



CASTELLUM

Madam Chairman and Shareholders,  
Castellum – a company characterized by development, stability and growth at low financial risk – celebrated its twentieth birthday in 2014. I'm happy to note that in 2014, Castellum once again delivered income growth from property management. This also meant growth in dividend for you, our shareholders.

## A year full of action



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Today, Castellum is one of Sweden's strongest real estate companies. We enjoy a strategically well-positioned real estate portfolio of commercial properties. Office and retail premises account for two thirds of property value and the remaining third comprises warehouses and logistics facilities.

The Group has 4,400 customers to take care of, and we supply more than 580 properties with daily services.

### ***2014 – A year full of action***

2014 was a year full of action for Castellum:

- We've been operating in a low-inflation environment, resulting in limited rent-and price-indexation. On the plus side, low economic inflation was reflected in falling market interest-rates.
- But above all, 2014 was a year in which we carried out more major changes in our real estate portfolio than in any previous year.

A strategic decision was taken to restructure the portfolio in order to follow through with Castellum's 20-year-old strategy of operating in Sweden's future growth regions. Matching real estate investments to areas where Swedish companies will continue to expand. However, today's Sweden is growing in somewhat different areas compared with 20 years ago.

The portfolio restructuring meant that Castellum sold properties for approx. SEK 3 billion and left two districts. Simultaneously, we continued doing what we've always done – building extensions and reconstructions totalling SEK 1.4 billion and buying properties for SEK 1 billion.

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## A year full of action



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We completed several larger projects in addition to the restructuring of our portfolio. Two of these were the Semcon headquarters here in Gothenburg and the reconstruction of office space in Uppsala.

Each project encompassed approx. 9,000 sq. m. and otherwise differed in all aspects. And the common denominator? Both are clear examples of how Castellum builds and develops cities. One project was a brand new building leased to one tenant – an investment at the right spot: in the middle of Gothenburg’s future Lindholmen centre. The other example was the Svalan block in Uppsala. The property previously housed an old department store that we converted into sophisticated office space for customers in the city centre.

## Income statement

SEKm	January- December 2014		January- December 2013	
Rental income (fully let)	3,794	~ SEK1,100/sq.m.	3,714	~ SEK 1,000 / sq.m.
./. Vacancies	- 476	11%	- 465	12%
Property and administration costs	-1,204	~ SEK 300/sq.m	-1,201	~ SEK 300 / sq.m.
Net interest rates	- 664	3.4% / 2.8 year	- 702	3.7% / 2.7 year
<b>Income from prop. mgmt</b>	<b>1,450</b>	8.84 SEK/share	<b>1,346</b>	8.21 SEK/share
<b>Growth – objective 10%</b>	<b>8%</b>		<b>7%</b>	
Change in value				
Properties	344		328	
Derivatives	- 660		429	
Tax paid	- 11		- 6	
Deferred tax	88		- 390	
Net income	1,211	7.38 SEK/share	1,707	10.41 SEK/share
<b>Dividend / share, SEK</b>	<b>4.60</b>		<b>4.25</b>	

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2014 was not merely a year when major changes were made in our portfolio. In 2014, income from property management increased by 8%. At year-end, the income statement looked as follows:

2014 rental value increased by SEKm 80 – or 2% – as a result of investments and years of systematic renegotiation of leases. About 25% of all leases now contain a guaranteed rental increase of at least 2%. This is important when we experience no inflation and no consequent increase in rental levels during the contractual period.

Vacancy rates declined in percentage terms but increased marginally in value, and the cost base remained stable at SEK 300/sq. m. The year's interest expense decreased due to falling market interest rates.

In all, this resulted in property management income of SEKm 1,450, representing SEK 8.84/share. This corresponds to an 8% growth compared with previous year. The sales carried out at the end of the year affected income from property management: i. e., growth would have been on par with Castellum's target growth of 10% if these sales had not taken place.

## Income over time



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We are happy to account for Castellum's business activities on a quarterly basis. However, as a real estate company with a long-term perspective in all our actions, we require an analysis that runs over a longer period. This is why we set longer-range targets for income from property management. As the dark blue portion of the bar illustrates, property management income is steadily growing. Other items in the income statement, such as changes in value, derivatives and tax, are volatile over time.

The figure illustrates income from property management remaining stable, with an average 7% growth per year over a 10-year period – as shown by the steady blue bars. As the chart indicates, other items have varied greatly over the years. In the past 10 years, property values went up for 6 years, went down for 2 years and remained unchanged for 2 years. On average, however, prices have increased by 1.1% per year – equivalent to inflation.

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The lower half of the income statement has more of an accounting nature.

When it comes to value adjustments, we first have the year's changes in property values totalling SEKm 344, corresponding to 0.9%. It represents the sum of several parameters:

- a downward adjustment of the average valuation yield of 0.1%, for Castellum's portfolio during the year, where changes in value vary for district and category
- value adjustments for individual properties
- project profits as well as effects of transactions realized

Regarding interest-rate derivatives, these are always zero over time. However, the value varies over the "holding period" to maturity, mainly due to changes in long-term market interest rates. Interest-rate derivatives constitute a positive item in the income statement when the long-term market interest rate rises, and a negative item when the market interest rate falls. The negative derivative value in 2014 was mainly attributable to falling market interest rates.

Nor does the tax affect cash flow significantly. As you can see, tax was positive in 2014, primarily due to completed transactions.

The income statement for the year – including the second half of the income statement, more for accounting purposes with no set targets – was SEKm 1,211, or SEK 7.38/share. This forms the basis of the proposed dividend: SEK 4.60.

## Balance sheet

SEKm	Dec 31, 2014	
Investment properties	37,599	~ 11,118 SEK / sq.m. and 6.9% yield
Other assets	489	
	38,088	
Equity	13,649	} Longterm net asset value SEKm 18,618 / 114 SEK / share
Deferred tax liability	3,612	
Derivatives	1,357	
Interest-bearing liabilities	18,446	LTV 49%
Non interest-bearing liabilities	1,024	
	38,088	

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When we summarized the year on 31 December, the balance sheet looked as follows:

We held properties valued at SEK 37.6 billion or, if you prefer, at SEK 11,100/sq. m., which is far below new construction costs. This measure could be compared to producing new logistics facilities for SEK 10,000/sq.m. or to a new office building for at least SEK 25,000/sq.m.

The properties had a valuation yield of 6.9% – a slightly lower yield than for previous years – primarily attributable to selling off the portfolio in Småland.

Shareholder's equity amounted to SEK 13.6 billion. When we added the non-interest-bearing and amortization-free liabilities, the long-term net asset value amounted to approx. SEK 18.6 billion, equivalent to SEK 114 per share.

SEK18.4 billion in long-term interest-bearing liabilities is equivalent to a 49% loan-to-value ratio. This provides Castellum with a strong balance sheet and substantial investment capacity.

## Employees



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## Organization

What makes us so successful – including satisfied customers – are my 300 colleagues and co-workers.

## Employees



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During the year, we had an employee turnover of 11%, and we welcomed 46 new employees to the Group.

For us at Castellum, it's obvious to create a stimulating work environment – it should be fun to come to work, even if it can be challenging from time to time. It is self-evident that we should provide an environment where employees thrive and leave work at the end of the day feeling fulfilled and sound. We therefore continually develop our training programs. The latest one is a Sustainability course for all employees, within the scope of our *Collegium* training program.



## Executive Group Management



Henrik Saxborn



Ulrika Danielsson



Tage Christoffersson



Cecilia Fasth



Claes Junefelt



Claes Larsson



Anders Nilsson



Ola Orsmark



Christer Sundberg

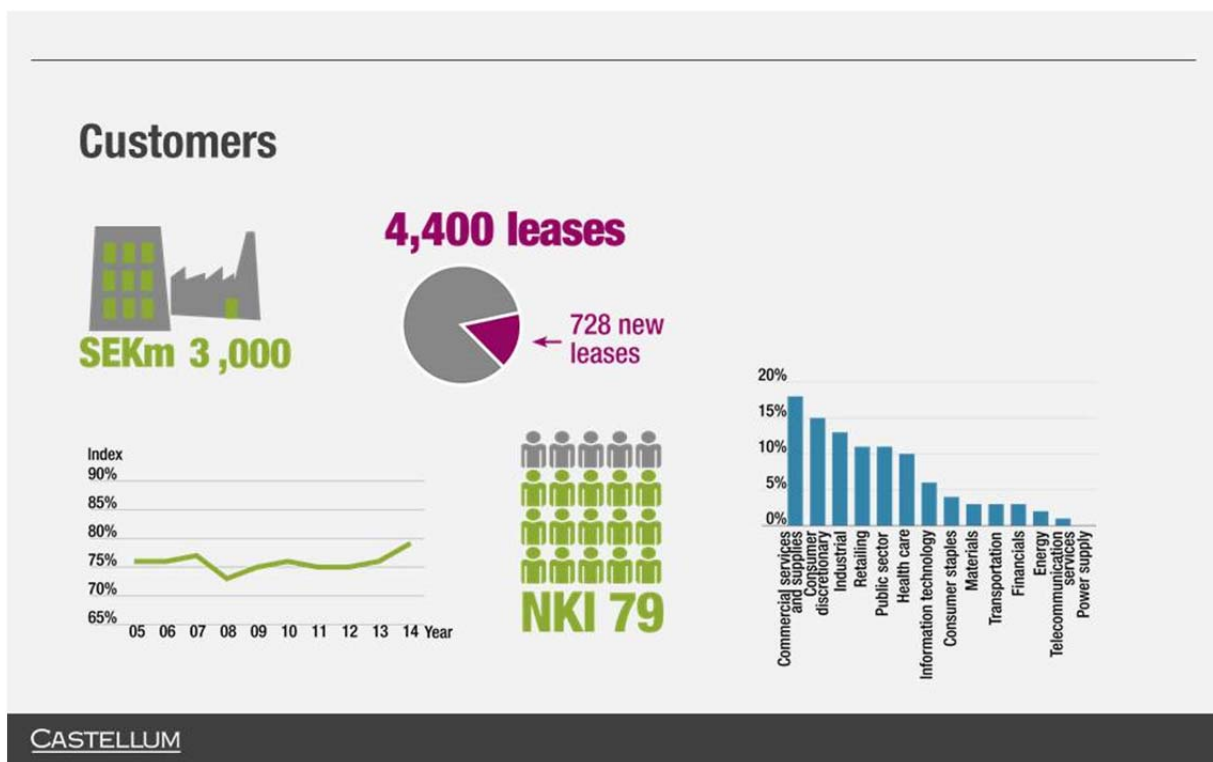
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### Presentation of Executive Group Management

The members of Executive Group Management lead this organization and ensure that we sustain our persistent scrimping, our leading-edge expertise and our close cooperation with each local market as well as with our investors, banks and other stakeholders. This year, there are two new names in Executive Group Management, so let's begin with them:

- My name is Ola Orsmark and I've been Managing Director of Briggen since October, 2014. I'm responsible for 57 employees at Briggen and we manage and develop properties worth SEK 7.2 billion in Malmö, Lund, Helsingborg and Copenhagen.
- I'm Cecilia Fasth, and I've been Managing Director of Eklandia since August of last year. Eklandia has 47 employees and manages properties worth approx. SEK 7 billion in Gothenburg.
- My name is Ulrika Danielsson and I am Chief Financial Officer at Castellum AB. I'm responsible for funding and financial risk management for Castellum's credit portfolio, which amounts to approx. SEK 26 billion. My area of responsibility also includes assuring sound financial monitoring systems at Castellum, and the highest quality assurance for information provided to the stock market.
- My name is Tage Christoffersson. For the past year I've been Head of Business Development at Castellum, and I'm responsible for Group-wide development of management efficiency, sustainability issues and HR.

- I'm Christer Sundberg, Managing Director at Harry Sjögren. We have 34 employees and we own and service properties worth SEK 6.5 billion in Gothenburg, Mölndal, Kungälv, Borås, Alingsås and Halmstad.
- My name is Claes Larsson, Managing Director of Aspholmen with 53 employees and properties worth SEK 6.5 billion in Örebro, Västerås and Uppsala.
- And I am Claes Junefelt, Managing Director of Corallen with 25 employees. We manage properties in Jönköping and Linköping for a total of SEK 2.7 billion.
- Anders Nilsson is my name and I'm Managing Director of Brostaden. Brostaden manages properties worth SEK 7.8 billion in Greater Stockholm and employs 56 people.



## Customers

We currently serve 4,400 customers, ranging from Swedish government authorities to Swedish industry. Last year we signed more than three new leases per day, 728 leases in total, resulting in a gross leasing total of SEKm 304.

We continuously monitor what customers think of Castellum's service, and this was also true in 2014. It was a year when we further improved our performance and thus received the best score so far in the history of Castellum: 79. This proved to be well above the industry benchmark of 73.

## Sustainable Business

**co-operation**  
in all cities where  
Castellum operates

**40** green  
leases

**20%**   
Castellum has environment  
classified 20% of the portfolio.

**-33%**  
The CO<sub>2</sub> emissions  
have been reduced 33%  
in total since 2007.  
**CO<sub>2</sub>**



**-22%**  
Since 2007 the energy  
consumption has decreased  
22% per sq.m.

**60 youths**  


 **2014**  
**SEI 85**

**77** Energy use  
kWh/sq.m.  


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### Sustainability


It's important to take corporate responsibility – both engaging and profitable. During the year, Castellum continued to work with important sustainability and ethical issues. Specifically, what did we do?


- I'm proud that we gave apprentices, holiday workers, interns and trainees the chance to gain hands-on work experience, through various programs.
- Castellum takes the lead when it comes to environmentally classified buildings. For example, our portfolio includes 30% of all Swedish Green Building certified properties.
- During the year, we signed the Global Compact, the UN's ten principles on how the business sector can take global responsibility for the environment, working conditions and corruption.
- We implemented a whistleblower function, to be used by both employees and general citizens, to help us improve Castellum.
- We have reduced our energy consumption and CO<sub>2</sub> emissions, and we've continued efforts to ensure environmentally classified buildings.

## Sustainable Business - 2017

**30%**   
of the portfolio will be  
environmentally classified.

**Youths**  


  
**50%**  
Energy consumption per  
square meter will be 50%  
lower than the sector average

  
**-30%**  
Energy use is to be decreased  
by 30% in relation to the  
energy consumption in 2007

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However, we haven't settled with this. Instead, we raised the bar even further during the year and set new sustainability goals. This means that the following goals should be achieved by 2017:

- 30% of the portfolio should be environmentally classified.
- We will use 50% less energy than the industry average (this figure is currently 41%).
- We will reduce energy consumption per square metre by 30% (22% today).
- We'll continue to help introduce young people to the hands-on working world.

## The share

	SEK/share	% of share price SEK 130	Growth		
			1 year	3 years average /year	10 years average /year
Income from property management	8.84	6.8%	8%	7%	7%
Dividend (proposed)	4.60	3.5%	8%	8%	7%
Net income of the year	7.38	5.7%	neg	19%	3%
<i>D:o 1.1% growth in value and 5% tax</i>	<i>10.87</i>	<i>8.4%</i>			
Long term net asset value	114	87.7%	7%	5%	7%
Total yield of the share			27%	17%	11%

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## The share

Every day, we work with managing and developing Castellum to create shareholder value. The relationship between Castellum's income statement and the stock market looks as follows: Income from property management over share price SEK 8.84 yields a share price of 6.8% and the share's dividend yield is 3.5%. In 2014, the total yield of the share was 27%, which is slightly below comparable Swedish indices. However, it was achieved at low financial risk. Furthermore, Castellum's total yield is stronger than both the yield generated by our European colleagues and the Stock Exchange yield, generally.

## The future



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## The future

In the current low-inflation environment, the real estate portfolio should be able to generate income growth from property management as a result of the intrinsic structure of our contract portfolio and continued low interest rates. Of course, efficient management will be required. If we look at Castellum's current rental market, it ranges from stable to very positive, depending on the district. This is mainly due to the low rate of new construction, assuring that market rents develop positively, primarily in several city centres.

## The future



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To create further growth in income from property management, newer, strategic investments will follow the property sales carried out during the end of last year.

When it comes to new construction, there will be further opportunities for Castellum through our long-standing cooperation with all stakeholders in our focus locations, as well as through naturally occurring, ongoing urbanization. There will also be opportunities for acquisitions – even if the market is highly competitive due to high demand.

We will have the opportunity to build an office property on Lindholmen, Gothenburg, and 75,000 sq.m. logistic premises in connection to the harbour.

## The future



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Behind me you see a sketch of a new project of 8,000 sq.m. in Uppsala. When conditions indicate, we will take previously unexploited opportunities in the form of new construction and acquisitions.

Castellum will continue to be among the largest real estate companies, acting with the thoroughness and “personalized” quality level of one of the smallest. We’ll accomplish this through our local, established subsidiaries in our focus locations. At the same time, we’ll continue to be one of the strongest real estate companies in Sweden, with continued high quality management and the capacity to invest when opportunity arises.

Castellum will continue to be worthy of trust.