

SUSTAINABILITY AT KUNGSLEDEN

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

OUR SUSTAINABILITY EFFORTS

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

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

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

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

STAKEHOLDERS AND DIALOGUE WITH STAKEHOLDERS

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



ENVIRONMENT

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

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

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

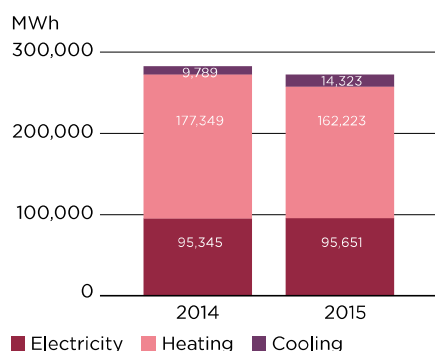
pumps and gas. The air heat pump on its own results in savings of 500 tonnes carbon per year.

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

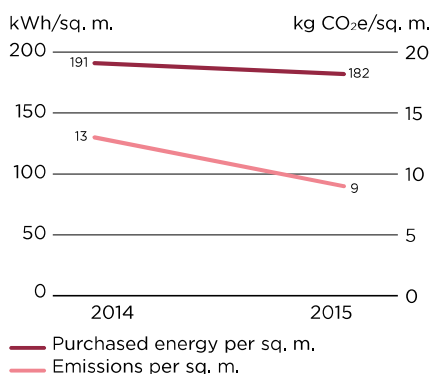
Solar cells were also installed as part of a large project at a property in Västra Frölunda. They generate 38,000 kWh per year.

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

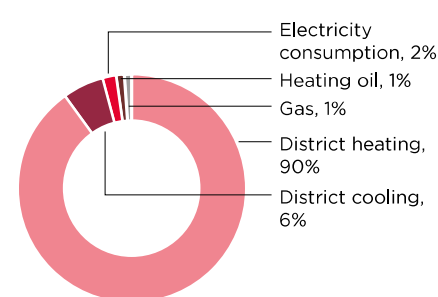
ENERGY CONSUMPTION



ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS PER SQ. M.



GREENHOUSE GAS EMISSIONS, 2015





DIVERSITY (AND EMPLOYEES)

We put a great deal of emphasis on gender equality and AllBright recognised us as one of Sweden's most gender-equal listed companies. To continue this positive trend, we have created an equality plan and we survey our salary levels every three years. Even though

we have a gender-equal organisation, we have efforts underway to create an even better balance in terms of age distribution and ethnic/cultural background. Some of the activities we have planned aimed at addressing these issues are further investments in our trainee program, participating in career fairs and more work on values, including an update of our recruitment policy.

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

SUMMARY OF THE COMPANY

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



SOCIAL RESPONSIBILITY

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

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

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

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

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



BUSINESS ETHICS

During the year, Kungsleden documented its corruption risks. Based on that information, we have determined that the main risks lie with external contacts and in our administration of large financial amounts.

The management, development and transaction units have been identified as risk areas.

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



HEALTH & SAFETY

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

roofs, anti-slip precautions, roof safety.

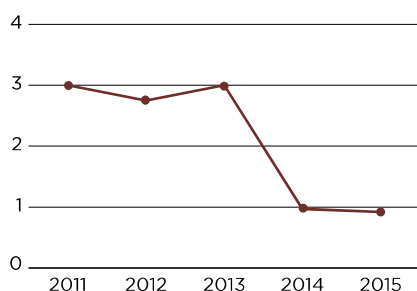
Kungsleden's absenteeism due to illness is low, which is something we are very proud of. We continually strive to lower it even further via a fitness subsidy of SEK 5,000 per employee, per year. We also have collaboration agreements in place with SATS and Nordic Wellness, which offer our employees low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

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

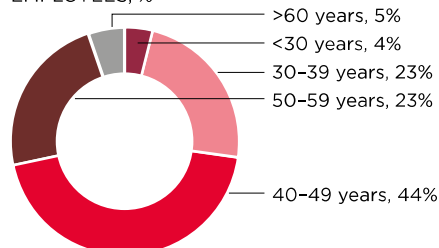
ated renovation efforts, where drying times in conjunction with a new flooring installation were not followed, resulting in a chemical reaction. The problem was immediately remedied and temporary premises were arranged for the tenant.



ABSENCE DUE TO ILLNESS, %

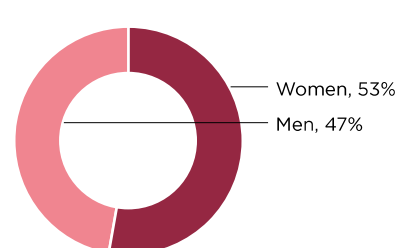


AGE DISTRIBUTION FOR SALARIED EMPLOYEES, %¹



1. Only includes permanent employees

GENDER DISTRIBUTION, %



Read more about our sustainability efforts at www.kungsleden.se/en/kungsleden/sustainability. You will also find our GRI report there.

KUNGSLEDEN'S SHARE

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

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

SHARE CAPITAL AND TURNOVER

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

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

SHAREHOLDERS

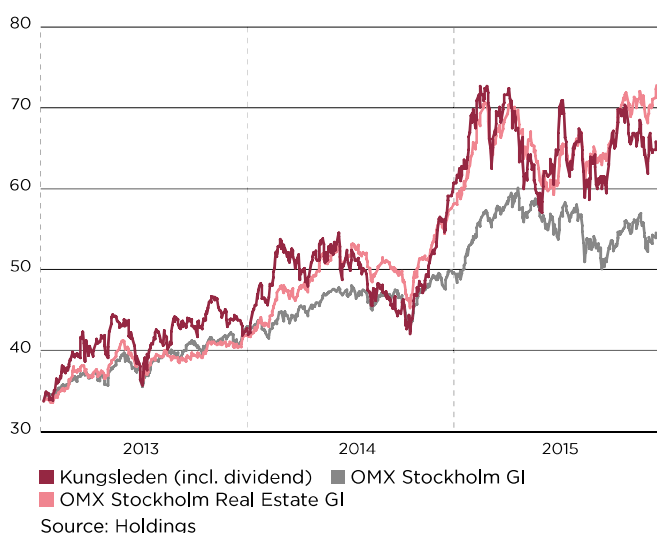
The number of shareholders at 31 December 2015 totalled 21,822 (18,663). The ten largest shareholders controlled 34.4 (34.3) per cent of equity and voting rights at year-end. The largest shareholder is Gösta Welandson and companies, whose holdings during the year increased to 13.7 (13.3) per cent.

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

DIVIDEND POLICY

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

TOTAL SHAREHOLDER RETURN 2013-2015, SEK

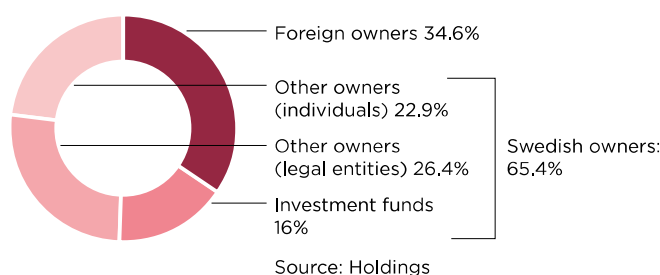


KEY FIGURES, PER SHARE

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

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

OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2015



OWNERS AS OF 31 DECEMBER 2015

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

FIVE REASONS TO OWN SHARES IN KUNGSLEDEN

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

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

FIVE REASONS TO OWN SHARES IN KUNGSLEDEN

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

"The market is now starting to take notice of the company's new position"

Gösta Carlberg, Analyst at Aktiespararen (journal)

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

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

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

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

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

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



NEW SUSTAINABILITY SOLUTIONS

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

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



Solar panels as sun screen

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

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



Älvsborg 178:8, Gothenburg

FINANCING THAT CREATES OPPORTUNITIES FOR EXPANSION

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

EQUITY

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

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

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

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

EQUITY AND FINANCIAL POSITION

