2	–1.5	–6.2	–1.0
Comprehensive income for the period¹	202.6	109.3	452.2	362.3

1 All comprehensive income for the period is attributable to the parent company's shareholders.

STATEMENT OF FINANCIAL POSITION

SEK m	31 Mar. 2013	31 Dec. 2012
ASSETS		
Goodwill	201.4	201.4
Investment properties—properties	14,292.7 ¹	14,246.7 ¹
Investment properties—modular buildings	1,509.4 ¹	1,509.3 ¹
Properties used in business operations	21.1 ¹	21.1 ¹
Equipment	13.7	13.9
Deferred tax assets	161.5	206.7
Other long-term receivables	220.4	244.0
Total current assets	16,420.3	16,443.1
Inventories	15.3	17.1
Receivable from AP3	–	3,362.9
Current receivables	226.4	355.4
Cash and bank balances	331.4	721.2
Total current assets	573.2	4,456.6
TOTAL ASSETS	16,993.5	20,899.7
EQUITY AND LIABILITIES		
Equity	7,929.0	7,726.4
Interest-bearing liabilities		
Liabilities to credit institutions	5,784.4	8,104.7
Bond issues (unsecured)	1,599.2	1,599.2
Interest-bearing liabilities	7,383.5	9,703.8
Non-interest-bearing liabilities		
Provisions	59.3	57.7
Derivatives	960.1	1,124.5
Tax liability	11.8	20.5
Other non-interest-bearing liabilities	649.7	2,266.8
Non-interest-bearing liabilities	1,680.9	3,469.5
TOTAL EQUITY AND LIABILITIES	16,993.5	20,899.7

1 The total property portfolio amounted to SEK 15,823.2 (15,777.2) m as of 31 March 2013.

STATEMENT OF CHANGES IN EQUITY

SEK m	31 Mar. 2013	31 Dec. 2012
At beginning of year	7,726.4	7,719.0
Dividend	–	–354.9
Comprehensive income for the period	202.6	362.3
At end of period	7,929.0	7,726.4

STATEMENT OF CASH FLOWS

SEK m	Interim period/reporting period		12 months	
	2013 Jan-Mar	2012 Jan-Mar	2012/2013 Apr-Mar	2012 Jan-Dec
Operating activities				
Profit/loss before tax	235.6	373.9	232.5	370.8
Profit/loss from property sales	0.4	-19.5	3.7	-16.2
Unrealised value changes	-148.1	-227.2	209.0	129.9
Dividend and cash flow relating to Hemsö (discontinued operation)	24.0	-	76.1	52.1
Other adjustment for items not included in cash flow from operating activities	19.5	-2.1	-10.5	-32.1
Tax paid	0.0	-5.0	-337.0	-342.0
Cash flow from operating activities	131.4	120.1	173.8	162.5
Changes in working capital	-429.0	-120.6	88.1	396.5
Cash flow from operating activities after change in working capital	-297.6	-0.5	261.9	559.0
Cash flow from investing activities	2,946.6	4.6	3,739.1	797.1
Cash flow from financing activities	-3,034.3	-117.4	-4,230.0	-1,313.1
Cash flow for the period	-385.3	-113.3	-229.0	43.0
Cash and cash equivalents at beginning of period	721.2	683.9	570.5	683.9
Exchange rate difference in cash and cash equivalents	-4.5	-0.1	-10.1	-5.7
Cash and cash equivalents at end of period	331.4	570.5	331.4	721.2

SEGMENT REPORTING

SEK m	Properties ¹		Nordic Modular ¹		Total Kungsleden	
	2013 Jan-Mar	2012 Jan-Mar	2013 Jan-Mar	2012 Jan-Mar	2013 Jan-Mar	2012 Jan-Mar
Rental revenues	381.9	411.8	64.7	63.1	446.6	474.9
Sales revenues, modules			40.8	80.8	40.8	80.8
Net sales	381.9	411.8	105.5	143.9	487.4	555.7
Property costs ²	-141.7	-155.2	-27.9	-23.7	-169.6	-178.9
Costs for module manufacture ²			-36.9	-71.5	-36.9	-71.5
Gross profit/loss	240.1	256.6	40.8	48.7	280.9	305.3
Sales and administration costs ²	-42.3	-38.3	-10.2	-9.8	-52.4	-48.1
Net financial position	-135.0	-133.1	-5.7	-6.9	-140.7	-140.0
Profit from property management	62.8	85.1	25.0	32.0	87.8	117.2
Value changes, investment properties						
Profit/loss from property sales	-0.4	19.5	-	-	-0.4	19.5
Unrealised value changes	-16.2	10.7	-	-	-16.2	10.7
Unrealised value changes, financial instruments	164.4	226.5	-	-	164.4	226.5
Profit/loss before tax	210.6	341.9	25.0	32.0	235.6	373.9
Properties	14,313.8	14,023.4	1,509.4	1,509.3	15,823.2	15,532.7
Purchases and investments, properties	69.1	48.8	0.1	1.3	69.2	50.1

1 The allocation of interest for the Nordic Modular segment is based on directly attributable loans effective 2013. No interest derivatives have been allocated to Nordic Modular. Comparative figures have been restated.

2 In 2013, direct sales and administration costs are recognised as property costs and costs for module manufacture respectively, which is a change from previously, when all costs were recognised on the sales and administration costs line. Similarly, property costs for modular buildings are charged with re-investments in the portfolio. Comparative figures have been restated to achieve comparability.

KEY FIGURES

	Interim period/reporting period		12 months	
	2013 Jan-Mar	2012 Jan-Mar	2012/2013 Apr-Mar	2012 Jan-Dec
Property-related				
<i>Earnings capacity</i>				
Property yield, % ¹			8.2	8.3
Economic occupancy, %			89.8	89.3
Operating surplus margin, % ¹			69.6	70.7
<i>Actuals</i>				
Property yield, % ¹	7.0	7.6	7.6	7.7
Economic occupancy, %	90.5	89.9	89.8	89.6
Operating surplus margin, % ¹	62.0	62.3	65.5	65.5
Financial				
Profit from property management, SEK m	88	117	415	445
Net profit/loss after tax, SEK m	208	113	447	352
Return on total capital, % ¹	5.3	7.0	9.2	8.8
Return on equity, %	10.6	5.8	5.7	4.6
Return on capital employed, % ¹	6.6	8.6	11.0	11.0
Interest coverage ratio, multiple ¹	1.7	2.3	2.6	2.7
Equity ratio, %			46.7	37.0
Gearing, multiple			0.9	1.3
Loan to value ratio, %			46.7	61.5
Cash flow from operating activities, SEK	131	120	174	163
Data per share				
Share price, SEK			42.00	35.40
Dividend, SEK			1.00	2.60
Total yield, %			-6.5	-17.4
Dividend yield, %			2.4	7.3
P/E ratio, multiple			12.8	13.7
Gross profit, SEK ¹	2.10	2.20	8.70	8.90
Profit from property management, SEK	0.60	0.90	3.00	3.30
Net profit/loss after tax, SEK	1.50	0.80	3.30	2.60
Property book value, SEK			115.90	115.60
Equity, SEK			58.10	56.60
Cash flow from operating activities, SEK1	1.00	0.90	1.30	1.20
Outstanding and average number of shares ²	136,502,064	136,502,064	136,502,064	136,502,064

1 The amended principles for recognising sales and administration costs, which effective 2013, are partly recognised in operating net/gross profit/loss and costs for re-investments in modular buildings as a property cost, affect several key figures. Previous periods' key figures have been restated.

2 There is no dilution effect because there are no potential shares.

PARENT COMPANY INCOME STATEMENT

SEK m	Interim period/reporting period		12 months	
	2013 Jan-Mar	2012 Jan-Mar	2012/2013 Apr-Mar	2012 Jan-Dec
Intragroup revenues	11.7	21.4	51.7	61.4
Administration costs	-18.9	-11.8	-63.5	-56.4
Operating profit/loss	-7.2	9.6	-11.8	5.0
Profit/loss from financial items	129.5	195.2	254.8	320.5
Profit/loss before tax	122.3	204.8	243.0	325.5
Tax on net profit/loss	-26.9	-53.9	0.2	-26.8
Net profit/loss	95.4	150.9	243.2	298.7

PARENT COMPANY BALANCE SHEET

SEK m	31 Mar. 2013	31 Dec. 2012
ASSETS		
Participations in group companies	8,044.1	7,800.9
Receivables from group companies	5,851.9	4,904.0
External receivables, etc.	605.2	615.3
Cash and cash equivalents	115.0	540.9
TOTAL ASSETS	14,616.2	13,861.1
EQUITY AND LIABILITIES		
Equity	6,025.9	5,930.5
Non-current liabilities	3,009.0	1,600.8
Liabilities to group companies	5,527.4	4,727.1
Other liabilities	53.9	1,602.7
TOTAL EQUITY AND LIABILITIES	14,616.2	13,861.1

Stockholm, Sweden, 26 April 2013

Göran Larsson
Chairman

Magnus Fernqvist
Board member

Joachim Gahm
Board member

Peter Gustafson
Board member

Lars Holmgren
Board member

Biljana Pehrsson
Board member

Kia Orback Pettersson
Board member

Charlotta Wikström
Board member

Anders Kvist
Interim Chief Executive

This Interim Report has not been subject to review by the company's auditors.

Kungsleden discloses the information in this Interim Report in accordance with the Swedish Securities Markets Act (lagen om värdepappersmarknaden, 2007:528).



Bönavägen 55, Gävle

Quarterly summary

SUMMARY INCOME STATEMENT

SEK m	2013		2012			2011		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Net sales	487	494	499	561	556	550	554	536
Gross profit	281	282	327	302	305	304	354	297
<i>of which operating net—properties</i>	240	241	280	268	257	266	311	263
<i>of which operating net—modular buildings</i>	37	41	45	34	39	30	37	32
<i>of which gross profit—module manufacture</i>	4	0	2	0	9	8	5	1
Sales and administration costs	-52	-56	-43	-39	-48	-41	-38	-53
Net financial position	-141	-137	-156	-153	-140	-132	-153	-150
Profit from property management	88	89	128	110	117	131	163	94
Profit/loss from participations in Hemsö	-	-	-	-	-	118	70	75
Profit/loss from property sales	0	0	0	-3	20	22	11	20
Unrealised value changes, investment properties	-16	-52	10	11	11	167	27	57
Unrealised value changes, financial instruments	164	-19	-167	-111	226	-90	-518	-146
Profit/loss before tax	236	18	-29	7	374	348	-247	100
Tax	-52	246	29	-742	-345	-45	74	2
Net profit/loss from continuing operations	184	264	0	-735	29	303	-173	102
Discontinued operation - profit/loss from Hemsö holding	24	660	-13	64	84	-	-	-
Net profit/loss after tax	208	924	-13	-671	113	303	-173	102

SUMMARY STATEMENT OF FINANCIAL POSITION

SEK m	2013		2012			2011		
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
ASSETS								
Goodwill	201	201	201	201	201	201	201	201
Properties	15,823	15,777	14,779	14,838	14,627	14,788	16,395	16,497
Equipment	14	14	14	14	15	15	15	15
Participations in Hemsö	-	-	1,157	1,177	1,167	1,084	1,004	932
Long-term receivables, Hemsö	-	-	1,500	1,500	1,500	1,500	1,500	1,500
Deferred tax asset	162	207	-	-	766	1,020	981	943
Other long-term receivables	220	244	241	251	439	443	550	546
Total non-current assets	16,420	16,443	17,892	17,981	18,715	19,051	20,646	20,634
Inventories	15	17	16	21	16	17	17	15
Receivable from AP3	-	3,363	-	-	-	-	-	-
Current receivables	228	355	244	438	410	240	311	407
Assets held for sale—properties	-	-	-	912	906	905	-	-
Assets held for sale—other	-	-	-	18	117	14	-	-
Cash and bank balances	331	721	330	298	434	684	753	698
Total current assets	574	4,457	590	1,687	1,883	1,860	1,081	1,120
TOTAL ASSETS	16,994	20,900	18,482	19,668	20,598	20,911	21,727	21,754
EQUITY AND LIABILITIES								
Equity	7,929	7,726	6,774	6,800	7,828	7,719	7,426	7,604
Interest-bearing liabilities								
Liabilities to credit institutions	5,785	8,105	8,165	8,267	8,037	8,154	9,852	9,603
Bond issues (unsecured)	1,599	1,599	1,599	1,599	1,599	1,599	1,599	1,599
Liabilities related to assets held for sale	-	-	-	901	901	901	-	-
Interest-bearing liabilities	7,384	9,704	9,764	10,767	10,537	10,654	11,451	11,202
Non-interest-bearing liabilities								
Provisions	59	58	110	109	432	431	556	558
Deferred tax liability	-	-	53	82	1	1	1	1
Derivatives	960	1,125	1,100	944	915	1,156	1,108	594
Other non-interest-bearing liabilities	662	2,287	681	937	813	890	1,185	1,795
Liabilities related to assets held for sale	-	-	-	29	72	60	-	-
Non-interest-bearing liabilities	1,681	3,470	1,944	2,101	2,233	2,538	2,850	2,948
TOTAL EQUITY AND LIABILITIES	16,994	20,900	18,482	19,668	20,598	20,911	21,727	21,754

KEY FIGURES

SEK m	2013		2012				2011	
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2
Property-related								
<i>Actuals</i>								
Property yield, %	7.0	7.4	7.5	7.7	7.6	7.4	8.5	7.3
Economic occupancy, %	90.5	89.7	89.3	89.5	89.9	90.0	89.0	87.9
Operating surplus margin, %	62.0	64.2	63.6	64.0	62.3	62.1	72.1	64.1
Financial								
Profit/loss after tax, SEK m	88	89	128	110	117	131	163	94
Profit for calculating dividends, SEK m	208	923	-13	-671	113	303	-173	102
Return on total capital, %	5.3	18.0	5.7	6.4	7.0	7.6	7.3	6.1
Return on equity, %	10.6	50.9	-0.8	-36.7	5.8	16.0	-9.2	5.3
Return on capital employed, %	6.6	23.5	6.5	8.0	8.6	9.5	9.2	7.7
Interest coverage ratio, multiple	1.7	4.0	1.7	1.9	2.3	2.6	2.3	2.0
Equity ratio, %	46.7	37.0	36.7	34.6	38.0	36.9	34.2	35.0
Loan to value ratio, %	46.7	61.5	66.1	68.4	67.8	67.9	69.8	67.9
Data per share								
Profit/loss after tax, SEK	0.60	0.70	0.90	0.80	0.90	1.00	1.20	0.70
Profit for calculating dividends, SEK	1.50	6.80	-0.10	-4.90	0.70	2.20	-1.30	0.70
Dividend, SEK	-	-	-	2.60	-	-	-	2.00

1. There is no dilution effect because there are no potential shares.

DEFINITIONS

PROPERTY-RELATED KEY FIGURES

Property yield, operating net in relation to book value of properties at the end of the period.

Operating net, rental revenue less property costs (e.g. operating and maintenance costs, ground rent and property tax, property administration not included).

Economic occupancy, rental revenues in relation to rental value.

Operating surplus margin, operating net in relation to rental revenues.

FINANCIAL KEY FIGURES

Return on equity, net profit for the period after tax in relation to average equity. Average equity is calculated as the total of opening and closing balances divided by two.

Loan to value ratio, interest-bearing liabilities in relation to the book value of properties.

Interest coverage ratio, profit/loss after financial revenues in relation to financial costs.

Debt/equity ratio, interest-bearing liabilities in relation to equity.

Equity ratio, equity including minority interest in relation to total assets.

SHARE-RELATED KEY FIGURES

Dividend yield on the share, approved/proposed dividends/redemption in relation to the share price at the end of the period.

Total yield on the share, the total of the share price change in the period and dividend paid/redemption in the period in relation to the share price at the beginning of the period.

Approved/proposed dividend per share, the Board of Directors' proposed dividend or dividend per outstanding share approved by a shareholders' meeting.

Equity per share, equity in relation to the number of shares at the end of the period.

Cash flow from operations per share, cash flow for the period from operating activities in relation to the average number of shares.

For all definitions, see kungsleden.com/definitions

Property register 1 Jan. – 31 Mar. 2013

PURCHASED PROPERTIES

Description of property	Municipality	Location	Address	Year of construction/ conversion	Gross leasable area sq.m.				Rental value, SEK m	Rental revenue, SEK m	Economic occupancy, %
					Industr./ ware- house	Offices	Retail	Other			

No properties were purchased in the period January - March 2013.

SOLD PROPERTIES

Description of property	Municipality	Location	Address	Year of construction/ conversion	Gross leasable area sq.m.				Rental value, SEK m	Rental revenue, SEK m	Economic occupancy, %
					Industr./ ware- house	Offices	Retail	Other			

No properties were sold in the period January - March 2013.

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REGISTERED OFFICE STOCKHOLM



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Chief Financial Officer
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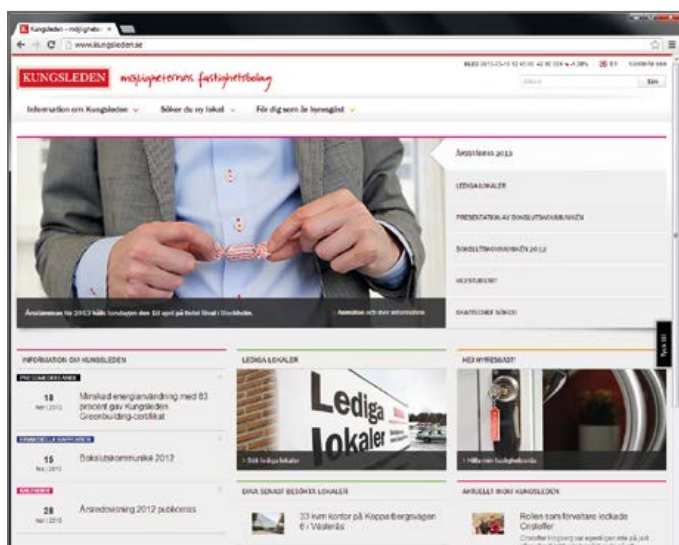
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Forthcoming financial information

Interim Report 1 January–30 June 2013
16 August 2013

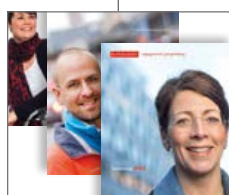
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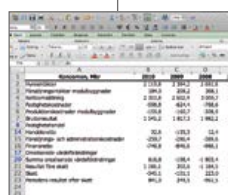
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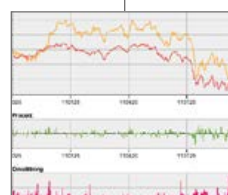
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