

Sound corporate governance is the foundation for a trusting relationship with shareholders and other key stakeholders. Sound corporate governance is the foundation for a company to be managed sustainably and responsibly – as well as efficiently and effectively. It requires compliance with legislation, rules and good practice, but also has to be tailored to Castellum's business operations.

Castellum AB's Chairman of the Board Charlotte Strömberg:

Sweden's leading real estate developer – creating sustainable value through responsible business practices

At Castellum, we hold – and take – far-reaching responsibility that extends beyond the Group's formal commitments as defined by laws and regulations. This is nothing new for us. Long before the concept of sustainability started to make the rounds, Castellum took ambitious initiatives and set tough targets for the Group's use of resources.

Real estate is one of the largest environmental polluters. Just to illustrate: real estate accounts for approx. 40 percent of the world's carbon emissions. The first targets were set as early as 1995, with the aim of prioritizing areas where Castellum could assume a strong leadership role and realize significant environmental benefits. Over time, these targets have been gradually refined and broadened. Everything that can be measured gets done.

Issues concerning the efficient use of resources and the reduction of Castellum's ecological footprint are vibrant topics in Castellum's board room. We regularly monitor achievements in relation to set targets. The current target period extends through 2017. Most of the objectives have already been achieved. For example, Castellum's energy consumption in 2016 per sq. m. was 43 percent lower than the industry average (target: at least 50% lower by 2017) and carbon dioxide emissions have been reduced by 71 percent since 2007 (target: 70% by 2017). For more information, please see pages 44–45.

However, we must never become complacent, so we're already outlining how to raise the bar for the next target period. It's one of the areas that Castellum's executive management and Board will pay special attention to during the year.

By involving our tenants as well as their employees – for example, through green leases – and by putting pressure on district heating producers, municipalities and other public bodies, we are accelerating the pace towards an ecologically sustainable society.

Smart solutions come in all sizes. Ingrained behaviour can be changed and has to be changed. By extending invitations and inspiring innovation through new technologies – particularly digital – we can utilize our size as leverage and quickly implement smart solutions across 4.3 million sq. m. of business space. That's equivalent to 860 football pitches, spread across Sweden's and Denmark's main growth areas.



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Our position as one of Sweden's largest real estate owners and developers – as measured by investments in new construction, extensions and reconstructions – gives us a unique opportunity to create public good.

The aspects which currently fall within the concept of sustainability – to conduct business in a responsible manner and create long-term solutions from economic, ecological and social perspectives – are deeply rooted in Castellum's DNA. Each year we broaden the scope by making conscious choices.

Over time, sustainability has become a fully integrated part of Castellum operations. This is reflected in the complex web of activities and relationships that constitutes Castellum's universe, both in dealings with the outside world and in internal operations. We want to be in the forefront and contribute as much as possible to the UN's global sustainability goals for 2030.

We're utterly convinced that this approach is the basis for a sustainable value creation for our shareholders and a shortcut to our financial target, and thereby to a favourable and solid total yield, over time.

This is our motive – and it's good enough for us.

Winning prizes has never been our goal. However, we are of course happy and proud of the rain of coveted awards received in 2016, honouring Castellum's sustainability efforts. A “ketchup effect” after decades of diligent everyday efforts and an acknowledgement of persistent and purposeful strategic decisions.

A critical issue for Castellum's Board and Executive Management is therefore to aspire to a high business tempo where change is seen as an opportunity. The Board's role is to set requirements but also to support Executive Management in the transformation.

The inclusion of the Castellum share in the Dow Jones Sustainability Index is of particular importance from a capital market perspective and enables us to reach an even larger and more demanding investor universe. This, as the only Swedish company in the construction and real estate business and in the good company of six other Swedish prestigious Large Caps.

Courage and patience

On several occasions I've dwelt upon the real estate industry being characterized by sluggishness – for better and for worse. Leases are often long-term, contributing to a limited risk level in a well-composed portfolio. Such extended lock-ins require long-term planning and visionary thinking to bring about major changes. The preferences of our customers – as well as their own employees and customers – change faster and faster. The transformation of society to new patterns of behaviour creates opportunities for new thinking and strengthens Castellum's competitiveness compared with other players. Castellum's size and interface towards all groups in the communities in which we operate create a unique opportunity for providing our partners with interesting and relevant venues – a condition for creativity and growth.

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Our goal is to move even more decisive power closer to customers, while simultaneously realizing economies of scale and building specialist expertise. During the year, parallel with the concentration to a few regions, we increased the empowerment of our 20-or-so business locations. Here – closest to customers – is where we want to strengthen business power. By allocating certain corporate functions, we'll develop sharp purchaser and specialist competencies. This is crucial from an owner-and-Board perspective. We have to economize with shareholder equity – for example, by using our collective purchasing power optimally – but also by delivering the desired yield that matches a conscious risk level. As Castellum becomes more of a development company, we're planning investments of approximately SEK 10 billion over a three-year period. A highly specialized project organization is required.

Sluggishness of the rental market is matched by sluggishness in the transaction market. To achieve a significant change in the real estate portfolio valued at SEK 10 billion three years ago, a bigger reach than the previous model – many, smaller-sized transactions – was required. We'd already noted that in order to future-proof the portfolio and deliver on promised growth, we'd have to leave

approx. SEK 5 billion to other owners. Parallel to this, a transformation through project development and acquisitions was essential to ensuring sustainable growth and avoiding increased risks in the form of obsolete locations and products.

Even back when Henrik Saxborn took over as CEO, we agreed to reconnoitre and scout for business opportunities beyond the ordinary. We called it "leap business": to move beyond the limitation of the mind and agree that we were willing and prepared to make a significant transformation in one leap. And that we would have the courage to act if the opportunity arose.

To give a face to the concept of patience, let me tell you that Castellum took a first initiative – almost three years to the day – prior to the acquisition date for Norrporten. At no point did we ever feel confident of reaching a conclusion. During those years, however, we did not stand still; we transferred the real estate portfolio through transactions and projects with a gross value of SEK 9 billion. At the same time, we established financial preparedness. Business decisions of this kind – whether large or many smaller – have come to represent an increasingly larger portion of the Board's agenda and demands on Board members.

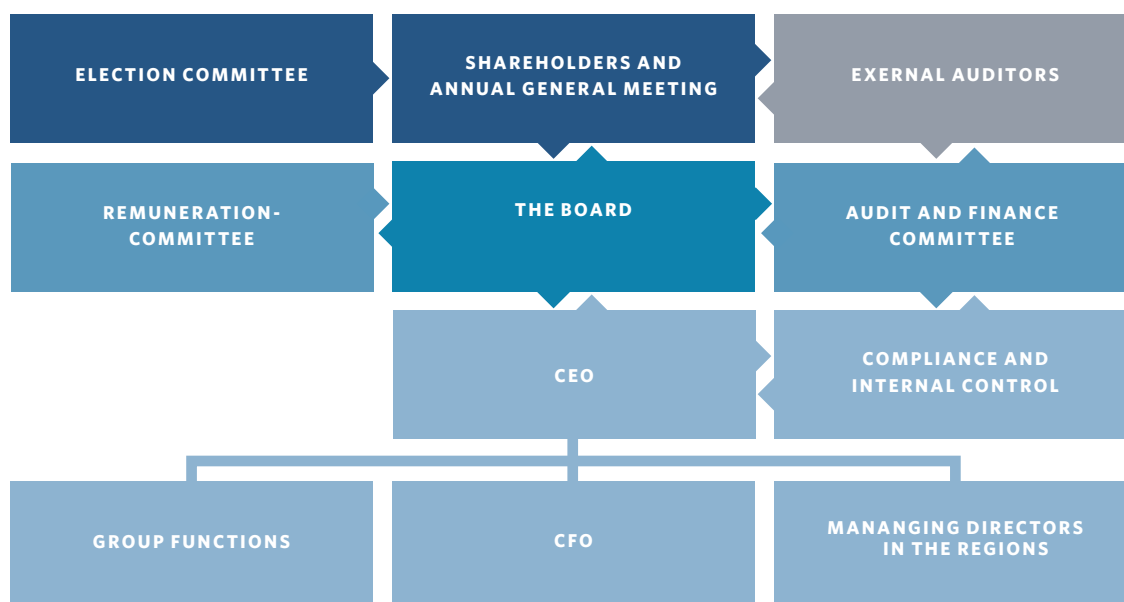
It's particularly encouraging that a growing share of recent net investment consists of our own projects. Our belief is that being able to deliver returns and growth at a reasonable risk is based on a strong entrepreneurial culture where business noses create projects and new combinations – thereby adding to the strong, more manage-and-maintain profile that has long been Castellum's hallmark.

My Board colleagues and I would like to take this opportunity to thank the owners for their confidence and willingness in contributing to a significant new issue – relative to Castellum equity – thereby facilitating the acquisition of Norrporten. As shareholders, we note for 2016 that the Castellum share delivered a total share yield of 23.8 percent, compared with 9.6 percent – relative to the corresponding index on Stockholm Nasdaq – and 7.2 percent for the Sweden Annual Property Index, respectively. The Board and Executive Management look forward to continuing on this agile and exciting track and building shareholder value over time.

Stockholm January 2017

Charlotte Strömberg
Chairman of the Board

Overall structure for Corporate Governance



Swedish Code for Corporate Governance

Corporate governance covers the various means of decision making by which the shareholders – directly and indirectly – control the company. Corporate governance has evolved through laws, recommendations and statements, the Code (Swedish Code for Corporate Governance) and through self-regulation. It is based upon the comply-or-explain principle, meaning that all rules do not always have to be followed and there is no crime in deviating from one or more particular rules of the Code if there are motives and explanations. The Swedish Code for Corporate Governance (the Code) is conducted by the Swedish Corporate Governance Board and is found at www.bolagsstyrning.se, where the Swedish model for corporate governance is also described.

The model above describes the overall structure of corporate governance at Castellum AB (publ).

Observance of the Code

Castellum applies the Code with the purpose of creating favourable preconditions for taking on the role of active and responsible ownership. It is crucial that the company acts responsibly to fulfil strategies and create long-term value.

According to Board appraisal, Castellum has followed the Code in all respects during 2016 and has no deviation to report.

Shareholders and Annual General Meeting

Castellum AB (publ) is a Swedish public company governed by the Swedish Companies Act, the Nasdaq Stockholm rules for issuers, the Swedish Code of Corporate Governance and the articles of association.

The Castellum share is listed on the Nasdaq Stockholm Large Cap. At year-end 2016, Castellum had approx. 30,000 shareholders. Of the total share capital, 49% was owned primarily by Swedish institutions, funds and private persons and 51% was owned by foreign investors. Castellum has no directly registered shareholder with holdings exceeding 10%.

As part of the acquisition of Norrporten, Castellum completed a rights issue as well as directed share issue.

The rights issue of 82,000,000 new shares, which ended in June, meant that Castellum raised approximately SEK 6.3 billion before deduction of issue costs of about SEKm 123 (SEKm 95 net after deduction of deferred tax). In addition, a total of 27,201,166 Castellum shares constituted part of the consideration for the Norrporten shares, corresponding to a value of SEKm 3,075 at the time of access. Relying on the share-issue authorization from the Extraordinary General Meeting on 20 May 2016, the Castellum Board decided on a directed share issue to the Second and Sixth Swedish National Pension Funds totalling 19,194,458 consideration shares. Pursuant to the authorization from the AGM on 17 March 2016, the Castellum Board also decided to transfer all previously repurchased shares, representing 8,006,708 shares. Castellum's repurchased shares were acquired in year 2000 for a total purchase price of SEKm 194.

After the rights and directed share issues, the number of outstanding Castellum shares totals 273,201,166.

The share capital amounts to SEK 136,600,538 distributed among 273,201,166 shares with a par

MAJOR EXTERNAL REGULATIONS

- Swedish Companies Act
- Rules for issuers at Nasdaq Stockholm
- Swedish Code of Corporate Governance
- IFRS standards
- EU's accounting regulation
- Global Compact

IMPORTANT INTERNAL REGULATIONS

- Articles of Association
- Board of Directors' rules of procedures
- Resolutions procedure
- Policy regarding the composition of Board, signers for the company, authorization
- Rules of procedure in the subsidiary boards
- Policies for communication, finance, insider, sustainability, Code of Conduct and Crisis Management.
- Manuals and guidelines for important parts of the business
- Processes for internal control and risk management

ARTICLES OF ASSOCIATION

The name of the company is Castellum Aktiebolag and the company is a public limited company. The registered office of the Board is in Gothenburg.

The objective of the company's activities is to acquire, administer, develop and sell real estate and securities – directly or indirectly – through wholly or partially owned companies – and to carry out other activities compatible with these. Changes in Castellum's articles of association are made in accordance with the regulations in the Companies Act. The articles of association, which also include information on share capital, number of Board members and auditors as well as rules for summons and agenda for the Annual General Meeting are available as a whole on the company's website.

ANNUAL GENERAL MEETING 2017

For the AGM on March 23, 2017 the Board of Directors proposes:

- a dividend of SEK 5.00 per share, distributed to the shareholders in two equal payments of SEK 2.50 per share. The first record day for distribution is proposed to be March 27, 2017, and the second record day for distribution is proposed to be September 25, 2017.

The election committee proposes for the AGM;

- re-election of the present Board members Mrs. Charlotte Strömberg, Mr. Per Berggren, Mrs. Anna-Karin Hatt, Mr. Christer Jacobson, Mrs. Christina Karlsson Kazeem, Mrs. Nina Linander and Mr. Johan Skoglund, as members of the Board of Directors. Mrs. Charlotte Strömberg is proposed to be re-elected as Chairman of the Board of Directors.
- that remuneration to the Board of Directors is proposed to be the following.
 - The Chairman of the Board of Directors: SEK 825,000,
 - to each of the other members of the Board of Directors: SEK 350,000,
 - member of the Remuneration Committee, including the Chairman: SEK 30,000,
 - Chairman of the Audit and Finance Committee: SEK 100,000,
 - to each of the other members of the Board of Directors' Audit and Finance Committee: SEK 50,000.

The proposed total remuneration to the members of the Board of Directors, including remuneration for committee work, accordingly amounts to SEK 3,215,000.

- electing Deloitte as auditor. Deloitte has announced that the current authorised auditor in the company, Hans Warén, will be the main responsible auditor at Deloitte,
- for AGM to decide on appointing a new Election Committee for the AGM 2018 and for the Chairman of the Board of Directors to contact the three largest ownership registered or otherwise known shareholders as per the last share trading day in August 2017 and invite them each to appoint one member, and that the three members appointed constitute, together with the Chairman of the Board of Directors, the Election Committee. The Election Committee appoints a Chairman amongst its members.

value of SEK 0.50. Each share, entitles the holder to one vote and carries an equal right to a share in Castellum's capital. There are no warrants, convertible bonds or similar securities which may lead to additional shares in the company.

Annual General Meeting

The AGM is Castellum's supreme decision-making body, where shareholders have the right to make decisions about the Group's affairs.

The AGM is held in Gothenburg during the first half-year after the end of the financial year. The Annual General Meeting elects the Board of Directors and the company's auditors as well as making decisions on changes in the articles of association and on changes in the share capital.

Participation in decision-making requires the shareholder's presence at the meeting, either personally or through a proxy. In addition, the shareholder must be registered in the share register by a stipulated date prior to the meeting and has to provide notice of participation in the manner prescribed. Individual shareholders requesting that a specific issue be included in the agenda of a shareholders' meeting can normally request the Castellum Board to do so well in advance of the meeting, via an address provided on the Group's website.

Decisions at the meeting are usually taken on the basis of a simple majority. However, regarding certain issues, the Swedish Companies Act stipulates that proposals must be approved by shareholders representing a larger proportion of the votes of the shares represented and votes cast at the AGM.

Annual General Meeting 2016

The latest AGM was held on March 17, 2016 in RunAn, Chalmers Kårhus, Chalmersplatsen 1, Göteborg. At the AGM, 523 shareholders were represented, representing 43.6% of the total number of shares and 45.7% of the votes. All members of the board and the company's auditors and the deputy auditor were present at the AGM.

The AGM adopted the financial reports for 2015 and discharged the board of directors and the chief executive officer from liability regarding operations for 2015.

On the AGM on March 17, 2016 was decided;

- a dividend of SEK 4.25* per share for the fiscal year 2015,
- that remuneration to the members of the Board of Directors shall be SEK 2,820,000, of which SEK 720,000 should be allocated to the Chairman of the board of directors and SEK 315,000 to each other members of the Board. Remuneration for work in the Remuneration Committee should be SEK 30,000 to each member, Chairman included. Remuneration to the chairman of the Audit and Finance Committee shall be

SEK 50,000 and SEK 35,000 to the members,

- re-election of present Board members Charlotte Strömberg, Per Berggren, Anna-Karin Hatt, Christer Jacobson, Nina Linander and Johan Skoglund. Christina Karlsson Kazeem was elected as new member of the board. Charlotte Strömberg was re-elected as Chairman of the Board of Directors,
- to approve the Board's proposed guidelines for remuneration to members of the executive management,
- a renewed incentive program for Executive Management,
- to authorize the Board in order to adjust the company's capital structure and be able to transfer company-owned shares as a payment or financing of real property investments to resolve on the acquisition and transfer of company-owned shares.

Minutes of the annual general meeting held on March 17, 2016 are available on the company's web site.

Extraordinary General Meeting 2016

An extraordinary general meeting was held on May 20, 2016 in RunAn, Chalmers Kårhus, Chalmersplatsen 1, Gothenburg, to carry out a new issue of shares with preferential rights.

At the extraordinary general meeting, 390 shareholders were represented, representing 47.6% of shares and 50.0% of the votes.

On the extraordinary general meeting on May 20, 2016, was decided;

- resolved to approve the Board of Director's resolution to carry out new issue of shares,
- to authorise the Board of Directors to resolve new issues of shares whereby payment for the subscribed shares shall be made by contribution of shares in Norrporten AB.

Minutes of the extraordinary general meeting held on May 20, 2016 are available on the company's web site.

Election Committee

The 2016 Annual General Meeting decided that an Election Committee should be appointed for the 2017 AGM in order to present: proposals for the number of members of the Board of Directors; election of members of the Board of Directors, including Chairman; remuneration to members of the Board of Directors; as well as a model for appointing a new Election Committee for the 2018 AGM.

The Election Committee's proposals are publicly announced no later than on the date of notification of the AGM. Shareholders may contact the Election Committee with proposals for nomination.

*) The number of historical shares that have been recalculated with reference to the bonus-issue element (i.e. the value of the subscription right) in the completed new share issue, and utilized in all ratio calculations for SEK-per-share.

The Election Committee is appointed according to the AGM's decision that the Election Committee should be established by the Chairman of the Board of Directors, who will contact the three largest registered owners, or otherwise known shareholders as per the last share trading day in August and invite them each to appoint one member. The three appointed members, along with the Chairman of the Board of Directors, constitute the Election Committee. The Election Committee appoints a chairman from among its members.

The Election Committee for the 2017 AGM consists of Martin Johansson, representing Andra AP-fonden, Johan Strandberg, representing SEB Fonder, Rutger van der Lubbe, representing Stichting Pensioenfonds ABP; and Charlotte Strömberg, Chairman of the Board of Directors of Castellum. Johan Strandberg is Chairman of the Election Committee.

Election Committee AGM 2017

Representative	Representing	Share of votes August 31, 2016
Martin Jonasson	Andra AP-fonden	approx 5.6%
Johan Strandberg	SEB Fonder	approx 5.4%
Rutger van der Lubbe	Stichting Pensioenfonds ABP	approx 5.1%
Charlotte Strömberg	Chairman of the board in Castellum AB (publ)	

All members of the Election Committee have carefully considered and concluded that there is no conflict of interest to accept the assignment as member of the Election Committee of Castellum. Four recorded meetings have been held by the Election Committee. In addition, the Election Committee has had contact via telephone and email. The Election Committee has received a presentation from the Chairman of the Board concerning the results of the evaluation of the Board of Directors, and has thereto conducted interviews with all members of the Board of Directors. The Election Committee has further taken note of the Audit and Finance Committees' recommendation to the Board of Directors regarding election of auditor.

The Election Committee has considered all tasks stated in the Swedish Corporate Governance Code under the responsibility of the Election Committee. The Election Committee has discussed and considered, inter alia,

- to what extent the current Board of Directors fulfills the requirements that will be imposed on the Board of Directors as a result of Castellum's business and development phase,
- the size of the Board of Directors,
- the different areas of competence that are and should be represented on the Board of Directors,
- the composition of the Board of Directors with respect to experience, gender and background,
- remuneration to the members of the Board of Directors,

- questions relating to election of auditor and the auditor's fee,
- the procedure for establishing a new Election Committee for the Annual General Meeting to be held in 2018.

The Election Committee has considered that the gender balance shall be maintained in the Board of Directors and that the Board shall be characterised by diversity and breadth regarding competence, experience and background. The Election Committee has applied rule 4.1 in the Swedish Corporate Governance Code as diversity policy when preparing the proposal regarding election of members of the Board of Directors.

Finally, the Election Committee has, in order for the company to fulfill its information obligation to the shareholders, informed the company on how the Election Committee has performed its tasks and on the proposals that the Election Committee presents.

The Election Committee considers that the members of the Board of Directors of Castellum are competent and have extensive experience regarding real property matters in a broad sense, sustainability matters, infrastructure matters and city planning, capital market matters and financing matters, customer service and changed customer behaviors, trend analysis, digital conversion, insight in transformation trends at both private and public players, communication and marketing and regarding board work in general. Therefore, the Election Committee considers that the current Board members together constitute a Board of Directors, which has the versatility and competence, experience and background required with respect to Castellum's business, development phase and other circumstances. The Election Committee's proposal implies that four out of seven Board members of the company will be women. Considered the above, the Election Committee proposes that all current members of the Board of Directors are re-elected.

External auditors

The external auditors are appointed by the AGM and responsible to the shareholders at the AGM. They are independent reviewers of Castellum's accounting and corporate governance report and also review the Board and the CEO.

Remuneration to auditors

thousand SEK	2016	2015	2014
Audit assignment	1,820	2,003	1,908
Audit business in addition to the audit assignment	1,781	365	68
Tax consulting	-	-	76
Other consulting	65	106	232
Total	3,666	2,474	2,284
of which Deloitte	3,516	2,324	2,134
of which KPMG	-	-	-
of which EY	150	150	150

CASTELLUM'S AUDITORS



HANS WARÉN

Born 1964
Company's auditor
since 2014



MAGNUS FREDMER

Born 1964
Company's auditor
since 2011



FREDRIK WALMÉUS

Born 1971
Company's deputy
auditor since 2014

THE BOARD

The board consists of 7 members

REMUNERATION COMMITTEE

Remuneration Committee consists of three members. Chairman Charlotte Strömberg, Per Berggren and Anna-Karin Hatt.

Main tasks of the Remuneration Committee:

- Guidelines for remuneration principles
- Remuneration to the Executive Management
- Incentive program
- Evaluation of the CEO

AUDIT AND FINANCE COMMITTEE

Audit and Finance Committee consists of three members. Chairman Nina Linander and the members Charlotte Strömberg and Johan Skoglund.

Main tasks of the Audit and Finance Committee:

- Financial reporting
- Financing and capital structure
- Risk management and compliance
- The observance of regulations
- Audit
- Policies
- Specialization in business related areas
- Internal control

Castellum's auditors are elected by the AGM for a period of three years. The present period began in 2014, and the next election will therefore take place at the AGM in 2017. The company's auditors are Hans Warén, who works at Deloitte; Magnus Fredmer, who works at EY; and deputy auditor Fredrik Walméus, who works at Deloitte. All are certified public accountants.

The Board

The shareholders appoint the Board at each Annual General Meeting. The Board has the overall responsibility for Castellum's strategy and organization and manages Castellum's affairs on behalf of the shareholders. According to the articles of association, Castellum's Board will consist of no less than four and no more than eight members. Board members are elected at the AGM and will hold office from their appointment until the conclusion of the first AGM following their appointment.

For 2016, the Board was made up of seven regular members. The Board works according to a set of procedural rules containing instructions on the allocation of work between the Board and the CEO. No Board member is entitled to remuneration upon leaving the assignment.

New Board members receive an introduction of the company and its operations and take the stock exchange's training program according to agreement with the stock exchange. The Board receives regular information of regulatory changes and issues concerning the operations and board responsibilities for a listed company.

For Board decisions, the rules of the Companies Act apply, stating that at least half of the Board members present and more than one third of the total number of Board members must vote in order for a decision to be made. On equal count the Chairman has the deciding vote.

The Board's work is governed by the Swedish Companies Act, the Code and the Board's rules of procedure.

Board of Directors - responsibility

According to the Swedish Companies Act and the Board of Directors rules of procedure, the Board is responsible for:

- outlining overall, long-term strategies and objectives, budgets and business plans,
- establishing guidelines to ensure that the company's operations create value in the long term,
- reviewing and establishing the accounts,
- examining the auditors' conclusions of the audit, the audit report and the way in which the audit contributed to the reliability of the financial reporting, as well as examining the auditors' review of the half-year report,
- making decisions on issues regarding investments and sales,
- capital structure and distribution policy,
- developing the Group's policies,
- ensuring that control systems exist for monitoring that policies and guidelines are observed,
- ensuring that there are systems for monitoring and controlling the company's operations and risks,
- significant changes in Castellum's organization and operations,
- appointing the company's Chief Executive

THE BOARD'S YEAR

Issues, in addition to current state of operations, prospects, investments, sales, financing, reports from committee chairmen about the committee work as well as working environment questions, customer-related questions and reporting of incidents.

THE BOARD'S YEAR											
Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
<div> <div> Board Meeting <ul style="list-style-type: none"> • Net income for the year • Annual Report incl. Sustainability Report • Documents for AGM • Proposed distribution of profits • Review of the auditors conclusion of the audit • Individual meeting auditors </div> <div> Board Meeting <ul style="list-style-type: none"> • Preparations for the AGM Board Meeting following election <ul style="list-style-type: none"> • Signatory appointed • Composition of the committees is decided </div> <div> Board Meeting <ul style="list-style-type: none"> • Interim Report (Q1) • Decision logg • Monitoring investments and rental plans • Rules of procedure and review policy documents </div> <div> Board Meeting <ul style="list-style-type: none"> • Strategy • Review financial and operational risks in the business Board Meeting <ul style="list-style-type: none"> • Interim Report (Q2) • Review of the auditors audit of the half-year report </div> <div> Board Meeting <ul style="list-style-type: none"> • Interim Report (Q3) • Decision logg • Insurance review • Monitoring investments and rental plans </div> <div> Board Meeting <ul style="list-style-type: none"> • Business plans • Evaluation of the Board and CEO • Visit regions </div> </div>											
<div> <div> Audit and Finance Committee <ul style="list-style-type: none"> • Financial position • Discussion with the auditors about financial statement • Audit plan • Incident reporting Whistle-blower • Review disputes • Evaluation of the committees work </div> <div> Annual General Meeting Audit and Finance Committee <ul style="list-style-type: none"> • Financial position • Risk management • Internal control • Incident reporting Whistle-blower • Evaluation of the audit work • Review and evaluation of strategic objectives • Procurement of audit (if applicable) </div> <div> Remuneration Committee <ul style="list-style-type: none"> • Review of incentive program • Review of remuneration principles for executive management </div> <div> Audit and Finance Committee <ul style="list-style-type: none"> • Financial position • Review financial reporting process • Review compliance of policies • Incident reporting Whistle-blower Remuneration Committee <ul style="list-style-type: none"> • Guidelines remuneration principles • Preparing outcome incitament • Preparing evaluation CEO </div> <div> Audit and Finance Committee <ul style="list-style-type: none"> • Financial position • Review financial rapportering • Incident reporting Whistle-blower • Review changed regulations • Discussions with the auditors about the interim report and internal control • Recommendation election of auditorw to the election committee (if applicable) </div> </div>											

Board of Directors



CHARLOTTE STRÖMBERG
CHAIRMAN OF THE BOARD SINCE 2012

Born 1959, Master of Business administration and Economics, Stockholm School of Economics.

Chairman of the Board in Castellum, Chairman of the Remuneration Committee and member of the Audit and Finance Committee

Previous positions: CEO for the nordic business at Jones Lang LaSalle, leading positions in investment banking at Carnegie Investment Bank and Alfred Berg (ABN AMRO).

Board assignments: Member of Swedish Securities Council and Director in Bonnier Holding AB, Ratos AB (publ), Rezidor Hotel Group AB (publ) and Skanska AB (publ).

Shareholding in Castellum: 15,000



PER BERGGREN
BOARD MEMBER SINCE 2007

Born 1959, Master of Science KTH and economic education from Stockholm University.

Board member in Castellum, member of the Remuneration Committee.

Previous positions: CEO in Hemsö, CEO of Jernhusen AB, division manager in Fabege AB (publ), CEO of Drott Kontor AB and property manager in Skanska Fastigheter Stockholm AB.

Board assignments: Board member in BRIS, Slättö Förvaltning AB and SSM Holding AB.

Shareholding in Castellum: 4,500



ANNA-KARIN HATT
BOARD MEMBER SINCE 2015

Born 1972, degree in political science from the University of Gothenburg. CEO in Almega AB.

Board member in Castellum, member of the Remuneration Committee.

Previous positions: Minister for Information Technology and Energy in the Swedish government, State Secretary at the Prime Minister's office, second deputy Chairman of the Centre Part and Chief of Staff of the Centre Party's executive staff, MD for Didaktus Skolor AB and deputy MD of Kind & Partners AB.

Other assignments: Chairman in Almega AB, TRR Trygghetsrådet, Trygghetsfonden TSL and research institute Ratio and member in Advisory Council for Swedish higher education authority.

Shareholdings: 1,308



CHRISTER JACOBSON
BOARD MEMBER SINCE 2006

Born 1946, Master of Business Administration and Economics DHS. Own operations in Bergsrådet Kapital AB. Board member in Castellum.

Previous positions: Stock commentator and market manager at Affärsvärlden and Head of Analysis and CEO of the Alfred Berg group.

Other assignments: Director in Global Challenges Foundation and Viscogel AB

Shareholdings: 70,429



CHRISTINA KARLSSON KAZEEM
BOARD MEMBER SINCE 2016

Born 1965, Master of Science KTH. CEO in Hilanders AB, which is part of the Intellecta AB (publ) communication group.

Board member in Castellum since 2016.

Previous positions: Market communication manager at Niscayah Group and leading positions in Razorfish AB and Creuna AB. Worked with city planning and development at the Traffic and Public Transport Authority and Property Management Administration at the City of Stockholm.

Other assignments: Chairman of the Board of Tomorrow China which are part of the communication group Intellecta AB (publ).

Shareholdings: 200



NINA LINANDER
BOARD MEMBER SINCE 2014

Född 1959, MBA Stockholm School of Economics and MBA from IMD, Lausanne, Schweiz.

Board member in Castellum, Chairman of the Audit and Finance Committee

Previous positions: Founder and partner in Stanton Chase International AB, manager Group Finance at AB Electrolux (publ), leading positions in Vattenfall AB and different positions in corporate finance at different investment banks in London.

Other assignments: Director in Awa Holding AB, Industrivärden AB (publ), Skanska AB (publ), Telia Company AB (publ) and OneMed AB.

Shareholdings: 12,000



JOHAN SKOGLUND
BOARD MEMBER SINCE 2010

Born 1962, Master of Science KTH and the program of Master of Science Handelshögskolan, Stockholm. CEO JM AB (publ).

Board member in Castellum, member of the Audit and Finance Committee.

Previous positions: Has experience since 1986 from JM AB (publ) in different positions.

Other assignments: Director in Mentor Sverige and Infranord AB.

Shareholdings: 5,000

Johan Ljungberg, lawyer at Mannheimer and Swartling, is the Secretary of the Board.

The information above refers to the situation at the end of January 2017. Shareholdings include Member's own holdings and those of spouse, minors or children living at home and associated companies and holdings through capital assurance.

Board of Directors	Remunerations, thousand SEK	Board meetings	Attendance meetings		
			Remuneration Committee	Audit and Finance Committee	Independent
Charlotte Strömberg	785	19 of 19	3 of 3	4 of 4	Yes
Per Berggren	345	18 of 19	3 of 3		Yes
Anna-Karin Hatt	345	19 of 19	3 of 3		Yes
Christer Jacobson	315	19 of 19			Yes
Jan Åke Jonsson (resigned March 2016)	-	3 of 3			Yes
Christina Karlsson Kazeem (elected in March 2016)	315	16 of 16			Yes
Nina Linander	365	19 of 19		4 of 4	Yes
Johan Skoglund	350	18 of 19		4 of 4	Yes



NINA LINANDER
BOARD MEMBER

"An eventful and busy year"

"Castellum's operations focus on cash-flow growth, while maintaining low financial risk. This approach provides conditions for solid growth in the company, and enables us to offer shareholders a competitive dividend.

This strategy meant that 2016 an eventful and busy year. We acquired Norrporten and the remaining 50% of CORHEL. We also sold properties for a total value of approx. SEK 7 billion to streamline the portfolio. As a result, the value of our real estate portfolio increased from SEK 40 billion to SEK 71 billion.

The repositioning also means that our real estate portfolio became more risk-diverse, resulting in higher quality in more central locations, an expanded customer base and an extended contract portfolio. All of the above were achieved at Castellum parallel with consolidating the organization under a single brand, centralizing support functions and replacing administrative systems.

We've also worked hard with our capital structure and implemented a rights issue and a share issue while restructuring our debt portfolio – all to facilitate for and manage the large portfolio transfer.

In all: An eventful and busy year for Castellum.

Officer and setting remuneration and other terms of employment benefits for the CEO. Each member is to act independently and with integrity and ensure that the interest of the company and all shareholders is protected.

At page 88 a description of the Board's year is presented.

The Board of Directors – rules of procedure

The Board of Directors rules of procedure are set annually. The rules of procedure describe the work of the Board and the distribution of responsibility between the Board and the Chief Executive Officer. The rules of procedure also state which topics should be dealt with at each Board meeting and give instructions regarding financial reporting to the Board of Directors.

The rules of procedure also prescribe that the Board will have an auditing and finance committee and a remuneration committee. The committees review and prepare recommendations to the Board on various matters. Members of the committees are appointed yearly. The Chairman of the Remuneration Committee should be the Chairman of the Board of Directors, and the Chairman of the Audit and Finance Committee is appointed by the Board.

The Chairman of the Board of Directors

The Chairman of the Board of Directors is responsible for making sure that the members of the Board regularly receive required information from the Chief Executive Officer. This is in order to follow up on the company's financial position, results, liquidity, financial planning and development. The Chairman of the Board of Directors is also obliged to fulfil decisions made by the Annual General Meeting regarding establishment of an election committee and to participate in the work of the committee.

The Board of Directors – activities during 2016

In 2016, Castellum's Board held 18 meetings, of which one was the Board meeting following election. According to the prevailing procedural rules, the Board is to hold at least seven scheduled board meetings each calendar year, of which one is a Board meeting following election.

Board meetings are held in connection with the publication of the company's reports, specifically: the Annual Report, proposed appropriation of profits and issues relating to the AGM are dealt with in January; interim reports are discussed in April, July and October; strategy is examined in June and the budget for the following year is considered at the meeting in December.

At each of the scheduled board meetings, matters of significance for the company, such as investments, sales of properties and funding are covered. Further, the Board is informed on the current business situation in the rental and real estate markets as well as in the credit and stock markets. Issues about safety, incident reports and customer-related issues are

managed regularly by the Board, and at each board meeting, an executive session is conducted without anyone from corporate management present. The Board also has meetings with the auditors without the presence of corporate management.

Regular matters dealt with by the Board during 2016 included company-wide policies, an overall strategy plan, procedural rules for the Board, capital structure and funding needs, sustainability efforts, the business model and organizational issues, as well as the company's insurance situation. In addition, the Board devoted several meetings to enhancing their knowledge of operations through themed meetings and visits to the regions.

In addition to the above, the work of the Board in 2016 focused on the acquisition of Norrporten and the implementation of the transformed corporate structure.

Based on the comprehensive evaluation of the Board in autumn 2015 with the help of an outside consultant, the Board has evaluated its work during 2016. The evaluation showed an open and constructive Board climate and a well-functioning decision-making process.

The evaluation has been presented and submitted to the Election Committee and discussed by the Board.

The evaluation covers topics such as working climate, working procedures in the business process, crisis management, follow-up and control systems, morals, ethics and communication.

The evaluation and related discussion serve as a basis for the continuous development of the Board's work and ensure that the Board can make decisions which are as well-informed as possible.

No other compensation than remuneration for work on the Board and committees has been paid.

Remuneration Committee

The Board's Remuneration Committee continuously evaluates the remuneration to executive management in view of current market conditions. The Committee prepares matters for decisions by the Board. The members of the Remuneration Committee are appointed once a year.

The Remuneration Committee consists of three Board members, including the Chairman of the Board, who is Chairman of the Remuneration Committee. The Committee's rules of procedure are drawn from the Board of Directors' rules of procedure and are established annually. The Remuneration Committee's functions are to:

- Prepare and propose guidelines for remuneration principles, remuneration and employment terms for the CEO and other senior executives. The guidelines for remuneration are to be submitted to the Board which, in turn, will work out remuneration suggestions to be decided upon at the Annual General Meeting,
- Monitor and evaluate ongoing incentive plans – completed during the year – for flexible

remuneration to Executive Group Management. The results of the Remuneration Committee's evaluation of remuneration to senior executives are presented on the company's website,

- Annually evaluate the work of the CEO.

The Remuneration Committee will meet at least twice a year. During 2016, the Committee held three meetings. Issues addressed at the meetings included the review of the remuneration of the CEO and other senior executives, decisions about changes in the remuneration of members of executive management, evaluation and follow-up of existing incentive programs, as well as HR and succession issues. In 2016, the Remuneration Committee also received a comprehensive external evaluation of the CEO's efforts. They developed parameter proposals for the individually targeted factors regarding the annual performance-based incentive program.

Audit and Finance Committee

The Board's Audit and Finance Committee monitors financial and auditing matters and submits them to the Board for decision. The Chairman and members of the Committee are appointed annually.

The Audit and Finance Committee consists of three members, and the Committee's rules of procedure partly consist of the Board of Directors' rules of procedure, which are established annually. The Audit and Finance Committee's functions are to:

- Monitor financial reporting and make recommendations and suggestions to ensure the reliability of the financial reporting,
- Monitor, with respect to financial reporting, the effectiveness of internal controls, any internal audits and risk management,
- Monitor work on capital structure and other funding issues and prepare funding issues for decisions by the Board,
- Monitor the efforts concerning business risks and compliance, and ensure that appropriate systems for control and monitoring exist,
- Submit an annual report on internal control and ensure that the corporate governance report describes the Board's measures to ascertain that the internal control works,
- Keep informed about the Annual Report and consolidated accounts,
- Inform the Board about the result of the audit and how it contributed to the reliability of financial reporting,
- Keep informed about the findings of the Supervisory Board of Public Accountants' control of the auditors,
- Review and monitor the auditor's impartiality and independence, and evaluate auditing activities, as well as informing the Election Committee of the evaluation outcome,

Active Board work in 2016

The Board's main tasks are both to act as a control body and to provide support for Executive Management. The controlling task means ensuring that Castellum acts for the long term: responsibly, with a mindset for sustainability, as well as seeing to it that operations run efficiently in accordance with laws, regulations and good business practice.

For the supporting task, the Board becomes a challenging driver and supports via close contact with business operations. During our eventful 2016, the Board has been more active than usual in this role. The clearest examples are:

• The acquisition of Norrporten in April

In Sweden's second largest real estate transaction to date, the Board actively took part in preparing for and implementing the acquisition, as well as the extraordinary general meeting (which was a prerequisite for the transaction). The integration of two major organizations has also been an important task for the Board.

The October Board meeting was held in Copenhagen, where the Board had the opportunity to visit some of Castellum's new real estate portfolio in Örestad – the well-situated and fast growing area between the city centre and Kastrup Airport, Scandinavia's largest airport.

• Long-term restructuring of the real estate portfolio

In autumn 2014, Castellum initiated efforts to restructure the real estate portfolio, and the Board has been very active in this strategic work.

In the spring of 2016, and more rapidly than announced, Castellum took over all of CORHEI. The Group had owned 50% of the company – operating in Norrköping and Linköping – since 2015.

In October, properties in Malmö and Lund were sold for approx. SEKm 900. In addition, a portion of the real estate portfolio in Norrland was sold in autumn 2016.

• The change in corporate structure

Kicking off in 2016, Castellum has been organized into regions and operates under a single brand. The Board has been active in efforts aimed at clarifying the company's collective resources and making Castellum more efficient and effective – without jeopardizing the close customer relationships thriving in local markets.

• Sustainability

The Board has been the driving force in efforts to develop Castellum's sustainability activities, and in the autumn the company launched green MTNs, a form of financing based on sustainability from various perspectives.

In 2016, one result of Castellum's overall sustainability efforts involved being selected, under fierce global competition, for participation in the prestigious DJSI sustainability index: the Dow Jones Sustainability Index.



The Board of Castellum at Lindholmen in Gothenburg.



CHRISTER JACOBSON
BOARD MEMBER

"Somewhat of a ketchup-effect"

"2016 was an intense year for board work at Castellum. But the fact is that the process of repositioning the portfolio – as well as the brand and the organization – was initiated a few years back. In 2016, somewhat of a 'ketchup-effect' was seen in the almost simultaneous launch of several major transactions and projects.

I feel that Executive Management and the Board have worked closely and effectively together throughout the entire process. We have held many Board meetings, but all have been characterized by great commitment and high spirits. It's extra fun, of course, that the outcome was just what we'd hoped for and had indicated to the market – despite many components being uncertain or difficult to forecast.

I think that Castellum's Executive Management has done a fantastic job! And I'm thrilled to have been part of this exciting journey, both as Board member and shareholder."

- Take note of the auditors' report pursuant to Article 11 of the Audit Ordinance and, if needed, take appropriate action in response to it,
- Issue guidelines for services other than auditing provided by auditors and, where appropriate; approve of such services in accordance with these guidelines,
- Prepare matters regarding procurement of audit and other services from the auditors,
- Assist the Election Committee in nominating auditors and determining their remuneration; the Committee is then to monitor that the auditors' term of office does not exceed the applicable rules; procure audit and provide a reasoned recommendation in accordance with what is stated in Article 16 of the Audit Ordinance. "

The Audit and Finance Committee will meet at least four times a year, and of these, the Group's auditors will attend at least twice. On one of the occasions when the Audit and Finance Committee meets with the auditors, no one from corporate management is to be present. In 2016, the Audit and Finance Committee met four times. Examples of the issues dealt with at meetings involved: capital structure and financing issues; financial reporting, including a review of future regulations and their possible consequences for Castellum; internal control and risk management, as well as the work of the auditors. This last includes auditor impartiality and independence – development of policies and feedback from the Whistle-blowing-service. Business-related issues were also thoroughly investigated.

During the year, the Audit and Finance Committee has also held a private meeting with the compliance officer without the presence of management.

CEO and Executive Group Management

The Chief Executive Officer is responsible for the company's day-to-day management and for leading operations according to the guidelines and directives submitted by the Board of Directors. The CEO also provides the Board with information and the necessary documentation for decision-making. The CEO leads the work of Executive Group Management and makes decisions after consulting its members.

The Chief Executive Officer

The Chief Executive Officer reports at Board meetings and assures that members of the Board regularly receive the information required to follow the company's and the Group's financial position, results, liquidity and development.

Executive Group Management

Executive Group Management consists of the Chief Executive Officer, the Chief Financial Officer, the

Chief Investment Officer, the HR manager and well as the six Managing Directors of the five regions. Each member of Executive Group Management has his or her own area of responsibility, and meetings mostly cover issues pertaining to overall operations. Executive Management held 13 meetings in 2016.

In 2016, Executive Management focused on the acquisition of Norrporten and the integration of the two Groups. Executive Management also worked on the new Group structure implemented in 2016, which entailed that the six subsidiaries and Norrporten form five regions under one common brand. The transformation also means that the Finance Department has moved to head office and that a common corporate finance system has been implemented.

The Chief Executive Officer and the Chief Financial Officer join the Managing Director of each subsidiary to constitute the Board for each local region company.

Guidelines for remuneration for senior executives

The 2016 AGM decided on the following remuneration guidelines for senior executives:

Castellum is to uphold competitive remuneration levels and attractive terms of employment to recruit and maintain excellent management with the competence and capacity to achieve set objectives. The Board of Directors considers and evaluates the remuneration as a whole, consisting of fixed remuneration, pension terms, variable remuneration and non-monetary benefits. A fixed salary will be paid for work performed in a satisfactory manner. In addition, flexible remuneration under an incentive plan may also be offered. The formulation is based on the objective of interconnecting the executive team's interests with shareholder interests, in that senior management members are also shareholders in Castellum.

This also entails an increased proportion of executive remuneration being directly linked to the Group's development. Flexible remuneration, which generally cannot exceed the fixed salary, is determined by the extent to which previously set objectives are achieved for growth in property management per share and share price development. It is also determined by how individually targeted factors have developed. The received remuneration according to an incentive program shall be paid as salary and includes payment for vacation. Such remuneration shall not be a pension qualifying income. Executives who receive flexible remuneration in accordance with the incentive program are committed to acquiring Castellum shares for at least half the amount of flexible remuneration after tax.

The pension terms of executive management are to be set according to general market practice and will be based on pension plans with fixed payments.

Upon termination by the Company, such period

of notice shall not exceed six months for the Chief Executive Officer and twelve months for other executives. During the notice period full salary and other employment benefits are paid, with deduction for salary and remuneration received from other employment or business during the notice period. Such deduction will not be made in respect of the Managing Director. A severance pay, corresponding to twelve fixed monthly salaries, will be paid to the Managing Director upon termination by the company. Such severance pay will not be reduced due to other income received by the Managing Director.

Castellum has followed the guidelines decided by the 2016 AGM.

The proposed guidelines for remuneration for senior executives, which will be put forward at the AGM on March 23, 2017, are in principle unchanged compared with those put forward to the AGM in 2016.

The incentive program for senior executives in respect of the annual profit-based bonus, is to be applicable during 2017–2019; for the share-price-based bonus the effective period is June 1, 2017, to May 31, 2020.

For further information regarding remuneration for Executive Group Management, see note 11.

Compliance and internal control

Castellum has a Compliance Officer who monitors compliance, i.e., ensures that laws, regulations and internal rules are complied with. The Group's corporate lawyer is Compliance officer.

Castellum's internal control is based on the established "COSO" framework, which consists of the following components: control environment, risk assessment, control activities, information, communication and monitoring. Castellum's internal control is described on pages 95-97.

Castellum has a whistle-blower function, which is accessed via all web sites of the Group and via the Group's Intranet. The service represents an early warning system for reporting deviations from Castellum's values and business ethics guidelines.

The Compliance Officer supports business activities by identifying and following up business risks. The Compliance Officer regularly reports risks and compliance to the CEO, as well as to the Audit and Finance Committee.

Executive Group Management consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Investment Officer, the HR manager and well as the six Managing Directors of the five regions.



Sarah at Castellum's office in Sundsvall.

Executive Group Management



HENRIK SAXBORN
CHIEF EXECUTIVE OFFICER
CASTELLUM AB

Born 1964, Master of Science.
Multi-dimensional experience from construction business, management and acquisition of properties, i.e. as CEO for a property management company.
Other assignments: member of EPRA Management Board.

Employed since 2006.

Shareholdings: 57,792



ULRIKA DANIELSSON
CHIEF FINANCIAL OFFICER
CASTELLUM AB

Born 1972, Master of Business Administration and Economics.
Varied experience within the financial and controlling function.
Other assignments: Boardmember of Alligator Bioscience AB (publ).
Employed since 1998, Finance Director since 2006 and CFO since 2014.

Shareholdings: 15,400



CECILIA FASTH
MANAGING DIRECTOR
REGION WEST IN CASTELLUM

Born 1973, Master of Science
National and international experience from the construction and property sector since 1996.
Other assignments: Boardmember in AB Fagerhult, Hultafors Group AB and CMB at Chalmers.
Employed and Managing Director of Castellum since 2014.

Shareholdings: 4,500



CLAES LARSSON
MANAGING DIRECTOR
REGION CENTRAL IN CASTELLUM

Born 1957, Master of Science
Long and varied experience from building construction as team manager/district manager.

Employed and Managing Director of Castellum since 2002.

Shareholdings: 40,900



JÖRGEN LUNDGREN
MANAGING DIRECTOR
REGION NORTH IN CASTELLUM

Born 1967, Master of Business Administration and Economics.
CEO of Norrporten since 2013. Deputy CEO of Norrporten 2007-2013. Long experience from banc and financial, senior positions in Nordea and Danske Bank.
Other assignments: Chairman in steering committee for Centrum för forskning om ekonomiska relationer (CER) at Mid Sweden University. Board member in Ekonomiforskningsstiftelsen in Sundsvall.

Employed and Managing Director of Castellum since 2016.

Shareholdings: 0

Jörgen Lundgren will be leaving his position at Castellum, at own request, during 2017.



ANDERS NILSSON
MANAGING DIRECTOR
REGION STOCKHOLM IN CASTELLUM

Born 1967, Master of Science
More than 20 years experience from the real estate business.
Employed since 1993 and Managing Director of Castellum since 2006.

Shareholdings: 16,500



ERIKA OLSÉN
CHIEF INVESTMENT OFFICER (CIO)
CASTELLUM AB

Born 1976, Master of Science KTH
Long experience from both international and Swedish real estate markets. Partner of Tenzing and Associate Director of JLL in London.
Employed as CIO of Castellum since 2015.

Shareholdings: 3,000



OLA ORSMARK
MANAGING DIRECTOR
REGION ÖRESUND IN CASTELLUM

Born 1971, Master of Science
Fully experienced from the real estate business, most recently as Business Area Manager at Jernhusen.
Employed and Managing Director of Castellum since 2014.

Shareholdings: 2,250



ANNE THELIN-EHRLING
HR-MANAGER
CASTELLUM AB

Born 1961, Bachelor of science in behavioral sciences
Broad experience in strategic and operational HR, in customer, sales and service industry and real estate. Has worked in SAS and Stronghold Invest AB.

Employed HR manager of Castellum since 2016.

Shareholdings: 0



INGALILL ÖSTMAN
CORPORATE COMMUNICATIONS
DIRECTOR CASTELLUM AB

Born 1956, Master of Science mechanical engineer
Broad experience in external and internal communication, market communication and IR, including SVP Communications & Government Relations at SKF and SVP Head of Corporate Communications ABB Sweden.

Other assignments: Chairman of the Board of Alfons Åbergs Kulturhus AB, board member of Allgon AB, board member and member of the Audit Committee of Länsförsäkringar Göteborg and Bohuslän.

Shareholdings: 0

Ingalill will assume her duties at Castellum AB in mid-January 2017 and will be a part of the executive group management.

The information above refers to the situation at the end of January 2017. Shareholdings include personal holdings and those of spouse, minors or children living at home and associated companies and holding through capital assurance. CEO has no significant shares or ownership in companies with whom Castellum has significant business relations.

Compliance and internal control

According to the Swedish Companies Act and the Swedish Code for Corporate Governance, the Board of Directors is responsible for internal control. This report has been drawn up in accordance with the Swedish Annual Accounts Act and the Code for corporate governance and is therefore limited to internal control regarding financial reporting.

Internal control in Castellum follows an established framework, Internal Control – Integrated Framework, “COSO”, comprising the following five components: control environment, risk assessment, control activities, information-and-communication, and monitoring. A schematic description of the internal control is shown below.

Control environment

The basis for internal control of financial reporting comprises a control environment, which consists of various parts that form Castellum’s management culture and values. The fundamentals for Castellum’s internal control comprise the following: a decentralized small-scale organization with approx. 700 properties, as well as cost centres, which are managed by five regional companies. The decision-making processes, authorizations and responsibilities which have been drawn up and communicated in documents such as the Board of Directors’ rules of procedure, rules for decision making, rules for authorization, accounting and reporting manuals, internal policies and manuals, etc., are also important for internal control. Documents in use are updated regularly to reflect changes in legislation, accounting standards or listing requirements etc.

Risk assessment

At Castellum, risk management is built into our processes and various methods are used to evaluate and limit risks. We secure that the risks Castellum is exposed to are managed in accordance with set policies and guidelines. In accordance with the rules of procedure, the Board of Directors, and the Audit Committee, review internal control once a year. Identified risks are assessed and measures are set to reduce these risks. The important risks Castellum has identified in financial reporting are errors in accounting and valuation of properties, interest-bearing liabilities, taxes and VAT, as well as the risk of fraud, loss or embezzlement of assets.

Control activities

The risks identified in financial reporting are addressed by the company’s control structure, resulting in a number of control measures. The control measures aim to prevent, discover and correct errors and deviations. They comprise analytical reviews on many levels in the organization: comparisons of income statement items; reconciliation of accounts; follow-up and reconciliation of Board decisions and policies set by the Board; authorization and reporting of business transactions; structure for proxy and authorization; authorized signatory; compliance-officer activities; group-wide definitions; templates and tools for reporting as well as accounting and valuation principles.

Castellum subsidiaries have their own financial functions, which take part in the planning and follow-up of financial results for their units. The

CASTELLUM'S INTERNAL CONTROL ENVIRONMENT



INTERNAL CONTROL IS GOVERNED BY:

- Board of Directors rules of procedures
- Audit and Finance Committee's rules and procedures
- Rules for decision making
- Instructions for authorization
- Accounting manuals
- Reporting manuals
- Finance policy, communication policy, insider policy, sustainability policy, Code of Conduct, Code of Conduct for suppliers and partners and Crisis management
- Guidelines for information security, insurance and electricity trading
- Accounting manual, HR manual, Manager manual
- Finance instructions
- Continuity plan

regular self-analysis of unit financial reporting and the analysis made at Group level constitute an important part of internal control. This ensures that financial reporting does not contain any significant errors.

Board reviews the interim and annual reports before publishing.

Information and communication

Castellum has processes for information and communication that aim to ensure the effective and correct distribution of information regarding financial reporting. This demands that all areas of the operation communicate and share relevant and important information. Policies and guidelines regarding financial reporting as well as updates and changes are made available and clearly communicated to the personnel concerned. Executive management, as well as the Board of Directors regularly receive financial information about the subsidiaries with comments on financial results and risks. The Board of Directors also receives additional information regarding risk management, internal control and financial reporting from the auditors through the Audit and Finance Committee. In order to ensure that the external distribution of information is correct and complete, we have both a policy for communicating with the stock market and an information security policy.

Company culture

That Castellum's operations are conducted in a responsible way is a prerequisite for the company's

long-term successful business. The objective is to make sound and proper business decisions in all respects, high business morality, good business ethics, responsibility awareness and impartiality. The base of Castellum's code of conduct is to offer good quality and service, to follow laws and regulations, not to discriminate against anyone and to create good working environment and safety.

Cornerstones for Castellum's company culture have been: The decentralized organization, which creates responsibility and committed employees, where each single colleague is a business collaborator. The geographical proximity to customers, community, suppliers and other parties involved creates a responsibility to act correctly and businesslike.

In Castellum's flat organization each employee has an important role and new ideas are valued. A high level of competence is available within the organization.

Long-term value creation

Long-term value creation requires that operations are run with a sustainability focus. Sustainability work involves both environmental considerations such as reduced use of resources and close control of the property portfolio, as well as assumption of social responsibility by contributing to the development of the communities where Castellum operates. Our efforts also involve ensuring a healthy working environment for employees. Sustainability activities are carried out in collaboration with customers and other stakeholders – a requirement for success.

GROUP POLICIES ISSUED BY THE BOARD

	Aim
Financial policy	Establishes overall objectives and guidelines for financial risk and how financial operations will be run. The financial policy also specifies how responsibility for the financial operations will be distributed and how financial risks will be reported and monitored. The financial policy includes instructions for how operational activities will be run.
Communication policy	Ensures that all Group communication is accurate and provided in a professional manner, with optimal timing. The policy covers both internal and external communications.
Insider policy	Ensures ethical activities in the capital market through description of trade and reporting requirements.
Sustainability policy	Provides guidelines for how the Group's sustainability activities will be pursued. The efforts will contribute to sustainable development and constitute an integral and natural part of Castellum's operations, which are based on participation and engagement.
Code of Conduct	Offers guidelines to ensure that business operations are run in a responsible manner, with the objective that all business decisions are sound and healthy. The Code of Conduct will govern the Group's actions in relation to employees, contractors, customers, suppliers and other stakeholders.
Code of Conduct for suppliers and partners	Corresponding guidelines to ensure that business operations are run in a responsible manner, with the objective that all business decisions are sound and healthy.
Crisis Management	Provides guidelines for the Group about how to act and communicate in a crisis.

Guidelines for how value-creating sustainability activities are conducted are found in the Sustainability Policy, Code of Conduct and the Code of Conduct for Suppliers and Partners. Castellum reports on sustainability efforts in accordance with the GRI G4. Reports on sustainability activities are regularly provided for the Castellum Board.

Monitoring

Regular follow-ups take place on many levels in the Group, on both property-level and subsidiary-level as well as Group level. The Board of Directors, which also makes up the Audit and Finance Committee, regularly evaluates the information provided by Executive Group Management and the auditors. The company's auditors also report in person directly to the Audit and Finance Committee at least twice a year regarding their auditing observations and their assessment of internal control. In addition, the Audit and Finance Committee conducts an annual review of the risk assessments and agreed-upon measures. Monitoring by the Audit and Finance Committee and the Board of Directors is of particular importance for the development of internal control and for ensuring that timely measures are taken for potentially emerging shortcomings and suggestions.

Need for internal audit

Castellum has a decentralized and transparent organization. The economy and finance functions are managed from the head office, which means that procedures and processes will remain coherent. However, the move also provides

opportunities for the various functions to monitor each other's processes – a form of self-evaluation. All to increase and improve internal controls. Quarterly follow-ups of income statements and balance sheets are made by the business units and the company. Clear documentation through policies and instructions, along with regular follow-ups and regular discussions with the auditors, continuously ensure that the efforts of improving processes remain efficient and effective. Management and reporting are monitored by auditors twice a year and reported to both the Audit and Finance Committee and the Board. In addition, there is a "whistleblower" function on the Group's website. In all, the conclusion is that a separate internal audit function is uncalled for.

Whistle-blower

Castellum's whistle-blowing-service, "Help us to do right", can be reached by all the web pages in the Group and through the Group's Intranet. The whistleblowing-service is an early warning system which provides both employees as well as external partners the possibility to anonymously report a concern about something that is not in line with Castellum's corporate values and business ethics. The service is administered by an external partner to ensure anonymity and professionalism.

