

CEO's comment

2017 was a very intensive year focusing on leasing, increased efficiency and new projects.

In addition, we've succeeded in consolidating our leading sustainability position in the real estate industry, and we're also at the forefront of digitalization.

Net leasing was at a record high. We have probably signed Sweden's highest number of commercial contracts during the past year: 930 contracts, adding up to a value of SEKm 600. Net leasing, which will impact the income statement in 9–18 months, thereby amounted to SEKm 310.

Increased efficiency includes our merging of seven different corporate units and creating a new, leaner organization. Results of this action are becoming increasingly visible in cost development: property costs have decreased by SEK 10/sq.m, compared with 2016. Further, the synergy effects of our Norrporten acquisition have been largely realized, and we will reach our cost-reduction goal of SEKm 120 by the end of the second quarter this year.

Some of the **new projects** include Eminent in Malmö, Torsgatan 26 in Stockholm, and our new logistics centre at the Port of Gothenburg. Total project volume for the year amounted to SEK 2.9 billion, corresponding to approximately half of total investments.

In the context of Castellum's focus on **digitalization** – Castellum Next20 – three initiatives have been launched: Beambox, Handly and Oraklet. The aim of these initiatives is to simplify people's everyday lives as they balance work and family, as well as to assist customers with utilizing premises more efficiently and effectively.

In terms of **sustainability**, we've retained our internationally leading position, as evidenced by Castellum's standing as the only Nordic company in the construction and real estate sector to be included in the Dow Jones Sustainability Index. Moreover, we are also Global Sector Leader with the highest in rank in Northern Europe – in our sector by GRESB (Global Real Estate Sustainability Benchmark).

Diverging markets

At this moment in time, the market for commercial premises (offices and logistics) is diverging more

from the residential market than it has for years. This is due to a shortage of modern and convenient facilities at prime locations in our largest cities; quite unlike the residential market where, for a number of segments, a surplus has been produced rapidly. A shortage of modern and efficient premises has led to a steady year-end value increase on the commercial side, while the opposite has been true for the residential market. For Castellum's part, the high-demand commercial market means, an increase in value amounting to approx. SEK 4.5 billion, which contributes to the long-term net asset value now reaching SEK 153 per share, and a loan-to-value ratio which remains stable at 47%, despite major investments.


Looking at the prospects for Swedish industry and service production, they indicate continued growth, which in turn will entail a growing demand for premises – thereby strengthening Castellum's cash flow.

Focus on offices and logistics – two growing segments

Castellum's two primary focus areas are office buildings and logistics facilities. We feel less certain about future developments in the retail segment and have therefore deliberately and gradually reduced our proportion of retail space. It's worth repeating that retail stores (including our only shopping centre in Uppsala) currently only account for about 10% of Castellum's total rental income.

The logistics segment is a chapter of its own. Perhaps it is less known that Castellum is currently Sweden's largest owner and developer of logistics facilities. Total area is 1,470 thousand sq.m., rental value amounts to SEK 1.2 billion, and property value totals SEK 13.7 billion. Net operating income from this segment amounts to approx. SEKm 900.

HUI Research reports a very strong increase in Swedish e-commerce for 2017. E-commerce is currently estimated to account for approx. 35% of seasonal Christmas shopping and the trend has increased every month by 15–20% compared



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with same period last year. This development has a heavy impact on the demand for premises throughout the entire supply chain, all the way to the end-customer. Castellum is perfectly positioned in the e-commerce logistics chain to assume a leading role by managing well-situated buildings and properties from the Port of Gothenburg and peri-urban locations around high-growth cities. All the down that last mile to the consumer who can access deliveries via our new digital initiative, *Handly*.

As for offices, it is mainly about how to satisfy customer demand in the two growing cities of Stockholm and Gothenburg. The total production of office space is still less than these cities require, leading to increased rents and a focus on streamlined utilization of office premises. In a continuously growing economy, increased efficiency and effectiveness are crucial, and this process will be led by us in collaboration with our customers by utilizing new technologies.

Continued growth in 2018

Last year, income from property management increased by 5%, an increase that was affected by major property sales at the end of 2016. From where Castellum stands and operates today,

we’re looking at great possibilities to achieve our objective of 10% growth in income from property management in 2018. We intend to continue on this path and increase the quality and density of the portfolio, which means that we have to remain open to acquisitions as well as sales, alongside our comprehensive investment program.

The dividend tradition continues

And in conclusion, I’m proud to announce that Castellum’s dividend tradition continues strong, and for the 20th consecutive year, the Board has proposed an increase of the dividend of SEK 5.30 per share, equivalent of an increase of 6%.

Gothenburg, January 25, 2018



Henrik Saxborn
CEO