

# Property portfolio 2021

Castellum has a presence in three of the Nordic region's capitals and growth markets. We own the most properties of any Nordic property company, and our directly owned property portfolio is concentrated in select growth regions in Sweden, Copenhagen and Helsinki. Castellum is also exposed to robust sub-markets in Norway via its associated company, Entra.

Castellum's geographical markets can be characterised as stable, with good prospects for long-term positive development. The commercial portfolio consists of 58% office, 14% public sector properties, 9% warehouse/logistics, 6% retail and 5% industry. The properties are located in city centre locations and well-situated business districts, with excellent public transportation and services. The remaining 8% consists of developments and undeveloped land. Castellum has potential projects of 1,300,000 square metres estimated to start within five years, and large ongoing projects where the remaining investment volume totals approximately SEK 4.8 billion. Castellum's property portfolio at 31 December 2021 comprised 762 properties (642) with a total rental value of MSEK 9,177 (6,585) and a total lettable area of 5,853,000 square meters (4,477,000). For properties owned at year end, the net operating income after property administration expenses over the year was MSEK 5,899 (4,412).

## Investments in 2021

During the period, investments totalling MSEK 59,946 (5,158) were made in properties, of which MSEK 47,258 (—) were business combinations, MSEK 8,889 (2,646) pertained to property acquisitions and MSEK 3,799 (2,512) to new construction, extensions and reconstructions. After sales and cash settlements of MSEK 17,228 (891), net investments amounted to MSEK 42,718 (4,267).

During the year, the asset portfolio changed according to the table on the right.

## Sustainable property portfolio

Environmental inventories are to be carried out for all properties to identify and address environmental and health risks; currently these are 93% complete. Inventory is planned for the remaining 7%, which will be conducted over the next few years. Environmental inventories are updated every ten years.

When a property is acquired, it is analysed both in terms of energy utilisation and environmental risk; all new constructions and major reconstructions are certified for sustainability. Castellum owns the greatest number of properties among Swedish listed property companies; all together, 48% of the total area – equivalent to 206 certifications (1,853,000 square meters) – is certified for sustainability. Further certification is in progress for a further 138,000 square metres, equivalent to 4%. The purpose of certification is to reduce the property portfolio's climate impact and risks, reduce costs, create premises that are attractive to tenants and their businesses, and to improve safety and working environments for them.

The environmental risks in Castellum's property portfolio are considered small, and no fines have been paid for environmental offences.

## CHANGES IN THE PROPERTY PORTFOLIO

MSEK	Fair value, MSEK	Number
Property portfolio on 1 January 2021	103,042	642
+ Acquisitions	56,147	245
+ New construction, extensions and reconstructions	3,799	1
- Sales	-16,350	-126
+/- Unrealised changes in value	6,307	—
+/- Currency translation	201	—
<b>Property portfolio, 31 December 2021</b>	<b>153,146</b>	<b>762</b>

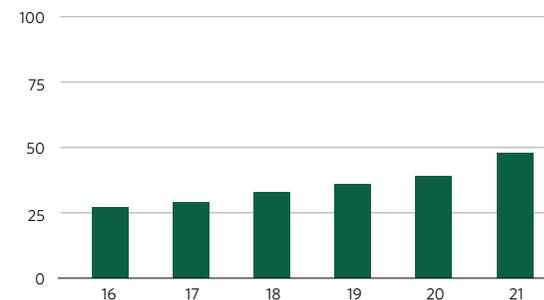
## CASTELLUM'S SUSTAINABILITY-CERTIFIED PROPERTIES<sup>1)</sup>

MSEK	Completed properties		Ongoing projects	
	Number of	thousand sq. m.	Number	thousand sq. m.
EU Green Building	36	279	0	0
Miljöbyggnad	48	398	11	98
BREEAM	113	1,080	9	39
LEED	8	96	0	0
WELL	1	0	1	0
<b>Sustainability-certified properties</b>	<b>206</b>	<b>1,853</b>	<b>21</b>	<b>137</b>

1. Certifications can refer to property, land or part of property.

## SHARE OF PROPERTIES CERTIFIED FOR SUSTAINABILITY

% of total area in sq. m.



## Sustainability and climate-related risks

Sustainability risks refer to risks directly or indirectly associated with environmental risks, climate change, the Code of Conduct and liability risks.

Risk	Management	Exposure
<b>SUSTAINABILITY</b>  <b>17. Operational environmental risks</b> Environmental risks directly related to Castellum's operations can include the physical environment that impacts people and properties, as well as prices for natural resources in the form of materials and energy. Castellum estimates that risks related to rising raw materials prices owing to potential resource shortages will increase over the long term. With new construction, extensions and reconstructions there is also a risk that the materials and methods being used could subsequently prove hazardous in the future. In addition, political decisions and general opinion on specific environmental issues could impact Castellum.	<ul style="list-style-type: none"> <li>All new constructions are certified for sustainability.</li> <li>Develop green relationships with customers.</li> <li>Require more efficient use of resources.</li> <li>Prioritise environmental aspects in all parts of operations.</li> <li>Monitor developments in laws and ordinances.</li> </ul>	<b>PRIORITY: FOCUS</b>  <b>DEVELOPMENT:</b>  Inadequate management of the work on environmental risks could affect Castellum's brand, legal compliance, and direct costs. Castellum works with certification for sustainability and environmental inventory to reduce environmental and health risks. 48% of the property portfolio is certified and 93% has undergone environmental inventory. Efficient property management focusing on decreased use of resources reduces the risk of high costs and environmental and health impacts, as well as providing customers with a healthy working environment. Since 2007, energy consumption has been reduced by 34% per square metre and carbon dioxide emissions by 77% per square metre.
<b>18. Risks attributable to climate change</b> Climate change poses a great risk to humanity from a global perspective. From a corporate perspective, climate change implies a risk of property damage caused by weather conditions changing over time, higher water levels and other changes in the physical environment that impact properties. Castellum estimates these risks will increase over the long term. This could mean increased need for investment in properties located in vulnerable areas, so that objects do not become obsolete. In addition, environmental policy decisions could impact Castellum, especially in the form of increased taxes or necessary investments.	<ul style="list-style-type: none"> <li>All investment issues are to be reviewed from a climate perspective in order to assess a property's sensitivity to climate change.</li> <li>All new constructions are certified for sustainability.</li> <li>Prioritise environmental aspects in all parts of operations.</li> <li>Monitor developments in laws and ordinances.</li> <li>Environmental inventory of existing portfolio and when acquiring properties, in order to identify and address environmental and health risks.</li> <li>Climate scenario analyses were drawn up in 2019 and are reviewed annually to provide Castellum with tools and knowledge of how climate change could affect its operations.</li> </ul>	<b>PRIORITY: FOCUS</b>  <b>DEVELOPMENT:</b>  Inadequate efforts in analysing climate risks can lead to extensive unforeseen costs for Castellum in the form of emergency measures or obsolete properties, and thus lost rental income. Climate change could also entail increased operating costs. Investments in the wrong kind of measures in our properties could result in a risk of unprofitable investments, if climate change is not taken into account. Castellum is currently reviewing every investment issue from a climate perspective; we also work with sustainability certification to reduce climate risks.
<b>19. Breach of the Code of Conduct</b> For a major player in the construction and property industry, there are risks pertaining to working environment, corruption and human rights. These risks can be found within the company, but also among suppliers and partners working on assignments for Castellum. This corporate responsibility risk can cause significant damage to Castellum's operations and brand.	<ul style="list-style-type: none"> <li>Mandatory training for Castellum employees on the internal Code of Conduct.</li> <li>Castellum's Code of Conduct for suppliers to be incorporated into contracts.</li> <li>Compliance function works systematically with monitoring and management.</li> <li>Whistleblower function.</li> <li>Comply with standards and documentation requirements.</li> </ul>	<b>PRIORITY: FOCUS</b>  <b>DEVELOPMENT:</b>  Risk of breaches of the Code of Conduct may exist internally as well as among engaged suppliers. Through properly integrated codes of conduct in the form of procurement requirements, mandatory training for all Castellum employees, an active compliance function and a whistleblower function, the risk of a breach is considered low.
<b>LIABILITY RISKS</b>  <b>20. Liability risks</b> All ownership entails responsibility. For Castellum, the properties could be destroyed by fire, water, theft or other damage. Moreover, through negligence Castellum could cause personal injury or property damage and cause environmental damage for which it will be held liable.	<ul style="list-style-type: none"> <li>Preventive measures to minimise the risk of damage to property, persons or the environment.</li> <li>Unlimited cover insurance on all properties.</li> <li>Insurance coverage for liability and property damage.</li> <li>Environmental inventory of existing portfolio and when acquiring properties, in order to identify and address environmental and health risks.</li> </ul>	<b>PRIORITY: MONITOR</b>  <b>DEVELOPMENT:</b>  Inadequate insurance coverage may result in unforeseen costs for Castellum. The obligation to pay compensation for damage caused can also arise for personal injury and damage to the property of another, as well as for remediation of environmental damage.

 Reduced focus on risk area since previous year.  Unchanged focus on risk area since previous year.  Increased focus on risk area since previous year.

# Emissions scenarios – risks and opportunities

Castellum uses emissions scenarios to identify financial and operational risks and opportunities linked to climate changes that impact the company over both the short and long term. The purpose is to ensure that both operations and the property portfolio have the conditions to manage climate changes.

## Climate reporting

For three years, Castellum has provided climate reporting in accordance with the voluntary international recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This year, the TCFD's updated recommendations for the property sector were also taken into account. The purpose is to report climate-related financial disclosures and make it possible for investors and other stakeholders to better understand the company's exposure to climate-related risks and opportunities.

## Two emissions scenarios: the world in 2050

In 2019, an analysis was conducted to evaluate climate risks and opportunities based on two different emissions scenarios linked to how the world might look in the year 2050. The scenarios used were developed by the UN Intergovernmental Panel on Climate Change (IPCC):

- Fulfilling the Paris Agreement (RCP 2.6)
- On the beaten path (RCP 8.5)

RCP 2.6 is a scenario in which we have succeeded in limiting the temperature increase to 1.5–2 degrees Celsius. RCP 8.5 is a “business as usual” scenario in which the world has failed to make

any changes and greenhouse gas emissions continue to increase at the current rate.

Both scenarios entail risks for Castellum, but opportunities as well. The company needs to be resilient, adapting its operations based on changed climate conditions both locally and nationally.

## Evaluating climate risks

Castellum conducts an annual survey of all the company's risks based on the perspectives of likelihood, impact, priority and development for a period of up to ten years. For climate risks, we have a more long-term perspective, with an analysis based on emissions scenarios up through 2050.

As regards climate risks, both physical and transition risks that could follow from a changed climate are assessed. Ahead of investments in new production, the climate risks are evaluated for a building during its technical service life, with emphasis on precipitation, extreme weather and the risk of flooding. The intermediate IPCC scenario, which involves emissions increasing up until 2040 and then tapering off, is also used here. Ahead of decisions on investment, the Head of Sustainability assesses the investment from a sustainability perspective, in which climate change is an important issue.

## The resistance of properties to climate change

Castellum is investigating the possibilities of evaluating the exposure of its property portfolio to climate change through participation in the EU-financed Carbon Risk Real Estate Monitor (CRREM) research project. This project will define scientifically-based measures to reduce carbon emissions in commercial properties and housing in the property sector for the purpose of achieving the Paris Agreement.

## “Fulfilling the Paris Agreement” (RCP 2.6)<sup>1)</sup>

- Greenhouse gas emissions halved by 2050.
- +1.5–3° C national temperature increase in Sweden.
- New renewable energy technology introduced on a large scale.
- Low energy intensity.
- Dramatic changes made to society, the infrastructure and buildings.
- The countries of the world succeed in collaborating on shared initiatives.
- Political decisions, taxes and regulations regarding greenhouse gases introduced.
- Increased regulations with sustainability requirements regarding land use and construction codes.
- Changed demands from customers and investors.

1. Sources: smhi.se/klimat/framtidens-klimat and TCFD, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities

## “On the beaten path” (RCP 8.5)<sup>1)</sup>

- Greenhouse gas emissions continue to increase at current rates.
- +2–4° C national temperature increase in Sweden.
- Rising ocean levels.
- More days with extreme weather and flooding.
- Increased number of forest fires.
- Unchanged behaviour and demands from customers and investors.
- High energy intensity and heavy dependence on fossil fuels.
- Political climate initiatives and collaboration fail.
- Poorer indoor climate impacts peoples' health.
- Increased population and immigration to Sweden.
- Operations become more event-driven owing to extreme weather.

1. Sources: smhi.se/klimat/framtidens-klimat and TCFD, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities

# The world in 2050

## Emissions scenario: "Fulfilling the Paris Agreement"

### Risks

- Increased regulation, taxes and fees for carbon emissions, land use, construction codes, etc.
- Older properties could become obsolete.
- Risk of unprofitable investments if unproven technology is used to rapidly initiate the transition.
- Requirements for zero emissions of greenhouse gases throughout the value chain; the circular economy requires major changes in the business model.
- Price increase for construction materials, transportation and energy owing to political restrictions.
- Volatile or steeper energy prices.
- Increased need for investments in new technology, new construction and existing properties.

### Opportunities

- Increased production of solar energy and increased use of renewable energy.
- Increased demand for innovation and new technology.
- Increased urbanisation and need for consolidation in core city areas make the portfolio attractive.
- Decreased energy needs owing to more efficient resource use.
- Changed customer and investor preferences, as well as increased sustainability requirements make Castellum an attractive property owner and investment.

### Potential impact on Castellum's financial performance

- Increased investments in the transition.
- Increased costs for climate adaptation.
- Increased operating costs.
- Decreased value of properties that are not climate-adapted or are located in risk areas.
- Increased value of climate-adapted properties.

## Emissions scenario: "On the beaten path"

### Risks

- Water damage owing to flooding in ocean-front constructions and low-lying zones.
- Damages to roofs and façades owing to extreme weather such as storms, heat waves and fires.
- Decreased demand for properties located in areas at risk.
- Risk of obsolete properties, since the cost of climate adaptation measures exceeds the value.
- Increased need for maintenance, repairs and periodic building closures, as construction materials and technology are negatively impacted by increased temperatures and a moist climate.
- Increased shortages of electricity and energy, which is strongly driven by increased electrification and the need for more energy in society.
- Increased competition from low-price operators who lack sustainable agendas.

### Opportunities

- Increased production of solar energy and increased use of renewable energy.
- Measures to enhance energy efficiency become more profitable to carry out.
- Increased requirements for indoor climate place demands on more adaptable properties and districts.
- Climate-adapted properties make Castellum a more attractive property owner.

### Potential impact on Castellum's financial performance

- Dramatically increased investments in managing climate changes.
- Dramatically increased costs for climate adaptation.
- Volatile or reduced rental incomes.
- Volatile or increased energy costs.
- Dramatic increase in operating costs.
- Increased insurance costs.
- Decrease in or eradication of value of properties that are not climate-adapted or are located in risk areas.
- Increased value of climate-adapted properties.

## Strategies that deal with climate risks and climate opportunities

- Net-zero carbon emissions according to the Science Based Targets initiative.
- Climate-proof properties.
- Production of renewable energy and energy storage.
- Enhancements to energy efficiency and limitation of effects.
- Sustainability programme for investments.
- Climate requirements for larger projects.
- Sustainability certifications and environmental inventories of buildings.
- Portfolio analysis of climate impact (planned).
- Increased focus on circularity and re-use of resources and materials.



### Castellum's "100 på sol" (100 on Solar) solar cell programme

Read more on pages 23, 26 and 33.

### Financial impact on rental income and the portfolio's value in the event of obsolete properties

In the IPCC's various emissions scenarios, the Nordic countries where Castellum conducts its operations are generally less affected by physical climate changes than countries further south in Europe. Castellum has developed a sensitivity analysis showing how the company is impacted financially if 10% of its properties become unusable or unlettable as a result of flooding or water shortages, or that properties that have not been adapted for climate become unattractive in the market. In 2020, a selection of the

properties in Castellum's portfolio were stress-tested. The test showed that approximately 10% of the properties analysed will be affected by physical climate risks in the RCP 8.5 emissions scenario. The stress-test initiatives and refined impact assessments will continue over the coming years.

Castellum	Reduced rental income (MSEK)	Reduced total property value (MSEK)
If 10% of properties become obsolete	635	15,315



## Reporting according to the Task Force on Climate-Related Financial Disclosures (TCFD)

For the fourth time, Castellum has adapted the company's reporting in accordance with the recommendations in the TCFD framework to describe how we work strategically with climate-related risks and opportunities. The table below describes the scope of the reporting and page references are made for the respective areas. In 2021, Castellum worked further on scenario analyses linked to climate change, which is reported on pages 84–86.

<b>GOVERNANCE</b> Recommended disclosures	<b>STRATEGY</b> Recommended disclosures	<b>RISK MANAGEMENT</b> Recommended disclosures	<b>INDICATORS &amp; GOALS</b> Recommended disclosures
<b>A.</b> The Board's monitoring of climate-related risks and opportunities.  Pages 74–86, 145, 148–150, 172	<b>A.</b> Climate-related risks and opportunities the organisation has identified.  Pages 84–86	<b>A.</b> The organisation's processes for identifying climate-related risks.  Pages 74–86	<b>A.</b> The organisation's indicators for evaluating climate-related risks and opportunities.  Pages 11, 13–15, 20–23, 171
<b>B.</b> Management's role regarding assessing and managing climate-related risks and opportunities.  Pages 20–23, 74–86, 172–175	<b>B.</b> Impact from risks and opportunities on the organisation's operations, strategy and financial planning.  Pages 6, 10–16, 20–23, 172–175	<b>B.</b> The organisation's processes for managing climate-related risks.  Pages 172–175, 184–186, 179	<b>B.</b> Emissions of Scope 1, 2 and 3 under the Greenhouse Gas Protocol.  Pages 179–181, 193
	<b>C.</b> Preparation of the organisation's strategy in consideration of various climate-related scenarios.  Pages 20–23, 84–86	<b>C.</b> Integration of the above processes in the organisation's general risk management.  Pages 74–86	<b>C.</b> Goals for managing climate-related risks and opportunities.  Pages 11, 13–15, 20–23, 171