


Operational risks

Operational risks refer to risks connected with routine administration of Castellum's property portfolio, which directly impacts income from property management. These can be categorised as rental income, dissatisfied customers/tenants, property costs and tax.

| Risk | Management | Exposure | DEVELOPMENT:  |
|---|--|--|--|
| RENTAL INCOME | | | |
| <p>13. Rental income</p> <p>Rental income is impacted by a number of factors, both external and internal. External factors may include falling market rents, loss of indexation and bankruptcy (see section on macroeconomic risks). Poor property management can result in dissatisfied tenants, unnecessary vacancies and customer loss owing to a poorly adapted customer offering.</p> | <ul style="list-style-type: none"> • Properties in growth areas and a contract portfolio with a large number of agreements, not dependent on a single tenant or business sector, and a maturity structure spread over time. • Proximity and attentiveness to customers. • Experienced and competent property management and leasing staff who prevent notices of termination through active renegotiations before contract expiry. • Competitor analysis; measure customer satisfaction and follow up on net lettings. • Strive for leases with an index clause with deflation protection and minimum adjustment. | <p>For Castellum, reduced income can be derived from lower rental value, which is the potential rent that can be obtained from vacant premises, or alternately lower rental income, which is the actual rent received. Rental income is thus dependent on both the market rent of the property and on how Castellum handles vacancies. Reduced rental income ultimately leads to poorer cash flow and thus to a decline in the value of the asset portfolio. Because of the pandemic, numerous companies have begun reviewing their office spaces. Will these companies need as much office space going forward? Many companies may let their staff work from home to a greater extent even after the pandemic. The needs for creating attractive meeting places that replace traditional office premises are increasing. The acquisition of Kungsleden entails a better risk spread through a more diversified contract portfolio as well as longer average tenors on leases.</p> | PRIORITY: FOCUS |
| <p>14. Dissatisfied tenants/customers</p> <p>Several tenants or customers are dissatisfied and leave the Group. The opportunity to attract new tenants disappears, with large vacancies and decline in value as a result.</p> | <ul style="list-style-type: none"> • Be close and attentive to customers. • Experienced and competent property management and leasing staff. • Annual measurement, Customer Satisfaction Index. | <p>Castellum has a strong and clear customer focus, and it is important that the Group lives up to its tenants' expectations. This is why a Customer Satisfaction Index measurement is conducted annually.</p> | PRIORITY: FOCUS |
| PROPERTY COSTS | | | |
| <p>15. Property costs</p> <p>Risks concerning property costs relate primarily to cost increases beyond what Castellum can be compensated for through contractual rents, indexation and supplementary charges for costs incurred. It can also refer to unforeseen costs and extensive renovation needs.</p> | <ul style="list-style-type: none"> • High percentage of cost re-invoicing. • Compensation via minimum indexation. • Continuous optimisation of operations and efficiency enhancement. • Demarcation list landlord/tenant. • Preventing customer losses via background checks and "in-house" debt recovery. • Long-term maintenance planning, in order to optimise maintenance costs over time. | <p>The price of electricity is determined by supply and demand in an open, deregulated and partly international market. Other media costs are partly controlled by local monopolies, which creates uncertainty in future costs. The basis for calculating site leasehold fees may change in future renegotiations, and political decisions can change both tax rate and tax assessment value used for calculating property tax. Indirect costs for employees – such as payroll taxes and other obligations – could also be affected by political decisions.</p> | PRIORITY: REVIEW |
| TAX | | | |
| <p>16. Tax</p> <p>Castellum failing to comply with existing regulations or to adapt to changing regulations regarding income tax and VAT. Additionally, tax is an important parameter in calculation context.</p> | <ul style="list-style-type: none"> • Strict internal control processes and external quality assurance of income tax returns, for example. • Open claims regarding doubtful items. • Routine training of employees. • Closely following trends in legislation, praxis and court orders. | <p>Incorrect tax governance can lead to the wrong tax being paid, tax penalties and in some cases to remarks in the auditor's report.</p> <p>Incorrect fiscal management in calculations can lead to overestimation of yield – which means insufficient actual yield – or underestimation of yield with the risk of a profitable investment not being made.</p> | PRIORITY: REVIEW |

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

Tax

At Castellum, there are a number of areas that are taxed: income tax on current earnings, property tax, VAT, stamp duty and energy taxes. Political decisions such as changes in corporate taxation, tax legislation or interpretations thereof may lead to Castellum's tax situation increasing or decreasing.

Tax policy

Castellum's work with taxes is governed in the company's tax policy. In managing its taxes, Castellum must comply with the company's tax policy, which in brief entails:

- Castellum must endeavour to pay the correct taxes in every country where it conducts operations.
- Castellum continually monitors changes to laws and legal praxis so that taxes are managed in accordance with applicable laws and regulations.
- Tax management will be evaluated as an integral part of the company's business decisions and general risk management. This evaluation will also take risks to brand and reputation into consideration.
- Castellum will acquire operations not in order to gain tax advantages, but because they are a fit with its business model. In the event of an acquisition, the laws and regulations in force will be complied with.
- The company will operate ethically, legally and in a businesslike manner in view of its tax expenses but at the same time will not operate in grey zones or engage in aggressive tax avoidance. "Aggressive tax avoidance" pertains to transactions that have no business purpose other than reducing tax, or transactions that could risk Castellum's reputation and standing as a responsible societal stakeholder.
- Castellum's contact with the tax authorities in the respective countries will be marked by openness and transparency. The company will openly describe the principles that govern its tax governance and the tax that is to be paid for its stakeholders. In cases where regulations are unclear or ambiguous, the spirit of the law will be interpreted and Castellum will be proactive and transparent through open requests, applications for preliminary decisions or alternately in dialogue with the tax authority.

- Castellum's tax policy will be revised on a regular basis and adopted by the Board at least once each year.
- Castellum's Chief Financial Officer is the document owner and responsible for the policy.
- Any breach of this policy is to be reported to Castellum's compliance function, also serving as the Group's Chief Legal Officer, who will in turn inform Castellum's CEO.

Income tax

Castellum's recognised income from property management for 2021 amounted to MSEK 3,522 (3,380), while taxable income from property management totalled MSEK 1,192 (1,404). In the absence of tax loss carry forwards, current tax of MSEK 246 (302) attributable to the income from property management would arise, equivalent to 7% effective tax paid.

Deductions for tax base depreciation

Property investments are divided into different components for which the Swedish Tax Agency specifies different deductions for depreciation: Buildings (2–5% depending on type of property), land improvements 5% and inventories 20% or 30%. Land is not depreciated.

Tax deductible reconstructions

Costs for building repairs and maintenance can be deducted immediately. The "extended repair concept" allows for direct deduction for certain types of reconstructions, even if they add value and are capitalised in the accounts.

Sales of properties

Properties can be divested directly or indirectly in corporate wrappers; each have different tax consequences.

Profit on sales of properties that fiscally represent fixed assets is taxable, while a loss is put in a "fold" and can only be netted against profits within the Group from direct sales of properties that represents fixed assets. Profit on sales of

TAX CALCULATION 2021

| MSEK | Basis current tax | Basis deferred tax |
|---|----------------------|-----------------------|
| Income from property management | 3,522 | |
| In associated companies | -161 | |
| Non-deductible interest | 174 | |
| Deductions for tax purposes | | |
| depreciation | -1,376 | 1,376 |
| reconstructions | -499 | 499 |
| Transfers to tax allocation reserve | -198 | 198 |
| Other tax adjustments | -271 | -312 |
| Taxable income from property management | 1,192 | 1,761 |
| Current income tax 20.6%, if tax loss carry forwards are not utilised | -246 | |
| Sales of properties | 1 | -9,063 |
| Change in values on properties | 0 | 6,307 |
| Change in values on derivatives | -32 | 32 |
| Taxable income before tax loss carry forwards | 1,161 | -963 |
| Tax loss carry forwards, opening balance | -603 | 603 |
| Tax loss carry forwards, closing balance | 2,236 | -2,236 |
| Taxable income | 838 | -640 |
| Tax according to the income statement for the period | -173 | 132 |

NET DEFERRED TAX LIABILITY, 31 DECEMBER 2021

| MSEK | Basis | Nominal tax liability | Actual tax liability |
|--------------------------------|----------------|--------------------------|-------------------------|
| Tax loss carry forwards | 2,236 | 461 | 461 |
| Untaxed reserves | -829 | -171 | -171 |
| Properties | -95,761 | -19,727 | -3,450 |
| Total | -94,354 | -19,437 | -3,160 |
| Properties, asset acquisitions | 10,128 | 2,086 | — |
| In the balance sheet | -84,226 | -17,351 | — |

Deferred tax is in principle both interest-free and amortisation-free, and can therefore be considered as shareholders' equity. Actual deferred tax is lower than nominal tax partly due to the possibility of selling properties in a tax-efficient way, and partly due to the time factor, which means that the tax will be discounted.

The net estimated real deferred tax liability has been estimated at 3% based on a discount rate of 3%. Further, assessments have been made that tax loss carry forwards are realised with a nominal tax of 20.6%, and that the properties are realised in 50 years and where the entire portfolio is sold indirectly in corporate wrappers where the buyers' tax discount is 7%.

shares that fiscally are considered fixed assets is not taxable, while a loss is not tax deductible.

For properties or shares that fiscally represent current assets, a profit is always taxable while a loss is tax deductible.

Changes in values on properties and derivatives

Swedish accounting laws do not allow recognition of properties at fair value in a legal entity, meaning that changes in value do not affect taxation. Certain financial instruments, such as interest rate swaps, might be measured at fair value at entity level.

Castellum has no ongoing tax disputes.

Deferred tax on the balance sheet

Above all, Castellum has three items that make up the basis for deferred tax: properties, tax loss carry forwards and untaxed reserves. All tax loss carry forwards are recognised since expected future taxable income may be used to net the tax loss carry forwards. Deferred tax attributable to properties arises primarily due to changes in value, tax deductions such as depreciation and deduction of certain reconstructions that are capitalised in the financial accounting. Untaxed reserves consist of transfers to the tax allocation reserve.

Property tax

Property tax is paid on almost all the Group's properties. Special buildings such as communication buildings, educational and healthcare buildings are tax exempt. For other properties, the tax rate – as set by the Swedish Tax Agency – depends on the type of building and site. For offices, the tax is 1% of the assessed value; for logistics and warehouse buildings, it is 0.5%. In Denmark and Finland, tax rates vary depending on which municipality the prop-

erties are located in. Property taxes for 2021 amounted to MSEK 401 (371), based on an assessed value of SEK 57 billion (42). A large part of the property tax will be charged onward to the customer, however, with higher rental income as a result.

Value added tax (VAT)

Properties are exempt from compulsory VAT. If a premises is let to a customer who runs a permanent VAT-liable business, the property owner can voluntarily register for VAT and thus deduct input VAT on both operating costs and investments. No deductions can thus be made for input VAT attributable to operating costs and investments in premises not registered for voluntary tax liability. Non-deductible VAT on operating expenses for 2021 totalled MSEK 19 (20) and was recognised as an operating cost. Non-deductible input VAT on investments for 2021 was MSEK 26 (33) and was recognised as investment in property.

Stamp duty

Upon acquisition of property in Sweden there is a stamp duty (title deed) of 4.25%, calculated on either the purchase price or the assessed value, whichever is greater. In Denmark, the corresponding tax is 0.6% and in Finland it is 4.0%. In Finland, a stamp duty of 2.0% can also be paid on shares in a property company. There is also an additional stamp duty of 2% (1.5% in Denmark) for mortgage deeds in properties. MSEK 116 (10) in stamp duties were paid in 2021.

Energy taxes

Castellum purchases energy to use for heating, cooling, ventilation and lighting in its properties. Of this, approximately MSEK 23 (26) pertains to energy taxes.

Employees

Employers in Sweden pay 31.42% in social security contributions based on salary and a payroll tax of 24.26% on pension contributions. In 2021, Castellum paid MSEK 114 (109) in social security contributions and payroll taxes.

Summary of tax

In 2021, Castellum's operations generated a total of MSEK 872 (816) in various taxes.

SUMMARY OF TAX PAID

| MSEK | 2021 |
|---|------------|
| Income tax | 173 |
| Property tax | 401 |
| VAT, not deductible | 45 |
| Stamp duty | 116 |
| Energy tax | 23 |
| Social security contributions and payroll tax | 114 |
| Total tax paid | 872 |

Note 10 Changes in value

Properties

Both interest in property investments (which was rather uncertain in the first half-year) and access to capital strengthened during the second half-year, which has resulted in a stable and strong property market despite it still being impossible to fully overview the effects of the pandemic. A certain amount of differentiation is occurring among different property types, with secure cash flows remaining particularly attractive. Castellum recognised an unrealised change in value of MSEK 6,307 (3,712). Moreover, sales of MSEK 878 (151) were recognised, comprising the sale and/or cash settlement of 126 properties. In the spring, 92 properties divided into two portfolios were sold to Blackstone, with vacancy in February and May respectively. In early July, parts of the portfolio acquired through Kielo that same month were sold. A portfolio of 17 properties was sold to Oscar Properties in November.

Derivatives

Castellum uses interest rate derivatives to achieve the desired interest rate maturity structure. If the agreed interest rate deviates from the market interest rate, notwithstanding credit margins, a theoretical surplus or deficit value arises in the interest rate derivatives, where changes in value not affecting the cash flow are recognised in profit or loss. Castellum also holds derivatives in order to hedge currency fluctuation in its investments in Denmark, Norway and Finland as well as to manage currency risk and adjust its interest rate structure in connection with borrowing in the international capital market. As for currency derivatives, a theoretical surplus/deficit value occurs if the agreed exchange rate deviates from the current exchange rate, where the effective portion of changes in value is accounted for in other comprehensive income.

The value of the derivatives changed by MSEK 325 (-120), mainly due to changes in long-term market interest rates.

Note 11 Income taxes

Recognised tax totalled MSEK -41 (1,413), of which MSEK -173 (-247) is current tax. Current tax is based on taxable income for the year, which is lower than the recognised earnings. This is mainly an effect of the possibility of using tax depreciation on buildings, using direct tax deductions for certain property reconstructions, which are capitalised in the accounts, tax-free sales of properties and utilising existing tax loss carry forwards. Deferred tax is a provision for future tax that will be paid when the properties are sold, and the depreciation for tax purposes and the capitalised investments deducted for tax purposes are reversed.

Swedish accounting legislation does not permit the recognition of properties at fair value in legal entities; that is why changes in value on properties only occur at Group level and thus do not affect taxation. Certain financial instruments, such as interest rate swaps, might be recorded at fair value at entity level. In Castellum's case, the changes in value on such instruments are covered in the Swedish interest deduction limitation regulations. Tax paid arises as a result of existing tax loss carry forwards being locked in and can thus not be utilised in the Group as a whole.

| Tax calculation for the Group | Basis 2021 | | Basis 2020 | |
|--|--------------|--------------|--------------|---------------|
| | Current tax | Deferred tax | Current tax | Deferred tax |
| Income from property management | 3,522 | | 3,380 | |
| In associated companies | -161 | | — | |
| Non-deductible interest | 174 | | 174 | |
| Deductions for tax purposes | | | | |
| depreciation | -1,376 | 1,376 | -1,319 | 1,319 |
| reconstructions | -499 | 499 | -392 | 392 |
| Transfers to tax allocation reserve | -198 | 198 | — | — |
| Other tax adjustments | -271 | -312 | -439 | 165 |
| Taxable income from property management | 1,192 | 1,761 | 1,404 | 1,876 |
| Sales of properties | 1 | -9,063 | 3 | -181 |
| Change in values on properties | — | 6,307 | — | 3,712 |
| Change in value on derivatives | -32 | 32 | — | — |
| Taxable income before tax loss carry forwards | 1,161 | -963 | 1,407 | 5,407 |
| Tax loss carry forwards, opening balance | -603 | 603 | -854 | 854 |
| Tax loss carry forwards, closing balance | 2,236 | -2,236 | 603 | -603 |
| Taxable income | 838 | -640 | 1,156 | 5,658 |
| Tax in profit or loss | -173 | 132 | -247 | -1,166 |

Tax loss carry forwards consist of prior years' tax losses. The losses, which are not restricted in time, are used to offset future taxable profits. Remaining tax loss carry forwards are estimated at MSEK 2,236.

Total tax may differ from nominal tax due to non-taxable/tax-deductible income/costs or as an effect of other tax adjustments. Total tax recognised by Castellum is less than nominal tax. The effective tax on income from property management, without consideration of tax loss carry forwards, can be calculated to 7%.

| Tax cost/income | Group | | Parent Company | |
|---|------------|---------------|----------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| Recognised income before tax | 11,869 | 7,028 | 3,551 | 1,764 |
| Tax according to current tax rate | -2,445 | -1,448 | -732 | -377 |
| Tax effects due to: | | | | |
| non-taxable dividend | — | — | 673 | 401 |
| non-deductible impairment, shares in Group companies | — | — | 121 | -14 |
| non-taxable reverse impairment, shares in Group companies | — | — | — | — |
| non-deductible interest/chg. in values on derivatives | 48 | -61 | -62 | -28 |
| non-taxable sales of properties/Group companies | 2,048 | 30 | — | — |
| other tax adjustments | 308 | 66 | — | 3 |
| Tax expense/income recognised | -41 | -1,413 | — | -15 |