

Chairman of the Board's comment

Shareholder value in the form of strong total yield

After an uninterrupted suite of six years of rising share indexes on Nasdaq Stockholm (SIX Return), 2018 would break the trend and end up in the red. The autumn was marked by international unrest, increased uncertainty and rising volatility in the world's stock markets.

Castellum's objective — or promise to shareholders, if you will — is to create long-term, sustainable shareholder value and growth under moderate risk. Castellum's ability and performance in the stock market is graded on a daily basis in its pricing, and through the total yield we can measure our value creation, both in absolute terms and relative to our sector in the geographies where the main portion of our shareholders are located.

Over the past year, we owners of Castellum shares have enjoyed a very strong yield on our investment — just over 22% — compared with the four percent downturn for the stock market as a whole, but also compared with the property index in Sweden (+15%), the Eurozone (-8%) and the UK (-13%).

Back in 1994, when Castellum rose out of the ashes of the real estate crisis of the early 1990s, its long-term target function was formulated from a clear shareholder perspective. As support for this architecture, the structure for the incentive program for senior executives was also established; it has run in three-year cycles and the Annual General Meeting will consider the period from 2020 to 2023 in March. It consists of two elements: one annual, and one measured over three years.

One of the tasks of the Board is to routinely evaluate the structure and level of remuneration for Group Management. We set aside the proper amount of time and energy to discuss, monitor and compare with other companies, as well as to set challenging goals that drive value. The basic philosophy is to keep fixed costs in the form of salaries down, and in return to offer variable remuneration that adds up to a competitive total. If the shareholders receive a healthy yield, it is reasonable to reward executive management as well. In the real estate industry, a number of larger players and competitors for Castellum are publicly owned, and are thus prohibited from offering variable remuneration to management; this has promoted a high level of fixed remuneration. Through its incentive program, Castellum can limit this burden. To further link the interests of executive management with those of shareholders, the participants additionally pledge to purchase Castellum shares for at least half of the variable remuneration paid, after tax. This gradual investment of taxed income promotes an understanding of long-term value creation, and gives the confidence to drive change.

The three-year portion of the ongoing program, which is linked in its entirety to the Castellum share's total yield, expires in May 2020 at which point the outcome will become clear. Viewed over a longer succession of periods, Castellum has offered its shareholders a healthy average yield: just over 20% over the last three years and just over 16% over ten years.

A significant portion of the total yield is the dividend. One promise to our shareholders is a dependable dividend linked to the growth targets in income from property management.

For a number of years, the business community in general — and the capital-intensive real estate industry in particular — have been living in a "perfect storm" of low financing costs and a strong economy, something that has also favored Castellum. We have been prospering, but Castellum's executive management — challenged and assisted by the Board — has also carried out a thorough repositioning of the company's real estate portfolio, with a top-quality customer offering and concentrating on growth hubs in the Nordic region. The fruits of these improvement efforts, which otherwise are a permanent component of building a company, will be harvested for a long time to come. In the short term — viewed over a few years — larger sales or acquisitions may impact growth so that it rises above or falls below the long-term trend.



Charlotte Strömberg, Chairman of the Board

For 2018, Castellum delivered particularly strong growth in income from property management: 17% compared with the goal of 10%, which gives the Board plenty of room to propose an increase in the dividend for the 21st consecutive year. Our proposal is SEK 6.10, an increase of 15%.

Unique position paves the way for transactions that create value

Castellum's Board of Directors works actively, continually developing its strategic agenda to achieve our long-term goals. The business environment is in a state of rapid change, with changing customer needs and behaviors, and — for the first time in many years — signs of a slowdown in the economy with the caution among decision makers that goes with it. As part of the annual evaluation of Board activities at the December meeting, we are monitoring performance, agreeing on focus areas, and are in dialogue with executive management for the coming year.

Despite the rate of change already being high, we have no plans to slacken our pace — quite the contrary. Our sights are set on creating value now — and also ten years from now. Allow me to touch briefly on a few decisive issues that hold significant opportunities as well as challenges.

Talent supply. Our ability to develop and attract the sharpest talent — not only in the real estate industry, but also in a broader job market — is crucial to our success. There is a broad set of perspectives represented on the Board, and we see shifts before us in the industry that will require supplementation, just as we are seeing shifts in technology where we are competing for specialists who have the entire world, and all sectors of society, as their workplace. Here, we see the potential for taking a position for existing and potential employees who want to be a part of breaking boundaries in an innovative environment.

Our ability to maintain a role as an **independent and financially strong player acting for the long term** has already created unique business opportunities not subject to competition; this is a position we will make sure we get additional leverage on.

The Nordic property market is a fragmented one. A few macroeconomic headwinds, generational shifts and rebalancing pension capital are all factors that will drive consolidation going forward. We at Castellum CAN — we have the financial capacity, the initiative, and the confidence; moreover, through a chain of complex transactions such as Norrporten and other portfolio transactions, we have shown that we WANT to — take part in structural changes. Access to our share as a means of payment can be a strength, as is access to the bond market not only in Sweden but also the Eurobond market after having received an investment grade rating and completed an initial issue in 2018. Castellum has persistently been shifting its financial position for several years to meet the rating requirements, and it finished the year with a loan-to-value ratio of 45%. The big figures are impressive, with a portfolio value of nearly SEK 90 billion and credit agreements of almost SEK 60 billion.

Another at least equally important aspect of our unique profile is that Castellum is building the sustainable cities of the future and — through a combination of acting for the long term and acting quickly — has quickly risen as a highly ranked partner for municipalities and other societal institutions.

Innovation, the confidence to break old patterns and to collaborate with new and old players, is a necessity for sustainable value creation. Historically, our industry has been protected by high barriers to entry and a traditional view of offerings. For us, it is completely obvious that new and disruptive business models are re-drawing the map. The office segment, for example, has been subject to aggregators in the form of co-working companies, in much the same way as the travel industry was exposed to Booking.com more than two decades ago. In warehouse and logistics, urbanization and changed consumption patterns have driven a shift in demand now that the retail trade is reconfiguring its supply chains. In both examples, Castellum has and is taking a leading position. Our starting point, with the largest listed office portfolio concentrated in regional and national capitals, as well as one of the absolute largest logistics portfolios, gives us room to develop attractive new customer offerings. The recently announced acquisition of United Spaces as the ground plate for continued growth in co-working, for example, also opens the way to exciting supplementary offerings to existing customers and the 250,000 people who have Castellum buildings as workplaces.

Finally, I would like to repeat the express goal of the Board and executive management that Castellum, through continual fast-paced improvement efforts, takes responsibility and hold the yellow jersey in **Sustainability**, which we give expression to as Castellum's Agenda for the Sustainable City 2030. Read more on pages 67-73, or in our sustainability section on the web.

Previously, I devoted a great deal of my space in both the annual report and at the meeting to this theme, which has for many years been an integral part of Castellum's daily work. Some samples from the past year are Castellum's climate goal for net zero emissions by 2030, being the first property company in the Nordic region to be approved by the Science Based Target Initiative, and clarifying our target for diversity in the dimension of international background to more closely reflect the composition of Swedish society. Our work in 2018 has also been honored in various ways, in particular the position as the only Nordic construction and property company on the Dow Jones Sustainability Index for the third consecutive year.

With a stimulating mix of challenges and opportunities, Castellum's Board of Directors looks forward to driving positive development alongside executive management for Castellum's customers, shareholders and employees, which goes hand in hand with building a sustainable society far beyond Castellum's borders.

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Charlotte Strömberg
Chairman of the Board