

A modern dining room with a round wooden table, blue upholstered chairs, and a concrete wall with framed art. The room is brightly lit by a large window in the background. A chandelier hangs from the ceiling. The overall aesthetic is minimalist and contemporary.

## ANNUAL REPORT 2015

*“Our journey to become one of Sweden’s largest, most successful and profitable property companies continues.”*

# KUNGSLEDEN

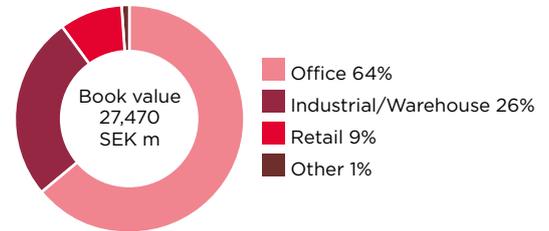
# THIS IS KUNGSLEDEN

Kungsleden is a property company listed on Nasdaq Stockholm Mid Cap. Our business concept is long-term ownership, active management, improvement and development of commercial properties in selected growth regions like Stockholm, Gothenburg, Malmö and Västerås with the aim of delivering an attractive total return. We build and develop relationships with our customers to understand their current and future needs while striving to be a leading player in the municipalities and communities where we own properties. That is how we create a long-term, sustainable business.

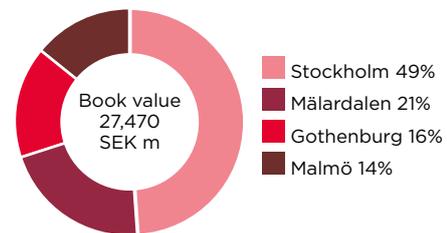
*“Kungsleden is now more concentrated and focussed, which I believe the market views quite favourably”*

Leif Andersson, Founder of Areim and Salesperson for the Kista portfolio

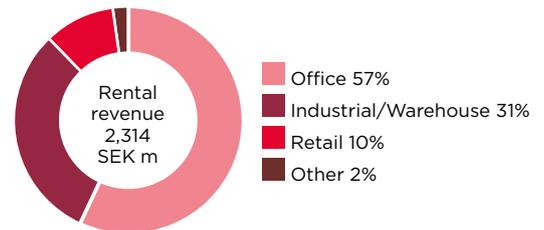
PROPERTY VALUE BY CATEGORY AS OF 31 DECEMBER



PROPERTY VALUE BY REGION AS OF 31 DECEMBER



ALLOCATION RENTAL REVENUE BY CATEGORY



VISION	BUSINESS CONCEPT	FUNDAMENTAL CONCEPT	CUSTOMER OFFERING
We create attractive premises that enrich people's working days.	Our long-term business concept is to own, actively manage, improve and develop commercial properties in growth regions in Sweden and deliver attractive total returns.	We strive to own more properties at select locations, gathered in clusters, so that we can adapt and sharpen our offering based on our tenants' needs while proactively helping to shape how the entire area develops	We will provide attractive and functional premises in the right locations at the right price. We will always deliver that something extra.

## OUR VALUES

### *Professionalism*

We are an organisation that is professional and ambitious. We push ourselves to continually improve and deliver high quality in every detail.

### *Consideration*

We show respect and consideration for each other, our customers and the world around us.

### *Joy*

Joy is important to us. Acting professionally, showing consideration and being both motivated and solution-oriented creates joy at work.

# 2015 IN BRIEF

2015 was an eventful year for Kungsliden. We managed to – two years ahead of schedule – grow our property portfolio to the size, and with the geographic concentration and structure that matched our goals for 2017. We also launched a new organisational structure and started implementing Kungsliden’s Flow for our internal processes. All of this prepares us well for our continued journey towards new goals.

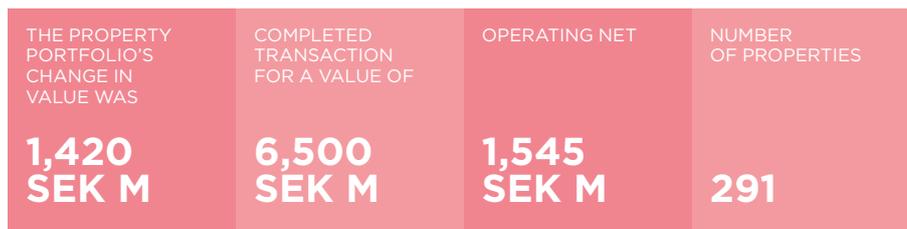
*“Having achieved our long-term goals for 2017 ahead of schedule, we now set our sights on 2020.”*

Biljana Pehrsson, CEO

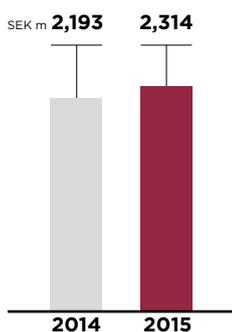
	Goals 2017	Outcome 2015	
<b>PROPERTY CATEGORY, OFFICE</b> Represents at least half of the property portfolio	50%	64%	✓
<b>METROPOLITAN REGIONS</b> Represent at least half of the property portfolio	50%	59%	✓
<b>GEOGRAPHIC DISTRIBUTION</b> Reduce the number to 70 municipalities or less	<70 MUNICIPALITIES	69 MUNICIPALITIES	✓
<b>REPORTED PROPERTY VALUE</b> At least SEK 25 billion	SEK 25 BILLION	SEK 27.5 BILLION	✓

**A NEW BUSINESS PLAN WITH 2020 GOALS WAS CREATED DURING AUTUMN**

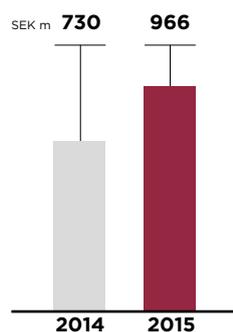
READ MORE ON PAGE 7



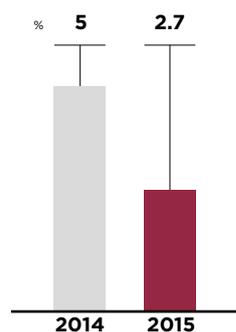
**RENTAL REVENUE** increased by 6% to SEK 2,314 (2,193) million.



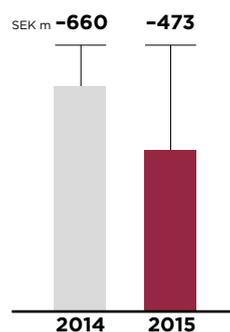
**PROFITS FROM PROPERTY** management increased 32% to SEK 966 (730) million



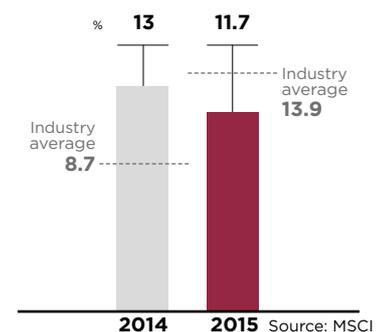
**AVERAGE INTEREST RATE** fell from 5% to 2.7%



**NET FINANCIAL ITEMS** improved to SEK -473 (-660) million



Total return for the **PROPERTY PORTFOLIO** was 2.2% lower than the industry average



# SIGNIFICANT EVENTS

## Q1

- The Högsbo cluster grew with the addition of four acquired properties
- 29 non-strategic properties were divested, bringing us closer to our goal of owning and managing properties in no more than 70 municipalities
- 65 per cent of Nordic Modular Group divested to Inter IKEA Investments
- Master Lease Agreement with ABB renegotiated and replaced with 17 lease agreements at going market rate.
- Started implementing Kungsleden's Flow – structure, processes and company culture

## Q3

- Additional acquisition of office property in Kista, growing the cluster even more
- Completion of the major property development project in Umeå. Our tenant, International English School, moved in and opened its doors to students in August
- Ylva Sarby Westman appointed Deputy CEO and CIO
- New website launched: [www.kungsleden.se](http://www.kungsleden.se)
- The head office moves home, to our own building at Warfvinges väg, West Kungsholmen

## Q2

- Subsequent to taking possession of four office properties in Kista during Q1 and Q2, a new cluster was created of approx. 150,000 sq. m. in one of Stockholm's largest office markets
- Acquisition of office and hotel building, Skrapan – a prominent landmark in Västerås
- High leasing volume in Stockholm, Malmö and Gothenburg
- Bond loans issued for SEK 375 million
- New loans acquired and refinancing for Kista acquisition, lowering the average interest rate to 4.4 per cent
- Initiated collaboration with Fryshuset, offering eleven youth summer jobs within Kungsleden's property management organisation

## Q4

- New cluster established via acquisition at Gärdet/Frihamnen with 89,000 sq. m. office and hotel space
- High leasing volume in Kista, Gärdet/Frihamnen and Täby
- Redemption of old interest rate swaps lowers the average interest rate to 2.7 per cent
- Remaining share of Nordic Modular Group divested to Inter IKEA Investments
- The Administrative Court handed down a negative ruling on the last remaining tax case and a provision and payment of SEK 1.3 billion was made
- An important goal achieved when, after property divestments, Kungsleden lowers its presence to 69 municipalities
- Company-wide implementation of level 1 in Kungsleden's Flow – clarifying our twelve core processes, linking them to templates and other tools



Launch of new company website



Strategic property acquisitions for SEK 5.8 billion and non-strategic property divestitures for SEK 700 million



Gårda 19:10, Gothenburg

Kungsleden moves to own properties in Stockholm and Gothenburg



New organisation in place, with more responsibility for regional managers and sustainability manager

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*The formal annual report covers pages 18–85.*

# WE MET OUR LONG-TERM GOALS AHEAD OF SCHEDULE

In 2015, Kungsleden completed the first stage of its strategic transformation, a process that was initiated in 2013. Over three years, we have built up a competent management organisation and succeeded in restructuring and growing the property portfolio, while adhering to strict financial targets. Achieving this has created the conditions for being a long-term owner, active manager and developer of commercial properties in Sweden's growth regions, with the goal of delivering an attractive total return.

In 2015, we acquired strategic properties worth SEK 5.8 billion and we divested non-strategic properties for SEK 700 million, as well as our remaining 35 per cent share in Nordic Modular.

There was significant growth in new leasing during the year, corresponding to a rental value of SEK 133 million, which is a 22 per cent increase compared to the year before. Lease terminations were periodically high, which explains the amount for net leasing, SEK 7.5 million. Rental revenue for comparable holdings increased by 0.2 per cent and rental revenue per sq. m. increased by SEK 70 during the year.

The level of activity was also high in the financing area. Kungsleden acquired new loans, and refinanced old loans, for a value of SEK 11 billion during the year. The interest rate swap portfolio and old, expensive derivatives were redeemed. By doing so, we managed to reduce our average interest rate from 5 to 2.7 per cent during the year, while simultaneously lengthening the average maturity on loans to 3.6 years, compared to 2.6 years at the beginning of the year.

We began 2015 by launching Kungsleden's Flow, which involves important structural, cultural and process efforts. We worked throughout the year to streamline our twelve most important core activities and work processes, with widespread participation throughout the organisation. Likening the new processes to a lubricant, our comprehensive prop-

erty management efforts would then be the engine. In this annual report, we give particular emphasis to our active property management. We describe our management cycle as a process, starting with the customer offering via new leasing and adaptations, our interactions with tenants and eventually establishing long-term relationships with them via leasing arrangements. Focus was on this very cycle as we worked with implementation of Kungsleden's Flow. I am convinced that this is where we can make a difference, creating value for tenants and shareholders alike.

For 2015, total yield for the property portfolio was 11.7 per cent.

## QUALITY AT RIGHT LOCATIONS THAT PERSISTS ACROSS BUSINESS CYCLES

Streamlining of the property portfolio in recent years has been focused on creating a high quality portfolio at locations with high accessibility and visibility, in geographic markets where the demand for commercial premises is expected to remain high over time. The goal has been to create a portfolio that is robust across business cycles.

For this reason, we have further concentrated our holdings to four metropolitan areas – Stockholm, Gothenburg, Malmö and Västerås – cities with good economic growth and a healthy demand for rental property. More than three-fourths of Kungsleden's property value is currently located in these areas. In Stockholm, we primarily own office properties, worth almost SEK 12 billion, of which SEK 10 billion belongs to one of our five clusters at these expansive, attractive locations: Kista Science City, Danderyd, Västra Kungsholmen/ Hagastaden, Gärdet/ Frihamnen and Västberga. As regards to Kungsleden's entire property value of SEK 27.5 billion, 60 per cent, or SEK 16.5 billion now belongs to one of our eleven clusters.

Kungsleden's vision is to create attrac-

tive premises that enrich people's working days. Clusters provide the foundation for realising that vision: it's where we are able to create attractive work and meeting places, with a comprehensive offering that offers customers a high level of flexibility. Our corporate customers do business in an environment that requires rapid and constant adaptation. For this reason, they must have flexible solutions for their premises. Through our clusters, Kungsleden provides flexibility by offering premises that vary in size, standard and price range. Clusters help us establish a closer bond with our customers, along with deeper roots in the community.

Our customers represent a broad cross-section of the Swedish business sector and the public sector. Among our corporate tenants we have everything from start-ups and small, established local companies to medium-sized listed Swedish companies and large multinational corporations. Our goal is to meet all of our tenants' expectations and, where possible, also provide that something extra. Satisfied customers who lease with us over the long term also act as ambassadors in the market, which helps us increase our occupancy rate and obtain higher rents.

## PROFITABLE SUSTAINABILITY

During the year, we applied a holistic approach to how Kungsleden should run profitable sustainability efforts. We have selected five areas to focus on: environment, diversity, social responsibility, business ethics and health & safety.

We have established both short and long-term goals for each of these five focus areas. One of the goals is lower energy consumption. Already in 2015, we achieved a decrease of 2.5 per cent, which corresponds to cost savings of SEK 5.5 million. For business ethics, we created policies and ethical guidelines in 2015. There were also many discussions at the senior executive level, and throughout the company on ethical business practices.

*“Through active management, we can make a difference, creating value for tenants and shareholders alike.”*



During summer, we participated in an important project with our long-term partner, Fryshuset, offering eleven youth summer jobs with contractors who work for our property management organisation. Based on evaluations, everyone involved, i.e. the contractors, youth, Fryshuset, and Kungsleden, was very satisfied with the project. We will do it again this summer, too!

Kungsleden was once again named by AllBright as one of the most gender-equal listed companies. Gender equality is certainly important to us, but we strive for equality in many more areas than that. Our goal is to achieve a better balance in age distribution and ethnicity as well. Having greater diversity can bring new, valuable perspectives on our operations, as well as business opportunities, so that Kungsleden becomes more creative and makes better business decisions.

#### **PROSPECTS AND KUNGSLEDEN 2020**

Despite the tension and conflicts going on in the world, with particular emphasis on challenges facing Europe, the Swedish economy has nevertheless performed well. Growth is occurring primarily in the major metropolitan areas, led by Stockholm. Our assessment is that the rental market in Kungsleden's four prioritised areas remains good, with a strong

demand for office premises at good locations and with good accessibility in particular.

Our focus is now on improving our operational profitability. We will increase rental revenue via more new leasing by developing longer relationships with existing tenants and by adjusting rent levels to the going market rate. We aim to lower the vacancy level for the property portfolio by one per cent per year over the three-year period, 2016–2018.

We will also improve operating net by further streamlining operating and maintenance costs in the existing property portfolio. Important contributions should, over time, also come from investments in projects and the existing holdings. Our plans here are to invest a total of SEK 2 billion during the period 2016–2018. The investments must meet profitability requirements, expressed as an internal rate of return (IRR) of at least 9 per cent.

The transaction market remains favourable, thanks to good access to financing and a persistent, large gap between property yield and long-term rates. We share the prevailing market assessment that 2016 will be a good year in terms of transactions, with business volumes on a par with last year, provided that nothing unexpected happens. We will take advantage of this by further

streamlining and concentrating our holdings via divestiture of non-strategic properties of approximately SEK 2 billion. Released funds will be selectively reinvested in new acquisitions at our established clusters that meet our profitability requirements and strengthen our customer offering.

We have a new business plan, Kungsleden 2020, with new financial targets that we intend to achieve. Over time, we will become one of Sweden's largest property companies, with a high quality portfolio that is concentrated in Sweden's most important markets – Stockholm, Gothenburg, Öresund and Västerås.

The operational goals for 2016 and beyond are ambitious and I am confident that we will achieve them. We have a concentrated property portfolio at locations we find desirable. We also have a stable financial foundation. Our journey to become one of Sweden's largest, most successful and profitable property companies continues.

Stockholm, 17 March 2016  
**Biljana Pehrsson,**  
President and CEO

# BUSINESS PLAN 2013–2017: ALL GOALS HAVE BEEN ACHIEVED

There was much activity throughout the year and we put high demands on our organisation. Efforts that began three years ago, in pursuit of a strategy containing ambitious, long-term goals, have paid off early. Already in 2015, we reached our long-term goals for 2017. Now we are setting our sights on 2020.

## STRATEGIC FOCUS AREAS:

### RAISE QUALITY AND LOWER THE RISKS

- Acquire strategic properties that are high quality and low risk. Primarily offices, but also industrial/warehouse, retail, and if appropriate, hotels
- Concentrate holdings to metropolitan regions and areas where growth and demand is high. Reduce the number of municipalities where we are present.
- Divest non-strategic properties that are not located in our selected areas. These are properties with high risk, low quality or that are less management intensive.

### SHARPER OFFERING WITH PROPERTIES IN CLUSTERS

- Collect properties in selected, attractive areas with high accessibility
- Create an area with the right profile in terms of a wide range of services, high accessibility and flexible solutions for premises such that we attract and retain tenants
- Actively contribute to development of both the area and its profile

### VALUE-CREATING MANAGEMENT

- Strive for long-term, close relationships with tenants. Fortify local organisation at established clusters
- Maximise rent level via renegotiations and new leasing
- Attract tenants who have a good credit rating and earnings capacity
- Vacant premises must always meet Kungsleden's minimum standard – Kungsleden's Ten Commandments

### INCREASE PROPERTY VALUE

- Identify properties with development potential or unutilised land and building rights.
- Analyse and adapt the range of usage at properties or convert for different use
- Establish and develop contacts with decision-makers

### SECURE FINANCING WITH LOWER RISK

- Minimise average borrowing cost by acquiring new loans, refinancing old loans and restructuring interest rate swaps
- Lengthen the average maturity of loans and interest rate hedges
- Strive to improve interest coverage ratio and a lower LTV

### HIGHER VISIBILITY OF, AND CONFIDENCE IN, THE NEW KUNGSLEDEN

- Re-positioning, from high transaction volume to a long-term commercial property owner
- Re-positioning of the brand to reflect a professional, personal, innovative and competitive company
- Promote the advantages associated with our main concept – clusters
- Streamline communications based on channels and target groups

### EFFICIENCY AND BEST PRACTICE IN EVERYTHING WE DO

- Kungsleden's Flow– twelve core processes to clarify and strengthen the organisation's structure, culture and processes
- Package processes and templates as tools for performing everyday tasks
- Focus on profitable transactions

## Financial goals and outcomes in 2015

EQUITY RATIO		RETURN ON EQUITY		LOAN-TO-VALUE (LTV) RATIO, NEW LOANS	
GOAL 2017	OUTCOME 2015	GOAL 2017	OUTCOME 2015	GOAL 2017	OUTCOME 2015
>30 %	33 %	10-12 %	18.3 <sup>1</sup> %	60-65 %	63.5 %
	GOAL ACHIEVED		GOAL ACHIEVED		GOAL ACHIEVED

1. Excludes payment for tax rulings of SEK 1,303 million. Including this payment, the return on equity is 5.5 per cent for 2015.

## Operational goals and outcomes in 2015

GOAL 2017	OUTCOME 2015	GOAL 2017	OUTCOME 2015	GOAL 2017	OUTCOME 2015
70	69	25	27.5	>1.0	1.9
	GOAL ACHIEVED	SEK BILLION	SEK BILLION	SEK BILLION	SEK BILLION
			GOAL ACHIEVED		GOAL ACHIEVED

**GEOGRAPHIC DISTRIBUTION** will be reduced from 141 municipalities to fewer than 70 municipalities. Sale of non-strategic properties reduced the number of municipalities to 69.

The total **PROPERTY VALUE** in 2017 will be at least SEK 25 billion. The total value of property holdings in 2015 is SEK 27.5 billion.

**PROFIT FROM PROPERTY MANAGEMENT** including change in value of properties will amount to at least SEK 1.0–1.2 billion in 2017. For 2015, profit from property management, including change in value of properties was SEK 1.9 billion.

GOAL 2017	OUTCOME 2015	GOAL 2017	OUTCOME 2015
50 %	64 %	50 %	59 %
	GOAL ACHIEVED		GOAL ACHIEVED

The **OFFICE SEGMENT** will account for at least half of the property value in the Group. In 2015, offices accounted for 64 per cent of the portfolio's value.

**METROPOLITAN REGIONS** will represent at least half of the property portfolio. For 2015, Stockholm, Gothenburg and Malmö (according to Statistics Sweden's definition) accounted for 59 per cent of the portfolio value.

## KUNGSLEDEN 2020

- Continued growth with quality – properties that retain or increase in value over business cycles
- Concentrate the property portfolio to 20 growth regions in Sweden's largest markets – Stockholm, Gothenburg, Öresund and Västerås
- At least 50 per cent of property value in Stockholm (as Defined by Statistics Sweden)
- At least 70 per cent of property value in the office segment
- Continue focusing on larger, more efficient management units by growing existing clusters and creating new ones. Over time, having 15–20 clusters
- Achieve quality and create value with ongoing management efforts through property development
- Achieve a total return over time that is at least the same or higher than the MSCI sector index
- Over time, become one of Sweden's largest property companies, with a high quality property portfolio

# POSITIVE TREND PERSISTS IN THE PROPERTY SECTOR

The favourable economic climate persisted in Sweden in 2015, with low interest rates, a healthy business climate and an increasing rate of urbanisation. All of this had a positive impact on leasing in the country's metropolitan regions and it was another good year for the property sector, with stability in the volume of transactions.

Sweden remains a leader in the Nordic transactions market, with an impressive fourth place on the list of Europe's strongest property markets. A healthy economy, with annual growth of 3.8 per cent, historically low interest rates and low yield requirements were all factors in achieving that. According to Cushman & Wakefield, sales in the Swedish property market have been around SEK 10 billion per month since mid-2013. In this market environment, Kungsliden has succeeded in optimising its property portfolio by making major acquisitions at attractive locations and by selling non-strategic properties.

## RATE OF URBANISATION IS DRIVING GROWTH IN BIG CITIES

Our major metropolitan regions have, for quite some time, experienced a steady rise in number of residents. They have come from the countryside, as well as from other countries. The Stockholm, Gothenburg and Malmö regions are expected to become increasingly important as growth engines for Sweden. It's a favourable trend for the market in terms of healthy local demand, rising rent levels at prime locations and steady growth in the value of properties. The company's strategic direction, with focus on providing offices in growth areas on the fringes of metropolitan areas benefits from these market trends.

## STABLE TREND FOR RENTS IN GROWTH AREAS

Stockholm is the engine for Sweden's economy and its importance to the country's economic growth has increased. The region has a high rate of urbanisation, which is among the highest in Europe. In downtown Stockholm, there was a continued, steady increase in rent levels, as well as at good locations in the outlying areas. These are locations where Kungsliden has a significant presence via its clusters, like the ones at Kista, Danderyd and Gärdet/Frihamnen.

The same trend exists in the south-eastern section of Gothenburg, for example, where we have our Högsbo cluster, as well as in downtown Malmö. We have also noticed that rents are rising in downtown Västerås, with its strategic location in the Mälardalen region.

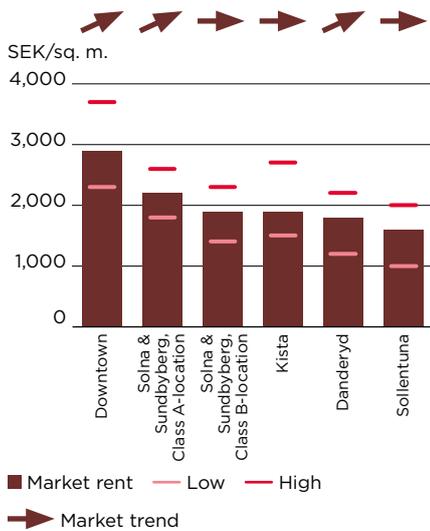
## LACK OF HOUSING STILL A PROBLEM

Despite this positive trend, the lack of housing could hold back the rate of urbanisation and thereby growth in Sweden's most important regions. The business community and politicians must continue a constructive dialogue to avoid a situation that has a negative impact on the market.

## HIGHER QUALITY OF THE PROPERTY HOLDINGS

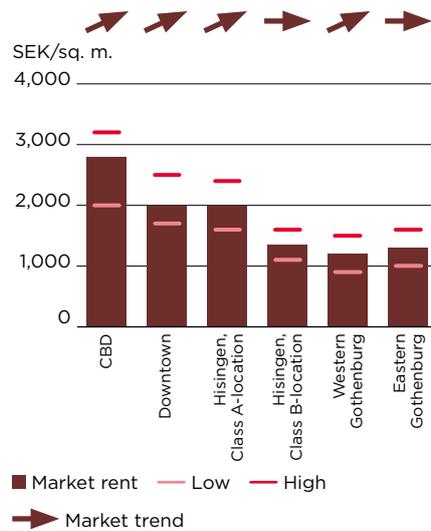
Favourable conditions in the market are keeping yield requirements low, along with a steady rise in property values. In the wake of these developments, market players are investing in their own holdings. Kungsliden is no exception, and the company believes there is excellent potential in developing its own portfolio and existing building rights.

MARKET RENT, STOCKHOLM AS OF DECEMBER 2015



Source: Newsec

MARKET RENT, GOTHENBURG AS OF DECEMBER 2015



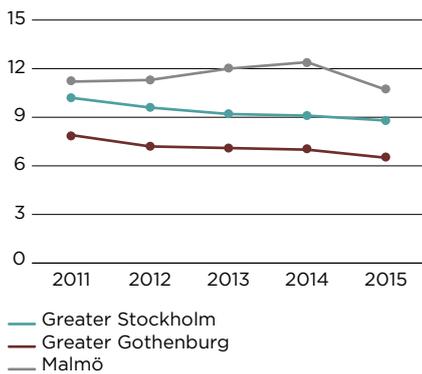
Source: Newsec

MARKET RENT, MALMÖ AS OF DECEMBER 2015



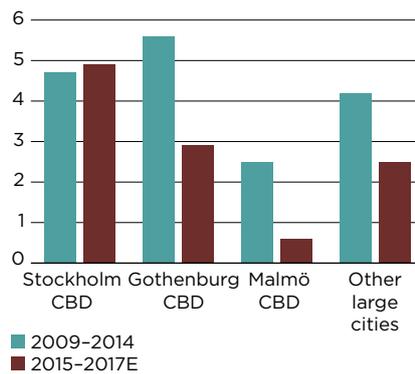
Source: Newsec

RATE OF VACANCIES, OFFICE, %



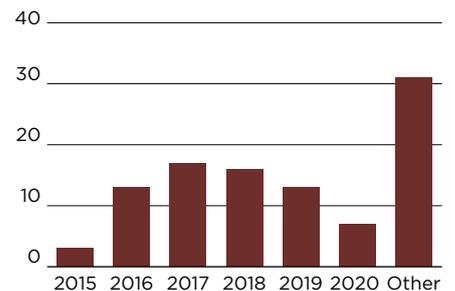
Source: Newsec

RENTAL DEVELOPMENT, OFFICE, %



Source: Newsec

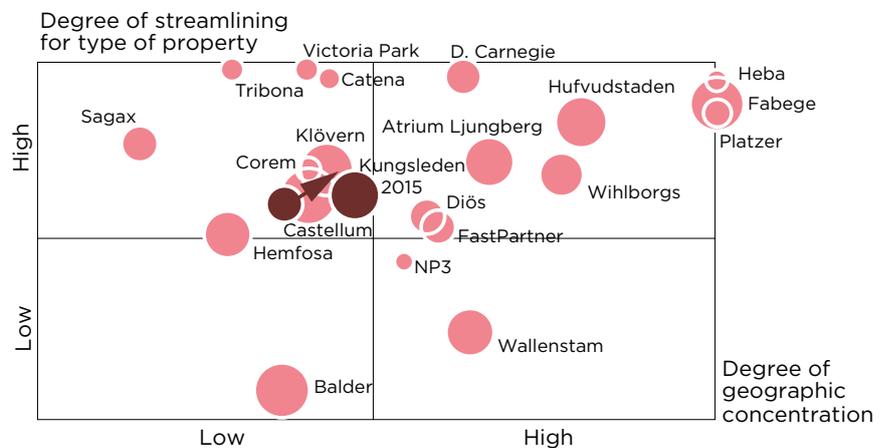
MATURITY STRUCTURE OF RENTAL AGREEMENTS, %



*“We now have a more concentrated portfolio, continually streamlining it to locations that fit our strategy.”*

Biljana Pehrsson, CEO

COMPETITORS



Source: Leimdörfer

The graph above illustrates how Kungsleden has repositioned between year-end 2013 and year-end 2015. Persistent, goal-oriented efforts and a clear strategy have helped the company position itself as intended.

# AN OWNERSHIP AND SOCIETAL PERSPECTIVE

Property owners have a major impact on how society and urban areas develop. Urbanisation creates opportunities and challenges for our cities. It also encourages investments in infrastructure and new areas. Our central concept is to gather properties in clusters where we, together with the municipalities, neighbours, tenants and residents create attractive places that enrich people's working days and work places. This generates value for our shareholders and tenants alike. It also benefits society.

We create long-term value for our customers and owners by viewing our operations in a broader context than simply the leased area of our properties. Besides stable financing and efficient operations, our reputation in society is essential to our long-term success.

**VALUE CREATION THROUGH CLARIFIED PROCESSES**  
Our business model provides the foundation for our long-term value creation and it has three parts: active management, optimisation and improving/developing our properties. Comprehensive process work got underway at the end of 2014 aimed at clarifying and assuring the quality of our operations. Efforts focusing on twelve core processes have involved all of our

## RESOURCES

### EQUITY

Funds invested by our shareholders and the company

### EXTERNAL FINANCING

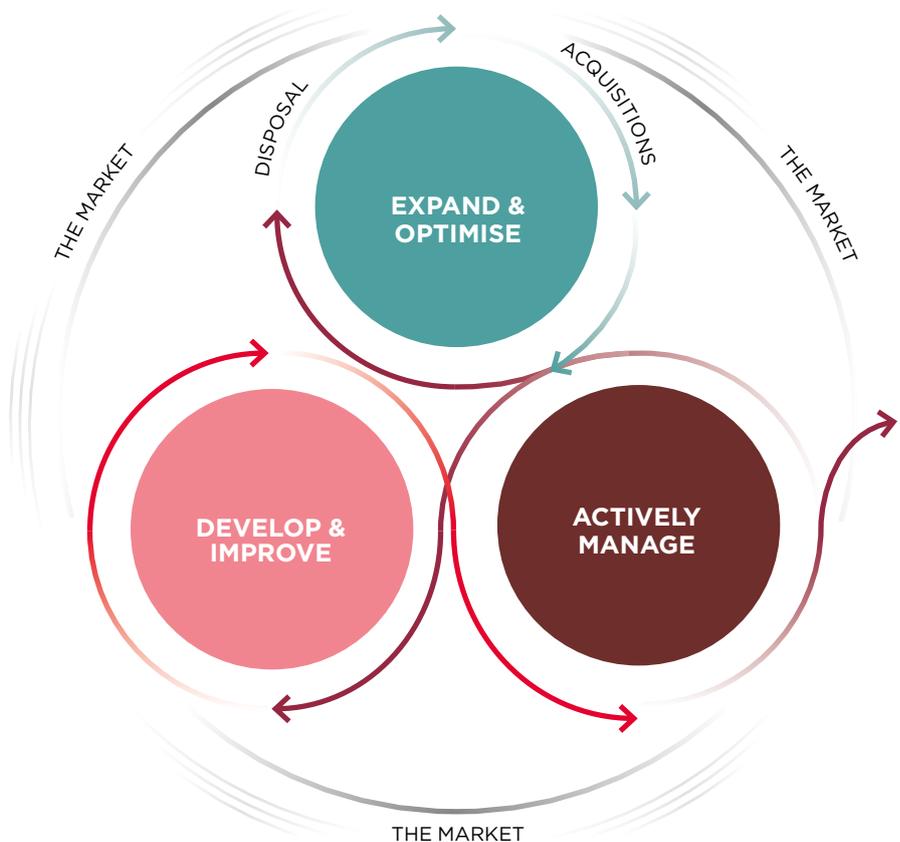
Funding obtained from different types of interest-bearing loans and credit

### TRUST CAPITAL

Capital that the company has in the form of its reputation with, and confidence of its main stakeholders:

- Customers
- Employees
- Owners and analysts
- Creditors
- Society

## BUSINESS MODEL



employees, with the goal of strengthening the company culture, creating a uniform structure and ensuring that we always apply best practice.

**ACTIVELY MANAGE**

Our aim is to actively manage an optimal property portfolio in terms of both type of properties and their geographic location. We grew the organisation by hiring skilled managers and leasing personnel with strong local networks. This has made it possible for us to form close ties with our tenants, where we are sensitive to their needs and maintain a continual dialogue. An optimal property portfolio has a high level of quality, meets the requirements of existing and potential customers and can be managed efficiently. There are also rising rent levels and value growth in the portfolio. An important component of these efforts is our cluster strategy, which you can read more about on page 13.

**DEVELOP AND IMPROVE**

Important components of long-term value creation include changing the intended use of a property or its floor plan, developing undeveloped land and building rights and, in collaboration with other stakeholders and municipalities, developing areas where we own many properties.

**EXPAND AND OPTIMISE**

The Property Investments team is continually working to analyse, optimise and streamline the property portfolio in line with our strategy. By divesting non-strategic properties and acquiring strategic ones in our prioritised areas and property categories, we create a high quality portfolio that generates an attractive long-term total return for our shareholders.

**INTENTION AND EXPECTATION**

**FINANCIAL**

Ensuring long-term, stable financing via continual refinement of the loan structure

**OPERATIONAL**

Increasing revenue via rising rent levels and streamlining of operations and maintenance, which increases the value of our holdings through improvements in operating net, investments in (and optimisation of) the portfolio and market effects.

**EXPECTATIONS OF STAKEHOLDERS**

**Customers:** Providing premises that meet the stated requirements and criteria

**Employees:** Offering a pleasant, professional work environment that motivates, involves and promotes learning

**Owners and analysts:** Over the long term, deliver an attractive total return on investment

**Creditors:** The company meets its obligations to creditors and provides transparent information

**Society:** Through active involvement and management, contribute to a pleasant environment at and around the properties

**OUTCOME, FINANCIAL AND OPERATIONAL**

Rising profits from property management, stable cash flows and higher total return through improved yield and positive change in value for the portfolio.

**MEETING EXPECTATIONS**

**Of customers:** Flexible solutions for premises, high quality and service offering that results in satisfied customers

**Of employees:** Higher motivation and a solid recruiting process that ensures job satisfaction and helps lead the company forward

**Of owners and analysts:** Rising dividends and share price

**Of creditors:** Timely repayment of loans and a correct valuation of the company

**Of society:** Improved local environment around our properties and greater opportunity to be involved in community decision-making, resulting in a positive image of the areas where we are established and a good reputation

**OTHER EXTERNAL EFFECTS**

Factors that impact Kungsleden's operations:

- the macroeconomic climate
- development of the property market
- political decisions (laws and regulations)
- Kungsleden's external reputation
- confidence in management among key stakeholders

**LONG-TERM VALUE CREATION**

1. Higher total return
2. Higher shareholder value
3. Improved reputation

# Focus is always on the tenant

Long-term ownership requires active, sustainable management. Since changing its strategy in 2013, Kungsliden has strived to create an organisation that is able to do just that.

We regard ourselves as a long-term landlord, engaged in an ongoing and close dialogue with our tenants. What our current and potential tenants need and desire is central to our organisation. It is how we create value and active management, i.e. via satisfied tenants that choose Kungsliden year after year.

We continually improve our tenant offering through the quality of our portfolio, a wide range of services and managers and rental providers who are highly accessible. Above all, it is our cluster strategy (read more about it on page 13) and locally established organisation that gives us local recognition, enabling us to attract prospective customers and offer new solutions to existing tenants when their current premises no longer meet the needs of their organisation. It provides value for money.



AddPro is a fast-moving IT company with both Swedish and international customers who require high accessibility in both digital and analogue infrastructures. The Hyllie area's expanded infrastructure, with Copenhagen Airport just 10 minutes away by train, is perfect for us. The location is strategically important to us from a customer, employee and growth perspective. Kungsliden has been extremely solution-oriented in terms of our requests concerning the design of our new premises. We confidently anticipate the future and expect to reap new successes from our new headquarters, The Mothership, at Hyllie."

**Nicklas Persson, CEO AddPro AB**

# Right location at the right price

Due to the goal-oriented, streamlining efforts that we have been implementing since 2013, we now have higher-quality properties, more of which are located in attractive areas.

By gathering properties in selected locations, which we call clusters, we can create an attractive offering for our tenants. Our clusters are located near hubs and thoroughfares, which makes them very accessible. It also enables us to create a wide range of services, thanks to a strong local presence and more efficient property management. In the end, it means that our tenants and prospective customers get the right location for the right price.

## OUR CLUSTER STRATEGY – IMPORTANT ATTRIBUTES

- At a good location with high accessibility
- Near thoroughfares and hubs
- In a market with high growth and momentum
- Contain a mix of offices, retail and residential premises
- Potential for development as regards to both cityscape and profile

## OUR CLUSTER STRATEGY – UNIQUE POSSIBILITIES

- Provides us with a better customer offering
- Large volume provides us with management synergies
- Increases our knowledge of the area
- Enables us to deliver the desired level of service
- Ability to help shape development of the area
- With local offices, we are closer to our tenants



Bergudden 8, Danderyd



Lustgården 12, Stockholm

“As our organisation has grown, so has the need for finding new, larger premises. We told Kungsleden about this and they quickly responded with a proposal for new premises in the same cluster where we're currently located. We like it at Danderyd Offices, so we were happy that our landlord could quickly meet our needs. Kungsleden was solution-oriented and flexible about adapting the premises to our operational needs.”

**Miles de Champ, Head of Communications & HR  
Euro Accident**

“When it was decided that we would move, we quickly realised the advantages of having an established relationship with our landlord. Kungsleden quickly found us new premises within the cluster, where we were allowed much freedom in designing them according to our needs.”

**Lennart Göthe, CEO Resurshuset**

# “First impressions last”

As we grow and streamline our operations, new leasing becomes an increasingly important component of Kungsliden’s active management efforts. During the year, we fortified the leasing organisation by adding local rental providers who are proactive in reaching out and attracting new, exciting tenants who have been important additions to our properties and clusters.

When it comes to leasing, first impressions are lasting. Our prospective customers want to feel welcome. They want premises that meet, or exceed their expectations. That is why our managers and rental providers closely cooperate to ensure that vacant premises, entrances and common areas always meet our requirements.

NEW LEASING AND NET LEASING, ACCUMULATED



## LOCAL OFFICES AND SHOWROOMS

During the year, we established local offices in our most important clusters where our market area managers, property managers and rental providers work. It gives them proximity to tenants and the market. The offices have also been designed to serve as showrooms, where existing tenants and prospective customers can come for inspiration and to discuss possible tenant adaptations.



## Quality-enhancing adaptations

All sectors and organisations have unique needs and requirements. Available premises rarely fit a tenant’s needs and requirements perfectly, right from the start. So, when tenants move in, or when their needs change, we discuss what adaptations they are in need of.

The adaptations we’ve made during the year have improved the quality of premises, which has helped raise both the value of, and rent levels at, our properties. It creates value for our tenants, and for us, as a long-term property owner.

# *Satisfied customers make everyone happy*

Satisfied tenants are not only loyal customers, but also helpful in attracting prospective customers. Accordingly, it is an important factor for success. Tenants who feel that their needs have been met, their expectations fulfilled (or even exceeded) tend to consider themselves as satisfied customers, thereby becoming our ambassadors.

To follow up on that, we conducted a satisfied customer survey in 2015. It will serve as a point-of-comparison for our future surveys. The result was a customer satisfaction index of 71. The average in our sector is 75.

As a relatively young player with a long-term perspective, we aim to improve that indicator. We continually work with our processes to engage in more dialogue with tenants, improve our response-time when we get complaints, share ideas about solutions for premises across our customer base, actively contribute to how the area develops and set up meeting places in our clusters. It is how we ensure satisfaction for ourselves and for our customers.

“Having an open, honest dialogue with tenants and prospective customers is a prerequisite for finding the best solution for all concerned. For me, it’s important to understand the tenant’s or customer’s needs so that I can offer them that something extra, which helps establish the foundation for a long-term relationship”

Fredrik Lindén,  
Leasing Manager



# *We want to have a long-term relationship*

When a tenant decides to stay with us, it is confirmation that we have met, or hopefully even exceeded expectations. It is what we constantly strive to achieve through our management efforts, i.e. retaining tenants year after year.

Renegotiation of leases occurs primarily towards the end of the contract term, or when circumstances have changed, like a need for new or adapted premises. When renegotiating a lease, we conduct a market analysis to assess the prevailing market climate. We also inventory the customer’s needs and preferences. During that process, we maintain a close dialogue with the tenant, which helps align expectations and thereby increase the likelihood of a continuing relationship.





# Sustainability benefits Kungsleden and society

Sustainability is an important component of our management efforts from both a cost-saving and responsibility perspective. We have gone from having a major focus on environmental issues to taking a holistic approach to business-critical issues like the environment, diversity, social responsibility, business ethics and health & safety.

Sustainability and property management efforts go hand-in-hand, not least in order to lower costs. The energy conservation measures that we implemented in 2015 have ensured that heating and cooling systems are as efficient as possible and we saved more than SEK 5.5 million in energy costs as a result.

We also continued our efforts to obtain environmental certification for the properties in our portfolio. At present, 11 per cent of the total property value is environmentally certified. Efforts have also been successful in projects where new technology is being used to improve property management and lower energy consumption.

In 2015, we started reporting in accordance with GRI, where clear indicators have been selected for each area. The aim is to, among others, increase transparency, enable us to monitor developments and compare ourselves with other companies in our sector. See pages 36–39 for more information about our sustainability efforts.

ENERGY SAVINGS

**SEK 5.5 M**

**2.5 %**



We will be proactive in lowering our use of finite resources and minimising our negative impact on the environment so that future generations have the same opportunities that are available to us today.

We want our organisation to reflect the level of diversity in society. We're convinced that doing so will provide us with business opportunities, both when interacting with customers and developing the business.

We intend to take responsibility in the communities where we do business.

We will do business professionally, fairly and transparently, with a focus on friendly behaviour both internally and externally.

We will provide a good work environment for our tenants, the contractors working at our properties and our employees, so that we lower the risk of accidents or ill health.

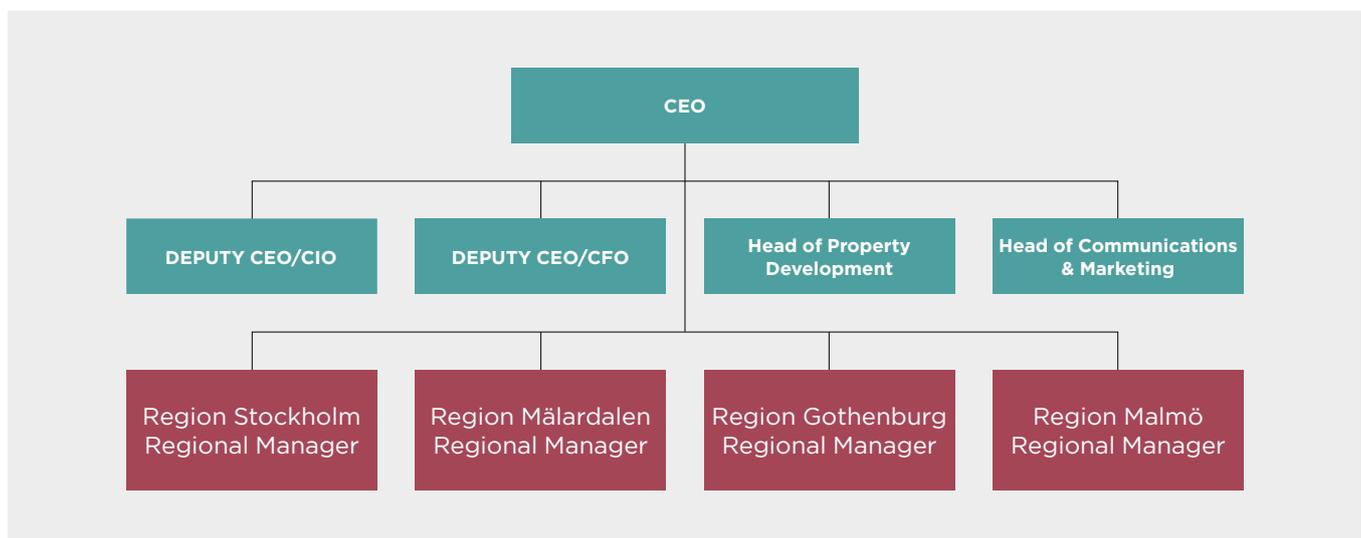
# Our property management organisation

Kungsleden's property management organisation was streamlined in 2015. It now has a quicker response time to customers. Regional managers report directly to the CEO, with shorter decision paths and more responsibility. We also added the position of Market Area Managers, who are specifically responsible for our clusters. It involves coordinating the property management process in their area, which includes leasing, tenant adaptations, customer service and renegotiations.

A new leasing organisation is also now in place, with dedi-

cated rental providers in each region. As of 1 January 2016, those efforts are coordinated by a Head of Leasing.

Sustainability efforts have been expanded to include more areas than just the environment. For this reason, Kungsleden's Environmental Manager now has a broader range of responsibilities, including all sustainability issues. All of these changes have helped clarify allocation of responsibilities and made the organisation sharper, which is necessary in order for Kungsleden to successfully pursue its strategic direction.



# HIGHER QUALITY IN THE PROPERTY PORTFOLIO

At the end of the year, Kungsliden's property portfolio consisted of 291 properties, with a total leasable area of 2.7 million sq. m. and a total value of SEK 27.5 billion. Geographic distribution has been concentrated from 91 municipalities at the start of the year, to 69 at the end of the year. Several strategic acquisitions were made, which has established us even more firmly in our prioritised markets and created two new clusters.

At the end of the year, Kungsliden's property portfolio contained 291 properties, which is slightly less than the number at the start of the year. However, the total value of the portfolio increased from 19.6 million at the end of 2014, to SEK 27.5 billion at the end of 2015. We have constructed a more concentrated portfolio, with higher-quality properties at better locations.

We currently have a well-balanced portfolio of office (64 per cent), industrial/warehouse (26 per cent) and retail (9 per cent) premises, all with improved quality. The majority of the portfolio's value, 76 per cent is located in the metropolitan areas and growth regions of Stockholm, Gothenburg, Malmö and Västerås.

## INTENSIVE EFFORTS HAVE PAID OFF

Kungsliden's intensive, goal-oriented sales efforts have further streamlined the property portfolio such that geographic distribution is now limited to 69 municipalities. Stockholm is Sweden's main growth engine and it's the region where we've added the most properties during the year. At the end of 2015, Stockholm represented 42 per cent of the portfolio's value.

It has been an active year, with completed strategic acquisitions of SEK 5.8 billion and divestiture of non-strategic properties for just over SEK 700 million, generating a profit of SEK 11 million. Since implementing the new strategy, we have purchased properties for SEK 13.4 billion, and sold properties for SEK 3.1 billion.

## INVESTMENTS IN EXISTING HOLDINGS INCREASE VALUE

Improvements have been made to our existing properties in the form of modernisation, renovation and tenant adaptations for SEK 450 million. The investments not only raise the quality, and thereby also the value of our holdings, but also help in creating a closer dialogue between our managers and tenants. Portfolio streamlining has also occurred through development projects comprised of renovation, extensions and conversions of existing premises, along with utilisation of building rights (read more about our development efforts on pages 32–33).

## HEALTHY INCREASE IN VALUE DURING THE YEAR

Kungsliden's entire property portfolio is valued each quarter. The valuations are based on a cash flow statement where the future earnings capacity of an individual property and the

market's yield requirement are assessed. In order to obtain quality assurance and verify its internal assessments, external valuations are carried out each quarter on approximately 25 per cent of the properties. This means that each property in the portfolio is the subject of external valuation at least once during each 12-month rolling period.

The Swedish property market remained robust in 2015, with healthy demand from both domestic and international players. The strong demand during the year helped in keeping yield requirements low, with higher property prices as a result.

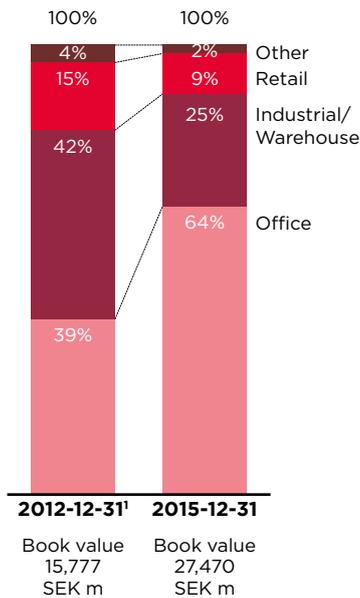
The average yield requirement that has been used in the valuations has fallen from 7.4 per cent to 6.5 per cent during the year.

The value of the property portfolio increased by SEK 970 million. All value adjustments are explained by the fact that there have been changes affecting the value of the properties and/or the market's yield requirement has been adjusted in relation to a previous valuation. Examples of changes that can affect the value of the properties are new leases, terminations or investments. Information about the demands of the market for a return is ensured by having an active presence on the transaction market and by analysing transactions in the relevant segments.

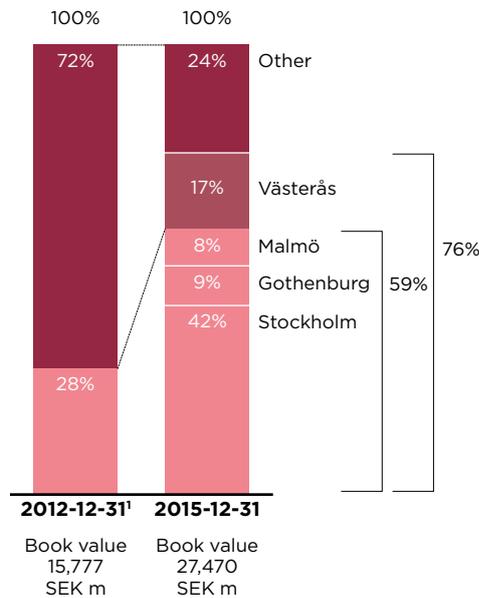
The external valuations carried out on all of our properties were on a par with Kungsliden's internal valuations. During the year, several of Kungsliden's properties were sold at prices comparable to their valuations.

DEVELOPMENT OF PROPERTY HOLDINGS	Book value, SEK m	Number
Property portfolio as of 1 January 2015	19,612	305
Acquisitions	7,076	21
Investments in owned properties	450	-
Book value of sold properties	-639	-35
Unrealised changes in value	970	-
<b>Property holdings as of 31 December 2015</b>	<b>27,470</b>	<b>291</b>

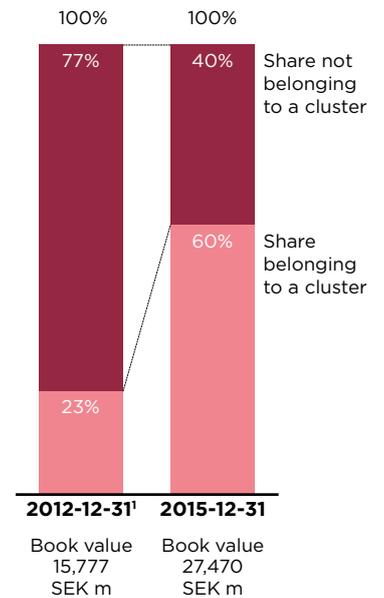
PROPERTY PORTFOLIO'S DEVELOPMENT BY CATEGORY



DEVELOPMENT OF PROPERTY PORTFOLIO METROPOLITAN CONCENTRATION (AS DEFINED BY SCB)



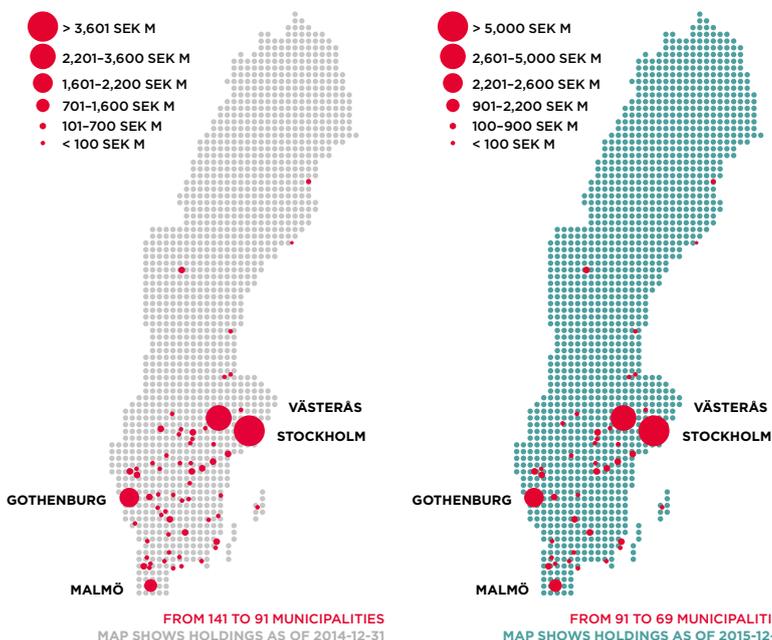
SHARE OF PROPERTIES BELONGING TO A CLUSTER



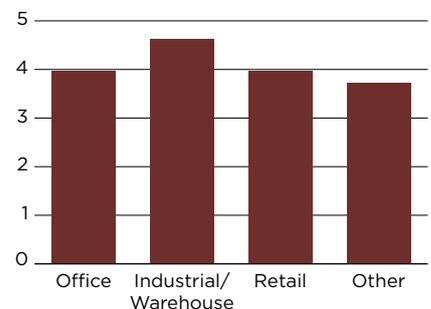
1. Kungsliden's new strategy is announced.

EARNINGS CAPACITY <sup>1</sup> PER CATEGORY	Office	Industrial/Warehouse	Retail	Other	Total excl. project properties	Project properties	Total properties
No. of properties	118	99	52	13	282	9	291
Leasable area, thousand sq. m.	1,179	1,123	241	40	2,583	82	2,665
Rental value, SEK m	1,588	768	258	46	2,660	86	2,746
Rental revenue, SEK m	1,478	710	230	44	2,462	60	2,522
Operating net, SEK m	979	523	147	26	1,675	27	1,702
Book value, SEK m	17,180	6,849	2,371	342	26,742	728	27,470
Economic occupancy rate, %	93.1	92.5	89.2	93.2	92.5	70.4	91.9
Occupancy rate, area wise, %	85.2	92.5	88.7	87.5	88.7	59.8	87.8
Property yield, %	5.7	7.6	6.2	7.5	6.3	3.7	6.2
Operating surplus margin, %	66.3	73.6	63.8	59.1	68.0	45.1	67.5

1. Earnings capacity shows what the profit would have been if properties as of 31 December 2015 had been owned for the last 12 months.



AVERAGE REMAINING TERM FOR RENTAL AGREEMENTS, IN YEARS



# *Kungsleden moves home in all regions*

Having rented from property owners for several years, Kungsleden finally, in October, moved its head office to one of its own buildings at West Kungsholmen in Stockholm. The goal in 2015 was to move all regional offices to own holdings and this was achieved when Malmö, the last remaining regional office, moved in to the building called Isblocket, at Hyllie in Malmö. All offices share a concept that reflects the new Kungsleden. During the year, we set up local offices at our most important clusters that also serve as showrooms for inspiring existing tenants and prospective customers alike. It's helps raise the quality of premises and, over time, also rent levels.



Gårda 19:10, Gothenburg

## **Regional office in Gothenburg**

New regional offices were set up based on the design of our new head office. Gothenburg was the first region to move in to new premises at Fabriksgatan 13 during autumn 2015.

## **Local offices and showrooms**

Our local offices not only provide proximity to the market and our tenants, but also help us inspire our tenants when it comes to the design of their premises.



Högsbo 14:3, Gothenburg

## **Regional office in Västerås**

During the first quarter of 2016, our Västerås employees moved into new premises at Skrapan, in downtown Västerås.



Lorens 14, Västerås



Lorens 14, Västerås



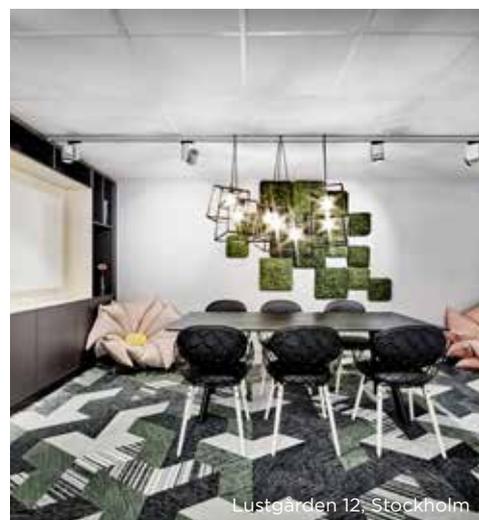
Lustgården 12, Stockholm

## Head office in Stockholm

At Warfvinges väg 31, we have set up an office that not only serves as a workplace for our employees, but also a meeting place for our tenants, owners, partners and other important target groups.



Lustgården 12, Stockholm



Lustgården 12, Stockholm

# REGION STOCKHOLM

It's been an eventful, exciting year for Kungsleden in the Stockholm region. The property portfolio for the region has gone through a major transformation during the year, with the addition of new clusters in both Kista and Gärdet/Frihamnen, higher rent levels and divestiture of non-strategic properties. At the end of the year, there were 81 properties owned and managed in the region, worth SEK 13,022 million and representing 49 per cent of the total property portfolio.

Stockholm remains the hub of the Nordic property market, with good access to capital, a high rate of growth and a healthy business climate, particularly in the service sector. The region accounts for 32 per cent of Sweden's total GDP and 45 per cent of the country's total population live there.

This is the market where we are focusing our efforts to grow, which is evident in how the property portfolio has changed. At the end of 2012, the Stockholm region represented 27 per cent of the total property value. At the end of 2015, that figure had grown to 49 per cent. In 2015 alone, the value of the Stockholm portfolio increased from SEK 7 billion to SEK 13 billion.

## SERVICE SECTOR FUELLING DEMAND FOR OFFICES

Many factors are fuelling the demand for offices in the Stockholm region. Not least is the increasing rate of urbanisation, but also access to highly skilled labour, entrepreneurship and a high number of knowledge-intensive companies. In addition, a high proportion of international headquarters are located here, compared to the rest of the Nordic region. In 2015 alone, more than 23,000 companies started up in Stockholm County, according to Stockholm Business Region. In this region, growth has occurred in the office category, for properties at good locations with high potential. During the year, Kungsleden took possession of 212,000 sq. m. of office and hotel space at Kista and Gärdet/Frihamnen. These are areas where we anticipate stable growth resulting from the development of infrastructure and housing in the wake of urbanisation.

## STOCKHOLM'S GROWTH CREATES OPPORTUNITIES

Stockholm is adding 40,000 residents per year. But supply shortages, housing in particular, is one of the negative outcomes of this. Politicians have therefore taken steps to invest in extensive infrastructure and housing projects including Citybanan (railway tunnel), Tvärbanan (light rail line), subway extensions, Norra Länken (motorway project) and new residential developments, including Norra Djurgårdsstaden. All of these projects benefit Kungsleden's properties at Vasastan/Hagastaden, Barkarby, Veddesta, Kista and Gärdet/Frihamnen in that accessibility increases and the areas become more vibrant, with a good mix of housing, workplaces and services.

## EXCITING DEVELOPMENTS IN THE NORTH

Since 2015, Kungsleden's properties in the northern part of the country have been managed by the Stockholm region. Holdings in Östersund are centrally located and they provide the foundation for our plans to, over time, set up a strong cluster there. In Umeå, which is northern Sweden's leading growth region, we completed one of our first development projects during summer 2015. It involved conversion of an old slaughterhouse into a school, leased by the International English School. Kungsleden, along the school's teachers, students and parents were all very proud when doors opened for a new school year in August 2015.

## OUTCOME, FULL-YEAR<sup>3</sup>

SURPLUS RATIO, %<sup>1</sup>

2015 **70.5** 2014 **60.8**

VACANCY RATE, %<sup>1</sup>

2015 **8.3** 2014 **7.4**

AVERAGE RENT PER SQ. M., SEK<sup>1</sup>

2015 **1,435** 2014 **1,162**

## OUTCOME, INCL. PROJECT PROPERTIES<sup>3</sup>

RENTAL REVENUE, SEK M

**909**

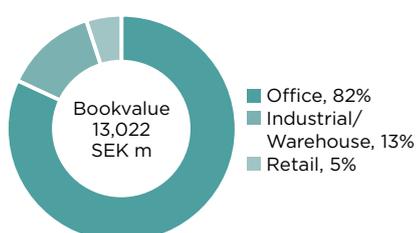
OPERATING NET, SEK M

**639**

EARNINGS CAPACITY<sup>1,2</sup>  
PER 31 DECEMBER 2015

No. of properties	81
Leasable area, thousand sq. m.	830
Rental value, SEK m	1,141
Rental revenue, SEK m	1,083
Operating net, SEK m	776
Book value, SEK m	13,022
Economic occupancy rate, %	94.9
Occupancy rate, area wise, %	88.3
Property yield, %	6.0
Operating surplus margin, %	71.7

PER HOLDINGS PER CATEGORY<sup>1</sup>



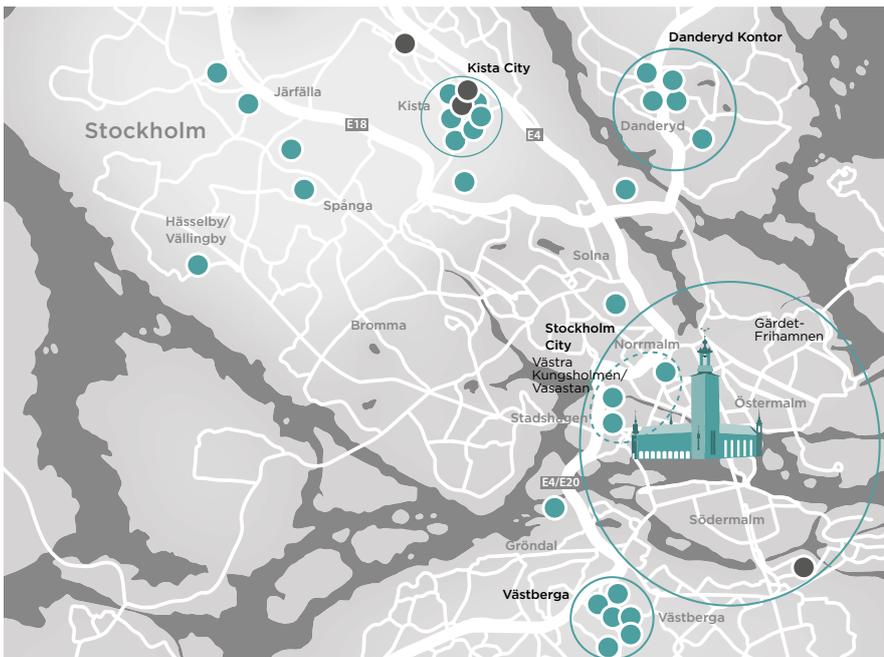
LARGEST TENANTS

The Swedish Armed Forces
Swedish Customs
Sveriges Television AB
Biz Apartment Gärdet AB
S M H I
Stockholm Municipality Rinkeby-Kista District
Huawei Technologies Sweden AB
Tele2 Sverige AB
The Swedish Social Insurance Agency
Serafim Office Consulting Group AB

1. Not including project properties.

2. Earnings capacity shows what the profit would have been if properties as of 31 December 2015 had been owned for the last 12 months.

3. The period 1 January-31 December 2015



● Acquired in 2015

**OUR CLUSTERS IN STOCKHOLM**

**Danderyd Kontor**

Danderyd Kontor is located about 15 km north of central Stockholm. It is adjacent to strategic hubs, like Mörby Centrum and Danderyd Hospital. There is a wide offering of commercial services in the area, along with direct access to the major highways, E18 and E4. Access to the area with public transport, in the form of buses, subway and commuter trains is also good.

Kungsleden owns 99,500 sq. m. of office space in the area, which corresponds to half of the municipality's total office space. With holdings of this size, we are able collaborate with customers, the municipal authorities and other property owners on how the entire area is developed.

The average vacancy rate for offices in the area along the E18 highway, from Danderyd Hospital until Enebängen was 8 per cent at the end of 2015. The supply of office space will also increase by around 15,000 sq. m. there after Skandia Fastigheter has completed the expansion of the shopping centre, Danderyd Centrum (previously called Mörby Centrum).

**DANDERYD**

Approx. total area, (sq. m.)	200,000 <sup>1</sup>
<b>Rent level (offices SEK/sq.m.)</b>	
Class A-location	1,800-2,000
Class B-location	1,300-1,800
<b>Vacancy level (%)</b>	
Office	8.0
<b>Yield requirement (%)</b>	
Office	5.75-6.75

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

**KUNGSLEDEN'S CLUSTER  
DANDERYD KONTOR**

Leasable area total, sq. m.	99,500
Vacancy level as of 31 Dec. 2015, %	7.7
<b>Average rent, SEK/sq. m.</b>	
Class A-location	1,800
<b>Largest Tenants</b>	
- Tobii Technology	
- Euro Accident	
- GE Healthcare	
- Attendo AB	
- SOS International	



Trekanten 5, Danderyd



Bergudden 8, Danderyd

# REGION STOCKHOLM

## Kista City

Kista is Europe's largest, and the world's third largest, ICT cluster. Many world-leading companies are collected here, including Ericsson, IBM, Huawei, Samsung and Microsoft. They engage in top-notch research with KTH Royal Institute of Technology, and Stockholm University. There is also an excellent service offering at Kista Galleria as well as many hotels.

The strategic location, between downtown Stockholm and the Arlanda and Bromma airports, make Kista the largest market for

offices in the Stockholm region, with 8,700 companies located there and around 70,000 employees. Accessibility is high: by car (E4, E18), subway, commuter train and soon, the Spårväg City tram line, which will make the area even more attractive.

In total, it is estimated that Kista has 900,000 sq. m. of office space, of which 150,000 sq. m. is owned by Kungsleden. This makes Kungsleden the third-largest property owner in the office segment, with a strong voice in how the area is further developed.



Färöarna 3, Kista

### KISTA

Approx. total area, (sq. m.)	900,000 <sup>1</sup>
<b>Rent level (offices SEK/sq.m.)</b>	
Market rent	2,000
Top rent	2,700
<b>Vacancy level (%)</b>	
Office	16.5
<b>Yield requirement (%)</b>	
Office	5.25-6.50

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER KISTA CITY

Leasable area total, sq. m.	150,000
Vacancy level as of 31 Dec. 2015, %	5.8
<b>Average rent, SEK/sq. m.</b>	
Class A-location	2,250
Class B-location	1,950
Class C-location	1,650

#### Largest Tenants

- Stockholm Municipality Rinkeby-Kista District
- Serafim Office Consulting Group
- Samsung Electronics
- Huawei Technologies
- Infor Sweden AB

## Gärdet/Frihamnen

Gärdet/Frihamnen is Kungsleden's newest cluster. Here, 89,000 sq. m of space was acquired and taken over during the fourth quarter of 2015. The properties are located in one of the most expansive areas of Stockholm, where a modern, innovative and sustainable mix of 12,000 residences and 35,000 work-places, called Norra Djurgårdsstaden, is being developed.

The area is already well developed, with many offices, hotels, shops, residences, restaurants, grocery stores, gyms and other services, all of which is being further fortified as Norra Djurgårdsstaden continues to develop. Local businesses also benefit from purchases made by tourists on the 300 or so cruise ships that visit Stockholm harbour each year. Accessibility in the area is already good via subway, buses and bike paths. In addition, Stockholm's Northern Link (road tunnel project) and the E20, E4 and E18 motorways make central Stockholm accessible by car in just a few minutes. The planned expansion of Spårväg City (infrastructure project) will also give this cluster easy access to central Stockholm, as well as our other major cluster, Kista City.



Rotterdam 1, Stockholm

### GÄRDET/FRIHAMNEN

Approx. area, (sq. m.)	350,000 <sup>1</sup>
<b>Rent level (offices SEK/sq.m.)</b>	
Market rent	2,300
Top rent	2,700
<b>Vacancy level (%)</b>	
Office	5.0
<b>Yield requirement (%)</b>	
Office	4.75-5.25

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER GÄRDET/FRIHAMNEN

Leasable area total, sq. m.	89,000
Vacancy level as of 31 Dec. 2015, %	7.0
<b>Average rent, SEK/sq. m.</b>	
Class A-location	1,800

#### Largest Tenants

- Biz Apartment (long-stay)
- Sveriges Television
- Swedish Customs
- The Swedish Armed Forces
- Procter & Gamble



Tegeludden 13, Stockholm



Dagskiftet 3, Stockholm

### Västberga

Västberga has an attractive industrial and logistical location, bisected by Stockholm's main highways, E4/E20. Access to downtown Stockholm via the E4 highway takes just 15–20 minutes.

This city section is dominated by the Västberga industrial area, which is one of South Stockholm's most important freight terminals. Approximately 600 companies and 9,000 work-places (office and warehouses) are set up here.

#### VÄSTBERGA

Approx. total area, (sq. m.)	200,000 <sup>1</sup>
<b>Rent level (SEK/sq.m.)</b>	
Warehouse	700–1,100
Office	1,000–1,600
<b>Vacancy level (%)</b>	
Industrial	3.0–5.0
Office	5.0–7.0
<b>Yield requirement (%)</b>	
Industrial	6.0–7.0
Office	6.0–7.0

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

The City of Stockholm has a vision of making all of its city sections vibrant. Västberga is no exception, with many new additions in the form of housing, cafés and restaurants. Proximity to popular places like Telefonplan, Årstafältet, Liljeholmen and Enskede increases Västberga's appeal to companies in other sectors than industry as well as to the residents of Stockholm.

The area around Kungsleden's properties consists primarily of industrial and residential buildings.

#### KUNGSLEDEN'S CLUSTER VÄSTBERGA

Leasable area total, sq. m.	39,000
Vacancy level as of 31 Dec. 2015, %	5.3
<b>Average rent, SEK/sq. m.</b>	
Warehouse	approx. 700
Office	approx. 900
<b>Largest Tenants</b>	
– Screenbolaget i Stockholm AB	
– TOOLS Sverige AB	
– Realtryck i Stockholm AB	
– Gama Dental AB	
– Karlaplans plåtslageri AB	

### Östersund

Östersund is located 560 km northwest of Stockholm. Major highways, E14 and E45 run through the city and connect it with places like Sundsvall, for example. Two railway lines, Mittbanan and Inlandsbanan also dissect the city and are used by both freight and passenger trains. Situated just eleven kilometres

west of downtown Östersund is the Åre-Östersund airport, with daily connections to Stockholm and other cities.

Kungsleden owns 79,000 sq. m. of office and warehouse space in downtown Östersund out of the total supply of 300,000 sq. m. The properties are all near the city centre, close to Gustav III square and the main railway

station, with convenient access to public transportation. Properties are also located at Fyrvalen. The city's best service offering in the form of stores, restaurants and cafés is located in the Centrum district, where Kungsleden owns five properties.



Handelsmannen 6, Östersund

#### ÖSTERSUND

Approx. total area, (sq. m.)	300,000 <sup>1</sup>
<b>Rent level (offices SEK/sq.m.)</b>	
Class A-location	900–1,300
Class B-location	600–900
<b>Vacancy level (%)</b>	
Office	1.0–2.0
<b>Yield requirement (%)</b>	
Class A-location	6.75–7.25
Class B-location	7.00–7.50

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

#### KUNGSLEDEN'S CLUSTER ÖSTERSUND

Leasable area total, sq. m.	79,000
Vacancy level as of 31 Dec. 2015, %	3.9
<b>Average rent, SEK/sq. m.</b>	
Class A-location	1,000
<b>Largest Tenants</b>	
– The Swedish Social Insurance Agency	
– Jämtlands Gymnasieförbund	
– Swedish Police, Jämtland County	
– Jämtland Rescue Services	
– Region Jämtland/Härjedalen	

# REGION **GOTHENBURG**

The 2015 property year was good in Gothenburg, with an improved business climate and major investments in infrastructure making accessibility even better in the region. Kungsleden feels that the region has much potential and the company has continued growing its cluster at Högsbo. At the end of 2015, Kungsleden managed 91 properties in the region, at a value of SEK 4,358 million.

## POSITIVE TREND FOR THE REGION

In recent years, Gothenburg has been a relatively static market, thus falling in the shadows Stockholm and Malmö, where growth has occurred at a more rapid pace. But the trend had already started to shift last year and in 2015, the region regained its self-confidence, which is reflected in the number of new start-ups and in the property sector.

The local authorities continue investments in major infrastructure projects to develop the region. Examples are Västsvenska paketet (major investments in public transport and new connections over the river) and plans for the much-debated high-speed railway between Stockholm and Gothenburg.

Our largest cluster, in southern Högsbo, is still our main focus area in the region and during the year, we acquired five properties, bringing the total leasable area to 107,000 sq. m. It is emerging into an vibrant area, with a good mix of major housing, office and commercial projects underway. Entrepreneurs are also showing more interest in the area, which is strategically located near downtown Gothenburg, important highways like E6 and Port of Gothenburg. Högsbo also lies outside the newly implemented congestion tolls, which adds to the area's appeal even more. Our large office and warehouse cluster is thus well-positioned for success far into the future.

## STREAMLINED PORTFOLIO AND FOCUS ON HÖGSBO

In 2015, we continued streamlining the portfolio with a focus on strategic properties in prioritised areas. This has reduced the geographic distribution of the portfolio, from 34 to 18 municipalities during the year.

## OUTCOME, FULL-YEAR<sup>3</sup>

SURPLUS RATIO, %<sup>1</sup>

**2015**      **2014**  
**65.9**    **73.0**

VACANCY RATE, %<sup>1</sup>

**2015**      **2014**  
**11.2**    **9.1**

AVERAGE RENT PER SQ. M., SEK<sup>1</sup>

**2015**      **2014**  
**729**      **778**

## OUTCOME, INCL. PROJECT PROPERTIES<sup>3</sup>

RENTAL REVENUE, SEK M

**424**

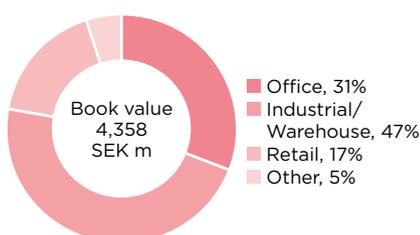
OPERATING NET, SEK M

**280**

EARNINGS CAPACITY<sup>1,2</sup>  
PER 31 DECEMBER 2015

No. of properties	91
Leasable area, thousand sq. m	621
Rental value, SEK m	473
Rental revenue, SEK m	422
Operating net, SEK m	279
Book value, SEK m	4,358
Economic occupancy rate, %	89.2
Occupancy rate, area wise, %	88.3
Property yield, %	6.4
Operating surplus margin, %	66.2

PER HOLDINGS PER CATEGORY<sup>1</sup>



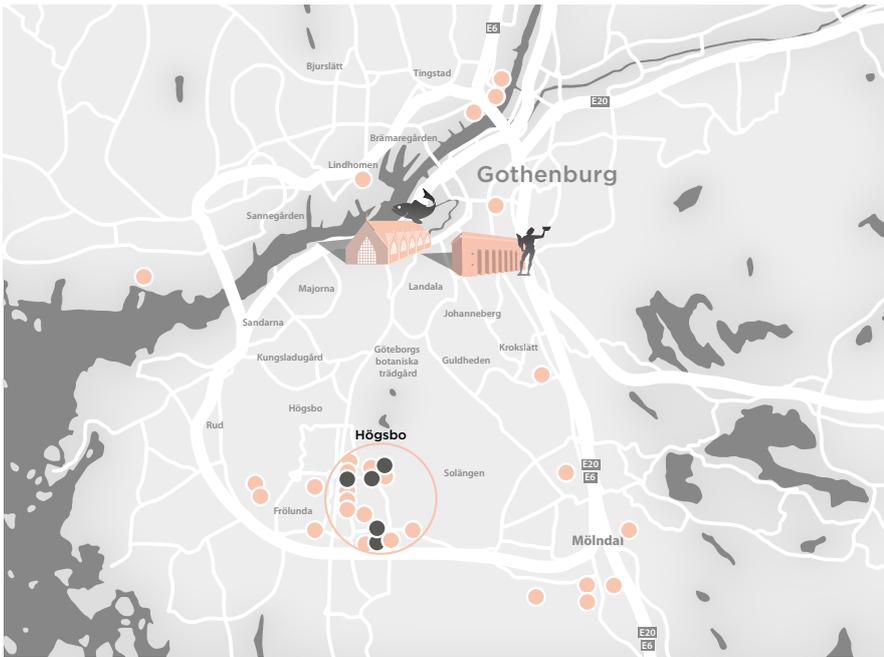
LARGEST TENANTS

Överskottsbolaget
ABB
Papyrus Sverige AB
ICA
Santa Maria AB
Västra Götaland's County Council
Trollhättan Municipality
Dentsply IH AB
Bufab Sweden AB
Kunskapsskolan

1. Not including project properties.

2. Earnings capacity shows what the profit would have been if properties as of 31 December 2015 had been owned for the last 12 months.

3. The period 1 January-31 December 2015



● Acquired in 2015

**OUR CLUSTERS IN GOTHENBURG**  
**Högsbo**

Southern Högsbo is situated southwest of downtown Gothenburg. It is one of the region's prime areas for offices, industry and trade. Gothenburg Municipality is making investments to change the mix at Högsbo. This industrial area, where the majority of Kungsleden's holdings are located, is transforming into a centre for offices and retail.

Strategically located near the E6 and Dag Hammarskjöldsleden highways, there is easy

access to downtown and Port of Gothenburg, which is Scandinavia's largest and most important logistics hub. The area also lies outside the newly implemented congestion tolls, making it even more attractive to both service and logistics companies. More than 1,200 companies and 20,000 employees are set up here.

Kungsleden owns 17 properties (office, industrial and warehouse) in southern Högsbo, with a total area of 107,000 sq. m. The total area for all of those categories is approximately 600,000 sq. m.

**HÖGSBO**

Approx. area, (sq. m.)	600,000 <sup>1</sup>
<b>Rent level (SEK/sq.m.)</b>	
Warehouse	650-700
Office	1,100
<b>Vacancy level (%)</b>	
Industrial/warehouse	6.0-7.0
Office	12.0
<b>Yield requirement (%)</b>	
Industrial/warehouse	6.5-7.0
Office	6.5-7.0

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

**KUNGSLEDEN'S CLUSTER HÖGSBO**

Leasable area total, sq. m.	107,000
Vacancy level as of 31 Dec. 2015, %	11.1
<b>Average rent, SEK/sq. m.</b>	
Office	approx. 900
<b>Largest Tenants</b>	
- Dentsply IH AB	
- Stiftelsen Ebba Petterssons Privatskola	
- Brammer Sweden AB	
- Arkipelagen Företagscenter AB	
- ÖoB AB	



Högsbo 10:17, Gothenburg



Högsbo 13:6, Gothenburg



Högsbo 13:6, Gothenburg

# REGION MALMÖ

Over the last fifteen years, the Malmö region has experienced strong growth, in part because of the Öresund Bridge, but also from the efforts of visionary local authorities. The region is still growing, with a collaborative spirit between Copenhagen, Malmö and Lund, which, combined, serve as a growth engine for the entire southwestern region of Sweden. Kungsleden owns and manages 63 properties in the region for a value of SEK 3,821 million.

Malmö City has long been shaping developments such that there has been a shift from an industrial to more knowledge-oriented profile. Proximity to Copenhagen has also encouraged collaboration and goal alignment between the local authorities and industry.

### NEW AREAS BEING DEVELOPED

Now that Västra Hamnen has become established as a section of Malmö, attention turns to Hyllie, where Malmö Arena, Malmö-Mässan and Emporia provide the foundation for a vibrant, sustainable city with a balanced mix. Kungsleden has owned MalmöMässan for some time now, and its new project, Isblocket, will be completed in January 2016. The property is essentially fully leased, with high rent levels. This was possible even though rent levels have been held back by the high rate of construction in the region.

Hyllie continues to grow, with new construction of offices, hotels and residential properties. There is also stable growth at the adjacent shopping area, Svågertorp, where IKEA and Biltema are located, for example. In additions, IKEA has built a new head office in the area, which confirms the location's strategic importance near downtown Copenhagen and Copenhagen Airport.

### NOT WITHOUT CHALLENGES

Although the rental market is strong in Malmö's new areas, the situation is quite different in older sections of the city, where it is difficult to raise rents. Furthermore, the region feels the heat of competition from the major metropolitan areas of Stockholm and Gothenburg, the latter having made much progress of late.

So this is all very important to Malmö and Kungsleden is well-positioned, with concentrated holdings at Hyllie/Svågertorp, Fosie and downtown Malmö.



## OUTCOME, FULL-YEAR<sup>3</sup>

SURPLUS RATIO, %<sup>1</sup>

**2015**  
**70.2**

**2014**  
**76.1**

VACANCY RATE, %<sup>1</sup>

**2015**  
**11.0**

**2014**  
**10.6**

AVERAGE RENT PER SQ. M., SEK<sup>1</sup>

**2015**  
**809**

**2014**  
**750**

## OUTCOME, INCL. PROJECT PROPERTIES<sup>3</sup>

RENTAL REVENUE, SEK M

**345**

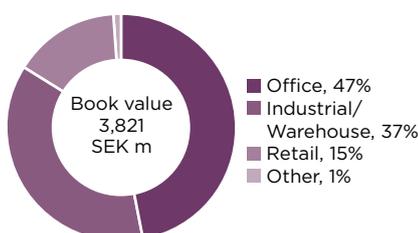
OPERATING NET, SEK M

**242**

EARNINGS CAPACITY<sup>1,2</sup>  
PER 31 DECEMBER 2015

No. of properties	63
Leasable area, thousand sq. m	458
Rental value, SEK m	395
Rental revenue, SEK m	347
Operating net, SEK m	244
Book value, SEK m	3,821
Economic occupancy rate, %	87.8
Occupancy rate, area wise, %	88.3
Property yield, %	6.4
Operating surplus margin, %	70.3

PER HOLDINGS PER CATEGORY<sup>1</sup>



LARGEST TENANTS

Bring Frigoscandia AB
Artexis Nordic AB
The Swedish Social Insurance Agency
Brio AB
Skånska Byggarvar AB
Skåne Läns Allm. The Swedish Social Insurance Agency
Överskottsbolaget
Växjö Fria Gymnasium
Jungheinrich Svenska AB
Axfood

1. Not including project properties.  
2. Earnings capacity shows what the profit would have been if properties as of 31 December 2015 had been owned for the last 12 months.  
3. The period 1 January-31 December 2015

## OUR CLUSTERS IN MALMÖ

### Hyllie

Hyllie is an expansive area west of downtown Malmö. The city section is unique with its prominent sustainability profile and it currently has a good mix of office, retail, conference and residential premises. Thousands work there already and another 10,000 workplaces will be added in the near future. Several new construction projects are underway, one of which is Kungsleden's property, Vagnslidret 1, otherwise known as Isblocket.

Emporia shopping centre offers shops, restaurants and many other high quality services. Svågertorp shopping area, where IKEA and other big stores are located, is also nearby. Hyllie has good access to the region's most central hubs, with downtown Malmö, downtown Copenhagen, Copenhagen Airport just minutes away by train. There is also easy access by car, with the area situated between Malmö's inner and outer ring roads.

Kungsleden has designated Hyllie as a growth area and it currently owns 29,000 sq. m. of office and conference space in the area including Vagnslidret 1. The total supply of office and retail space amounts to around 400,000 sq. m.



● Acquired in 2015

### HYLLIE

Approx. total area (sq. m.)	400,000 <sup>1</sup>
of which Emporia, 130,000 sq. m.	
<b>Rent level (offices SEK/sq.m.)</b>	
Market rent	2,250
Top rent	2,500
<b>Vacancy level (%)</b>	
Office	13.0
<b>Yield requirement (%)</b>	
Office	4.75-5.50

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER HYLLIE

Leasable area total, sq. m.	29,000
Vacancy level as of 31 Dec. 2015, %	0
<b>Average rent, SEK/sq. m.</b>	
Office	2,580 <sup>1</sup>
Retail	1,700
<b>Largest Tenants</b>	
- Artexis Nordic	
- Dormy Golf, Fashion	
- Sova	
- The GlassHouse	

1. Property, Vagnslidret 1.



Future concept, Vagnslidret 1, Malmö

### Fosieby

Fosie, south of downtown Malmö, is where Fosieby industrial area is located, with around 300 IT companies, service and consulting companies, trade and industry. A large portion of the businesses there are involved with manufacturing. Development of this area started in the early 1970s.

Fosieby industrial area is close to several of Malmö's prime residential areas, like Lindängen. It is also strategically located near Malmö's outer and inner ring roads and the E65 highway. The Öresund Bridge is just minutes away by car and there is good access to public transportation (buses).

Kungsleden owns 52,500 sq. m. of the total supply of office, industrial and warehouse space that amounts to approximately 700,000 sq. m.

### FOSIE

Approx. total area, (sq. m.)	700,000 <sup>1</sup>
<b>Rent level (SEK/sq.m.)</b>	
Industrial/warehouse	550
Office	1,125
<b>Vacancy level (%)</b>	
Industrial/warehouse	7.0
Office	10.0
<b>Yield requirement (%)</b>	
Industrial/warehouse	6.75-7.25
Office	6.75-7.25

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER FOSIE

Leasable area total, sq. m.	52,500
Vacancy level as of 31 Dec. 2015, %	6.6
<b>Average rent, SEK/sq. m.</b>	
Industrial/warehouse	approx. 900
Office	approx. 1,200
<b>Largest Tenants</b>	
- Medioplast	
- Heatex	
- Rusta	
- AB Rörläggaren	
- Sto Scandinavia	

# REGION MÄLARDALEN

Mälardalen is a strategically located growth region that is within commuting distance to Sweden's most expansive area, the Stockholm region. Västerås is the largest market in a region consisting of important regional cities like Örebro and Eskilstuna. Kungsleden owns and manages 47 properties in the region at a value of SEK 5,541 million.

In 2015, the region as a whole experienced healthy growth thanks to its favourable business climate. This also fuels the demand for office and warehouse premises at good locations. As the largest property owner in Västerås, Kungsleden is well-positioned to benefit from the high level of demand. Here, the challenge lies in supply shortages, since vacancy levels are so low.

## GOOD INFRASTRUCTURE CONNECTING THE REGION

Cohesion between the region's major cities, Västerås, Örebro and Eskilstuna is an important component of the region's continued growth. Infrastructure here is well developed in the form of highways and railways. Örebro and Västerås Airport also

makes the cities more accessible, while shortening the distance to Stockholm.

Since Stockholm is within commuting distance, Mälardalen has a significant competitive advantage over other regional cities when it comes to start-ups, influx of new residents and investments.

An example of this is the development of a new travel centre/train station and a new residential area on the shores of Lake Mälaren in Vasteras.

## A REGION WITH GREAT POTENTIAL

Kungsleden's strong presence, particularly in Västerås, offers us unique opportunities for helping shape the city's future development. We see great potential in Västerås and the entire region. During the year, we continued investing there, which has included acquisition of the prominent Västerås landmark, Skrapan.

We renegotiated the Master Lease Agreement with ABB during the year, which has strengthened our long-term relationship with this important customer. It also facilitates potential development projects and increases flexibility for both sides.

There are also development opportunities at our two clusters in downtown Västerås and at Finnslätten. They primarily exist in the area around our properties, where we've already embarked on a project with the local authorities, for example.



Finnslätten 1, Västerås

## OUTCOME, FULL-YEAR<sup>3</sup>

SURPLUS RATIO, %<sup>1</sup>

2015

61.3

2014

69.0

VACANCY RATE, %<sup>1</sup>

2015

5.9

2014

6.2

AVERAGE RENT PER SQ. M., SEK<sup>1</sup>

2015

978

2014

937

## OUTCOME, INCL. PROJECT PROPERTIES<sup>3</sup>

RENTAL REVENUE, SEK M

635

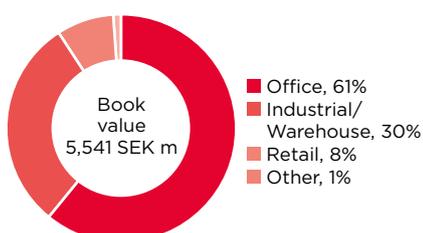
OPERATING NET, SEK M

384

EARNINGS CAPACITY<sup>1,2</sup>  
PER 31 DECEMBER 2015

No. of properties	47
Leasable area, thousand sq. m	674
Rental value, SEK m	651
Rental revenue, SEK m	610
Operating net, SEK m	376
Book value, SEK m	5,541
Economic occupancy rate, %	93.7
Occupancy rate, area wise, %	90.0
Property yield, %	6.8
Operating surplus margin, %	61.6

PER HOLDINGS PER CATEGORY<sup>1</sup>



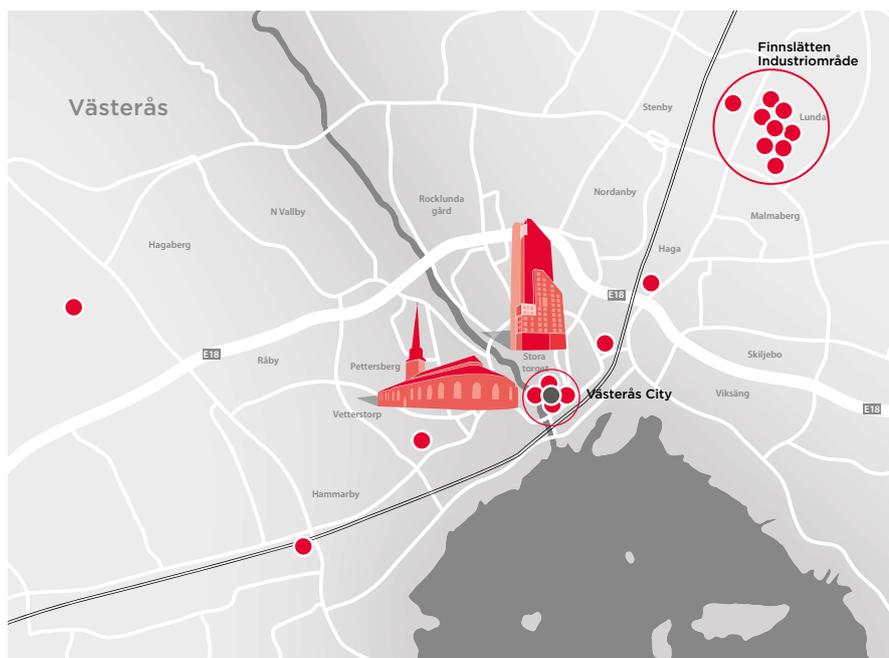
LARGEST TENANTS

ABB
City of Västerås
Westinghouse Electric Sweden AB
V-TAB
The Swedish Armed Forces
Plaza i Västerås AB
Enics AB
ICA
Alfr. Anderssons Logistik AB
Coop Sverige Fastigheter AB

1. Not including project properties.

2. Earnings capacity shows what the profit would have been if properties as of 31 December 2015 had been owned for the last 12 months.

3. The period 1 January-31 December 2015



● Acquired in 2015

## OUR CLUSTERS IN VÄSTERÅS

### Västerås City

Västerås is located approximately 100 km. northwest of Stockholm. It serves as hub in the Mälardalen region, where other important cities, like Eskilstuna, Enköping and, to a certain extent, Örebro are located. The rate of growth and urbanisation for Västerås and the entire region is good. Commuting between Stockholm and Västerås takes just an hour by car or train. Stockholm Västerås Airport and Port of Västerås also help in profiling the city as a unique, important transportation node in Sweden, with large development potential.

Kungsleden owns 153,000 sq. m. of the total supply of office and hotel space in downtown Västerås that amounts to 200,000 sq. m. It makes us undoubtedly the largest commercial property owner in the city. Strategically located near the main railway station and with iconic properties like Skrapan, Mimer block and Melkerhuset, Kungsleden is in a unique position to influence the future development of downtown Västerås, while offering customers unique, modern office premises.

### Finnslätten

Finnslätten industrial area belongs to Västerås municipality and it is located just north of downtown Västerås. It is close to the major highways, E18 and highway 56, and easily accessible by bus, so downtown Västerås is just minutes away. Västerås is attractively located, reachable by all four modes of transportation, which the industrial area benefits from. The largest company in the area is ABB.

Kungsleden owns 238,000 sq. m. of the total supply of office, industrial and warehouse space that amounts to approximately 400,000 sq. m. Besides properties, Kungsleden also partially owns infrastructure, including roads, electrical installations and water conduits. It puts us in a unique position to, in collaboration with customers and the local authorities, help shape the future design of the area. These efforts have already started in that a vision exists for creating a vibrant, sustainable city with a balanced mix.



Ottar 6, Västerås

Lorens 14, Västerås

### VÄSTERÅS CITY

Approx. area, (sq. m.)	200,000 <sup>1</sup>
<b>Rent level (offices SEK/sq.m.)</b>	
Class A-location	1,400-1,900
Class B-location	1,000-1,300
<b>Vacancy level (%)</b>	
Office	5.0-7.0
<b>Yield requirement (%)</b>	
Class A-location	5.5-7.0
Class B-location	6.25-7.50

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER VÄSTERÅS CITY

Leasable area total, sq. m.	153,000
Vacancy level as of 31 Dec. 2015, %	2.7
<b>Average rent, SEK/sq. m.</b>	
Office	approx. 1,300

#### Largest Tenants

- ABB
- Västerås City
- Plaza i Västerås
- ICA Fastigheter Sverige
- Västmanland's County Council

### FINNSLÄTTEN INDUSTRIAL AREA

Approx. total area, (sq. m.)	400,000 <sup>1</sup>
<b>Rent level (SEK/sq.m.)</b>	
Industrial/warehouse	600-800
Office	700-900
<b>Vacancy level (%)</b>	
Industrial	7.0-10.0
Office	10.0-12.0
<b>Yield requirement (%)</b>	
Industrial	7.0-8.0
Office	7.25-8.00

1. Datscha was enlisted to help design the space. Sorting has occurred in areas where Kungsleden's clusters are located and based on the type codes that Kungsleden owns in each city.

### KUNGSLEDEN'S CLUSTER FINNSLÄTTEN INDUSTRIAL AREA

Leasable area total, sq. m.	238,000
Vacancy level as of 31 Dec. 2015, %	6.8
<b>Average rent, SEK/sq. m.</b>	
Warehouse	472
Industrial	689
Office	773

#### Largest Tenants

- ABB
- Westinghouse Electric Sweden
- Enics
- Alfr. Anderssons Logistik
- Gerdins Components Västerås



# INCREASE VALUE BY DEVELOPING THE HOLDINGS

One of the cornerstones of Kungsleden's strategy is development of its existing holdings aimed at maximising the full potential of the properties. This is achieved by making improvements and modernising existing buildings as well as creating new development rights.

Kungsleden carries out development projects at selected properties in the portfolio. This is done when extensions are required to make room for expanded operations, when premises need to be modernised, when the intended use changes, or when building rights are to be utilised or created. Projects are aimed at raising the level of quality, and thereby value, of existing holdings and to adapt properties based on how the area will be developed over time. An example of this is provided on pages 34–35. It is the project at the building called Blästern on Gävlegatan in Stockholm. At year-end, Kungsleden had nine properties in the project phase.

## GOOD COOPERATION AND CLOSE DIALOGUE

Development is a four step process (Identification, Pre-study, Project Development and Implementation) that focuses on efficiency and value creation.

Identification is an ongoing process that requires close collaboration between the management, transaction and analysis departments. The aim is to identify hidden value in the existing portfolio and evaluate the development potential in acquisition targets. Once a development property has been identified, the preliminary study gets underway, which involves a thorough

analysis of the property's technical and financial attributes, the location and market conditions, zoning and the municipality's urban development plans. Before a decision is made on the chosen project direction, a detailed risk analysis is conducted aimed at identifying the project that has the highest value potential and an acceptable level of risk for Kungsleden. Once a decision to proceed has been made, project development efforts begin to establish the project's costs, time frame, revenue potential and feasibility. Before embarking on a project, at least 50 per cent of the total area at a project property must be under lease. This ensures Kungsleden's revenue flow and lowers the level of risk in the project.

These efforts require close collaboration with the management organisation to, for example, ensure that the premises are improved in line with the customer's specific needs and in a way that contributes to efficient management. In addition to that, many projects are planned based on the social context. In other words, in the context of an overall plan and vision for the community where the property is located. By doing this at an early stage, it is possible to involve important stakeholders, which later on facilitates leasing efforts and project implementation.



Future concept, Verkstaden 7. Photo: Tovatt Architects and Planners, Vision and Volume Study for Kopparlunden, planning documents for Kopparlunden, City of Västerås.

### Kopparlunden in Västerås

Kungsleden is considering the possibility of converting an old industrial building in the Kopparlunden district of Västerås into housing. Based on the new zoning, it is estimated that around 70,000 sq. m. of building rights can be created.

**Status:** Dialogue with City of Västerås concerning the building, Verkstaden 7, will begin during spring 2016 and are expected to result in an application for new zoning.

### Rondellen in Eskilstuna

Rodellen is one of the few "dead" shopping centres in Sweden. It was located in one of Eskilstuna's most strategic commercial areas, right where you enter the city at Årby traffic circle. Kungsleden will now, from scratch, create a new retail site that can capitalise on this unique, strategic location.

**Status:** Demolition work has been completed. Zoning work has started and potential partners are engaged in a dialogue with the municipality on the future design and content of Rondellen.



Future concept, Skiftinge 1:3, Eskilstuna

## PRIORITISED PROJECT PROPERTIES

Development is a four step process (Identification, Pre-study, Project Development and Implementation) that focuses on efficiency and value creation. Please read more about our development projects below or at [www.kungsleden.se](http://www.kungsleden.se)

Property, location	Project type	Type	Phase	approx. area, in sq. m. <sup>1</sup>	Description	Stages, est. year completed	Estimated investment, SEK m
<b>PROJECT PROPERTIES Q4/2015</b>							
Blästern 14, Stockholm	Renovation and conversion	Hotel/office	Implementation/leasing	15,000	Project and concept development along with conversion of existing office premises to hotel and offices at new Hagastaden.	Stage 1: 2018 Stage 2: 2021	385
Enen 10, Södertälje	Renovation and improvements	Office	Implementation/leasing	6,000	Improvements to office property in central Södertälje First tenants move in Q4 2016	Stage 1: 2016 Stage 2: 2018	125
Vårblomman 8, Vårblomman 11, Visheten 14 och Visheten 15, Eskilstuna (Gallerian)	Improvement	Retail	Project development/leasing	29,000	Project and concept development and renovation of existing retail space and offices in central Eskilstuna.	2017	200
Skiftinge 1:3, Eskilstuna	New development rights/new production	Retail	Pre-study/design	25,000	Demolition of existing building as well as project and concept development of new retail site along the E20 highway.	2018	240
Aspgården 18, Umeå	New development rights	Residential/pre-school	Pre-study/design	20,000	Improve existing buildings and alter zoning to create new development rights.	2017	n/a
Verkstaden 7, Västerås	New development rights	Residential	Pre-study/design	50,000–70,000	Detailed planning to convert an old industrial building and create new development rights in Kopparlunden.	2017	n/a
<b>NEW PROJECT PROPERTIES AS OF Q1/2016</b>							
Holar 1, Stockholm (Kista)	Conversion	Hotel	Project development/leasing	6,000	Improvements and conversion of office building in Kista into apartment hotel	2017	120
Målaren 17, Örebro	Conversion/new development rights	Residential/office	Pre-study	20,000–30,000	Create new development rights and change intended use at existing buildings.	2017	n/a
Handelsmannen 1, Norrtälje	Conversion/new development rights	Residential/office	Pre-study/design	10,000	Zoning work to create new development rights and change intended use of existing buildings.	2016	n/a
Rud 4:1, Gothenburg	New development rights	Residential	Pre-study/design	23,000	Zoning efforts are underway to create new development rights for residential property. Part of Gothenburg Jubilee initiative	2017	n/a
Veddesta 2:65, Järfälla	Improvement/conversion	Office	Pre-study	14,000–18,000	Create new development rights and possibly convert partially vacant office and warehouse building	n/a	n/a

1. Approximate area once the property has been fully developed.

Future concept, Enen 10, Södertälje



### Enen, Södertälje

The old Södertälje municipality offices are now being converted into 6,000 sq. m. of modern, flexible office space at an attractive location, near the central station. The supply of modern office facilities in central Södertälje is currently limited, despite the fact that the population is growing and there is a healthy business climate.

**Status:** Renovations will get underway in Q1 2016, with completion expected around year-end 2017. Half of the space there has already been leased, with leasing efforts continuing for the remaining space.

### Holar, Kista

Kungsleden has begun efforts to convert an office building into a modern apartment hotel. There is a high demand for this type of property in Kista and the neighbouring vicinity. There is a healthy demand for this particular type of property at Kista and the surrounding area.

**Status:** Leasing efforts are underway and expected to be concluded during Q1 2016. Construction is expected to start during autumn 2016, thus ready for operations to start-up there during fall 2017.



Holar 1, Kista



Future concept, Gallerian, Eskilstuna

### Gallerian in Eskilstuna

At Kungsgatan in central Eskilstuna, Kungsleden owns four properties where one of the city's main shopping strips is located. Kungsleden is striving to give Gallerian a new identity by reviving it as an attractive shopping destination and meeting place. This will have a positive effect on the adjacent office spaces and increase the entire block's attractiveness.

**Status:** The conceptualisation and design phase is still underway and leasing efforts have been initiated.



## *Blästern – a city oasis*

*Stockholm and Solna municipalities link up with the creation of an entirely new city district that unites cutting edge research with the city pulse of Vasastan. As property owner, we're creating a meeting place where residents, employees and visitors can relax and enjoy some of Stockholm's hidden treasures.*

Kungsleden's property development department is responsible for reviewing our existing holdings to identify properties with unutilised potential, where we have already carried out a number of successful projects. The aim is to identify around fifteen new projects where we can raise quality, discover new uses and in the end, increase value. Success is rooted in the fact that we are enthusiastic and proud of our properties. We also have an organisation that cooperates well internally and we have close ties with our customers.

### **A CITY OASIS**

Gävlegatan, the street where Blästern 14 is located, will link the existing city districts to new ones. Our vision is to create a city oasis. A place where people

meet to work, live and relax. A hotel will help in making the area more attractive. The location will also gain commercial value via proximity to an entirely new city district as well as one of Europe's top research areas in life science, which includes organisations like Karolinska Institutet, for example.

As property owner, we strive to highlight the unique aspects of our properties. The majority of Stockholm's buildings currently have attractive façades that are admired by passersby. But behind all that, in the courtyards, you will often find many hidden architectural treasures. In several major international cities, courtyards are being revealed, thereby adding a new dimension to the street environment. We are doing exactly that at Blästern 14. It is a way of creating a little hideaway

from the city pulse, while also revealing a beautiful creation by one of the country's top architects. Sigurd Lewerentz designed the building. He is an internationally acclaimed architect who worked during the same period as Gunnar Asplund. His creation at Gävlegatan is unique in many ways and it should certainly be enjoyed by more than those residing at the building.

### **VALUE IN THE END RESULT**

The hotel and modern offices at the building are just one part of what is planned for the area, where housing, conference facilities and a restaurant will inject life and vibrancy. In collaboration with our future tenants at the property, we want to transform the area into yet another exciting, modern section of Stockholm.



Future concept, Blästern 14, Stockholm



## KUNGSLEDEN AND NOBIS DEVELOP A NEW DESIGN HOTEL AT HAGASTADEN

Early in 2016, Kungsleden entered into a 20-year lease agreement with Nobis AB to develop a new design hotel at the Blästern 14 property. The building's history has influenced the design work, which has focused on creating small, yet functional and attractive rooms along with long-stay, designer rooms. The aim is to create a new destination and meeting place with an inviting atmosphere and excellent service in the form of a large restaurant, bar and lounge areas. There will also be a good flow between the indoor areas and the inviting courtyard.

"Stockholm is a unique city, with many hidden treasures behind its attractive building façades. But these are typically off limits to the general public. In collaboration with Nobis, we decided to open up one of these beautiful courtyards,

thereby creating a city oasis in one of Stockholm's most expansive and exciting areas. It's a place where everyone is invited to come and experience something entirely unique," says Biljana Pehrsson, CEO of Kungsleden.

"We want to offer a high quality hotel experience at a good price. Rooms will be smaller, yet offer the same high quality as our other hotels. It's a concept I've been wanting to develop for a long time, so it's very satisfying to see it all take shape via our collaboration with Kungsleden," says Sandro Cate-nacci, CEO of Nobis AB

Kungsleden is investing around SEK 385 million in this project which comprises 15,000 sq. m. of hotel and office space. The hotel will open its doors for business during autumn 2018.



# SUSTAINABILITY AT KUNGSLEDEN

Sustainability has, for quite some time, been a natural part of our business model and it is continually evolving and becoming increasingly important to the company. During the year, we coordinated responsibilities for sustainability issues and strived to, for example, improve our structures and routines for energy follow-up and business ethics. We also received recognition by Allbright as one of Sweden's most gender-equal listed companies. Starting this year, we will be reporting our sustainability efforts in accordance with the Global Reporting Initiative (GRI) G4, at Core level.

## OUR SUSTAINABILITY EFFORTS

For quite some time, the environment has been one of Kungsleden's focus areas. Above all, owning and managing properties has an environmental impact from energy consumption. We work with clear goals and creative solutions to find new ways of becoming more energy efficient so that we can reduce our environmental impact. See pages 42–43 for more information about our projects.

During the year, we centralised responsibility for environmental and other sustainability issues to our Head of Sustainability. Our sustainability goals cover five sub-areas: environment,

diversity, social responsibility, business ethics and health & safety. Starting this year, we will be reporting our sustainability efforts in accordance with the GRI framework. This further increases our focus, transparency and opportunities for comparative follow-up. The sustainability report consists of this annual report and our GRI report, which is available at [www.kungsleden.se/en/kungsleden/sustainability](http://www.kungsleden.se/en/kungsleden/sustainability).

Over the last year, we worked to create a new sustainability policy, which will be completed in 2016. We also implemented a number of concrete measures for developing our sustainability efforts. We describe this in more detail under each focus area.

## STAKEHOLDERS AND DIALOGUE WITH STAKEHOLDERS

STAKEHOLDER GROUPS	FORUM FOR DIALOGUE	IMPORTANT ISSUES	GOALS
<b>OWNERS, INVESTORS AND ANALYSTS</b>	<ul style="list-style-type: none"> <li>Annual general meeting</li> <li>Regular meetings</li> <li>Ongoing contact</li> <li>Capital Market Day</li> <li>Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>Long-term stable business model, goals and strategy</li> <li>Financing</li> <li>Growth</li> <li>Earnings</li> <li>Sustainability and corporate governance</li> <li>Issuance of information</li> </ul>	<ul style="list-style-type: none"> <li>Cost efficiency</li> <li>Lower corruption and environmental risk</li> <li>Higher total return</li> </ul>
<b>EMPLOYEES</b>	<ul style="list-style-type: none"> <li>Performance appraisals and salary review held at least once per year.</li> <li>Staff conferences</li> <li>Regular dialogue</li> </ul>	<ul style="list-style-type: none"> <li>Training and skill development opportunities</li> <li>Salary &amp; benefits</li> <li>Balance between work and leisure</li> <li>Diversity</li> <li>Structure and tools</li> <li>Health and safety</li> <li>Customer service</li> <li>Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>Safe, secure workplace</li> <li>Job satisfaction</li> <li>More diversity and better age distribution</li> </ul>
<b>SOCIETY</b>	<ul style="list-style-type: none"> <li>Contacts with industry and decision-makers</li> <li>Website</li> </ul>	<ul style="list-style-type: none"> <li>Long-term perspective</li> <li>Energy and environmental efficiency</li> <li>Innovation</li> <li>Community</li> <li>Availability and safety</li> <li>Antiquarian and architectural values</li> <li>A living community</li> <li>Diversity and employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Lower energy use and environmental impact</li> <li>Integration and diversity</li> <li>Higher level of participation</li> </ul>
<b>SUPPLIERS</b>	<ul style="list-style-type: none"> <li>Ongoing contact</li> <li>Procurement requirements as per Kungsleden's templates</li> </ul>	<ul style="list-style-type: none"> <li>Long-term, stable partner</li> <li>Customer service</li> <li>Energy use</li> <li>Business ethics</li> <li>Work environment risks</li> </ul>	<ul style="list-style-type: none"> <li>Safe, secure workplace</li> <li>Ethical conduct</li> </ul>
<b>CUSTOMERS</b>	<ul style="list-style-type: none"> <li>Ongoing contact</li> </ul>	<ul style="list-style-type: none"> <li>Fit-for-purpose premises</li> <li>Stable landlord</li> <li>Availability</li> <li>Business ethics</li> <li>Healthy, safe premises</li> <li>Cost efficiency</li> <li>Energy use</li> <li>Waste management</li> <li>Emissions</li> <li>Customer service</li> </ul>	<ul style="list-style-type: none"> <li>Safe, secure workplace</li> <li>Lower energy use and environmental impact</li> <li>Higher level of participation</li> </ul>



**ENVIRONMENT**

Kungsleden is now emphasising sustainability issues and has established long-term goals to lower its energy use by 20 percent by 2020. We now have a 2020 vision of fully integrating sustainability issues throughout the organisation. During the

year, extensive efforts were directed at energy efficiency measures on an energy area of 6,642 MWh, which corresponds to SEK 5.5 million. This resulted from the energy “raids” and “stock-taking” that we performed. An energy raid involves adjusting existing systems, twice per year, so that they function optimally. Energy stock-taking is aimed at identifying measures that can lower energy use.

We also fully documented the environmental risks associated with our holdings, which has included risk of asbestos, PCBs, radon and soil pollution. Once documented, we created a sampling plan for one property and started taking soil samples. In addition, we conducted a risk assessment of an area that we previously owned. Efforts to phase out our remaining oil boilers are still underway at the seven properties that still rely on oil heating. We signed agreements during the year to phase out the oil boilers at two of these properties, replacing them with air heat

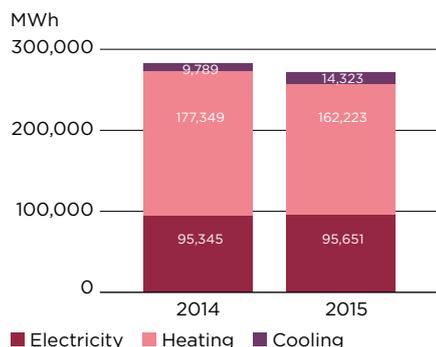
pumps and gas. The air heat pump on its own results in savings of 500 tonnes carbon per year.

Efforts to complete a number of environmental projects continue, such as installation of sustainable ceiling tiles (olivine), primarily at warehouses in Västerås. Olivine is a mineral that is able to collect and transform carbon emissions into magnesium, for example. The mineral is used in ceiling tiles over large, exposed surfaces as a method of capturing carbon. Tenants and others have demonstrated that they appreciate these efforts. At one of our warehouses in Västerås, with 19,000 sq. m of olivine ceiling tiles, approximately 33 tonnes of carbon will be neutralised during the product’s lifespan.

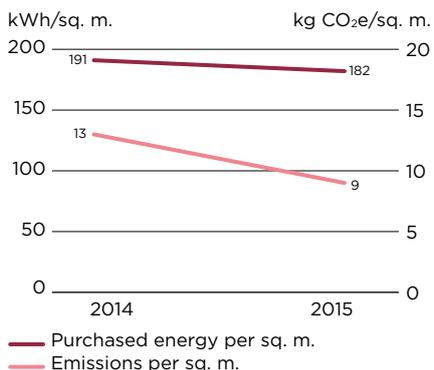
Solar cells were also installed as part of a large project at a property in Västra Frölunda. They generate 38,000 kWh per year.

Approximately 11 per cent of our property value now has environmental certification by at least one of the following: LEED, Miljöbyggnad or GreenBuilding. Efforts to further increase the share continue. During the year, we also joined the Fossil Free Sweden Initiative, launched by the Government. It provides us with excellent opportunities for influencing and helping promote environmental issues that are important to us and society. It’s a way that we can also help convince others to contribute to a fossil free society.

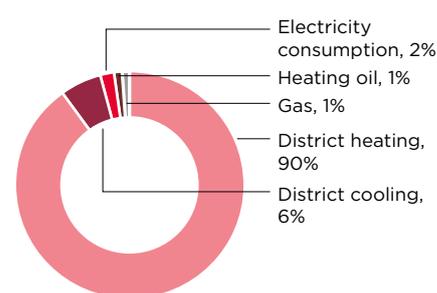
ENERGY CONSUMPTION



ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS PER SQ. M.



GREENHOUSE GAS EMISSIONS, 2015





**DIVERSITY (AND EMPLOYEES)**

We put a great deal of emphasis on gender equality and AllBright recognised us as one of Sweden’s most gender-equal listed companies. To continue this positive trend, we have created an equality plan and we survey our salary levels every three years. Even though we have a gender-equal organisation, we have efforts underway to create an even better balance in terms of age distribution and ethnic/cultural background. Some of the activities we have planned aimed at addressing these issues are further investments in our trainee program, participating in career fairs and more work on values, including an update of our recruitment policy.

Performance appraisals and skill development for all of our employees is carried out each year aimed at raising our level of expertise and motivation within the organisation. We offer training focussed on meeting the ever-increasing needs and requirements of our customers and society.

SUMMARY OF THE COMPANY

	2015		2014	
	Total number	Women	Total number	Women
Board of Directors	7	4	7	4
Management	11	5	11	5
Other Employees	91	49	84	46



**SOCIAL RESPONSIBILITY**

Being a member of society and helping make the areas around our buildings vibrant is important to Kungsleden. As a commercial property owner, we must take on more responsibility, which involves much more than just property management tasks.

Kungsleden strives to help create vibrant cities, where a higher level of safety makes areas more attractive.

We are proactive in helping make society safer and more inclusive and with that in mind, we have collaborated with Fryshuset since 2010. We participate in activities like mentoring for youth and sit on the jury for Sveriges Ungdoms-entreprenör – a meaningful initiative that inspires, supports and encourages youth to fulfil their dreams. In 2015, we, in collaboration with our subcontractors, implemented a project where eleven youth from Fryshuset were offered summer jobs within our property management organisation in Stockholm, Gothenburg and Malmö. It is a project we plan on continuing in 2016.

*“It’s important that industry starts to recognise the resources existing within our environmental program. There is an enormous amount of expertise to draw upon. It is satisfying that Kungsleden has realised this.”*

Lotta Lundberg, Head of the Industry Collaboration & Fundraising, Fryshuset



**BUSINESS ETHICS**

During the year, Kungsliden documented its corruption risks. Based on that information, we have determined that the main risks lie with external contacts and in our administration of large financial amounts. The management, development and transaction units have been identified as risk areas.

Since 2012, we have had a code of conduct in place and an ethics policy that all of our employees and subcontractors have read and are expected to comply with. In 2015, a special internal code of conduct was created and it will be implemented across the organisation in 2016. It clarifies such things as employee responsibility.



**HEALTH & SAFETY**

Health & safety is a prioritised area and for property management, we have created guidelines that our employees and subcontractors are expected to comply with. Each quarter, we conduct campaigns to remind about safety measures like snow guards on

roofs, anti-slip precautions, roof safety.

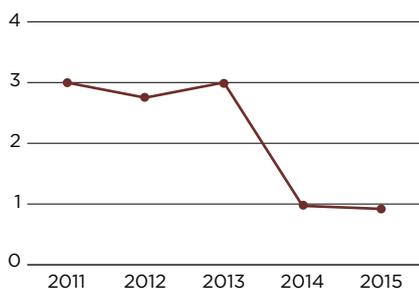
Kungsliden's absenteeism due to illness is low, which is something we are very proud of. We continually strive to lower it even further via a fitness subsidy of SEK 5,000 per employee, per year. We also have collaboration agreements in place with SATS and Nordic Wellness, which offer our employees low gym membership fees.

Besides ensuring the well-being of our employees, we also strive to provide our customers with safe, secure environments. During the year, one health & safety incident occurred. Premises at one location were evacuated when one of our tenants complained about building-related allergies. The cause was acceler-

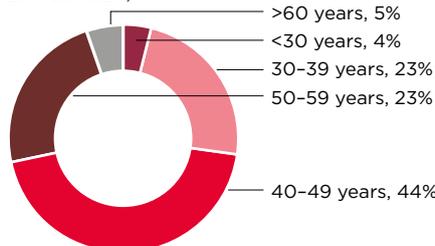
ated renovation efforts, where drying times in conjunction with a new flooring installation were not followed, resulting in a chemical reaction. The problem was immediately remedied and temporary premises were arranged for the tenant.



ABSENCE DUE TO ILLNESS, %

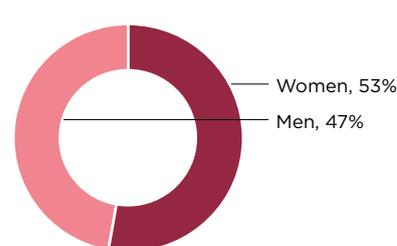


AGE DISTRIBUTION FOR SALARIED EMPLOYEES, %<sup>1</sup>



1. Only includes permanent employees

GENDER DISTRIBUTION, %



Read more about our sustainability efforts at [www.kungsliden.se/en/kungsliden/sustainability](http://www.kungsliden.se/en/kungsliden/sustainability). You will also find our GRI report there.

# KUNGSLEDEN'S SHARE

Kungsleden's stock has been listed on the NASDAQ OMX Nordic Exchange Stockholm, Mid Cap list, since 1999. Market capitalisation at the end of the year totalled SEK 11,011 million. During the year, Kungsleden's share rose by 5 per cent.

Kungsleden's share had a cautiously positive trend during 2015. The price paid at the beginning of year was SEK 57.50 and at year-end, the closing price was SEK 60.50, corresponding to an increase of 5 per cent. The lowest price was recorded on 8 June at SEK 52.75. The highest price recorded was on 18 February at SEK 69. The dividend paid in April 2015 was SEK 1.50 per share.

## SHARE CAPITAL AND TURNOVER

During the year, Kungsleden's share capital was unchanged at SEK 75,834,480. The total number of shares during the year was 182,002,752.

In 2015, 105 (96) million Kungsleden shares were traded with an aggregate value of SEK 6.4 (4.5) billion.

## SHAREHOLDERS

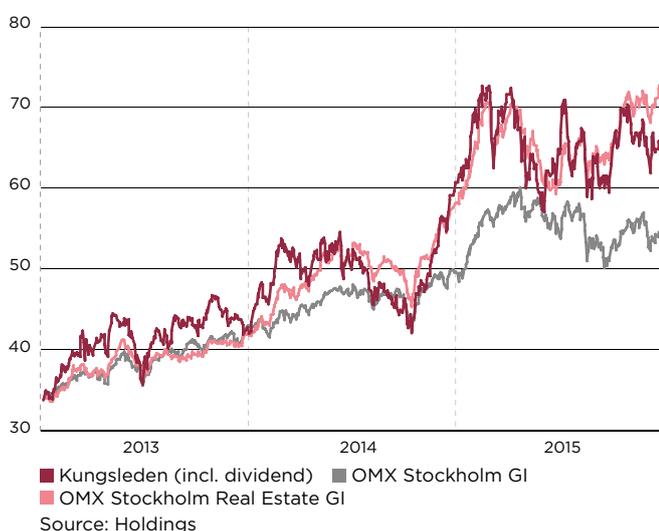
The number of shareholders at 31 December 2015 totalled 21,822 (18,663). The ten largest shareholders controlled 34.4 (34.3) per cent of equity and voting rights at year-end. The largest shareholder is Gösta Welandson and companies, whose holdings during the year increased to 13.7 (13.3) per cent.

The proportion of foreign shareholders at the end of the year was 35 per cent, and Swedish shareholders represented 65 per cent.

## DIVIDEND POLICY

The company's new dividends policy, which applies as of dividends for 2015, states that dividends should grow at the same rate of growth in profits from property management. In 2015, profits from property management increased by 32 per cent. For 2015, the Board of Directors proposes dividends of SEK 2.00 per share, which corresponds to an increase in dividends of 33 per cent compared to the prior year. The proposed dividend corresponds to just under 40 per cent of profits from property management.

TOTAL SHAREHOLDER RETURN 2013-2015, SEK

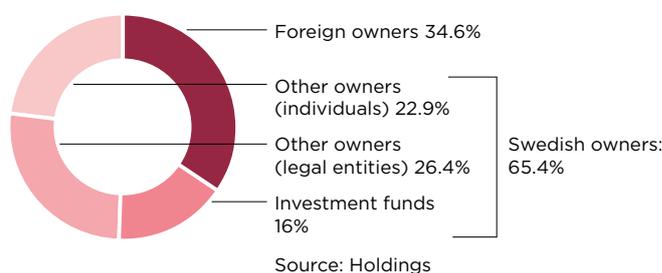


## KEY FIGURES, PER SHARE

	2015
Dividend, SEK	1.50
Total return on shares, %	9.7
Yield on shares, %	2.5
Profits from property management, SEK	5.31
Profit/loss for the period, SEK	2.78
Equity, SEK	51.28
EPRA NAV <sup>1</sup>	54.76
Cash flow from operating activities, SEK	-1.88

1. The definition of EPRA NAV is equity, with derivatives and deferred tax added back, divided by the number of shares at the end of the period.

## OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2015



## OWNERS AS OF 31 DECEMBER 2015

Largest shareholder	Number of shares	Share of equity, %
Gösta Welandson and companies	24,885,002	13.7
Länsförsäkringar Fonder	13,316,416	7.3
Olle Florén och bolag	4,925,665	2.7
Norges Bank Investment Management	3,533,228	1.9
SHB Fonder	3,295,234	1.8
Andra AP-Fonden	2,845,215	1.6
TR Property Investment Trust	2,592,366	1.4
Swedbank Robur Fonder	2,508,619	1.4
iShares (BlackRock)	2,496,378	1.4
DNB Fonder	2,221,282	1.2
<b>Total of 10 largest shareholders</b>	<b>62,619,405</b>	<b>34.4</b>
Board of directors and management	164,536	0.1
Foreign shareholders, other	54,418,614	29.9
Swedish shareholders, other	64,800,197	35.6
<b>Total</b>	<b>182,002,752</b>	<b>100.0</b>

# FIVE REASONS TO OWN SHARES IN KUNGSLEDEN

Kungsleden is listed on Nasdaq Stockholm Mid Cap. Since 2013, our business concept has been long-term ownership, active management, improving and developing commercial properties in selected growth regions like Stockholm, Gothenburg, Malmö and Västerås to deliver an attractive total return.

Already in 2015, we reached our long-term goals for 2017, which demonstrates that our strategy is effective and our organisation knows where it is headed.

## FIVE REASONS TO OWN SHARES IN KUNGSLEDEN

- 1. We have a clear strategy for generating growth with quality.** The persistent urbanisation trend verifies the soundness of our decision to concentrate the property portfolio to metropolitan regions and selected growth areas (clusters) and grow the portfolio in these areas. The service sector is growing, at the expense of the industrial sector. This increases the demand for office premises at available locations.
- 2. Our central concept is pursuit of a well-defined cluster strategy.** We collect properties at selected areas where there is healthy growth and momentum. They are highly accessible, near hubs and thoroughfares, with a good mix of office, retail and residential premises. Besides creating managerial synergies, it allows us to improve our offering to tenants via increased knowledge of the area, the ability to bring in more of the services that tenants are interested in and, with our local presence, form closer ties with existing tenants and prospective customers. We also become an influential voice in the community, able to help shape urban development plans along with how the area is profiled.
- 3. We are well prepared to, over time, achieve our goal of becoming Sweden's most profitable property company.** We have an experienced, scrupulous Board and team of senior executive who complement each other well. Our organisation is strong, with highly skilled, motivated employees who are goal-oriented and aligned with our strategy and business

*“The market is now starting to take notice of the company's new position”*

Gösta Carlberg, Analyst at Aktiespararen (journal)

*“All of us at Länsförsäkringar Fastighetsfond, regard Kungsleden as a company that is being transformed.”*

Peter Norhammar, Länsförsäkringar Fastighetsfond, which is Kungsleden's second largest shareholder.

model. This helps ensure that we have a stable cash flow over time. In 2015, our entire organisation focused on our twelve most important business processes in a project called Kungsleden's Flow. Efforts here are aimed at achieving world-class operational efficiency. Since autumn 2015, the business processes have been implemented throughout the organisation.

- 4. We have a portfolio of project properties currently in the early stages of development. Over time, they will generate value for the company.** These are existing properties that are being adapted based on intended use, zoning and rights of tenant ownership. This, along with several exciting sustainability projects (where we are, for example, implementing new technology to lower energy costs and improve indoor environment) is raising the quality of our properties, which will also increase their value over time.
- 5. Our transformation has been exhilarating.** Comprehensive efforts have transformed us from a transaction-driven company to our present status as a long-term property owner and manager. We already see the effects of our change in strategy, having achieved our goals for 2017 far ahead of schedule. Now our journey continues to become Sweden's largest, and most profitable, property company.

We have also chosen to affiliate with the Building Material Assessment Criteria, a system for assessing building materials from an environmental perspective. The system makes it easier to select building products that do not contain hazardous chemicals or have a negative impact on the quality of the indoor air.

The development of new materials is an area that we are monitoring closely. By using new, modern materials and techniques we can, as a property owner, cost-effectively reduce energy consumption in our buildings, which is not only good for us but also for society at large.



## NEW SUSTAINABILITY SOLUTIONS

For us, it is important to stay at the forefront and challenge the property sector in everything we do. This includes sustainability. For example, our managers test and evaluate new technologies that help to increase the sustainability of our buildings and ensure that we meet our goals.

One new solution, SmartLight, was tested at a property in Finnslätten, Västerås. Prisms are used to strengthen the natural daylight and in this way, help reduce the need for electric lighting during the day. The prisms have proven to be so effective that there is basically no need for electric lighting during the day, regardless of the weather.



## *Solar panels as sun screen*

For a property owner like Kungsleden, our managers, technicians and environmental organisation focus much of their attention on energy consumption. With around 300 properties in the portfolio, energy consumption represents a large portion of the costs, both environmentally and in our financial statements. Lowering them benefits society at large, and our bottom line.

One project recently implemented was the installation of solar cells at our building, Älvsborg 178:8 in Gothenburg. They were attached to the façade, like a sun screen, which kept indoor temperatures low, thereby lowering the need for cooling, while also collecting the sun's energy. It was an installation of 42 kW, estimated to generate 38,000 kWh per year, which is the equivalent of what seven apartments consume. The project is generating an annual return of 12 per cent, with estimated payback period of eight years.

Älvsborg 178:8, Gothenburg

# FINANCING THAT CREATES OPPORTUNITIES FOR EXPANSION

In 2015, we managed to further reduce our interest expenses by acquiring new loans, refinancing existing loans and entering into new interest rate hedging agreements along with early redemption of old interest rate swaps with a high coupon rate. All of this has given Kungsliden a lower average interest rate for the coming years and made the company more resilient to interest rate fluctuations. Besides creating the conditions for the company's continued growth (by lowering capital and borrowing costs), financing activities will also focus on stabilising the company's earnings over time.

## EQUITY

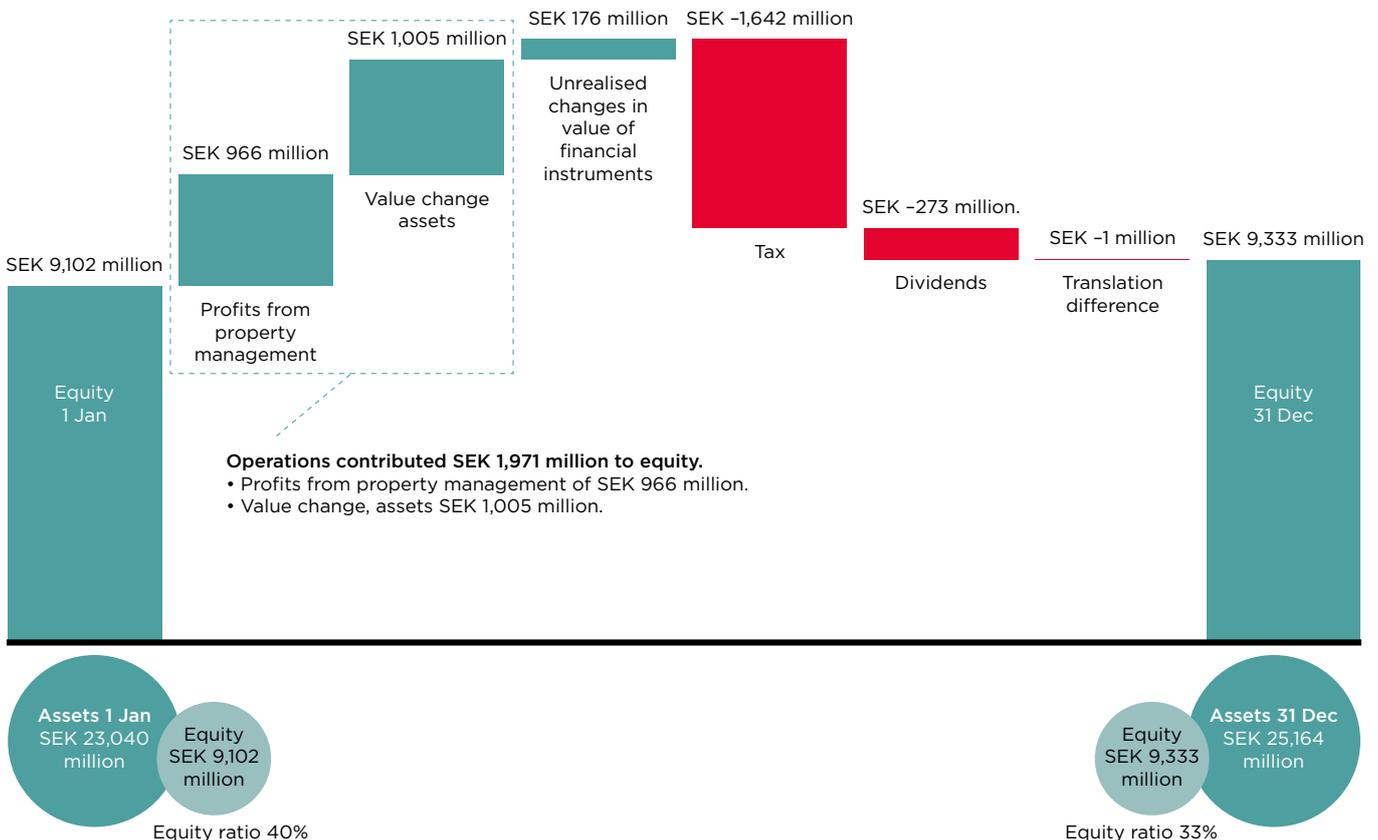
Kungsliden's goal is for its equity ratio to be at least 30 per cent. At the turn of the year, the equity ratio was 33 (40) per cent. During the year, equity increased to SEK 9,333 (9,102) million and return on equity was 5.5 (-8.6) per cent. Excluding the effect of the provision for tax rulings in the fourth quarter, the return was 18.3 per cent. The goal is for Kungsliden to, over time, achieve a higher return on equity than its competitors (other listed property companies of comparable size).

Kungsliden's liquidity remains good. Tax payments equal to SEK 1,306 million were made during the year. They were associ-

ated with tax rulings pertaining to years 2004–2007. Provisions and payments were made in the fourth quarter of 2015. The debt volume increased by a net amount of SEK 5,781 million due to net property acquisitions and scheduled loan amortisation. Cash and cash equivalents at the end of the year amounted to SEK 441 million compared with SEK 1,437 million at the beginning of the year. On 31 December, the available liquidity including unutilised overdraft facilities and the unutilised portion of the syndicated loan agreement was 1,057 (3,230) million.

The majority of liquidity was in unutilised credit that amounted to SEK 616 (1,793) million.

## EQUITY AND FINANCIAL POSITION



### MATURITIES EXTENDED IN 2015

Interest-bearing liabilities are Kungsleden's most important form of financing, representing 64 per cent of the company's financing as of 31 December 2015. The nominal amount of the loan portfolio was SEK 17,456 (11,675) million. The portfolio primarily consists of credit agreements with banks and bond loans issued on the capital market. Kungsleden's bank financing is based on bilateral agreements with individual banks and three syndicated loans with multiple banks. Thanks to our access to new loans with good terms, Kungsleden is able to acquire new properties and invest in/develop its existing properties. Kungsleden strives to have a medium-term maturity for its loans, and an even distribution of the maturity structure. The average remaining maturity on utilised loans as of the end of the year was 3.6 (2.6) years.

As collateral for Kungsleden's bank loans, there are liens on property, stocks, intra-Group promissory notes and guarantee commitments. In addition, certain loan commitments contain obligations such as interest coverage ratio, loan-to-value (LTV) and equity ratio. As of 31 December 2015, all obligations had been fulfilled. Loan-to-value (LTV) measured as interest-bearing liabilities in relation to property assets was 64 (60) per cent. For loans where collateral was pledged, i.e. all loans other than bond loans for a nominal amount of SEK 1,075 million, the LTV was 60 (49) per cent.

### REFINANCING AND NEW BORROWING

At the end of 2015, the Gärdet/Frihamnen acquisition was financed via a new loan agreement for approximately SEK 1.8 billion with maturity of six years. A number of other existing loan agreements were refinanced during the year, thereby lengthening duration of the loan portfolio and lowering the average interest rate. Refinancing has also resulted in "normalisation" of the LTV, based on the positive value adjustment that occurred in the property portfolio.

### FINANCIAL INCOME AND EXPENSES

Net financial items for the full-year 2015, excluding the profit

from associated companies, was SEK -497 (-660) million.

Interest expenses have fallen with the renegotiation of existing loan agreements and falling market interest rates (STIBOR 90-days). The average interest margin for borrowing, including accrued arrangement fees and commitment fees fell by approximately 0.5 percentage points.

Additionally, Kungsleden took steps to reduce the burden of old, expensive interest rate swaps, while simultaneously increasing interest rate hedging henceforth. All of this contributed to lowering the average interest rate by around 1.3 percentage points. Because of this, Kungsleden's overall average interest rate fell significantly during the year and as of 31 December 2015, it was 2.7 (5.0) per cent.

### NEW LEVEL OF FIXED INTEREST STABILISES NET INTEREST EARNINGS

Kungsleden uses interest rate derivatives in the form of interest rate swaps to limit the impact that changes in short-term interest rates has on interest expenses. The Board adopts guidelines for the percentage of debt that can have fixed interest, for each range of maturity. With interest rate swaps, the company obtains a variable Stibor 90-day rate and pays fixed interest over longer terms.

During the year, old interest rate swaps were redeemed for a total nominal amount of SEK 3.8 billion. In conjunction with this, new interest rate swaps were acquired for a nominal amount of SEK 7.5 billion, at the current interest rate. At the end of the year, the nominal amount of the interest rate swaps was SEK 12,030 (6,825) million. Consequently, 69 per cent of interest-bearing liabilities as of 31 December have a fixed interest term that is longer than one year. The average fixed-interest period for loans and interest rate swaps was 3.5 (2.8) years, which changed due to these restructuring efforts.

### SENSITIVITY ANALYSIS

Interest rate swaps are measured at market value on an ongoing basis in accordance with current accounting standards and

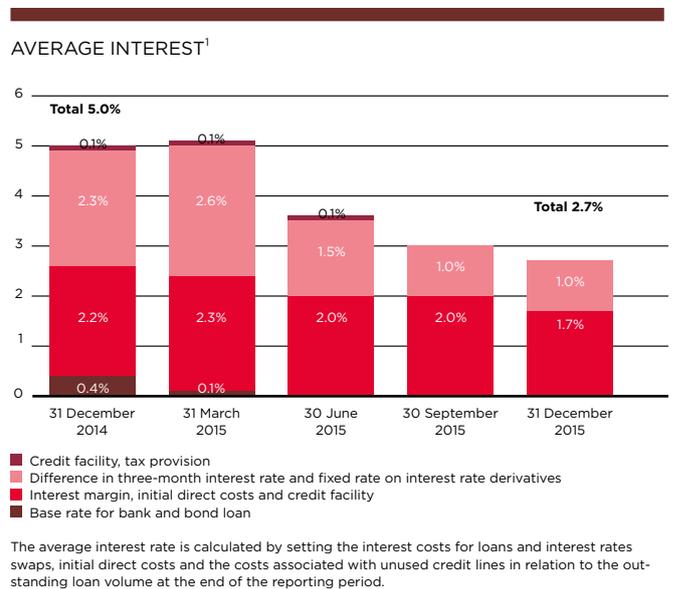
#### MATURITY STRUCTURE, LOANS AND INTEREST RATE DERIVATIVES

As of 31 December 2015, SEK m	Utilised credits	Unutilised credits	Total credits	Interest rate derivatives <sup>1</sup>	Average interest rate for derivatives, %	Average remaining fixed-interest term, years
2016	1,166	250	1,416			
2017	375	366	741	910	0.0	
2018	3,700		3,700	1,000	0.2	
2019	5,264		5,264	1,000	0.5	
2020	5,119		5,119	2,770	0.6	
2021	1,832		1,832	1,800	0.8	
2022				3,500	1.4	
2023					0.0	
2024				1,050	4.6	
<b>Total</b>	<b>17,456</b>	<b>616</b>	<b>18,073</b>	<b>12,030</b>		<b>3.5</b>
<b>Average remaining maturity, years</b>	<b>3.6</b>		<b>3.5</b>			

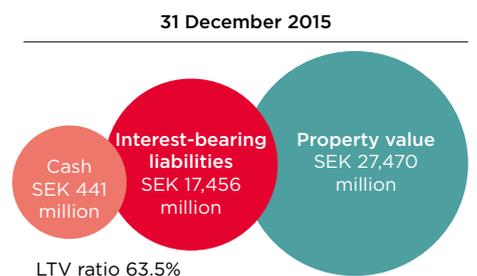
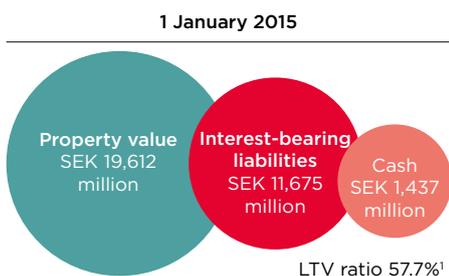
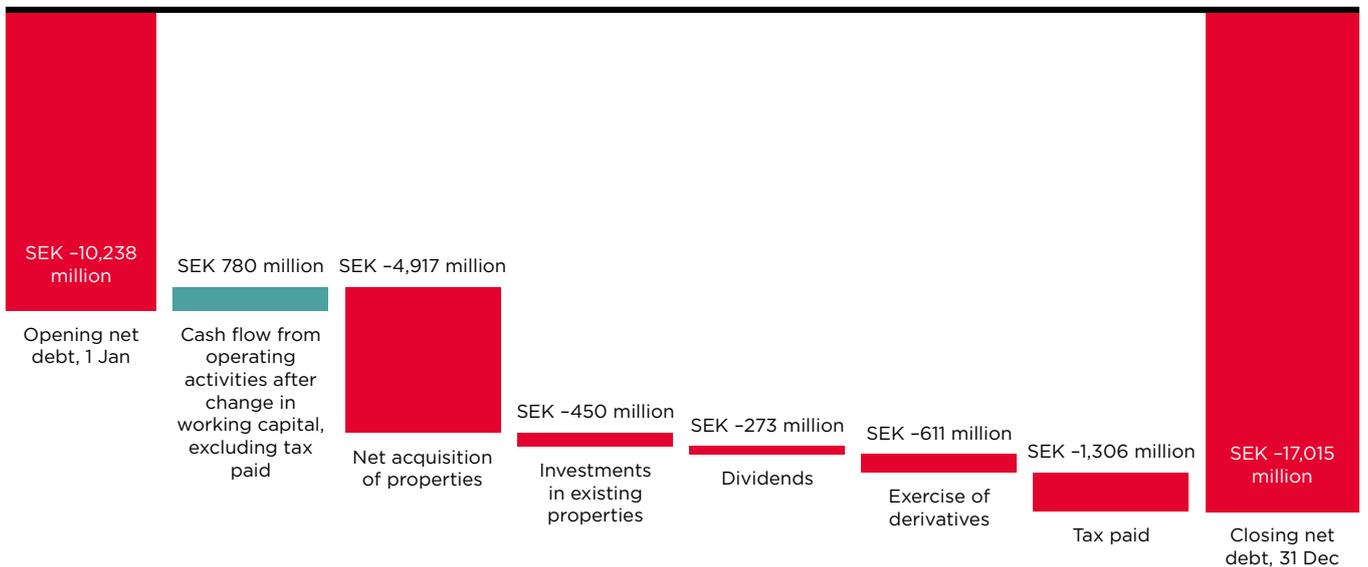
1. Kungsleden's interest rate derivatives enable the company to obtain variable interest rates and pay fixed interest over longer periods of time. Kungsleden has entered into derivative contracts with 1 year interest rate floors that mature in 2016 totalling SEK 3,880 million in nominal terms, with strike 0%.

changes in value are recognised in the income statement. If the market interest rate deviates from the agreed rate in the swap agreement, surplus value or undervalue arises in the swap portfolio, which is equivalent to the market value. The market value is recognised as a liability when the value is negative and as an asset when the value is positive. A change in the market interest rate of +/-1% point changes the swaps' market value by SEK +618 million/SEK -658 million.

As of 31 December 2015, the negative market value of financial instruments was SEK -347 million compared with SEK -1,134 million at the beginning of the year. The negative market value decreases gradually through the current interest payment of the fixed rate in the swap agreements, which is recognised as an interest expense and is charged to the profits from property management. Of the value change of SEK 787 million, SEK -48 million is an effect of the decline in long-term market interest rates, which was counterbalanced by the regular interest payments on the swaps, which lowered the negative market value (undervalue) by SEK 224 million during the period. There was also early redemption of old interest rate swaps, which lowered the negative market value (undervalue) by SEK 611 million.



**CHANGE IN NET DEBT DURING THE YEAR**



1. Excl. loans Nordic Modular Group.

# RISK OVERVIEW

	DEFINITION	MANAGEMENT
FINANCING RISK	The risk of funding not forthcoming, or only being available on unfavourable terms.	The finance policy indicates the proportion of funding which may come from an individual lender. The policy also states the maximum proportion of loans allowed to fall due for refinancing within one year. These guidelines combined with Kungsliden's continuous work on the maturity structure of the loan portfolio, limit Kungsliden's financing risk. The work takes place through ongoing discussions with existing and potential lenders as well as using alternative forms of financing in the capital markets. For the purpose of limiting financial risk, the average maturity of the total borrowing should not be less than 2 years in accordance with the finance policy.
INTEREST RATE RISK	This is the risk that a change in the market interest rate with impact earnings or cash flow. Interest rate risks arise in Kungsliden's business when financing is arranged with short maturity times. This causes uncertainty about the size of future financing costs.	Kungsliden carefully considers its level of fixed interest, among others things, to avoid paying the costs of any early redemption of fixed loans when property is sold or in conjunction with refinancing. In order to limit interest rate risk from changes in the market interest rate, interest rate derivatives are used in the form of interest rate swaps. An interest rate swap is an agreement between two parties to exchange interest payments with each other. In all of its swaps, Kungsliden has opted to pay a fixed rate in order to obtain a variable rate equal to Stibor 90 days with an agreed maturity. This thereby increases the fixed-rate period and the predictability of regular interest expenses.
LIQUIDITY RISK	The risk of not having access to liquid funds or credit facilities to meet current payment obligations	The size of the liquid financial assets and unutilised credit facilities should meet the need of transaction liquidity and demand for a liquidity reserve. At all times, liquidity must represent at least three months of payments, including interest payments and loan rollovers. Excess liquidity is primarily used to redeem interest-bearing loans as this produces better returns than investing money with credit institutions.
TAX RISKS	Changes to the regulations that govern corporate and property taxes, such as changing the deductibility of the interest or changes to the corporate tax rate, may affect the prospects for Kungsliden's operations both positively and negatively. Even a changed application to the existing rules and regulations, may be of great importance for the property sector and therefore for Kungsliden. <sup>1</sup>	Kungsliden works proactively when managing the Group's tax risks through clear integrated procedures and controls as well as working closely with other finance functions, management and the transaction team. The Group's tax risks and processes for these are communicated continuously between the Board and the Audit Committee. Complex tax issues are analysed together with external advisers. Property tax, which is based on the taxable value of property, is dependent on political decisions. This applies to the calculation base, the assessed value and the tax rate. Property taxes are normally passed on to tenants for leased space, while the tax on vacant premises is borne by the property owner.
RISKS IN PROPERTY VALUE CHANGES	Kungsliden reports its properties at fair value (market value), which has a direct impact on earnings and financial position. The value of the properties is affected by contract and customer structure as well as Kungsliden's own ability to improve and develop properties. External factors affecting supply and demand also impact the value, such as the state of the economy, interest rates, debt financing and yield requirements.	Kungsliden works actively with risk diversification in terms of premises and tenant categories, geography and contract size. An average contract length of five years means that changes to market rents will not have any immediate effect on rental revenue. The goal is a balanced portfolio risk with a limited influence from external factors. The valuation risk is limited by each property being valued individually, both internally and externally. Kungsliden's extensive transaction experience means that the valuation risk is limited.

1. For additional information about Kungsliden's tax situation and see Notes 3 and 10 or kungsliden.se

## SENSITIVITY ANALYSIS CHANGES IN VALUE ON PROPERTY

	-10%	-5%	0%	5%	10%
Change in value before tax, SEK m	-2,747	-1,374	-	1,374	2,747
Equity ratio, %	27.6	30.5	33.1	35.6	37.9
LTV (loan-to-value), %	70.6	66.9	63.5	60.5	57.8

The table shows Kungsliden's earnings and financial position if the property value were to change +/- 5-10 per cent.

# CORPORATE GOVERNANCE REPORT

Corporate governance is an important tool used in our efforts to build long-term shareholder value. With a clear and transparent framework for accountability, reporting and monitoring, Kungsliden is focusing on the most important aspects and thereby limiting risks in operations.

As a listed company, Kungsliden has corporate governance that meets the requirements of the Companies Act, the Swedish Code of Corporate Governance (the Code) and the NASDAQ OMX Nordic Exchange Stockholm's regulations for issuers.

The company applies the principles of corporate governance that the AGM has adopted and that are incorporated in the Articles of Association and in the instructions for the Nomination Committee. These documents are available at Kungsliden's website. In addition to these, a series of instructions also applies for corporate governance as decided by the Board, including the rules of procedure for the Board, CEO instructions, instructions

for financial reporting to the Board, instructions for the Board's committees, code of conduct, finance and communications policy.

## IMPLEMENTATION OF THE CODE

The Code applies to all Swedish companies whose shares are listed for trading on a regulated market. In accordance with the principle of the Code "comply or explain", Kungsliden reports any deviations from the Code and justifies such deviations in its annual corporate governance report. In 2015, Kungsliden has not deviated from the Code in any way.

## CHAIRMAN'S COMMENTS

*In 2013, the Board adopted a new business strategy for Kungsliden. One of the goals was for the company to have a larger property portfolio with a better structure by 2017. For three years now, the company has diligently worked to transform what was then a sprawling portfolio with limited potential, into what it is today. During the 2015 financial year, we achieved our restructuring goals – far ahead of schedule.*



Since 2013, Kungsliden has acquired new, strategic properties for SEK 13.4 billion and divested non-strategic properties and other assets (including its subsidiary, Nordic Modular Group) for SEK 4 billion. At present, the offices segment represents nearly two-thirds of the property value and almost 60 per cent of the holdings exist in major metropolitan regions, with a particular emphasis on Stockholm. Kungsliden now has a property portfolio producing strong, steady earnings. It has all of the necessary characteristics for generating a competitive total return over time.

We have also gotten a grip on the company's historically high financing costs by being proactive in renegotiating loans and restructuring the interest rate swap portfolio.

It was in our favour that conditions in the market have been good during this time, with a high transaction volume, falling interest rates and easy access to financing. But, as always, what counts most in the end is success in identifying the right transactions. Kungsliden's executives, and entire organisation must be commended for their success in carrying out this comprehensive process of change. They achieved this strategic transformation despite the burden of ongoing tax cases that the company has struggled with in recent years. Now, as of December 2015, all of the drawn-out tax cases have been concluded.

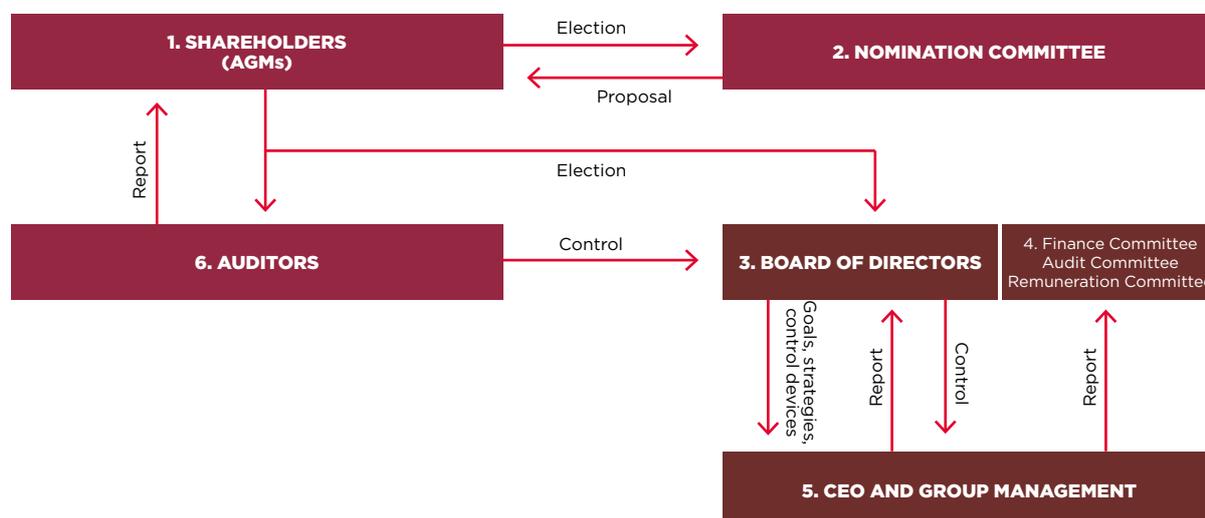
In her comments, our CEO, Biljana Pehrsson, explains how Kungsliden has now completed the first stage of its strategic journey. What role has the Board played in that process? Having

first designed the initial strategy, the Board has thereafter, throughout this first stage, had great influence over the strategy's concrete implementation, continually balancing the expansion rate against the financial risk. All major acquisitions and divestitures were thoroughly examined and approved by the Board in advance. For nearly two years, the composition of the Board has remained unchanged. We have succeeded in building up a comprehensive knowledge base regarding the company's strengths, weaknesses, opportunities and risks. All Board members have actively participated and contributed to these discussions, complementing each other well with their unique expertise and perspectives in the areas of finance and property.

Since, at year-end 2015, Kungsliden was ahead of schedule in meeting its goals, the Board took upon itself the task of setting the direction for the next stage in the company's journey to become one of Sweden's leading property companies. This resulted in a new business plan for the period until 2020. It is presented in more detail elsewhere in this annual report. The Board has continued applying its prior-established models for financial planning in order to study the impact that various strategies and negative scenarios (up until 2020) would likely have on capital and liquidity. Based on that, new financial targets were formulated and presented early in 2016.

During the first stage, 2013–2015, our theme has been expansion with financial balance. In the next stage, financial soundness will still be the guiding star, but focus will switch to value creation in our operational activities – i.e. achieving strong financial results with our streamlined property portfolio. Our efforts to further sharpen our holdings will also continue via divestiture, selective acquisitions and more investments in projects. Continual fine-tuning of the property portfolio is the only way to build and secure long-term, sustainable shareholder value.

Göran Larsson, Chairman of the Board



## 1. ANNUAL GENERAL MEETING

The AGM considers the issues arising from Kungsliden's articles of association and the Companies Act. Notice of the AGM is given on the basis of Kungsliden's articles of association. The AGM decides in accordance with the voting requirements as specified in the Companies Act. One shareholder in Kungsliden, Gösta Welandson with companies, owns shares directly or indirectly that represent at least one-tenth of the voting power of all shares in the company. Gösta Welandson with companies as per 31 December, 2015 had a holding of 13.7 per cent of the company's shares and votes.

The AGM for the financial year 2014 was held on 23 April, 2015. The AGM resolved on profit distribution, the appointment of directors, remuneration to directors and auditors, guidelines for remuneration to senior executives, the election of the Nomination Committee, and a change in the Articles of Association so that it is possible to a new class of shares (preference shares). The Chairman and the company's CEO presented information about the business, the work done by the Board and management, as well as events that occurred in 2014. The minutes of the AGM are available on Kungsliden's website.

The AGM for the financial year 2015 will be held on 28 April, 2016 at Kungsliden's head office, located at Warfvings väg 31 in Stockholm. More information about the AGM is available at the end of this Annual Report and on Kungsliden's website.

Notice of the AGM will be available in English. The Board with respect to Kungsliden's ownership and what is economically viable has concluded that any other material for the AGM will only be produced in Swedish. For the same reason, remote participation or simultaneous interpretation of negotiations from the AGM will not be offered. After conducting the AGM, an audiovisual recording of the CEO's speech and the minutes of the AGM will be available on Kungsliden's website.

Read more about Kungsliden's AGM at:  
[www.kungsliden.se/agm](http://www.kungsliden.se/agm)

## 2. NOMINATION COMMITTEE

The Nomination Committee submits proposals for the election of the Chairman of the AGM, the Board and its Chairman, as well as fees and other remuneration to Board Members. The Nomination Committee also proposed the election of auditors and fees for the audit. The Nomination Committee must look after the interests of all shareholders. The instructions for the Nomination Committee's work is available on the company's website.

The Nomination Committee members are elected at the AGM for a period extending until the next AGM. The Nomination Committee must consist of at least three and at most five members. Three of the members must represent the shareholders who, as of 31 January are among the largest shareholders (in terms of votes) and who also wish to participate in the nomination process along with the Chairman. If any significant changes occur to the ownership structure, the composition of the Nomination Committee can be changed to reflect this. At least one member must be independent of the company's shareholders in the manner specified in the Code. The composition of the Committee is published as soon as the Nomination Committee is appointed.

The 2015 Annual General Meeting saw the election of Eva Gottfridsdotter-Nilsson, Göran Larsson, Krister Hjelmstedt and Martin Jonasson as members of the Nomination Committee. Göran Larsson is also part of the Nomination Committee as Chairman of the Board. Eva Gottfridsdotter-Nilsson was appointed as the Chairman of the Nomination Committee.

Shareholders wishing to submit proposals to the Nomination Committee can do so by sending an e-mail or letter to the Committee. The Nomination Committee's proposal and statement are presented on the company website no later than in connection with the issuance of the notice.

### Nomination Committee

#### Composition in March 2016

- Eva Gottfridsdotter-Nilsson, nominated by Länsförsäkringar Fund Management, Chairman

- Göran Larsson, nominated by Gösta Welandson with companies, as Chairman of the Board at Kungsliden
- Krister Hjelmstedt, nominated by Olle Florén and companies
- Martin Jonasson, nominated by the Second Swedish National Pension Fund.

For more information about the nomination committee:  
[www.kungsliden.se/nomination-committee](http://www.kungsliden.se/nomination-committee)

### 3. BOARD OF DIRECTORS

The composition of the Board is based on it being able to actively and effectively support management in the development of Kungsliden. The Board must monitor and govern operations. Expertise and experience in areas such as property business, finance, business development and capital market issues are particularly important assets of the Board.

According to the Articles of Association, the Board must consist of a minimum of three and a maximum of eight members with a maximum of two deputies. The Board Members and deputies are appointed at the AGM until the end of the next AGM. The following individuals were reelected at the 2015 AGM: Göran Larsson, Charlotte Axelsson, Joachim Gahm, Liselotte Hjorth, Lars Holmgren, Kia Orback Pettersson and Charlotta Wikström. No deputies were elected. The AGM elected Göran Larsson as Chairman. All Board Members are considered to be independent of the company and its management, while one of the members is considered dependent in relation to major shareholders according to the definitions of the Code.

#### The duties of the Board of Directors

The Board conducts its work based on the rules of procedure that are set annually. The rules of procedure regulate the Board and the CEO's responsibilities, the duties of the Chairman, how and when meetings are to take place, and the agenda for these meetings. The Board also adopts instructions for the work of the Board Committees and specifies the procedures for financial reporting to the Board.

The Board must meet at least nine times a year. Each meeting follows an approved agenda. Supporting documentation for each proposal on the agenda is sent in advance to all members.

The rules of procedure also dictate that the Board must ensure that Kungsliden's auditors personally meet with the Board at least once per year to present its findings from the audit of the company and its assessment of the company's internal control.

*It is possible to submit proposals to the Board by sending an email to: [styrelsen@kungsliden.se](mailto:styrelsen@kungsliden.se)*

#### Responsibility of the Board of Directors

The Board is responsible for ensuring that the Company observes the Companies Act, the rules for listed companies (including the Code) and other ordinances and laws, statutes and internal control devices. The Board decides on strategies and objectives, internal control devices, larger property acquisitions and divestiture, other major investments and financing. The Board is responsible for continuously monitoring the business and ensuring that the guidelines, organisation and management are

appropriate, that consideration is given to sustainability issues and that the internal controls are sound. The Board is also responsible for evaluating operational management and succession planning.

The Board works to ensure a high and consistent quality of financial reporting. This is achieved through instructions for financial reporting to the Board, through the communications policy and by taking into account any observations, recommendations or proposals from auditors or the audit Committee.

The annual, interim and year end reports are discussed and approved by the Board. The Board has delegated the following tasks to corporate management: issuing interim reports for the third quarter of 2015 and first quarter of 2016 and ensuring the quality of financial presentations and press releases.

#### Chairman's responsibility

The Chairman heads the work of the Board and must ensure that Board decisions are implemented. The Chairman represents the company in owner-related issues.

The Chairman has an ongoing dialogue with the CEO and is responsible for other Board Members receiving the information and evidence they need to make informed decisions.

### 4. BOARD COMMITTEES

From its members, the Board has set up committees for Finance, Audit and Remuneration that are responsible for dealing with issues in each individual area. The work is based on instructions that have been drawn up for each Committee. The Board appoints members from within the Board to these committees.

### 5. GROUP MANAGEMENT

Corporate management consists of the Group management team, which as of March 2016 is comprised of the company's CEO, Deputy CEO/Chief Financial Officer, Deputy CEO/CIO, Head of Property Development, Regional Managers, Head of Marketing and Communications and Head of Legal. They are responsible for their individual areas within Kungsliden and preparing, together with the CEO, reports for the Board. The CEO takes decisions on operating activities that fall within the scope of the CEO's instructions, following consultations with Group management.

#### Chief Executive Officer

Kungsliden's CEO is responsible for the practical management and coordination of operations. The CEO carries out this work on the basis of the CEO instructions, which are issued annually by the Board. The CEO's instructions state that the CEO is responsible for the company's management, Board reporting, and issues requiring decisions by or application to the Board, such as the determination of interim and annual reports, decisions on major purchases, sales, major investments or capital allocations, raising larger loans or guarantees above a certain level.

### 6. EXTERNAL AUDITORS

The external auditors audit the Board and the CEO's management of Kungsliden and ensure financial statements are prepared in accordance with the applicable regulations. KPMG AB has

been appointed as auditor of the parent company for the period up until the AGM in 2016. Authorised Public Accountant George Pettersson is chief auditor. In addition to the audit, KPMG has in recent years also provided advice on transactions, taxation and administration. Fees are paid according to an approved account. In 2015, the auditors' fees in the Group were SEK 3 (3) million.

#### Work conducted by the Board of Directors during 2015

The Board convened eleven times in 2015. In addition, meetings were held by correspondence on six occasions in connection with buying, selling and financing issues. Attendance at Board meetings is detailed below. Included among the matters the Board considered were Kungsliden's strategy, goals, business plan, market, organization external reporting, purchase and sale of property, investments in existing properties, valuation of properties, raising loans and other financing issues, proposal of change in the Articles of Association so that it is possible to issue preference shares, sale of the remaining share in the associated company, Nordic Modular Group, tax situation and principles for variable remuneration. At the Board meetings, the company's CEO, Deputy CEO/Chief Financial Officer and Head of Legal, who is also the secretary to the Board, were all present.

#### Finance Committee

The Finance Committee provides the work on financing with a special forum. The Committee is responsible for providing the Board with proposals on financing issues, financial goals in the short and long term, issues concerning the company's financial risks, hedging activities and other tasks within the scope of the company's finance policy.

The Finance Committee that was elected at the inaugural meeting of the Board consists of Joachim Gahm (Chairman), Liselotte Hjorth and Lars Holmgren. The Committee met on five occasions in 2015. At the meetings, Kungsliden's CEO, CFO and Financial Manager were present.

#### Audit Committee

The Audit Committee provides the work of accounting and auditing with a special forum. The Committee works with Kungsliden's internal monitoring and control systems and quality assurance of external financial reporting. The Audit Committee also assists the Nomination Committee in the work to propose the appointment of auditors as well as proposals on audit fees.

The Audit Committee that was elected at the inaugural meeting of the Board consists of Göran Larsson (Chairman), Charlotte Axelsson and Lars Holmgren. The Committee met on five occasions in 2015. At the meetings, Kungsliden's Chief Financial Officer, Financial Manager and the company's external auditors were all present.

#### Remuneration Committee

The Remuneration Committee makes proposals to the Board regarding employment terms for the CEO, frameworks for remuneration to senior executives and principle issues relating to pensions, salaries, allowances, benefits and severance pay. The Committee works on the basis of the guidelines for remuneration to senior executives that the AGM has determined.

The Remuneration Committee that was elected consists of Charlotta Wikström (Chairman), Göran Larsson and Kia Orback Pettersson at the inaugural meeting. The Committee met on three occasions in 2015. Kungsliden's CEO attended the meetings.

#### Evaluation of the work done by the Board

The Board conducts an annual evaluation of its work methods and procedures. The evaluation aims to ensure the proper functioning of the processes for information gathering, reporting, analysis, planning and decision making. The evaluation also aims to ensure that the Board has the necessary skills at its disposal. The results of the evaluation are reported to the Nomination Committee and form the basis for the nomination process.

The 2015 evaluation was assisted by Nordic Investor Services, an external consulting firm, which, for several years has offered Board evaluation services to Kungsliden's Board. The 2015 evaluation consisted of web-based questionnaire tailored to the company's operations. A number of key areas were reviewed. The most important were composition of the Board and its expertise, the dynamics within the Board, Kungsliden's continued development with a focus on strategy and the board's future challenges. The results were compiled by Nordic Investor Services and presented by the Chairman of the Board at the December Board meeting. The results show that the Board is working efficiently, with broad experience and a solid foundation of expertise. The climate is open and there is a high level of trust among Board members. All Board members are working efficiently and showing much enthusiasm for their roles.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2015		Board of Directors	Finance Committee	Remuneration Committee	Audit Committee
Göran Larsson	○	11/11		3/3	○ 5/5
Charlotte Axelsson		10/11			5/5
Joachim Gahm		10/11	○ 5/5		
Liselotte Hjorth		11/11	5/5		
Lars Holmgren		10/11	5/5		5/5
Kia Orback Pettersson		11/11		3/3	
Charlotta Wikström		10/11		○ 3/3	

○ - Chairman of the Board/Committee

### Remuneration to the Board

Fees for the Board are in accordance with a resolution adopted at the AGM.

APPROVED FEES AGM 2015 (SEK)	Chairman	Board Member
Board of Directors	450,000	200,000
Committee	30,000	30,000

### Remuneration to senior executives

The AGM annually adopts guidelines for remuneration and other terms of employment for senior executives. According to the guidelines adopted at the AGM 2015, Kungsliden shall apply remuneration levels and other conditions that are necessary to recruit and retain management with a high level of competence and capacity to achieve the set goals. Remuneration must motivate senior executives to do their utmost to safeguard the interests of shareholders.

Remuneration must therefore be competitive, as well as being simple and measurable. Remuneration of senior executives should normally consist of a fixed and a variable component. The variable portion shall be based on performance of the senior executive in relation to pre-determined targets in simple and transparent structures and with a pre-determined cap.

The fixed remuneration for senior executives shall be competitively set and based on expertise, responsibility, experience and performance. Variable remuneration for corporate management shall normally fall within the range of 25–75 per cent of the fixed salary and based on the senior executive's performance in relation to pre-determined targets for the company and each business area/region's earnings level.

The amount of remuneration paid in 2015 is detailed in Note 7. The proposed guidelines for remuneration and other employment terms, will be presented to the 2016 AGM. They include a change in how variable remuneration is calculated for the CEO and Deputy CEOs, who may, as proposed, receive maximum variable remuneration equal to 100 per cent of their fixed salary. To encourage the CEO and Deputy CEOs to own shareholdings in the company, the following applies: when outcome is 100 percent, half of the variable remuneration is used to acquire shares in Kungsliden. When the outcome is less than 100 per cent, the maximum amount of variable remuneration is 75 per cent, without any requirement on acquiring shares. According to the guidelines that will be proposed to the

AGM in 2016, the maximum remuneration expense is estimated at SEK 13 million, not including social security contributions. This amount is based on meeting all goals such that maximum variable remuneration is earned.

### INTERNAL CONTROL AND RISK MANAGEMENT

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

The following describes responsibilities pertaining to the internal controls for financial reporting.

#### Control environment

The Board has overall responsibility for the company's internal control. The CEO has ongoing responsibility to ensure that internal control is maintained. Kungsliden's internal control rests on the control environment that the Board and management rely on, as well as decision-making channels, authorities and responsibilities that have been communicated within the organisation.

#### Risk assessment

An essential element of internal control is to obtain a clear picture of the risks of errors arising in the external reporting and ensuring that an organisation and processes are in place to manage these risks. Kungsliden works continuously and actively to identify, assess and manage the risks that the company faces in its financial reporting. Kungsliden is a process-oriented company and integrates risk assessment routines into its business processes.

An assessment of the risk of errors in financial reporting is conducted annually for each line of the income statement, statement of financial position and cash flow statement. For the items that are essential and/or have an increased risk of errors, processes in place to minimise this risk. The processes not only apply to the actual financial processes, but also include, among other things, business controls, business plan processes and IT systems.

One example of a governing document is the tool for monitoring operations that has been developed. Governing documents are used when making property acquisitions and property divestiture, for the overall monitoring of operations, and when making valuations.

**Control activities**

Kungsleden has designed its internal control to ensure that the control activities are carried out routinely, at a general level, or are of a more process-oriented nature. Examples of general controls are ongoing profit analyses based on operational and legal structures, and the analysis of key figures. Formal reconciliations, required signatures and similar controls are examples of procedural or process-oriented controls aimed at preventing, detecting and correcting errors and deviations. Control activities have been designed to manage the significant risks relating to financial reporting.

**Information and communication**

The Board receives ongoing financial reports and the Group's financial position is considered at each scheduled Board meeting. The company's auditors report their observations from the audit and give their assessment of the internal control once a year.

Kungsleden has a policy to ensure that employees anonymously and without penalty can contact a third party to report actions or other anomalies that signify a breach or suspected violation of laws or other guidelines and rules.

All information that may be price sensitive is communicated to the market via a press release. The company has ensured that the information reaches the market at the same time. The CEO and CFO are elected as spokespeople in financial matters.

**Follow-up**

The Board continuously requests assessments from management on the risks facing the business. The results are compiled in reports and reported to the Audit Committee.

Kungsleden has no internal audit function. The internal control is deemed to be satisfactory and suitable for an organisation of Kungsleden's size. Accordingly, the Board and management does not feel that an internal audit function is necessary.

# BOARD OF DIRECTORS



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

**GÖRAN LARSSON**  
**CHAIRMAN OF THE BOARD**

Born 1944, Master of Political Science. Appointed to the Board in 2013. Other current assignments: Chairman of Hestra-Handsken AB, Hestraviken AB and Mappa Invest AB. Board Member at Bratt International AB. Independent: The member is considered independent of the company and its management but not independent in relation to the major shareholders. Holds 20,000 shares in Kungsleden.

**CHARLOTTE AXELSSON**  
**BOARD MEMBER**

Born in 1948, BSc Sociology/Management. Appointed to the Board in 2014. Other current assignments: Chairman of AFF Service AB, Slättö Förvaltning AB and Vasallen AB. Board Member in the Foundation MHS-bostäder. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 1,333 shares in Kungsleden.

**JOACHIM GAHM**  
**BOARD MEMBER**

Born in 1964, MSc in Business and Economics. Appointed to the Board in 2011. Other current assignments: Chairman of Arise AB. Board Member of Catella AB. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 2,666 shares in Kungsleden.

**LISELOTTE HJORTH**  
**BOARD MEMBER**

Born in 1957, B.Sc. in Economic. Appointed to the Board in 2014. Other current assignments: Board Member of East Capital Explorer AB, Hoist Finance AB and White arkitekter Aktieföretag. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 6,666 shares in Kungsleden.

**LARS HOLMGREN**  
**BOARD MEMBER**

Born in 1952, Master's Degree in Chemistry and Industrial Management. Appointed to the Board in 2011. Other current assignments: Board Member of Cliens Kapitalförvaltning AB and Nordic Modular Group AB. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 6,666 shares in Kungsleden.

**KIA ORBACK PETERSSON**  
**BOARD MEMBER**

Born in 1959, MSc in Business and Economics. Appointed to the Board in 2010. Other current assignments: Chairman of Fastighetsbolaget Riksdalen, Svefa Holding AB, Teracom Boxer Group AB and Friskis&Svettis Riks. Board Member of JM AB and Odd Molly International AB. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 2,266 shares in Kungsleden.

**CHARLOTTA WIKSTRÖM**  
**BOARD MEMBER**

Born in 1958, MSc in Business and Economics. Appointed to the Board in 2009. Other current assignments: Board Member of Botrygg AB and Forsen Projekt AB. Independent: The member is deemed to be independent of the company, its management and major shareholders in the company. Holds 14,666 shares in Kungsleden.

Details of shareholdings relate to holdings at 31 December 2015 and include holdings through companies and related parties.

# GROUP MANAGEMENT



Top row: Gert Ternström, Ylva Sarby Westman, Sven Stork, Anders Kvist and Mats Eriksson.  
Bottom row: Malin Axland, Frida Stannow Lind, Biljana Pehrsson, Nicklas Arfvidsson and Marie Mannholt.

**BILJANA PEHRSSON, CEO AND PRESIDENT**  
Born 1970. Employed since 2013. Previous experience: Deputy CEO/Head of Real Estate at East Capital Private Equity, CEO Centrumutveckling, Board member of Kungsleden during 2011–2013. Holds 25,000 shares in Kungsleden.

**ANDERS KVIST, DEPUTY CEO AND FINANCE DIRECTOR/CFO**  
Born 1958. Employed since 2012. Previous experience: Head of Group Treasury at SEB, manager of asset management activities at DnB and Skandia and CEO of Skandia Liv. Holds 40,333 shares in Kungsleden.

**YLVA SARBY WESTMAN, DEPUTY CEO AND CIO**  
Born 1973. Employed since 2009. Previous experience: Executive Vice CEO at Newsec Investment AB, Property Development Manager at NCC Property Development AB. Holds 3,333 shares in Kungsleden.

**MARIE MANNHOLT, HEAD OF COMMUNICATIONS AND MARKETING**  
Born 1966. Employed since 2014. Previous experience: Senior consultant in property development on Mann Holt Consulting, Marketing Manager/Senior Project Manager at Centre Development, Marketing Manager at BMW/Rover, Regional Manager at Volvo Cars. Holds 2,666 shares in Kungsleden.

**FRIDA STANNOW LIND, HEAD OF PROPERTY DEVELOPMENT**  
Born 1967. Employed since 2010, in current post since 2013. Previous experience: Property Manager at Drott, Investment Manager at Niam, Property Manager at Ebab. Holds 2,953 shares in Kungsleden.

**SVEN STORK, REGIONAL MANAGER STOCKHOLM**  
Born 1967. Employed since September 2014. Previous experience: Key Account Manager at Newsec Asset Management, Asset Manager at Niam AB, Project Manager at NCC Property Development AB. Holds 0 shares in Kungsleden.

**NICKLAS ARFVIDSSON, REGIONAL MANAGER GOTHENBURG**  
Born 1975. Employed since 2005, in current post since 2008. Previous experience: Manager at Vasakronan, District Manager at ISS Facility Services. Holds 366 shares in Kungsleden.

**GERT TERNSTRÖM, REGIONAL MANAGER, MALMÖ**  
Born 1962. Employed since 1999, in current post since 2003. Previous experience: Supervisor at Skanska AB and AB Interoc, construction engineer at JM Bygg AB, manager at JM Industrifastigheter AB. Holds 9,333 shares in Kungsleden.

**MATS ERIKSSON, REGIONAL MANAGER MÅLARDALEN**  
Born 1963. Employed since March 2015. Previous experience: Business Manager Retail Newsec Asset Management, Head of Property Development ICA Fastigheter AB, Business Area Manager at NIAM AB and Property Manager at Siab AB. Holds 0 shares in Kungsleden.

**MALIN AXLAND, HEAD OF LEGAL**  
Born 1974. Employed since 2007, in current post since 2013. Previous experience: Lawyer at Mannheimer Swartling, law clerk at Huddinge District Court. Holds 266 shares in Kungsleden.

Details of shareholdings relate to holdings at 31 December 2015 and include holdings through companies and related parties.

Eskil Lindnér was a member of the senior management team through 31 December 2015.



# Malmö Mässan

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# MULTI-ANNUAL SUMMARY

<b>Income statements, SEK m</b>	<b>2015</b>	<b>2014<sup>1</sup></b>	<b>2013<sup>1</sup></b>	<b>2012<sup>1</sup></b>	<b>2011<sup>1</sup></b>
Rental revenue	2,314	2,193	1,669	1,583	2,047
Property costs	-769	-703	-538	-538	-893
<b>Operating net</b>	<b>1,545</b>	<b>1,491</b>	<b>1,131</b>	<b>1,046</b>	<b>1,154</b>
Selling and administration costs	-106	-101	-115	-140	-171
Net financial items	-473	-660	-575	-528	-559
<b>Profits from property management</b>	<b>966</b>	<b>730</b>	<b>441</b>	<b>378</b>	<b>424</b>
Profit (loss) from participations in Nordic Modular and Hemsö	24	-	-	-	413
Profit (loss) on property sales	11	73	8	16	56
Unrealised changes in value on investment properties	970	930	48	-20	291
Unrealised changes in value on financial instruments	176	-427	425	-70	-491
<b>Profit before tax</b>	<b>2,147</b>	<b>1,306</b>	<b>922</b>	<b>304</b>	<b>693</b>
Tax	-1,642	-1,965	-169	-799	-55
<b>Profit (loss) for the year, continuing operations</b>	<b>505</b>	<b>-659</b>	<b>754</b>	<b>-495</b>	<b>638</b>
<i>Discontinued operations</i>					
Nordic Modular, net after tax	-	63	84	53	-
Impairment loss on Nordic Modular	-	-157	-	-	-
Hemsö holding, net after tax	-	-	24	794	-
<b>Profit (loss) for the year, continuing and discontinued operations<sup>2</sup></b>	<b>505</b>	<b>-753</b>	<b>862</b>	<b>352</b>	<b>638</b>
<b>Statement of financial position, SEK m</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>					
Investment properties – properties	27,470	19,612	20,338	14,243	13,256
Investment properties – modular buildings	-	-	1,509	1,509	1,514
Property used in business operations	-	-	22	25	18
Other non-current assets	21	49	490	666	4,263
Other current receivables	232	141	286	372	1,176
Claim against Tredje AP-fonden	-	-	-	3,363	-
Assets held for sale – modular buildings and property used in business operations	-	1,428	-	-	-
Assets held for sale – other	-	372	-	-	-
Cash and bank	441	1,437	323	722	684
<b>TOTAL ASSETS</b>	<b>28,164</b>	<b>23,040</b>	<b>22,968</b>	<b>20,900</b>	<b>20,911</b>
<b>EQUITY AND LIABILITIES</b>					
Equity	9,333	9,102	8,453	7,726	7,719
Interest-bearing liabilities	17,456	11,313	12,879	9,704	10,654
Interest-bearing liabilities related to assets held for sale	-	362	-	-	-
Derivatives	347	1,134	708	1,125	1,156
Non interest-bearing liabilities	1,028	662	929	2,345	1,382
Non interest-bearing liabilities related to assets held for sale	-	467	-	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>28,164</b>	<b>23,040</b>	<b>22,968</b>	<b>20,900</b>	<b>20,911</b>
<b>Key figures, SEK m</b>	<b>2015</b>	<b>2014</b>	<b>2013<sup>1</sup></b>	<b>2012<sup>1</sup></b>	<b>2011<sup>1</sup></b>
<b>PROPERTY RELATED</b>					
Yield, %	6.6	7.5	7.5	7.8	7.5
Economic occupancy rate, %	93.2	90.2	90.9	89.6	88.7
Operating surplus margin, %	66.8	68.0	66.1	65.5	64.5
<b>FINANCIAL</b>					
Return on total assets, %	5.8	6.6	5.4	8.8	7.4
Return on equity, %	5.5	Neg.	10.7	4.6	8.5
Interest coverage ratio, times	2.9	2.2	1.9	2.7	2.3
Equity ratio, %	33.1	39.5	36.8	37.0	36.9
LTV (loan-to-value), %	63.5	57.7	58.9	61.5	67.9
<b>PER SHARE INFORMATION</b>					
Dividends (paid), SEK	1.50	1.25	1.00	2.60	2.00
Profits from property management (excluding share of Nordic Modular and Hemsö), SEK	5.31	5.02	4.02	3.26	3.11
Profit (loss) for the year, SEK	2.78	-5.18	6.31	2.60	4.70

1. For years 2014–2012, Nordic Modular has been removed from the income statement and is shown separately as discontinued operations.

No recalculation occurred for 2011 and Nordic Modular is included in profit (loss) from continuing operations.

2. All of the profit (loss) for the year is attributable to the Parent Company's shareholders.

# CONSOLIDATED INCOME STATEMENT

SEK m	Note	2015	2014
Rental revenue	5	2,314	2,193
Property costs	8	-769	-703
<b>Operating net</b>		<b>1,545</b>	<b>1,491</b>
<b>Selling and administration costs</b>	6, 7, 8	<b>-106</b>	<b>-101</b>
<b>Net financial items</b>			
Financial income	9	11	11
Interest expenses	9	-459	-630
Profit participation in associated companies	9, 11	24	-
Other financial expenses	9	-50	-41
		<b>-473</b>	<b>-660</b>
<b>Profits from property management</b>	8	<b>966</b>	<b>730</b>
<b>Value changes, assets</b>			
Profit from sale of Nordic Modular Group		24	-
Profit from property sales		11	73
Unrealised changes in value	14	970	930
		<b>1,005</b>	<b>1,003</b>
<b>Unrealised changes in value of financial instruments</b>	9	<b>176</b>	<b>-427</b>
<b>Profit before tax</b>		<b>2,147</b>	<b>1,306</b>
<b>Tax</b>			
Current tax	10	-1,305	-1,610
Deferred tax	10	-337	-355
		<b>-1,642</b>	<b>-1,965</b>
<b>Profit (loss) for the year, continuing operations</b>		<b>505</b>	<b>-659</b>
<b>Discontinued operations</b>			
Profit/loss from Nordic Modular after tax	11	-	63
Impairment loss on Nordic Modular	11	-	-157
<b>Net profit/loss for the year, continuing and discontinued operations<sup>1</sup></b>		<b>505</b>	<b>-753</b>
<b>Earnings per share, continuing operations<sup>2</sup></b>	12	<b>2.78</b>	<b>-4.53</b>
<b>Earnings per share, continuing and discontinued operations<sup>2</sup></b>	12	<b>2.78</b>	<b>-5.18</b>

1. All of the profit (loss) for the year is attributable to the Parent Company's shareholders.  
2. Before and after dilutive effect.

# STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP

SEK m	2015	2014
Profit/loss for the year from continuing and discontinued operations	505	-753
Other comprehensive income		
Translation gains/losses for the year, on consolidation of foreign operations	-1	4
<b>Comprehensive income for the year<sup>1</sup></b>	<b>504</b>	<b>-749</b>

1. All of comprehensive income for the year is attributable to the Parent Company's shareholders.

# COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

Profit for the period was SEK 505 million. The year ended with positive earnings, despite the negative impact of expenses that were made in conjunction with tax rulings. Operating net increased by 4 per cent to SEK 1,545 (1,491) million and profits from property management increased by 32 per cent to SEK 966 (730) million.

## PROPERTY MANAGEMENT

Rental revenue increased during the year to SEK 2,314 (2,193) million. The increase is primarily attributable to a larger property portfolio. Property costs increased to SEK -769 (-703) million, which is also an increase that is primarily attributable to a larger property portfolio. Altogether, operating net thus rose by 4 per cent to SEK 1,545 (1,491) million.

## SELLING AND ADMINISTRATION COSTS

Selling and administration costs amounted to SEK -106 (-101) million, which corresponds to a 5 per cent increase in costs.

## FINANCIAL INCOME AND EXPENSES

Net financial items improved during the year and amounted to SEK -473 (-660) million. Interest costs fell to SEK -459 (-630) million and financial income was unchanged at SEK 11 (11) million. The improvement in net financial items results from refinancing at a lower cost, lower short-term interest rates and exercising old interest rate swaps with a high coupon rate.

## VALUE CHANGES, ASSETS

Profit on sales was SEK 35 (73) million from 35 properties vacated in 2015, along with sale of the remaining share in the associated company, Nordic Modular Group, SEK 24 million.

Change in value for investment properties was SEK 970 (930) million. The change in value is a result of investments that were made in the property portfolio, improved operating net and lower yield requirements.

## CHANGES IN VALUE OF FINANCIAL INSTRUMENTS

Changes in the value of financial instruments was SEK 176 (-427) million. The net effect of movements in long-term interest rates during the year was a reduction in the negative market value of SEK 48 million. In addition, scheduled interest payments of SEK 224 million on interest rate swaps were made.

## TAX

Tax on profit for the year was SEK -1,642 (-1,965) million. Based on the negative rulings on tax cases, a provision was made in December 2015 for SEK -1,319 (-1,651) million. In addition, SEK 140 million was recognized as a tax asset for the higher loss carry-forward after making adjustments to derivatives in the tax filings for previous years. Otherwise, tax expense essentially corresponds to 22 per cent of profit before tax.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK m	Note	2015-12-31	2014-12-31
<b>ASSETS</b>			
<i>Non-current assets</i>			
Intangible assets	13	5	-
Properties	14	27,470	19,612
Equipment	15	10	8
Deferred tax receivable	10	-	31
Other non-current receivables	16	6	9
<b>Total non-current assets</b>		<b>27,491</b>	<b>19,661</b>
<i>Current assets</i>			
Accounts receivable		24	16
Other receivables		43	44
Prepaid expenses and accrued income		165	82
Assets held for sale – modular buildings and property used in business operations		-	1,428
Assets held for sale – other		-	372
Cash and bank		441	1,437
<b>Total current assets</b>		<b>673</b>	<b>3,379</b>
<b>TOTAL ASSETS</b>		<b>28,164</b>	<b>23,040</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
Share capital		76	76
Other contributed capital		2,922	2,922
Translation reserve		2	3
Retained earnings (including net profit (loss) for the year)		6,333	6,101
<b>Total equity</b>	17	<b>9,333</b>	<b>9,102</b>
<i>Interest-bearing liabilities</i>			
Liabilities to credit institutions		16,381	9,613
Bond loans (unsecured)		1,075	1,699
Liabilities related to assets held for sale		-	362
<b>Total interest-bearing liabilities</b>	18	<b>17,456</b>	<b>11,675</b>
<i>Non interest-bearing liabilities</i>			
Provisions	19	5	5
Accounts payable		149	141
Deferred tax liability	10	287	-
Income tax liability		13	13
Derivatives	18, 22	347	1,134
Other liabilities	20	10	37
Accrued expenses and deferred income		565	467
Liabilities related to assets held for sale		-	467
<b>Total non interest-bearing liabilities</b>	21, 22	<b>1,375</b>	<b>2,264</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28,164</b>	<b>23,040</b>

For information on pledged assets and contingent liabilities for the Group, see Note 23.

# COMMENTS ON THE GROUP'S FINANCIAL POSITION

Property holdings increased during the year. The main reason for the increase is acquisitions that were made and positive changes in value. There was a slight increase in equity in 2015. For 2015, the equity ratio was 33.1 (39.5) per cent and total assets, as of 31 December were SEK 28 billion.

## PROPERTY HOLDINGS

As of 31 December 2015, property holdings consisted of 291 (305) properties. The total area was 2,665 (2,592) thousand sq. m. and the carrying amount of the properties was SEK 27,470 (19,612) million. The change in carrying amount is due to property sales for SEK -639 million, acquired properties that have been accessed for SEK 7,076 million, investments in existing properties for SEK 450 million and unrealised changes in value for SEK 970 million.

Development of property holdings, SEK m	2015
Property at beginning of the year	19,612
Purchases	7,076
Investments	450
Sales	-639
Changes in value	970
<b>Property at year-end</b>	<b>27,470</b>

## DEFERRED TAX

Deferred tax is net of a tax liability of SEK 287 million. Tax assets amount to approximately SEK 575 million and they pertain to assessed loss carry-forwards and tax on the carrying amount of undervalued interest rate derivatives. Deferred tax liability pertains primarily to properties, with SEK 862 million relating to the difference between the carrying amount and residual value for tax purposes. A deferred tax liability is not recognized for the entire temporary difference with carrying amount due to the special rules pertaining to deferred tax on asset acquisition.

## EQUITY

As of the end of the period, equity was SEK 9,333 (9,102) million, or SEK 51 (50) per share, with a corresponding equity ratio of 33 (40) per cent.

## INTEREST-BEARING LIABILITIES

The value of the loan portfolio at the end of the year was SEK 17,456 million. Last year, the corresponding amount was SEK 11,675 million, including SEK 362 million related to liabilities attributable assets held for sale. In 2015, the gross amount of loan amortisation was SEK -3,706 (-2,554) million. New loans were obtained during the year for a gross amount of SEK 9,488 (1,350) million.

Interest-bearing liabilities, SEK m	2015
Liabilities at the beginning of the year	11,675
New loans	9,488
New loans via company acquisitions	0
Amortisation	-3,706
<b>Liabilities at year-end</b>	<b>17,456</b>

The average remaining maturity on utilised credit as of the end of the year was 3.6 (2.6) years. LTV was higher at year-end, 63.5 (57.7) per cent, compared to the start of the year. Besides the Company's interest-bearing liabilities as of 31 December 2015, there was also unutilised credit of SEK 616 million.

## DERIVATIVES

The negative market value (undervalue) of derivatives, primarily interest rate swaps, was SEK -347 million at year-end, compared to SEK -1,134 million at the beginning of the year. The negative market value of the interest rate swap portfolio was significantly reduced during the year, which was primarily attributable to redemption of interest rate swaps, which reduced the negative market value by SEK 611 million.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK m	Share capital	Other contributed capital	Translation difference	Accumulated profit or loss	Total equity
<b>Opening equity 2014-01-01</b>	<b>57</b>	<b>1,373</b>	<b>-1</b>	<b>7,024</b>	<b>8,453</b>
Comprehensive income for the year			4	-753	-749
Dividends				-171	-171
Rights issue	19	1,549			1,568
<b>Closing equity 2014-12-31</b>	<b>76</b>	<b>2,922</b>	<b>3</b>	<b>6,101</b>	<b>9,102</b>
<b>Opening equity 2015-01-01</b>	<b>76</b>	<b>2,922</b>	<b>3</b>	<b>6,101</b>	<b>9,102</b>
Comprehensive income for the year			-1	505	504
Dividends				-273	-273
<b>Closing equity 2015-12-31</b>	<b>76</b>	<b>2,922</b>	<b>2</b>	<b>6,333</b>	<b>9,333</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

SEK m	Note	2015	2014
<b>OPERATIONS</b>			
Profit before tax		2,147	1,306
Profit (loss) on sales		-35	-73
Unrealised changes in value		-1,146	-504
Cash flow from Nordic Modular (discontinued operations)		-	246
Other adjustments not included in cash flow from operating activities		-3	-1
Tax paid		-1,306	-1,483
<b>Cash flow from operating activities</b>	24	<b>-343</b>	<b>-509</b>
<i>Changes in working capital</i>			
Increase(-)/decrease(+) in inventories		-	-15
Increase(-)/decrease(+) in operating receivables		-84	-16
Increase(+)/decrease(-) in operating liabilities		-100	728
		<b>-184</b>	<b>727</b>
<b>Cash flow from operating activities after change in working capital</b>	24	<b>-527</b>	<b>218</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of properties (direct acquisition)		-169	-1
Investments in existing properties		-450	-458
Sale of properties (direct sale)		438	72
Purchase of subsidiaries		-6,775	-51
Sale of subsidiaries		1,536	1,105
Purchase of equipment		-4	-7
Sale of equipment		-	3
Acquisition of intangible assets		-5	-
Disposal of long-term loans that were made		333	0
Investments in other financial assets		-882	-24
Repayment of other financial assets		-	212
Cash flow from Nordic Modular		-	-122
<b>Cash flow from investing activities</b>		<b>-5,978</b>	<b>730</b>
<b>FINANCING ACTIVITIES</b>			
New loans		9,488	1,350
Repayment of loan		-3,706	-2,554
Rights issue		-	1,568
Dividends		-273	-171
Cash flow from Nordic Modular		-	-30
<b>Cash flow from financing activities</b>	24	<b>5,509</b>	<b>164</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>-996</b>	<b>1,112</b>
Cash equivalents at the beginning of the year		1,437	323
Exchange rate differences on cash equivalents		0	3
<b>Cash equivalents at year-end</b>	24	<b>441</b>	<b>1,437</b>

# COMMENTS ON THE GROUP'S CASH FLOW

Total cash flow for the year was SEK -996 million. Cash and bank balances, as of 31 December 2015, were SEK 441 (1,437) million.

Cash flow in a property company is primarily related to the size of property holdings. Cash flow from operating activities consists of profits from property management, adjusted for a number of items that do not impact cash flow, plus tax payments.

During 2015, cash flow from operating activities improved by SEK 166 million. In both 2014 and 2015, there was a negative impact on cash flow from operating activities ranging from SEK 1.3 to 1.5 billion because tax payments associated with prior years.

Cash flow from operating activities after change in working capital was SEK -527 (218) million was primarily related to change in operating liabilities. In 2014, there was a positive impact on working capital from property sales that were completed.

Investing activities vary from year to year, since Kungleden is a net buyer of properties in some years and a net seller in others.

For 2015, cash flow from investing activities was SEK -5,978 (730) million due to major property acquisitions that were made during the year.

Cash flow from financing activities was SEK 5,509 (164) million, primarily attributable to new loans that were acquired. The acquisition is financed through a combination of utilised and existing credit facilities and new loans. During the year, the gross amount of loan amortisation was SEK -3,706 (-2,554) million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 GROUP ACCOUNTING PRINCIPLES

### APPLIED STANDARDS AND LEGISLATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) along with interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission for application within the EU. The Company has also applied recommendations from the Swedish Financial Reporting Board, RFR 1 Supplementary Accounting Rules for Groups.

### CHANGES IN ACCOUNTING PRINCIPLES 2015

When preparing the consolidated financial statements, the Group has applied the same accounting principles as those described in the 2014 Annual Report.

The following amended and new application interpretations of accounting principles have been applied without there being any impact on the consolidated financial statements:

#### IFRS applicable in 2015

- IFRIC 21 Levies, contains guidance on when to recognise a liability for a levy imposed by a government, along with identifying the obligating event for the recognition of a liability as the activity that triggers the payment of the levy. The interpretation must be applied on property taxes that must be reported in full already on 1 January each year. Expense recognition, however, does not change, and is accrued over the year. Because of this change in principle, the balance sheet total will increase during the year, but not at year-end.

#### IFRS not yet applied

The following IFRS have been published, but have not yet come into force, and have not been applied, at the time when this financial report was prepared.

- IFRS 9 Financial instruments, will be applied as of 2018 and the revised IAS 39 Financial instruments will be applied as of 2017,
- IFRS 14 Regulatory Deferral Accounts, is not anticipated to affect the Group.
- IFRS 15 Revenue from Contracts with Customers, will be applied as of 2018.
- IFRS 16 Leases, will be applied as of 2019. Not approved by EU.
- Revised IFRS 10, IFRS 12 and IAS 28: Investment companies: It has been assessed that application of the Consolidation Exception will not have any impact on the Group. Not approved by EU.
- Revised IFRS 11 Joint Arrangements, will be applied as of 2016. Approved by EU.
- Revised IFRS 7 Statement of Cash Flows, will be applied as of 2016. Approved by EU.
- Revised IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses will be applied as of 2018.
- Revised IAS 16 and IAS 41: Bearer plants, will be applied as of 2016. Approved by EU.
- Revised IAS 19 Employee Benefits applies as of 1 February 2015. Approved by EU.
- Revised IAS 27 Consolidated and Separate Financial Statements will be applied as of 2016. Approved by EU.
- Revised IAS 1 Presentation of Financial Statements will be applied as of 2016. Approved by EU.
- Annual improvements to IFRS (2010–2012) (2012–2014). Approved by EU.

The standard, IFRS 15, requires retroactive application. The other standards, however are applied prospectively and thus have no effect on reports that were prepared before they came into force. At present, none of the new IFRS are expected to have a significant impact on the consolidated financial statements.

### REQUIREMENTS WHEN PREPARING FINANCIAL STATEMENTS

The Parent Company's functional currency is the Swedish Krona (SEK), which is also the reporting currency for the Group. Unless otherwise stated, all amounts are SEK million. Assets and liabilities are reported at historical cost, with the exception of investment properties and financial instruments, which are valued at fair value. Changes in fair value are recognised in the income statement.

In order to prepare the financial statements in accordance with IFRS, it is necessary for the Company's top management team to make assessments and estimates, as well as assumptions that affect how the accounting principles are applied and the reported amounts for assets, liabilities, income and expenses.

The estimates and assumptions are based on historical experiences and several other factors that are deemed to be reasonable under the current circumstances. The outcome of these estimates and assumptions is then used when determining the carrying amounts of assets and liabilities when such amounts are not otherwise clearly provided by other sources. The actual results may deviate from these estimates and assessments. The estimates and assumptions are regularly reviewed.

Assessments made by the Company's top management team when applying IFRS, which have a significant impact on the financial statements, and estimates that were made are described in more detail in Note 3.

### CLASSIFICATION, ETC.

Kungsliden's operations are primarily comprised of managing a large number of properties that are leased to independent tenants. Typically, rental agreements are initially drawn up for a three-year period. However, the rental period can vary, sometimes with a term of more than 20 years. If the intention is to renew the contract, the Company enters into renegotiations with the tenant before the contract expires on the level of rent and other terms and conditions. However, after the initial contract term, it is difficult to know how long the contract will run and at any time, there are a large number of separate contracts in effect with varying terms. Determining Kungsliden's business cycle is thus a difficult task. It is also difficult to determine how long a property will be held. Because of that, assets and liabilities are presented in the statement of financial position in the order of highest to lowest liquidity, since that provides information that is reliable and relevant to the business.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements provide information on the Parent Company, subsidiaries and joint ventures. Subsidiaries are companies in which the Parent Company is able to exert a controlling influence. A controlling influence exists if the Parent Company has influence over the investment object, is exposed to, or has the right to a variable return from its involvement and when it can use its influence over the investment to impact the return. When assessing whether a controlling influence exists, consideration is given to whether potential voting rights and de facto control exist.

The consolidated financial statements have been prepared in accordance with the acquisition method, which means that assets, liabilities and contingent liabilities are measured at fair value at the acquisition date based on the acquisition analysis. The revenue and expenses of acquired companies are included in the consolidated financial statements as of the time when they were taken over. The income statements of divested companies are included until the date when they are relinquished.

Intra-group receivables, liabilities, revenues or expenses and unrealised gains and losses attributable to intra-Group transactions between Group companies are fully eliminated when the Consolidated Financial Statements are prepared.

### Translation of foreign operations

The financial statements of each foreign subsidiary are presented in the local currency where operations take place. The Group's financial statements are presented in SEK. Income statements and balance sheets of foreign operations are translated to SEK in accordance with the current method. This means that the balance sheets are translated using the exchange rate in effect on the closing date. Equity, however, is translated using the historical rate. The income statements of foreign operations are translated using the average exchange rate for the period. The resulting exchange rate differences are reported against other comprehensive income as translation gains (losses) on consolidation.

The following exchange rates have been used for translation:

SEK	Average exchange rate		Closing day rate	
	2015	2014	2015-12-31	2014-12-31
EUR	9.36	9.39	9.14	9.52
DKK	1.25	1.26	1.22	1.28
NOK	1.05	1.05	0.96	1.05
PLN	2.28	2.23	2.15	2.21

### STATEMENT OF CASH FLOWS

The statement of cash flows was prepared in accordance with the indirect method, as stipulated in IAS 7 Statement of Cash Flows.

### ACQUISITIONS AND DIVESTMENTS

An acquisition or divestment is reported as of the point when it is taken over or relinquished. Between the sales date and payment date, the receivable or liability to the counterparty is reported gross under receivables or other liabilities, respectively.

### ASSET ACQUISITION

In recent years, it has become increasingly common to conduct property transactions indirectly, using a company with property holdings, instead of a direct property transaction. Properties are often purchased via a company acquisition. Reasons for this include avoidance of the stamp duty that is otherwise payable on property transfers and because a company sale (compared to a direct property sale) has certain tax advantages for the seller.

For asset acquisition via a company, the acquisition is dealt with as if the property is directly purchased. This type of acquired company typically does not have any employees, organisation or other operations besides what is directly attributable to the property holding. Cost is allocated proportionately to the assets acquired and liabilities assumed. No deferred tax is recognised. Any resulting deduction for deferred tax, in excess of the reported tax in the purchased company, is reported as a deduction from the fair value of the purchased property, at the time of acquisition. After acquisition, the deduction remains as a downward adjustment to fair value.

For direct sale of a property, where all of the temporary differences have not been recognised, a tax expense will arise when there is a sale at carrying amount. If the sale is done via a company instead, which is typically the case, the buyer and seller typically reach agreement on a price reduction corresponding to just part of the difference between the residual value for tax purposes and the agreed property value. This means that tax income for accounting purposes arises if there is a deferred tax liability reported which exceeds the agreed-upon deduction from the deal. Likewise, a tax expense will arise if the deduction is higher than the reported tax liability.

### **BUSINESS ACQUISITIONS**

In accordance with IFRS 3 Business Combinations, Kungsliden applies the acquisition method for acquisition where it obtains controlling interest over one or more, essentially independent businesses. The identifiable assets, liabilities and contingent liabilities of the purchased unit are recognised at fair value at the time of acquisition and profit or loss attributable to the acquired business is included as of the closing date for the deal. Deferred tax for any surplus value attributable to the acquisition is reported as a liability based on the nominal tax rate. The difference between deferred tax based on the nominal tax rate and the value that the temporary difference was valued at in the acquisition analysis is reported as goodwill. Transaction costs are expensed as administration expenses in conjunction with the acquisition.

When there is acquisition of additional shares in a company causing Kungsliden to gain a controlling influence, the prior shares are revalued at fair value through profit or loss. If, however, the acquisition concerns additional shares in a company that had already been consolidated in the past, the difference between the purchase sum and net value as of the closing date for the transaction is reported as an ownership transaction directly to equity. When there is partial sale of a Group company, but controlling interest in that company is retained, any difference between the sales price and the value of the sold share is reported as an ownership transaction directly to equity. When there is partial sale of a Group company and the controlling interest is lost, a capital gain (loss) is reported and there is revaluation of the remaining holdings in the income statement.

The number of business combinations is typically low. During the year, Kungsliden was not involved in any business combinations.

### **OPERATING SEGMENTS**

An operating segment is a segment of the Group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. The results of an operating segment are followed up by the highest authoritative decision-makers (Group management team) in order to evaluate the results and be able to allocate resources to the operating segment. Please refer to Note 4 for more information about how operating segments are determined and a presentation of the Company's operating segments.

### **REVENUE**

Rental agreements are classified as operating lease agreements, with the property remaining in Kungsliden's ownership even for lease terms in excess of 20 years.

Income recognition for rental revenue from investment properties is made on a linear basis and recorded in profit (loss) for the year based on the terms in the leasing contract. Any benefits received are recorded on a linear basis as a reduction in rental revenue over the leasing period.

Revenue from property sales is recognised on the date of taking possession. In instances where a rental guarantee is obtained in connection with an acquisition, revenue is recognised in the consolidated financial statements at the rate that external rental revenue is foregone.

### **FINANCIAL INCOME AND EXPENSES**

Interest income and interest subsidies are recognised in the period when they arise. Interest and financial expenses relating to new construction are capitalised during the construction period. Such expenses relating to extensions and conversions, however, are expensed on an ongoing basis, since they are lower and the execution time is typically shorter. Derivatives are used for the purpose of achieving the desired fixed-interest term. Revenue and expenses related to derivatives is recognized on an ongoing basis in profit or loss as part of unrealised changes in value of financial instruments and as part of interest expenses. Revenue and expenses for settlement and renegotiation of derivatives, as well as early redemption fees, are expensed as incurred. Interest income and interest expense on financial instruments are reported in accordance with the effective interest method. The effective interest rate is the rate that discounts future estimated payments made and

received during the expected term of a financial instrument to the financial asset's or liability's reported net value.

### **INCOME TAX**

In the income statement, current and deferred income tax is reported for Swedish and foreign Group companies. However, when the underlying transaction is reported directly to equity, the associated tax effect is also reported to equity. The Group companies are taxable under the current legislation of the country where operations are conducted. The tax rate in Sweden, since 1 January 2013, is 22.0 per cent.

Current tax is calculated based on reported profit for accounting purposes, adjusted for non-deductible items (added back) and non-taxable income (deducted). Income tax is reported in accordance with the balance sheet method, which means that deferred tax is calculated on the identified temporary differences between the taxable base and carrying amount of assets and liabilities. Temporary differences arise primarily for properties, financial instruments, accumulated excess depreciation on equipment and tax allocation reserves. Temporary differences are valued at the nominal tax rate and the change since the prior closing date are recognised in profit or loss as deferred tax. Deferred tax assets are recognised for deductible temporary differences and loss carryforwards to the extent that it is probable they can be utilised. The carrying amount of deferred tax assets is reduced when it is no longer probable that they can be utilised.

When there is an acquisition of shares in subsidiaries, the acquisition is reported as either a business combination or an asset acquisition. For business combinations, deferred tax is recognised at the nominal interest rate, without discounting in accordance with the principles above. For asset acquisitions, there is no recognition of separate deferred tax at the acquisition date. Instead, the asset is reported at cost, which corresponds to the asset's fair value less discount for deferred tax, in accordance with what the parties have agreed, for non-deductible cost of acquisition for tax purposes. After acquisition, the full amount of deferred tax for future value changes is recognised, except for an adjustment for the initial measurement of deferred tax.

### **EMPLOYEE BENEFITS**

Employee remuneration, such as salaries and social security expenses, vacation and paid sick leave, etc. is recognised at the rate that it is earned. Pension obligations are secured through defined contribution pension plans or ITP. Defined contribution pension plans are plans where the Company's obligations are limited to the fees that the Company has undertaken to pay. In such cases, the size of the employee's pension depends on the fees that the Company pays into the plan, or to an insurance company, along with the return generated from the fees. Accordingly, the employee is the one who bears the actuarial risk (that the benefits will be lower than expected) and the investment risk (that the invested assets will not be enough to generate the expected benefits). The Company's obligations related to fees for defined contribution pension plans are recognised in profit or loss for the year at the rate that employees provide services to the Company during a period. In accordance with a statement from the Swedish Financial Reporting Board's Emerging Issues Task Force, an ITP pension plan secured via insurance with Alecta is reported as a defined contribution plan providing that the ITP plan has not been altered from its basic design.

Remuneration expenses in conjunction with termination of employment are reported only if the Company is demonstrably committed and lacking any realistic possibilities to withdraw such notice and when there is a formal, detailed plan to terminate employment before it would otherwise expire. When remuneration is offered to encourage voluntary termination, a cost is recognised if it is likely that the offer will be accepted and if the number of employees likely to accept the offer can be reliably estimated.

### **LEASES**

Kungsliden is considered to be a major lessor based on the fact that its rental agreements are classified as operating lease agreements. See the Revenues section, above.

Kungsliden has entered into a number of operating leases as lessee for site leaseholds and office machines. The total amount of these agreements is not significant. Since the economic risk remains with the lessor, all rental, site leasehold and other leases with this characteristic are classified as operating lease agreements. Costs are expensed as incurred.

### **FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currency are translated using the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are translated using the closing day rate, at which time exchange rate differences are expensed. Exchange rate differences pertaining to operating receivables and liabilities are reported as part of operating profit, whereas exchange rate differences attributable to financial assets and liabilities are reported in net financial items.

### **TRANSACTIONS WITH RELATED PARTIES**

Market terms and market prices are used when services are rendered between Group companies and with other related companies and parties.

## INTANGIBLE ASSETS

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated among cash-generating units and it is tested annually for impairment. Other intangible assets that have been acquired consist of computer software, which has been recognised at cost less accumulated amortisation and any impairment losses.

## ASSOCIATED COMPANIES

Associated companies are companies in which the Group has a significant, but not controlling influence over operating and financial policies, typically via its shareholdings ranging from 20 to 50 per cent of total voting rights. Shares in the associated companies are reported in the Consolidated Financial Statements in accordance with the equity method, as of the effective date on which significant influence is acquired. In accordance with the equity method, the Group's carrying amounts for shares in associated companies corresponds with the Group's share of equity in the associated companies, as well as consolidated goodwill and other possible residual values of consolidated surpluses and deficits. In the consolidated financial statements, recognised in "Share in profit/loss of associated companies' profit" is the Group's share in profit/loss of associated companies adjusted for any depreciation/amortisation or dissolution of acquired surpluses/deficits. These profit participations, less dividends received from associated companies, comprise most of the change in the carrying amount of participations in associates.

The equity method is applied until the point when significant influence no longer exists.

## PROPERTIES

Property is initially recognised at the cost of acquisition. After that, costs for investments are capitalised if they will result in future economic benefits and if the expenditure can be reliably measured. There is cost capitalisation pertaining to replacement of entire, or parts of, identified components, as well as expenditure that results in the creation of new components. In the consolidated financial statements, property is then valued at fair value in accordance with the methods described below. Other additional expenses are expensed in the period in which they arise.

### Investment properties

Buildings and land that are owned or leased through a finance lease for the purpose of generating rental revenue and/or value appreciation, are classified in the consolidated financial statements as investment properties. Investment properties are presented in the Statement of financial position, allocated among properties and modular buildings. In accordance with IAS 40, investment properties are measured at fair value in the Statement of financial position. During the financial year, there is ongoing revaluation based on internal valuations. Please see Note 14 for more information on valuation methods. Note 3 also includes information on considerations regarding the valuation of properties. For purchase of property via a company (asset acquisition), any resulting deduction for deferred tax, in excess of the reported tax in the purchased company, is reported as a deduction from the fair value of the purchased property, both at the time of acquisition and future reporting occasions.

In accordance with IAS 40 Investment Property, buildings that are under construction for future use as investment properties are measured at fair value. The basis for the valuation is estimates of future cash flows and the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, property under construction is more difficult to value than existing property. This is because it is not possible to establish the final cost and you can only estimate the time remaining until the property can be used/leased.

### Property used in business operations

Properties where a significant amount of the space can be used for providing services or for administration purposes within the Group are classified as property used in business operations. Reporting is in accordance with IAS 16 Property, Plant and Equipment. Property used in business operations is recognised at cost less depreciation according to plan over the assessed useful life. The period of depreciation varies between 10 and 100 years, depending on which property component it refers to.

### Assets held for sale

When an asset (or disposal group) is classified as held for sale, it means that the carrying amount will be recovered primarily via a sale, not from use.

Immediately prior to classification as held for sale, the carrying amount of the assets (or all assets and liabilities belonging to the disposal group) is established in accordance with the applicable standards. At initial classification, assets held for sale are valued at the carrying amount or fair value (whichever is lowest), less selling expenses. Three asset types, individual or belonging to a disposal group, are exempt from these valuation rules. They are: deferred tax assets, financial assets covered by IAS 39 and investment property measured using the fair value method in accordance with IAS 40.

In order for an asset (or disposal group) to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its original condition. The sale must also be highly probable. In order for a sale to be regarded as highly probable, the following must apply:

- management is committed to a plan to sell,
- an active programme to locate a buyer has been initiated and to fulfil the plan,
- the asset (or disposal group) is being actively marketed for sale at a sales price reasonable in relation to its fair value,
- the sale is highly probable, within 12 months of classification as held for sale.

At each year-end closing, decisions are made on whether any property meets the criteria for classification as held for sale.

## EQUIPMENT

Equipment has been reported at cost less accumulated depreciation according to plan and any impairment losses. Depreciation on the cost of equipment is on a straight-line basis over a 5 year period.

## FINANCIAL INSTRUMENTS

For information on the Company's financial risk exposure and how such risks are managed, please see Note 2.

### Recognition in the statement of financial position

A financial asset or liability is recognised in the statement of financial position as soon as the Company becomes a party to the instrument's contractual terms. A receivable is recognised when the Company has performed the service and there is a contractual obligation to pay, even if an invoice has not yet been received. Accounts receivables are recognised in the statement of financial position when the invoice has been sent. Long-term receivables, solely consisting of promissory notes, are recognised as a nominal receivable adjusted for the present value of any difference compared to market interest rate. Liabilities are recognised as soon as the other party has performed the service and there is a contractual obligation to pay, even if an invoice has not yet been received. Trade payables are reported when the invoice is received.

A financial asset is de-recognised in the statement of financial position when the rights stated in the contract have been realised, have fallen due, or when the Company has lost control over them. The same applies to parts of a financial asset. A financial liability is de-recognised in the statement of financial position once the obligation under the contract has been fulfilled or otherwise expired. The same applies to parts of a financial liability.

Categories of financial instruments:

### Loan receivables and accounts receivable

These receivables are financial assets that are not derivatives, which have fixed or determinable payments and are not quoted in an active market. These assets are valued at amortised cost. Amortised cost is determined based on the effective rate that was calculated at the time of acquisition. Loan receivables and accounts receivable are reported at net realisable value, i.e. after the allowance for doubtful accounts.

### Financial liabilities valued at fair value via profit or loss

This category consists of financial liabilities held for sale. These are adjusted to fair value on a continual basis, with changes in value recognised in the income statement.

### Other financial liabilities

Other financial liabilities, such as new loans, accounts payable and liabilities for acquired, but not-yet-paid-for properties, are included in this category. Liabilities are measured at amortised cost. Transaction costs are allocated using the effective interest rate over the expected term of the loan.

### Derivatives

Hedge accounting is not applied for interest rate derivatives. Accordingly, the derivative's change in fair value in the Statement of financial position is recognised as an unrealised value change via profit or loss.

## IMPAIRMENT

### Financial assets

The carrying amounts for the Group's assets are tested at each closing of the books in order to determine whether any write-downs in value are necessary. The asset's recoverable amount is calculated if there is any indication of impairment. The recoverable amount for financial assets belonging to the categories loan receivables and accounts receivable, which are valued at amortised cost, is calculated as the present value of expected future cash flows, discounted by the effective interest rate when the asset was first recognised. Impairment loss is only reversed to the extent that the asset's carrying amount after reversal does not exceed the carrying amount that the asset would have had if impairment had not been recognised.

### Other assets

Exceptions to the impairment principles are made for property, plant and equipment that is held for sale, investment properties and deferred tax assets that are valued according to special rules, which are described under each respective heading in accounting principles. For Goodwill, prior impairment losses may not be reversed.

## PROVISIONS

A provision differs from other liabilities in that there can be uncertainty about the date of payment or the amount required to settle the provision. A provision is recognised in the statement of financial position when there is an existing legal or informal obligation resulting from an event that has occurred, and when it is probable that there will be an outflow of financial resources in order to settle the obligation, and when the amount can be reliably estimated.

Provisions are made for the amount representing the best estimate of what is required to settle the existing obligation as of the closing date. When the effect of the timing of the payment is significant, provisions are then calculated by discounting the expected future cash flow using a discount rate before tax that reflects the actual market assessments of the time value of money and, when appropriate, the risks associated with the obligation as well.

## CONTINGENT LIABILITIES

A contingent liability is recognised when there is a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when there is an obligation that is not recognised as a liability or provision because settlement is not expected to result in an outflow of resources.

## NOTE 2 RISKS

This note describes the risks associated with Kungsleden's cash flows from property management and the financial risks (credit and currency risk).

Kungsleden's financial risks are described on the pages 44–47. That section deals particularly with financing risk, liquidity risk and interest rate risk, as well as financial risk management.

### I - RISKS ASSOCIATED WITH CASH FLOW FROM PROPERTY MANAGEMENT

Cash flow from a given property portfolio is affected by fluctuations in rental income and that depends on changes in rent levels and vacancy rates. Those changes are caused by such things as Swedish economic growth, the production rate for new properties, infrastructure changes, the employment rate and demographic factors.

#### Rental revenue

While Swedish economic growth has a considerable impact on rent levels and vacancy rates, there is also a major impact from growth at the regional and local levels where Kungsleden has operations. Economic growth results in a higher demand for facilities and possibly higher rent levels and lower vacancy rates. The opposite applies when there is a recession. Rent levels and vacancy rates are also impacted by the amount of new property production in the local markets.

Kungsleden has a property portfolio and customer structure with a good risk spread regarding the types of premises, geography, size of contracts and categories of tenants.

The rental contract portfolio is relatively long term, with an average remaining contract term for the entire portfolio of 4.2 years. Because contract length is relatively long, any change in market rents over the short term have very little effect on rental revenue.

Rental contracts contain indexation clauses allowing for rent increases equal to 75–100 per cent of inflation. Indexation adjustment for any given year is based on the inflation rate for October of the previous year. The index clauses contain a minimum adjustment, which, over the short term, provide some protection against deflation.

Rental revenues are impacted when tenants have trouble making payments. Rental losses for 2015 amounted to SEK 1 (–4) million.

The risk of rental losses and vacancies is affected by the tenant structure. With large commercial tenants, there can be lower credit risk, but increased risk due to the higher concentration. Kungsleden's ten largest tenants account for 26 per cent of rental income. In many instances, the largest tenants have several different lines of business, as well as subsidiaries at many locations, which minimises the risk.

	Rental revenue, SEK m	Share of rental revenue, %
<b>Largest tenants</b>		
ABB	269	11
Bring Frigoscandia AB	64	3
The Swedish Armed Forces	57	2
Överskottsbolaget	53	2
ICA	36	2
City of Västerås	32	1
The Swedish Social Insurance Agency	31	1
V-TAB	31	1
Westinghouse Electric Sweden AB	25	1
Swedish Customs	25	1
<b>Top 10 tenants</b>	<b>622</b>	<b>26</b>
Other	1,745	74
<b>Total commercial</b>	<b>2,367</b>	<b>100</b>

#### Property costs

Fluctuations in operating costs affect cash flow. Major operating costs are comprised of electricity, cleaning, heating, water, care and maintenance. Site leasehold fees and property tax, along with electricity and heating costs have the greatest impact on earnings. The price for electricity is determined by the supply and demand on the open market. Kungsleden has limited risk because it obtains a discount based on the electricity amount. A portion of electricity and heating costs are charged to tenants. For costs not covered by tenants, Kungsleden is compensated via indexation clauses in rental contracts, whereby rents are increased by 75–100 per cent of inflation.

Exposure to fluctuations in these costs is thus limited. However, a property's cash flow and operating net is impacted by annual variations in media and maintenance costs.

For certain properties there are site leasehold fees, for which the terms and conditions are typically renegotiated every 10–20 years. At present, site leasehold fees are calculated so that the municipality receives a reasonable real rate of interest on the estimated value of the land. It cannot be ruled out that the way of calculating site leasehold fees will change in the future when terms and conditions are renegotiated.

Property tax, which is based on the tax assessed value of property, is based on political decisions. This applies to the calculation basis, tax assessed value and tax rate. Property tax is typically passed along and charge to tenants for leased space, while the tax on vacant space must be covered by the property owner.

Cash flow sensitivity analysis	Change	Earnings impact, SEK m
Rental revenue	+/-1%	+/-25
Financial vacancy	+/-1% point	+/-29
Property costs	+/-1%	-/+8
Average interest rate, loan portfolio	+/-1% point	-/+175
Short-term interest rate (<six months)	+/-1% point	-/+46

### II - FINANCIAL RISKS

Financial risks are items that can have an impact on the Company's profit and cash flow. They include exchange rate and interest rate fluctuations as well as refinancing and credit risks. Each year, the Board establishes a finance policy dictating how the Group will manage financial risks. The finance policy creates a framework of guidelines and rules in the form of risk mandates and limits for financial activities. The Group's finance department is responsible for centrally managing financial risks and conducting financial transactions for the Group.

#### Credit risk

Credit risk is defined as the risk that a counterparty will not fulfil all or part of its undertaking. Credit risk exists in derivative agreements, issuance of promissory notes and cash investments. The risk of a tenant not paying the rent also falls into the category of counterparty risk and it is covered in this note.

When a promissory note is issued, there is a risk that the counterparty will not pay the interest and/or repay the loan amount. Kungsleden is currently restrictive in its use of promissory notes. For significant non-current receivables, collateral is often requested in order to reduce the credit risk. As of 31 December 2015, non-current receivables amounted to SEK 6 (9) million. See Note 16.

#### Currency risk

There is essentially no transaction exposure, since the Group does not have any property holdings in foreign countries.

## NOTE 3 SPECIAL CONSIDERATIONS AND ASSESSMENTS

### VALUATION OF PROPERTIES

#### Key sources of estimation uncertainty

Because the price of a property is not observable on a quoted market, its value must be assessed instead and used as the basis for accounting at fair value. The value of a property is dependent on many factors that impact earnings and cash flow. Financing terms, interest levels and efficient financial markets also impact price-setting and the yield requirements that create balance in the property market with buyers and sellers. In an efficient market, sales price usually falls within the range of appraised value +/- 5 to 10 per cent.

#### Assessments made when applying accounting principles

Prior to year-end closing, all properties have been valued. The valuations are based on a cash flow statement where the future earnings capacity of an individual property and the market's yield requirement are assessed. This process is described in Note 14. The fact that Kungsliden is active in the property market where there is a high volume of transactions provides additional market information and improves the ability to make good estimates of appraised value. Reconciliation against external valuations also takes place.

On page 47, a +/- 5 to 10 per cent sensitivity analysis is provided, with the effect on unrealised change in value, equity ratio, and LTV ratio.

### TAX SITUATION

#### Key sources of estimation uncertainty

The applicable rules are used when reporting the amount of current tax payable, loss carryforwards and deferred tax on temporary differences between book values and tax values. Tax legislation is complicated, particularly when it comes to the purchase and sale of properties and companies. How tax courts interpret the existing rules can also change over time. Accordingly, applications might change even after a transaction has been completed and the tax return has been filed. Typically, the Swedish Tax Agency is able to audit a company's tax filing within two years of financial year-end. In some cases however, they can go back five years in time.

#### Assessments made when applying accounting principles

This involves assessing how individual transactions should be dealt with in the tax filing. Kungsliden regularly consults with external experts on tax issues. Nevertheless, there is always a risk that the Swedish Tax Agency or court will assess completed transactions different to how the Company has dealt with them. When a tax dispute arises due to a previous year's tax assessment, Kungsliden makes a provision for additional tax payment based on the likelihood of losing in the final court of appeal exceeding 50 per cent.

#### Outstanding tax issues

In December 2015, the Administrative Court of Appeal handed down its rulings on Kungsliden's last outstanding tax issue. In the cases, the Swedish Tax Agency claimed that certain transactions in 2006 were taxable in Sweden, even though the transactions were made by Kungsliden's affiliated company in the Netherlands, where the capital gain was tax exempt. The Administrative Court had previously ruled in favour of the Swedish Tax Agency and in December 2015, the Administrative Court of Appeal handed down its rulings stating that the transactions, for tax purposes, must be deemed to have been carried out by Swedish companies belonging to the Group. In February 2016, Kungsliden filed for leave to appeal with the Supreme Administrative Court. A decision on the leave to appeal is expected sometime during the next six months. A provision of SEK 1,319 million was made, based on the ruling in the fourth quarter, because the risk of a final negative outcome increased and SEK 1,303 million was paid to the Swedish Tax Agency in December 2015, in anticipation of the final assessment.

The Swedish Tax Agency had also submitted alternative claims, which meant that there would be a review procedure based on the Tax Evasion Act. The Administrative Court removed these cases from the cause list, based on the negative rulings in the main case. The Swedish Tax Agency appealed the rulings of the Administrative Court, but the Administrative Court of Appeal was of the opinion that the Administrative Court had reason for its decision and thus denied the Swedish Tax Agency's appeal. In February 2016, the Swedish Tax Agency filed for leave to appeal with the Supreme Administrative Court regarding this refusal, should the Supreme Administrative Court happen to rule in Kungsliden's favour in the main case. For a negative outcome in a process that instead concerns tax evasion, the estimated maximum negative impact on earnings and liquidity is approximately SEK 500 million lower than the amounts for the main case.

## NOTE 4 OPERATING SEGMENTS

SEK m, 2015	Stockholm	Mälardalen	Gothenburg	Malmö	Other/ Group-wide	Total Kungsliden
Rental revenue	909	635	424	345		2,314
Property costs	-270	-251	-144	-103		-769
<b>Operating net</b>	<b>639</b>	<b>384</b>	<b>280</b>	<b>242</b>		<b>1,545</b>
Selling and administration costs					-106	-106
Net financial items					-473	-473
<b>Profits from property management</b>	<b>639</b>	<b>384</b>	<b>280</b>	<b>242</b>	<b>-579</b>	<b>966</b>
Value change assets						
Profit (loss) on sale					35	35
Unrealised changes in value					970	970
Unrealised changes in value of financial instruments					176	176
<b>Profit before tax</b>	<b>639</b>	<b>384</b>	<b>280</b>	<b>242</b>	<b>602</b>	<b>2,147</b>
Tax					-1,642	-1,642
<b>Profit (loss) for the year</b>	<b>639</b>	<b>384</b>	<b>280</b>	<b>242</b>	<b>-1,040</b>	<b>505</b>
<b>FINANCIAL POSITION</b>						
Properties	13,501	5,791	4,358	3,821		27,470
Other assets <sup>1</sup>					694	694
<b>Total assets</b>	<b>13,501</b>	<b>5,791</b>	<b>4,358</b>	<b>3,821</b>	<b>694</b>	<b>28,164</b>
Interest-bearing liabilities <sup>1</sup>					17,456	17,456
Provisions and other liabilities <sup>1</sup>					10,708	10,708
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,164</b>	<b>28,164</b>
<b>OTHER DISCLOSURES</b>						
Purchases and investments in properties	216	112	65	57		450
Profit or loss items that do not affect cash flow <sup>1</sup>					1,181	1,181

1. Assets that are not property are not allocated to segments. Neither is allocation done for provisions and liabilities or which pertain to interest rate derivatives with negative value or unpaid consideration on properties not yet taken over.

Note 4, cont.

SEK m, 2014	Stockholm <sup>1</sup>	Mälardalen <sup>1</sup>	Gothenburg <sup>1</sup>	Malmö <sup>1</sup>	Other/ Group-wide	Nordic Modular, discontinued operations	Less discontinued operations	Total Kungsleden
Rental revenue	702	692	457	342		275	-275	2,193
Net sales income, modular production						291	-291	-
Property costs	-214	-249	-145	-93		-123	123	-703
Costs for modular production						-262	262	-
<b>Operating net</b>	<b>487</b>	<b>443</b>	<b>312</b>	<b>249</b>		<b>180</b>	<b>-180</b>	<b>1,491</b>
Selling and administration costs					-101	-45	45	-101
Net financial items					-660	-16	16	-660
<b>Profits from property management</b>	<b>487</b>	<b>443</b>	<b>312</b>	<b>249</b>	<b>-761</b>	<b>119</b>	<b>-119</b>	<b>730</b>
Value changes, assets								
Profit (loss) on sale					73	-	-	73
Unrealised changes in value					930	-	-	930
Unrealised changes in value of financial instruments					-427	-	-	-427
<b>Profit before tax</b>	<b>487</b>	<b>443</b>	<b>312</b>	<b>249</b>	<b>-185</b>	<b>119</b>	<b>-119</b>	<b>1,306</b>
Tax					-1,965	-57	57	-1,965
<b>Profit (loss)</b>	<b>487</b>	<b>443</b>	<b>312</b>	<b>249</b>	<b>-2,150</b>			<b>-659</b>
Profit/loss from Nordic Modular, net after tax						63		63
Impairment loss on Nordic Modular					-157			-157
<b>Profit (loss) for the year</b>	<b>487</b>	<b>443</b>	<b>312</b>	<b>249</b>	<b>-2,307</b>	<b>63</b>		<b>-753</b>
<b>FINANCIAL POSITION</b>								
Properties	7,053	5,041	3,973	3,546		1,585	-1,585	19,612
Other assets <sup>2</sup>					1,843	-	-	1,843
<b>Total assets</b>					<b>1,843</b>	<b>1,585</b>	<b>-1,585</b>	<b>21,455</b>
Interest-bearing liabilities <sup>2</sup>					11,313	362		11,675
Provisions and other liabilities <sup>2</sup>					2,264	-		2,264
<b>Total liabilities</b>					<b>13,577</b>	<b>362</b>		<b>13,939</b>
<b>OTHER DISCLOSURES</b>								
Purchases and investments in properties	225	16	51	428	-	66		786
Profit or loss items that do not affect cash flow <sup>2</sup>					576	-		576

1. In 2015, changes were made to the regional allocation of properties compared to 2014. 2014 values have therefore been recalculated.

2. Assets that are not property are not allocated to segments. Neither is allocation done for provisions and liabilities or which pertain to interest rate derivatives with negative value or unpaid purchase sum on properties not yet taken over.

During the year, Kungsleden's operating segments were Stockholm, Mälardalen, Gothenburg and Malmö. The segments manage and improve properties, as well as providing facilities to external customers. In 2014, the segmentation was different, since Nordic Modular was its own segment. However, a decision was made to sell it, and in conjunction with that, it was designated as discontinued operations. Other/Group-wide contains any

items that are not attributable to a specific segment or which pertain jointly to all segments.

Significant transactions between segments consist of Group contributions and internal loans.

ABB is the only customer representing more than 10 per cent of revenues. Rental revenue from ABB in 2015 was SEK 269 (297) million.

Geographic market, SEK m	Sweden		Germany/ Poland		Denmark/ Norway		Deducted: discontinued operations		Total Kungsleden	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	2,314	2,689	0	9	-	60	-	-565	2,314	2,193
Properties	27,470	19,612	-	-	-	109	-	-1,585	27,470	19,612
Purchases and investments in properties	450	786	-	-	-	-	-	-	450	786

## NOTE 5 OPERATING LEASES

### LESSOR

These are lease agreements which, for accounting purposes, are regarded as operating leases where Kungsliden is the lessor. The table below shows rental revenue calculated on current rent contracts, not including parking spots, garage and residential properties, which numbered 2,756 (2,803) as of 31 December 2015. Lease agreements for facilities typically have a lease term of 3–5 years. It is desirable to have longer agreements in certain situations and that occurs, for example, in connection with investments and specific properties or businesses. Index adjustments to the rent amount typically apply. In most cases, there is also a surcharge to basic rent for heating and property tax. The surcharges are based on actual costs incurred by the landlord.

Lessor, rental revenue, SEK m	2015	2014
Contracted revenues with payment within one year <sup>1</sup>	2,224	2,162
Contracted revenues with payment between one and five years <sup>2</sup>	5,230	4,025
Contracted revenues with payment in more than five years	2,472	1,728
<b>Total</b>	<b>9,926</b>	<b>7,915</b>

1. For 2014, SEK 274 million was income attributable to discontinued operations.  
2. For 2014, SEK 46 million was income attributable to discontinued operations.

### LESSEE

Kungsliden has entered into a number of operating leases as lessee for site leaseholds, company cars and office machines. The table below shows contracted payments for site leaseholds. Other operating lease agreements amount to insignificant amounts.

Lessee, site leasehold fees, SEK m	2015	2014
Contracted site leasehold fees with payment within one year	21	10
Contracted site leasehold fees with payment between one and five years	29	29
Contracted site leasehold fees with payment in more than five years	12	21
<b>Total</b>	<b>62</b>	<b>60</b>

## NOTE 6 SELLING AND ADMINISTRATION COSTS

Selling and administration costs pertain primarily to the costs for central functions like business development, accounting and finance, legal and IT, as well as IPO costs and costs attributable to the Group management team. Costs for rental billing, rent demands, accounting and depreciation are also included in equipment. The direct costs for ongoing property management of SEK 109 (83) million are reported as a cost in operating net.

SEK m	2015	2014
Personnel costs	-67	-58
Depreciation/amortisation	-3	-3
Other operating expenses	-36	-40
<b>Total</b>	<b>-106</b>	<b>-101</b>

### FEES TO AUDITORS

The audit engagement includes the audit of the annual report, accounting records and the administration of the Board of Directors and the CEO, as well as other duties that the Company's auditor is obliged to conduct and advice or other assistance resulting from observations made during the audit or performance of these other duties.

SEK m	2015	2014
Audit engagement, KPMG	2	2
Audit engagement, Frejs	1	1
Auditing tasks in addition to the audit assignment, KPMG	1	1
Tax advice, KPMG	4	1
Other assignments, KPMG	5	9
<b>Total</b>	<b>13</b>	<b>14</b>

## NOTE 7 EMPLOYEES AND PERSONNEL COSTS

Also reported in the note are personnel expenses related to profit (loss) from discontinued operations.

The average number of employees for 2015 was 97 (272). Gender and country distribution is provided below.

Average number of employees	2015		2014	
	2015	Share women, %	2014	Share women, %
Sweden	97	52	267	23
Denmark (Nordic Modular)	-	-	3	-
Norway (Nordic Modular)	-	-	2	-
<b>The Group</b>	<b>97</b>	<b>52</b>	<b>272</b>	<b>23</b>

Included in the figures above for 2014, Nordic Modular Group has an average number of employees of 181, of which 8 per cent women. For 2014, Kungsliden had an average number of employees of 91, of which 52 per cent women, and they were primarily employed in the subsidiary, Kungsliden Fastighets AB.

### GENDER DISTRIBUTION FOR THE BOARD AND TOP MANAGEMENT

At the closing date, the Board for Kungsliden AB consisted of 7 (7) members, of which 4 (4) women. There were 11 (10) members of top management, of which 5 (5) women.

Salaries, other remuneration and social security expenses, SEK t	2015		2014	
	Salaries, other remuneration	Social security expenses	Salaries, other remuneration	Social security expenses
<b>THE GROUP</b>				
<i>Senior executives</i>				
Board, CEO and Deputy CEO (of which, pension expenses)	17,037	8,062 (2,144)	12,868	5,983 (1,540)
Larsson, Göran	510	160	510	160
Axelsson Charlotte	230	72	230	72
Gahm, Joachim	230	72	230	72
Hjort Liselotte	230	72	230	72
Holmgren, Lars	360	113	260	82
Orback Pettersson, Kia	230	72	230	72
Wikström, Charlotta	230	72	230	72
Pehrsson, Biljana (CEO)	6,605	3,018	5,741	2,732
Kvist, Anders (Deputy CEO)	5,661	3,053	5,207	2,648
Sarby Westman, Ylva (Deputy CEO)	2,750	1,357	-	-
Other senior executives (of which pension expenses)	14,481	7,965 (2,688)	13,632	7,080 (2,198)
<b>Total senior executives</b>	<b>31,518</b>	<b>16,026 (4,832)</b>	<b>26,500</b>	<b>13,064 (3,738)</b>
Other employees (of which pension expenses)	55,143	29,125 (9,033)	131,693	57,794 (13,937)
<b>Total employees (of which pension expenses)</b>	<b>86,661</b>	<b>45,151 (13,865)</b>	<b>158,193</b>	<b>70,858 (17,675)</b>

All pension expenses pertain to defined contribution pension plans or the ITP plan.

### RENUMERATION TO SENIOR EXECUTIVES Principles

Fees for the Board of Directors is in accordance with a resolution adopted at the Annual General Meeting. Board members employed at the Company do not receive fees. Remuneration to the CEO, Deputy CEO and other senior executives comprises a basic salary, variable pay, other benefits and pensions. Other senior executives are individuals, besides the CEO and Deputy CEO, who belong to the Group management team. For 2015, that team consisted of 8 individuals on average. The variable part of remuneration shall comprise the majority of all possible remuneration and the cap is 75 per cent of fixed annual salary. The variable part is based on actual outcomes in relation to goals that have been set individually.

Note 7, cont.

#### Variable remuneration

For the CEO and Deputy CEO, variable remuneration for 2015 was based on profits from property management. The amount for the CEO and Deputy CEO for 2015 amounted to 73 (70) per cent of basic salary.

For other senior executives, variable remuneration for 2015 was on the same basis as for the CEO and Deputy CEO, as well as on individual targets for own areas of responsibility. The amount for these senior executives for 2015 amounted to 30 (47) per cent of basic salary.

#### Pensions

For all senior executives, the retirement age is 65 years and all of them have a defined-contribution pension plan, which only obliges the Company to pay annual premiums. Pension premiums for the CEO are 25 per cent of fixed annual salary and for one Deputy CEO, the corresponding amount is 30 per cent of fixed annual salary. The ITP plan applies to one Deputy CEO.

For top management, pension premiums are 25 per cent of fixed annual salary. For other senior executives and employees, the ITP plan applies.

#### Termination

For the CEO, the notice of termination is 6 month and for the Company, it is 12 months. When the Company terminates employment, the CEO addition-

ally receives six month's severance pay. Severance pay is not pensionable. If employment termination is initiated by the CEO, there is accordingly not severance pay. A mutual 6-month period of notice applies between the Company and the Deputy CEO. When the Company terminates employment, the Deputy CEO additionally receives eighteen months' severance pay. Severance pay is not pensionable. If employment termination is initiated by the Deputy CEO, there is accordingly no severance pay.

For a senior executive, the notice of termination is 3 month and for the Company it is 6 month. When the Company terminates employment, the senior executive additionally receives twelve months' severance pay. Severance is not pensionable. If employment termination is initiated by the senior executive, there is accordingly no severance pay. For a senior executive, the notice of termination is 6 months and for the Company, it is 12 months. A mutual 3-month period of notice applies between the Company and two of its senior executives. A mutual 4-month period of notice applies between the Company and one of its senior executives. For other senior executive, the notice period as per collective labour agreement applies. For all senior executives, severance pay is offset against other income.

#### Preparatory and decision-making process

Remuneration to senior executives is decided by the Board based on recommendations from the remuneration committee. This is done according to guidelines decided at the AGM.

Remuneration and other benefits, SEK t	Basic Salary/ Board fees		Variable remuneration <sup>1</sup>		Other Benefits		Pension expense <sup>2</sup>		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Chairman of the Board	510	510	-	-	-	-	-	-	510	510
Other Board members	1,510	1,410	-	-	-	-	-	-	1,510	1,410
CEO	3,815	3,401	2,790	2,340	77	84	739	726	7,421	6,550
Deputy CEO <sup>3</sup>	4,884	3,047	3,528	2,160	67	1	1,405	814	9,883	6,023
Other senior executives, 8 (10)	11,137	9,270	3,345	3,761	236	180	2,688	2,198	17,405	15,408
<b>Total</b>	<b>21,855</b>	<b>17,638</b>	<b>9,663</b>	<b>8,261</b>	<b>380</b>	<b>265</b>	<b>4,832</b>	<b>3,738</b>	<b>36,729</b>	<b>29,901</b>

1. Variable remuneration consists of bonus for 2015 financial year, of which SEK 9,663 (8,261) thousands was expensed in 2015.

2. Pension expense pertains to the amount expensed in 2015. More information about pensions is also provided above.

3. The amounts regarding Deputy CEO Anders Kvist and Ylva Sarby Westman includes the full-year 2015.

## NOTE 8 EXPENSES CLASSIFIED BY NATURE AND FUNCTION

Allocation by nature of expense, SEK m	2015	2014
Operation, repairs, maintenance	-547	-604
Other direct property expenses	-113	-138
Raw materials and consumables	-	-111
Other direct production expenses, modular buildings	-	-117
Personnel costs	-143	-229
Depreciation/amortisation	-3	-7
Other external costs	-69	-29
Expenses attributable to discontinued operations	-	430
<b>Total</b>	<b>-875</b>	<b>-804<sup>1</sup></b>

Allocation in the income statement, SEK m	2015	2014
Property expenses - properties	-769	-702
Property costs - modular buildings	-	-123
Costs for modular production	-	-262
Selling and administration costs	-106	-147
<b>Total</b>	<b>-875</b>	<b>-1,234<sup>1</sup></b>

Depreciation/amortisation and impairment by function, SEK m	2015	2014
Production expenses	-	-4
Selling and administration costs	-3	-3
Expenses attributable to discontinued operations	-	4
<b>Total</b>	<b>-3</b>	<b>-3</b>

1. The difference between SEK -804 million in the table, Allocation by nature of expense and SEK -1,234 million in Allocation in the income statement is explained by costs attributable to discontinued operations.

## NOTE 9 NET FINANCIAL ITEMS

Net financial items	2015	2014
Interest income on accounts receivable and loan receivables	1	7
Interest income, associated companies.	10	-
Other financial income	-	4
<b>Total finance income</b>	<b>11</b>	<b>11</b>

Interest expenses, SEK m	2015	2014
<i>Interest expenses on borrowings</i>		
Loans valued at amortised cost	-234	-370
Interest expenses, associated companies	0	-
Interest expenses related to interest rate derivatives (swaps)	-225	-257
<b>Interest expenses on borrowings</b>	<b>-459</b>	<b>-626</b>
<i>Other financial liabilities valued at amortised cost</i>		
	0	-4
<b>Total interest expenses</b>	<b>-459</b>	<b>-630</b>

Profit participation in associated company <sup>1</sup>	24	-
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Other financial expenses, SEK m	2015	2014
Borrowing costs, bank loans <sup>2</sup>	-50	-40
Exchange rate fluctuations	0	0
<b>Total other financial expenses</b>	<b>-50</b>	<b>-41</b>

Net finance (expense)/income	-473	-660
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1. Pertains to the associated company, Nordic Modular Group, which Kungsliden owned at 35 per cent through 21 December 2015.

2. Amortized over the term of the loan.

#### Unrealised changes in value of financial instruments

Unrealised value changes on financial instruments are not reported in net financial items, but instead on a separate row in the income statement.

Financial liabilities valued at fair value through profit or loss, which are held-for-sale, amount to SEK 176 (-427) million. Of that amount, SEK 176 (-427) million is interest rate derivatives. See note 22.

## NOTE 10 TAXES

The income tax rate for Swedish limited liability companies is 22 per cent. In the income statement, tax is allocated between current and deferred tax. Current tax typically involves payment to the Swedish Tax Agency and it is calculated on the year's taxable profit of the individual companies. Taxable profit is often lower than the companies' reported profit and it is based on the total level, which is essentially equivalent to profits from property for the Group, less tax adjustments. Taxation adjustments are primarily comprised of depreciation on buildings and permanent equipment in buildings, deductions that are available for certain types of renovations that are capitalised for accounting purposes, tax-free sales of properties through companies and utilisation of existing loss carry-forwards.

In 2015, paid tax arose (with the exception of prior tax cases) primarily in purchased subsidiaries that are not entitled to a Group contribution in the first year. Other limitations on off-setting taxable profits for current years against taxable losses in other companies exist, primarily because of when the losses arose, the date when profit-generating companies were acquired and any business combinations. Loss carry-forwards at the end of the year totalled SEK 2,227 million. It is expected that, on the whole, current tax over the next few years will be low.

Tax calculation SEK m	2015	2014
Profits from property management	966	730
- of which profit participation in associated companies	-24	-
Items deductible for tax purposes		
- Depreciation/amortisation	-548	-366
- Deduction for renovation	-59	-89
- Other adjustments	-40	-1
<b>Taxable profits from property management</b>	<b>295</b>	<b>274</b>
Sale of properties	45	81
Interest rate derivatives redeemed early	-611	-
Taxable profit, Nordic Modular	-	130
<b>Taxable profit for the year</b>	<b>-271</b>	<b>485</b>
Increased/decreased loss carry forward	281	-456
<b>Taxable profit</b>	<b>10</b>	<b>29</b>
<b>Tax payable, 22 %<sup>1</sup></b>	<b>-2</b>	<b>-6</b>
Tax cases pertaining to prior years	-1,303	-1,604
<b>Current tax in the income statement</b>	<b>-1,305</b>	<b>-1,610</b>

1. Current tax, not including tax cases, amounted to SEK -2 (-6) million, resulting in a tax payable that is below 1 per cent (<1) of profit before tax for the year.

Loss carry-forward, SEK m	2015	2014
Loss carry-forward at the beginning of the year	-1,205	1,777
Increase/decrease in loss carry-forward, this year's operations	-281	456
Adjustments of prior year tax filings	-636	-
Tax cases pertaining to prior years	72	116
Loss carry-forward in purchased companies from property acquisitions	-141	-
Reversals, other balance sheet items	-36	-
<b>Loss carry-forward at the end of the year</b>	<b>-2,227</b>	<b>-1,205</b>

Tax in the income statement, SEK m	2015	2014
Current tax	-1,305	-1,610
Deferred tax	-337	-355
<b>Reported Tax</b>	<b>-1,642</b>	<b>-1,965</b>

Reconciliation of effective tax, SEK m	2015	2014
Profit before tax	2,147	1,306
Tax rate 22 %	-472	-287
Sales of properties via a company	-3	27
Share of profit from associates	5	-
Adjustments of prior year tax filings	140	-
Other tax pertaining to prior years and tax litigation	-1,319	-1,651
Other non-taxable income	8	0
Non-deductible expenses	-1	-54
<b>Reported tax</b>	<b>-1,642</b>	<b>-1,965</b>

Deferred tax is calculated in accordance with the applicable regulations on all temporary differences pertaining to assets and liabilities in the statement of financial position and loss carry-forwards that are expected to be utilised. An exception to this is temporary differences on properties from asset acquisitions. For these, the differences at the date of acquisition are not reported as deferred tax and any deduction received lowers the book value of such properties. For Kungsleden's properties, the temporary difference between fair value and residual value for tax purposes was, as of 31 December 2015, approximately SEK 12,750 million. Tax is calculated using the nominal rate of 22 per cent, in instances where property is sold individually, which would mean a tax expense of SEK 2,805 million for all the properties. If property is instead sold via a company, the tax effect is lower, on average around 6 per cent, for the sales conducted in recent years. The total amount of reported deferred tax in the statement of financial position, as of 31 December 2015, was SEK 1,226 million, which corresponds to 10 per cent of the temporary differences. In the event of a market valuation of deferred tax liability that differs from the reported amount, one per cent of the temporary differences corresponds to approximately SEK 128 million.

Deferred tax on temporary differences and loss carryforward 2015, SEK m	15-01-01	Via profit or loss	Purchase/sale	Transfer other liabilities	15-12-31
Loss carry-forwards	265	186	31	8	490
Properties	-463	-364	-20	-15	-862
Financial instruments	250	-173			77
Tax allocation reserves	-1	0			-1
Other	-20	14	4	11	9
<b>Subtotal deferred tax in financial position</b>	<b>31</b>	<b>-337</b>	<b>15</b>	<b>4</b>	<b>-287</b>
<b>Deferred tax on other rows in the statement of financial position</b>					
Properties - Deduction received in connection with asset acquisition (Note 14)	-203		-161		-364
<b>Total deferred tax on temporary differences and deficits</b>	<b>-172</b>	<b>-337</b>	<b>-146</b>	<b>4</b>	<b>-651</b>

Deferred tax on temporary differences and loss carryforward 2014, SEK m	14-01-01	Via profit or loss	Purchase/sale	Transfer other liabilities	14-12-31
Loss carry-forwards	391	-126			265
Properties	-505	-307	51	298	-463
Financial instruments	156	94			250
Tax allocation reserves	-4	3			-1
Other	-3	-19		2	-20
<b>Subtotal deferred tax in financial position</b>	<b>35</b>	<b>-355</b>	<b>51</b>	<b>300</b>	<b>31</b>
<b>Deferred tax on other rows in the statement of financial position</b>					
Properties - Deduction received in connection with asset acquisition (Note 14)	-203		0		-203
<b>Total deferred tax on temporary differences and deficits</b>	<b>-168</b>	<b>-355</b>	<b>51</b>	<b>300</b>	<b>-172</b>

## NOTE 11 DISCONTINUED OPERATIONS

In 2014, Nordic Modular Group was reported as "available for sale". Accordingly, discontinued operations are reported on the last row of the income statement. In the balance sheet, this is reported on a separate line both on the assets and liabilities side. Nordic Modular Group was a wholly owned subsidiary. Accordingly, the financial statements included 100 per cent of its earnings and balances.

In 2014, Nordic Modular's profit for the period was SEK 63 million. At year-end 2014, the entire shareholding was valued at the price agreed for the sale of 65 per cent of the shares to Inter IKEA Investments, which was finalised in early January 2015. As a result, there was an impairment loss of SEK -157 million.

During 2015, Kungsliden had a 35 per cent holding in Nordic Modular Group. In December 2015, the associated company was divested.

## NOTE 12 EARNINGS PER SHARE

	2015	2014
Earnings per share, before and after dilution, SEK/share	2.78	-5.18
Earnings per share, from continuing operations, basic and diluted, SEK/share	2.78	-4.53
Earnings per share, from discontinued operations, basic and diluted, SEK/share	-	-0.65
Outstanding number of shares	182,002,752	182,002,752
Average number of shares <sup>1</sup>	182,002,752	145,352,883
Profit (loss) from continuing and discontinued operations, SEK m	505	-753
Profit (loss) from continuing operations, SEK m	505	-659
Profit (loss) from discontinued operations, SEK m	-	-94

1. During 2014, there was a new issue of 45,500,688 shares. There was no dilutive effect because there were no potential ordinary shares.

## NOTE 13 INTANGIBLE ASSETS

SEK m	Intangible assets	
	15-12-31	14-12-31
Accumulated cost at beginning of the year	-	209
Reclassification to assets held for sale	-	-209
Depreciation for the year	5	-
<b>Accumulated cost at year-end</b>	<b>5</b>	<b>-</b>
Accumulated impairment losses at beginning of the year	-	-7
Impairment losses for the year	-	-29
Reclassification to assets held for sale	-	36
<b>Accumulated impairment losses at year-end</b>	<b>-</b>	<b>-</b>
<b>Carrying amount at year-end</b>	<b>5</b>	<b>-</b>

## NOTE 14 INVESTMENT PROPERTIES - PROPERTIES

SEK m	15-12-31	14-12-31
Carrying amount at beginning of the year	19,612	20,338
Purchases	7,076	386
Investments in owned properties	450	334
Carrying amount of sold properties	-639	-2,379
Exchange rate fluctuations	-	3
Unrealised changes in value <sup>1</sup>	970	930
<b>Carrying amount at year-end</b>	<b>27,470</b>	<b>19,612</b>

SEK m	Industrial/ware-houses				All Other properties
	Offices	Retail	Other properties	All	
Property at the beginning of the year	10,717	6,186	2,351	360	19,612
Purchases	5,812	878	386	0	7,076
Investments in owned properties	260	132	53	5	450
Carrying amount of sold properties	-58	-527	-44	-10	-639
Unrealised changes in value <sup>1</sup>	811	181	-9	-12	970
<b>Property at year-end</b>	<b>17,542</b>	<b>6,850</b>	<b>2,737</b>	<b>343</b>	<b>27,470</b>

1. Unrealised changes in value are recognised in profit or loss on the line, unrealised changes in value, which is a component of Value changes, assets.

When properties are acquired via a company, Kungsliden typically obtains deductions for taking over temporary differences compared to if the purchase had been a direct property acquisition. For asset acquisitions, these deductions for deferred tax are not reported as a deferred tax liability, but instead as a deduction on the property value, which is in accordance with the accounting standards. The table below shows the fair value of properties along with the total deduction for deferred tax that was received upon acquisition.

Direct costs for investment properties that did not generate rental revenue during the period were SEK 1 million.

SEK m	15-12-31	14-12-31
Fair value of properties	27,835	19,816
Received deduction for deferred tax for the purchase of properties via a company (asset acquisition)	-364	-203
<b>Carrying amount at year-end</b>	<b>27,470</b>	<b>19,612</b>

### VALUATION OF PROPERTIES

Internal valuations of all properties were conducted as of 31 December 2015 representing the carrying amount. All properties were also valued some time during the year (about 1/4 per quarter) by external appraisers in order to quality assure and verify the internal valuations.

### Internal valuation

Kungsliden has decided to base the fair value on internally conducted valuations. Kungsliden regularly conducts its own internal valuations as an integral part of the business process. This involves, for each property, making an individual assessment of the amount the property could be sold for.

### Valuation method

Kungsliden reports its property portfolio at fair value, which, for properties, is the same as market value. Fair value is based on the regularly conducted, own internal valuations that are an integral part of the business process. This involves, for each property, making an individual assessment of the amount the property could be sold for. Valuation is based on Level 3. This means that the valuation is based on inputs that are not observable market data. For a description of the valuation levels, see Note 22.

Sensitivity analysis, valuation	Change	Impact on value, SEK m
Operating net	+/-1.0%	+275/ -275
Yield requirement	+/-0.1%	-410/ +410

Note 14, cont.

For valuation of properties, Kungsliden applies a combination of the performance-based cash flow method and the comparison method. The present value of future cash flow for each individual property is forecast, along with the residual value based on a five-year calculation period. The yield requirement that is applied is based on Kungsliden's active presence in the transaction market and it has been assessed based on the risks associated with each property and analyses of completed transaction in each location, in accordance with the comparison method. For these valuations, a 1.5 per cent inflation assumption has been used.

The table below shows the average yield requirement for each property segment. The yield requirements of the valuations fall within the range of 4.8 to 13.5 per cent.

	Fair value <sup>1</sup> , SEK m	Average yield requirement, %	Interval yield requirement, %
Offices	17,818	6.1	4.8-10.0
Industrial/warehouses	7,111	7.4	5.2-12.0
Retail	2,556	6.9	5.7-9.0
Other	350	7.5	6.8-13.5
<b>Total</b>	<b>27,835</b>	<b>6.5</b>	<b>4.8-13.5</b>

1. Before deduction for deferred tax at time of purchase.

SEK m	Offices	Industrial/Warehouses	Retail	Other	Assessed properties	Not externally valued	Received deduction for deferred tax at time of purchase	All properties
Carrying amount	17,818	7,111	2,556	350	27,835	0	-364	27,470
External valuation	17,613	7,141	2,761	356	27,870			

## NOTE 15 EQUIPMENT

SEK m	15-12-31	14-12-31
Accumulated cost at beginning of the year	21	33
Purchases	3	7
Sales/disposals	0	-4
Reclassification to assets held for sale	-	-15
<b>Accumulated cost at year-end</b>	<b>24</b>	<b>21</b>
Accumulated depreciation at beginning of the year	-13	-18
Sales/disposals	2	1
Depreciation for year	-3	-5
Reclassification to assets held for sale	-	9
<b>Accumulated impairment losses at year-end</b>	<b>-14</b>	<b>-13</b>
<b>Carrying amount at year-end</b>	<b>10</b>	<b>8</b>

## NOTE 16 OTHER NON-CURRENT RECEIVABLES

SEK m	15-12-31	14-12-31
Carrying amount at beginning of the year	9	239
New long-term receivables	0	0
Exchange rate fluctuations	0	0
Repayments	-4	-230
<b>Carrying amount at year-end</b>	<b>6</b>	<b>9</b>

The change in 2015 pertains to repayment of a promissory note associated with the sale of property in Germany in 2014. In 2014, promissory notes were repaid that had been obtained in connection with the purchase of properties from Nordic & Russia Properties in 2011. For a description of credit risks, see Note 2.

## NOTE 17 EQUITY

At the end of the financial year, share capital amounted to SEK 75,834,480 and the number of shares was 182,002,752. In 2015, there were no changes in share capital, number of shares or quotient value. During 2014, there was a new share issue, which increased share capital by SEK 18,958,620 and the number of shares by 45,500,688. The quotient value is 0.42 (0.42). There has not been any dilutive effect because there are no potential shares.

### Adjusted net assets value, EPRA NAV

Calculation of long-term net worth is done by adjusting equity for derivatives and deferred tax.

Net worth	2015		2014	
	SEK m	SEK/share	SEK m	SEK/share
Equity as per balance sheet	9,333	51.28	9,102	50.01
<i>Add back</i>				
Derivatives as per balance sheet	347	1.90	1,134	6.23
Deferred tax as per balance sheet	287	1.58	-31	-0.17
<b>Long-term net worth (EPRA NAV)</b>	<b>9,967</b>	<b>54.76</b>	<b>10,205</b>	<b>56.07</b>
Average number of shares		182,002,752		182,002,752

## NOTE 18 INTEREST-BEARING LIABILITIES

SEK m	15-12-31		14-12-31	
	Nominal amount	Fair value	Nominal amount	Fair value
Liabilities to credit institutions				
Bank loans with variable interest rate	17,456	17,554	11,675	11,781
<b>Interest rate derivatives</b>				
Interest rate swaps, SEK 12,030 (6,825) million	-	347	-	1,134
<b>Total loans and derivatives</b>	<b>17,456</b>	<b>17,901</b>	<b>11,675</b>	<b>12,915</b>

Maturity date bank and bond loans	15-12-31		14-12-31	
	Nominal amount	Share, %	Nominal amount	Share, %
2015			2,762	20.5
2016	1,416	7.8	3,423	25.4
2017	741	4.1	338	2.5
2018	3,700	20.5	2,639	19.6
2019	5,264	29.1	4,305	32.0
2020	5,119	28.3		
2021	1,832	10.1		
<b>Total</b>	<b>18,072</b>	<b>100.0</b>	<b>13,467</b>	<b>100.0</b>
Unutilised credits	-616		-1,792	
<b>Total utilised credits</b>	<b>17,456</b>		<b>11,675</b>	

There is a bank overdraft for SEK 250 (250) million, which was fully unutilised at year-end 2015 and 2014.

### Undiscounted cash flows for financial liabilities and derivatives

Year	Maturity loans	Interest payment loans	Maturity <sup>1</sup> derivatives	Interest payment derivatives
2016	1,166	259		174
2017	375	253	910	116
2018	3,700	303	1,000	73
2019	5,264	239	1,000	28
2020	5,119	133	2,770	16
2021	1,832	58	1,800	6
2022			3,500	8
2023				0
2024			1,050	
<b>Total</b>	<b>17,456</b>	<b>1,245</b>	<b>12,030</b>	<b>421</b>

1. Kungsleden has entered into derivative contracts with one-year interest rate floors that mature in 2016 totalling SEK 3,880 million in nominal terms, with strike 0 per cent.

## NOTE 19 PROVISIONS

SEK m	15-12-31	14-12-31
Provisions at start of year	5	60
New provisions (profit/loss from property sales)	-	0
Reversals	-	-50
Reclassification, liabilities related to assets held for sale	-	-5
<b>Provisions at year-end</b>	<b>5</b>	<b>5</b>

SEK m	15-12-31	14-12-31
Refinancing risk, promissory note receivable	-	0
Other	5	5
<b>Total</b>	<b>5</b>	<b>5</b>

SEK m	15-12-31	14-12-31
Fall due within one year	-	5
Fall due between one and five years	-	-
Fall due in more than five years	5	-
<b>Total</b>	<b>5</b>	<b>5</b>

## NOTE 20 OTHER LIABILITIES

At year-end, other liabilities consisted of SEK 2 (13) million in unpaid consideration. There were properties that had been accessed and also properties that had been vacated at year-end, but with final payment to be made during the first quarter of 2016.

## NOTE 21 MATURITY STRUCTURE FOR LIABILITIES

SEK m	15-12-31	14-12-31
Fall due within one year	1,903	3,637
Fall due between one and five years	14,458	9,162
Fall due in more than five years	2,120	-
<b>Total</b>	<b>18,480</b>	<b>12,800</b>

The maturity structure for liabilities pertains to interest-bearing liabilities and operating liabilities, not including provisions and the fair value of derivatives. All accounts payable fall due within one year.

## NOTE 22 VALUATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

SEK m	Accounts receivable and loan receivables <sup>1</sup>		Financial liabilities valued at fair value through profit or loss		Other liabilities		Total carrying amount		Fair value	
	15-12-31	14-12-31	15-12-31	14-12-31	15-12-31	14-12-31	15-12-31	14-12-31	15-12-31	14-12-31
Long-term receivables	6	9					6	9	6	9
Accounts receivable	24	16					24	16	24	16
Other receivables	43	44					43	44	43	44
<b>Total</b>	<b>73</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>	<b>69</b>	<b>73</b>	<b>69</b>
Interest-bearing liabilities					17,456	11,675	17,456	11,675	17,554	11,781
Accounts payable					149	141	149	141	149	141
Other liabilities			347	1,134	10	37	357	1,171	357	1,171
<b>Total</b>	<b>-</b>	<b>-</b>	<b>347</b>	<b>1,134</b>	<b>17,615</b>	<b>11,853</b>	<b>17,962</b>	<b>12,987</b>	<b>18,060</b>	<b>13,093</b>

1. The amounts in this column represent the maximum credit risk.

Note 22, cont.

#### VALUATION

A number of OTC derivatives are used to hedge cash flow risks for interest and fluctuation in share price from a previous employee stock option plan. There are three valuation categories (levels):

Level 1: according to prices in active markets for identical instruments.

Level 2: based on directly or indirectly observable market data not included in Level 1.

Level 3: based on inputs that are unobservable in the market.

Kungsliden's derivatives are valued using valuation techniques where the input is observable market data (Level 2). The value of these derivatives was SEK 347 (1,134) million.

The fair value of accounts receivable and loan receivables has been individually assessed based on the risk that the receivable will not be repaid. A similar valuation is done in accordance with the principles for carrying amount. At the last two year-end closings, the reported fair value has equalled the assessed fair value.

Rental losses for the year were SEK 1 (-4) million.

Liabilities to credit institutions, SEK m	15-12-31	14-12-31
Liabilities at the beginning of the year	11,675	12,879
New loans	9,488	1,350
Amortisation	-3,706	-2,554
<b>Liabilities at year-end</b>	<b>17,457</b>	<b>11,675</b>

#### NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets for liabilities, SEK m	15-12-31	14-12-31
Property mortgages	13,905	10,248
Shares in Subsidiaries	4,337	3,804
<b>Total</b>	<b>18,242</b>	<b>14,052</b>

Assets have primarily been pledged for bank loans. Covenants may exist in loan agreements pertaining to the interest coverage ratio and loan volume in relation to the fair value of properties.

Contingent liabilities, SEK m	15-12-31	14-12-31
Tax demands	-	1,360
Project guarantees	-	1
Rental guarantees	2	2
Other guarantees and obligations	103	24
<b>Total</b>	<b>105</b>	<b>1,384</b>

Obligations and legal responsibilities for remediation of contaminated land may occur in the future for both owned and sold properties. Costs can arise in the form of, for example, increased costs for remediation of land in connection with new construction, renovations or extensions as well as price reductions on properties being sold. Assessing such future amounts is not possible. Occasionally, disputes can also arise in the course of doing business. The outcome of such disputes can often be difficult to predict. In cases where it is likely that a dispute will result in a cost for the Group, it is reported in the financial statements.

#### NOTE 24 SUPPLEMENTARY DISCLOSURES ON CASH FLOWS

Other adjustments not included in cash flow from operations, SEK m	2015	2014
Provisions	0	-10
Depreciation/amortisation and impairment	3	3
Provision/confirmed for rental and bad debt losses.	-1	5
Exchange rate fluctuations	0	0
Profit (loss) from sale of equipment	-	0
Increase (-) / decrease (+) in interest receivable	0	3
Increase (-) / decrease (+) in interest payable	19	-2
Profit participation in associated companies	-24	-
Other profit or loss items that do not impact liquidity	0	0
<b>Total</b>	<b>-3</b>	<b>-1</b>

Interest, SEK m	2015	2014
Interest received	11	14
Interest paid	-440	-633

Acquisition of subsidiaries, SEK m	2015	2014
<i>Purchased assets and liabilities</i>		
Investment properties	6,899	386
Operating Receivables	38	2
Cash and cash equivalents <sup>1</sup>	91	17
<b>Total assets</b>	<b>7,028</b>	<b>405</b>

Interest-bearing liabilities	-	-
Operating liabilities	3,980	337
<b>Total Provisions and Liabilities</b>	<b>3,980</b>	<b>337</b>

Cash payment, shares	3,048	68
Cash payment, repayment of loans	3,818	0
Deducted: liquid assets in the acquired business	-91	-17
<b>Effect of the purchased company on cash</b>	<b>6,775</b>	<b>51</b>

Acquisition of subsidiaries, SEK m	2015	2014
<i>Sold assets and liabilities</i>		
Investment properties	198	2,229
Operating Receivables	1,800	2
Cash and cash equivalents	0	0
<b>Total assets</b>	<b>1,998</b>	<b>2,231</b>

Deferred tax	0	51
Operating liabilities	472	1,083
<b>Total Provisions and Liabilities</b>	<b>472</b>	<b>1,134</b>

Consideration received, shares	1,161	1,105
Cash received, loan amortisation	375	-
<b>Received purchase sum</b>	<b>1,536</b>	<b>1,105</b>
Deducted: liquid assets in the divested business	0	0
<b>Effect of the wholly-owned subsidiary on cash</b>	<b>1,536</b>	<b>1,105</b>

1. Cash includes cash and bank balances as well as amounts connected with assets that are held for sale.

#### NOTE 25 TRANSACTIONS WITH RELATED PARTIES

Remuneration to Board members and senior executives for work completed is disclosed in Note 7.

There have not been any transactions besides these with any related parties or individuals.

#### NOTE 26 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 26 January 2016, agreements were signed pertaining to the sale of two properties in Karlskrona. The properties will be vacated in mid-February 2016. On 2 February 2016, agreements were signed pertaining to the sale of two properties. One is in Kalmar, which will be vacated in February 2016 and one is in Visby, which will be vacated in April 2016. On 13 January, agreements were signed pertaining to the sale of a property in Motala, to be vacated in the same month. The above-mentioned properties have a combined value of SEK 282 million.

# INCOME STATEMENT – PARENT COMPANY

SEK m	Note	2015	2014
Intra-Group income		43	28
Administration costs	2-3	-40	-30
<b>Operating profit (loss)</b>		<b>3</b>	<b>-2</b>
<b>PROFIT/LOSS FROM FINANCIAL ITEMS</b>			
Profit (loss) from participations in Group companies	4	1,113	149
Interest income and similar items	4	359	239
Interest expenses and similar items	4	-272	-800
		<b>1,200</b>	<b>-412</b>
<b>Profit before tax</b>		<b>1,203</b>	<b>-414</b>
<b>TAX</b>			
Current tax		-1,303	-
Deferred tax	5	-10	96
<b>Profit (loss) for the year</b>		<b>-110</b>	<b>-318</b>

## PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

SEK m	2015	2014
Profit (loss) for the year, as per the income statement	-110	-318
Other comprehensive income	-	-
<b>Comprehensive income for the year</b>	<b>-110</b>	<b>-318</b>

## COMMENTS ON THE PARENT COMPANY'S INCOME STATEMENT

Sales were 43 (28) million, which was income from Group companies for distributed administration costs.

Financial items primarily consist of the interest expense on bond loans and interest on swap agreements for the Group's borrowings, as well as reversed provisions for the Group's interest rate swaps, for

which the undervalue declined due to the rise in long-term interest rates during the year. Financial items also include transactions related to holdings in subsidiaries.

Profit (loss) for the year, after tax, was SEK -110 (-318) million.

## PROPOSED APPROPRIATION OF PROFITS

<b>The following unappropriated earnings are at the disposal of the AGM:</b>	
Profit (loss) brought forward	SEK 5,323,725,134
Share premium reserve	SEK 1,549,156,569
Profit (loss) for the year	SEK -110,306,440
<b>Total</b>	<b>SEK 6,762,575,263</b>

<b>The Board of Directors suggests the following appropriation of earnings:</b>	
Dividends to shareholders of SEK 2.00 per share	SEK 364,005,504
Share premium reserve	SEK 1,549,156,569
Carried forward	SEK 4,849,413,190
<b>Total</b>	<b>SEK 6,762,575,263</b>

Starting in 2013, the Board implemented a new dividends policy aimed at better reflecting the Company's long-term value creation goals. Over the medium term, once Kungsliden tax situation is fully resolved, the goal is to distribute as dividends up to 50 per cent of profits from property management. Over the next few years however, dividends will be lower and adapted to the Company's liquidity needs.

Based on the dividends policy and the Parent Company's and

Group's financial position, the Board proposes dividends of SEK 2.00 per share for the 2015 financial year.

The proposed dividend corresponds to 5 per cent of the Parent Company's unrestricted equity and 4 per cent of the Group's equity.

With the proposed dividend, the Parent Company achieves an equity ratio of 40 per cent and the corresponding figure for the Group is 32 per cent.

The equity ratio is deemed adequate, particularly given that the Parent Company and the Group have a high earnings capacity following the major property acquisitions that were made in 2015.

As of 31 December 2015, available liquidity, including unutilised credit was SEK 1,057 million. Based on this, the assessment is that the Group's liquidity preparedness remains strong.

The Board is of the opinion that the proposed dividend does not prevent the Company, or other companies belonging to the Group, from meeting its obligations over the short or long term. Neither does it present any obstacles to making the necessary investments. The proposed dividend is thus justifiable having considered Chapter 17, Section 3, paragraphs two and three of the Annual Accounts Act (prudence rule).

The proposed appropriation of profits will be brought forth for adoption at the AGM on 28 April 2016.

# BALANCE SHEET - PARENT COMPANY

SEK m	Note	15-12-31	14-12-31
<b>ASSETS</b>			
<i>Non-current assets</i>			
Participations in Group companies	6	6,036	6,748
Receivables from Group companies	7	1,831	2,471
Deferred tax receivable	5	368	378
Other non-current receivables	7	2	6
<b>Total non-current assets</b>		<b>8,237</b>	<b>9,603</b>
<i>Current assets</i>			
Receivables from Group companies		7,881	7,131
Other receivables		7	5
Prepaid expenses and accrued income	8	13	9
Cash and bank		376	1,257
<b>Total current assets</b>		<b>8,277</b>	<b>8,402</b>
<b>TOTAL ASSETS</b>		<b>16,514</b>	<b>18,005</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
<i>Restricted equity</i>			
Share capital		76	76
		<b>76</b>	<b>76</b>
<i>Non-restricted equity</i>			
Accumulated profit or loss		5,324	5,915
Share premium reserve		1,549	1,549
Profit (loss) for the year		-110	-318
		<b>6,763</b>	<b>7,146</b>
<b>Total equity</b>		<b>6,839</b>	<b>7,222</b>
<i>Provisions</i>			
Provisions for pensions and similar obligations		2	2
<b>Total provisions</b>		<b>2</b>	<b>2</b>
<i>Non-current liabilities</i>			
Bond loans		375	700
Liabilities to Group companies		-	-
<b>Total non-current liabilities</b>	9-11	<b>375</b>	<b>700</b>
<i>Current liabilities</i>			
Liabilities to credit institutions		700	999
Accounts payable		2	3
Liabilities to Group companies		8,191	7,921
Derivatives		395	1,134
Other liabilities		3	-
Accrued expenses and deferred income	12	7	24
<b>Total current liabilities</b>	10, 11	<b>9,298</b>	<b>10,081</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,514</b>	<b>18,005</b>
<b>Pledged assets and contingent liabilities, SEK m</b>			
Pledged assets	13	337	3,068
Contingent liabilities	13	16,381	9,975

## COMMENTS ON THE PARENT COMPANY'S BALANCE SHEET

At the end of the year, assets primarily consisted of participations in Group companies for SEK 6,036 (6,748) million. There were also significant receivables and liabilities to Group companies. The net amount was a receivable of SEK 1,521 (1,681) million.

Financing was primarily via equity, which was SEK 6,839 (7,222) million at the end of the year, with a corresponding equity ratio of 41 (40) per cent.

# PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

SEK m	Restricted equity	Non-restricted equity		Total equity
	Share capital	Share premium reserve	Non-restricted equity	
<b>Opening equity 2014-01-01</b>	<b>57</b>	<b>-</b>	<b>6,086</b>	<b>6,143</b>
Profit (loss) for the year			-318	-318
<b>Total change in wealth excl. transactions with the Company's owner</b>			<b>-318</b>	<b>-318</b>
New issue <sup>1</sup>	19	1,549		1,568
Dividends			-171	-171
<b>Total transactions with the Company's owner</b>	<b>19</b>	<b>1,549</b>	<b>-171</b>	<b>1,397</b>
<b>Closing equity 2014-12-31</b>	<b>76</b>	<b>1,549</b>	<b>5,597</b>	<b>7,222</b>
<b>Opening equity 2015-01-01</b>	<b>76</b>	<b>1,549</b>	<b>5,597</b>	<b>7,222</b>
Profit (loss) for the year			-110	-110
<b>Total change in wealth excl. transactions with the Company's owner</b>			<b>-110</b>	<b>-110</b>
Dividends			-273	-273
<b>Total transactions with the Company's owner</b>	<b>-</b>	<b>-</b>	<b>-273</b>	<b>1,276</b>
<b>Closing equity 2015-12-31</b>	<b>76</b>	<b>1,549</b>	<b>5,214</b>	<b>6,839</b>

1. Costs for the new emission amounted to SEK 24 million.

# PARENT COMPANY'S STATEMENT OF CASH FLOWS

SEK m	Note 14	2015	2014
<b>OPERATING ACTIVITIES</b>			
Profit before tax		1,203	-414
Dividends, not settled		-387	-396
Group contributions received		-517	-151
Profit (loss) on sales		-286	-
Depreciation, Group companies		77	1,933
Provision/reversal of provisions for derivatives		-127	425
Unrealised currency translation gains (losses)		-1	-1
Provision for pensions		-	1
Tax paid		-1,303	-
Cash flow from operating activities before change in working capital		-1,341	1,397
<i>Changes in working capital</i>			
Increase(-)/Decrease(+) in operating receivables		-756	-2,444
Increase(+)/Decrease(-) in operating liabilities		520	2,182
<b>Cash flow from operating activities after change in working capital</b>		<b>-1,577</b>	<b>1,135</b>
<b>INVESTING ACTIVITIES</b>			
Sale of Group companies		1,165	-
Shareholders' contribution paid		-215	-1,032
Long-term loans that were made		-175	-
Repayment of other financial assets		818	205
<b>Cash flow from investing activities</b>		<b>1,593</b>	<b>-827</b>
<b>FINANCING ACTIVITIES</b>			
Rights issue		-	1,568
New loans		375	-
Repayment of loan		-999	-600
Dividends		-273	-171
<b>Cash flow from financing activities</b>		<b>-897</b>	<b>797</b>
<b>Cash flow for the year</b>		<b>-881</b>	<b>1,105</b>
Cash equivalents at the beginning of the year		1,257	152
<b>Cash equivalents at year-end</b>		<b>376</b>	<b>1,257</b>

# NOTES FOR THE PARENT COMPANY

## NOTE 1 PARENT COMPANY ACCOUNTING PRINCIPLES

The Parent Company, Kungsleden AB, has prepared its annual report in accordance with the Annual Accounts Act and RFR 2. The applied accounting principles appear in the applicable parts of the Group's accounting principles, with the following additions for the Parent Company.

### PARTICIPATIONS IN GROUP COMPANIES

Shares in Group companies are reported at historical cost. The value is regularly tested for impairment.

### FINANCIAL INSTRUMENTS

Financial receivables and liabilities are reported at historical cost. The risk of loss on financial receivables and derivatives is considered.

### FINANCIAL GUARANTEES

The Parent Company's financial guarantees consist of guarantees on behalf of Group companies. For its reporting of financial guarantees, the Parent Company applies one of the RFR2 simplified rules, rather than the rules stated in IAS 39 Financial Instruments: Recognition and measurement. The Parent Company reports financial guarantee agreements as a provision in the balance sheet when the Company has an obligation for probable payment. Otherwise, the obligation is reported as a contingent liability.

### GROUP CONTRIBUTION

Group contributions received from a subsidiary are reported in accordance with the same principles that are typically applied to dividends from subsidiaries. Group contributions that are made to subsidiaries are reported as investments in shares of Group companies.

Shareholder contributions are reported by the maker as an increase in the book value of shares and by the recipient, as an increase in unrestricted equity.

### DIVIDENDS

Dividends from subsidiaries and associated companies are recognised as revenue when the right to receive the dividend is established.

Anticipated dividends from foreign subsidiaries are reported only in those instances when the Parent Company has the sole authority to determine the dividend amount and has made such decision before publishing its financial statements.

If the carrying amount of the Parent Company's holding in the subsidiary or associated company exceeds the carrying amount in the financial statements it is regarded as an indication of impairment, thus requiring a test for impairment.

## NOTE 2 ADMINISTRATION COSTS

Administration costs, SEK m	2015	2014
Personnel costs	-30	-19
Other operating expenses	-10	-11
<b>Total</b>	<b>-40</b>	<b>-30</b>

Administration costs pertain primarily to the costs for central functions like business development, accounting and finance, legal and IT, as well as IPO costs and costs attributable to the Group management team.

Administration costs amount to SEK 40 (30) million and the largest item included in that amount is personnel expenses for SEK 30 (19) million, which is primarily remuneration to the Group management team and Board members.

Auditors do not invoice their fees and expense reimbursements directly to the Parent Company. Instead, they send the total amount for all Group companies to Kungsleden Fastighets AB, which then sends invoices to the Group companies for those amounts along with other joint administration expenses.

## NOTE 3 EMPLOYEES, PERSONNEL EXPENSES AND BOARD FEES

Average number of employees	Share women		Share women	
	2015	%	2014	%
Sweden	4	50	4	50
<b>Total</b>	<b>4</b>	<b>50</b>	<b>4</b>	<b>50</b>

Salaries, other remuneration and social security expenses, SEK t	2015		2014	
	Salaries, other remuneration	Social security expenses	Salaries, other remuneration	Social security expenses
Board, CEO and Deputy CEO	17,037	8,062	12,868	5,983
Other employees	5,340	2,403	6,092	2,192
(of which pension expenses)		-2,715		-2,372
<b>Total</b>	<b>22,377</b>	<b>10,465</b>	<b>18,959</b>	<b>8,176</b>

Fees for the Board of Directors is in accordance with a resolution adopted at the Annual General Meeting. For information on remuneration to each Board member, as well as remuneration to senior executives, please see Note 7 in the consolidated financial statements.

## NOTE 4 PROFIT (LOSS) FROM FINANCIAL ITEMS

Profit (loss) from subsidiaries, SEK m	2015	2014
Dividends	387	1,931
Group contributions received	517	151
Profit (loss) from disposal of shares	286	-
Impairment	-286	-2,363
Reversal of impairment losses	209	430
<b>Total</b>	<b>1,113</b>	<b>149</b>

Interest income and similar items, SEK m	2015	2014
<i>Interest income</i>		
Group Companies	221	233
Other companies	10	5
Reversal of reserves, undervalue of derivatives	127	-
Other	1	1
<b>Total</b>	<b>359</b>	<b>239</b>

Interest expenses and similar items, SEK m	2015	2014
<i>Interest expenses</i>		
Group Companies	-	-24
Other companies	-263	-324
Reserves, undervalue of derivatives	-	-425
Other	-9	-27
<b>Total</b>	<b>-272</b>	<b>-800</b>

## NOTE 5 TAXES

Tax in the income statement, SEK m	2015	2014
Current tax	-1,303	-
Deferred tax	-10	96
<b>Reported Tax</b>	<b>-1,313</b>	<b>96</b>
Reconciliation of effective tax, SEK m	2015	2014
Profit before tax	1,203	-414
Tax rate 22 %	-265	91
Dividends from Group companies	85	425
Impairment of shares in Group companies	-17	-425
Settled derivatives	140	0
Other tax pertaining to prior years and tax litigation	-1,319	4
Sale of subsidiaries	63	0
Other	0	1
<b>Reported Tax</b>	<b>-1,313</b>	<b>96</b>

No tax amounts have been reported directly to equity.

Deferred tax on temporary differences and loss carryforwards, SEK m	At beginning of the year	Via profit or loss	At year-end
Loss carry-forwards	128	153	281
Financial instruments	249	-163	86
Other temporary differences	1	0	1
<b>Total</b>	<b>378</b>	<b>-10</b>	<b>368</b>

## LISTING FOR THE PARENT COMPANY'S HOLDINGS OF SHARES IN GROUP COMPANIES

Directly owned subsidiaries' CIN/domicile/country	No. of shares	Share % <sup>1</sup>	Book value, SEK m	
			15-12-31	14-12-31
Kungsleden Fastighets AB, 556459-8612, Stockholm	200	100	128	312
Realia AB, 556639-7419, Stockholm	100,000	100	1,506	1,438
Kungsleden Norrlandsfastigheter AB, 556481-1429, Stockholm	1,000	100	1,755	1,757
Kungsleden Syd AB, 556480-0109, Stockholm	1,000	100	62	50
Bovård i Sverige AB, 556429-6126, Stockholm	1,000	100	131	131
Kungsleden Äldre B AB, 556635-1366, Stockholm	1,000	100	23	23
Kungsleden Real Estate BV, 34209547, Netherlands	900	100	0	0
Kungsleden Service AB, 556610-9087, Stockholm	1,000	100	1	0
Realia International BV, BV502052-1156, Netherlands	2,351	75	10	10
Kungsleden Mattan AB, 556718-3354, Stockholm	1,000	100	349	352
Kungsleden Friab AB, 556742-6548, Stockholm	1,000	100	1,355	1,234
KL Norge Holding AB, 556730-0875, Stockholm	1,000	100	6	6
Kungsleden Kalinka Holding AB, 556844-2957, Stockholm	50,000	100	95	79
Kungsleden Holding GmbH, Germany	1	100	0	0
Nordic Modular Group AB, 556691-3868, Upplands Väsby	-	-	-	769
Kungsleden Balsberget AB, 556919-3013, Stockholm	50,000	100	1	0
Kungsleden Tannberget AB, 556920-8043, Stockholm	50,000	100	0	0
Kungsleden Alsberget AB, 556919-3021, Stockholm	50,000	100	0	0
Kungsleden Mariaberget AB, 556919-3039, Stockholm	50,000	100	2	0
Kungsleden Vegaholding AB, 556919-3047, Stockholm	50,000	100	77	77
Kungsleden Holdmix AB, 556967-3311, Stockholm	500	100	491	492
Kungsleden Kebnekaise AB, 556968-3187, Stockholm	500	100	24	12
Kungsleden Holdmix 2 AB, 556974-4526, Stockholm	500	100	6	6
Kungsleden Grönberget Holding AB, 556990-0805	500	100	1	0
Kungsleden Grönberget AB, 556989-0410, Stockholm	500	100	11	-
Kungsleden Tegel AB, 559025-8298, Stockholm	500	100	1	-
Kungsleden Holdmix 3 AB, 559007-2665, Stockholm	500	100	1	-
<b>Total</b>			<b>6,036</b>	<b>6,748</b>

1. This refers to the participating interest in equity, which also corresponds to the share of votes for the total number of shares.

## NOTE 6 PARTICIPATIONS IN GROUP COMPANIES

SEK m	15-12-31	14-12-31
Accumulated cost at beginning of the year	15,005	14,130
Purchases	1	-
Sales	-769	-
Shareholder contributions	133	875
<b>Accumulated cost at year-end</b>	<b>14,370</b>	<b>15,005</b>
Accumulated impairment losses at beginning of the year	-8,257	-6,324
Reversal of impairment losses	209	430
Impairment losses for the year	-286	-2,363
<b>Accumulated impairment losses at year-end</b>	<b>-8,334</b>	<b>-8,257</b>
<b>Carrying amount at year-end</b>	<b>6,036</b>	<b>6,748</b>

Directly owned subsidiaries are listed below. Other Group companies are not presented in the Parent Company's annual report since the information is insignificant in terms of the requirement of giving a true and fair view. However, the other companies are presented in the annual reports for each subsidiary.

## NOTE 7 OTHER NON-CURRENT RECEIVABLES

SEK m	15-12-31	14-12-31
Receivables at the beginning of the year	2,477	2,700
Promissory notes for the year	175	-
Paid endowment insurance	-	1
Reclassified as current receivable	-2	-2
Exchange rates	-1	1
Amortisation for the year	-816	-233
<b>Total</b>	<b>1,833</b>	<b>2,477</b>

## NOTE 8 PREPAID EXPENSES AND ACCRUED INCOME

SEK m	15-12-31	14-12-31
Prepaid expenses	13	9
Accrued interest income	-	-
<b>Total</b>	<b>13</b>	<b>9</b>

## NOTE 10 FINANCIAL ASSETS AND LIABILITIES

SEK m	Receivables from Group companies, etc.		Other financial liabilities		Total Carrying Amount		Fair value	
	15-12-31	14-12-31	15-12-31	14-12-31	15-12-31	14-12-31	15-12-31	14-12-31
Other non-current receivables	2	6			2	6	2	6
Receivables from Group companies	7,881	7,131			7,881	7,131	7,881	7,131
Other receivables <sup>1</sup>	-	-			-	-	-	-
<b>Total assets</b>	<b>7,883</b>	<b>7,137</b>	<b>-</b>	<b>-</b>	<b>7,883</b>	<b>7,137</b>	<b>7,883</b>	<b>7,137</b>
Non-current liabilities			375	700	1,075	700	1,075	705
Accounts payable			2	3	2	3	2	3
Liabilities to Group companies			8,191	7,921	8,191	7,921	8,191	7,921
Other liabilities <sup>1</sup>			1,098	2,133	398	2,133	398	2,133
<b>Total liabilities</b>			<b>9,666</b>	<b>10,757</b>	<b>9,666</b>	<b>10,757</b>	<b>9,666</b>	<b>10,762</b>

1. The fair value of the Company's interest rate derivatives amount to SEK -395 (-1,134) million.

The Parent Company's derivatives are valued using valuation techniques where the input is observable market data (Level 2). The value of these derivatives was SEK -395 (-1,134) million.

## NOTE 11 MATURITY STRUCTURE FOR LIABILITIES

SEK m	15-12-31	14-12-31
Fall due within one year	8,903	8,947
Fall due between two and five years	375	700
Fall due in more than five years	-	-
<b>Total</b>	<b>9,278</b>	<b>9,647</b>

Maturity structure for interest-bearing liabilities and operating liabilities, excluding tax liabilities and undervalue of derivatives.

## NOTE 12 ACCRUED EXPENSES AND DEFERRED INCOME

SEK m	15-12-31	14-12-31
Accrued interest expenses	5	22
Accrued employee benefit expenses	2	2
Accrued loan expenses	-	-
<b>Total</b>	<b>7</b>	<b>24</b>

## NOTE 9 LOANS AND INTEREST RATE DERIVATIVES

The Parent Company has two (three) bond loans. The bank loans that existed at the start of the year, were amortised during the year. In addition, there are interest rate derivatives on both its own loans and other external loans of the Group companies.

There is a bank overdraft for SEK 250 (250) million, which was fully unutilised at year-end 2015 and 2014.

Below are the maturity dates for loans and interest rate derivatives.

Maturity date, SEK m	15-12-31		14-12-31	
	Bank and bond loans	Interest rate derivatives, nominal amount <sup>1</sup>	Bank and bond loans	Interest rate derivatives, nominal amount
2015			999	1,400
2016	700	-	700	500
2017	375	910		500
2018		1,000		3,650
2019		1,000		800
2020		2,770		800
2021		1,800		400
2022		3,500		500
2023		-		-
2024		1,050		-
<b>Total</b>	<b>1,075</b>	<b>12,030</b>	<b>1,699</b>	<b>8,550</b>

1. Kungsliden has entered into derivative contracts with one-year interest rate floors that mature in 2016 totalling SEK 3,880 million in nominal terms, with strike 0 per cent.

In the consolidated financial statements, Note 22, information is provided on how valuation of financial instruments is done.

## NOTE 13 PLEDGED ASSETS AND CONTINGENT LIABILITIES

SEK m	15-12-31	14-12-31
Pledged assets for subsidiary loans		
Shares in Group companies	337	1,237
Receivables from Group companies	-	1,831
<b>Total</b>	<b>337</b>	<b>3,068</b>

SEK m	15-12-31	14-12-31
<b>CONTINGENT LIABILITIES</b>		
Guarantees on behalf of Group companies	16,381	9,975
<b>Total</b>	<b>16,381</b>	<b>9,975</b>

**NOTE 14** SUPPLEMENTARY DISCLOSURES  
ON CASH FLOWS

Cash does not include any other items besides cash and bank balances.

<b>Interest etc., SEK m</b>	<b>2015</b>	<b>2014</b>
Dividends received	1,931	2,053
Interest received	232	242
Interest paid	-281	-292

**NOTE 15** TRANSACTIONS WITH RELATED PARTIES

<b>Transactions with subsidiaries, SEK m</b>	<b>2015</b>	<b>2014</b>
Sales of goods/services to related parties	43	28
Other, e.g. interest, dividends	618	2,139

<b>Items in the balance sheet</b>	<b>15-12-31</b>	<b>14-12-31</b>
Receivables from Group companies	9,712	9,602
Liabilities to Group companies	-8,191	-7,921

Remuneration to Board members and senior executives for work completed is disclosed in Note 3. There have not been any transactions besides these with any related parties or individuals.

# ANNUAL REPORT SIGNATURES

The Board of Directors and CEO hereby declare that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international accounting standards (IFRS) as required by Regulation (EC) 1606/2002 adopted on 19 July 2002 regarding the application of international accounting standards. The Annual Report and consolidated financial statements provide a true and fair view of the financial position and earnings of the Parent Company and the Group. The Directors' Report for the Group and Parent Company provides a true and fair summary of developments in the Parent Company and Group's business, earnings and financial position as well as describing any significant risks or uncertainties faced by the Parent Company or any of the companies belonging to the Group.

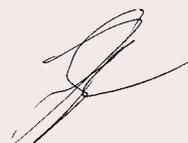
Stockholm 17 March 2016



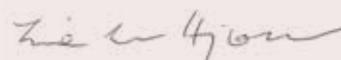
Göran Larsson  
Chairman



Charlotte Axelsson  
Board member



Joachim Gahm  
Board member



Liselotte Hjorth  
Board member



Lars Holmgren  
Board member



Kia Orback Pettersson  
Board member



Charlotta Wikström  
Board member



Biljana Pehrsson  
Managing Director

Our audit report was submitted on 18 March 2016  
KPMG AB



George Pettersson  
Authorised Public Accountant

# AUDIT REPORT

TO THE AGM OF KUNGSLEDEN AB (PUBL), CIN 556545-1217

## REPORT ON THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

We have conducted an audit of the annual report and consolidated financial statements for Kungsliden AB (publ) for the 2015 financial year. The annual report and consolidated financial statements are included in the published version of this document on pages 18–84.

### The Board's and CEO's responsibility for the annual report and consolidated financial statements

The Board of Directors and the CEO are responsible for preparing an annual report which give a true and fair view in accordance with the Annual Accounts Act and for preparing consolidated financial statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the Annual Accounts Act, and for providing the level of internal control that the Board and the CEO deem necessary to prepare an annual report and consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on the annual report and consolidated financial statements based on our audit. We conducted the audit in accordance with International Standards on Auditing and generally accepted auditing practices in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual report and consolidated financial statements are free of material misstatement.

An audit includes various measures to obtain audit evidence about the amounts and disclosures in the annual report and consolidated financial statements. The auditor selects the actions to be performed, including assessing the risks of material misstatements in the annual report and consolidated financial statements, whether due to fraud or error. When performing this risk assessment, the auditor takes into account the components of the internal controls that are relevant to how the Company prepares its annual report and consolidated financial statements in order to provide a true and fair view. The aim is to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of the accounting policies applied and the reasonableness of estimates used by the Board of Directors and CEO when preparing the financial statements, as well as an evaluation of the overall presentation of the annual report and consolidated financial statements.

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

### Opinion

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and in all material respects, gives a true and fair view of the Parent Company's financial position as at 31 December 2015 and of its financial performance and cash flows for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Group's financial position as at 31 December 2015 and of its financial performance and cash flows for the year in accordance with the International Financial Reporting Standards (IFRS) that have been adopted by the EU and with the Annual Accounts Act. A corporate governance report has been prepared. The Board of Directors' report and corporate governance report are consistent with the other parts of the annual report and the consolidated accounts.

We therefore recommend that the AGM should adopt the income statements and balance sheets for the Parent Company and the income statement and consolidated statement of position for the Group.

## REPORT ON OTHER REQUIREMENTS ACCORDING TO LAWS AND OTHER REGULATIONS

In addition to our audit of the annual report and consolidated financial statements, we have also audited the proposed appropriation of the profit or loss and the administration of the Board of Directors and CEO of Kungsliden AB (publ) for the 2015 financial year.

### The Board of Directors' and CEO's responsibility

The Board of Directors is responsible for the proposed appropriation of the profit or loss, and the Board of Directors and the CEO are responsible for administering the Company in accordance with the Swedish Companies Act.

### AUDITOR'S RESPONSIBILITY

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

As a basis for our opinion on the Board's proposed appropriation of the profit or loss, we examined the Board's opinion and a sample of the evidence supporting its opinion in order to assess whether the proposal complies with the Swedish Companies Act.

As the basis of our statement regarding discharge from liability, besides our audit of the annual report and consolidated financial statements, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the CEO. We also examined whether any Board member or the CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association.

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

### Opinion

We recommend to the AGM that the profit (loss) be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of directors and the CEO be discharged from liability for the financial year.

Stockholm, 18 March 2016  
KPMG AB



George Pettersson  
Authorised Public Accountant

# DEFINITIONS

## PROPERTY RELATED KEY RATIOS

### Average rent, SEK per sq. m.

Rental revenue divided by the average leased space.

### Earnings capacity

Earnings capacity shows how earnings would have looked if properties as of the closing date had been owned for the last 12 months. Properties that have been relinquished as of the end of the accounting period are not included and properties accessed by the end of the accounting period are included as if they had been owned for twelve months. The calculation is based on the following other conditions:

- for properties where twelve months have elapsed since the date of access to the property, the figure for the last twelve is included in the calculation.
- for properties where more than six months, but less than twelve months have elapsed since the date of access to the property, the figure included in the calculation is the amount corresponding to twelve months.
- for properties where less than six months have elapsed since the date of access to the property, the figure included in the calculation is the amount corresponding to the acquisition computation.

### Economic occupancy rate

Rental revenue divided by the rental value.

### Leasable area

Unleased space plus leasable vacant space.

### Operating and maintenance costs, SEK per sq. m.

Operating and maintenance costs divided by the average for leasable space.

### Operating net

Rental revenue less property costs (e.g. operating and maintenance costs, site leasehold fees, property tax and property administration are included).

### Rental revenue

Total rental revenue.

### Rental value

Billed rents and rent surcharges (such as property tax) plus the assessed market rent for unleased space and rent discounts.

### Surplus ratio

Operating net divided by rental revenue.

### Yield

*Calculation method for earnings capacity*  
Operating net, excluding property administration, in relation to the book value for properties at the end of the accounting period.

*Calculation method for actual amount*

Operating net in relation to the average book value of properties. For interim period closings, the yield is recalculated to full-year basis. Average book value of properties is calculated as the sum of opening and closing balances divided by two.

## KEY FIGURES, FINANCIAL

### Debt/equity ratio

Interest-bearing liabilities divided by equity.

### Equity ratio

Equity including minority interests divided by total assets.

### Interest coverage ratio

Profit (loss) for the period plus tax, unrealised changes in value of financial instruments, properties and discontinued operations and profit (loss) from property sales and financial expenses, in relation to financial expenses.

### LTV (loan-to-value)

Interest-bearing liabilities divided by the book value of property.

### Return on assets

Operating net, profit (loss) on property sales, selling and administration cost and the profit (loss) from Nordic Modular, net after tax, divided by average assets. For interim period closings, the yield is recalculated to full-year basis. Average assets is calculated as the sum of opening and closing balances divided by two.

### Return on equity

Profit (loss) for the period after tax divided by average equity. For interim period closings, the yield is recalculated to full-year basis. Average equity is calculated as the sum of opening and closing balances divided by two.

## SHARE-RELATED KEY FIGURES

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### Average number of shares

Number of outstanding shares weighted over the year.

### Cash flow from operating activities per share

Cash flow from operating activities in relation to the average number of shares.

### Decided/proposed dividend per share

The Board's proposed dividend or the dividend amount decided by the AGM per outstanding share.

### EPRA NAV

Equity, with derivatives and deferred tax added back, divided by the number of shares at the end of the period.

### Equity per share

Equity in relation to the number of shares at the end of the period.

### Profits from property management per share

Profits from property management divided by the average number of shares during the period.

### Profit (loss) for the year per share

Profit (loss) for the year in relation to the average number of shares during the period.

### Total return on shares

Sum of the change in the share price during the period or, paid dividend/redemption during the period in relation to the share price at the start of the period.

### Yield on shares

Decided/proposed dividend/redemption in relation to the share price at the end of the period.

## GLOSSARY

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### Average remaining contract length

The remaining contract value divided by annual rent.

### Category

The primary use of properties based on space allocation. The type of space representing the largest share of total space is what determines how the property is defined. A property that has 51 per cent office space is thus defined as office property. The allocation categories are offices, industry/warehouses, commercial, modular buildings and other.

### Contract value

Rent, in accordance with the rental contract plus indexation and rent surcharges expressed as an annual amount.

### Financial vacancy level

Assessed market rent for unleased space divided by rental value.

### Maintenance

Actions aimed at maintaining the property and its technical systems. This pertains to ongoing and planned actions to replace or renovate parts of the building or technical systems. Tenant improvements are also included here.

### Profits from property management

Operating net/gross profit (loss), selling and administration costs and net financial items.

### Property costs

Costs for electricity, heating, water, property maintenance, cleaning, property administration, insurance and maintenance less charged additions for operations and maintenance.

### Unrealised changes in value

The difference between book value and accumulated cost for properties at year-end, less difference between book value and accumulated cost for properties at the beginning of the year.

# INVITATION TO THE AGM

The AGM for Kungsleden AB (publ) will take place on 28 April 2016 at 2 p.m. at Kungsleden's new head office, located at Warfvinges väg 31 West Kungsholmen in Stockholm.

## REGISTRATION

Shareholders who would like to participate in the AGM must be registered in their own name in the registry maintained by Euroclear Sweden AB on Friday 22 April 2016, as well as submitting notification of their intention to participate by Friday 22 April 2016

via [www.kungsleden.se/agm2016](http://www.kungsleden.se/agm2016)

or to the Company by regular mail:

Kungsleden AB (publ)  
Attn: Sinikka Arfwidsson  
Box 70414  
107 25 Stockholm

When registering, the shareholder must provide name, personal ID/CIN, address, daytime telephone number and any assistants who will attend.

If participation will be through a representative or substitute, the necessary documents (power of attorney, certificate of registration and other authorisation documents) should be submitted to the Company no later than Friday, 22 April 2016. Note that power of attorney documents must be dated and the original must be submitted. Power of attorney forms are available to download from the Company's website, [www.kungsleden.se/agm2016](http://www.kungsleden.se/agm2016).

Shareholders who have their shares registered with a trustee must, in order to participate in the AGM, request to be temporarily registered in the registry maintained by Euroclear Sweden AB in his or her own name. Such registration must be completed no later than Friday, 22 April 2016, which means that the trustee must be informed well in advance of that date.

## DISTRIBUTION OF THE ANNUAL REPORT

A printed version of Kungsleden's annual report is distributed to all new shareholders and other shareholders who specifically request such.

## DIVIDENDS

In conjunction with release of the 2015 year-end report, Kungsleden presented a new business plan and new financial targets for the company. The intention is to increase dividends to shareholders at the same rate of increase in profits from property management.

Based on the new dividends policy and the Parent Company's and Group's financial position, the Board proposes dividends of 2.00 (1.50) for the 2015 financial year.

The record date for the dividend is suggested as Monday, 2 May 2016. If the AGM decides in accordance with the proposal, dividends are expected to be paid by Euroclear Sweden AB on Friday, 6 May 2016.



# kungsleden.com

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## Calendar

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Annual Report  
2015  
**23 March 2016**

Interim Report  
1 Jan–31 Mar 2016  
**28 April 2016**

Interim Report  
1 Jan–30 Sep 2016  
**19 October 2016**

AGM 2016  
**28 April 2016**

Interim Report  
1 Jan–30 Jun 2016  
**13 July 2016**

## Contact

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### Head office

Warfvinges väg 31  
Box 704 14  
SE-107 25 Stockholm  
Tel: +46 8 503 052 00  
Fax +46 8 503 052 01

### Biljana Pehrsson

CEO  
+46 8 503 052 04

### Anders Kvist

Deputy CEO and CFO  
+46 8 503 052 11

### Ylva Sarby Westman

Deputy CEO and CIO  
+46 8 503 052 27

### Marie Mannholt

Head of Communications  
and Marketing  
+46 8 503 052 20

KUNGSLEDEN AB (PUBL)  
CIN 556545-1217  
REG OFFICE STOCKHOLM

# KUNGSLEDEN