



Shareholders in Castellum,

Just as a building has to rest on a solid foundation, it is equally important for a real estate company to firmly base itself on a solid strategy.

The four cornerstones of Castellum's strategy include:

- Attractive and popular premises,
- A truly commercial organization,
- Cash-flow focus... and
- Low financial risk.

## Real Estate Portfolio



- 15 growth cities in Sweden from city to working areas
- SEK 34 billion and 3.4 million sq.m.



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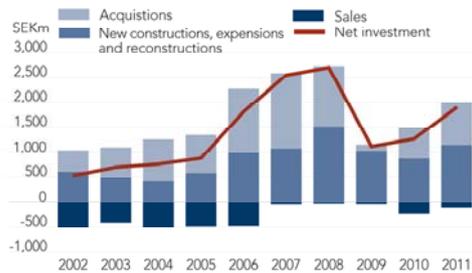
From a customer perspective, attractive premises are characterized by the following criteria:

**Well-adapted to their purpose; the right location; a price which corresponds to requested standards, and good service.**

We have a suitable mix of both appropriate premises and locality, and this succeeds in meeting Swedish trade and industrial demands.

The strategy is to always have a number of vacant premises to offer the market. We do offer vacancies in our portfolio, but they are not evenly distributed. There is generally a surplus of vacancies in Greater Stockholm and a shortage in Greater Gothenburg.

## Investments



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In order to meet our financial goals as well as provide the market with attractive premises, we have to invest. During the year, the goal was raised from SEK 1 billion per year to 5% of the portfolio, i.e., to approximately SEK 1.7 billion.

This year, we invested SEK 1.9 billion net, of which SEK 1.2 billion went to new construction and building alterations. The latter are preferable in many respects—not least from a performance perspective.

Three examples of major investments are shown, above:

At the top is Aurora: a new construction featuring 10 000 sq.m. of office space in Lindholmen, Gothenburg, for a total of SEKm 280.

In the middle is Gården in Tornby, Linköping: the new construction of five buildings, with a total of approx. 10 000 sq.m. of business space, for over SEKm 100.

The picture at the bottom gets to symbolize Denmark and Greater Copenhagen. For some time now, we have followed the development on the Danish side of the Öresund region, where 2.7 million people live—compared to about 1 million on the Swedish side. The business communities within this region are starting to integrate, although much still remains. The Danish economy is currently much worse off than the Swedish economy, and this has led to favourable investment opportunities.

It is against this background that Castellum's investment of SEKm 235 on the Danish side is to be viewed. In order to reach an effective organization over time, the goal is to acquire a group of properties adding up to a value of approx. SEK 1 billion within a few years.

**Commercial properties in growth regions**



**Customer focus through local organizations**



**Cash flow focus**



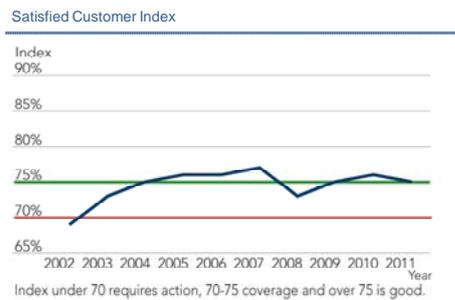
**Strong balance sheet and low financial risk**



The second pillar can be summarized as service management.

## Customer focus

- Satisfied customers
- 4,600 customers distributed in
  - size
  - geography
  - purpose
  - sectors
  - length of contracts



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Two main ingredients are required to successfully carry out the service management concept: customer focus and an organization that supports it.

Customer focus means living up to customer expectations, to deliver what is requested and to receive information of changes in customers' businesses early on. This requires close relationships to customers.

In addition to daily feedback from customers, we also conduct annual customer satisfaction index measurements, in which a number of areas are highlighted. We can conclude that Castellum scores well on these measurements: an index of 75—which is 5 points higher than the benchmark index.

We can, of course, become even better. Castellum subsidiaries which have a customer satisfaction index in the interval 71-80 (i.e., all of them scored over the industry average) work intensively with the areas where improvement potential is highest.

Castellum has many customers featuring good risk diversification.

## Service management with focus on the customers

- Decentralized and small-scale organization with local brands
- Local presence gives knowledge about the customer and the local trade and industry
- One of the three largest
- Leasing carried out by own personnel



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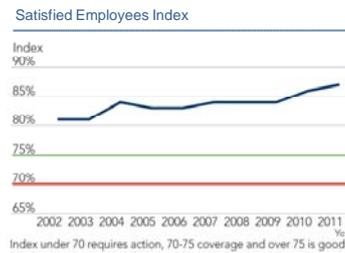
Castellum maintains a focus on existing and potential new customers, by assuring that employees work close to the customer. Customer focus also constitutes the rationale for why the organization looks as it does, with six wholly owned subsidiaries.

By maintaining a local presence and holding a position as one of the top three in each market area - with one or two exceptions - Castellum is the natural choice for customers who are looking for new premises.

This year's leasing amounted to SEKm 310, of which 85% was carried out by Castellum staff and 15% through agents.

## Employees

- 239 employees
- Satisfied employees
- Low absence due to illness
- Equal workplace



An organization is worth nothing without talented employees who feel they have an employer who can live up to their expectations.

I would strongly argue that we have talented and dedicated employees. Furthermore, I can also confirm that they, in turn, are satisfied with Castellum as employer, as monitored through our annual measurements in the Employee Satisfaction Index. This year, Castellum's survey performance reached its highest score ever: 87 points.

There are certainly many reasons for this high score. But primarily, I think it is due to Castellum's small-scale, flat organization. This is characterized by performance management and a strong leadership; everyone feels that they are an essential part of the whole.

It is of course also gratifying that 95% of employees also perceive Castellum to be an equal-opportunity employer.

## Executive Group Management



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Now that we are focusing on the organization and its employees, I would also like to present the Group Executive Committee of Castellum.

- My name is Tage Christoffersson. I am the CEO of Ekländia, which has 41 employees and manages property totalling SEK 6 billion in Gothenburg.
- My name is Christer Sundberg and I am the CEO of Harry Sjögren. We have 30 employees and we own properties worth SEK 5 billion in Gothenburg, Mölndal, Kungsbacka, Borås, Alingsås and Halmstad.
- Gunnar Östenson CEO of Briggen – 43 employees—with properties in Malmö, Lund, Helsingborg and now also in Copenhagen; SEK 7.3 billion in total.
- Anders Nilsson is my name and I am the CEO of Brostaden. Brostaden manages properties worth SEK 6.6 billion in Greater Stockholm and has 39 employees.
- My name is Claes Larsson, CEO of Aspholmen with 42 employees and properties amounting to SEK 5.2 billion in Örebro, Västerås and Uppsala.
- And I am Claes Junefelt, CEO of Corallen with 30 employees. We manage properties in Värnamo, Jönköping, Växjö and Linköping for a total of SEK 3.8 billion.

At the parent company, Castellum AB, there are three more members of the executive committee:

- My name is Ulrika Danielsson—Finance Director. I'm also responsible for Castellum's sound financial monitoring system and the highest quality assurance for information provided to the stock market.
- I am Anette Asklin—Financial Director Chief with responsibility for funding and financial risk management for Castellum's credit portfolio. This amounts to about SEK 22 billion.
- Henrik Saxborn, Deputy Chief Executive Officer of Castellum; also responsible for business development. I also sit on the boards of the subsidiaries along with Håkan and the respective CEOs.

**Commercial properties in growth regions**



**Customer focus through local organizations**



**Cash flow focus**



**Strong balance sheet and low financial risk**



In practice, cash-flow focus means that we actually prefer solid cash flow today to possible value changes in the future.

## Income statement

<i>SEKm</i>	<i>2011</i>		<i>2010</i>	
Rental income (fully let)	3,297	995 SEK/sq.m.	3,114	974 SEK/sq.m.
./ Vacancies	- 378	11%	- 355	11%
Property and adm. costs	- 1,086	300 SEK/sq.m.	- 1,044	298 SEK/sq.m.
Net interest rates	- 660	4.1% / 2.7 years	- 574	3.7% / 2.6 years
Income from property management	1,173	7.15 SEK/share	1,141	6.96 SEK/share
<i>Tillväxt - mål 10%</i>	<i>3%</i>		<i>1%</i>	
<i>Changes in value</i>				
Properties	194	+ 0.6%	1,222	+ 3.9%
Derivatives	- 429		291	
Tax paid	- 10		-5	
Deferred tax	- 217		- 685	
Net income for the year	711	4.34 SEK/share	1,964	11.98 SEK/share

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The income statement of a real estate group can be divided into two distinct parts: the cash-flow affecting items at the top of the above chart—including income from property management—and, below, the book-value changes.

Rental value increased by approx. SEKm 180, or 6%, of which 4% represent larger stocks. Vacancies remain unchanged in percentage—in value somewhat higher. Fixed costs are stable and have only increased because of a larger portfolio. Interest costs have increased by about SEKm 85, of which approximately SEKm 60 is due to higher borrowing costs and the rest is due to larger volume.

In all, this results in an income from property management, i.e., a cash flow, of approx. SEKm 1,173, which represents an increase of 3%.

During the year, property values have essentially remained unchanged. Why doesn't the change in value affect the inflation rate? Because at present, the anticipated future growth in the Swedish economy is lower than it was a year ago.

Over time, however, it is my firm belief that well-located and maintained properties are inflation protected. The average change in value over 10 years has been 1.5%, i.e., equivalent to the inflation rate.

Interest rate derivatives have their own lives. Instead of taking fixed-interest-rate loans to reduce the risk of interest, Castellum uses interest rate swaps, which are both cheaper and more flexible. The changes in value—primarily dependent on changes in long-term rates—can be significant for a single period, but over time the sum of value change is always zero.

To a great extent, tax is also a non-cash-flow-affecting item, since a real estate company like Castellum has the possibility to reduce paid taxes by tax depreciation. Castellum has no pending tax disputes.

Net income for this year - non-cash-flow items included - was SEKm 711, which is considerably lower than last year.

## Income per share over time



- Growth every year since the IPO 1997
- Average growth / year last 10 years 8%

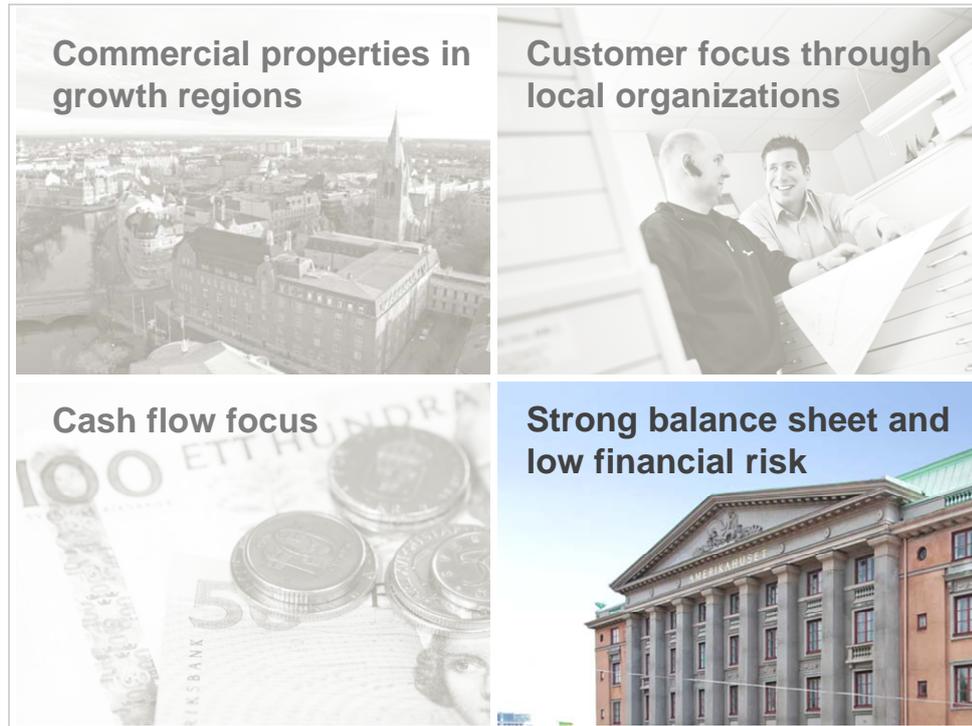
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Castellum has only one outcome objective and that is 10% growth in income for property management per share. As shown in the previous picture, this year's income for property management was SEKm 1,173. This is equivalent to SEK 7.15 per share - an increase of 3%.

The 10% objective is an ambitious goal that is both challenging and possible to achieve single years. However, it is almost impossible to reach every year without significantly increased risk-taking.

Although we did not reach our objective this year, we can nevertheless conclude that:

- We reached our objective once during the last three years, and four times in the last ten years
- This year, one of our six subsidiaries did reach the goal
- We have had an uninterrupted series of growth for 15 years, since the IPO in 1997
- Average growth over the past 10 years has been 8%



Opportunities and risks are closely related to each other. As for the other three pillars, we see more opportunities than risks in terms of operational issues. The organization can exert its influence to a great extent by investing in real estate, taking care of customers and filling vacancies – to name a few examples.

We have, however, decided to take low financial risks in markets that we cannot influence; such as credit and interest rate markets.

## Balance sheet

<i>SEKm</i>	<i>December 31, 2011</i>	
Investment properties	33,867	9,835 SEK/sq.m. 7.2% yield
Other assets	304	
	34,171	
Equity	11,203	
Deferred tax liability	3,714	NAV SEKm 15,920 / SEK 97
Derivatives	1,003	
Interest bearing liabilities	17,160	LTV 51% Strategy <55
Non interest bearing liabilities	1,091	
	34,171	

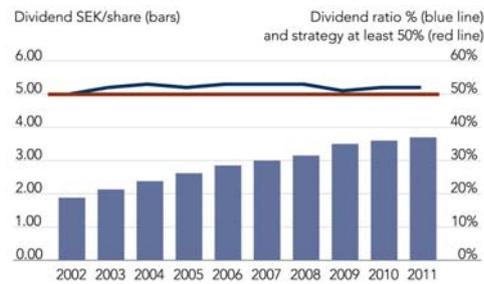
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Castellum thereby focuses on a strong balance sheet with low leverage (51%) and high interest coverage ratio (278%). In both cases, there is a wide margin to the strategic objectives of 55% and 200% respectively. The average residual maturity of Castellum's credits is 5 years, and at year-end, Castellum had unused long-term binding credit agreements amounting to SEK 2.3 billion.

Shareholders' equity amounted to SEK 11 billion and when interest-free and deferred payments—such as deferred tax and interest rate derivatives - are added, the net asset value amounts to just under SEK 16 billion, which is equivalent to SEK 97 per share.

It is also worth noting that the property value of SEK 34 billion, or just under SEK 10 000/sq.m., is well below the new construction prices.

## Dividend



- Proposed dividend SEK 3.70 per share – a dividend yield of 52%
- Growth every year since the IPO 1997
- Average growth per year last 10 years 9%

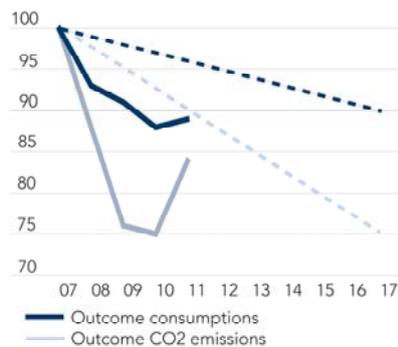
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This year's growth in income for property management and the strong financial position have enabled a dividend increase of 3% to SEK 3.70. The payout ratio corresponds well with the strategy to distribute at least 50% of the income for property management.

Since income for property management has increased each year, the dividend has also increased every year since the IPO - something that, as far as I know, makes Castellum unique among the Swedish listed companies.

## Responsible and sustainable business

- Economic
- Social
- Environmental



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A responsible and sustainable business enterprise can be divided into three areas, two of which I have previously described.

Economically: Castellum is a long-term player with low risk.

Socially: A clear focus is to be held on interest groups such as employees, customers, suppliers, shareholders, municipalities and state, universities and colleges. Or, in other words: we have the ambition to be a good corporate citizen.

It is to be noted that we only operate in Sweden (and Denmark), where society has come a long way in terms of human rights, legislation, recommendations and agreements. Everything can of course be improved, but we have come far.

The same reasoning applies to environmental issues in our sector. For a long time, the Swedish construction norm has had relatively high standards regarding new constructions. There are many issues to consider, such as choice of material, waste disposal and water consumption, but we have chosen to focus on and target two areas - energy consumption and carbon emissions.

Having worked hard with these issues since the late 1990s, the goal was set in 2007 to reduce energy consumption by 10% as well as reduce CO2 emissions by 25% - during a 10-year period.

As illustrated in the above chart, we're approaching our goal. Since 2007, we have reduced our energy consumption by 11% and CO2 emissions by 16%, through investments and operating efficiency. CO2 emissions were reduced despite the fact that several district heating plants changed fuel mix for the worse last year.

Today, all new constructions are environmentally classified and Castellum owns almost half of Sweden's just over 200 Green Building classified properties.



Well, has our strategy been successful from your perspective as shareholders?

## Total yield Castellum share

	2011	3 years average/year	10 years average/year
Total yield Castellum share	- 3%	18%	17%
Real estate index Sweden (EPRA)	- 13%	17%	15%
Real estate index Europe (EPRA)	- 9%	13%	5%
NASDAQ OMX Stockholm	-14%	19%	6%

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The year 2011 was not a prosperous year regarding the total yield of the Castellum share, -3%. However, when seen over longer periods of time, 3 and 10 years respectively, the total yield is high - as are the absolute and relative index scores, despite lower financial risk .

Within the Swedish real estate sector, Castellum holds the highest free-float market capitalization as well as the highest share liquidity. For quite some time, the proportion of foreign shareholders has hovered around 50%.

## The Castellum share

The share's earnings multiple

7.01 / 90

**7.8% (P/E 13)**

The share's dividend yield

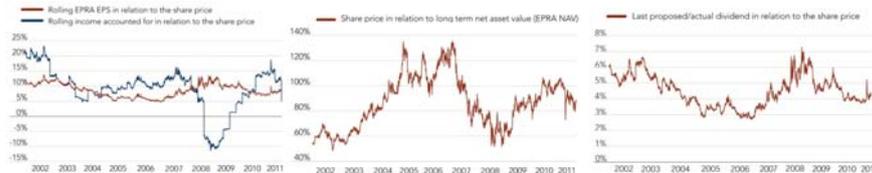
90 / 97

**93%**

Share price/net asset value

3.70 / 90

**4.1%**



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The above graphs show the three perhaps most important share-price-related key figures.

Earnings per share - excluding changes in value - in relation to share price, amount to 7.8% or, conversely, P/E 13. When changes in the value of properties are included - corresponding to a 1.5% inflation rate - the yield earnings are 11%. This results in a P/E multiple of 9.

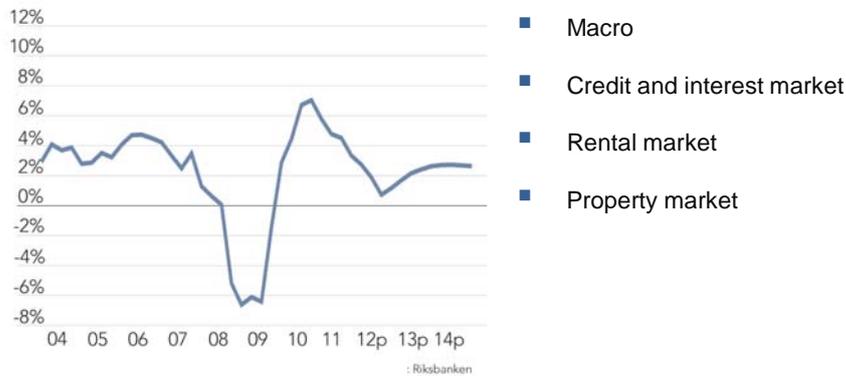
The share price in relation to long-term net asset value amounts to 93%, i.e., a 7% discount.

The actual dividend in relation to share price - i.e., the dividend yield - is 4.1%.



What is to be expected in 2012, which is already almost 3 months old?

## Castellum and the market changes



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First a little about the background conditions: the prevailing Swedish economy is extremely important to the sector in general, and to Castellum in particular. The graph above illustrates GDP growth. This interacts to a great extent with other key figures such as inflation, short-term interest rates and employment rate. Hence the GDP provides us with a fairly accurate - although perhaps a somewhat drastic - outlook on the Swedish economy.

Sweden is doing well; perhaps not as well as we believed a year ago, but still acceptably well in absolute numbers and well compared to the western world in general. Apart from the usual business cycle fluctuations, I can possibly see a market that is not in full balance: the credit and interest market. The problems are mostly imported ones, but there is still turbulence on the credit and interest market, causing unusually high margins.

I believe that the best way to describe current and foreseen rental and property markets is via the following two diagrams.

## Rental and property market



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The red curve to the left illustrates that Castellum's net leasing - that is, what is leased minus notices of termination - corresponds well with the development of the Swedish economy. The demand is still on good levels, even if a certain dampening has been seen since the last quarter of the previous year. However, new constructions have been limited, and this is why I do not perceive any great risk in general for imbalance on the rental market.

The pattern was also broken in the property market during the last quarter of the year—a quarter that is usually significantly higher than other quarters. There are plenty of sellers as well as buyers and equity capital in the marketplace. There is, however, a certain shortage of interest bearing credits. Property assets are still considered interesting though and yield – on record high levels compared to the Swedish government bonds.

During 2011, property prices remained stable and it is difficult to perceive any circumstances that would alter them significantly.

Development						
	2008	2009	2010	2011	Assessment 2012	Scenario 2013
GDP (~ inflation)	→	↓	↑	↑	→	↑
Rental level	↑	↑	→	↑	↑	→
Vacancies	↓	→	↑	→	→	↓
Property costs	→	↑	→	→	→	→
Interest rate costs	↑	↓	→	↑	→	↑
Net investments SEKbn	2.7	1.2	1.3	1.9	2.0	2.0
Income from prop. mgmnt	5%	16%	1%	3%		
Property prices	↓	↓	↑	→	→	↑

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The general notion of the Swedish economy is that there will only be moderate economic growth in 2012, which will then increase in 2013.

Concerning Castellum, I believe that it is mainly inflation adjustments that will affect the rental levels. Inflation for 2011 indicates an index adjustment for 2012 of approximately 2%, whereas the inflation for 2012, as well as the adjustment for 2012, is perceived to be limited. Since there is a delay of 12-18 months between net lease and vacancies in the income statement, I believe in stable vacancies for 2012, with no decrease until 2013.

The price picture remains stable at approximately SEK 300/sq.m., but can, of course, fluctuate, depending on the winter climate.

With regard to interest rate expenses in 2012, there are two variables that are expected to level out each other: lower short-term market interest rates, and higher margins for the creditors. An increase in the business cycle will most probably contribute to higher interest rate levels in 2013.

With a remaining volume of SEK 1.1 billion in initiated projects, and a strong balance sheet with unused long-term binding credit agreements, my assessment is that we will reach SEK 2 billion in net investments for each of the two forthcoming years.

Finally, and perhaps the most difficult: my assessment is that we will enjoy moderate real growth, leading to stable property prices for 2012, along with some adjustment for inflation in 2013.



However, even if we are heading towards a slowdown in economic growth, it will be compensated for by the favorable position in which Castellum finds itself: with strong customer contacts, efficient and engaged employees and, last but not least, a strong financial position.

We will do everything in our power to continue to deliver growth at Castellum.

Thank you for your attention.