

KUNGSLEDEN

ANNUAL AND SUSTAINABILITY REPORT 2016

*“We achieve our objectives and
increase the investment rate.”*

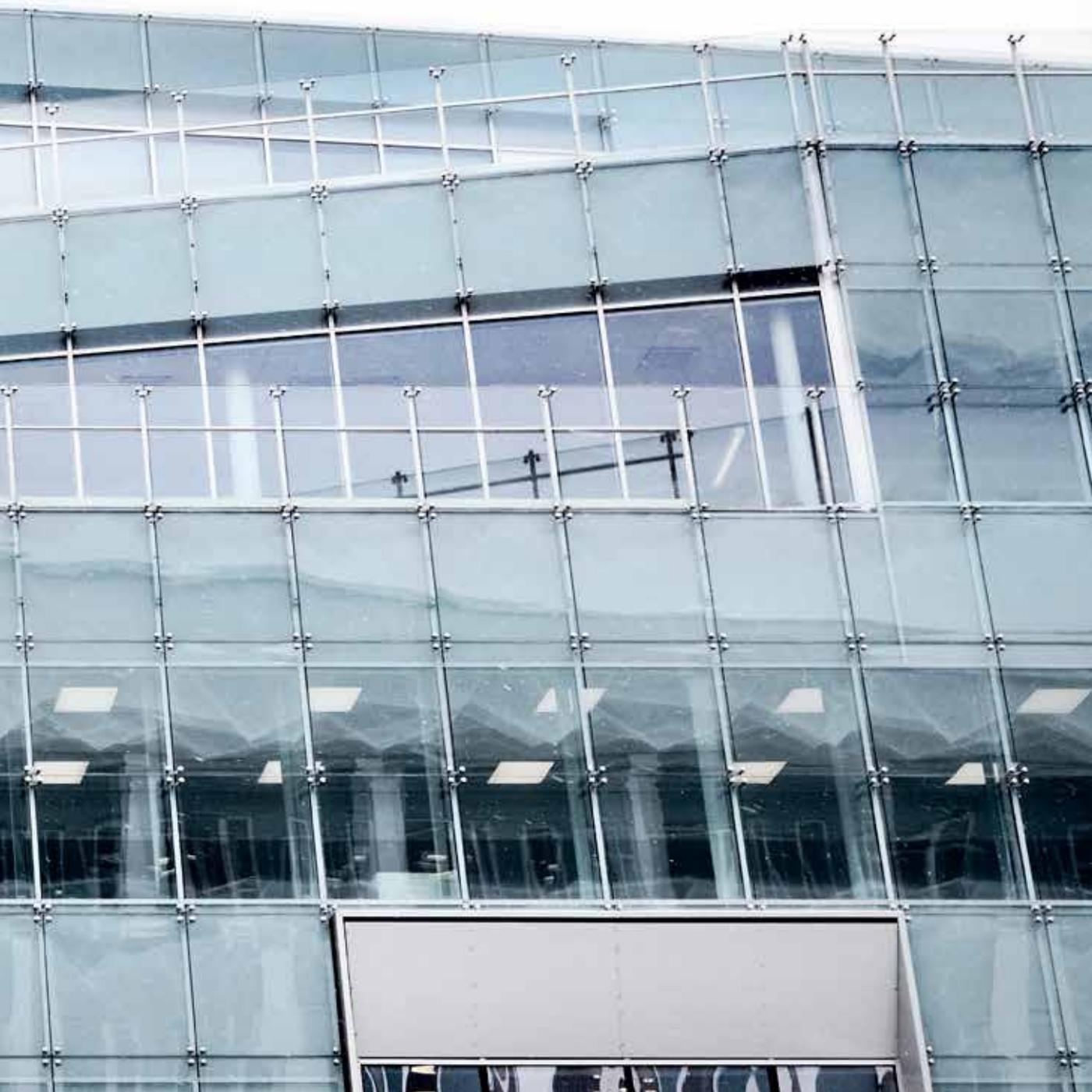


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Legal annual report and Board of Directors' report

The legal annual report including the Board of Directors' report, with the exception for the Corporate Governance report is revised and includes pages 1-3, 12-43 and 54-83.



KUNGSLEDEN 2016

Kungsleden is a property company with a focus on long-term ownership and a drive to actively manage, refine and develop commercial properties in growth regions in Sweden, thereby delivering an attractive total return to the company's shareholders.

At the end of the year 79 per cent of the property portfolio was in Stockholm, Gothenburg, Malmö and Västerås. Clients represent a cross-section of Swedish businesses with everything from major international companies to public and young fast-growing companies in a wide variety of industries. Our vision and goal is to gather properties in clusters. It gives us the opportunity to adapt the offer based on the clients' needs and to affect a whole area's development. By clustering we create sustainable environments and places where people like to be.

NUMBER OF PROPERTIES	BOOK VALUE, SEK M	LEASABLE AREA, K SQ.M	NET LEASING, SEK M
269 (291)	29,169 (27,470)	2,580 (2,238)	99 (7)
RENTAL REVENUE, SEK M	UNREALISED VALUE CHANGES IN PROPERTIES, SEK M	AVERAGE NUMBER OF EMPLOYEES	Listed on Nasdaq Stockholm Large Cap, ticker KLED
2,422 (2,665)	1,658 (970)	107 (97)	

THE YEAR IN BRIEF

Kungsleden completed 2016 strongly. Strong progress in leasing led to a satisfactory full year outcome for both new leasing and net leasing. A strong pipeline of new and existing refinement and development projects, four of which have begun large refurbishment and extension projects, increase the investment rate. Thanks to a good value increase along with reduced borrowing, the LTV (loan-to-value) ratio has decreased.

- New leasing amounted to SEK 216 (133) million
- The profit from property management increased by 5 per cent to SEK 990 (942) million¹
- Net profit/loss for the period amounted to SEK 1,869 (505) million
- Property investments for the year amounted to SEK 609 (450) million
- LTV (loan-to-value) ratio has decreased to 56.4 per cent (61.9)

1. In the figures for the previous year, the profit (loss) from participations in associated companies has been excluded for better comparison.

Key figures	Jan-Dec 2016	Jan-Dec 2015
FINANCIAL		
Profit (loss) for the period, SEK per share	10.27	2.78
Equity, SEK per share	59.55	51.28
EPRA NAV (long-term net asset value), SEK per share	69.32	56.76
Return on equity, %	18.5	5.5
Operating net - properties, SEK m	1,602	1,545
Interest coverage ratio	3.0	2.9

Key figures	Jan-Dec 2016	Jan-Dec 2015
PROPERTY RELATED		
Economic occupancy rate, % ¹	90.6	90.6
Economic occupancy rate excl. project properties ²	92.0	91.3
Rental revenues excl. project properties, SEK/sq.m	1,070	979
Property costs excl. project properties, SEK/sq.m	311	290

1. The definition of economic occupancy rate has been changed. Comparison figures have been recalculated. See page 87 for current definitions.
2. Comparison figures have been adjusted to take into account the period of time project properties have been held.

63 PER CENT OF KUNGSLEDEN'S PROPERTY PORTFOLIO IS LOCATED IN THE 11 CLUSTERS

PROPERTY MANAGEMENT REGION, GOTHENBURG

• Högsbo, 108,000 sq.m

24%

of the book value in the region located in clusters

PROPERTY MANAGEMENT REGION, MALMÖ

• Fosie, 54,000 sq.m
• Hyllie/Svågertorp, 50,000 sq.m^{1,2}

33%

of the book value in the region located in clusters

80%

The book value in the region located in the clusters

PROPERTY MANAGEMENT REGION, STOCKHOLM

• Danderyd Offices, 99,000 sq.m
• Kista City, 146,000 sq.m
• Västberga industrial area, 39,000 sq.m
• Stockholm City West, 35,000 sq.m
• Stockholm City East, 35,000 sq.m
• Östersund, 79,000 sq.m

63%

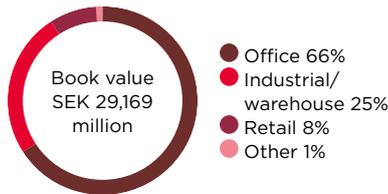
of the book value in the region located in clusters

PROPERTY MANAGEMENT REGION, MÄLARDALEN

• Västerås City, 153,000 sq.m
• Finnslätten Industrial area, 236,000 sq.m

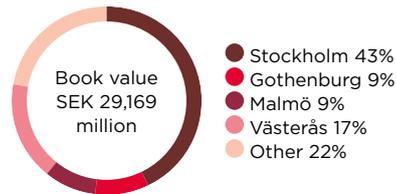
1. Including Emporia Office, 10,000 sq.m, not yet accessed.
2. Including 10,000 sq.m parking garage, which is not included in the leasable area.

PROPERTY VALUE BY CATEGORY 2016



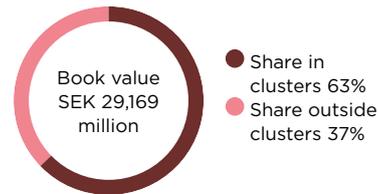
“Focus on offices”

PROPERTY VALUE BY LARGE URBAN CONCENTRATION 2016



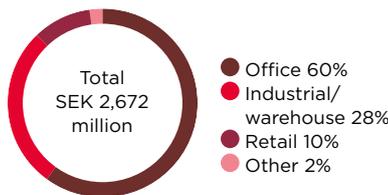
“Mainly in prioritised growth markets”

SHARE OF PROPERTIES LOCATED IN CLUSTERS 2016



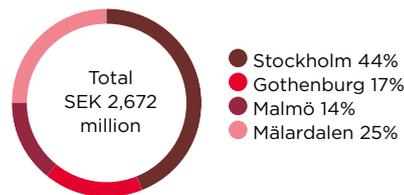
“Increased focus on cluster development”

RENTAL VALUE BY CATEGORY 2016



“Focus on offices”

RENTAL VALUE BY PROPERTY MANAGEMENT REGION 2016



“Increasing share in Stockholm”

BEST EQUAL GENDER COMPANY IN THE STOCK EXCHANGE

In 2016 Kungsleden was appointed the best equal gender company in the stock exchange by the Foundation AllBright.

LEASING MANAGER OF THE YEAR 2016

Kungsleden's leasing team was awarded several awards in Lokalguiden's award for "Leasing Manager of the Year". Read more on page 23.



“We continue to develop and improve our property portfolio by investing in redevelopment and extension projects as well as new construction that will generate increased rental revenue, improved operating net and value increases. We have reached our objectives for 2016 and continue with great commitment toward our vision to create attractive places that enrich people’s working day.”

BILJANA PEHRSSON, CEO KUNGSLEDEN

THE YEAR IN BRIEF

2016 was characterised by very strong leasing, a high investment rate and continued value increases across the portfolio. Non-strategic properties have been divested for SEK 700 million. In addition, properties with building right potential for residential were divested for SEK 321 million. 79 per cent of the holdings are now available in any of the prioritised growth markets of Stockholm, Gothenburg, Malmö and Västerås. Other examples of progress are our increased presence within our clusters, lower financial costs and successful project development with four properties in the implementation stage and several in the pipeline.



Blästern 14, development projects in the inner city of Stockholm.

Q1

- A 20-year lease agreement on 9,500 sq.m was signed with Nobis for a new design hotel in the property Blästern 14 in Stockholm. The project went into implementation stage.
- Nine properties were divested in seven municipalities, Kalmar, Gotland, Norrtälje, Köping, Vänersborg, Karlskrona and Motala for a total of SEK 382 million.
- New Asset Managers were recruited – to Stockholm City East, Stockholm City West and Västberga in Stockholm as well as to Högsbo in Gothenburg.

Q2

- Non-strategic and residential building rights were divested at a value of SEK 193 million and five municipalities were vacated.
- Development Project Holar 1 in Kista went into implementation stage. A 20-year lease agreement was signed with an operator to create an apartment hotel.
- Zoning plan for development of Blästern 14 in Stockholm was made legally valid. The lease agreement with Nobis from the first quarter of 2016 increased in July to just over 11,000 sq.m, when an additional agreement for approximately 1,500 sq.m for a rooftop terrace and extension with two floors, was signed.
- The Isblocket property in Hyllie in Malmö was accessed with fully leased office areas.
- 750 sq.m was leased to Matdistriktet in the property Lustgården 12 in the cluster Stockholm City West. The establishment is a great addition to the area which has been lacking a high quality food destination and meeting place.
- A local property management office was opened in the cluster Stockholm City East.
- A bond loan was issued. The fund re-finances bond loans which expire and is used for general corporate purposes.
- Kungsleden's first trainee program was launched with three trainees.
- Kungsleden's "property days" were organised to inspire and develop employees in property management, leasing, development and transaction.





Bergudden 8, beside E18
in central Danderyd.

Q3

- Eight non-strategic properties were divested at a value of SEK 186 million and Kungsleden vacated another municipality.
- A lease agreement of 3,000 sq.m was signed with a major tenant in Tegnér Mall in Växjö. Therefore the project went into implementation stage.
- Two new local property management offices were opened: in Danderyd and in Norrköping.
- An employee survey was carried out with a 100 per cent response rate. Both a work satisfaction index and employee satisfaction index exceeded the objectives.
- A strategy for management of existing and future residential building rights was undertaken.

Q4

- During the fourth quarter new lease agreements were signed to a value of SEK 67 (40) million and net leasing amounted to SEK 50 (10) million.
- Kungsleden was selected as the best equal gender company of the stock exchange by the Foundation AllBright.
- An extension of the cluster in expansive Hyllie in Malmö to approximately 50,000 sq.m through the acquisition of office property Emporia Office, currently subject to a cadastral partition procedure, as well as a new parking garage which has been accessed.
- Ten properties and part of a property where a partition procedure is on-going were divested, to a total value of SEK 284 million. This includes divested properties with potential residential building rights to a value of SEK 205 million with future earnout.
- Kungsleden refinanced bank loans of SEK 1,340 million through a long-term loan via Realkredit Danmark.
- Tax rulings from 2015 became legally valid after the Supreme Administrative Court rejected the application of appeal.



Interior from Triangle 5
on Vendevägen in Danderyd.

SIGNIFICANT EVENTS Q1, 2017

- Kungsleden's share position advanced up to Nasdaq Stockholm's Large Cap list.
- From 1 January 2017 three more equally large asset and property management units were created: Stockholm, Gothenburg/Malmö and Mälardalen.
- Kungsledens Leasing Managers won several awards in the award for "Leasing Manager of the Year 2016".
- Board of Directors announced on 2 February 2017 its decision to implement a new share issue of approximately SEK 1,600 million.
- Board of Directors announced the proposed dividend of SEK 2.00 per share (2.00).
- During an Extra General Meeting on 6 March 2017 the new rights issue was voted for.

WE ACHIEVE OUR OBJECTIVES AND INCREASE THE INVESTMENT RATE

In the annual report for 2015, I described what Kungsleden would focus on during 2016 and the upcoming years ahead. It is with great satisfaction that I can now confirm that we have started to deliver on all of these areas.

Our focus for 2016 was to improve profitability through increased new leasing and strengthened loyalty among the tenants. With a new leasing of SEK 216 (133) million and net leasing of SEK 99 (7) million, I cannot be anything other than very pleased with the outcome of these efforts. We have also worked with adjusting the rents to market-level rents, continued to optimise the operating and maintenance expenses, implemented strategic divestments and acquisitions and have started with our ambitious investment programme.

Thanks to strong new leasing and a full pipeline of refinement and development projects, we will increase the investment rate considerably over the next few years and we will probably reach the investment objective of SEK 1–1.2 billion for 2016–2018 already in 2017.

PROFITABLE INVESTMENTS STRENGTHEN THE PORTFOLIO

Through investment in our properties we gradually increase the quality of the portfolio and strengthen the earnings capacity. At the end of 2016 we had ten properties classified as project properties and four where construction is on-going. In addition to the major development projects we continuously invest in the property portfolio through upgrading tenant improvements and maintenance investment.

“Success requires to consistently keep to one’s strategy and implement it.”

STRONG RENTAL MARKET AND RECORD LEASING

We have managed to achieve good momentum in leasing operations and our efforts to maintain and attract tenants have turned out well. A strong market has of course contributed, but it is also a result of the higher quality of the property portfolio. During 2016 the economic occupancy rate excluding project properties improved and amounted to 92.0 per cent (91.3).

We will now continue to reduce vacancy rates by being responsive to our tenants and our prospective clients. With active property management we will create rental growth and achieve property management efficiency to maximise the operating net and thereby create long-term value for our owners.

SEK 216 m

With new leasing of SEK 216 (133) million and net leasing of SEK 99 (7) million, I cannot be anything other than very pleased with the outcome of these efforts.

STREAMLINING AND REALISATION OF POTENTIAL RESIDENTIAL BUILDING RIGHTS

During the year we have divested non-strategic properties for approximately SEK 700 million and vacated 11 municipalities. Our property portfolio is now concentrated to 58 municipalities, after vacated properties divested during the year. Of the holdings, 79 per cent are available in any of our prioritised growth markets Stockholm, Gothenburg, Malmö and Västerås.

Our strategy for realising values in potential residential building rights is to drive zoning plan processes and to divest building rights during the process. That is what we have done during the year. We have sold five properties at a price of SEK 321 million plus future earnout. The divestments mean that the future residential building rights are priced from SEK 5,000 to 10,000 per sq.m. After these divestments we have 360 000 sq.m left that we will actively try to divest in 2017 and onwards.

At the end of 2016, we also completed a strategic acquisition when we purchased the Emporia Office building with modern offices in the Emporia shopping centre at our Hyllie cluster in Malmö. Our main acquisition focus in the future is to find complementary strategic and value creating acquisitions, initially in our clusters in Stockholm, Gothenburg and Malmö.

CONSISTENT STRATEGY FOR SUCCESS

I am firmly convinced that success requires one to consistently keep to the strategy and to demonstrate it step by step. Going forward our shareholders can expect to see much of the same. Over the past few years, we have strived to increase the quality and to concentrate the portfolio to growth regions, to gather properties within walking-distance of the cluster with good accessibility and high demand (63 per cent of the portfolio) and strengthen the focus on offices (66 per cent of the portfolio).



Kungsleden's strategy is based on our analysis of a number of market trends and the business environment around us. This is about urbanisation, economic growth and sustainable development.

At Kungsleden, sustainability is about both business opportunities, responsibilities and reduced expenses. With

actions to reduce energy consumption, in 2016 we have reduced our expenses by approximately SEK 6 million. Sustainability strategy also includes efforts to achieve greater diversity and an inclusive society, good and safe working environments as well as professionalism and strong business ethics. During the year we have signed the UN's Global Compact and our sustainability work is based on its ten principles.

Our office properties in growing municipalities benefit from the dominant trends in the business environment and my assessment is that developments will be profitable in the future. The rental market for commercial premises is good but the range is limited and we expect, as well as many external assessors, a continued high demand, particularly in offices with good locations. I believe we will continue to experience a strong 2017.

Yield requirements have decreased in recent years, partly as a result of the low interest rates. There are assessors who believe that yield requirements will continue to increase in the future as interest rates also increase and that we will quickly see decreased property values. I would like to highlight that historical data

79 per cent

Our portfolio is now concentrated to 58 municipalities and 79 per cent of the portfolio is found in any of our priority growth markets.

suggests during economic downturns the yield requirements' upward adjustment tends to happen at a moderate pace. Property values are determined by the estimated future cash flow and market's yield requirement. We have a good rental growth in the market, which will compensate a lot of when the yield requirements start to increase. There are, however, no market indications that this will happen in the near future.

The main risk I see right now is the political upheaval across the world with unpredictable political leaders, terror attacks and populist forces gaining ground around the world. It creates uncertainty in society and in Swedish businesses, even if as yet, there are few indications of negative impact on growth in Sweden and the Swedish property market. I personally find it difficult to see anything positive in the geopolitical developments in the world apart from Sweden could potentially position itself as a "safe haven" during these times. Kungsleden will remain informed at all times and will act quickly and accordingly depending on how markets are affected.

I would like to express a word of thanks to our shareholders for their confidence in us to manage the capital that we have and I look forward with great confidence to Kungsleden's development going forward.

Stockholm 23 March 2017
Biljana Pehrsson, CEO

BUSINESS MODEL THAT CREATES VALUE

Kungsliden aims to create long-term value for both shareholders and clients. We do this through developing and investing in the property portfolio and through active property management in a decentralised and client-oriented organisation. The holding will be optimised and expanded in accordance with the strategy with the aim of creating a property portfolio that meets demand, increases in value and is effective in property management. The whole operation is based on the business model illustrated here.

KUNGSLEDEN'S BUSINESS MODEL creates value for shareholders and tenants through three on-going and complementary key activities including that the holdings should be actively managed & processed as well as expanded & optimised.

RESOURCES AND CAPITAL

Resources and capital which Kungsliden needs to conduct its operations:

- Our 269 properties, which are the basis for the company's whole operation
- Capital in the form of equity from owners and external financing
- Strong relationships with clients, local communities, decision-makers, capital market among others
- Collaborations with partners and suppliers
- The expertise of our over 100 employees
- Well functioning processes developed over the years
- Created capital in conjunction with the development of properties

BUSINESS MODEL



EXPAND AND OPTIMISE

Kungsliden continuously analyses, optimises and refines the property portfolio. By divestment of properties which are not in line with the strategy as well as selective acquisitions of strategic properties - with a focus on offices in clusters - we are building a high quality portfolio which contributes to a long-term attractive total return to our shareholders. Read more on pages 8 and 16.

DEVELOP AND IMPROVE

Important elements in long-term value creation are to change the properties' usage area or layout, to develop land and building rights and to improve and refine the areas where we have several properties. Property development is becoming increasingly important for Kungsliden, with emphasis on the properties in attractive growth areas, often in clusters. Read more on pages 8 and 32-35.

VISION

We create attractive places that enrich people's working day.

BUSINESS CONCEPT

Our long-term business concept is to actively manage, improve and develop commercial properties in growth regions in Sweden and deliver attractive total returns.

CLUSTER STRATEGY

By owning several properties in a selected location – a cluster – we can sharpen our client offering and actively affect the development of the entire area.

CLIENT PROPOSITION

We will provide attractive and functional premises in the right locations and at the right price. We will always deliver that something extra.

VALUES

- Professionalism
- Consideration
- Joy

VALUE CREATION

THE BUSINESS MODEL CREATES VALUE FOR OUR STAKEHOLDERS IN THE FOLLOWING WAYS:

FOR THE TENANT

Kungsleden provides:

- Modern and flexible premises for today and tomorrow's changing business
- Premises in inspiring and safe areas in the right location and at the right price
- Client oriented and efficient property management with locally anchored personnel to meet the clients' needs

At the end of 2016 Kungsleden had 2,433 current lease agreements (excluding parking spaces, garage and residential) with a large number of clients in a wide range of industries.

FOR SOCIETY

Kungsleden creates:

- Attractive and safe environments, meeting places and areas through property and cluster development
- More and more climate adjusted properties through measures to reduce energy consumption
- Jobs for both Kungsleden employees (the average number of employees during 2016 was 107) and sub contractors
- A more inclusive society through the efforts for diversity and social responsibility

FOR EMPLOYEES

As employer Kungsleden contributes with:

- An evolving and inclusive working environment

During the year SEK 134 million was paid in salaries, other remuneration and social costs.

FOR CREDITORS

Stable repayment of loans and correct evaluation of the company.

FOR OWNERS

SEK 364 million was distributed to shareholders in 2016. The EPRA NAV (long-term net asset value) increased by SEK 12.75 per share to SEK 69.32 per share.

ACTIVELY MANAGE

The foundation of our long-term property ownership is to actively manage the properties. Our engaged and locally established Property Managers, Technical Managers and Asset Managers have a close relationship with the tenants to continuously respond to their needs and requirements. Our leasing team has solid local knowledge and is following the demand closely. Read more about our organisation on pages 8 and 22-23.

OUR STRATEGY DELIVERS

By 2020, Kungsleden will be one of the most successful and profitable listed property companies with a high quality property portfolio. The strategy focuses on creating valuable property development and investments, quality expansion within Sweden's most important growth markets, continued streamlining of the portfolio as well as more effective property management units by developing our defined clusters.

CLUSTERS FOR INCREASED VALUE CREATION AND ACTIVE PROPERTY MANAGEMENT

Kungsleden will own several properties in clusters – in selected locations with good accessibility and high demand. The focus is to continue to acquire properties in the identified clusters. The benefits of the cluster strategy is several, including:

- Strong market position gives the opportunity to affect the attractiveness of the area and thus rent levels.
- Great opportunities to offer tenants options at new leasing and renegotiation.
- More efficient property management and lower operating costs.
- A lower yield requirement in the long-term, which increases the property values.
- Leading party in the dialogue with municipalities and local business.

Read more about the clusters on pages 10–11 and 24–31.

ACTIVE PROPERTY MANAGEMENT ON THE BASIS OF THE CLIENTS' NEEDS

The foundation of Kungsleden's operations is to actively manage the company's properties and tenants. Through a decentralised organisation with competent and locally based Asset Managers, Property Managers, Leasing and Technical Managers Kungsleden has a close dialogue with tenants to meet their changing needs.

As part of the new leasing Kungsleden performs tenant improvements and investments which enables an increase in customer satisfaction, rental revenues, operating net and the property values. By maintenance and investments in the properties Kungsleden ensures the property portfolio maintains a quality and capacity that fosters long-term and sustainable property management.

By strengthening the leasing and by having an active dialogue with existing and potential clients we will lower vacancies by 1 per cent per year over three years. During 2016 both new and net leasing broke records as a result of client focused work, attractive premises and a strong market position. Economic occupancy rate amounted to 91.7 per cent in clusters and to 89.4 per cent in other holdings.

Read more about Active Property Management on pages 22–23.

DEVELOPMENT AND REFINEMENT FOR INCREASED OPERATING NET AND VALUE INCREASES

By property development Kungsleden creates opportunities for improved operating net and value increases. It is about changing the properties usage areas or layout to rebuild and extend,

modernise as well as develop undeveloped land and building rights. Our benchmark is an investment volume of SEK 1–1.2 billion over three years which is expected to be exceeded already at the end of 2017. During 2016 value creating investments amounted to SEK 609 million. At the year end 2016, confirmed and existing development projects amounted to SEK 826 million. In addition, the strong new leasing led to approximately SEK 2 million investments in the form of tenant improvements, modernisations, redevelopment and extension projects as well as new construction projects in the pipeline.

Read more about development projects on pages 32–35.

DEVELOPING AND DIVESTING BUILDING RIGHTS

During 2016 Kungsleden decided upon a strategy for the management of existing and potential building rights. We will develop building rights by identifying opportunities, pursuing zoning plans and then divesting the building rights. Five transactions with residential building rights potential have been completed during the year. At the beginning of 2017 the remaining potential for residential building rights is expected to amount to 360,000 sq.m.

EXPANSION AND OPTIMISATION

Kungsleden is continually working to create an optimal property portfolio and prioritises first and foremost the acquisition of properties with strong potential in prioritised growth markets, preferably in existing clusters. Kungsleden is a transaction experienced organisation and the employees have extensive property expertise, which provide strong conditions for successful deals.

The concentration of the property portfolio will continue with the objective to be present in 15–20 growth cities. This includes the priority growth markets Stockholm, Gothenburg, Malmö and Västerås and more than approximately 15 municipalities.

79 per cent of the holding's book value was within the four prioritised growth markets at year end 2016. In addition to these markets, Kungsleden owned properties in 28 municipalities at year end 2016.

The main focus is commercial premises in the segments offices, industrial/warehouse and retail with the emphasis on offices which in accordance with the company's operational objectives should amount to 70 per cent of the property value by 2020.

The objective for 2016–2017 are divestments of approximately SEK 2 billion. During 2016, non-strategic properties were divested for a value of approximately SEK 700 million. In addition, a property was acquired – Emporia Office in the cluster of Hyllie in Malmö.

Read more about the property portfolio on pages 16–21.

STRATEGY AND OBJECTIVES

OPERATIONAL OBJECTIVES

PROPERTY VALUE
At least 50 per cent of the property value in Stockholm (acc. Statistics Sweden definition)

OBJECTIVE 2020	OUTCOME 2016
>50%	43%

PROPERTY VALUE IN OUR FOUR PRIORITISED GROWTH MARKETS
At least 80 per cent of the property value in Stockholm, Gothenburg, Malmö and Västerås

OBJECTIVE 2020	OUTCOME 2016
>80%	79%

PROPERTY CATEGORY OFFICE At least 70 per cent of the property value in the category office

OBJECTIVE 2020	OUTCOME 2016
>70%	66%

TOTAL RETURN
At least equal to MSCI, IPD Industry Index over time. The outcome for 2014-2016 is just above the industry average

OUTCOME 2013-2016
11.0% (10.8%)

FOCUS ON CLUSTERS
Continued focus on larger and more efficient asset and property management units through greater and more clusters, eventually 15-20 clusters

OBJECTIVES	OUTCOME 2016
~15 clusters	11 clusters

VALUE CREATING INVESTMENTS
Create value through investments. An investment volume of SEK 1.0-1.2 billion over three years, IRR 9 per cent

OBJECTIVES	OUTCOME 2016
1.0-1.2 SEK billion over three years	609 SEK million

GEOGRAPHICAL ALLOCATION
concentration to 20 growth cities

OBJECTIVE 2020	OUTCOME 2016
20 growth cities	32 cities

FINANCIAL OBJECTIVES

EQUITY RATIO
Equity ratio should over time be at least 35 per cent and not below 30 per cent

OBJECTIVE	OUTCOME 2016
>30%	37%

LTV (LOAN-TO-VALUE) RATIO
Should be in the range of 50-60 per cent with a target value of 55 per cent

OBJECTIVE	OUTCOME 2016
50-60%	56%

INTEREST COVERAGE RATIO
Should be more than 2.5 times

OBJECTIVE	OUTCOME 2016
>2.5 times	>3.0 times

RETURN ON EQUITY
Reach over time a higher return on equity than comparable listed property companies

OUTCOME 2016
18.5%

PROFIT FROM PROPERTY MANAGEMENT PER SHARE¹
Both by investing in and growing the property portfolio as well as to increase the operating net in the existing holdings, profit from property management per share should increase

OUTCOME 2016 SEK/share (5.18)
+5%

DIVIDEND PER SHARE
Dividend should grow in pace with the profit from property management

OUTCOME 2016 SEK
2.00

1. Excluding profit (loss) from participations in associated companies.

SUSTAINABILITY OBJECTIVES

ENERGY EFFICIENCY
Reduce energy consumption by 20 per cent per year from 2013 to 2020

OBJECTIVE 2013-2020	OUTCOME 2013-2016
20%	12%

INCREASED DIVERSITY
Kungsleden's employees should reflect the diversity of the society in which the origin is one of several criterias. The average in Sweden is 22 per cent with a foreign background

OUTCOME 2016
10%

Kungsleden's long-term objective is to be Sweden's most successful and profitable property company.

DYNAMIC CLUSTERS

Our vision of clusters is to create the dynamic, vibrant and sustainable environments of the future. Places where it is inspiring, safe and enriching to be, regardless of the time of the day. The vision is driven forward in close cooperation with municipalities and other leading players in the clusters.

FLEXIBLE PROPERTIES FOR A DYNAMIC WORKING LIFE

Our properties are developed to meet the needs of the tenants of the future. The modern mobile work life requires flexible premises which can be adapted to changing needs. The properties must be efficient area-wise and flexible with a high technical standard and a good indoor environment. We also take advantage of potential in the form of roof terraces and gardens to create attractive environments.

LIFE AND MOVEMENT

The life outside is inspiring with an attractive offer of shops and restaurants, vibrant outdoor seating areas, public art and natural green meeting places. The feeling is urban with energy and movement and a continuous flow of people.

UNIQUE IDENTITY

We believe in areas with a strong, unique identity that appeal to a mix of businesses. Together with other local players we reinforce and further develop the cluster's brands.

DIVERSITY FOR BUSINESS AND PLEASURE

The live cluster attracts a mix of people and businesses. Everything from established large companies to small creative start-ups, public organisations, niche service companies and retailers with sustainability profiles.

SAFE AND PLEASANT INSIDE AND OUT

Easily accessible and attractive outdoor environments such as parks, forests, jogging tracks, access roads, outdoor gyms and viewpoints makes it easy to be outdoors in the clusters. Street and facade lighting makes the area feel safe even when it is dark outside.



With an innovative mindset, responsiveness and shared responsibility we create places that enrich both the working day and spare time. The future dynamic cluster is a mixed-use area with residential, commercial, service and a high proportion of working places. A district of mixed development and attractive environments that attracts visitors and encourages sustainable lifestyle. Here gathers many different activities within walking

distance where people can live, work, shop, socialise, enjoy, exercise etc.

At the same time not all clusters can be the same. All has their own unique values which we want to develop and explore. The ultimate cluster takes shape over time. We have not yet reached the objectives, but we know what we want to achieve. And we know how to do it.



CLEAR SUSTAINABILITY PROFILE

A sustainable lifestyle is the future and in the clusters there are plenty of charging points for electric cars and bikes, good opportunities for recycling and also tenants with sustainability profile such as second-hand shops and organic restaurants. Kungsleden cooperates with clients, municipalities and recycling firms to reduce the impact on the climate.

SERVICE WHICH SIMPLIFIES

A variety of service and experiences facilitates meetings and simplify for everyone in the cluster. Proximity to shopping centres contributes to the attractiveness.

PLACE FOR ART

Through cooperation with the tenants, contractors, municipalities, artists among others, aesthetically attractive common areas are created, preferably with inspiring public art.

WE DO IT TOGETHER

Our ambition is to initiate, inspire and lead the development of our clusters in close cooperation with municipalities and other leading local players.

CLUSTERS, MORE CHARACTERISTICS

- Strong availability with close proximity to traffic routes or public transport as well as good infrastructure for cyclists.
- Attractive location in a growth municipality with strong future prospects.
- Nearby properties which gives scale of opportunities by property management and maintenance.
- Own personnel in the area that has a close relationship with clients.

URBANISATION AND GROWTH BENEFITS KUNGSLEDEN

The market condition has been in favour for Kungsliden's operation over the past few years with strong growth in the Swedish economy and the urbanisation trend in favour for urban areas and regional cities. The favourable conditions are expected to continue during 2017.

MEGA TRENDS

Kungsliden's business model and strategy is based on our view on a number of overall social trends. One of these is the urbanisation which is a strong trend both globally and in Sweden. The population is growing rapidly and passed 10 million in January 2017. Population growth is expected to continue to be concentrated in the major urban areas, which is well in line with Kungsliden's strategy to collect the holdings in growth markets. A large proportion of the population of working age live in cities where businesses are, which favours the demand for commercial premises in urban areas.

Digitalisation is another significant trend which drives the development of the society. The digital transformation creates entirely new opportunities to develop premises, logistics and services in properties as well as to control and optimise businesses. The property industry is leading the way when it comes to applying digital tools to make property management more efficient, reduce energy consumption, and offer tenants new smart services and automated internal processes.

Sustainability issues are increasingly prioritised both in society at large and in the property industry. Kungsliden is at the forefront as the stock exchange's best equal gender company (winner of the Foundation AllBrights best equal gender company award 2016). Other sustainability issues that are highly relevant for the industry are energy efficiency and more and more projects are financed by so-called "green bonds" with capital earmarked for environmental projects. During 2016 the government has also heavily reduced the tax on solar electricity which was received positively by the industry.

THE ECONOMIC SITUATION IN SWEDISH ECONOMY

Growth in Sweden has been strong during the recent years and GDP grew by 4.2 per cent in 2015. The positive trend continued in 2016 driven by strong domestic labour market, large refugee reception, decreases in interest rates, fiscal stimulations and an expensive construction industry. Newsec estimates that GDP growth for the full year 2016 amounted to 3.3 per cent. Consumer confidence in personal finance is also very good according to the National Institute of Economic Research Barometric Indicator. Even Swedbank forecast that consumer confidence will remain strong with increasing disposable income and relatively low inflation.

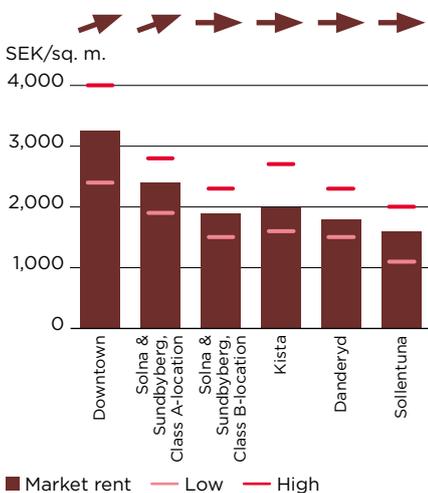
The industry met somewhat greater challenges in 2016 than in 2015. Service production continued to grow but at a slower rate than in 2015.

Upheaval in the business environment

2016 was marked by the upheaval of several political events, among others Donald Trump's victory in the American Presidential election and the UK referendum on EU withdrawal. The results of these elections created uncertainty regarding international trade relations. There is also a global concern about the international security situation.

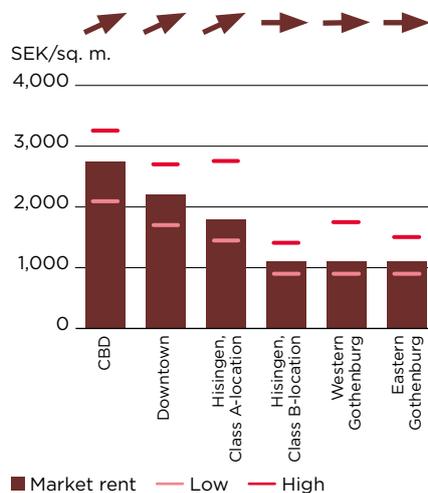
Donald Trump's statements on tax cuts and large investments in infrastructure, have so far been interpreted positively by the market as it can lead to increased growth in the short-term. Yet there is considerable uncertainty as to how the American economic policy and trade policy will be developed.

MARKET RENT, STOCKHOLM
AT 20 DECEMBER 2016



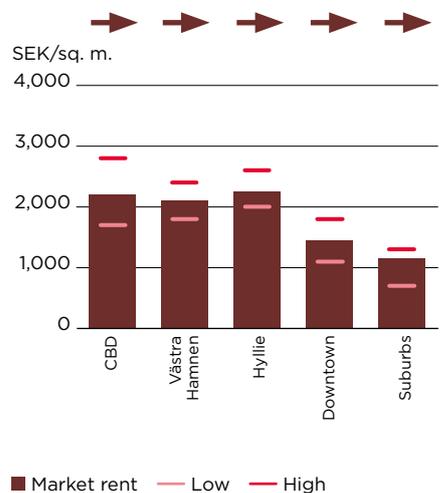
Source: Newsec

MARKET RENT, GOTHENBURG
AT 20 DECEMBER 2016



Source: Newsec

MARKET RENT, MALMÖ
AT 20 DECEMBER 2016



Source: Newsec

Large investments in residential

Lack of residential properties and the sharp price increases have led to large investments in residential properties over the last few years. It has again become profitable with new construction in many small and medium-sized municipalities. Newsec forecasts that price increases for residential properties will slow down as a result of the repayment requirement introduced in 2016 and a general uncertainty around the residential market.

Outlook 2017 – continued growth

Low national debt, the competitive export industry and a high savings rate create, according to Newsec, a sufficient foundation for continued growth in 2017. Unemployment is expected to decrease and job opportunities to increase. However, according to the National Institute of Economic Research a continued downturn in Europe is anticipated to contribute to a relatively slow wage development and the Swedish inflation will rise to 2 per cent by 2020. Therefore, the Institute believe that the Swedish National Bank will hold back on raising the prime rate until the third quarter of 2018. According to the National Institute of Economic assessment the GDP growth will amount to 2.2 per cent in 2017 and 2.0 per cent in 2018.

MARKET FOR COMMERCIAL PROPERTIES

Yield requirements which have a significant impact on the total return, continued to decrease in 2016. The levels are at a record low but may decrease further due to low long-term interest rates.

Demand for premises is affected by general economic changes as well as the individual market’s development with regards to population and employment.

Office premises

Market rents for offices increased during 2016 in most sub-markets and particularly in large urban regions. The Stockholm market had the strongest rental growth. A limited office supply has led to increased demand for primarily peripheral inner city locations as well as better suburb locations where market rents for 2016 have risen by over 10 per cent.

The rental development was also positive in Gothenburg and

Malmö, even though the growth rate was lower than in Stockholm. In regional cities like Västerås there is a steady demand for modern office premises in central locations and also where there is certain rental growth. Newsec expects a continued strong office rental market in 2017, but with more modest rate increases compared with 2016.

The total return on office premises was 18.8 per cent in 2015 and is estimated by Newsec to have increased to 22.0 per cent in 2016. For Kungsliden’s prioritised growth markets the following is reported:

- Greater Stockholm – total return 21.6 per cent in 2015, estimated at 26.8 per cent in 2016
- Gothenburg – total return 19.5 per cent in 2015, estimated at 18.6 per cent in 2016
- Malmö – total return 14.9 per cent in 2015, estimated at 12.8 per cent in 2016
- Mälardalen – total return 18.9 per cent in 2015, estimated at 18.9 per cent in 2016

Industrial and warehouse premises

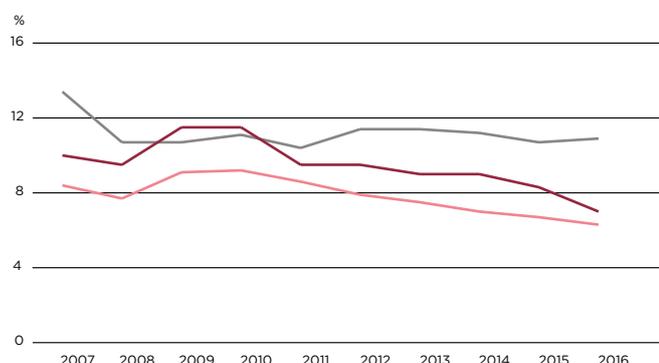
Popular industrial and warehouse premises are usually located near the major cities with good infrastructure where a large part of the retail is located and the population growth rate is high.

The level of the rent varies with the location and standard of the property. The rent for the new production is dependent on construction and land costs, which means the rent for existing industrial and warehouse properties varies with the demand.

The total return on industrial and warehouse premises was 17.2 per cent in 2015 and is estimated by Newsec to be 13.2 per cent in 2016. For Kungsliden’s prioritised growth markets the following is reported:

- Greater Stockholm – total return 19.0 per cent in 2015, estimated at 18.2 per cent in 2016
- Gothenburg – total return 18.9 per cent in 2015, estimated at 15.4 per cent in 2016
- Malmö – total return 16.0 per cent in 2015, estimated at 11.6 per cent in 2016
- Mälardalen – total return 14.5 per cent in 2015, estimated at 11.0 per cent in 2016

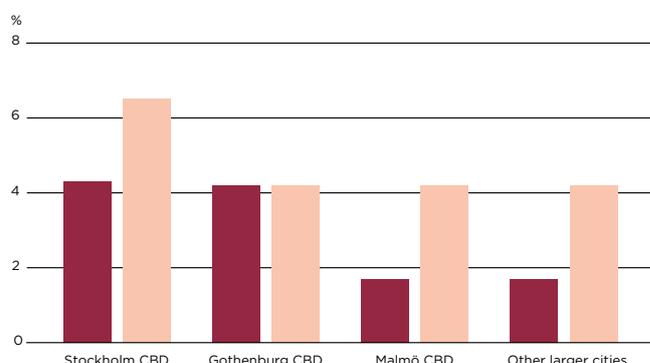
VACANCY RATE, OFFICE, %



— Greater Stockholm
 — Greater Gothenburg
 — Greater Malmö

Source: Newsec

RENTAL DEVELOPMENT, OFFICE, %



■ 2010-2015
 ■ 2016-2018E

Source: Newsec

Retail premises

The total return on retail premises in Sweden was 13.6 per cent in 2015 and is estimated by Newsec to be 13.0 per cent in 2016.

For Kungsleden’s prioritised growth markets the following is reported:

- Greater Stockholm – total return 15.6 per cent in 2015, estimated at 14.1 per cent in 2016
- Gothenburg – total return 11.3 per cent in 2015, estimated at 14.3 per cent in 2016
- Malmö – total return 9.3 per cent in 2015, estimated at 12.6 per cent in 2016
- Mälardalen – total return 10.9 per cent in 2015, estimated at 10.3 per cent in 2016

Market rents for retail premises were stable during 2016 and are expected to remain so in the future. Retail trade showed positive growth, but the location and quality of premises are becoming increasingly important to attract both consumers and tenants.

Newly built and newly renovated shopping centres in the most attractive locations outside Stockholm are now at the same rent levels as the optimum rents in the Stockholm Central Business District (CBD). In the last few years the interest in developing urban city centres has increased.

TRANSACTION MARKET FOR PROPERTIES

The transaction market was extremely strong during 2016 with a total transaction volume of SEK 189 billion (for deals over

SEK 100 million), approximately 40 per cent higher than 2015. The volume is the highest measured level ever on the Swedish market. In total, 336 deals were completed compared with 299 deals in 2015.

The Swedish property industry is the fourth most lucrative in Europe and is perceived as transparent and well-functioning by international investors. More players than ever before are interested in entering the market, although foreign investors represented a historically low share of the transactions during 2016. This is explained by a large interest in property investments from domestic listed companies and pension funds.

Over 50 per cent of the transaction volume during 2016 referred to other sites than Stockholm, Gothenburg and Malmö. Greater Stockholm is over 30 per cent of the volume of transactions. The largest property segment was office properties which was 29 per cent.

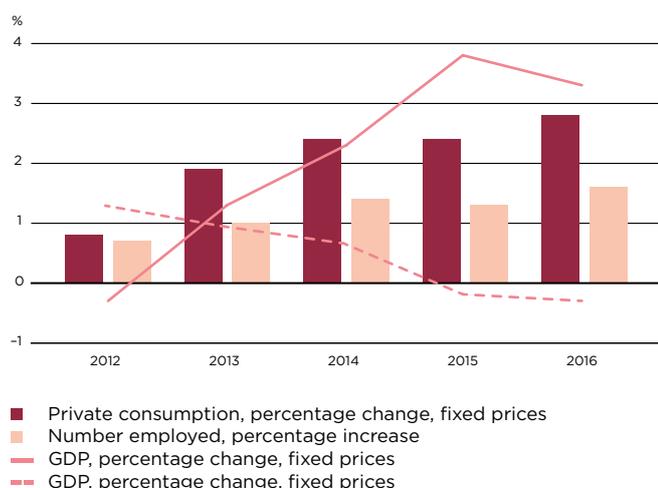
The largest net buyer in 2016 was listed property companies, while the largest net sellers were property developers and property funds.

During the year the second ever largest property transaction in Sweden was carried out. Castellum bought Norrposten with a holding of SEK 26 billion.

Continued high uncertainty on the global stock exchange, lack of high yielding alternative listings and relatively good access to capital is pointing toward continued high transaction volumes in 2017.

Source Newsec

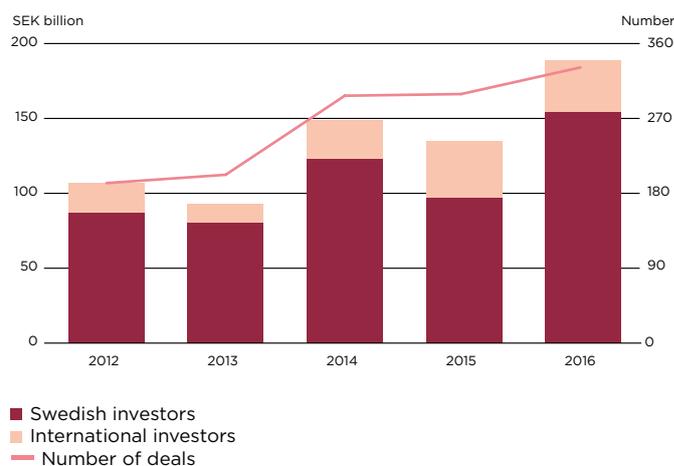
ECONOMIC INDICATORS - SWEDEN



The graph shows the growth indicators for the Swedish economy during the period 2000 to 2016. Private consumption, employment and GDP changes are described as annual increase/decrease percentage in relation to previous year. Three-month interest rate (STIBOR 3M) is described in per cent at every given time.

Source: Newsec

TRANSACTION VOLUME - SWEDEN, TRANSACTIONS ≥ SEK 100 M



Transaction volume reached a record high in 2016 and exceeded record levels from 2006 and 2007. In total transactions were completed for almost SEK 190 billion.

Source: Newsec

Kista Science City – largest in Europe



Kista Science City is Europe's largest ICT cluster and one of the world's most influential areas for innovation and digital development. Here one can meet internationally prominent companies conducting world leading research.

The area is Stockholm's main business area with up to 40,000 people working there every day. Approximately 1,300 companies are located in Kista Science City and of these approximately half are within ICT (Information & Communication Technology). Kista Galleria is also located in Kista, one of Stockholm's largest shopping centres.

KUNGSLEDEN ADVANCES

Kungsliden is the third largest property owner with offices in Kista Science City and the area is one of our five clusters in Stockholm.

"Kungsliden has a positive view of the future in Kista". We develop our properties to create a cutting-edge and diversified urban environment which continues to attract innovative businesses, talents and world-leading academia. "The structure, the communications and the will is there with both the public sector, academia, businesses, Kungsliden and other property owners in Kista," says Frida Stannow Lind, Property Development Director at Kungsliden and also Chairman of Kista Science City AB.

KISTA SCIENCE CITY IN BRIEF

- Europe's largest ICT cluster
- One of the most influential areas for research and development in ICT
- Up to 40,000 offices and approximately 1,300 companies¹
- Two universities and approximately 7,000 students¹
- 15 minutes to Arlanda Airport and 8 minutes to Bromma Airport
- 17 minutes to Stockholm City by metro

1. Source: Kista Science City



79 PER CENT IN PRIORITISED GROWTH MARKETS

Kungsleden's property portfolio keeps improving in regards to both the location and the properties design. The portfolio consisted at year end 2016 of 269 properties, of which 66 per cent are offices and close to 80 per cent are located in the prioritised growth markets: Stockholm, Gothenburg, Malmö and Västerås. 63 per cent of the property value is attributed to our 11 clusters.

In total Kungsleden owns properties in 58 municipalities, when divested properties have been vacated, which means that the number of municipalities has decreased by 11 during 2016; fully in line with the strategy of an increasingly concentrated and refined property portfolio. We have today a balanced combination of properties within office (66 per cent), industrial/warehouse (25 per cent) and retail (8 per cent) with an improved quality across our portfolio.

Stockholm is the main driver of growth in Sweden and at the end of 2016 Stockholm accounted for 43 per cent of the portfolio value.

CHANGES IN THE PORTFOLIO

Kungsleden has continued to optimise the property portfolio with intense and determined divestment work. During the year non-strategic properties have been divested to a value of about SEK 700 million. Thus, we are on our way toward the objective to divest for SEK 2 billion over the two years 2016–2017. In addition a number of properties with potential residential building rights were divested for SEK 321 million with robust earnings.

One property was acquired during the year. In December, Kungsleden signed an agreement with Steen & Ström AB to acquire the office property Emporia Office, which is currently subject to a cadastral partition procedure and located in the shopping centre Emporia in the expanding area Hyllie in Malmö. The property will be accessed in the beginning of 2017.

Since the new strategy was introduced in 2013 we have accessed properties for SEK 13.7 billion and vacated properties for SEK 3.8 billion. In the next few years our focus is to increase strategic complementary acquisitions, mainly in regards to office properties located in any of our clusters.

PROPERTY INVESTMENTS

Improvement measures in the form of modernisation, refinements and tenant improvements are carried out on an on-going basis.

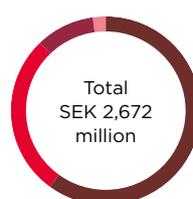
During 2016, improvement measures were made to achieve a value of SEK 609 million. Investment raises not only the quality and thus the value, but also contributes to a closer dialogue and a better relationship between our Property Managers and clients.

The refinement of the portfolio has also been made by development projects in the form of the refurbishments and extension projects, changes in usage areas in existing properties as well as the use of the building rights (read more about development projects on pages 32–35).

FOUR PROPERTY MANAGEMENT REGIONS

Kungsleden's property portfolio was divided into four property management regions at year end 2016: Stockholm, Gothenburg, Malmö and Mälardalen. In the property management region Stockholm, even Östersund was included as well as properties in Norrköping, Nyköping and Uppsala. See results by region. With effect from 1 January 2017 three more equally large asset and property management units were created by the combination of Gothenburg and Malmö.

RENTAL VALUE BY CATEGORY 2016



- Office 60%
- Industrial/warehouse 28%
- Retail 10%
- Other 2%

RENTAL VALUE BY PROPERTY MANAGEMENT REGION 2016



- Stockholm 44%
- Gothenburg 17%
- Malmö 14%
- Mälardalen 25%

EARNINGS CAPACITY ¹ BY PROPERTY CATEGORY					Total	Project	Total
	Office	Industrial/ Warehouse	Retail	Other	excl. project properties	properties	properties
No. of properties	112	95	37	12	256	13	269
Leasable area, k sq.m	1,142	1,095	174	40	2,451	129	2,580
Rental value, SEK m	1,563	726	181	45	2,515	125	2,640
Rental revenue, SEK m	1,423	682	169	39	2,313	81	2,394
Operating net, SEK m	921	500	115	20	1,556	26	1,582
Book value, SEK m	18,798	6,902	1,804	356	27,860	1,309	29,169
Economic occupancy rate, %	91.0	93.9	93.6	87.5	92.0	64.5	90.7
Occupancy rate, area wise %	83.6	91.8	90.3	66.9	87.5	42.3	85.2
Surplus ratio, %	64.7	73.2	67.9	49.2	67.1	32.5	66.0
Property yield, %	4.9	7.2	6.4	5.5	5.6	2.0	5.4

1. Earnings capacity shows how the result would have looked if the properties at 31 December 2016 had been owned in the last 12 months.

PROPERTY PORTFOLIO

STOCKHOLM REGION

OUTCOME FULL-YEAR
incl. project properties

RENTAL VALUE BY REGION, SEK M

2016 1,165 2015² 935

NEW LEASING BY REGION, SEK M

2016 119 2015 63

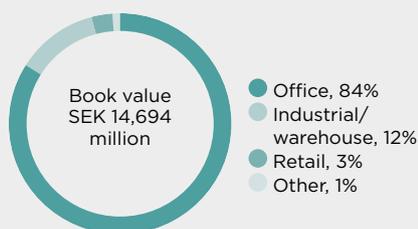
ECONOMIC VACANCY RATE, %

2016 10.2 2015 9.5

AVERAGE RENT, PER SQ.M

2016 1,455 2015 1,435

PROPERTY PORTFOLIO
by category, incl. project properties



EARNINGS CAPACITY¹
at 31 Dec 2016, excl. project properties

No. of properties	75
Leasable area, k sq.m	789
Rental value, SEK m	1,097
Rental revenue, SEK m	1,003
Operating net, SEK m	696
Book value, SEK m	13,867
Economic occupancy rate, %	91.4
Occupancy rate, area wise %	85.3
Surplus ratio, %	69.3
Property yield, %	5.0

GOTHENBURG REGION

OUTCOME FULL-YEAR
incl. project properties

RENTAL VALUE BY REGION, SEK M

2016 463 2015² 477

NEW LEASING BY REGION, SEK M

2016 37 2015 25

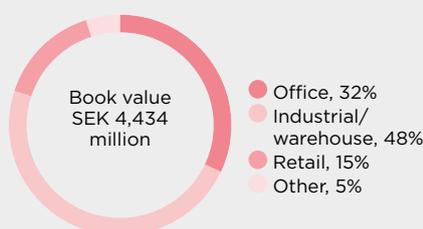
ECONOMIC VACANCY RATE, %

2016 8.1 2015 11.4

AVERAGE RENT, PER SQ.M

2016 790 2015 729

PROPERTY PORTFOLIO
by category, incl. project properties



EARNINGS CAPACITY¹
at 31 Dec 2016, excl. project properties

No. of properties	81
Leasable area, k sq.m	593
Rental value, SEK m	451
Rental revenue, SEK m	415
Operating net, SEK m	273
Book value, SEK m	4,434
Economic occupancy rate, %	92.0
Occupancy rate, area wise %	88.7
Surplus ratio, %	65.8
Property yield, %	6.2

MALMÖ REGION

OUTCOME FULL-YEAR
incl. project properties

RENTAL VALUE BY REGION, SEK M

2016 364 2015² 379

NEW LEASING BY REGION, SEK M

2016 31 2015 22

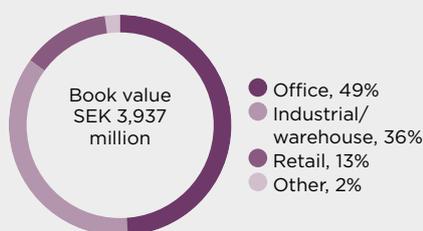
ECONOMIC VACANCY RATE, %

2016 9.5 2015 11.4

AVERAGE RENT, PER SQ.M

2016 809 2015 809

PROPERTY PORTFOLIO
by category, incl. project properties



EARNINGS CAPACITY¹
at 31 Dec 2016, excl. project properties

No. of properties	57
Leasable area, k sq.m	415
Rental value, SEK m	339
Rental revenue, SEK m	309
Operating net, SEK m	223
Book value, SEK m	3,755
Economic occupancy rate, %	91.4
Occupancy rate, area wise %	89.0
Surplus ratio, %	71.9
Property yield, %	5.9

MÄLARDALEN REGION

OUTCOME FULL-YEAR
incl. project properties

RENTAL VALUE BY REGION, SEK M

2016 680 2015² 680

NEW LEASING BY REGION, SEK M

2016 29 2015 32

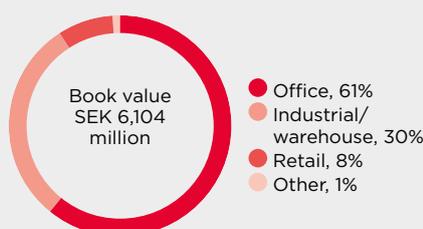
ECONOMIC VACANCY RATE, %

2016 8.7 2015 6.8

AVERAGE RENT, PER SQ.M

2016 1,004 2015 978

PROPERTY PORTFOLIO
by category, incl. project properties



EARNINGS CAPACITY¹
at 31 Dec 2016, excl. project properties

No. of properties	43
Leasable area, k sq.m	654
Rental value, SEK m	628
Rental revenue, SEK m	586
Operating net, SEK m	364
Book value, SEK m	5,804
Economic occupancy rate, %	93.2
Occupancy rate, area wise %	88.0
Surplus ratio, %	62.0
Property yield, %	6.3

1. Earnings capacity shows how the result would have looked if the properties at 31 December 2016 had been owned in the last 12 months.
2. The definition for rental value has been changed. Comparison figures have been recalculated. See page 87 for current definitions.

STRONG VALUE DEVELOPMENT 2016

Kungsleden evaluate the whole property portfolio internally each quarter. The evaluations are based on a cash flow analysis where the future earnings capacity of an individual property and market's yield requirements have been assessed. The evaluation is made with support from technicians and is based on observed market data according to "level 3". To ensure quality and verify our internal assessments, external control valuations are carried out on approximately 25 per cent of our properties each quarter. This means that each property in the portfolio is subject to an external evaluation over a period of 12 months.

The property evaluation resulted in unrealised positive value changes of SEK 1,658 million for the full year 2016. Reduced yield requirements and improved operating net have had a positive effect on the value of the property portfolio. The average yield requirement of Kungsleden's property portfolio was 6.5 per cent at the start of the year and 6.1 per cent at the end of the year.

The external evaluation carried out on all our properties, is well in line with Kungsleden's evaluation.

During the year, several properties have also been divested at value levels in line with the property evaluations.

DIVESTMENTS 2016			
Property	Municipality	Divested	Vacated on
Karburatorn 2	Kristianstad	21 June 2016	4 October 2016
Yrkesskolan 6	Botkyrka	8 September 2016	4 October 2016
Generatorn 2	Motala	1 September 2016	15 December 2016
Torrekkulla 1:172	Mölnadal	1 September 2016	15 December 2016
Halla-Stenbacken 1:102	Uddevalla	1 September 2016	15 December 2016
Brynäs 34:8	Gävle	1 September 2016	15 December 2016
Torslunda 4:27	Mörbylånga	1 September 2016	15 December 2016
Lerum 1:20	Karlstad	1 September 2016	15 December 2016
Gripen 1	Arboga	1 September 2016	15 December 2016
Total			SEK 264 million
Backa 29:26	Gothenburg	21 December 2016	31 January 2017
Kylaren 9	Kungälv	21 December 2016	31 January 2017
Kylaren 4	Kungälv	21 December 2016	31 January 2017
Kärra 93:3	Kungälv	21 December 2016	31 January 2017
Ventilen 6	Kungälv	21 December 2016	31 January 2017
Ventilen 7	Kungälv	21 December 2016	31 January 2017
Forsåker 1:75	Mölnadal	20 December 2016	31 March 2017
Forsåker 1:164	Mölnadal	20 December 2016	31 March 2017
Forsåker 1:227	Mölnadal	20 December 2016	31 March 2017
Forsåker 1:257	Mölnadal	20 December 2016	31 March 2017
part of Stiernhielm 7	Mölnadal	21 December 2016	2019
Total			SEK 284 million

FACTORS IMPACTING VALUE	2016 Jan-Dec
SEK m	
Change in yield requirements	1,170
Change in operating net	595
Change in the assumptions of investments and other value-impacting factors	-107
Total	1,658

QUALITY PROPERTIES IN SELECTION 2016



Kista City – Kista One (Färöarna 3)

Outcome 31 December 2016	
Economic vacancy rate	1.4%
Average rent office	2,206 SEK/sq.m
Rental revenue	SEK 95 million
Operating net	SEK 63 million



Västerås City – Mimer 5

Outcome 31 December 2016	
Economic vacancy rate	4.2%
Average rent	1,316 SEK/sq.m
Rental revenue	SEK 120 million
Operating net	SEK 85 million

*Fosie
– Dubbelknappen 4*

Outcome 31 December 2016	
Economic vacancy rate	5.0%
Average rent	930 SEK/sq.m
Rental revenue	SEK 21 million
Operating net	SEK 17 million



Hyllie – Isblocket (Vagnslidret 1)

Outcome 31 December 2016

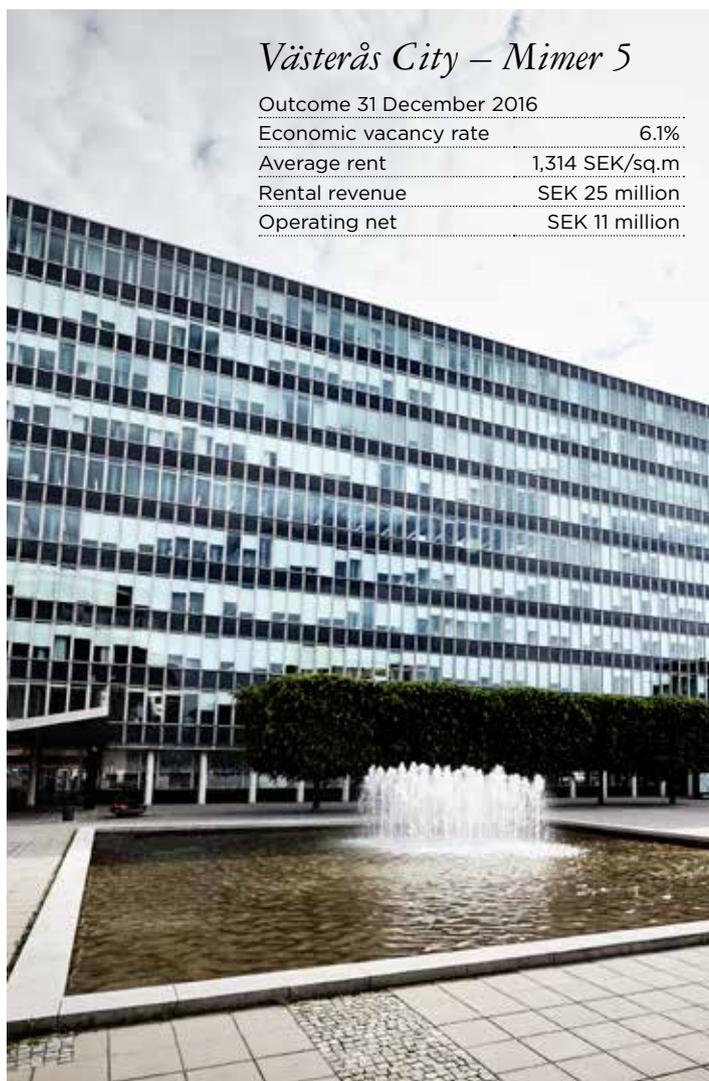
Economic vacancy rate	3.2%
Average rent	2,434 SEK/sq.m
Rental revenue	SEK 7 million
Operating net	SEK 4 million



Västerås City – Mimer 5

Outcome 31 December 2016

Economic vacancy rate	6.1%
Average rent	1,314 SEK/sq.m
Rental revenue	SEK 25 million
Operating net	SEK 11 million



Högsbo – Järnbrott 168:1

Outcome 31 December 2016

Economic vacancy rate	10.2%
Average rent	1,203 SEK/sq.m
Rental revenue	SEK 18 million
Operating net	SEK 8 million



Fosie – Hästvagnen 3

Outcome 31 December 2016

Economic vacancy rate	7.6%
Average rent	1,228 SEK/sq.m
Rental revenue	SEK 8 million
Operating net	SEK 7 million





Stockholm City West – Lustgården 12

Outcome 31 December 2016	
Economic vacancy rate	17.5%
Average rent office	2,345 SEK/sq.m
Rental revenue	SEK 23 million
Operating net	SEK 15 million



Gothenburg – Gårda 19:10

Outcome 31 December 2016	
Economic vacancy rate	5.9%
Average rent	1,788 SEK/sq.m
Rental revenue	SEK 5 million
Operating net	SEK 2 million

Danderyd Office – Svärdet 7

Outcome 31 December 2016	
Economic vacancy rate	9.8%
Average rent office	1,901 SEK/sq.m
Rental revenue	SEK 74 million
Operating net	SEK 53 million



A RECORD YEAR FOR BOTH NEW AND NET LEASING

Kungsleden is a long-term landlord with a focus on active, sustainable property management and close client dialogue. Over the past few years, we have efficiently established organisational and new working methods within property management and leasing and it is these efforts that have given strong results. The leasing activity has been strong during the year and has generated a record strong new leasing of SEK 216 (133) million. Also the net leasing broke records and amounted to SEK 99 (7) million, of which SEK 72 million is from clusters.

Value creation and active property management is, to a large degree, about understanding the needs of the clients and to have satisfied tenants that year after year select Kungsleden. Having an organisation in place in the area gives us local knowledge and gives us the opportunity to meet with prospective clients. Kungsleden can also respond to the existing tenants changing requirements, such as new premises when the old ones no longer meet their business needs. Strong availability of Property Managers and Leasing Managers is a key issue and we have now 11 local offices strategically situated.

The cluster strategy contributes strongly to the success of the property management as it creates the basis for cost-effective property management units, a wide range of premises and solid market knowledge.

STRONG NEW LEASING

Since January 2016, a Head of Leasing gathers and quality assures Kungsleden's work within leasing. The Group Management has declared an ambition to invest in leasing, which has given results in 2016 in the form of a record strong new leasing and an even better predictability when it comes to future deals as well as knowledge of prospective clients.

Locally anchored Leasing Managers work actively to reach out to and attract new tenants. Property Managers, Asset Managers and Leasing Managers are working closely with each other to ensure that vacant premises, entrances and public areas always meet the high requirements to create a good first impression.

During the year lease agreements were signed to a value of

SEK 216 million. Among the major new leasings the following deals stand out; 11 000 sq.m to Nobis in Stockholm, 6,000 sq.m to a hotel operator in Kista, 3,000 sq.m to the Migration Board in Västerås City, 2,600 sq.m to Incoord in Danderyd, 3,000 sq.m to an anchor tenant in Tegnégallerian in Växjö and 2,000 sq.m to Lejonet & Björnen in Gothenburg. New leasing was particularly strong in our clusters, but also other properties performed well. In total, new leasing increased by 62 per cent compared with the previous year.

The economic occupancy rate for 2016 amounted to 90.6 per cent. For clusters the economic occupancy rate was higher, 91.7 per cent compared with 89.4 per cent for other holdings.

VALUE CREATING TENANT IMPROVEMENTS

When a tenant moves into new premises or when their needs change, we discuss necessary improvements with the tenant with the purpose of meeting these needs and requirements.

The local offices are decorated as "showrooms" to inspire existing and prospective clients with alternative layouts and designs. During 2016, a large amount of viewings were also organised at the head office in Stockholm where the premises are designed to inspire and function as a meeting place for tenants, partners and other key target groups.

The improvements that were made during the year have contributed to a refinement and rise in quality of the premises which has created better conditions for our tenants at the same time as it has contributed to increased rents and thereby increased property values.

NEW LEASING BY PROPERTY MANAGEMENT REGION, FULL YEAR JAN-DEC 2016¹



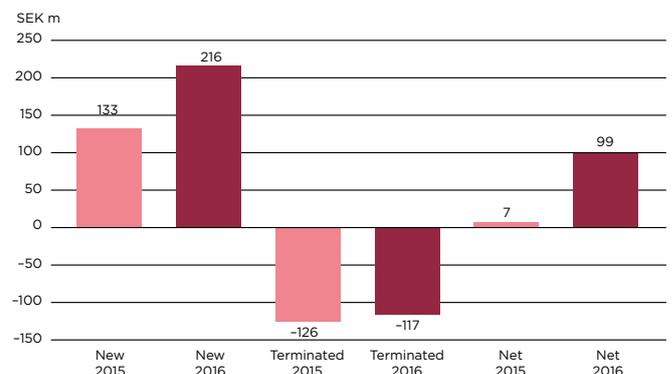
- Stockholm 55%
- Gothenburg 17%
- Malmö 14%
- Mälardalen 14%

LEASE TERMINATIONS BY PROPERTY MANAGEMENT REGION, FULL YEAR PERIOD JAN-DEC 2016¹



- Stockholm 52%
- Gothenburg 10%
- Malmö 10%
- Mälardalen 28%

LEASING FULL-YEAR PERIOD JAN-DEC 2015 AND 2016¹



1. Excl. residential, parking and garage areas.



Fantastic achievements in the award “Leasing Manager of the Year”

Leasing Manager of the Year 2016

The winners of the Lokalguiden’s award “Leasing Manager of the Year” were announced at the beginning of 2017 and Kungsleden’s employees were awarded the “Best Leasing Team” award in both Western Götaland and in the region Other Sweden. Furthermore, the individual first prizes for the “Leasing Manager of the Year” award went to Kungsleden’s Helena Dellborg (Västra Götaland) and Louise Appelros (Skåne).

RENEGOTIATION IN CLOSE DIALOGUE

When a tenant chooses to stay with us, we see it as evidence that we are a property owner that meet, and hopefully even exceed expectations. This is what our active property management constantly strives towards – to keep the tenant year after year.

In the renegotiation of the lease, a market analysis is conducted in order to assess the current market climate as well as a review of the client’s requirements and needs. During the process we maintain a close dialogue with the tenant which contributes to a shared view on vision and expectations and therefore increases the likelihood of a continued partnership.

The lease agreements correspond to a rental value of approximately SEK 89 million have been actively renegotiated during the year. This resulted in a rent increase of an average of 8.8 per cent.

CLIENT SATISFACTION SURVEY

Every year Kungsleden conducts a client satisfaction survey which is the basis for what initiatives are to be prioritised in the coming years. As for the industry as a whole Kungsleden’s rating decreased slightly in 2016, but the ambition to be in line with the industry average by 2020 remains. As a relatively young long-term property management company we constantly

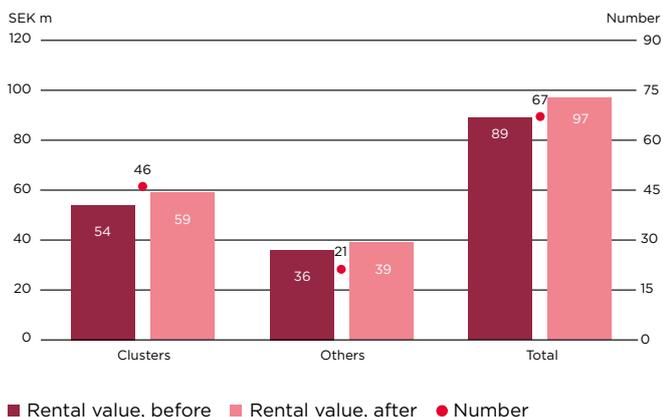
strive to improve our client relationships and we are continuously working to improve the feedback to the tenants and improve the dialogue with them. Key priority is also to improve the process for service requests, to contribute actively to the development of the area and create meeting places in our clusters.

A RESPONSIVE ORGANISATION

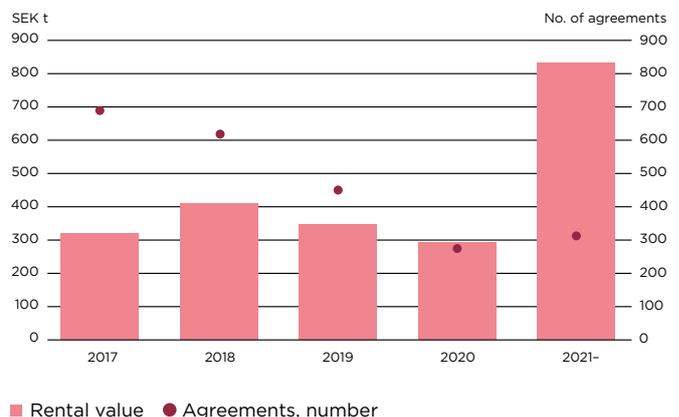
During 2016 Kungsleden’s property management organisation has changed to be even more effective and faster when it comes to client liason.

From the year end 2016/2017 the number of property management regions was reduced from four to three when Gothenburg and Malmö were combined. The purpose is to create more equally large areas and further shorten the decision making process. Three Head of Real Estates are each responsible for an asset and property management unit and report directly to the CEO.

RENEGOTIATION, RENTAL VALUE BEFORE & AFTER RENEGOTIATION, 2016



LEASE AGREEMENTS MATURITY¹ AT 31 DEC 2016



1. Excl. residential, parking and garage areas.

CLUSTER DEVELOPMENT GIVES RESULTS

The development of Kungsleden's clusters has picked up during the year. A steering group is in place and processes and business plans have been developed. Kungsleden has also launched the first unique cluster website, danderydkontor.se. The cluster of Hyllie has been extended with slightly more than 10,000 sq.m of office space and an equally large parking garage area.

Kungsleden has identified 11 clusters in the portfolio. All are characterised by high demand for premises and good accessibility with proximity to major traffic routes and in many cases well developed public transport networks. These areas are also assessed to have great development potential. Six clusters have been acquired over the last three years while five have been created from the existing holdings with complementary acquisitions.

Kungsleden has local presence in most of the clusters and the activity within the property management has been very high during 2016. Net leasing in clusters amounted to SEK 72 million, compared with SEK 99 million for the whole portfolio. The clusters also over-deliver in regards to the economic occupancy rate 12 month rolling – with 91.7 per cent compared with 89.4 per cent for other holdings.

In December 2016 the cluster in expanding Hyllie was increased with just over 10,000 sq.m offices situated in the renowned shopping centre Emporia. The property is currently subject to a cadastral partition procedure and should be accessed when this is complete, no later than the second quarter of 2017. A newly build parking garage of approximately 10,000 sq.m was accessed in Hyllie in December 2016.

TASK GROUP ON CLUSTER DEVELOPMENT

During the year the development of clusters was intensified by a task group which was set up with the remit of analysing future needs and opportunities and to preparing action plans and strategies for cluster development.

KUNGSLEDEN'S 11 DEFINED CLUSTERS

Stockholm	Danderyd Office	99,000 sq.m
	Kista City	146,000 sq.m
	Stockholm City East	89,000 sq.m
	Stockholm City West	35,000 sq.m
	Västberga industrial area	39,000 sq.m
Gothenburg	Högsbo	108,000 sq.m
Malmö	Hyllie/Svågertorp ^{1,2}	50,000 sq.m
	Fosie	54,000 sq.m
Mälardalen	Västerås City	153,000 sq.m
	Finnslätten industrial area	236,000 sq.m
Östersund	Östersund	79,000 sq.m

1. Including Emporia Office, 10,000 sq.m, not yet accessed.

2. Including 10,000 sq.m parking garage, which is not included in the leasable area.

EARNINGS CAPACITY INCL. PROPERTY ADMINISTRATION	CLUSTER ¹	OTHERS ¹	TOTAL EXCL. PROJECT PROPERTIES	PROJECT PROPERTIES ²	TOTAL PROPERTIES
No. of properties	76	180	256	13	269
Leasable area, k sq.m	1,051	1,400	2,451	129	2,580
Rental value, SEK m	1,441	1,074	2,515	125	2,640
Rental revenue, SEK m	1,329	984	2,313	81	2,394
Operating net, SEK m	890	666	1,556	26	1,582
Book value, SEK m	17,846	10,014	27,860	1,309	29,169
Economic occupancy rate, %	92.2	91.6	92.0	64.5	90.7
Occupancy rate, area wise %	86.6	88.1	87.5	42.3	85.2
Surplus ratio, %	66.8	67.6	67.1	32.5	66.0
Property yield, %	5.0	6.7	5.6	2.0	5.4
New leasing, SEK m	109	50	159	57	216
Net leasing, SEK m	33	13	46	53	99

1. Property administration amounted to a total of SEK 113 million for the full year period.

2. Refers to both clusters and other.

DANDERYD OFFICE

In Danderyd, Kungsleden is the largest commercial property owner with four large office buildings in locations with excellent transport links and proximity to services and green areas. The location is hard to beat and the fact that Mörby Centrum will be redeveloped (and is changing its name to Danderyd Centrum) makes the location even better.

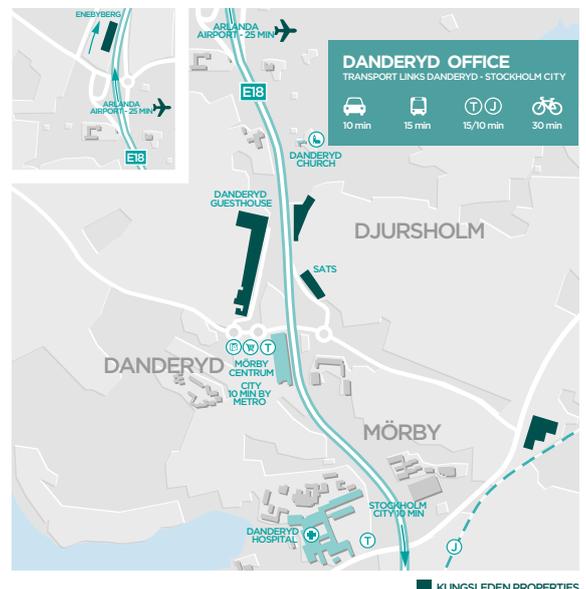
Kungsleden is the largest commercial property owner in Danderyd with 99,000 sq.m of leasable area, equivalent to half of the total commercial premises area in the municipality.

The cluster Danderyd Office is located about 15 kilometres north of central Stockholm with strategic hubs such as Mörby

Centrum and Danderyd Hospital directly next to the cluster. In the area there is a wide range of commercial services and direct connection to highway E18. Also there are public transport networks in the form of bus, subway and local trains operating in the area.

As the municipality's largest property owner, Kungsleden has great opportunities together with clients, the municipality and other property owners to influence the entire development of the area.

The office area will increase by approximately 15,000 sq.m in the area as Skandia Fastigheter extends Mörby centrum.



KUNGSLEDEN LARGEST COMMERCIAL PROPERTY OWNER IN DANDERYD

NO. 1

DANDERYD

Approx. total area (sq.m)	200,000 ¹
Rent levels (office SEK/sq.m)	
A-location	1,800-2,300
B-location	1,500-1,800
Vacancy rate (%)	
Office	10.0
Yield requirements (%)	
Office	5.50-6.5

1. The areas are created with support from Datscha. Gradings have been made in the areas where Kungsleden has its clusters and based on the type codes Kungsleden owns in each city.

KUNGSLEDEN'S CLUSTER DANDERYD OFFICE

Leasable area total, sq.m	99,000
Vacancy rate at 31 Dec 2016, %	14.4
Largest tenants	
- Tobii	
- GE (General Electric)	
- Stockholm County Council	
- Attendo	
- Arval	

KISTA CITY

Kista is one of Europe's leading innovation clusters within the ICT (Information & Communication Technology) and one of Sweden's fastest-growing areas. In Kista business area, also called Kista Science City, there are approximately 1,300 companies located, of which around half are within ICT. One of Stockholm's main shopping centres, Kista Galleria, is also located there.

Kungsleden has nine properties with a total of approximately 146,000 sq.m of leasable area in the area and is the third largest property owner with the modern and strategically located property Kista One in the lead. A development project currently in the implementation stage is on-going in the cluster with the property Holar 1 being converted into an apartment hotel. Read more on pages 33 and 35.

We interact with businesses, the university and public oper-

ators to continue to develop Kista as a world leading centre for research and innovative business activities in the ICT area. Frida Stannow Lind, our Head of Property Development is the Chairman of the Board of Kista Science City and Sven Stork, Head of Real Estate Stockholm, is Chairman of the association Kista Science City Property Owners.

Kista is located between the E4 and E18, only 11 kilometres north of Stockholm city centre, and has excellent transport links. The strong accessibility by car (E4, E18), metro, commuter train and within a few years even the cross rail, contribute to the area's attractiveness. Its strategic location between central Stockholm and the city's airports – Arlanda Airport and Bromma Airport – makes Kista one of Stockholm's most accessible areas.



KUNGSLEDEN LARGEST COMMERCIAL PROPERTY OWNER IN KISTA

NO. 3

KISTA SCIENCE CITY

Approx. total area (sq.m)	900,000 ¹
Rent levels (office SEK/sq.m)	
Market rents	2,000
Optimum rent	2,700
Vacancy rate (%)	
Office	17.3
Yield requirements (%)	
Office	5.25–6.50

1. The areas are created with support from Datscha. Gradings have been made in the areas where Kungsleden has its clusters and based on the type codes Kungsleden owns in each city.

KUNGSLEDEN'S CLUSTER KISTA CITY

Leasable area total, sq.m	146,000
Vacancy rate at 31 Dec 2016, %	6.9
Largest tenants	
	- Stockholms City
	- Huawei Technologies Sweden
	- Tele2 Sweden
	- Serafim Office Consulting Group
	- Samsung Electronics Nordic

STOCKHOLM CITY EAST - GÄRDET/FRIHAMNEN

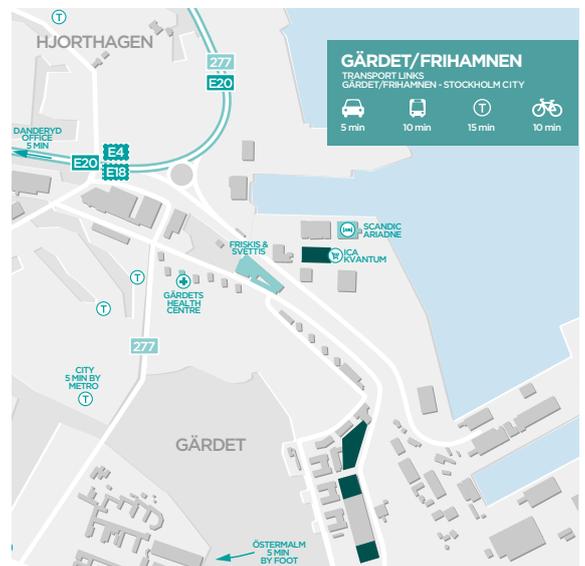
In the cluster Stockholm City East Kungsleden has four properties with a total area of 89,000 sq.m.

The area, located in Gärdet/Frihamnen, is included in Stockholm's largest urban development area, Norra Djurgårdsstaden. The area is a modern, innovative mixed-use city with a clear sustainability profile and there are plans for 12,000 additional residential and 35,000 offices.

The area already has a well-established presence of offices, hotels, shops, residential, restaurants, supermarkets, gyms and other service offerings, which are further strengthening as the

district develops. Purchasing power also gets a boost from Stockholm's ports with around 300 cruise ship visits a year.

The accessibility in the area is currently strong thanks to access to the metro, buses and bike paths. At the same time The Northern Link makes central Stockholm and motor highways E20, E4 and E18 reachable by car within a few minutes. In addition there are plans for an extension of the trainline Spårväg City which would link the cluster to central Stockholm as well as Kista City.



KUNGSLEDEN'S OFFICE (SQ.M) IN STOCKHOLM'S LARGEST AREA UNDER URBAN DEVELOPMENT

89,000

STOCKHOLM CITY EAST

Approx. total area (sq.m)	350,000 ¹
Rent levels (office SEK/sq.m)	
Market rents	2,300
Optimum rent	2,700
Vacancy rate (%)	
Office	5.0
Yield requirements (%)	
Office	4.75-5.25

1. The areas are created with support from Datscha. Gradings have been made in the areas where Kungsleden has its clusters and based on the type codes Kungsleden owns in each city.

KUNGSLEDEN CLUSTER STOCKHOLM CITY EAST

Leasable area total, sq.m	89,000
Vacancy rate at 31 Dec 2016, %	8.7
Largest tenants	
- Swedish Television	
- Swedish Customs	
- Biz Apartment Gärdet	
- The Swedish Armed Forces	
- Dagab Assortment & Logistics	

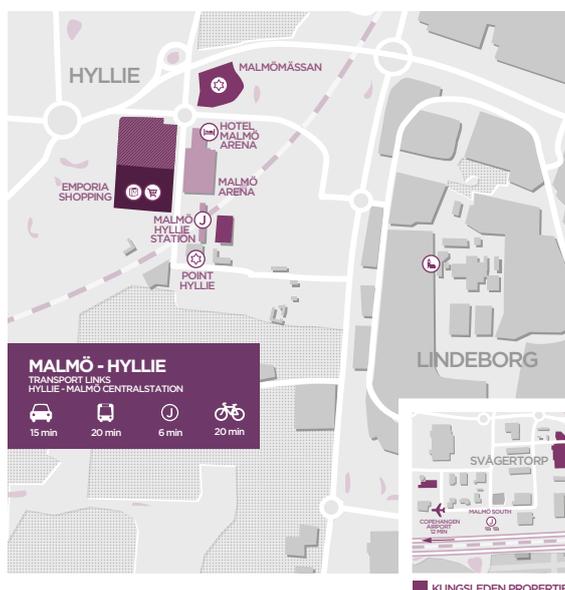
HYLLIE

Hyllie is a fast-expanding area west of central Malmö. The district stands out with a clear sustainability profile and it has a mixed development of buildings with residential, conference facilities, offices and retail. The City of Malmö puts a large focus on Hyllie with Malmö Arena, Malmö Exhibition Centre and the shopping centre Emporia having created the foundation for a dynamic and sustainable mixed-use city. At present, several thousand people work in the area where an additional 10,000 offices are expected in the near future.

Hyllie continues to grow with new constructions within office, hotel and residential. Even the retail area Svågertorp adjacent to Hyllie has a stable development with important retailers such as IKEA and Biltema. IKEA has in addition built a new head office in the area which is evidence of its strategic location close to Copenhagen and Kastrup.

The shopping centre Emporia offers both restaurants, shops and any other possible services of the highest quality, while nearby area Svågertorp adds retail volume and other practical services. Hyllie has strong accessibility with the region's most central hubs such as central Malmö, Kastrup and central Copenhagen only a few minutes away by train. The location between Malmö's outer and inner ring road makes the area quickly reachable by car.

Kungsleden has pointed out Hyllie as a growth area and acquired during 2016 the office property Emporia Office (currently subject to a cadastral partition procedure during first quarter 2017) of just over 10,000 sq.m. The cluster of Hyllie now consists of an area of approximately 50,000 sq.m and includes the well-known properties Isblocket (Vagnslidret 1) and Malmö Exhibition Center. The total property holdings for offices and retail in Hyllie amounts to approximately 400,000 sq.m.



KUNGSLEDEN'S VACANCY RATE IN HYLLIE AT 31 DECEMBER 2016

1%

HYLLIE

Approx. total area (sq.m) of which Emporia, 130,000 sq.m	400,000 ¹
Rent levels (office SEK/sq.m)	
Market rents	2,400
Optimum rent	2,600
Vacancy rate (%)	
Office	2-3
Yield requirements (%)	
Office	4.2-4.75

1. The areas are created with support from Datscha. Gradings have been made in the areas where Kungsleden has its clusters and based on the type codes Kungsleden owns in each city.

KUNGSLEDEN'S CLUSTER HYLLIE

Leasable area total, sq.m	50,000 ^{1,2,3}
Vacancy rate at 31 Dec 2016, %	1.0
Largest tenants	
- Artexis Nordic	
- Dormy Golf Fashion	
- Sova	
- Addpro	
- The GlassHouse	

1. Including properties in Svågertorp.
2. Including Emporia Office, 10,000 sq.m, not yet accessed.
3. Including 1,000 sq.m parking garage, which is not included in the leasable area.

VÄSTERÅS CITY

Västerås is about 100 kilometres to the north-west of Stockholm and is the main hub of the increasingly important region Mälardalen. Both the Västerås city and the region as a whole has a good growth and urbanisation. The communications between Stockholm and Västerås is strong and are accessible with just one hour travel by train or car. Furthermore, the Stockholm-Västerås airport and Västerås port contribute to positioning the city as a unique and important transport hub in Sweden with large development potential.

Kungsleden owns 153,000 sq.m of offices and hotels with the total office holding in central Västerås amounting to 200,000 sq.m. This means that we are by far the largest commercial

property owner in the city. Together with strategical locations near the central train station and the well known properties such as Skrapan, Mimerkvarteren and Melkerhuset, Kungsleden has a great opportunity to actively participate in the development of central Västerås, but also to be able to offer clients unique and modern office premises.

Kungsleden has two development projects underway in Västerås city. A feasibility study and analysis of building right potential is on-going for the Verkstaden 7 (Kopparlunden) property. At the beginning of 2017 a decision was made to create modern offices 26, a part of the property Mimer 5 which is currently vacant.



KUNGSLEDEN'S LARGEST COMMERCIAL PROPERTY OWNER IN VÄSTERÅS CITY

NO. 1

VÄSTERÅS CITY

Approx. total area (sq.m)	200,000 ¹
Rent levels (office SEK/sq.m)	
A-location	1,400-1,900
B-location	1,000-1,300
Vacancy rate (%)	
Office	5.0-7.0
Yield requirements (%)	
A-location	5.5-7.0
B-location	6.25-7.50

1. The areas are created with support from Datscha. Gradings have been made in the areas where Kungsleden has its clusters and based on the type codes Kungsleden owns in each city.

KUNGSLEDEN'S CLUSTER VÄSTERÅS CITY

Leasable area total, sq.m	153,000
Vacancy rate at 31 Dec 2016, %	4.4
Largest tenants	
- ABB	
- Västerås City	
- Plaza in Västerås	
- ICA Fastigheter	
- Västmanlands County Council	



VÄSTBERGA INDUSTRIAL AREA

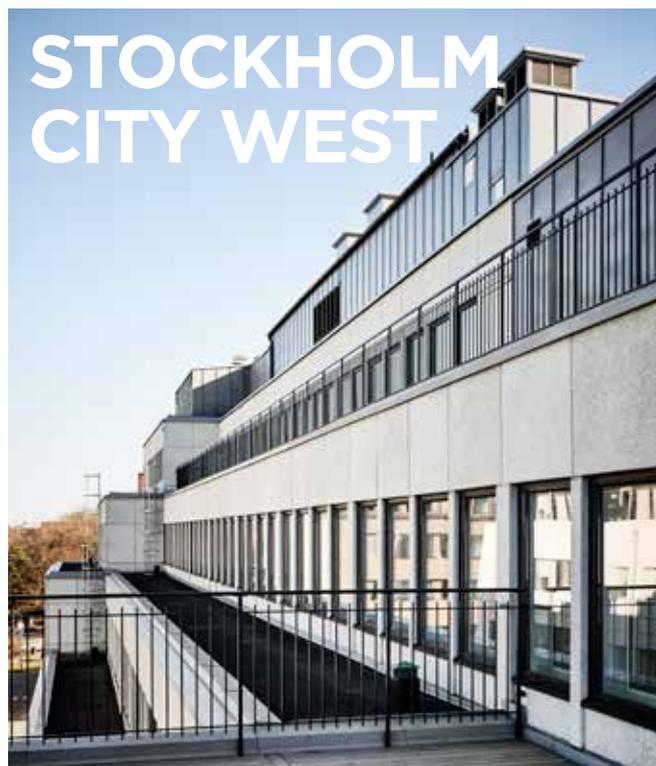
Västberga industrial area

Västberga has an attractive industrial and logistics location close to Stockholm's primary transport routes E4/E20. To get to central Stockholm it takes 15 to 20 minutes along the E4. Västberga industrial area is one of southern Stockholm's most important goods terminals. Approximately 600 companies operate in the area with over 9,000 work units in both office and warehouse. The City of Stockholm's vision of creating a vibrant city across all districts of the city also applies to Västberga with its supply of residential, cafés and restaurants. Kungsliden owns 39,000 sq.m warehouses and offices in the area.

ÖSTERSUND

Östersund

Östersund is located 560 kilometres north west of Stockholm next to the E14 and E45. The railway lines Mittbanan and Inlandsbanan run through the city and are operated by both goods and passenger traffic. Eleven kilometres west of Östersund city centre is Åre Östersund Airport. Kungsliden takes 79,000 sq.m of office space and storage in Östersund of the total holding of 300,000 sq.m. These properties are located around the city centre with close proximity to Gustav III:s Square and the Central train station.



Stockholm City West

Kungsliden's cluster Stockholm City West include properties on western Kungsholmen and in the western part of the Vasastaden.

Western Kungsholmen is an expanding area which has seen a mixed-use city developing in recent years. Here residential and offices sit side by side in a waterside location with good transport links to the city centre by metro to Stadshagen. Several large companies have their head offices in the area, including Skanska, Preem and Lantmännen - and also Kungsliden. Kungsliden's two office properties in the area include approximately 20,000 sq.m of leasable area and have good transport links as well as a great location next to Essingeleden.

In western Vasastaden Kungsliden owns the property Blästern 14 which is currently being developed as a design hotel. Read more about Blästern on pages 32 and 34.



Högsbo

Högsbo/Sisjön in south Gothenburg is one of the region's main areas for industry, offices and retail. With a strategic location close to E6 and Dag Hammarskjöldsleden the area is near to central Gothenburg and the Gothenburg Port - the largest and most important logistic hub in Scandinavia. Kungsliden owns 18 properties with 108,000 sq.m offices, warehouses and industry in this area.

The business association Högsbo/Sisjön estimates that there are over 1,700 companies in over 200 industries in the area and that 30,000 people are working here every day. The business area has an area of 3 million sq.m and is referred to as the largest in the Nordics.

An extensive urban development project is on-going around Högsbo/Sisjön. The city of Gothenburg wants to create a more urban character similar to Sisjön and the city office is upgrading the urban environment for the area during 2017. There are also plans to redevelop Dag Hammarskjöldsleden into a boulevard surrounded by residential, services and retail.

Fosie

In Fosie, south of central Malmö, is Fosieby industrial area of approximately 300 companies including IT consulting services, retail and industry. A large part of the businesses belong to the manufacturing industry. Fosieby has proximity to several large residential areas and a strategic location with a connection to the outer and inner ring road and the E65 motorway. The bridge Öresundsbron can be reached within a few minutes by car and there are good and reliable bus routes serving the area. Kungsliden takes 54,000 sq.m offices, industrial and warehouse of the total holding which amounts to approximately 700,000 sq.m.



Finnslätten

Västerås is Sweden's fifth largest city and is located 100 kilometres west of Stockholm by Mälaren's northern shore. The industrial area Finnslätten is located just north of central Västerås with close proximity to highway 56 and E18. Kungsliden owns seven properties in this

location with a leasable area of 236,000 sq.m of offices as well as warehouse/industry. The area has a clear link to ABB but gathers today a wide range of companies such as Bombardier, Westinghouse, Alstom/Siemens among others.

PROPERTY REFINEMENT THAT ENRICHES

To develop and refine properties and building rights is one of the strategic pillars of Kungsleden's business model. The investments improve the quality of the portfolio, increases cash flow and thereby strengthens the value of the properties.

Property development is for instance about changing the properties usage areas or layout to rebuild, refurbish and extend, modernise as well as develop undeveloped land and building rights. Through refinement of existing buildings and by driving zoning plan processes for building rights we develop the properties' potential and create new values – both for the company and the surroundings.

PROFITABLE DEVELOPMENT PROJECTS IN PIPELINE

At the end of 2016 Kungsleden had ten properties classified as project properties. In project properties, there are areas held vacant on purpose which are planned to be vacated, short-term leased or demolished in order to allow for larger property development projects. Four of these are in the implementation stage with a total confirmed investment volume of SEK 826 million. These are detailed on the next page.

During 2016 investments were carried out totalling SEK 609 million, of which SEK 140.5 million related to project properties.

Kungsleden's ongoing operational objective of an investment volume of SEK 1–1.2 billion over the three years is expected to be exceeded already at the year end of 2017. This is partly because the company has a number of development projects in the pipeline and partly because it is expected to take further investment decisions in the coming year.

STRATEGY FOR RESIDENTIAL BUILDING RIGHTS

During 2016 Kungsleden decided upon a strategy for management of existing and potential residential building rights. We will develop the residential building rights by identifying opportunities, drive zoning plans and then divest the building rights. During the year, five transactions have been completed with potential residential building rights at a price of SEK 321 million. The remaining potential for residential building rights is estimated to be approximately 360,000 sq.m. Planning work and feasibility studies are underway in about 20 properties in Gothenburg, Järfälla, Örebro, Västerås, Umeå and Stockholm.

In addition to the residential building rights Kungsleden holds almost 200,000 sq.m of existing and potential commercial building rights.

CREATING VALUE AND CONTRIBUTING TO THE NEIGHBOURHOODS

Development projects are carried out in selected properties when there is a need for redevelopment that does not fit within the property management's normal refinement plan. This can for example concern properties that needs to be modernised or get a new usage area and if building rights is to be used or created. Investments in the form of tenant improvements are also implemented and these are expected to increase in the next few years as a consequence of the strong new leasing 2016.

Through the development projects the quality increases and thus the value of the properties. In addition, projects often contributes to the current long-term development of the area. That is the case with for instance the development of Tegnérgallerian in Växjö where the entire environment around the lower part of Storgatan will be more inviting and accessible. Even the development of Blästern in Vasastaden in Stockholm benefit the entire neighbourhood. Kungsleden is constructing together with Nobis a design hotel which will be a meeting point and an "oasis in the city" in the blocks that were formerly dominated by offices and where the offering has been limited.

STRUCTURED PROCESS AND INDEPTH ANALYSIS

In order to ensure an effective and value creating process we conduct development work in four steps: identification, feasibility study, project development and implementation.

The identification of development projects is carried out in close collaboration between employees in property development, property management, transaction and analysis. The purpose is to find hidden values in the existing holding and to evaluate the development potential in potential acquisitions.

When a development property has been identified a feasibility study is initiated to analyse the technical and financial conditions, location, market conditions, zoning plans and the municipality's urban development plans. Before a decision about a selected project approach a risk analysis is also made with the aim to identify the projects that have the greatest potential for value creation and acceptable risk for Kungsleden. After a policy decision has been taken the project development is carried out to ensure the project expenses, timetable and revenue potential as well as the feasibility.

INVESTMENT PROGRAM 2013 2018	Plan					
	2013	2014	2015	2016	2017	2018–2019
Investments in existing properties ¹ , SEK m	213	234	436	468	500	600
Development projects, SEK m			14	141	500	1,400
Total investments, SEK m	213	234	450	609	1,000	2,000

1. Including investments in tenant improvements

DEVELOPMENT PROJECTS

Before the project goes into the implementation stage at least 50 per cent of the total area of the property shall be leased, which will secure Kungsleden's revenues and reduces the risk during implementation.

Implementation takes place in close interaction with the property management organisation in order to for instance ensure that the premises are refined in line with the client's specific needs and in such a way that contributes to efficient property management.

Many projects are also planned with the whole of the nearby

area in mind. It is about developing clear concepts and to create a well thought through overall experience that contributes to the long-term development of the area. By doing this in the early stage the target groups which are important for the project and the area are attracted, which facilitates both for leasing and project implementation.

The company's employees have extensive experience of project development and to find creative and profitable solutions even in smaller cities with other conditions compared to large cities.

DEVELOPMENT PROJECTS AND PLANNING

CATEGORY 1 - INVESTMENT DECISIONS MADE/IMPLEMENTATION STAGE						Investments					
Property	Category	Municipality	Completed	Leasable area, sq.m.	Occupancy rate, %	Investment amount, SEK m	Capitalised total, SEK m	Of which 2016, SEK m	Budget 2017, SEK m	Plan 2018, SEK m	Plan 2019, SEK m
Enen 10	Office	Södertälje	2017	6,000	53	125	94.7	90.3	30		
Blåstern 14	Hotel	Stockholm	Stage 1 2018/ Stage 2 2021	16,700	70	423	38.3	29.5	160	120	0 ¹
Holar 1	Hotel	Stockholm	2018	6,000	100	128	10.2	9.6	80	38	
Tegnér 15	Retail	Växjö	2017/2018	16,500	85	150	11.1	11.1	90	49	
Total				45,200		826	154.3	140.5	360	207	0

CATEGORY 2 - DECISION MADE ON DIRECTION/LEASING AND PROJECT PLANNING

Property	Category	Municipality	Completed	Leasable area, sq.m.	Investment amount, SEK m	Budget 2017, SEK m	Plan 2018, SEK m	Plan 2019, SEK m
The Galleria ²	Retail	Eskilstuna	2019	29,000	190	70	120	
Skiftinge 1:3	Retail	Eskilstuna	2018	25,000	240	5	235	
Part of Mimer 5 - House 26	Office	Västerås	2018	4,600	100	30	70	
Total				58,600	530	105	425	

CATEGORY 3 - FEASIBILITY STUDY AND LEASING

Property	Category	Municipality	Completed	Leasable area, sq.m.	Investment amount, SEK m	Budget 2017, SEK m	Plan 2018, SEK m	Plan 2019, SEK m
Karlslund 5:2	Society property (new construction)	Östersund	2019	3,000	130	10	100	20
Terminal 2	Office (new construction)	Sollentuna	2019/2020	6,000	180	5	50	125
part of Verkstaden 7	Offices (new construction)	Västerås	2019/2020	12,000	380	5	10	365
Total				21,000	690	20	160	510

Total project investments 2,046 485 792 510

CATEGORY 4 - PLANNING WORK

Property	Category	Municipality	Project area, sq.m, BTA	Changes to zoning plan required
Aspgården 18	Residential	Umeå	23,000	Yes
Målaren 17	Residential/Office	Örebro	30,000-40,000	Yes
Veddesta 2:65 etc.	Residential/Office	Järfälla	40,000-50,000	Yes
Verkstaden 7	Residential/Office/Retail	Västerås	50,000-70,000	Yes

1. During 2020 and 2021 stage 2 will be built with total investment volume of approximately SEK 105 million.

2. Consists of four legal properties.

BLÄSTERN IN STOCKHOLM



Design hotel and destination where old meets new

Where new and innovative Hagastaden meets Stockholm's characteristic stone town is block Blästern 14 located at Gävlegatan. Here, a hotel alongside modern offices have been created totaling 16,000 sq.m and hotel operator Nobis has signed a 20-year lease agreement.

With fingertip feeling for the modern and with respect for the past a new destination is created – a place where people can meet to work, enjoy, live or socialise. The design hotel to be built will have generous areas for restaurant, bar and lounge that stretches freely between the indoor environment and the inviting courtyard. The hotel with associated offices is expected to be completed during the second quarter of 2018.



The municipality gives space for city offices

The old town hall in Södertälje is converted to 6,000 sq.m modern and flexible offices in central Södertälje. The facade and entrance are finalised and internal redevelopment is on-going. ÅF moved in during October 2016. Actic and Tidemans Cafe launched their operations in February 2017 and Skandiamäklarna and Previa have also signed lease agreements. Leasing is on-going for the remaining areas and the project is expected to be completed in 2017.



HOLAR IN KISTA

Residentials for short-term accommodation

Kungsliden is converting an office property in Kista Science City to an apartment hotel for short-term accommodation. Kista Check-in is renting the whole property Holar 1 with 167 hotel rooms. Existing tenants are moving to other properties in the Kista cluster and contributing to the vacancy rate decreases in the cluster by just over 4 per cent. The operation is scheduled to open in the second quarter of 2018.



TEGNÉR IN VÄXJÖ

New life in city blocks

The property Tegnér 15 on Storgatan in central Växjö is a mixed-use city with retail, offices and residentials. Kungsliden's vision for Tegnérgallerian at the ground level of the building is to remove the galleria's internal lanes and create shop fronts facing the street. Kungsliden also owns the property Ödman 14 on the opposite side and can therefore give new life to this part of Storgatan.

Several popular stores can be found in the mall such as Systembolaget, Apotek Hjärtat, Pressbyrå and Interflora. An agreement has also been signed with an attractive anchor tenant who will rent 3,000 sq.m. The redevelopment began during the fourth quarter of 2016 and is expected to be completed in 2018.

SUSTAINABILITY – A SMART AND LONG-TERM BUSINESS

For Kungsliden sustainability is a smart and long-term business, both from a cost and a responsibility perspective. Kungsliden is working with particular focus on five areas: environment, diversity, social responsibility, business ethics and health and safety.

ENVIRONMENT

WITH RESPONSIBILITY FOR THE CLIMATE

Kungsliden has an ambition to continuously reduce the operations' negative impact on the environment. The work leads to reduced usage of resources and cost savings, whilst providing resources for the benefit of future generations.

The cost savings are generated mainly in the property management. The energy savings measures implemented in 2016 as a result of implemented energy inventories have led to a reduction in energy costs by approximately SEK 6 million. The work with the environmental certification of properties in the property portfolio has continued and today 11 per cent of the total property value is environmentally certified. During the year an evaluation of environmental risks within the portfolio was also carried out, where the risk of asbestos, PCB, radon and soil pollution were categorised.

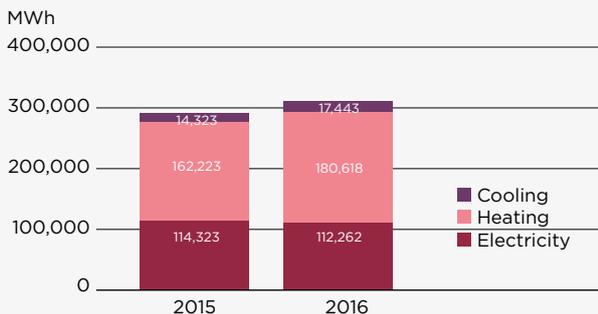
The long-term objective is to reduce energy consumption by 20 per cent between 2014 and 2020. Energy consumption has increased in 2016 compared with 2015 due to the large number of acquisitions in 2015. In the comparable holdings with climate adjusted values energy consumption has decreased by 3 per cent during the period.

Kungsliden reports on sustainability in accordance with the Global Reporting Initiative (GRI) G4, level Core and EPRA's recommendations (sBPR). During 2016 the UN Global Compact was signed. Read more about the GRI-summary on pages 8 and 89-96.

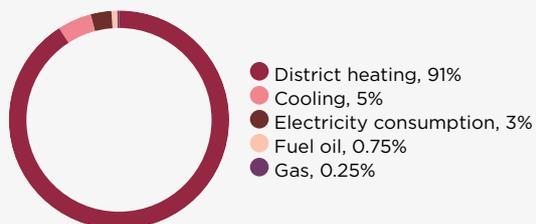


During 2016 electrical charging points were installed for electric cars in the Kista Cluster.

ENERGY CONSUMPTION



GREENHOUSE GAS EMISSIONS, 2016



91 per cent of the greenhouse gas emissions Kungsliden emits derives from district heating. Emissions from electricity consumption represents only 3 per cent thanks to the fact that we buy hydro power from Swedish hydro-power plants. Even emissions from the oil heating has decreased over time.

SOCIAL RESPONSIBILITY

THE SPACE BETWEEN BUILDINGS

Kungsliden takes responsibility for the neighbourhood environment and people by working actively with the management of the properties and by interacting with tenants, municipalities and other local stakeholders. This generates attractive areas.

Kungsliden's objective is to actively contribute to a safer and more inclusive society. Since 2010, Kungsliden is therefore

one of the main sponsors of Fryshuset. In addition to this, Kungsliden contributes to Sweden's youth entrepreneurs which inspires, supports and helps young people to realise their dreams. For the second year in a row, during 2016, Kungsliden carried out a successful project to give 21 young disadvantaged people summer jobs within Kungsliden's properties.

During 2017 the cooperation will continue with Fryshuset, including a new summer job project.

DIVERSITY

EVERYONE IS NEEDED

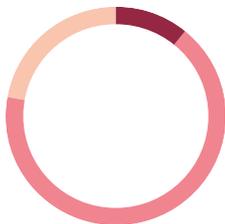
Kungsleden will reflect the diversity in society and therefore create opportunities both in meeting with clients and employees in the development of the business.

The long-term focus has been centred on the company's commitment to equal opportunities. During 2016 Kungsleden received Foundation AllBrights award best equal gender company. This was due to the company demonstrating a long-term vision and commitment to equal opportunities through its comprehensive employee-value driven work in 2016, recurring payroll audits and clear equal opportunities focus in the annual employee survey. The Group Management has shown its clear engagement for these issues. In order to continue the positive development the company follows its equal opportunities plan and reviews the salary levels on an on-going basis.

In addition to a balanced gender representation of women and men Kungsleden also wants to achieve a more balanced age range and attract more employees from a foreign background. Kungsleden has during 2016 started a certified trainee program with three young talents. During 2016, the average age was reduced from 45,1 to 42,8. During 2017 a review of the recruitment processes and recruitment policies is planned.

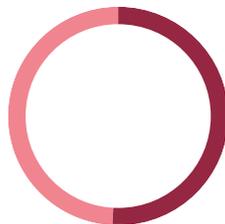


AGE DISTRIBUTION OFFICIALS, %¹



- <30 years, 11%
- 30-50 years, 67%
- <50 years, 22%

GENDER BALANCE, %



- Women, 51%
- Men, 49%

1. Includes only permanent salaried employees.



HEALTH AND SAFETY

THE IMPORTANCE OF WELL-BEING

Kungsleden wants to ensure a good working environment for tenants, contractors working in the properties and the company's employees. It generates an efficient organisation which in turn leads to satisfied tenants who are willing to extend the partnership with Kungsleden.

Kungsleden is proud of its low employee sickness absence rate. This is partly due to the company care offered to employees and the clear set of tools for stress management as well as the encouragement of healthy lifestyles.

The dialogue with the contractors is of great importance and the company has recurring contractor meetings where the working environment is discussed. Kungsleden undertakes quarterly safety campaigns as a reminder of safe working conditions including snow-fall protection, non-slip safety and roof safety. During 2017, several audits with a particular focus on health and safety will be carried out for Kungsleden projects.

BUSINESS ETHICS

TO LIVE AS YOU LEARN

To work for a professional business culture with competitive and transparent terms is a priority for Kungsleden. It increases the profitability at the same time as it reduces the risk of negative impact on the brand.

During 2016 the Code of Conduct was revised for suppliers in all essential areas. Meetings were carried out in five cities to inform a total of 150 individuals about the new Code of Conduct. During the year, new guidelines regarding internal and external business networking, secondary occupations and the bias these might have on current roles have also been adopted. All employees have received training on the subject. In 2016 a new purchasing policy has also been developed. The next step is to identify all employees' secondary occupations in connection with the performance reviews in order to identify the risk for bias.

ACTIVE DEBT MANAGEMENT

Since the new business strategy was announced in 2013, Kungsliden has gradually worked to reduce the financial risk in order to create conditions for growth through acquisition of strategic property assets and improvements in existing properties.

Existing bank loans have been renegotiated with better conditions as well as new financing being procured for the acquisition of key assets with a higher credit rating. This, in combination with active interest rate risk management by redemption of old expensive swaps and in conjunction with this, new interest rate swaps were acquired which has contributed to the average interest rate steadily decreasing and interest rate duration being extended.

During 2016, new forms of financing have been adopted such as the establishment of the commercial paper programme, secured borrowing via institutional investors and a new long-term loan from Realkredit Denmark. This has contributed to the further reduction of the financial risk with a higher degree of diversification in the total borrowing, and reduced dependency on banks while the duration of the borrowings have been extended significantly.

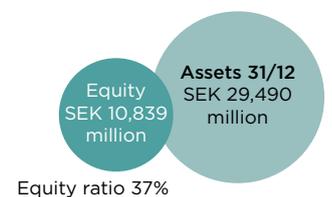
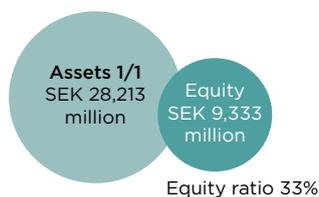
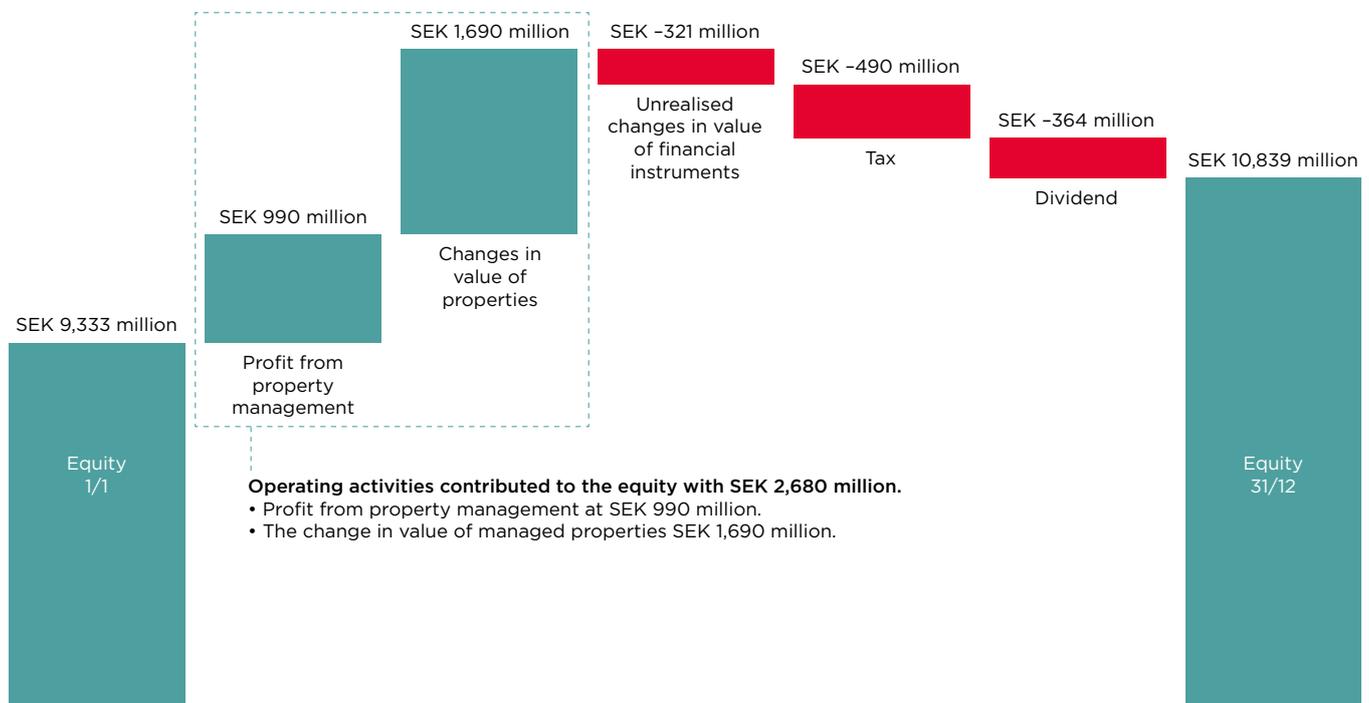
FINANCING STRUCTURE

To own and manage commercial properties is a highly capital intensive business. The availability of capital is therefore a key factor. Kungsliden's most important form of financing is interest-bearing liabilities, which represented 56 per cent of the company's financing at 31 December 2016. The loan portfolio amounted to SEK 16,511 million (17,456), of which 83 per cent related to liabilities to credit institutions. The remaining was related to unsecured bonds and other secured borrowing. Bank financing consists of bilateral agreements with individual banks and three syndicated credits with several banks. Bank loans normally have a duration of one to five years.

The interest rate duration in the majority of the loans are short-term (variable) and Kungsliden manages interest rate risk on a Group level. The desired level of risk is achieved primarily through the use of derivative instruments (interest rate swaps).

EQUITY AND FINANCIAL POSITION DURING 2016

Equity at the end of the period amounted to SEK 10,839 million (9,333) or SEK 60 (51) per share. This corresponds to an equity ratio of 37 per cent (33).



As security for loans from the banks and the institution, property mortgage, shares and intra-Group promissory notes are pledged as well as a guarantee from the parent company. In addition, certain loan agreements include covenants in regards to interest coverage ratio, the LTV (loan-to-value) ratio and equity ratio. All covenants were fulfilled at 31 December 2016.

CHANGE IN EQUITY AND NET DEBT

The return on equity shall over a period of time reach a higher return on equity than comparable listed property companies. Return on equity amounted to 18.5 per cent (5.5). Kungsleden's objective is that the equity ratio should be at least 30 per cent and should over time amount to 35 per cent. At the year end the equity ratio amounted to 37 per cent (33). During the year the equity increased by SEK 1,506 million of which profit from property management was SEK 990 million. Unrealised changes in the value of the property assets have strengthened the equity by SEK 1,658 million. Interest rates on longer terms have fallen, which has led to unrealised changes in the value of financial instruments affecting total earnings by SEK 321 million. After tax and dividend the equity at year end amounts to SEK 10,839 (9,333) million.

During the year, debt volume has decreased by SEK 945 million after repayment of debt in connection with divestments of properties and contractual repayments. Cash and cash equivalents at the end of the year amounted to SEK 57 (441) million. On 31 December available funds including unutilised credit facilities amounted to SEK 1,049 (1,057) million. Net debt (interest-bearing liabilities less cash balances) declined by SEK 561 million. LTV (loan-to-value) ratio measured as net debt in relation to the property assets has, as a consequence of the ongoing earnings during the year, divestments and value adjustments of property assets, decreased and amounted to 56 per cent (62). Taking into consideration loans for which collateral has been pledged, excluding bond loans of a nominal amount of SEK 975 million, the LTV was 53 per cent (60).

Kungsleden's objective is for the LTV (loan-to-value) ratio to be in the range of 50–60 per cent but to aim for LTV ratio of 55 per cent. The reason that the target for the LTV ratio is presented in a range is that the LTV ratio tends to change if the property assets' values are changed. In accordance with the current accounting standard, the property assets are continuously valued and any value adjustments are reported via the unrealised changes in value, which affect the reported equity.

NEW SOURCES OF FINANCING THAT SPREAD RISKS AND EXTENDS THE DURATION OF THE TOTAL BORROWING

As a consequence of the low interest rates, institutional investors are looking for alternatives to the traditional low-risk alternatives such as treasuries as these currently provide a too low yield in relation to the companies' targeted return. Kungsleden has taken advantage of this during the third quarter by repaying a bank loan by raising a 10-year loan of SEK 630 million which has been fully secured with mortgage pledge from an institution. The loan has a fixed interest rate of 3 per cent, and the loan admission corresponds to a fixed interest rate with a fixed margin of 2 per cent and the 10-year interest swap rate at the time. During the fourth quarter, another secured loan was agreed on with a 10-year term to an amount of SEK 516 million. For the loan, two of Kungsleden's existing properties as well as a recently accessed parking garage were used as security. The loan runs with a variable interest rate corresponding to STIBOR 90 days + a fixed margin which amounts to 1.6 per cent during the first three years and then 2 per cent during the remaining seven years. Payment is expected to take place during the first quarter of 2017. This new financing source allows Kungsleden to spread the risks for the overall borrowing whilst also accessing long-term credit with attractive terms.

During the fourth quarter, loans of SEK 1,340 million were re-financed with a long-term loan via Realkredit Danmark, which is a wholly owned subsidiary of Danske Bank. Kungs-

MATURITY STRUCTURE, CREDITS AND INTEREST RATE DERIVATIVES

As of 31 December 2016, SEK m	Utilised credits	Unutilised Credits	Total Credits	Interest rate derivatives	Average interest rate derivatives, %	Average remaining fixed interest term, year
2017	1,579	2,170 ¹	3,749			
2018	3,306		3,306			
2019	4,450		4,450	1,000	0.5	
2020	4,713		4,713	2,770	0.6	
2021	492		492	1,800	0.8	
2022				3,500	1.4	
2023						
2024				1,050	4.6	
2025						
2026	630		630			
2036	1,340		1,340			
Total	16,511	2,170	18,681	10,120		3.4
Average capital term, year	4.2		3.7			

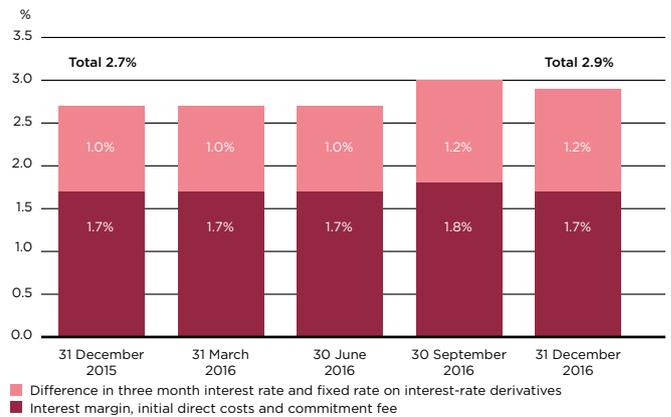
1. Of which SEK 1,178 million relates to backup for issued commercial papers.

At refinancing in January 2017, unutilised credits will be reduced by SEK 450 million when mortgage will be pledged for a new loan of SEK 516 million, due in 2026.

leden receives a credit facility with a 20 year term financed by Realkredit Denmark who issues covered bonds which have an AAA rating from Standard & Poor's (S&P). The refinancing entails an annual cost saving of approximately SEK 7 million. This refinancing together with a loan from an institution extends the average remaining maturity on the total borrowings which at the end of the period amounts to 4.2 years (3.6), excluding unutilised credits.

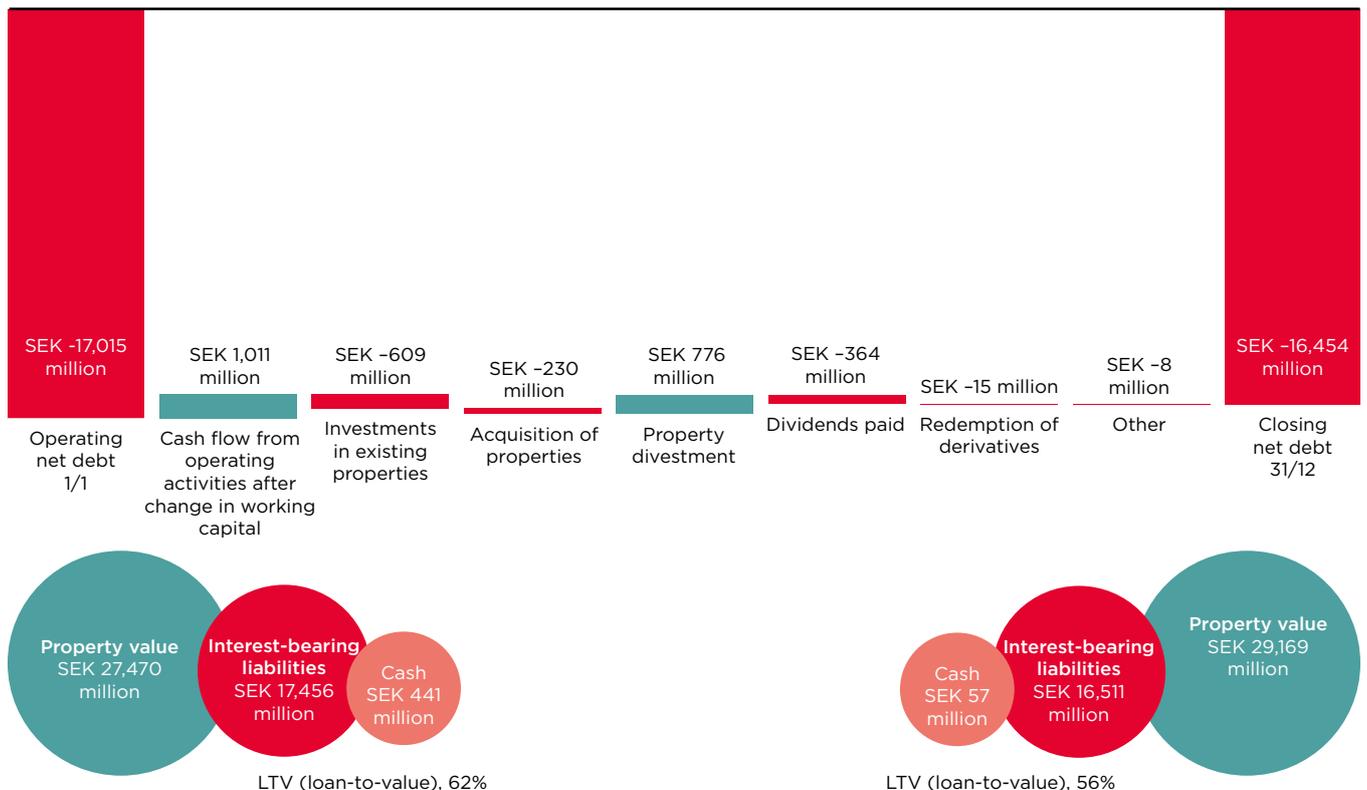
During the year, Kungsleden has established a commercial paper programme with a limit of SEK 2,000 million. Issued volume amounts at year end to SEK 1,180 million. A commercial paper is a interest-bearing security with a duration of up to 12 months. By issuing commercial papers, Kungsleden takes advantage of the low interest rate environment and thereby reduce the cost of borrowing. With the issued volume Kungsleden achieves savings of over SEK 6 million on an annual basis.

AVERAGE INTEREST RATE



The average interest rate is calculated by setting the interest costs on loans and interest rate swaps, initial direct costs and the costs associated with unutilised credit lines in relation to the outstanding loan volume at the end of the reporting period.

CHANGE IN NET DEBT DURING 2016



FINANCIAL REVENUES AND EXPENSES

The Group's loan volume during 2016 has been, on average, SEK 3 to 4 billion more than in the previous year, which is mainly due to increased borrowing to finance the property acquisitions. Nevertheless, interest rate expenses and other financial costs are SEK 8 million lower compared to the previous year. The reason is that the new loans and refinancing have had favourable terms and the old expensive interest rate swaps were redeemed in the end of 2015. The net financial items excluding profit (loss) from associated companies are SEK 2.7 million higher due to primarily attributable interest rate revenue on the shareholder loans to associated companies in 2015. Net financial items for the fourth quarter improved by SEK 6.6 million compared to the previous quarter. This is primarily due to the volume of loans during the third quarter which were higher following the issuing of three-year unsecured bond loan and the refinancing resulting in reduced borrowing costs that were made at the beginning of the fourth quarter.

Of the average interest rate of 2.9 per cent, 1.2 per cent represents the difference between the three month interest rate and the fixed interest rate on the interest rate swaps. This component has increased by around 0.2 percentage points compared to the outcome of the previous year as a consequence of the STIBOR 90 days becoming more negative during the year. The average credit margin on the secured loans and unsecured bond loans, including accrued arrangement fees and commitment fees, was 1.7 per cent.

INTEREST RATE RISK MANAGEMENT

In order to limit the impact on net financial items by changes in the short-term interest rate, Kungsleden uses interest rate derivatives in the form of interest rate swaps. The Board adopts guidelines for the percentage of debt that can have fixed interest, for each range of maturity.

In order to reduce the financial risk and secure part of the future profit from property management a relatively high degree of hedge ratio and long interest rate duration have been selected. Interest rate swaps nominal amount amounted at the end of the year to SEK 10,120 (12,030) million. During the fourth quarter

swaps were redeemed with a nominal amount of SEK 1,910 million with a short remaining term. Of the total interest-bearing liabilities 65 per cent (69) have a fixed interest term longer than 12 months. The average fixed interest term of interest-bearing liabilities amounted to 3.4 years (3.5). Through the selected interest rate hedging, net financial items are only affected marginally by rising short-term market interest rates. The impact on net financial items for the next 12 months would increase with approximately SEK 39 million if the STIBOR 90 days were increased by 1 per cent. This is a consequence of the variable interest rate payment in interest rate swaps as this is connected to STIBOR and will therefore be less negative when STIBOR increases towards zero. At the same time, STIBOR cannot be negative as per definition in the loan agreement with the bank.

With interest rate swaps the company received the variable STIBOR 90 days rate and pays a fixed interest rate over longer terms. When the agreement is confirmed, the net present value of future variable and fixed interest payments is zero. If, after the agreement was signed, market condition changes, it will affect the net present value of the future payments in the swap. The changes in value that this gives rise to are recognised, in accordance with the Swedish accounting standard, continuously in the profit (loss) through the item's unrealised changes in value of financial instruments. At 31 December 2016 the negative market value of financial instruments was SEK -653 million compared with SEK -347 million at the beginning of the year. Of the value changes SEK -512 million refers to a decline in the longer term market rates, which to a certain extent is counteracted by the ongoing interest payments in the swaps of SEK 191 million, and also on the redemption on current swaps which means a repayment of the market value in the terminated swaps amounting to SEK 15 million. The negative market value will gradually decrease through the ongoing interest rate payments in the swap agreements, which is reported as an on-going interest rate cost in the property management profit or loss. A change in the market interest rate of +/- 1 percentage point provides a change of the swaps' market value of SEK +507 million/542 million.

RISKS AND HOW WE MANAGE THEM

To identify risks and plan for how they should be managed is a business prerequisite for Kungsleden with its long-term approach and high degree of trust. The company is to deliver an attractive total return alongside sustainable operations with care and respect for the people and environment.

Risk category and definition	Management
PROPERTY MANAGEMENT AND PROPERTY DEVELOPMENT	
<p>Rental revenue Kungsleden's rental revenues are affected by several factors such as:</p> <ul style="list-style-type: none"> • development in the economy for the local and regional markets where Kungsleden operates • how large new construction of commercial premises is in the markets where Kungsleden operates • at what rate we're developing our defined clusters • the tenants earnings and payment capacity • change in vacancy rate of the property portfolio • how well the communication between the property management and the tenants works • how attractive our premise and client offerings are • lack of cost indexation 	<p>Risks relating to rental revenues are handled by:</p> <ul style="list-style-type: none"> • ongoing optimisation of the portfolio with divestment of non-strategic properties with high risk • additional selective acquisitions in our defined clusters. Being the dominant property owner in our clusters gives us greater opportunity to influence the rental development. • development of whole areas • investments and tenant improvements • an attractive and diversified tenant mix • maintaining a lease agreement portfolio with relatively long terms on the whole portfolio of 4.0 years (4.2) • an extended number of offices to maintain and develop a close dialogue with the tenants • skilled Property Managers and Leasing Managers • ambition that new lease agreements should contain index clauses with a minimum indexation, in the short-term, it would provide certain protection against deflation
<p>Tenant Structure The risk of rental losses and vacancies are affected by the tenant structure. To have larger commercial tenants can give rise to concentration risks.</p>	<p>The risk is managed by striving for a diversified client structure and during 2016 this was achieved as follows:</p> <ul style="list-style-type: none"> • Kungsleden's ten largest tenants accounted for 25 per cent of the rental revenue. In several cases, the largest tenants have several different activities and subsidiaries in several cities, which reduces the risk. • tenants represent a cross-section of Swedish businesses with both large and small as well as private and public operations.
<p>Property costs Changing property costs may affect the operating net negatively and consist mainly of:</p> <ul style="list-style-type: none"> • property tax and site leasehold fees, which are difficult to affect • electricity, cleaning, heating, water, care and maintenance <p>Electricity, heating, property tax, and site leasehold fees have the greatest impact on earnings.</p> <p>The price of electricity is controlled by supply and demand on the competitive electricity market and seasonal variations in the cost of media and property care affect the company's cash flow and operating net.</p>	<p>To maintain good control of the property costs Kungsleden take the following actions:</p> <ul style="list-style-type: none"> • a large part of the cost of electricity and heating is re-invoiced to the tenant for the leased area while vacant areas are covered by the company. • property tax is re-invoiced to the tenant • lease agreements with index clauses that means Kungsleden is compensated for costs that are not carried by the tenants by rents increases of 75 to 100 per cent of the inflation • on-going efforts to reduce the energy consumption as well as the conserving of a certain amount of electricity <p>Seven of the properties have site leasehold fees that are usually renegotiated with an interval of 10 to 20 years.</p> <p>The objective is to reduce the energy consumption by 3 per cent per year, which we achieved in 2016.</p>
<p>Project development Project development adds value but can be associated with risks such as:</p> <ul style="list-style-type: none"> • increased credit risk with larger, tailored projects as a result of tenants not fulfilling their rental obligations and Kungsleden being unable to find any other tenants for the premises • increased costs for larger construction and refurbishments are delayed and/or becomes more expensive than expected • decreased revenue due to delays which lead to tenants not being able to access their premises on the expected date <p>Kungsleden is committed to obtaining the necessary permits from the authorities for the projects to be implemented.</p>	<p>Project development risks can be managed by:</p> <ul style="list-style-type: none"> • project implementation does not start before 50 per cent of the area is leased out • Kungsleden has in recent years built up an organisation with high level of expertise and solid experience of project development • Kungsleden has rigorous and quality assured processes and routines for project development • in every project an initial risk analysis is carried out which is followed up during the project

RISK MANAGEMENT

Risk category and definition	Management
<p>CHANGES IN VALUE OF THE PROPERTIES</p> <p>Kungsleden reports its properties at fair value (market value), which provides a direct impact on the profit and loss, and financial position. The value of the properties are affected by a number of factors:</p> <ul style="list-style-type: none"> external factors which affect supply and demand as well as the economic cycle, interest rates, loan financing and yield requirements contract and client structure Kungsleden's ability to refine and develop the properties 	<p>To manage the risk of negative changes in value, Kungsleden has:</p> <ul style="list-style-type: none"> actively spread the risk in regard to premise and tenant categories, geography and the size of the agreement an average agreement duration of 5.4 years for the ten largest tenants, which means that changes in market rents do not have an immediate effect on the rental revenue an objective to have a balanced portfolio risk with a limited impact of external factors evaluated each property individually, both internally and externally employees with extensive transaction experience
<p>PROPERTY TRANSACTIONS</p> <p>Streamlining by non-strategic divestments and selective acquisitions mainly in the clusters are included in the Kungsleden's strategy. Divestments under the book value can affect the financial position and earnings negatively. For the acquisitions to be completed, appropriate investment assets need to be available for sale at reasonable price levels.</p>	<p>Transaction risks are managed by Kungsleden in the following ways:</p> <ul style="list-style-type: none"> has an organisation with extensive experience of property transactions it appoints external advisors with relevant competence, when considered necessary
<p>FINANCING</p> <p>Financing The risk of borrowing being unavailable or there being unfavorable conditions.</p>	<p>The risk of missing or unfavourable financing is managed for instance by the Financial Policy that:</p> <ul style="list-style-type: none"> indicates the share size of the borrowing that may come from a single lender regulates how the proportion of loans which may be due for refinancing within one year. indicates that the average duration of the total borrowing should not be less than two years <p>Kungsleden is continuously working with a loan portfolio maturity structure to limit the financing risk and has on-going discussions with existing and potential lenders as well as using alternative forms of financing in the capital market.</p>
<p>Interest rate Changes in the market interest rate can impact the profit (loss) and cash flow. Financing with short fixed-rate periods leads to an uncertainty regarding future financing costs.</p>	<p>The interest rate risk is managed by:</p> <ul style="list-style-type: none"> achieving a balanced fixed-rate period, such as not having to pay the costs of any early redemption of the fixed loans during property divestments and refinancing. using interest rate derivatives in the form of interest rate swaps, where two parties agree to exchange interest rate payments with each other. Kungsleden has chosen to pay a fixed interest rate in all swap agreements in order to obtain a variable interest rate corresponding to the STIBOR 90-days for a certain agreed terms. This will increase the fixed-rate period and the predictability of the current interest rate cost.
<p>Liquidity The risk of not having access to cash equivalents or credit facilities to meet the current payment commitments.</p>	<p>The availability of cash equivalents or sufficient credit facilities should be secured by maintaining the following guidelines:</p> <ul style="list-style-type: none"> the size of the liquid financial assets and unutilised credit facilities should meet the need of the transaction liquidity and the requirements of the liquidity reserve. the liquidity should at all times correspond to at least three months of known payments including interest rate payments and loan rollovers. excess liquidity is used primarily to redeem interest-bearing loans as this provides better returns than investing money with credit institutions.
<p>TAX</p> <p>Changes in the regulation framework for corporate and property tax may affect the conditions for Kungsleden's operations positively as well as negatively, for example:</p> <ul style="list-style-type: none"> changed tax deduction possibilities for interest rates changed corporate tax rate <p>The property tax which is based on the properties' taxable value is dependant on political decisions. This applies to both the base for the calculation, taxable values and the tax rate.</p> <p>Even the amended <i>application</i> of existing rules and regulations can be of great importance for the property industry and therefore also to Kungsleden.¹</p>	<p>The tax risks are managed by:</p> <ul style="list-style-type: none"> proactive work on the management of the Group's tax risks clear integrated routines and controls close collaboration between finance functions, the property management and transaction team ongoing communication with the Board of Directors and Audit Committee around the tax risks and processes for these analysis of complex tax issues together with advice from external advisors the property tax is normally re-invoiced to the tenants for leased space, while tax for vacant space is carried by the property owner

1. For further information about Kungsleden's tax situation, see note 3 and 10 or kungsleden.com

CORPORATE GOVERNANCE REPORT

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

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

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

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

APPLICATION OF THE CODE

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

WORD FROM THE CHAIRMAN OF THE BOARD

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

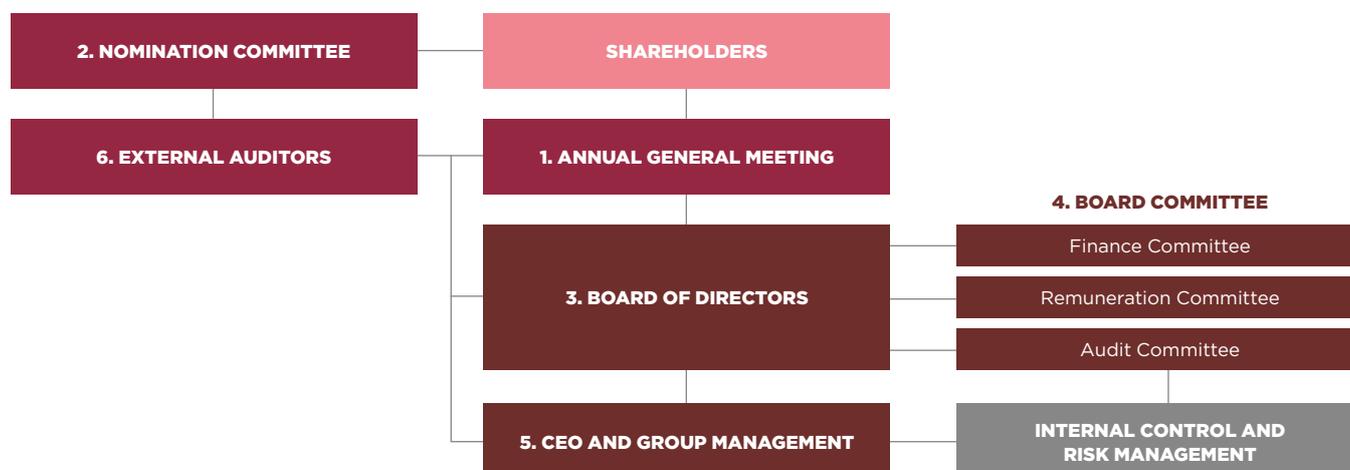
During the year, the Board of Directors have continued to actively examine and take a position on the strategic divestments and acquisitions. Also the measures which have been taken to strengthen the financial position and to reduce the LTV (loan-to-value) ratio have been the focus at our Board meetings.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

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



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

Göran Larsson, Chairman of the Board



Examples of external regulations affecting the management of Kungsleden:

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

Examples of internal regulations affecting the corporate direction of Kungsleden:

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

1. ANNUAL GENERAL MEETING

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

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

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

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

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

Read more about the Annual General Meeting at www.kungsleden.se/agm

2. NOMINATION COMMITTEE

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

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

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

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

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

Nomination Committee

Composition in March 2017

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

For further information about the Nomination Committee please visit www.kungsleden.se/nomination-committee

3. BOARD OF DIRECTORS

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

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

Responsibility of the Board of Directors

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

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

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

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

Responsibility of the Chairman of the Board

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

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

Duties of the Board of Directors

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

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

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

Proposals to the Board of Directors can be submitted via email to styrelsen@kungsleden.se

Work of the Board of Directors during 2016

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

Evaluation of the work of the Board of Directors

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

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

Remuneration to the Board of Directors

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

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

Remuneration to senior executives

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

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

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

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

4. BOARD COMMITTEES

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

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

○ - Chairman of the Board/Committee

Finance Committee

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

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

Audit Committee

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

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

Remuneration Committee

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

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

5. GROUP MANAGEMENT

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

CEO

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

6. EXTERNAL AUDITORS

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

Control environment

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

Risk assessment

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

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

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

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

Control Activities

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

Information and Communication

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

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

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

Follow-up

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

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

BOARD OF DIRECTORS



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

GÖRAN LARSSON

CHAIRMAN OF THE BOARD

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

CHARLOTTE AXELSSON

BOARD MEMBER

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

JOACHIM GAHM

BOARD MEMBER

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

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

LISELOTTE HJORTH

BOARD MEMBER

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

LARS HOLMGREN

BOARD MEMBER

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

KIA ORBACK PETTERSSON

BOARD MEMBER

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

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

CHARLOTTA WIKSTRÖM

BOARD MEMBER

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

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

GROUP MANAGEMENT



Upper row: Gert Ternström¹, Ylva Sarby Westman, Sven Stork, Anders Kvist and Mats Eriksson.
Bottom row: Malin Axland, Frida Stannow Lind, Biljana Pehrsson, Nicklas Arfvidsson² and Marie Mannholt.

BILJANA PEHRSSON, CEO

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

ANDERS KVIST, DEPUTY CEO AND FINANCE DIRECTOR/CFO

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

YLVA SARBY WESTMAN, DEPUTY CEO/CHIEF INVESTMENT OFFICER

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

MARIE MANNHOLT, HEAD OF MARKETING AND COMMUNICATIONS

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

FRIDA STANNOW LIND, HEAD OF PROPERTY DEVELOPMENT

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

SVEN STORK, HEAD OF REAL ESTATE STOCKHOLM

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

GERT TERNSTRÖM, REGIONAL MANAGER MALMÖ

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

MATS ERIKSSON, HEAD OF REAL ESTATE MÄLARDALEN

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

MALIN AXLAND, HEAD OF LEGAL

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

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

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

KUNGSLEDEN'S SHARE

Kungsleden's share was listed in 1999 on Nasdaq Stockholm's Mid Cap list. From 1 January 2017 the company was moved up to the Large Cap list. The stock exchange value amounted to SEK 10.5 million at the year end. During the year, Kungsleden's share has decreased in value by 4.5 per cent.

Kungsleden's share had a slightly negative development during 2016. The price paid at the beginning of the year was SEK 60.5 and at the year end SEK 57.75, which is a decrease of 4.5 per cent. The lowest rate of the year was noted on 9 February and was SEK 51.5. The highest price was noted both on 7 and 8 September and was SEK 68. The dividend in April 2016 amounted to SEK 2.00 per share.

SHARE CAPITAL AND TURNOVER

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

During 2016, 168 (105) million Kungsleden shares were sold generating a turnover of SEK 9.6 (6.4) billion. Nasdaq Stockholm accounted for 51 per cent of all trade in the Kungsleden share, other market places such as BATS, LSE and Boat accounted for the remaining part of the trade.

KEY FIGURES PER SHARE

	2016	2015
Dividend, SEK	2.00	1.50
Total return on shares, %	-1.2	9.7
Property yield on shares, %	3.5	2.5
Profit from property management, SEK	5.44	5.31
Net profit/loss for the period, SEK	10.27	2.78
Equity, SEK	59.55	51.28
EPRA NAV (long-term net asset value), SEK ¹	69.32	56.76
EPRA NNAV (current net asset value), SEK ¹	65.73	55.07
EPRA EPS (profit from property management after tax), SEK ¹	5.18	4.95
Cash flow before changes in working capital, SEK	5.53	-1.88

1. For definition see page 87

TOTAL SHARE RETURN 2014-2016, SEK



SHAREHOLDERS

The number of shareholders at 31 December 2016 amounted to 23,827 (21,822). The ten largest owners controlled at the end of the year 33.7 per cent (34.4) of the capital and votes. The largest shareholders is Gösta Welandson and company whose holdings during the year increased to 14.2 per cent (13.7).

The share of foreign shareholders amounted at the year end to 32.2 per cent and the proportion of Swedish shareholders to 67.8 per cent.

DEIVIDEND POLICY

The company's dividend policy, with effect as from the dividend for 2015, means that the dividend should develop in line with the profit from property management's development. During 2016 profit from property management increased per share by 5 per cent (excluding profit (loss) from participations in associated companies). For 2016, the Board of Directors proposes a dividend of SEK 2.00 per share, which means a unchanged dividend compared with the previous year. The dividend refers to the higher number of shares that will be the profit (loss) of the new share issue in spring 2017, i.e. a total of 218,403,302 shares.

OWNERSHIP STRUCTURE AT DECEMBER 31 2016



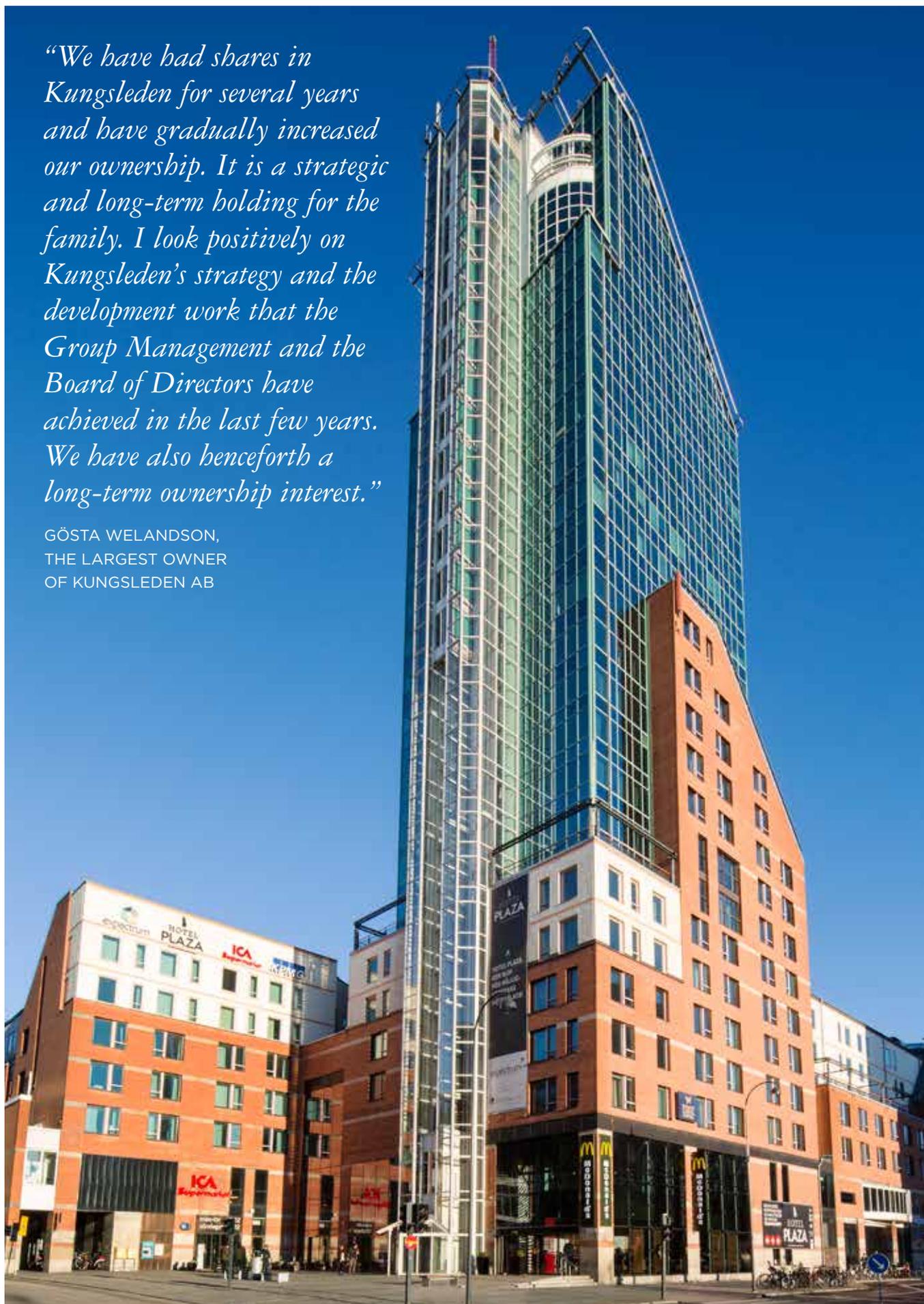
SHAREHOLDERS AT 31 DECEMBER 2016

Name	No. of shares	Share of capital, %
Gösta Welandson	25,786,002	14.20
Länsförsäkringar Funds	11,000,346	6.00
Olle Florén	5,500,665	3.00
Second AP Fund	4,586,639	2.50
Norwegian Bank	3,231,185	1.80
TR Property Investment Trust	2,902,942	1.60
Black Rock, Inc. & iShares ETFs	2,471,309	1.40
Handelsbanken Funds	2,015,440	1.10
SEB Funds	1,955,829	1.10
Vanguard Funds	1,880,471	1.00
Total 10 largest owners	61,330,828	33.70
Foreign owners, other	48,092,699	26.4
Swedish shareholders, other	72,579,225	39.9
Total	182,002,752	100.0

Source: SIX Trust

“We have had shares in Kungsleden for several years and have gradually increased our ownership. It is a strategic and long-term holding for the family. I look positively on Kungsleden’s strategy and the development work that the Group Management and the Board of Directors have achieved in the last few years. We have also henceforth a long-term ownership interest.”

GÖSTA WELANDSON,
THE LARGEST OWNER
OF KUNGSLEDEN AB



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MULTIPLE ANNUAL OVERVIEW

Income statements, SEK m	2016	2015	2014	2013	2012
Revenues	2,430	2,314	2,193	1,669	1,583
Property costs	-827	-769	-703	-538	-538
Operating net	1,602	1,545	1,491	1,131	1,046
Selling and administration costs	-112	-106	-101	-115	-140
Net financial items	-500	-473	-660	-575	-528
Profit from property management	990	966	730	441	378
Profit (loss) from divestment of Nordic Modular	-	24	-	-	-
Profit (loss) from property divestments	32	11	73	8	16
Unrealised changes in value of investment properties	1,658	970	930	48	-20
Unrealised changes in value of financial instruments	-321	176	-427	425	-70
Profit before tax	2,359	2,147	1,306	922	304
Tax	-490	-1,642	-1,965	-169	-799
Profit (loss) for the year, existing operations	1,869	505	-659	754	-495
<i>Terminated operations</i>					
Nordic Modular, net after tax	-	-	63	84	53
Impairment Nordic Modular	-	-	-157	-	-
Hemsö holdings, net after tax	-	-	-	24	794
Profit (loss) for the year, existing and terminated operations¹	1,869	505	-753	862	352
Statement of financial position, SEK m	2016	2015	2014	2013	2012
Assets					
Investment properties – properties	29,169	27,470	19,612	20,338	14,243
Investment properties – modular buildings	-	-	-	1,509	1,509
Properties used in business operations	-	-	-	22	25
Other non-current assets	32	21	49	490	666
Other short-term receivables	232	232	141	286	372
Derivatives	-	49	-	-	-
Claim on the AP3 fund	-	-	-	-	3,363
Assets held for sale – modular buildings and operating properties	-	-	1,428	-	-
Assets held for sale – other	-	-	372	-	-
Cash and bank	57	441	1,437	323	722
TOTAL ASSETS	29,490	28,213	23,040	22,968	20,900
EQUITY AND LIABILITIES					
Equity	10,839	9,333	9,102	8,453	7,726
Interest-bearing liabilities	16,511	17,456	11,313	12,879	9,704
Interest-bearing liabilities related to assets held for sale	-	-	362	-	-
Derivatives	653	395	1,134	708	1,125
Non interest-bearing liabilities	1,487	1,028	662	929	2,345
Non interest-bearing liabilities related to assets held for sale	-	-	467	-	-
TOTAL EQUITY AND LIABILITIES	29,490	28,213	23,040	22,968	20,900
Key figures, SEK m	2016	2015	2014	2013	2012
PROPERTY RELATED					
Yield, % ²	5.7	6.6	7.5	6.5	7.6
Economic occupancy rate, % ²	90.6	90.6	91.5	93.2	92.6
Operating surplus ratio, % ²	65.9	66.8	68.0	67.8	66.1
FINANCIAL					
Return on total assets, %	5.3	5.8	6.6	5.4	8.8
Return on equity, %	18.5	5.5	Neg.	10.7	4.6
Interest coverage ratio	3.0	2.9	2.2	1.9	2.7
Equity ratio, %	36.8	33.1	39.5	36.8	37.0
LTV (loan-to-value) ratio, % ²	56.4	61.9	52.2	61.7	63.1
PER SHARE INFORMATION					
Dividend (paid), SEK	2.00	1.50	1.25	1.00	2.60
Profit from property management (including share of Nordic Modular), SEK ²	5.44	5.31	5.02	3.23	2.77
Profit from property management (excluding share of Nordic Modular), SEK ²	5.44	5.18	5.02	3.23	2.77
Profit (loss) for the year, SEK	10.27	2.78	-5.18	6.31	2.60
EPRA EPS (profit from property management after tax), SEK	5.18	4.95	5.23	3.65	4.67
EPRA NAV (long-term net asset value), SEK	69.32	56.76	57.18	68.35	64.34
EPRA NNNAV (current net asset value), SEK	65.73	55.07	51.66	64.27	57.94

1. All of the profit for the year is attributable to the parent company's shareholders
2. Comparison figures have been recalculated. See page 86 for current definitions.
Definitions are provided on page 87-88.

CONSOLIDATED INCOME STATEMENT

SEK m	Note	2016	2015
Rental revenue	5	2,422	2,238
Other income		7	76
Property costs	8	-827	-769
Operating net		1,602	1,545
Selling and administration costs	6, 7, 8	-112	-106
Net financial items			
Financial income	9	1	11
Interest expenses	9	-467	-459
Profit from participation in associated companies	9	-	24
Other financial expenses	9	-34	-50
		-500	-473
Profit from property management		990	966
Changes in value			
Profit from sale, Nordic Modular Group		-	24
Profit from property divestments		32	11
Unrealised changes in value of properties	13	1,658	970
Unrealised changes in value of financial instrument	9	-321	176
		1,369	1,181
Profit before tax		2,359	2,147
Tax			
Current tax	10	0	-1,305
Deferred tax	10	-490	-337
		-490	-1,642
Profit (loss) for the year¹		1,869	505
Earnings per share before and after dilution	11	10.27	2.78

1. All of the profit for the year is attributable to the parent company's shareholders

STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP

SEK m	2016	2015
Profit (loss) for the year	1,869	505
Other comprehensive income		
Translation gains/losses for the year, on consolidation of foreign operations	1	-1
Profit (loss) for the year¹	1,870	504

1. All of the profit for the year is attributable to the parent company's shareholders

COMMENTS ON THE GROUP CONSOLIDATED INCOME STATEMENT

Profit for the year amounted to SEK 1,869 (505) million. The operating net increased by 4 per cent to SEK 1,602 (1,545) million, which is primarily derived from higher rental revenues as a result of the greater share of office properties in the Stockholm holding. Profit from property management increased to SEK 990 (966) million. Excluding the profit from participation in associated companies in 2015, the increase was greater: from SEK 942 million to SEK 990 million or 5 per cent.

PROPERTY MANAGEMENT

Total revenues rose by SEK 184 million or 8.2 per cent compared with the previous year and amounted to SEK 2,422 (2,238) million. The increase is mainly due to the share of office properties in Stockholm increasing during the year as a result of acquisitions in Stockholm and divestments in other regions.

Other income in the income statement consists of revenues which have no direct link to lease agreements – mainly revenues from early redemptions of lease agreements and refunds of insurance premiums, amounting to SEK 7 (76) million. The decrease is mainly due to events of a one-off nature in 2015, in the form of early redemption which then increased the revenues by SEK 71 million.

For the whole property portfolio the direct property costs increased to SEK 714 (660) million. The higher proportion of office buildings in Stockholm is a direct effect of the increase in cost. The costs of property administration amounted to SEK 113 (109) million.

Rental revenue less total property costs increased by SEK 126 million, SEK 1,469 to 1,595 million. The net effect of accessed and vacated properties between years gave an operating net contribution of SEK 150 million. The higher share of office buildings in Stockholm plays a crucial role. The reported operating net increased less, from SEK 1,545 to SEK 1,602 million as a result of the large one-off revenues during 2015.

SELLING AND ADMINISTRATION COSTS

The selling and administration costs amounted to SEK -112 (-106) million.

FINANCIAL INCOME AND EXPENSES

Net financial items, excluding the profit or loss from the participation in associated companies, amounted to SEK -500 (-497) million. This means that the total net financial expenses could remain unchanged despite a substantially higher borrowing volume during 2016 compared with the previous year.

CHANGES IN VALUE

Changes in the value of the property portfolio amounted to SEK 1,690 (1,005) million including profit from property divestment of SEK 32 (11) million. Reduced yield requirements and improved operating net were the most important causes of the unrealised value increase. The unrealised value changes of financial instruments amounted to SEK -321 (176) million. The market rates fell heavily during the beginning of the year, which created large negative unrealised changes in value. The rate increased once again toward the end of the year to the extent that the negative market value returned.

TAX

Tax expenses for the year amounted to SEK -490 (-1,642) million. The cost is lower due to the fact that 2015 was burdened by settled tax procedures. The tax expenses of the year includes SEK 26 million for higher loss-carry forwards resulting from adjusted income declarations.

STATEMENT OF GROUP FINANCIAL POSITION

SEK m	Note	31-12-16	31-12-15
Assets			
<i>Non-current assets</i>			
Intangible assets	12	11	5
Properties	13	29,169	27,470
Equipment	14	9	10
Other long-term receivables	15, 21	12	6
Total non current assets		29,201	27,491
<i>Current assets</i>			
Accounts receivable	21	26	24
Other receivables	21	74	43
Prepaid expenses and accrued revenues		132	165
Derivatives		-	49
Cash and bank		57	441
Total current assets		289	722
TOTAL ASSETS		29,490	28,213
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		76	76
Other contributed capital		2,922	2,922
Translation reserve		3	2
Retained earnings (including profit (loss) for the year)		7,838	6,333
Total equity	16	10,839	9,333
<i>Long-term liabilities</i>			
Liabilities to credit institutions	17, 20, 21	13,702	15,915
Other interest-bearing liabilities	17, 20, 21	1,230	375
Derivatives	17, 21	653	395
Deferred tax liability	10	761	287
Provisions	18	12	5
Total long-term liabilities		16,358	16,977
<i>Short-term liabilities</i>			
Liabilities to credit institutions	17, 21	26	466
Other interest-bearing liabilities	17, 21	1,553	700
Accounts payable	21	195	149
Tax liabilities		6	13
Other liabilities	19, 21	12	10
Accrued expenses and deferred income		501	565
Total short-term liabilities	20	2,293	1,903
TOTAL EQUITY AND LIABILITIES		29,490	28,213

For information on pledged assets and contingent liabilities for the Group, see note 22.

Comparison figures for 2015 have been changed. In 2015, derivatives were reported as net, but now they are reported as gross. The liabilities are distributed based on the due date and not by interest-bearing/interest free.

COMMENTS ON THE GROUP FINANCIAL POSITION

The property portfolio increased during the year. The main reason for the increase was investments and positive changes in value. Equity increased during 2016 to SEK 10,839 (9,333) million. The equity ratio for 2016 amounted to 37 (33) per cent and the balance sheet amounted to SEK 29,490 (28,213) million by 31 December.

PROPERTY PORTFOLIO

The property portfolio consisted of 269 (291) properties at 31 December 2016. The total leasable area amounted to 2,580 (2,665) k sq.m. and the properties had a carrying amount of SEK 29,169 (27,470) million. The change in the reported value is due to property divestments of SEK -806 (-639) million, acquisition with access gained of SEK 238 (7,076) million, investments in existing properties of SEK 609 (450) million, as well as unrealised changes in value of SEK 1,658 (970) million.

Development of property holdings, SEK m	2016	2015
Properties at the beginning of the year	27,470	19,612
Acquisitions, access gained	238	7,076
Investments	609	450
Divested and vacated	-806	-639
Unrealised changes in value	1,658	970
Properties at the beginning of the year	29,169	27,470

DEFERRED TAX

Deferred tax is a net debt of SEK 761 (287) million. Receivables amount to SEK 629 (575) million and refer mainly to the evaluated loss carry-forwards of SEK 479 (490) million and tax on reported carrying amount of undervalued interest-rate derivatives. Deferred tax liability is mainly attributable to properties of which SEK 1,390 (862) million relates to the difference between the carrying amount and residual value for tax purposes. A deferred tax liability is not reported on the whole temporary difference between the carrying amount and tax related value due to specific regulations for the reporting of deferred tax on asset acquisition.

EQUITY

Equity at the end of the period amounted to SEK 10,839 (9,333) million or SEK 60 (51) per share, corresponding to an equity ratio of 37 (33) per cent.

INTEREST-BEARING LIABILITIES

The loan portfolio amounted to SEK 16,511 (17,456) million at the end of the year. During 2016 loans have been repaid with gross SEK -3,753 (-3,707) million. New loans have been admitted during the year for a total of SEK 2,808 million in comparison with SEK 9,488 million last year.

Interest-bearing liabilities, SEK m	2016	2015
Liabilities at the beginning of the year	17,456	11,675
New loans	2,808	9,488
Repayment of loans	-3,753	-3,707
Liabilities at the year end	16,511	17,456

The average remaining maturity for utilised loans amounted to 4.2 (3.6) years at the end of the year. On December 31 available funds including unutilised credit facilities amounted to SEK 1,049 (1,057) million. Net debt (interest-bearing liabilities less cash balances) declined by SEK 561 million. LTV (loan-to-value) ratio measured as net debt in relation to property assets has, as a consequence of the ongoing earnings during the year, divestments and value adjustments of property assets, decreased and amounted to 56 (62) per cent.

DERIVATIVES

At 31 December 2016 the negative market value of financial instruments was SEK -653 million compared to SEK -347 million (net) at the beginning of the year. The changes in value refers to SEK -512 million, a decline in the lower market rates, which is partly counteracted by the ongoing interest payment of the swaps of SEK 191 million and redemption during the fourth quarter. This includes a redemption repayment at current market value in the swaps of SEK 15 million. The negative market value decreases gradually through the on-going interest payment in the swap agreements, which is stated as on-going interest cost in the profit from property management.

CONSOLIDATED STATEMENT OF THE GROUP'S CHANGES IN EQUITY

SEK m	Share capital	Other contributed capital	Translation difference	Accumulated profit or loss	Total equity
Opening equity, 01-01-2015	76	2,922	3	6,101	9,102
Profit (loss) for the year			-1	505	504
Dividend				-273	-273
Closing equity, 31-12-2015	76	2,922	2	6,333	9,333
Opening equity, 01-01-2016	76	2,922	2	6,333	9,333
Profit (loss) for the year			1	1,869	1,870
Dividend				-364	-364
Closing equity, 31-12-2016	76	2,922	3	7,838	10,839

CONSOLIDATED STATEMENT ON THE GROUP'S CASH FLOW

SEK m	Note	2016	2015
OPERATING ACTIVITIES			
Profit from property management		990	966
Other adjustments not included in cash flow from operating activities		17	-3
Tax paid		0	-1,306
Cash flow from operating activities	23	1,007	-343
<i>Changes in working capital</i>			
Increase(+)/decrease(-) in operating receivables		39	-84
Increase(+)/decrease(-) in operating liabilities		-35	-100
Cash flow from operating activities after change in working capital	23	1,011	-527
INVESTING ACTIVITIES			
Investments in existing properties		-609	-450
Acquisition of properties		-230	-6,944
Divestment of properties		776	1,974
Purchase of equipment		-4	-4
Sale of equipment		2	-
Acquisition of intangible assets		-8	-5
Disposal of long-term loans		-	333
Investments in other financial assets		-15	-882
Repayment of other financial assets		2	-
Cash flow from investing activities		-86	-5,978
FINANCING ACTIVITIES			
New loans		2,808	9,488
Repayment of loans		-3,753	-3,706
Dividend		-364	-273
Cash flow from financing activities	23	-1,309	5,509
CASH FLOW FOR THE YEAR			
Cash equivalents at the beginning of the year		441	1,437
Exchange rate differences on cash equivalents		0	0
Cash equivalents at the year end	23	57	441

COMMENTARY ON THE GROUP'S CONSOLIDATED CASH FLOW

The total cash flow amounted to SEK -384 (-996) million during the year. Cash and bank amounted at 31 December 2016 to SEK 57 (441) million.

The cash flow in a real estate company is highly related to the size of the property portfolio. Cash flow from operating activities comprises the profit from property management result with adjustments for a number of items that does not impact cash flow and payment of tax.

During 2016 cash flow from operating activities was improved by SEK 1,350 million. Cash flow from operating activities was negatively affected in 2015 by SEK 1,306 million in regards to paid tax for the previous year.

The change in cash flow from operating activities after changes in working capital of SEK 1,011 (-527) million was mainly related to tax

paid. Working capital 2015 was negatively affected by acquisition of properties.

Investing activities varies between years as, during some years, Kungsliden have been net buyers and during other years they have been net sellers of properties. Investing activities in 2016 had a cash flow of SEK -86 (5,978) million. During 2015 large acquisitions of properties were carried out.

Financing activities showed a cash flow of SEK -1,309 (5,509) million, in particular related to repayment of loans. During the year, loans have been repayed with gross SEK -3,753 (-3,706) million.

THE GROUP NOTES

NOTE 1. GROUP ACCOUNTING PRINCIPLES

GENERAL INFORMATION

Kungsleden AB (KLED:Stockholm) CIN 556545-1217, is the parent company of the Kungsleden Group. Kungsleden AB (KLED:Stockholm) has its registered location in Stockholm with address Warfvings väg 31, Box 704 14, 107 25 Stockholm. The consolidated financial statement and the annual report of Kungsleden AB (KLED:Stockholm) for the year end 31 December 2016 has been approved by the Board of Directors and CEO on 23 March 2017 and presented to the Annual General Meeting on 25 April 2017 for approval. The Group's operations are described in the Board of Directors' report.

APPLIED STANDARDS AND LEGISLATION

The consolidated financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the EU. The Council for financial reporting recommendation RFR 1 Supplementary Accounting Regulations for Groups, has furthermore been applied.

CHANGES IN ACCOUNTING PRINCIPLES 2016

In the preparation of the consolidated financial statement the same accounting principles have been used, such as those described in the annual report for 2015.

The following amended and new application interpretations of accounting principles have been applied without having a significant impact on the consolidated financial statement:

IFRS not yet applied

The following new IFRS has been published but not yet entered into force and has not been applied in the preparation of the financial report.

- IFRS 9 "Financial instruments", will apply with effect from 1 January 2018. IFRS 9 manages the classification, evaluation and accounting of financial assets and liabilities, introduces new rules for hedge accounting and introduces a new impairment model. IFRS 9 replaces IAS 39 and manages the classification and evaluation of financial instruments. IFRS 9 retains a mixed evaluation approach but simplifies this approach in some respects. There will be three evaluation categories of financial assets, accrued acquisition value, fair value of other total result and fair value in the income statement. How an instrument should be classified depends on its business model and the instrument characteristics. The new hedge accounting principles in IFRS 9 gives companies better ability to reflect its applied risk management strategies. In general terms it will be easier to qualify for hedge accounting. The new standard extends the disclosure requirements and introduces certain changes in presentation. IFRS 9 also introduces a new model for the calculation of the credit loss reserve which is based on the expected credit losses. The company has made an initial assessment of how the new standard will affect the Group and decided it will not have any major effect for the company. No financial instruments that should be reported in any other way and low losses on receivables.
- IFRS 15 "Revenue from Contracts with Customers", shall apply with effect from 1 January 2018. IFRS 15 is the new standard for revenue recognition IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. IFRS 15 is based on the principle that revenues are recognised when the customer obtains control over the sold product or service – a principle which replaces the previous principle that revenues are recognised when the risks and benefits have been transferred to the buyer. The largest part of the Group's revenue relates to the rental income from lease agreements. Lease agreements are outside the scope of IFRS 15. They are handled within the IAS 17 lease agreements and will then be reported under IFRS 16, lease agreements, when they are applicable. The company has made a general review of the contracts that exist in 2016. As mentioned above, most of the agreements appear to fall under IFRS 16. There are however some contracts that in full or partly reflect the delivery of the goods or services and hence will be reported in accordance with IFRS 15. In the spring of 2017 there will be a continued review of contracts that will be reported in accordance with IFRS 15. The assessment on the basis of the analysis carried out so far is that the results and position of the Group will not be substantially affected. During spring 2017, the Group will make a detailed review in order to obtain a final assessment of the possible effect.
- IFRS 16 "Financial instruments", will apply with effect from 1 January 2019. The EU has not yet approved the standard. IFRS 16 will mainly affect the leasee's accounting. The standard will mean that almost all leasing agreements will be stated in the balance sheet when no distinction is made between the operational and financial lease agreements. According to the new standard, an asset (the right to use a leased asset) and a financial commitment to pay leasing fees shall be reported separately. Short-term contracts and contracts of less value are exempt. Statement for the lessor will be essentially unchanged. On the revenue side is the assessment that the Group as the lessor will not be affected to any significant degree. For the rest of the lease agreements in which the Group is the leasee an ongoing investigation will determine the impact on the company.

REQUIREMENTS WHEN PREPARING FINANCIAL STATEMENTS

The functional currency of the parent company is Swedish Krona, which is also the reporting currency for the Group. All amounts are stated in SEK million, unless otherwise specified. Assets and liabilities are reported at their historical acquisition value, except for investment properties and financial instruments that are valued at fair value. Changes in fair values are stated in the income statement.

To establish the consolidated financial statements according to IFRS requires that the company's Board of Directors makes assessments and estimates, and make assumptions which influence the application of the accounting principles and the reported amounts of assets, liabilities, revenues and expenses.

The estimates and assumptions are based on historical experience and a number of other factors that seemed relevant under the current circumstances. The results of these estimates and assumptions are then used to assess the carrying amounts of assets and liabilities which would not otherwise be clearly provided by other sources. Actual outcome may deviate from these estimates and assessments. The estimates and assumptions are reviewed regularly.

Assessments made by the Board of Directors when applying IFRS which have a significant impact on the financial statements and the estimates are described in more detail in Note 3.

CLASSIFICATION ETC

Kungsleden's activities consist of property management of a large number of properties that are rented out to independent tenants. Typically lease agreements are normally initially drawn up for a rental period of three years. The rental period varies however and can run up to just over 20 years. Prior to the expiration of the lease agreement term a renegotiation is made with the tenant in regard to rent levels and other terms and conditions of the lease agreement unless it has been terminated. It is however difficult to determine, after the initial agreement, how long an agreement will run. At any one time there can be a large number of parallel on-going agreements with different lease durations. This makes it difficult to define Kungsleden's business cycle. It is also difficult to define how long a property is expected to be held. With regard to this, 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 STATEMENT

The consolidated financial statement includes the parent company, subsidiaries and joint ventures. Subsidiaries are companies in which the parent company is able to extent a controlling influence. A controlling influence exist if the parent company has influence over the investment object, is exposed to or has the right to variable returns from its commitment and can use its influence over the investment to impact the return. In the assessment of whether a controlling influence exists, consideration is given to whether potential share voting rights and de facto control exist.

The consolidated financial statement has been prepared in accordance with the acquisition method which means that assets and liabilities and contingent liabilities have been evaluated at their fair value at the date of acquisition in accordance with an established acquisition analysis. The revenues and expenses in acquired companies are included in the consolidated financial statement from the time they were accessed. The income statements of divested companies are included until the date when the company was vacated.

Intra-group receivables and liabilities, revenues or expenses and unrealised gains or losses arising from internal group transactions between Group companies are eliminated in their entirety when the consolidated financial statement is prepared.

Translation of foreign operations

The financial statements of each of the foreign subsidiaries are presented in the local currency in which its operations take place. The consolidated financial statements are presented in Swedish Krona. Income statements and balance sheets of foreign operations are translated to SEK according to the current rate method which means that the balance sheets are translated using the exchange rate in effect on the closing day, except for equity which is translated at the historical rate. The income statements are translated at the average exchange rate for the period. The exchange rate differences on translation is reported against other comprehensive income as translation gains (losses) on consolidation.

The following exchange rates has been used for translation:

SEK	Average exchange rate		Closing day rate	
	2016	2015	31-12-16	31-12-15
EUR	9.47	9.36	9.57	9.14
PLN	2.17	2.28	2.17	2.15

STATEMENT OF CASH FLOW

The statement of cash flow is prepared in accordance with the indirect method in accordance with IAS 7 report of cash flow.

ACQUISITION AND DIVESTMENT

An acquisition or divestment is reported as of the date the properties have been accessed or vacated. Receivable or liability against the counterpart, between sale day and the payment date is reported as gross under other receivables and other liabilities.

ASSET ACQUISITION

In recent years it has been common that property transactions indirectly happen with companies containing properties and not through direct property transactions. Properties are usually acquired through acquisitions of companies, partly because stamp duty applies to property transfers and because a company sale compared to a direct property sale has tax advantages for the seller. For an asset acquisition via a company, the acquisition is handled as if the property/properties are directly purchased. This type of acquired company normally has no employees or any organisation or other activities other than those which are directly attributable to the property holding. The acquisition value is allocated proportionally on the acquired assets and liabilities assumed, based on these fair values. No deferred tax is reported. Any deduction in respect of deferred tax which is obtained in addition to reported tax in acquired companies are reported as a deduction from the fair value of purchased property at the time of acquisition. After the acquisition, the deduction remains as a downward adjustment of fair value.

For direct sale of a property on which all temporary differences have not been accounted for, a tax expense appears when there is a sale at carrying amount. For a sale via company, which is most common, buyers and sellers will normally agree on a price reduction corresponding to only a part of the difference between the tax residual value and the agreed property value. This means that tax revenue for accounting purposes arises if there is a deferred tax liability recognised which exceeds the agreed upon deduction from the deal, alternatively a tax expense will appear if the deduction is greater than the recorded tax liability.

BUSINESS ACQUISITIONS

For acquisitions where Kungsleden obtains controlling influence over one or more, in principle, independent businesses, the acquisition method will apply in accordance with IFRS 3 Business Acquisitions. The purchased unit's identifiable assets, liabilities and contingent liabilities are reported at their fair value at the date of acquisition and profit (loss) attributable to the acquired operations are included from the date the asset is accessible. Deferred tax for any surplus values relating to the acquisition is reported as a liability on the basis of the nominal tax rate. The difference between deferred tax in accordance with the nominal tax rate and the value to which the temporary difference is valued to in the acquisition analysis is reported as goodwill. Transaction costs are accounted for as administrative expenses in connection with the acquisition.

In the case of the acquisition of additional shares in a company which Kungsleden obtains the dominant influence over, earlier shares are revalued at fair value via the income statement. However, if it is an acquisition of additional shares in a company which earlier has been consolidated, the difference between the purchase sum and the net values, as of the closing date for the transaction, as an ownership transaction directly to equity. When there is a partial sale of a Group company but with maintained controlling influence, the difference between the sales price and value of sold share is reported as an ownership transaction directly to equity. At the partial sale of a Group company where the controlling influence is lost, a capital gain (loss) is reported with a re-evaluation of remaining holdings in the income statement.

The number of business acquisitions are generally low. During the year no business acquisition has occurred.

OPERATING SEGMENTS

An operating segment is a segment of the Group which engages in operations from which it may earn revenues and incur expenses and for which independent financial information is available. The results of an operating segment are followed up by the company's chief executive decision makers (Group Management) in order to evaluate the results and to allocate resources to operating segments. See note 4 for details of the division and the presentation of operating segments.

REVENUES

The lease agreements are classified as operational lease agreements on the basis that the property is still present in Kungsleden's ownership even if the agreement can run up to just over 20 years.

Rental revenues from investment properties are reported linear in the profit for the year based on the terms of the lease agreement. The aggregated cost of incentives is reported as a reduction of rental revenue on a straight line basis over the lease term.

The revenue of property divestments is reported on the day the properties have been accessed. In instances where a rental guarantee has been obtained in connection with an acquisition, revenue in the consolidated financial statement is reported at the rate where external rental revenues cease to exist.

FINANCIAL REVENUE AND EXPENSES

Interest rate revenue and interest subsidies are recognised in the period they relate to. Interest and other financial expenses relating to new construction are activated and regularly expensed during the construction period during the renovation and extension stage, since the investments are smaller and execution time normally shorter. Derivatives are normally used to achieve the desired fixed interest-term. Revenue and expenses related to derivatives are recognised on an on-going basis in the income statement as part of the unrealised changes in value of financial instruments and as part of the interest expenses. Revenue and expenses for settlement and renegotiation of derivatives and early redemption are reported when they occur. Interest revenue and interest expenses on financial instruments are reported in accordance with the effective interest method. The effective interest is the rate that discounts the estimated future payments under a financial instrument's expected term to the financial asset's or liability's reported net value.

INCOME TAX

In the income statement, current and deferred income tax for Swedish and foreign Group companies is reported except when the underlying transaction is reported directly to equity whereby the associated tax effect is reported in equity. The Group's companies are liable to pay tax in accordance with the legislation in the respective country. The tax rate in Sweden is 22.0 per cent since 1 January 2013.

Current tax is calculated on the basis of the reported profit with additional for non-deductible items as well as deduction for non-taxable income. Income tax is reported in accordance with the balance sheet method, which means that deferred tax is calculated on the balance sheet day, identified with temporary differences between the taxable values and carrying amount of assets and liabilities. Temporary differences primarily exist for properties, financial instruments, accumulated excess depreciation of equipment and tax allocation reserves. Temporary differences are evaluated at the nominal tax rate and the change from the previous balance sheet date is recognised in the income statement as deferred tax. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recognised only to the extent that it is probable that these can be used. The value of deferred tax assets is reduced when it is no longer considered probable that they can be used.

When there is an acquisition of shares in subsidiaries, the acquisition consists of either a business acquisition or asset acquisition. For business acquisitions, deferred tax is reported to the nominal value of the applicable tax rate without discounting in accordance with the principles above. For asset acquisition no deferred tax is reported separately on the acquisition date without the asset being reported to the acquisition value which corresponds to the fair value of the asset after deduction of deferred tax. This is in accordance with what the parties have agreed, for non-deductible cost of acquisition for tax purposes. After the acquisition, the full amount of deferred tax for future changes in value is recognised, except for an adjustment for the initial measurement of deferred tax.

EMPLOYEE BENEFITS

Employee benefits such as salaries and social security expenses, annual leave and paid sick leave etc. are reported at the employees contracted rate. Commitments for the employees are secured through defined contribution pension plans or ITP. Defined contribution pension plans are classified plans in which the company's obligation is limited to the fees 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 and the return on capital 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 plans are recognised as an expense in the profit for the year at the pace that the employees provide services to the company during a period. In accordance with the statements 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, without any realistic possibility to withdraw, of a formal detailed plan to terminate an employment before the normal time. When remuneration is offered to encourage voluntary departure, a cost is reported if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

LEASING

As lease agreements are classified as operational lease agreements, this means Kungsleden is a large landlord (see section Revenues above).

Kungsleden has, as a lessee, entered a number of site leaseholds and smaller lease agreements for office machinery. These are not physical assets. On the basis that the financial risk remains with the lessor, all the rental, site leaseholds and lease agreements have been reported as operational lease agreements. The costs are expensed on an on-going basis.

FOREIGN CURRENCY TRANSACTIONS

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

TRANSACTIONS WITH RELATED PARTIES

Delivery of services between Group companies and other related companies and private persons, commercial conditions and market pricing will apply.

ASSOCIATED COMPANIES

Associated Companies are companies for which the Group has a significant, but not a controlling, influence on the operational and financial policies, usually though a holding of between 20 and 50 per cent of the voting rights. From the time the significant influence is obtained, participation in associated companies is reported in accordance to the equity method in the consolidated financial statement. The equity method means that the Group's reported share value in associated companies corresponds with the Group's share in the associated companies' equity as well as consolidated goodwill and any other remaining values on the Group's surplus and deficit values. In the consolidated financial statement, recognised in, "Participation in associated companies' profit/loss", is the Group's participation in associated companies profit/loss adjusted for any depreciation/amortisation, impairment and dissolution of acquired surpluses/deficit values. These profit participations decreased by dividends received from associated companies constitute the main change to the carrying amount of participations in associated companies.

Equity method is applied until the time the significant influence ceases.

PROPERTIES

Properties are initially reported to the acquisition value. After that costs for investments are activated if they will result in future economic benefits and the expenditure can be reliably measured. There is cost activation pertaining to replacement of entire or parts of identified components and expenditure that result in the creation of the new component. In the Group, the properties are then evaluated to a fair value according to the method described below. Other additional expenses are reported for the period of which they arise. Interest rate expenses at larger, new construction, extension and redevelopment projects are not activated.

Investment properties

Buildings and land that is owned or leased through a financial lease agreement, with the aim of generating rental revenue and/or value increases are described in the Group as investment properties. Investment properties are presented in the statement of financial position as properties and modular buildings. The investment properties are reported at a fair value in the statement of financial position in accordance to IAS 40. During the financial year an on-going revaluation takes place and is reported on the basis of internal evaluation. For a description of the evaluation methods see note 13. For considerations for evaluation of properties, see note 3. Any deduction in respect of deferred tax for acquisitions of properties via companies (asset acquisition) which is obtained in addition to reported tax in acquired companies is reported as a deduction from the fair value of the purchased property, both at the time of acquisition and following book closing.

Buildings which are under construction for future use as investment properties are measured at fair value in accordance with IAS 40 investment properties. The basis of evaluation are assessments of future cash flow and the price level which is expected to be achieved in a transaction between knowledgeable parties at market conditions. Properties under construction are more difficult to assess than existing properties as the final cost cannot be determined and an assessment can only be made once the construction is completed and the property is functional/leased.

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 sale and not for use.

Immediately prior to classification as held for sale, the carrying amount of the assets (and other assets and liabilities belonging to a disposal group) is decided upon in accordance with applicable standards. Upon first classification as held for sale, assets of the lowest carrying amount and fair value less selling expenses are reported. Three asset types, individually or belonging to a disposal group are excluded from the described evaluation regulations. These are deferred tax assets, financial assets covered by IAS 39, as well as investment properties evaluated according to the fair value method in accordance with IAS 40.

For an asset (or disposal group) to be classified as held for sale, the asset (or disposal group) must be available for immediate divestment in its existing condition. It must also be very likely that sale will go through. For a sale to be regarded as highly probable the following must apply;

- decision to sell has been taken on Board level,
- active work has begun to find a buyer and to complete the plan,
- asset (or disposal group) actively communicated at a price that is reasonable in relation to its fair value,
- it is likely that sales will occur within a year.

EQUIPMENT

Equipment has been recognised at acquisition value less accumulated depreciation according to plan and any impairments. Equipment is depreciated linearly on the basis of the acquisition value over a period of five years.

FINANCIAL INSTRUMENTS

For information about the company's exposure to financial risks and how risks are managed please see note 2.

Recognition in the statement of financial position

A financial asset or a financial liability is recognised in the statement of the financial position when the company becomes a party in accordance with the instrument's contractual terms. A receivable is recognised when the company has performed and there is a contractual obligation for the counterpart to pay even if the invoice has not yet been sent. Accounts receivable are recognised in the statement of financial position when the invoice has been sent. Long-term receivables, consisting solely of "promissory notes", taken up to the nominal debt adjusted for the present value of any difference against a market interest rate. Liabilities should be recognised when the counterpart has performed and there is a contractual obligation to pay even if the invoice has not yet been received. Accounts payable is recognised when an invoice has been received.

A financial asset is removed from the statement of financial position when the contractual rights have been realised, expires or the company loses control over them. The same applies for part of a financial asset. A financial liability is removed from the report on the financial position when the obligation in the contract is fulfilled or is in any other way not current. The same applies for part of financial liabilities.

Categories of financial instruments:

Accounts receivable and loan receivables

These receivables are non-derivative financial assets with fixed or determinable payments and that are not registered in an active market. These assets are evaluated to accrued acquisition value. The accrued acquisition value is determined based on the effective interest rate calculated at the time of acquisition. Loans and accounts receivable are reported at net realisable value i.e. after deduction of uncertain receivables.

Financial liabilities evaluated at fair value via income statement

This category consists of financial liabilities held for trading. These are evaluated at fair value with changes in value reported in the income statement.

Hedge accounting is not applied for interest-rate derivatives, which is why the derivatives changes in fair value in the statement of financial position is reported as unrealised changes in value in the income statement.

Other liabilities

Other financial liabilities, such as new loans, accounts payable and liabilities for acquired but not paid properties, are included in this category. These liabilities are evaluated to accrued acquisition value. Transaction costs are allocated with the effective interest rate over the expected term of the loan.

IMPAIRMENT

Financial assets

The reported values of the Group's assets are tested at each balance sheet date to assess whether there is any indication of any impairments needed. If there is such an indication the recovery value of the asset is calculated. The recovery value for financial assets belonging to the categories of loans and accounts receivable, which are recognised as accrued acquisition value, is calculated as the present value of future cash flow discounted with the effective interest rate applicable when the asset was reported for the first time. An impairment is returned only to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that the asset would have had without the impairment.

Other assets

Exceptions to the impairment principles are made for tangible fixed assets held for sale, investment properties and deferred tax assets valued according to specific rules which are described under each title in the accounting principles. For Goodwill, earlier impairment cannot be reversed.

PROVISIONS

A provision differs from other liabilities due to the uncertainty about the payment timing or the size of the amount to regulate the provision. A provision is recognised in the statement of financial position when there is an

existing legal or informal obligation as a result of a past event and it is probable that an outflow of financial resources will be required to settle the obligation and a reliable estimation of the amount can be made.

Provisions are made to the amount which is the best estimation of what is required to settle the present obligation at the balance sheet date. When the effect of the timing of the payment is significant, provisions are then calculated by discounting the expected future cash flow to an interest rate before tax which reflects the actual market assessments of the money's time value and, if applicable, the risks associated with the liability.

CONTINGENT LIABILITIES

A contingent liability is recognised when there is a possible obligation whose existence is confirmed only by one or more uncertain events, or when there is an obligation that is not reported as a liability or provision because it is unlikely that an outflow of resources will be necessary.

ROUNDED OFF FIGURES

The individual amounts will be rounded to the nearest whole number SEK million. The total amounts will be rounded to the nearest whole number SEK million. Rounding differences may mean notes and tables do not add up.

NOTE 2. RISKS

This note describes the risks in Kungsliden's cash flow in property management as well as the financial risks, credit risk and currency risk.

Kungsliden's financial risks are described on pages 41-43. Where financing risks, liquidity risks, interest rate risk and financial risk management is particularly described.

I - RISKS IN PROPERTY MANAGEMENT CASH FLOW

The cash flow in a given property holding is affected by fluctuations in rental revenue which in turn depends on changes in rent levels and vacancies. The changes are controlled for instance by growth in the Swedish economy, production rate for new properties, changes in infrastructure, employment and demographic factors.

Rental revenue

Both rent levels and vacancies are broadly affected by the growth in the Swedish economy but also by the growth on a regional and local level in the areas where Kungsliden operates. Economic growth leads to increased demand for premises with a potential for higher rent levels and lower vacancy while a declining growth has the opposite effect. The scale of new property construction in local markets has an impact on rent levels and vacancies.

Kungsliden's property portfolio and customer structure shows a good management of risk in terms of both unit type, geography, contract size and tenant categories.

Lease agreement portfolios are relatively long-term, with an average remaining lease duration for the portfolio of 4.0 (4.2) years. As the duration of the agreements is relatively long, a change in market rents has in the short term no great effect on the rental revenue.

The lease agreements contain index clauses that means the rent increases by 75-100 per cent of inflation. Indexation adjustment in a given year is determined on the basis of the inflation rate in October of the previous year. The index clauses contain the minimum adjustment, which in the short term provides a certain degree of protection against deflation.

Rental revenues are affected by any payment difficulties from the tenants. Rental losses in 2016 amounted to SEK -1 (1) million.

The risk of rental losses and vacancies are affected by the tenant structure. To have large commercial tenants can lead to lower credit risk but may also give higher concentration risks. Kungsliden's ten largest tenants accounted for 25 per cent of the rental revenue. In several cases the largest tenants have several different activities and subsidiaries in several sites, which reduces the risk.

The largest tenants	Rental revenues, SEK m	Share rental revenue, %
ABB	271	12
Bring Frigoscandia AB	66	3
The Swedish Armed Forces	54	2
Överskottsbolaget	41	2
City of Västerås	31	1
ICA	27	1
The Swedish Television AB	24	1
Westinghouse Electric Sweden AB	23	1
SMHI	20	1
Artexis Nordic AB	20	1
10 tenants	577	25
Other	1,691	75
Total commercial	2,268	100

Property costs

Fluctuations in operating costs will affect the cash flow. The largest operating costs are represented by the cost of electricity, cleaning, heating, water, care and maintenance. Site leaseholds and property tax as well as the cost of electricity and heating have the greatest impact on earnings. The price of electricity is controlled by supply and demand of the commercial electricity market. Kungsliden has limited the risk by price assuring a certain amount of electricity. Part of the cost for electricity and heating are recharged to tenants. For costs that the tenants are not liable for, Kungsliden is compensated by the lease agreements that contain index clauses that means the rents increase by 75-100 per cent of the inflation.

The exposure to changes in these costs is therefore limited. However the properties cash flow and operating net of annual variations in the cost of the media and care are affected.

Some of the properties have site leaseholds which are usually renegotiated with a range of 10-20 years. The site leasehold fees are calculated at present so that the municipality receives a reasonable real interest rate on the estimated value of the site. It cannot be ruled out that the basis of calculation for site leaseholds may change at future renegotiation.

The property tax which is based on the tax assessed value is based on political decisions. This applies to both the base for the calculation, tax assessed value and tax rate. The property tax is normally recharged to the tenants for leased space, while tax for vacant space must be carried by the property owner.

Cash flow sensitivity analysis	Change	Revenue impact before tax, SEK m
Rental revenue	+/-1%	+/-24
Financial vacancy	+/-1%-unit	+/-26
Property costs	+/-1%	-/+8
Average interest rate, loan portfolio	+/-1% unit	-/+165
Short-term market interest rate (<six months)	+/-1% unit	-95/+39

II - FINANCIAL RISKS

Financial risks are fluctuations in the company's profit (loss) and cash flow as a result of changes in market interest rates or currency rates as well as the refinancing and credit risks. Annually the Board of Directors establishes a financial policy for the Group's management of financial risks. The financial policy forms a framework of guidelines and regulations in the form of a risk mandate and limits for the financial operations. Responsibility for the Group's financial transactions and risks are managed centrally by the Group's financial function.

Credit risk

The credit risk is defined as the risk of a counterpart not fulfilling all or part of its commitment. Credit risk can be found in derivative agreements, issuance of promissory notes and cash investment. The risk that tenants do not pay rent is also a counterpart risk and has been covered above in this note.

When promissory notes have been issued, there is a risk that the counterpart does not pay the interest rate and repayment of the loans. Kungsliden has currently a restrictive praxis when it comes to the promissory notes. For significant non-current receivables it is normally requested that securities reduce the credit risk. Current long-term receivables amount at 31 December 2016 to SEK 12 (6) million, see note 15.

Currency risk

There's essentially no transaction exposure since the Group does not have property holdings abroad.

NOTE 3. SPECIFIC CONSIDERATIONS AND ASSESSMENTS

EVALUATION OF PROPERTIES

Key sources of estimation uncertainty

Since the price of a property is not available on a listed market place, an assessment has to be made on a property value instead and used as a basis for accounting at fair value. A property value is dependent on many factors that impact earnings and cash flow. Financing terms, interest rates and a functioning financial market also affects the price-setting and the yield requirements that creates a balance in the property market with buyers and sellers. In a functioning market, the sales price usually falls in the range of the estimated value of +/- 5 to 10 per cent.

Accounting property assessments

Prior to year-end closing, all properties have been evaluated. The evaluations are based on a cash flow analysis where the future earnings capacity of an individual property and market's yield requirements have been assessed. This process is described in note 13. The fact that Kungsliden is active in

Note 3, cont.

the property market, buying and selling multiple properties, provides additional market information and strengthens the possibility to make good estimates of an estimated value. Reconciliation against external values also takes place.

TAX SITUATION

Key sources of estimation uncertainty

Accounting of on-going tax to pay, loss carry-forwards and deferred taxes on temporary differences between the book and tax values are based on the applicable regulations. The tax legislation is complex, particularly in connection with the purchase and sale of properties and companies. Tax courts interpretation of the existing rules may also change over time, which

means interpretations can change after transactions' completion and submitted tax returns. The Swedish Tax Agency normally has an opportunity to reconsider a company tax assessment within two years after the end of the financial year, in certain cases; however, the Swedish Tax Agency can review tax assessments up to five years after the end of a financial year.

Accounting principles assessment

Assessment is made about how individual transactions should be declared. Kungsleden is continuously consulting their assessments in tax matters with external experts. However, this does not mean there is a risk that the Swedish Tax Agency and the Court of Justice could come to assess completed transactions in any other way than the company.

NOTE 4. OPERATING SEGMENTS

SEK million, 2016	Stockholm	Gothenburg	Malmö	Mälardalen	Other/ Group-wide	Total Kungsleden
Revenues	1,051	425	330	623		2,430
Property costs	-334	-145	-102	-247		-827
Operating net	717	280	228	377		1,602
Selling and administration costs					-112	-112
Net financial items					-500	-500
Profit from property management	717	280	228	377	-612	990
Changes in value						
Profit (loss) from divestment					32	32
Unrealised changes in value of properties	1,074	128	180	276		1,658
Unrealised changes in value of financial instruments					-321	-321
Profit before tax	1,791	408	408	653	-901	2,359
Tax					-490	-490
Profit (loss) for the year	1,791	408	408	653	-1,392	1,869
FINANCIAL POSITION						
Properties	14,694	4,434	3,937	6,104		29,169
Other assets ¹					321	321
Total assets	14,694	4,434	3,937	6,104	321	29,490
Interest-bearing liabilities ¹					16,511	16,511
Equity, provisions and other liabilities ¹					12,979	12,979
Total equity and liabilities	-	-	-	-	29,490	29,490
OTHER DISCLOSURES						
Investments in properties	328	97	66	118		609
Profit or loss items that do not affect cash flow ¹					1,369	1,369

1. Assets that are not properties are not allocated by segment. The allocation is neither made for liabilities and provisions or relates to interest-rate derivatives with negative values or unpaid purchase price on properties not yet been accessed.

Note 4, cont.

SEK million, 2015	Stockholm ¹	Gothenburg ¹	Malmö ¹	Mälardalen ¹	Other/ Group-wide	Total Kungsliden
Revenues	909	424	345	635		2,314
Property costs	-270	-144	-103	-251		-769
Operating net	639	280	242	384		1,545
Selling and administration costs					-106	-106
Net financial items					-473	-473
Profit from property management	639	280	242	384	-579	966
Changes in value						
Profit (loss) from divestment					35	35
Unrealised changes in value of properties	517	71	101	280		970
Unrealised changes in value of financial instruments					176	176
Profit before tax	1,156	351	344	664	-368	2,147
Tax					-1,642	-1,642
Profit (loss) for the year	1,156	351	344	664	-2,010	505
FINANCIAL POSITION						
Properties	13,501	4,358	3,821	5,791		27,470
Other assets ²					743	743
Total assets	13,501	4,358	3,821	5,791	743	28,213
Interest-bearing liabilities ²					17,456	17,456
Equity, provisions and other liabilities ²					10,757	10,757
Total equity and liabilities	-	-	-	-	28,213	28,213
OTHER DISCLOSURES						
Investments in properties	216	65	57	112		450
Profit or loss items that do not affect cash flow ²					1,181	1,181

1. Properties that have changed regional allocation comparison with 2015. Comparison figures have therefore been recalculated.

2. Assets that are not properties are not allocated by segment. The allocation is neither made for liabilities and provisions or relates to interest-rate derivatives with negative values or unpaid purchase price on properties that have not yet been accessed.

The Kungsliden operating segments during the year were Stockholm, Mälardalen, Gothenburg and Malmö. The segments manage and develop properties and provide premises to external customers. Kungsliden controls its property activities via the four operating segments each led by its Regional Manager. Profit and loss responsibility for the property management of the properties that are located in a particular segment, rests with the Regional Manager who is accountable to the CEO. This CEO sets out objectives for and on-going follow up on rental revenues, property costs, operating net and investment per segment. The Regional Manager can

directly affect these profit or loss items which all together create the basis for the entire company's profit from property management. For these reasons Kungsliden has chosen to consider the geographical areas as operating segments. Other/Group-wide are any items that are not related to a specific segment or that are common to all segments.

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

ABB is the only client that accounts for more than ten per cent of the revenues. Rental revenues from ABB in 2016 were SEK 271 (269) million.

Geographic market, SEK m	Sweden		Germany/Poland		Total Kungsliden	
	2016	2015	2016	2015	2016	2015
Revenues	2,430	2,314	0	0	2,430	2,314
Properties	29,169	27,470	-	-	29,169	27,470
Investments in properties	609	450	-	-	609	450

NOTE 5. OPERATIONAL LEASING

LESSOR

The lease agreements are, from an accounting point of view, to be regarded as operating lease agreements where Kungsliden is the lessor. The table shows the rental revenue calculated on the current lease agreements, excluding parking spaces, garage and housing, which by 31 December 2016 amounted to 2,433 (2,756) in number. Lease agreements for premises are usually three to five years. Longer agreements are sought in certain situations and occur in the context of investment and specific properties or operations. The rent is usually index adjusted. In most cases there is a surcharge to the base rent for heating and property tax. The surcharges are based on the actual costs incurred by the landlord.

The lessor, rental revenues, SEK million	2016	2015
Contract revenues with payment within one year	2,079	2,224
Contract revenues with payment between one to five years	4,781	5,230
Contract revenues with payment in more than five years	2,071	2,472
Total	8,931	9,926

LESSEE

As operational lessee a number of agreements have been made in regards to site leaseholds, company cars and office equipment. The table below shows contracted payments for site leaseholds. Other operational lease agreements don't amount to significant amounts.

Lessee, site leasehold fees, SEK m	2016	2015
Contracted site leaseholds fees with payment within one year	22	21
Contracted site leasehold fees with payment between one to five years	58	29
Contracted site leasehold fees with payment in more than five years	33	12
Total	113	62

NOTE 6. SELLING AND ADMINISTRATION COSTS

Selling and administration costs relate primarily to costs of central functions such as business development, accounting and finance, legal and IT, as well as costs attributable to IPO costs and the Group's management team. The costs of the rental billing, rental requirements and accounting as well as depreciation is included in the equipment as well. The direct costs of the on-going property management of SEK 113 (109) million is reported as a cost in the operating net.

SEK m	2016	2015
Personnel costs	-71	-67
Depreciation	-4	-3
Other operating expenses	-36	-36
Total	-112	-106

FEES TO AUDITORS

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

SEK m	2016	2015
Audit assignment, EY	2	-
Audit assignment, KPMG	0	2
Audit assignment, Frejs	1	1
Auditing tasks in addition to audit assignment, KPMG	0	1
Tax advisory, KPMG	1	4
Other assignments, EY	0	-
Other assignments, KPMG	0	5
Total	4	13

NOTE 7. EMPLOYEES AND PERSONNEL COSTS

Also reported in the note are personnel costs relating to profit (loss) from terminated operations.

The average number of employees during 2016 amounted to 107 (97) persons. The allocation of countries and gender is shown below.

Average number of employees	2016	Share of women, %	2015	Share of women, %
Sweden	107	51	97	52
The Group	107	51	97	52

GENDER DISTRIBUTION WITHIN THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

The Board of Directors of Kungsliden AB consisted of seven (seven) members of which four (four) are women. The management team consisted of ten (eleven) persons of which five (five) are women.

	2016		2015	
Salaries, other remuneration and social security expenses, SEK m	Salaries, other remuneration	Social security expenses	Salaries, other remuneration	Social security expenses

THE GROUP

Senior executives

Board of Directors, CEO and Deputy CEO (of which pension expenses)	13,447	7,373 (2,582)	17,037	8,062 (2,144)
Larsson, Göran	530	87	510	160
Axelsson, Charlotte	240	39	230	72
Gahm, Joachim	240	75	230	72
Hjorth, Liselotte	240	75	230	72
Holmgren, Lars	280	88	360	113
Orback Pettersson, Kia	240	75	230	72
Wikström, Charlotta	240	75	230	72
Pehrsson, Biljana (CEO)	4,927	3,008	6,605	3,018
Kvist, Anders (Deputy CEO)	4,323	2,644	5,661	3,053
Sarby Westman, Ylva (Deputy CEO)	2,187	1,207	2,750	1,357
Other senior executives (of which pension expenses)	9,505	6,919 (3,109)	14,481	7,965 (2,688)
Total senior executives	22,952	14,292 (5,690)	31,518	16,026 (4,832)
Other employees (of which pension expenses)	62,256	34,386 (11,306)	55,143	29,125 (9,033)
Employee expenses (of which pension expenses)	85,208	48,679 (16,996)	86,661	45,151 (13,865)

All pension expenses relate to defined contribution plans or the ITP plan. Pension insurance fees for the year in accordance with ITP which are subscribed in Alecta amounted to SEK 17.0 (13.9) million. At year end 2016 Alecta surplus in the form of the collective consolidation level amounted to 148 (153) per cent. The collective consolidation level is calculated in accordance with Alecta's actuarial calculation assumptions, which does not comply with IAS 19.

Expected pension provisions 2017 is expected to amount to SEK 17,5 million.

	2017	
Future pension provision 2017	Pension	Specific payroll tax
Senior executives	6,016	1,459
Other employees	11,442	2,776
Total employees	17,458	4,235

REMUNERATION TO SENIOR EXECUTIVES

Principles

Fees are paid to the Board of Directors according to the resolution of the Annual General Meeting. Remuneration to the CEO, the two Deputy CEOs and other senior executives consists of basic salary, variable bonuses, other benefits and pension. Other senior executives are the people who are in addition to the CEO and the two Deputy CEOs and are included in the Group Management. For 2016, this was an average of seven persons.

The variable bonus is results and performance-based and linked to the outcome in relation to pre-set objectives.

The variable part should consist of a majority of possible bonuses and is for the CEO and the Deputy CEOs maximised to 100 per cent of the fixed annual salary. The variable bonus for other senior executives is maximum of 50 per cent of the fixed annual salary.

Note 7, cont.

Bonuses for the CEO are decided by the Board of Directors following suggestion from the remuneration committee. This is based on guidelines which are decided at the Annual General Meeting.

Variable bonuses

For the CEO and Deputy CEOs variable bonus for 2016 was based on the profit from property management. The amount for the CEO and Deputy CEOs during 2016 amounted to 24 (73) per cent of the basic salary.

For other senior executives, variable bonuses for 2016 were on the same basis as for the CEO and Deputy CEOs as well as on the individual performance targets for their own area of responsibility. The amount of these executives during 2016 amounted to an average of 27 (30) per cent of the basic salary.

Pensions

All senior executive pension age is 65 years and all have premium based pension plan, without other obligations for the company than the obligation to pay annual premiums. Pension premiums for the CEO will be 28 per cent

of the fixed annual salary and for a Deputy CEO 30 per cent of the fixed annual salary. For a Deputy CEO and other senior executives the ITP plan is applied.

Termination

For the CEO the notice period is six months and for the company it is 12 months. In the event of dismissal by the company the CEO receives a severance pay of six months. The severance pay is not pensionable. If the CEO hands in their notice, there is no severance pay. Between the company and the Deputy CEO a mutual notice period of six months applies. In the event of dismissal by the company the Deputy CEO receives a severance pay of 18 months. The severance pay is not pensionable. If the Deputy CEO hands in their notice, there is no severance pay. For a Deputy CEO the notice period is six months and for the company it is 12 months.

For two senior executives there is a mutual notice period of three months. Between the company and senior executives a mutual notice period of four months applies. For senior executives the notice period is three months and for the company the notice period complies with standard working legislation. For other senior executives the notice period complies with standard working legislation. For all senior executives severance pay is offset against other income.

Remuneration and other benefits, SEK k	Basic salary/ Board fees		Variable remuneration ¹		Other benefits		Pension expenses ²		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Chairman of the Board	530	510	-	-	-	-	-	-	530	510
Other Board members	1,480	1,510	-	-	-	-	-	-	1,480	1,510
CEO	3,952	3,815	975	2,790	85	77	1,153	739	6,165	7,421
Deputy CEOs ³	5,235	4,884	1,275	3,528	94	67	1,429	1,405	8,033	9,883
Other senior executives, total 7 (8)	7,496	11,137	2,009	3,345	222	236	3,109	2,688	12,836	17,405
Total	18,693	21,855	4,259	9,663	401	380	5,690	4,832	29,043	36,729

1. Variable remuneration relates to 2016 attributable bonus, of which SEK 4,259 (9,663) k affected 2016.

2. The pension expenses relates to the amount expensed in 2016. See above for further information on pension.

NOTE 8. EXPENSES BY TYPE OF COST AND FUNCTION

Distribution by type of cost, SEK m	2016	2015
Operation, repair and maintenance	-607	-547
Other direct property expenditure	-109	-113
Personnel costs	-149	-149
Depreciation	-4	-3
Other external expenses	-70	-63
Total	-939	-875
Allocation in the income statement, SEK m	2016	2015
Property costs - properties	-827	-769
Selling and administration costs	-112	-106
Total	-939	-875
Depreciation and impairment by function, SEK m	2016	2015
Selling and administration costs	-4	-3
Total	-4	-3

NOTE 9. NET FINANCIAL ITEMS

Net financial items	2016	2015
Interest rate revenue on accounts receivable and loan receivables	1	1
Interest rate revenue, associated companies	-	10
Other financial revenue	-	-
Total financial revenue	1	11
Interest rate expenses, SEK m	2016	2015
<i>Interest rate expenses, borrowing</i>		
Loans evaluated to accrued acquisition value	-274	-234
Interest rate expenses, associated companies	-	0
Interest rate expenses related to interest rate derivatives (swaps)	-191	-225
Interest rate expenses from borrowing	-465	-459
Other financial liabilities valued at accrued acquisition value	-2	0
Total interest rate expenses	-467	-459
Profit from participation in associated companies¹	-	24
Other financial expenses, SEK m	2016	2015
Borrowing costs, bank loans ²	-34	-50
Exchange rate fluctuations	0	0
Total other financial expenses	-34	-50
Total net financial items	-500	-473

1. Refers to the associated company Nordic Modular Group where Kungsleden as from 21 December 2015 owned 35 per cent.

2. Amortised over the term of the loan.

Unrealised changes in value of financial instrument

Unrealised changes in the value of financial instruments are not recognised in net financial items but on a separate row in the income statements.

Financial liabilities valued at fair value via the income statement held for sale amounts to SEK -321 (176) million. The amount refers to SEK -321 (176) million in interest-rate derivatives. See note 21.

NOTE 10. TAXES

The income tax rate for Swedish limited companies is 22 per cent. In the income statement, the tax is allocated on current tax and deferred tax. Current tax normally means payment to the Swedish Tax Agency and is calculated on the basis of the taxable profit of the year of the individual companies. The taxable profit is often lower than the companies' reported profit and it is based on the total level which is in principle equivalent to profit from property management in the Group less tax adjustments. The adjustments are primarily applicable for the ability to use tax depreciation, deduction on constructions, tax-free divestments of properties via companies as well as the utilisation of tax loss carry-forwards.

Tax paid for 2016 has occurred mainly in the purchased and sold subsidiaries which have not been entitled to a Group contribution for the last year. Other limitations on off-setting taxable profits against previous tax losses in other companies depend on when the losses incurred, time when the profitable companies were acquired and any merger. Loss carry-forwards at the end of the year amounts to SEK 2,178 million. All in all, the assessment is that the current tax is likely to be low in the next few years.

2016 ended the last tax process after the Supreme Administrative Court did not permit an appeal. The question was about sales 2006 completed by Kungsleden companies in the Netherlands. The positive 2015 judgement from the administrative court of appeal, was made legally valid. No profit or liquidity effect occurred in 2016 as the reserve and payment to the tax authority was made in 2015.

Tax calculation, SEK m	2016	2015
Profit from property management	990	966
- of which profit participation in associated companies	-	-24
Tax deductible items		
- Depreciation	-583	-548
- Deduction for construction	-95	-59
- Other adjustments	-95	-40
Taxable profit from property management	217	295
Divestment properties	-34	45
Interest-rate derivatives redeemed early	-15	-611
Taxable profit for the year	168	-271
Increased/decreased loss carry-forwards	-167	281
Taxable profit	1	10
Tax payable, 22%¹	0	-2
Tax processes for previous years	-	-1,303
Current tax in the income statement	0	-1,305

1. Current tax excluding tax processes amounted to SEK -0 (-2) million, resulting in an effective tax payable below one per cent (<1) of profit before tax.

Tax loss carry-forwards	2016	2015
Loss carry-forwards at the beginning of the year	-2,227	-1,205
Increased/decreased loss carry-forwards, this year's operations	167	-281
Adjusted declarations for previous years	-118	-636
Tax processes for previous years	-	72
Loss carry-forwards in purchased companies from property acquisitions	-	-141
Reversals other balance sheet items	-	-36
Loss carry-forwards at the year end	-2,178	-2,227

Tax in the income statement, SEK m	2016	2015
Current tax	0	-1,305
Deferred tax	-490	-337
Reported tax	-490	-1,642

Reconciliation of effective tax, SEK m	2016	2015
Profit before tax	2,359	2,147
Tax 22%	-519	-472
Divestment of properties via company	-6	-3
Profit from participation in associated companies	-	5
Adjusted declarations for previous years	26	140
Tax processes and other tax for previous years	-	-1,319
Other non-taxable revenue	10	8
Non-deductible expenses	-1	-1
Reported tax	-490	-1,642

Deferred tax on temporary differences and tax loss carry-forwards 2016, SEK m	01-01-16	Via profit or loss	Purchase/Sale	Transfer other liabilities	31-12-16
Assets					
Loss carry-forwards	490	-11	-	-	479
Financial instruments	77	67	-	-	144
Other	8	-3	1	-	6
Deferred tax - assets	575	53	1	-	629
Net deferred tax liabilities	-575	-53	-1	-	-629
Deferred tax asset	-	-	-	-	-
Liabilities					
Properties	-862	-544	16	-	-1,390
Deferred tax - liabilities	-862	-544	16	-	-1,390
Net deferred tax assets	575	53	1	-	629
Deferred tax liability	-287	-491	17	-	-761
Deferred tax on other rows in financial position					
Properties - deduction obtained in the context of asset acquisition (note 13)	-364	1	-1	-	-364
Total deferred tax on temporary differences and deficit	-651	-490	16	-	-1,125

Note 10, cont.

Deferred tax on temporary differences and tax loss carry-forwards 2015, SEK m	01-01-15	Via profit or loss	Purchase/Sale	Transfer other liabilities	31-12-15
Assets					
Loss carry-forwards	265	186	31	8	490
Financial instruments	250	-173	-	-	77
Other	-	8	-	-	8
Deferred tax - assets	515	21	31	8	575
Net deferred tax liabilities	-515	-21	-31	-8	-575
Deferred tax receivable in financial position	-	-	-	-	-
Liabilities					
Properties	-463	-364	-20	-15	-862
Other	-21	6	4	11	-
Deferred tax - liabilities	-484	-358	-16	-4	-862
Net deferred tax assets	515	21	31	8	575
Deferred tax liability in financial position	31	-337	15	4	-287
Deferred tax on other rows in financial position					
Properties - deduction obtained in the context of asset acquisition (note 13)	-203	-	-161	-	-364
Total deferred tax on temporary differences and deficit	-172	-337	-146	4	-651

Deferred tax is taken into account in the statement of financial position on all temporary differences of assets and liabilities as well as for the tax loss carry-forwards which is expected to be utilised. Accounting is made in accordance with the existing legal framework on the basis of the nominal tax rate of 22 per cent. An exception applies to temporary differences of properties at the asset acquisition via companies. In these cases, should deferred tax on the temporary differences at the date of acquisition not be

recognised, any obtained deductions are reported as a reduction in book value of the properties. The temporary difference between the fair value and tax residual value for Kungsleden properties amounted on 31 December 2016 to SEK 14,972 million. An estimated fair value on deferred tax can be calculated as an alternative to recognised deferred tax on the basis of the application of accounting standards (see section net asset value in note 16).

NOTE 11. EARNINGS PER SHARE AND EPRA EARNINGS / EPRA EPS

	2016		2015	
	SEK m	SEK/share ¹	SEK m	SEK/share
EARNINGS PER SHARE				
Profit (loss) for the year	1,869	10.27	505	2.78
PROFIT FROM PROPERTY MANAGEMENT				
Profit (loss) for the year	1,869	10.27	505	2.78
Adding back:				
Tax	490		1,642	
Changes in value property	-1,658		-970	
Change in value of derivatives	321		-176	
Profit (loss) from property divestment	-32		-11	
Profit (loss) from Nordic Modular Group	-		-24	
Profit from property management	990	5.44	966	5.31
EPRA Earnings (profit from property management after tax)				
Profit from property management	990	5.44	966	5.31
Adding back; current tax profit from property management	-48	-0.26	-65	-0.36
EPRA Earnings/EPRA EPS	942	5.18	901	4.95

1. Earnings per share before and after dilution, SEK/share

Outstanding number of shares at 31 December 2016 amount to 182,002,752 (182,002,752) and the average number of shares for the period January to December 2016 to 182,002,752 (182,002,752).

NOTE 12. INTANGIBLE ASSETS

SEK m	Intangible Assets	
	31-12-16	31-12-15
Accumulated acquisition values at the beginning of the year	5	-
Activations for the year	8	5
Accumulated acquisition values at the year end	13	5
Accumulated depreciation at the beginning of the year	-	-
Depreciation of the year	-1	-
Accumulated depreciation at year end	-1	-

Intangible assets consist of development costs for business support systems.

NOTE 13. INVESTMENT PROPERTIES

SEK m	31-12-16	31-12-15
Carrying amount at the beginning of the year	27,470	19,612
Acquisition	238	7,076
Investments in owned properties	609	450
Carrying amount divested properties	-806	-639
Unrealised changes in value ¹	1,658	970
Carrying amount at the year end	29,169	27,470

SEK m	Office	Industrial/Warehouse	Retail	Other properties	All
Properties at the beginning of the year	17,542	6,850	2,737	343	27,470
Reclassification between categories	43	147	-193	-	-
Acquisition	172	-	-	66	238
Investments in owned properties	444	94	65	6	609
Carrying amount divested properties	-298	-37	-470	-1	-806
Unrealised changes in value ¹	1,435	179	35	9	1,658
Properties at the year end	19,338	7,233	2,174	423	29,169

1. The unrealised changes in value are recognised in the income statement on the row for unrealised changes in value within the changes in value of assets.

Note 13, cont.

If properties are acquired via a company, Kungsleden normally receives a deduction for taking over essential temporary differences compared to if the acquisition would have occurred as property acquisition. The deduction for deferred tax is reported for asset acquisition not as a deferred tax liability but as a deduction from the property value in accordance with accounting standards. The table below indicates the fair value of the properties and the total deduction for deferred tax obtained at acquisition.

Direct costs for investment properties which have not generated rental revenue during the period is SEK 0.4 million.

SEK m	31-12-16	31-12-15
Fair value properties	29,533	27,835
Obtained deduction for deferred tax at acquisition of properties via company (asset acquisition)	-364	-364
Carrying amount at the year end	29,169	27,470

EVALUATION OF PROPERTIES

Internal evaluations of all properties have been carried out by 31 December 2016 and represent the carrying amount. All properties have also been evaluated at some time during the year (approximately 1/4 per quarter) by external assessors to ensure the quality and verify the internal evaluations.

Internal evaluation

Kungsleden has chosen to base the fair value of internal implemented evaluations. Kungsleden regularly conducts its own internal evaluations as an integral part of the business process where, for each property, an individual assessment is made of the sales value.

Evaluation method

Kungsleden reports its property portfolio at fair value which is the same as market value. The fair value is based on internal evaluations that are regularly conducted as an integral part of the business process where, for each property, an individual assessment is made of the sales value. The evaluation is always made on the basis of level 3, meaning the input data which is not observable on the market. See description of evaluation levels in note 21. There hasn't been any movement during the year between the evaluation hierarchies.

Sensitivity analysis evaluation	Change	Impact on value, SEK m
Operating net	+/-1.0%	+292/-292
Yield requirements	+/-0.1%	-528/+548

In the evaluation of the properties Kungsleden applies a combination of the performance based method and site price comparison method. Each individual property's future cash flow is forecast and the present value is calculated with the residual value on the basis of a ten-year calculation period. The yield requirements that apply are based on Kungsleden's active presence in the transaction market and have been assessed on each property's unique risk as well as the analysis of the transactions carried out on each site according to their site price comparison method. For these evaluations a long-term inflation assumption of 2.0 per cent has been applied.

Below table shows weighted average yield requirement within respective property segment. Yield requirements on the evaluations are within the range of 4.25-12.0 per cent.

By property category

	Fair value ¹ SEK m	Average yield requirement, %	Interval yield requirement, %
Office	19,574	5.7	4.25-10.0
Industrial/Warehouse	7,346	7.2	4.75-12.0
Retail	2,183	6.5	5.5-7.75
Other	430	7.3	6.0-12.0
Total	29,533	6.1	4.25-12.0

1. Before deduction for deferred tax received at the time of acquisition.

By region

	Fair value ¹ SEK m	Average yield requirement, %	Interval yield requirement, %
Stockholm	14,900	5.5	4.3-10.0
Gothenburg	4,498	7.0	5.25-10.0
Malmö	3,947	6.6	4.25-9.25
Mälardalen	6,188	6.5	5.5-12.0
Total	29,533	6.1	4.25-12.0

1. Before deduction for deferred tax received at the time of acquisition.

SEK m	Office	Industrial/ Warehouse	Retail	Other	Evaluated properties	Non externally evaluated	Received deduction on deferred tax at acquisition	All properties
Carrying amount	19,574	7,346	2,183	430	29,533		-364	29,169
Non externally evaluated	18,785	7,447	2,342	444	29,018			

NOTE 14. EQUIPMENT

SEK m	31-12-16	31-12-15
Accumulated acquisition value at the beginning of the year	24	21
Acquisition	4	3
Divestment/disposals	-5	0
Accumulated acquisition values at the year end	23	24
Accumulated depreciation at the beginning of the year	-14	-13
Divestment/disposals	3	2
Depreciation of the year	-3	-3
Accumulated impairment at the year end	-14	-14
Carrying amount at the year end	9	10

NOTE 15. OTHER LONG-TERM RECEIVABLES

SEK m	31-12-16	31-12-15
Carrying amount at the beginning of the year	6	9
New long-term receivables	8	0
Exchange rate fluctuations	0	0
Repayments	-2	-4
Carrying amount at the year end	12	6

The repayments in both 2015 and 2016 refer to the instalment of the promissory notes of a property divestment in Germany that took place in 2014. The promissory notes were repaid in their entirety during 2016. A new long-term receivable in respect of a loan to the buyer of seven properties was issued during 2016.

NOTE 16. EQUITY

At the end of the financial year, the share capital amounted to SEK 75,834,480 and the number of shares to 182,002,752. During 2016 there were no changes in share capital, number of shares or quota value. The quota value amounts to 0.42 (0.42). There's no dilution effect since no potential shares exist.

Net asset value, EPRA NAV and EPRA NNAV

The net asset value can be calculated on a long term and short term basis. Long-term net asset value is based on the equity of financial position with the adding back of balanced items for derivatives and deferred tax.

The current net asset value is based on equity of financial position with adjustment to the estimated fair value of deferred tax on loss carry-forwards and temporary differences.

	31-12-16		31-12-15	
	SEK m	SEK/ share	SEK m	SEK/ share
Net asset value				
Equity	10,839	59.55	9,333	51.28
<i>Adding back</i>				
Derivatives	653	3.59	347	1.90
Deferred tax liability	761	4.18	287	1.58
Obtained deduction for deferred tax on acquisition (reported as part of the Properties)	364	2.00	364	2.00
Long-term net asset value (EPRA NAV)	12,617	69.32	10,331	56.76
<i>Deduction</i>				
Fair value derivatives	-653	-3.59	-347	-1.9
Assessed fair value deferred tax ¹	-1	-0.01	39	0.21
Current net asset value (EPRA NNAV)	11,963	65.73	10,023	55.07

1. Assessed fair value deferred tax has been calculated on the basis of a discount rate of 3 per cent on the expected cash flow. Loss carry-forwards realised over the next five years with a nominal tax of 22 per cent, which gives a present value of deferred tax asset of 21 per cent. The temporary differences regarding properties are expected to be realised during the 50 years where 10 per cent is sold via property divestment with a nominal tax of 22 per cent and 90 per cent are divested via a company where the buyer's tax deduction is estimated to amount 5.5 per cent. This gives a total net present value of deferred tax of 4.0 per cent. The temporary differences regarding derivatives are expected to be realised during the term of the agreement (up to eight years), which gives a net present value of a deferred tax asset of 21 per cent.

NOTE 17. INTEREST-BEARING LIABILITIES

SEK m	31-12-16		31-12-15	
	Nominal amount	Fair values	Nominal amount	Fair values
Liabilities to credit institutions	13,728		16,381	
Bond loans (non secured)	975		1,075	
Other borrowing	1,808		-	
Interest rate derivatives				
Interest rate swaps, 10,120 (12,030)		653		395
Total loans and derivatives	16,511		17,456	

Kungsliden assess that there is no essential difference between book value and fair value of interest-bearing liabilities.

Expiration date of bank loans and other borrowings	31-12-16		31-12-15	
	Nominal amount	Share, %	Nominal amount	Share, %
2015				
2016			1,416	7.8
2017	3,749	20.1	741	4.1
2018	3,306	17.7	3,700	20.5
2019	4,450	23.8	5,264	29.1
2020	4,713	25.2	5,119	28.3
2021	492	2.6	1,832	10.1
2026	630	3.4		
2036	1,340	7.2		
Total	18,681	100	18,072	100
Non utilised credits	-2,170		-616	
Total utilised credits	16,511		17,456	

The Group has a bank overdraft of SEK 250 (250) million which was not utilised in any part at year end 2016 or 2015.

Non discounted cash flow of financial liabilities and derivatives

Year	Credits due ¹	Interest rate payment credits	Derivatives due	Interest rate payment derivatives
2017	1,579	251		184
2018	3,306	247		157
2019	4,450	187	1,000	113
2020	4,713	110	2,770	69
2021	492	67	1,800	45
2022		59	3,500	33
2023		63		30
2024		66	1,050	26
2025		66		
2026	630	60		
2036	1,340	524		
Total	16,511	1,700	10,120	657

1. Relates to items liabilities to credit institutions as well as other interest bearing liabilities long-term and short-term.

NOTE 18. PROVISIONS

SEK m	31-12-16	31-12-15
Provisions at the beginning of the year	5	5
New provisions (rental guarantees)	7	-
Provisions at the year end	12	5

SEK m	31-12-16	31-12-15
Rental guarantee	7	-
Other	5	5
Total	12	5

SEK m	31-12-16	31-12-15
Due for payment within one year	-	-
Due for payment between one to five years	7	-
Due for payment in more than five years	5	5
Total	12	5

NOTE 19. OTHER LIABILITIES

At the year end other liabilities consisted of SEK 8 (2) million unpaid consideration. The properties at the year end were not yet vacated.

NOTE 20. MATURITY STRUCTURE LIABILITIES

SEK m	31-12-16	31-12-15
Due for payment within one year	2,293	1,903
Due for payment between one to five years	12,962	14,458
Due for payment in more than five years	1,970	1,832
Total	17,225	18,193

The maturity structure liabilities reflects long-term liabilities to credit institutions, long-term interest bearing liabilities and short-term liabilities. All accounts payable are due within one year.

NOTE 21. FINANCIAL ASSETS AND LIABILITIES

SEK m	Accounts receivable and loan receivables		Financial liabilities evaluated at fair value via income statement - Derivatives		Other liabilities ¹		Total carrying amount	
	31-12-16	31-12-15	31-12-16	31-12-15	31-12-16	31-12-15	31-12-16	31-12-15
Long-term receivables	12	6					12	6
Accounts receivable	26	24					26	24
Other receivables and derivatives	74	43		49			74	92
Total	112	73	-	49	-	-	112	122
Interest-bearing liabilities ¹					16,511	17,456	16,511	17,456
Accounts payable					195	149	195	149
Other liabilities and derivatives			653	395	12	10	665	405
Total	-	-	653	395	16,718	17,615	17,371	18,010

1. Relates to items liabilities to credit institutions as well as other interest bearing liabilities long-term and short-term

EVALUATION

Financial instruments such as client and loan receivables, and other liabilities are reported at accrued acquisition value less any impairment losses. A number of OTC-derivatives are utilised to financially secure risks in the cash flow for interest rates. There are three evaluation levels:

- Level 1: according to the prices listed in an active market for the same instrument.
- Level 2: on the basis of direct or indirect observable market data which is not included in level 1.
- Level 3: from the input data which is not observable in the market.

Kungsliden's derivatives are evaluated with valuation techniques based on observable market data (level 2). These derivatives amounted to SEK 653 (347 net) million.

Fair value of client and loan receivables have been assessed individually on the basis of the risk that the receivable will not be obtained. A similar evaluation is also in accordance with the principles of the carrying amount. For the last two year end closings the reported fair value has been the same as the assessment of fair value. Kungsliden assesses that there is no significant difference between book value and fair value of assets and liabilities.

Tax expenses for the year amounts to SEK -1 (1) million.

Liabilities to credit institutions, SEK m	31-12-16	31-12-15
Liabilities at the beginning of the year	17,456	11,675
New loans	2,808	9,488
Repayment of loans	-3,753	-3,707
Liabilities at the year end	16,511	17,456

NOTE 22. PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets for liabilities, SEK m	31-12-16	31-12-15
Property mortgages	14,287	13,905
Shares in subsidiaries	4,895	4,337
Total	19,182	18,242

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

Contingent liabilities, SEK m	31-12-16	31-12-15
Rental guarantees	-	2
Other guarantees and commitments	103	103
Total	103	105

Commitments and legal responsibility for treatment of contaminated soil may arise in the future, both in regards to owned and sold properties. Expenses may arise for example in the form of increased expenses for the remediation of soil in connection with new, refurbishment or extension construction or price reduction on the divestment of a property. To assess any possible future amounts is not possible. In addition, disputes in the business arise from time to time. The outcomes are often difficult to assess. When a dispute is likely to result in a cost for the Group, this is taken into account in the financial statements.

NOTE 23. ADDITIONAL DISCLOSURES ON CASH FLOW

Other adjustments not included in cash flow from operating activities, SEK m	2016	2015
Depreciation and impairment	4	3
Provision/confirmed for rental and bad debt losses	1	-1
Exchange rate fluctuations	0	0
Profit (loss) from sale of equipment	0	-
Increase(+)/decrease(-) in interest receivables	0	0
Increase(+)/decrease(-) in interest liabilities	12	19
Profit from participation in associated companies	-	-24
Other profit/loss items not impacting liquidity	0	0
Total	17	-3

Interest rates, SEK m	2016	2015
Interest rates received	1	11
Interest rates paid	-455	-440

Acquisition of the subsidiary, SEK m	2016	2015
<i>Acquired assets and liabilities</i>		
Investment properties	238	6,899
Operating receivables	10	38
Cash equivalents ¹	7	91
Total assets	255	7,028

Deferred tax	2	-
Interest-bearing liabilities	-	-
Operating liabilities	10	3,980
Total provisions and liabilities	12	3,980

Cash payment, shares	27	3,048
Cash payment, repayment of loans	210	3,818
Deducted: cash equivalents in acquired business	-7	-91
Effect on cash equivalents acquired companies	230	6,775

Divestment of subsidiaries, SEK m	2016	2015
<i>Divested assets and liabilities</i>		
Investment properties	806	198
Operating receivables	2	1,800
Cash equivalents	0	0
Total assets	808	1,998

Deferred tax	15	0
Operating liabilities	4	472
Total provisions and liabilities	19	472

Purchase price received, shares	534	1,161
Cash received, repayment of loans	243	375
Purchase price received	777	1,536
Deducted: cash equivalents in divested operations	-1	0
Effect on cash equivalents for wholly-owned subsidiaries	776	1,536

1. In cash equivalents include cash and bank balances as well as any cash equivalents related to assets held for sale.

NOTE 24. TRANSACTIONS WITH RELATED PARTIES

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

No transactions in addition to these remunerations have been made with any of their related companies or individuals.

NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

On 6 March 2017 a decision was made at an extraordinary general meeting to implement a new share issue of ordinary shares with priority for Kungsleden's shareholders. The new share issue is covered by the subscription commitments from Kungsleden's largest private shareholder Gösta Welandson and Olle Florén with company, corresponding to 17.2 per cent of the new share issue. The remaining part of the new share issue is guaranteed by Gösta Welandson with company.

The conditions for the new share issue means that each existing ordinary share held on the record date of 8 March 2017 entitles to one (1) subscription right, and five (5) subscription rights which entitles a subscription for one (1) new ordinary share. The subscription price is SEK 45 per share, which at full subscription corresponds to a total share issue proceeds of approximately SEK 1,638 million before share issue costs. The subscription period runs from 10 to 24 March 2017.

At full subscription, the number of ordinary shares will increase from 182,002,752 to 218,403,302 ordinary shares and the Group's share capital will increase from SEK 75,834,480 to SEK 91,001,376.

On 21 December 2016, an agreement was signed for the divestment of six properties for SEK 80 million in Kungälv and Gothenburg. Withdrawal took place on 31 January 2017. On 28 December 2016, an agreement was signed on an acquisition of Emporia Office in Hyllie, Malmö. The property will be accessed on 31 March 2017. On 27 February 2017, an agreement was signed for the divestment of 16 properties for SEK 427 million. Withdrawal took place in March 2017.

INCOME STATEMENT PARENT COMPANY

SEK m	Note	2016	2015
Intra-Group revenue		34	43
Administration costs	2-3	-42	-40
Operating profit (loss)		-8	3
PROFIT (LOSS) FROM FINANCIAL ITEMS			
Profit (loss) from participations in Group companies	4	683	1,113
Interest rate revenue and similar items	4	157	359
Interest rate expenses and similar items	4	-491	-272
		349	1,200
Profit before tax		341	1,203
TAX			
Current tax		-	-1,303
Deferred tax	5	82	-10
Profit (loss) for the year		423	-110

STATEMENT OF COMPREHENSIVE INCOME FOR PARENT COMPANY

SEK m	2016	2015
Profit (loss) for the year as per income statement	423	-110
Profit (loss) for the year	423	-110

COMMENTARY ON THE CONSOLIDATED INCOME STATEMENTS FOR THE PARENT COMPANY

Sales amounted to SEK 34 (43) million and consisted of revenues from Group companies concerning allocated administration costs.

Financial items relate mainly to interest costs for bond loans and interest rates in swap agreements for the Group's borrowing and reversed provision for Group interest rate swap agreements, which

undervalue has increased during the year. Also, transactions linked to holdings in subsidiaries are reported as financial items.

After taken into account the tax, profit for the year was SEK 423 (-110) million.

PROPOSED DISTRIBUTION OF PROFITS

The following unappropriated earnings are at the disposal of the AGM:

Profit (loss) brought forward	SEK 4,849,413,190
Share premium reserve	SEK 1,549,156,569
Profit (loss) for the year	SEK 423,099,870
Total	SEK 6,821,669,629

The Board of Directors proposes that the earnings are disposed of as follows:

Dividend to shareholders of SEK 2.00 per share	SEK 436,806,604
Share premium reserve	SEK 1,549,156,569
Carried forward	SEK 4,835,706,456
Total	SEK 6,821,669,629

Kungsliden's dividend policy is that the dividend should grow at the same rate as the development of the profit from property management. After having confirmed the dividend for 2016, the Board of Directors has also taken into consideration the fully guaranteed new share issue with preferential rights for existing shareholders, as approved by the extra General Meeting held on 6 March 2017, which is expected to be completed at the time of the Annual General Meeting. The Board of Directors has decided that it is desirable for the dividend to be proposed to the Annual General Meeting based on the current dividend policy, independent of the new share issue. At the same time, the Board of Director's intention was that the dividend issue, in connection with the new share issue, should be handled in a transparent manner, something that when facilitated by old and new shares issued, in respect of the dividend, is treated equally.

The extra General Meeting has also decided in accordance with the Board of Director's advice that the new share issues should be entitled to the dividend which was decided at the Annual General Meeting.

The number of new shares are estimated to amount to 34,400,500. After the new share issue, the total numbers of shares are estimated to represent 218,403,302.

For the fiscal year 2015, the dividend was SEK 2.00 per share. Excluding the new share issue, according to the dividend policy, an increase in the dividend to SEK 2.05 per share for the fiscal year 2016 would be justified on the basis of the increased profit from property management between 2015 and 2016.

With the support of the dividend policy and against the background of the parent company and the financial position of the Group, the Board of Directors proposes a dividend of SEK 2.00 per share for the financial year 2016.

The proposed dividend is equivalent to 6 per cent of the parent company's free equity and 4 per cent of the Group's equity.

The proposed dividend means that the parent company and the Group's equity ratio will amount to 46 per cent and 41 per cent respectively.

The equity ratio is considered to be adequate, particularly considering that the parent company and the Group show a higher earnings capacity after the major property acquisitions carried out in the last few years.

As of 31 December 2016, the available liquidity including non-utilised credits amounted to SEK 288 million. Liquidity competence in the Group is assessed against this background to remain strong.

The Board of Directors is of the opinion that the proposed dividend will not prevent the company and other Group companies from fulfilling their obligations in the short and long term, and the required investments will be achieved. The proposed dividend can therefore be justified having considered what's stated in chapter 17, third paragraph, second and third sub of the Annual Accounts Act (prudence rule).

The proposed appropriation of profit will be submitted for adoption at the Annual General Meeting on 25 April 2017.

BALANCE SHEET PARENT COMPANY

SEK m	Note	31-12-16	31-12-15
Assets			
<i>Non-current assets</i>			
Participations in Group companies	6	4,538	6,036
Receivables from Group companies	7	1,831	1,831
Deferred tax asset	5	451	368
Other long-term receivables	7	2	2
Total non-current assets		6,822	8,237
<i>Current assets</i>			
Receivables from Group companies		10,752	7,881
Other receivables		2	7
Prepaid expenses and accrued revenue	8	4	13
Cash and bank		38	376
Total current assets		10,796	8,277
TOTAL ASSETS		17,618	16,514
EQUITY AND LIABILITIES			
<i>Equity</i>			
<i>Restricted equity</i>			
Share capital (182,002,752 shares)		76	76
		76	76
<i>Non-restricted equity</i>			
Accumulated profit or loss		4,849	5,324
Share premium reserve		1,549	1,549
Profit (loss) for the year		423	-110
		6,821	6,763
Total equity		6,897	6,839
<i>Provisions</i>			
Provisions for pensions and similar obligations		2	2
Total provisions		2	2
<i>Long-term liabilities</i>			
Bond Loans		600	375
Total long-term liabilities	9-11	600	375
<i>Short-term liabilities</i>			
Liabilities to credit institutions		-	700
Other Interest-bearing liabilities		1,553	-
Accounts payable		2	2
Liabilities to Group companies		7,902	8,191
Derivatives		653	395
Other liabilities		-	3
Accrued expenses and deferred revenue	12	9	7
Total short-term liabilities	10, 11	10,119	9,298
TOTAL EQUITY AND LIABILITIES		17,618	16,514

COMMENTARY ON THE PARENT COMPANY'S BALANCE SHEET

The assets at the end of the period mainly consisted of participations in Group companies of SEK 4,538 (6,036) million. There were also essential receivables and liabilities to Group companies, which the net was a receivable of SEK 4,681 (1,521) million.

The financing was mainly through equity which at the end of the year amounted to SEK 6,897 (6,839) million, giving an equity ratio of 39 (41) per cent.

CONSOLIDATED STATEMENT OF THE PARENT COMPANY'S CHANGES IN EQUITY

SEK m	Restricted equity	Non-restricted equity		Total equity
	Share capital	Share premium reserve	Non restricted equity	
Opening equity, 01-01-2015	76	1,549	5,597	7,222
Profit (loss) for the year			-110	-110
Total change in wealth excl. transactions with the company's owners			-110	-110
Dividend			-273	-273
Total transactions with the company's owners	-	-	-273	-273
Closing equity, 31-12-2015	76	1,549	5,214	6,839
Opening equity, 01-01-2016	76	1,549	5,214	6,839
Profit (loss) for the year			423	423
Total change in wealth excl. transactions with the company's owners			423	423
Dividend			-364	-364
Total transactions with the company's owner	-	-	-364	-364
Closing equity, 31-12-2016	76	1,549	5,272	6,897

STATEMENT OF PARENT COMPANY'S CASH FLOW

SEK m	Note 13	2016	2015
OPERATING ACTIVITIES			
Profit before tax		341	1,203
Dividends, not settled		-480	-387
Group contributions received		-84	-517
Profit (loss) from divestment		5	-286
Impairment, Group companies		1,640	77
Provision/reversal of provisions for derivatives		257	-127
Unrealised exchange rate conversions		-	-1
Provision for pensions		-	-
Tax paid		0	-1,303
Cash flow from operating activities before change in working capital		1,679	-1,341
<i>Changes in working capital</i>			
Increase(+)/decrease(-) in operating receivables		-2,295	-756
Increase(+)/decrease(-) in operating liabilities		-289	520
		-2,584	-236
Cash flow from operating activities after change in working capital		-905	-1,577
INVESTING ACTIVITIES			
Divestment of Group companies		17	1,165
Acquisition of subsidiaries		-78	0
Shareholder contributions paid		-86	-215
Disposal of long-term loans		-	-175
Repayment of other financial assets		-	818
Cash flow from investing activities		-147	1,593
FINANCING ACTIVITIES			
New loans		1,778	375
Repayment of loans		-700	-999
Dividend		-364	-273
Cash flow from financing activities		714	-897
Cash flow for the year		-338	-881
Cash equivalents at the beginning of the year		376	1,257
Cash equivalents at the year end		38	376

NOTES PARENT COMPANY

NOTE 1. ACCOUNTING PRINCIPLES PARENT COMPANY

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 accounting principles for the Group with the addition of the following for the parent company.

SHARES IN GROUP COMPANIES

Shares in Group companies are recognised at historical acquisition value. The value is regularly tested for impairment.

FINANCIAL INSTRUMENTS

Financial receivables and liabilities are reported at historical acquisition value. Risk of loss regarding financial receivables and derivative instruments are taken into account.

FINANCIAL GUARANTEES

The parent company's financial guarantee agreement consists of guarantees on behalf of companies within the Group. For reporting of financial guarantees, the parent company applies one of the RFR2 permitted relief regulations compared to the regulations in IAS 39 Financial instruments: Reporting and evaluation. The parent company reports financial guarantee agreements as a provision in the balance sheet when the company has a commitment for a probable payment. Otherwise the obligation is reported as contingent liabilities.

GROUP CONTRIBUTIONS

Group contributions received from a subsidiary are reported according to the same principles as conventional dividends from subsidiaries. Group contributions paid to subsidiaries are reported as an investment in participations in Group companies.

Shareholder contributions are reported by the maker as an increase in the shares' net book value and by the recipient as an increase in non-restricted equity.

DIVIDEND

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

Anticipated dividend from subsidiaries are recognised when the parent company has the sole right to decide on the size of the dividend and the parent company has taken a decision on the size of the dividend before publishing its financial statements.

If the carrying amount in the parent company's holding in the subsidiary or associated company would exceed the carrying amount in the financial statements this is to be considered as an indication of impairment and impairment test should be carried out.

NOTE 2. ADMINISTRATION COSTS

Administration costs, SEK m	2016	2015
Personnel costs	-24	-30
Other operating expenses	-18	-10
Total	-42	-40

Administration costs relate primarily to costs of central functions such as business development, accounting and finance, legal and IT, as well as costs attributable to stock exchange listing and the Group's management team.

Within SEK 42 (40) million of the administrative costs, personnel costs constitute the largest item at SEK 24 (30) million, and mainly relates to compensation to Group Management and Board members.

The auditors invoiced SEK 1.6 million to the parent company in 2016. The remaining audit fees are invoiced to Kungsleden Fastighets AB, which then re-invoice these and other common administration costs to other companies.

NOTE 3. EMPLOYEES, PERSONNEL EXPENSES AND BOARD FEES

Average number of employees	Share women		Share women	
	2016	%	2015	%
Sweden	3	67	4	50
Total	3	67	4	50

Salaries, other bonuses and social security expenses, SEK k	2016		2015	
	Salaries, other bonuses	Social security expenses	Salaries, other bonuses	Social security expenses
Board of Directors, CEO and Deputy CEO	16,723	7,912	17,037	8,062
Other employees	-	-	5,340	2,403
(of which pension expenses)		(2,582)		(2,715)
Total	16,723	7,912	22,377	10,465

Fees are paid to the Board of Directors according to the resolution of the Annual General Meeting. For the information of bonuses paid to each Board member and bonuses paid to senior executives, see note 7 in the Group.

NOTE 4. PROFIT (LOSS) FROM FINANCIAL ITEMS

Profit (loss) from subsidiaries, SEK m	2016	2015
Dividends	2,245	387
Group contributions received	84	517
Profit (loss) from disposal of shares	-5	286
Impairment	-1,862	-286
Reversal of impairment losses	221	209
Total	683	1,113

Interest rate revenue and similar items, SEK m	2016	2015
<i>Interest rate revenue</i>		
Group companies	157	221
Other companies	-	10
Reversed provisions undervalue of derivatives	-	127
Other	-	1
Total	157	359

Interest rate expenses and similar items, SEK m	2016	2015
<i>Interest expenses</i>		
Other companies	-219	-263
Provisions undervalue of derivatives	-257	-
Realised change closed derivatives	-15	-
Other	-	-9
Total	-491	-272

NOTE 5. TAXES

Tax in the income statement, SEK m	2016	2015
Current tax	-	-1,303
Deferred tax	82	-10
Reported tax	82	-1,313
Reconciliation of effective tax, SEK m	2016	2015
Profit before tax	341	1,203
Tax 22 per cent	-75	-265
Dividends from Group companies	493	85
Impairment of shares in Group companies	-361	-17
Closed derivatives	-	140
Other tax related to previous years and tax processes	26	-1,319
Divestment of subsidiaries	-	63
Other	-1	0
Reported tax	82	-1,313

No tax is reported directly to equity.

Deferred tax on temporary differences and tax loss carry-forwards, SEK m	At the beginning of the year	In the income statement	At year end
Loss carry-forwards	281	26	307
Financial instruments	86	56	144
Other temporary differences	1	0	1
Total	368	82	452

SPECIFICATION OF PARENT COMPANY HOLDINGS OF SHARES IN GROUP COMPANIES

Directly owned subsidiaries' CIN/registered location	Number of shares	Share % ¹	Book value, SEK m	
			31-12-16	31-12-15
Kungsleden Fastighets AB, 556459-8612, Stockholm	200	100	334	128
Realia AB, 556639-7419, Stockholm	100,000	100	1,506	1,506
Kungsleden Norrlandsfastigheter AB, 556481-1429, Stockholm	1,000	100	-	1,755
Kungsleden Syd AB, 556480-0109, Stockholm	1,000	100	90	62
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, the Netherlands	900	100	-	0
Kungsleden Service AB, 556610-9087, Stockholm	1,000	100	-	1
Realia International BV, BV502052-1156, the Netherlands	2,351	75	-	10
Kungsleden Mattan AB, 556718-3354, Stockholm	1,000	100	255	349
Kungsleden Friab AB, 556742-6548, Stockholm	1,000	100	1,340	1,355
KL Norge Holding AB, 556730-0875, Stockholm	1,000	100	-	6
Kungsleden Kalinka Holding AB, 556844-2957, Stockholm	50,000	100	95	95
Kungsleden Holding GmbH, Germany	1	100	0	0
Kungsleden Balsberget AB, 556919-3013, Stockholm	50,000	100	1	1
Kungsleden Tannberget AB, 556920-8043, Stockholm	50,000	100	-	0
Kungsleden Alsberget AB, 556919-3021, Stockholm	50,000	100	0	0
Kungsleden Mariaberget AB, 556919-3039, Stockholm	50,000	100	-	2
Kungsleden Vegaholding AB, 556919-3047, Stockholm	50,000	100	135	77
Kungsleden Holdmix AB, 556967-3311, Stockholm	500	100	491	491
Kungsleden Kebnekaise AB, 556968-3187, Stockholm	500	100	24	24
Kungsleden Holdmix 2 AB, 556974-4526, Stockholm	500	100	6	6
Kungsleden Grönberget Holding AB, 556990-0805 Stockholm	500	100	1	1
Kungsleden Grönberget AB, 556989-0410, Stockholm	500	100	11	11
Kungsleden Tegel AB, 559025-8298, Stockholm	500	100	17	1
Kungsleden Holdmix 3 AB, 559007-2665, Stockholm	500	100	0	1
Kungsleden Holdmix 4 AB, 559055-4431, Stockholm	500	100	0	-
Kungsleden Lustfarm AB, 556654-9720, Stockholm	1000	100	78	-
Kungsleden Isskrapan AB, 559084-5870, Stockholm	500	100	0	-
Total			4,538	6,036

1. This refers to the ownership share of the capital, which also corresponds to the share of votes for the total number of shares.

NOTE 6. SHARES IN GROUP COMPANIES

SEK m	31-12-16	31-12-15
Accumulated acquisition values at the beginning of the year	14,370	15,005
Acquisition	78	1
Divestments	-22	-769
Shareholder contributions	87	133
Accumulated acquisition values at the year end	14,513	14,370
Accumulated impairment at the beginning of the year	-8,334	-8,257
Reversal of impairment	221	209
Impairment of the year	-1,862	-286
Accumulated impairment at the year end	-9,975	-8,334
Carrying amount at the year end	4,538	6,036

Directly owned subsidiaries are listed below. Other Group companies are not reported in the parent company's annual report since the information, with regards to the requirement of giving a fair view, is of little relevance. Other companies are however presented by respective subsidiary annual reports.

NOTE 7. OTHER LONG-TERM RECEIVABLES

SEK m	31-12-16	31-12-15
Receivables at the beginning of the year	1,833	2,477
Promissory notes for the year	-	175
Reversals for short-term receivable	-	-2
Change in exchange rate	-	-1
Repayment for the year	-	-816
Total	1,833	1,833

Other long-term receivables consist of Group internal receivables

NOTE 8. PREPAID EXPENSES AND ACCRUED REVENUES

SEK m	31-12-16	31-12-15
Prepaid expenses	4	13
Total	4	13

NOTE 9. LOANS AND INTEREST-RATE DERIVATIVES

The parent company has two (two) bond loans. The bank loan at the beginning of the year has been amortised during the year. In addition there are also interest-rate derivatives for both their own loans and other Group companies' external loans.

There is a bank overdraft of SEK 250 (250) million which was not utilised in any part at year end 2016 or 2015.

Below shows the maturity dates for loans and interest-rate derivatives.

Maturity date, SEK million	31-12-16		31-12-15	
	Bank and bond loans	Interest-rate derivatives, nominal amount	Bank and bond loans	Interest-rate derivatives, nominal amount
2016			700	-
2017	1,553		375	910
2018				1,000
2019	600	1,000		1,000
2020		2,770		2,770
2021		1,800		1,800
2022		3,500		3,500
2023				-
2024		1,050		1,050
Total	2,153	10,120	1,075	12,030

NOTE 10. FINANCIAL ASSETS AND LIABILITIES

SEK m	Receivables from Group companies and others		Other financial liabilities		Total carrying amount	
	31-12-16	31-12-15	31-12-16	31-12-15	31-12-16	31-12-15
Other long-term receivables	2	2			2	2
Receivables from Group companies	12,583	9,712			12,583	9,712
Other receivables	2	7			2	7
Total assets	12,587	9,721			12,587	9,721
Long-term liabilities			600	375	600	375
Accounts payable			2	2	2	2
Liabilities to Group companies			7,902	8,191	7,902	8,191
Other liabilities ¹			653	1,098	653	1,098
Total liabilities	0	0	9,157	9,666	9,157	9,666

1. Fair value of the company's interest-rate derivatives amounts to SEK -653 (-395) million.

The parent company's derivatives are evaluated with evaluation techniques based on observable market data (level 2). These derivatives amounted to SEK -653 (-395) million.

Information on evaluation of financial instruments can be found in the Group's note 21.

NOTE 11. MATURITY STRUCTURE LIABILITIES

SEK m	31-12-16	31-12-15
Due for payment within one year	10,110	8,903
Due for payment between one to five years	600	375
Due for payment in more than five years	-	-
Total	10,710	9,278

Maturity structure interest-bearing liabilities as well as operating liabilities excluding tax liabilities and undervalue derivatives.

NOTE 12. ACCRUED EXPENSES AND DEFERRED REVENUE

SEK m	31-12-16	31-12-15
Accrued interest expenses	8	5
Accrued employee expenses	1	2
Total	9	7

NOTE 13. ADDITIONAL DISCLOSURES ON CASH FLOW

No other means than cash and bank are included in the items cash equivalents.

Interest rates etc, SEK m	2016	2015
Dividends received	2,244	1,931
Interest rates received	157	232
Interest rates paid	-219	-281

NOTE 14. TRANSACTIONS WITH RELATED PARTIES

Transactions with subsidiaries, SEK m	2016	2015
Sales of goods/services to related parties	34	43
Other, e.g interest rate, dividend, Group contributions	2,481	618

Items in the balance sheet	31-12-16	31-12-15
Receivables of Group companies	12,583	9,712
Liabilities to Group companies	-7,902	-8,191

Remuneration to Board members and senior executives for completed work is disclosed in note 3. No transactions in addition to these payments have been made with any of their related companies or individuals.

NOTE 15. PLEDGED ASSETS

Pledged assets, SEK m	31-12-16	31-12-15
Shares in Group companies	2,194	337
Total	2,194	337

NOTE 16. CONTINGENT LIABILITIES

Contingent liabilities	31-12-16	31-12-15
Guarantees in favour for Group companies	14,358	16,381
Total	14,358	16,381

NOTE 17. APPROPRIATION OF PROFITS

The following unappropriated profits are at the disposal of the AGM:

Profit (loss) brought forward	SEK 4,849,413,190
Share premium reserve	SEK 1,549,156,569
Profit (loss) for the year	SEK 423,099,870
Total	SEK 6,821,669,629

The Board of Directors proposes that the profits are disposed of as follows:

Dividend to shareholders of SEK 2.00 per share	SEK 436,806,604
Share premium reserve	SEK 1,549,156,569
Carried forward	SEK 4,835,706,456
Total	SEK 6,821,669,629

NOTE 18. EVENTS AFTER THE BALANCE SHEET DATE

On 6 March 2017 a decision was made at an extraordinary general meeting to implement a new share issue of ordinary shares with priority for Kungsleden's shareholders. The new share issue is covered by the subscription commitments from Kungsleden's largest private shareholder Gösta Welandson and Olle Florén with company, corresponding to 17.2 per cent of the new share issue. The remaining part of the new share issue is guaranteed by Gösta Welandson with company.

The conditions for the new share issue means that each existing ordinary share held on the record date 8 March 2017 entitles to one (1) subscription right, and five (5) subscription rights entitle subscription for one (1) new ordinary share. The subscription price is SEK 45 per share, which at full subscription corresponds to a total share issue proceeds of approximately SEK 1,638 million before share issue costs. The subscription period runs from 10 to 24 March 2017.

At full subscription, the number of ordinary shares will increase from 182,002,752 to 218,403,302 ordinary shares and the Group's share capital will increase from SEK 75,834,480 to SEK 91,001,376.

ANNUAL REPORT SIGNATURES

The Board of Directors and the CEO hereby declare that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statement has been prepared in accordance with the international accounting standards as referred to in European Parliament and Regulation (EC) No 1606/2002 as of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated financial statement gives a true and fair view of the parent company's and the Group's consolidated financial position and results. The Board of Directors' report for the parent company and the Group gives a fair overview of the development of the parent company and the Group's operations, position and result and describes significant risks and uncertainties faced by the parent company and the companies belonging to the Group.

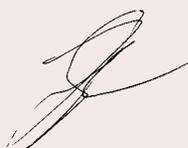
Stockholm on 23 March 2017



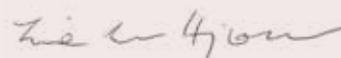
Göran Larsson
Chairman



Charlotte Axelsson
Board member



Joachim Gahm
Board member



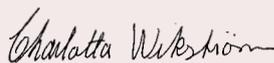
Liselotte Hjorth
Board member



Lars Holmgren
Board member



Kia Orback Pettersson
Board member



Charlotta Wikström
Board member



Biljana Pehrsson
CEO

Our audit report was submitted on 24 March 2017
Ernst & Young AB



Ingemar Rindstig
Authorised auditor



Jonas Svensson
Authorised auditor

AUDIT REPORT

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

This is a translation from the Swedish original.

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

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

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

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

Basis for Opinions

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

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

Key Audit Matters

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

Valuation of properties

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

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

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

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

Accounting for income taxes

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

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

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

Initial audit

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

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

Other Information than the annual accounts and consolidated accounts

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

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

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

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

The auditor's examination of the corporate governance statement

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

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

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

Stockholm March 24, 2017
Ernst & Young AB



Ingemar Rindstig
Authorized Public Accountant



Jonas Svensson
Authorized Public Accountant

DEFINITIONS

PROPERTY RELATED KEY FIGURES

Occupancy rate, area wise

Leased area in relation to the leasable area.

Yield

The measurement is used to highlight the yield for the operating net in relation to the value of the properties.

Yield for earnings capacity

Operating net in relation to the book value of the properties at the year end.

Calculation method of outcome

Operating net in relation to average book value of properties. At interim reporting, returns are converted to a full year basis. Average book value of properties is calculated as the sum of the opening and closing balances divided by two.

Operating and maintenance cost, SEK per sq.m

Operating and maintenance cost in relation to the average of leasable area.

Operating net

Total revenues less property costs.

Economic vacancy rate

Estimated market rent for vacant areas in relation to rental value.

Economic occupancy rate

The measurement is intended to facilitate assessment of rental income in relation to the total value of possible vacant area. Rental revenue is calculated in relation to rental value.

Property costs, SEK per sq.m

Property costs in relation to the average of leasable area.

Profit from property management

Profit from property management is a specific performance measurement which is used in the property sector to facilitate comparability in the industry. Calculated as the sum of the operating net, selling and administration costs and net financial items.

Average remaining contract length

Remaining contract value divided by annual rent.

Rental revenue

Charged rents, rent surcharges and rental guarantees less rent discounts.

Rental value

Rental revenue plus estimated market rent for vacant units.

Earnings capacity

Earnings capacity is intended to show characteristics of the properties acquired at a certain point in time and these properties financial outcome, over the past 12 months. The performance indicator is intended to facilitate assessment of the current property portfolio's underlying earnings capacity. At the balance sheet date vacated properties are not included and properties that have been accessed at the latest on the same date are included.

The calculation is based on the following other conditions:

- For properties where 12 months have elapsed since the takeover date included the outcome for the last twelve months. Adjustment is made for one-off items.
- For properties that were held for less than 12 months an assessment is made based on a combination of financial outcome, enumerated to an annual rate and acquisition calculation.

Revenues

Rental revenue and other income.

Contracted annual rent

Rent (exclusive of heating) plus a fixed additional amount.

Average rent, SEK per sq.m

Rental revenues in relation to average leasable area.

Leasable area

Leased area and leasable vacant area.

Surplus ratio

Operating net in relation to total revenues.

Other revenues

Revenues which have no direct link to the lease agreement.

FINANCIAL KEY FIGURES

Return on equity

Net profit/loss for the period after tax in relation to average equity. At interim reporting, returns are converted to a full year basis. Average equity of properties is calculated as the sum of the opening and closing balances divided by two.

Return on total assets

Operating net, profit from property divestment, selling and administration costs in relation to average assets. At interim reporting, returns are converted to a full year basis. Average assets are calculated as the sum of the opening and closing balances divided by two.

LTV (loan-to-value) ratio

Interest-bearing liabilities less cash and bank and in relation to the book value of the properties.

Interest coverage ratio

Net profit/loss for the period after tax with adding back of tax, unrealised changes in value of financial instruments, properties and terminated operations as well as profit (loss) from divestment and financial expenses, in relation to financial expenses.

Debt/equity ratio

Interest-bearing liabilities in relation to equity.

Equity ratio

Equity including minority interests in relation to total assets.

SHARE-RELATED KEY FIGURES

Yield on shares

Adopted/proposed dividend/redemption in relation to the share price at the year end.

Total return on shares

The sum of share price change during the period and during the period dividend paid/redemption in relation to the share price at the beginning of the period.

Adopted/proposed dividend per share

The Board of Directors' proposed dividend or by the AGM adopted dividend per share.

Equity per share

Equity in relation to the number of shares at the year end.

EPRA Earnings (profit from property management after tax)

Profit from property management less tax on taxable profit from property management. The history for years 2012–2014 also includes profit from property management, and tax in the divested operations Nordic Modular and Hemsö.

EPRA EPS (profit from property management after tax)

EPRA Earnings divided by average number of shares during the period.

EPRA NAV (long-term net asset value) per share

Reported equity with adding back recognised liability/asset for interest rate derivatives and deferred tax in relation to the number of shares at the year end.

EPRA NNAV

(current net asset value) per share
Reported equity adjusted for the estimated fair value of deferred tax instead of registered in relation to the number of shares at the year end. The history for years 2012–2015 is calculated on the basis of the actual change of loss carry-forwards and temporary differences for divested properties during the period up to 2016.

Profit from property management, per share

Profit from property management divided by average number of shares during the period.

Average number of shares

Number of outstanding shares weighted over the year.

Cash flow before changes in working capital per share

Cash flow before changes in working capital in relation to the average number of shares.

Net profit/loss for the period, per share

Net profit/loss for the period in relation to the average number of shares during the period.

GLOSSARY

Property costs

The costs for electricity, heating, water, property management, cleaning, property administration, insurance and maintenance minus charged additional amount for operation and maintenance.

Category

The properties' primary use on the basis of area distribution. The type of area that accounts for the largest share of the total area determines how the property is defined. A property with 51 per cent office space is therefore regarded as an office property. Categories are defined as offices, industrial/warehouse, retail and other.

Clusters

Kungsleden defines clusters as a single property holding in a location with good accessibility in a market with good growth and development potential. The optimal cluster has a good mix of offices, retail and housing and an attractive service offering.

Contract value

Rent according to lease agreements plus indexation and rent surcharges expressed as an annual value.

Unrealised changes in value

The difference between the book value and accumulated acquisition value of the properties at the year end, less the difference between the book value and accumulated acquisition value for properties at the beginning of the year.

Maintenance

Measures to maintain the property and its technical systems. Regards current and planned actions involving exchanges or renovation of building parts or technical systems. Tenant improvements are also included here.

GRI COMPLEMENT INCLUDING EPRA-REPORTING

This section gives additional information which is required for Kungsleden to fulfil their commitment to report on the sustainability work in accordance with GRI's (Global Reporting Initiative) Core guidelines, EPRA's (European Public Real Estate Association) recommendations and sBPR (Best Practices Recommendations on Sustainability Reporting). The section also constitutes Kungsleden's COP to UN Global Compact and complies with the requirements on the Active level.

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Specific standard disclosures	EPRA	Title	Comment	Reference
DMA		Economic performance		Page 6-7
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DMA		Emissions		Page 36
G4-EN15	GHG Dir-Abs GHG-Dir-Lfl	Direct greenhouse gas emissions	GC principle 7, 8	Page 94
G4-EN16	GHG Dir-Abs GHG Dir-Abs	Indirect greenhouse gas emissions	GC principle 7, 8	Page 94
G4-CRE3	GHG Int	Intensity green house emissions buildings		Page 93
DMA		Environmental impact of products and services		Page 36
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DMA		Customer health and safety		Page 37
G4-PR2		Number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their cycle, by type of outcomes.		Page 95
G4-PR5		Customer satisfaction		Page 95
DMA		Occupational health and safety	GC principle 4, 5	Page 37
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G4-SO5		Confirmed incidents of corruption and actions taken	GC principle 10	Page 95

ORGANISATION PROFILE

G4-10 Total workforce

	Unit	2016	2015	2014
Total number of employees	No.	110	102	95
of which women	No.	56	54	51
Number of permanent salaried employees	No.	54	52	50
- of which full-time	No.	53	52	49
- of which part-time	No.	1	0	1
Number of temporary employees	No.	2	2	1
of which men	No.	54	48	44
Number of permanent salaried employees	No.	54	47	44
- of which full-time	No.	53	47	44
- of which part-time	No.	1	0	0
Number of temporary employees	No.	0	1	0

G4-11 Collective bargaining agreements coverage

All of Kungsleden's 110 employees are covered by standard working legislation.

G4-14 Precautionary approach application by the organisation

Kungsleden has signed a UN Global Compact, whose environmental commitment includes the prudence principle.

G4-15 Commitment to external economic, environmental and social principles or initiatives

The Global Compact, Global Reporting Initiative, EPRA, LEED, Construction Product Assessment.

G4-16 Memberships of associations and national or international advocacy

Fossilfritt Sverige, Sweden Green Buildings Council, Forum for sustainable cities, associations where Kungsleden has an active role in the organisation's governing bodies.

IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

G4-18 Process for defining material aspects

G4-19 Material aspects

The financial statement's content is based on a materiality analysis carried out in 2015. The materiality analysis consisted of a competitive analysis and an assessment of Kungsleden's current sustainability work, as well as the findings from two working meetings with representatives for finance, HR, environment, legal, communication and marketing. At the working meetings information from interviews with tenants, surveys to investors and capital market analysts were also treated in connection with the Annual Meeting and capital market days. Kungsleden has an on-going dialogue with its stakeholders and has complemented the materiality analysis by selecting a number of assessed elements from these.

During 2016 the existing work on sustainability was connected to the UN's Sustainable Development Goals. The goals that were considered to be most relevant to Kungsleden were gender equality, affordable and clean energy, reduced inequalities, and sustainable cities and communities.

Kungsleden and the Sustainable Development Goals

GOAL 11: Sustainable cities and communities

Kungsleden as large and long-term property owner has a great opportunity to influence public transport in the vicinity of the owned properties. Kungsleden has also the ability to act for the planning, inclusion, resource efficiency and resilience.

GOAL 10: Reduced inequalities

Through actively working with vibrant urban areas where spontaneous meetings between people regardless of their background can happen, this enables Kungsleden to run meetings that contribute to the reduction of unequal opportunities. Kungsleden is also working actively with an open corporate culture that is inclusive and creates the conditions for people in disadvantaged groups to enter the labour market.



GOAL 5: Gender equality

Kungsleden is contributing to gender equality by being a role model for Swedish businesses and continues to work proactively to ensure that women and men should be given equal opportunities within their work and careers.

GOAL 7: Affordable and clean energy

Kungsleden can, by adjustment of existing technology and investment in energy efficient assets, reduce energy usage in the properties. Kungsleden can purchase renewable energy for the property holdings to benefit the conversion of more renewable energy sources as well as contributing with its own locally produced energy.

- G4-20 Aspect boundary within the organisation**
G4-21 Aspect boundary outside the organisation

The aspects' impact of various stakeholders

Kungsleden's sustainability aspect	Internal	Clients	Contractors	Society	Owners
Energy	●	●		●	
Emissions	●	●	●	●	
Environmental impact of products and services		●			
Soil contamination and remediation	●			●	●
Labelling of products & services	●	●			
Anti-corruption	●	●	●	●	●
Contractor evaluation of working conditions			●		
Diversity and equal opportunities	●			●	
Skills development for employees	●	●		●	
Employees' health & safety	●				
Clients' health & safety	●	●			
Financial performance	●			●	●

The table shows where Kungsleden's material aspects have had a direct impact on various stakeholder groups.

- G4-22 The effect of any restatements of information provided in previous reports**
G4-23 Significant changes from previous reporting periods in the scope and aspect boundaries

See changes in the method for G43 CRE

STAKEHOLDER ENGAGEMENT

- G4-24 List of stakeholder groups**
G4-25 Basis for identification and selection of stakeholders with whom to engage
G4-26 The organisation's approach to stakeholder engagement
G4-27 Key topics and concerns that have been raised through stakeholder engagement

Stakeholder group	Forum for dialogue	Important issues
Owners, investors and analysts	<ul style="list-style-type: none"> Annual General Meeting Regular meetings On-going contacts Capital Market Day Annual Report 	<ul style="list-style-type: none"> Long-term stable business model, objectives and strategy Financing Growth Results Sustainability and corporate governance Information provided
Employees	<ul style="list-style-type: none"> Annual appraisals and salary negotiations - minimum once a year On-going Personnel conferences 	<ul style="list-style-type: none"> Opportunities for education and skills development Salary & benefits Work/life balance Diversity Structure and tools Health and safety Client service Business ethics
Society	<ul style="list-style-type: none"> Contacts with businesses and policy makers Website 	<ul style="list-style-type: none"> Long-term Energy and eco-efficiency Innovation Local community Availability and security Antiquarian and architectural values A vibrant society Diversity and jobs
Contractors	<ul style="list-style-type: none"> On-going contacts Procurement requirements according to Kungsleden's templates 	<ul style="list-style-type: none"> Long-term and stable partner Client service Energy consumption Business ethics Working environmental risks
Clients	<ul style="list-style-type: none"> On-going contacts 	<ul style="list-style-type: none"> Fit for purpose facilities Stable landlord Availability Business ethics Healthy and safe premises Cost-efficiency Energy consumption Waste management Emissions Client Service

REPORTING PROFILE

G4-28 Reporting period

G4-29 Date of most recent previous report

G4-30 Reporting cycle

Kungsleden's annual and sustainability report relates to the period 1 January to 31 December 2016. The business reporting is delivered annually. The latest sustainability report is published on www.kungsleden.se 23 March 2016.

G4-31 Contact point for questions regarding the report or its contents

Maria Sandell, Sustainability Manager
E-mail: maria.sandell@kungsleden.se
Phone: +46 8 503 052 00
Web: www.kungsleden.com

G4-32 GRI Content Index

G4-33 Assurance process

Kungsleden reports its sustainability work in accordance with the GRI's accounting option Core. A full GRI index is provided in the annual report for 2016, on pages 89-90. The annual report constitutes the complete sustainability statement for 2016. The statement is not certified by a third party.

G4-56 The organisation's values, principles, standards and norms of behavior

During 2016 comprehensive implementation work has been carried out focusing on Kungsleden's value basis; professionalism, consideration and joy. Workshops have been carried out with each unit concentrating on the description of what the value basis means for each position. Workshops have also been carried out with all the directors at Kungsleden regarding how the value basis should be adopted in the leadership roles at Kungsleden. During 2016 a new code of conduct was also adopted, (see further G4 SO4).

SPECIFIC STANDARD DISCLOSURES

ECONOMIC PERFORMANCE

G4-EC1 Direct economic value

All companies have a direct impact on the economy with taxes, payments to business partners as well as salaries, pensions and social security fees for the company's employees. Below diagram shows how Kungsleden's revenues during 2016 have been allocated for different stakeholder groups.

DISTRIBUTION OF KUNGSLEDEN'S REVENUES 2016, SEK M



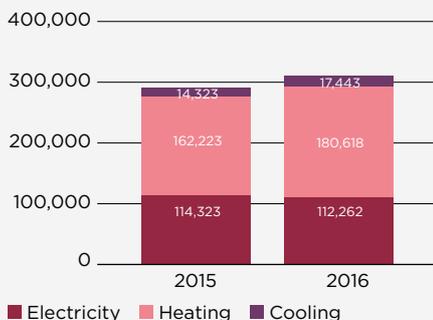
Directly created value amounted to SEK 3,268 million and retained financial value amounted to SEK 1,555 million during 2016.

ENERGY

G4-EN3 Energy consumption within the organisation

ENERGY CONSUMPTION

MWh



G4-EN6 Reduction of energy consumption

During 2016, we implemented 46 investments in energy projects that generated savings of 11.2 GWh at a cost of SEK 36.5 million. In addition Kungsleden at least twice a year adjusts all assets and the function of existing assets. Total energy projects and adjustment of existing assets.

G4-CRE1 Energy intensity buildings

G4-CRE3 Intensity green house emissions buildings

Purchased energy per sq.m:

155 kWh/sq.m

Emissions, per sq.m:

9,7 CO₂/sq.m

Reducing energy usage per square metre is partly attributable to changes in the calculation model, but also due to the energy efficiency of the properties and a changed property portfolio. With the climate adjusted figures, the energy usage has in comparable holdings decreased by 3 per cent during the period 2015-2016. The emissions per square metre have risen somewhat due to a cold winter and a hot summer in the regions where Kungsleden has properties, which results in an increased energy demand. It is also due to a changed energy mix from the district heating suppliers and a partially changed property portfolio.

EMISSIONS

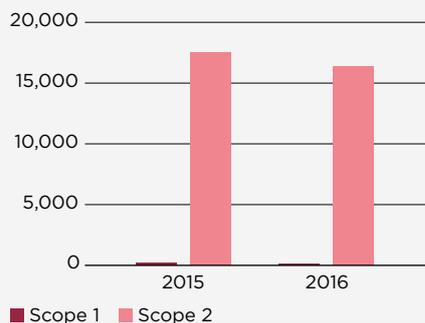
G4-EN15 Direct greenhouse gas emissions (Scope 1)

G4-EN16 Indirect greenhouse gas emissions (Scope 2)

Greenhouse gas emissions by scope (ton CO ₂ E)	2016	2015
Scope 1	129	226
Scope 2	16,383	17,517
Total	17,513	17,743

The table shows total greenhouse gas emissions, broken down by each Scope.

GREENHOUSE GAS EMISSIONS BY SCOPE (TON CO₂E)



Scope	Activity	Activity data	Conversion factor
Scope 1	Oil purchased by Kungsleden which should not be invoiced to the clients is based on a separate measurement or charge of the actual power consumption.	Internal gathering of statistics relating to purchased oil and system of invoicing.	Fuel oil: 0,268 tons of CO ₂ /MWh Source: Statistics Sweden, conversion of Statistics Sweden's energy statistics to carbon dioxide emissions, 29 May 2009 v.2.
Scope 1	Work related journeys with company cars and benefit cars.	Journeys with company cars are excluded from the metre readings and travel with benefit cars are based on a compensation per mile system.	Greenhouse gas emissions refers to the distance travelled and each vehicle manufacturer's data on emissions per kilometre. Source: Respective car manufacturer
Scope 2	Electricity purchased by Kungsleden and which should not be invoiced to the client is based on a separate measurement or charge for the actual power consumption.	Internal gathering of statistics relating to purchased electricity and system of invoicing.	Origin-labelled renewable electricity: 4 g CO ₂ /kWh Source: Dinel
Scope 2	District heating purchased by Kungsleden which should not be invoiced to the client is based on a separate measurement or charge for the actual power consumption.	Internal gathering of statistics relating to purchased district heating and system of invoicing.	Statistics from each suppliers of district heating.

LAND DEGRADATION, CONTAMINATION AND REMEDIATION

G4-CRE5 Land remediated and in need of remediation

During 2016, all owned properties were categorised based on the pollution situation in any of the following five categories.

- Category 1: Noted pollutions requiring treatment
- Category 2: MIFO class 1 and 2 or other motive for a required investigation. Possible knowledge of a pollution requiring control programmes
- Category 3: MIFO Class 3 or Class 4 or recorded pollutions that don't require any actions
- Category 4: Risk for pollution, but nothing recorded and no industry class
- Category 5: No known pollutions and no cause for suspicion

The assessment was based on documents in the public records as well as internal documentation and investigations. Kungsleden has no submission about remediation of contaminated soil. None of the properties in the portfolio is currently classified as category 1.

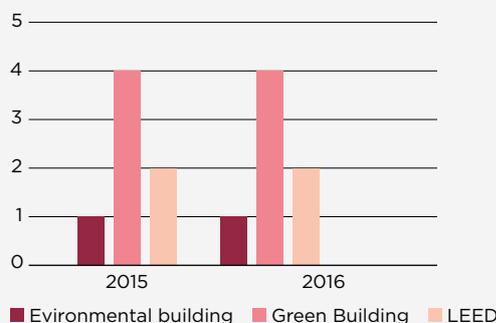
PRODUCT AND SERVICE LABELING

G4-CRE8 Environmental certifications in new construction, extensions and reconstructions

In recent years, Kungsleden has worked with various environmental classification systems depending on the conditions of each building. The portfolio currently has LEED rated buildings for both new construction and existing buildings as well as buildings certified according to the Environmental Rated building Silver and EU Green Building. In all major projects we assess the possibility of a LEED rating in connection with redevelopment/new construction. LEED is an international system which covers many aspects in the environmental area and has a strong reputation internationally.

10 per cent of the property portfolio has an environmental classification based on value.

NUMBER OF ENVIRONMENTAL CLASSIFIED PROPERTIES



CUSTOMER HEALTH AND SAFETY

G4-PR2 Number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their cycle, by type of outcomes.

No deviations in respect of laws, regulations or practices concerning clients' health and safety have taken place during 2016.

G4-PR5 Customer satisfaction

During 2016, a survey was carried out in which clients gave Kungsleden a rating of 62 concerning its care of the environment, which can be compared with the average rating for the property industry of 67. Compared with the previous year, Kungsleden has improved 3 points compared with the industry average which improved 1 point. During 2017, Kungsleden shall inform the industry more clearly about the environmental and sustainability work carried out both locally and for the company as a whole.

OCCUPATIONAL HEALTH AND SAFETY

G4-LA6 Accidents, occupational injuries and sick leave

	Standard working time (hours)	Long-term sickness absence (hours)	Total sickness absence (hours)	Total sickness absence/Standard working hours (%)
Total women	105,061	755	3,298	3.14
Total men	94,917	0	932	0.98
Total	199,978	755	4,230	2.12

G4-CRE6 Percentage of the organisation operating in verified compliance with an internationally recognized health and safety management system

Kungsleden adheres to the working environment law and thus has a safety representative in accordance with this.

TRAINING AND EDUCATION

G4-LA10 Programs for skills management

G4-LA11 Percentage of employees receiving regular performance and career development reviews

Kungsleden has an internal process for skills development with an associated digital support tool available for all employees. On the Intranet, an established HR-calendar is published, which gives clear details for all employees of what needs to be done at different times of the year. During 2016, 83 per cent of employees had appraisals. At termination of employments personalised support is offered.

DIVERSITY AND EQUAL OPPORTUNITY

G4-LA12 Composition of the Board of Directors and the Executive Management, and breakdown of employees per employee category

	2016	2015	2014
Board of Directors			
Number of women	4	4	4
- of which under 30 years	0	0	0
- of which 30-50 years	0	0	0
- of which over 50 years	4	4	4
Number of men	3	3	3
- of which under 30 years	0	0	0
- of which 30-50 years	0	0	1
- of which over 50 years	3	3	2
Group Management			
Number of women	5	5	5
- of which under 30 years	0	0	0
- of which 30-50 years	5	5	5
- of which over 50 years	0	0	0
Number of men	5	6	6
- of which under 30 years	0	0	0
- of which 30-50 years	2	2	2
- of which over 50 years	3	4	4
Other employees			
Number of women	51	49	46
- of which under 30 years	6	3	3
- of which 30-50 years	39	39	37
- of which over 50 years	6	7	6
Number of men	49	42	38
- of which under 30 years	5	3	2
- of which 30-50 years	28	23	20
- of which over 50 years	16	16	16
Total numbers	110	102	95

G4-HR3 Number of incidents of discrimination and corrective actions taken

No cases of discrimination were reported during the year.

ANTI-CORRUPTION

G4 SO3 Number and percentage of operations assessed for risks related to corruption and the significant risks identified

G4 SO4 Communication and training on anti-corruption policies and procedures

G4 SO5 Confirmed incidents of corruption and actions taken

During 2016 Kungsleden developed a new code of conduct for contractors, which broadly adheres to Fastighetsägarna's code of conduct. The code has been presented to more than 150 contractors during five contractor meetings in different cities in Sweden. The following was discussed at the contractor meetings, in addition to the code of conduct: Kungsleden basic values and guidelines for internal and external business networking, working environment plans, digital register of personnel at the construction sites, and order and safety regulations in Kungsleden places of work. Each supplier should sign the code of conduct before they are accepted as a contractor to Kungsleden.

In addition to the code of conduct for contractors during 2016 Kungsleden has adopted guidelines for internal and external business networking, guidelines for secondary occupations and the bias these might have on current roles as well as a new purchase policy. All employees have received information and have undergone training on the new guidelines. In connection with the introduction of these new guidelines, Kungsleden has established an ethical advisory group that handles issues and incidents about business ethical issues.

During 2016, Kungsleden has carried out a screening of corruption risks within the company. Interview results have been compiled and analysed and an action plan which includes the internal work around the values has been created. An external and internal code of conduct has been created following the work on values, to minimise the risk of unacceptable behaviour. With the clarification of the organisation's values and position made during 2016, a number of individual conduct cases, in contradiction to the company values, have been identified and handled in accordance with the code of conduct regulations.

The values work has also been specified further in a code of conduct for contractors and other internal guidelines for internal and external business networking.

SUSTAINABILITY KEY FIGURES ACCORDING TO EPRA

Kungsleden reports from 2016 in-depth key sustainability figures for the company on the basis of EPRA's (European Public Real Estate Association) sBPR (Best Practices Recommendations on Sustainability Reporting).

EPRA PERFORMANCE MEASURES

Kungsleden reports key sustainability figures for 15 of EPRA indicators; sBPR Performance Measures. Key figures are reported for energy, greenhouse gas emissions, water and waste, as well as the share of environmentally certified buildings set in accordance with the latest guidelines from the EPRA's sBPR.

EPRA OVERARCHING RECOMMENDATIONS

Organisational boundary

The definition of the reporting is related to properties where Kungsleden has control (operational control) in accordance with the principles in the Greenhouse Gas Protocol. Kungsleden has chosen this scale as it gives us the best conditions to report on and ensure statistics which Kungsleden can directly impact. Other properties where the client is responsible for agreements for the supply of energy, water and waste are not included. When the client is responsible for the agreements, Kungsleden does not own the measurement data and has therefore difficulty reporting the results.

Coverage

For the properties that Kungsleden owns and manages there is ongoing active work to get access to relevant measurement data.

Available measurement data is something we value because it creates the conditions for effective and good management of our properties.

Today Kungsleden has access to measurement data for large parts of the portfolio. The share of the properties included in the indicators are reported to each key figure. Kungsleden has not got access to measurement data for all properties. Measurement is mainly missing for waste as waste contractors cannot deliver the statistics to all properties. Kungsleden is continuously working to get access to all the relevant measurement data.

In total Kungsleden owned 269 assets at the end of 2016 and 291 assets at the end of 2015, excluding land.

Estimation of landlord-obtained utility consumption

All measurement data reported are measured and secured. No estimates have been made.

Third party assurance

Kungsleden's indicators reported according to EPRA is not controlled by a third party.

Boundaries - reporting on landlord and tenant consumption

Kungsleden reports the energy purchased by the landlord, Kungsleden. Kungsleden does not report the tenant's own electricity consumption mainly because we do not have access to this data. Kungsleden cannot directly affect the tenant's electricity consumption, which makes the statistics to some extent less relevant. See EPRA-table for reported data.

Normalisation

Kungsleden uses SMHI degree days for normalisation of energy for heating.

Analysis - Segmental analysis (by property type, geography)

Kungsleden reports the sustainability data in accordance with the building categories office and Industrial/Warehouse, Retail and Other.

Disclosure on Kungsleden offices

Kungsleden's own offices are included in the statistics but not reported separately.

Narrative of performance

The changes from 2015 to 2016 for sustainability key figures and the savings achieved is recognised in this index for 2016. No adjustments have been made of the data reported.

Location of EPRA Sustainability Performance in companies' reports

Reporting for sustainability key figures in accordance with EPRA sBPR is formulated in this index which is included in the annual report for 2016.

Reporting period

Reporting for sustainability key figures in accordance EPRA sBPR refers to the calendar year, i.e. 1 January to 31 December.

ADDITIONAL EPRA DATA

EPRA	Description	Unit	Property type Retail	Property type Industrial & Warehouse	Property type Office	Property type Other
Elec-Abs	Electricity absolute data	MWh	10,364	26,350	72,879	2,669
Elec-Lfl	Electricity, like-for-like	MWh	9,733	23,669	62,722	2,669
DH&C Abs	District heating and cooling, absolute data	MWh	13,100	60,043	119,468	5,029
DH&C Lfl	District heating and cooling, like-for-like	MWh	11,487	54,733	94,103	5,029
Fuels-Abs	Fuel absolute data	MWh	48	372		
Fuels-Lfl	Fuel, like-for-like	MWh	48	372		
Energy-Int	Energy intensity	KWh/sq.m	164	145	159	181
GHG Dir-Abs	Direct emissions absolute data	Ton of CO ₂	8	99		
GHG Dir-Abs	Indirect emissions absolute data	Ton of CO ₂	537	6,287	9,396	163
GHG-Dir-Lfl	Direct emissions, like-for-like	Ton of CO ₂	8	99		
GHG Dir-Abs	Indirect emissions, like-for-like	Ton of CO ₂	413	5,952	7,594	162
GHG Int	GHG intensity	KgCO ₂ /sq.m	4	11	8	4
Water-Abs	Water absolute data	m ³	55,514	128,714	417,657	16,646
Water-Lfl	Water, like-for-like	m ³	52,237	119,331	345,368	16,646
Water-Int	Water intensity	m ³ /sq.m	545	288	478	457

INVITATION TO ANNUAL GENERAL MEETING

The Annual General Meeting of Kungsleden AB (KLED:Stockholm) will be held on Tuesday 25 April 2017 at 2pm CET at Kungsleden's head office on Warfvings väg 31 Västra Kungsholmen in Stockholm.

REGISTRATION

Shareholders who wish to participate in the Annual General Meeting must be registered in their own name (vote right registered) in the share book of Euroclear Sweden AB on Wednesday 19 April 2017 and notify their participation not later than Wednesday 19 April 2017 at

www.kungsleden.se/agm2017

or to the company by mail:
Kungsleden AB
To: Sara Cederquist
Box 70414
107 25 Stockholm

The registration must include the shareholder's name, personal ID/CIN, address, daytime telephone number and any assistants who will attend.

If participation is through a representative or substitute power of attorney, proof of registration and other authorisation documents should be received by the company, in order to facilitate the registration at the Annual General Meeting, no later than Wednesday 19 April 2017. Please note that the power of attorney must be dated and submitted in its original form. Power of attorney documents are available for download on the company's website at www.kungsleden.se/agm2017.

Shareholders who have their shares registered with a trustee must, in order to participate in the Annual General Meeting, request to be temporarily entered in the share registry maintained by Euroclear Sweden AB in their own name. Such registration must be completed no later than Wednesday 19 April 2017, which means that the trustee must be notified well in advance of this date.

DISTRIBUTION OF THE ANNUAL REPORT

Kungsleden's annual report will be distributed in a printed version to all new directly registered shareholders and, thereafter, only to those shareholders who have specifically requested a report.

DIVIDEND

With the support of Kungsleden's dividend policy and against the background of the parent company and the financial position of the Group, the Board of Directors proposes a dividend of SEK 2.00 per share for the financial year 2016.

The proposed record date for the dividend is on Thursday 27 April 2017. If the Annual General Meeting approves the proposal, the dividend is expected to be paid by Euroclear Sweden AB Wednesday 3 May 2017.

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Calendar

Annual report
2016

28 March 2017

Interim Report
1 Jan–31 Mar 2017

25 April 2017

Interim Report
1 Jan–30 Sep 2017

25 October 2017

Annual General
Meeting 2017

25 April 2017

Interim Report
1 Jan–30 June 2017

12 July 2017

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(KLED:STOCKHOLM)
CIN NO 556545-1217
BASED IN STOCKHOLM

KUNGSLEDEN