

**Profit guidance lowered due primarily to new events related to the Strædet project in Køge and the expected sale of a major plot of land in Bytom, Poland**

*Summary:*

- *TK Development has lowered its profit guidance for financial year 2018/19 by DKK 80 million from DKK 80-90 million before tax to DKK 0-10 million before tax.*
- *The value of the Strædet project in Køge has been written down by DKK 50 million. When completed, the project will have resulted in a loss for the Group of an estimated DKK 35 million.*
- *Increased risk on various property development projects, DKK 10 million.*
- *The anticipated acceleration of the sale of the Group's largest plot of land in Poland will give rise to an impairment loss of some DKK 20 million.*

The Management of TK Development has lowered the Group's profit guidance for financial year 2018/19 by DKK 80 million from DKK 80-90 million before tax to DKK 0-10 million before tax. The downgrade is due to extraordinary events related to the Strædet project in Køge, heightened risk on various projects and the expected sale of a major plot of land in Bytom, Poland.

**Property development activities**

**Strædet Køge**

The Strædet project in Køge has posed major challenges for the Group, and the recent DKK 50 million impairment loss takes the total loss on the project over the past three years to some DKK 35 million. As the project was originally expected to generate a profit of some DKK 115 million, the shortfall adds up to DKK 150 million.

In addition to the very unfortunate events related to the bankruptcy of a contractor in mid-2017, Management has come to realise that the size and location of the project combined with requirements as to its execution, the number of contractors involved and other factors have resulted in a degree of complexity which TK Development, as the owner, had underestimated. When Frede Clausen stepped down as CEO in spring 2018, TK Development announced that property development projects, including shopping centres, involving this degree of complexity were no longer part of the Group's strategy.

The project is more or less complete, and the retail and parking components, which constitute the main part of the project, were handed over to Citycon in December 2017. A minor part of the retail project, some 3,000 sqm, was handed over to Citycon in July 2018.

The above-mentioned bankruptcy in August 2017 of one of the contractors working on the main part of the project resulted in substantial additional costs to complete the project and make it fit for handover to the buyer. These additional costs, combined with the implications of settlement accounts received, the list of deficiencies, outstanding works, disputes and not least a reassessment of risk on the part of the Board of Directors and Management, are the main factors behind the impairment loss.

The recent DKK 50 million impairment loss was driven, among other things, by:

- A significant cost overrun in connection with project completion, partly attributable to miscalculations due to high project staff turnover.
- Considerable costs to remedy faulty construction, of which a part is reflected in the 2018/19 overrun.
- Conclusion of settlements and reassessment of risks relating to disputes with contractors.
- Downward adjustment of the purchase price payable by the project investor as a result of the letting of remaining premises at lower-than-expected rent levels in 2018.

Costs not yet incurred and provisions for disputes etc. are in excess of DKK 70 million.

While Management believes it has factored in all significant risks, the possibility of additional adjustments cannot be ruled out.

The Strædet project in Køge is part of the Group's property development business, and the guidance downgrade means that the property development activities will not meet Management's 2018/19 target of a return on equity of 15-20%. A new 2018/19 target will not be announced, and the target is reiterated for the coming years.

### **Discontinuing activities**

#### **Divestment of land in Poland**

TK Development has owned a major plot of land, totalling some 11 hectares, in Bytom, Poland, for many years. The plan was to develop the area for retail and logistics use. The Board of Directors wishes to expedite the divestment of the Group's discontinuing activities and has consequently investigated the possibility of accelerating the divestment by selling the land in an undeveloped state, thus avoiding several years of development.

The Group has now received a conditional offer for the total area, and Management has decided to proceed with the sale. A sale at the prices negotiated will entail an impairment loss of some DKK 20 million.

If the deal comes through, the Group's remaining activities in Poland will be as follows:

- Completion and sale of a residential project in Bielany, Warsaw. The construction and selling process is progressing according to plan and costs are to budget.
- A plot of land in Sosnowiec, owned by the Group for many years. Negotiations are ongoing with a prospective buyer.
- Ownership of Galeria Sandecja, a 17,500 sqm shopping centre in Nowy Sacz. The centre has been 99% let and currently yields an annual return of 7.5%. Attempts are being made to sell the centre.

In Q2 2018/19, the Group sold a plot of land in Poznan, which it had owned for many years and which was recognised at book value.

Overall, the divestment of the Polish activities is progressing satisfactorily, as is the sale of the Group's other discontinuing activities.

**Other information:**

As planned, TK Development will release its interim report for H1 2018/19 on 19 September 2018.

Søren Kempf Holm will take up the position as new CEO of TK Development on 1 October 2018.

**Contact details:**

Robert Andersen, Interim CEO  
Tel. +45 8896 1010