



President and CEO Joacim Sjöberg's address at 2023 Annual General Meeting

Our esteemed shareholders, employees, and guests:

The times we are living in are one of crisis after crisis. A global pandemic was succeeded by the war in Ukraine, which in turn caused a European energy crisis and drastic inflation in the West. The black swan, so feared by the finance market, turned up a little over 1,000 kilometres south of Sweden.

Today, we have a situation where interest rates are rising sharply, and there is continued uncertainty regarding how quickly we can overcome inflation and thus what the course of interest rates will look like in the next few years.

As you know, the property industry is one that is sensitive to interest rates, and the uncertain times we find ourselves in are reflected in the volatility and trends in the stock market.

Castellum, which is one of the Nordic region's largest commercial property companies, is impacted by the market climate just as much as others in the industry. But I would also like to remind you that we have many good years behind us. With our surplus, we have been able to pay dividends to you, our owners, and we have invested for growth. We have created an increase in earnings through acquisitions, and have a stable cash flow with a highly diversified customer base and inflation-proof leases. At the same time, we have increased the quality of our asset portfolio through new production as well as through acquisitions and divestments. These will be stabilising factors in times of uncertainty and a weaker economic cycle.

We cannot sum up the past year without starting with the robust growth and performance yielded by the acquisition of Kungsleden.

In addition to 210 new properties, 120 new employees, and SEK 2.8 billion in increased rental income, the combination has entailed a range of synergies owing to



the geographical overlap of properties and, moreover, reduced administrative expenses per square metre. Above all, we have obtained a stronger and even more competitive organisation with many skilled employees. As a large and growing operator in the Nordic property market, we can attract the very best in the sector, which will boost our competitiveness and capacity going forward.

Castellum has built up a strong Nordic platform over the past few years, with acquisitions in Finland and an ownership share in the Norwegian company Entra. At year-end, the sum total of the asset portfolio was SEK 181 billion. This is a doubling in size over 3 years. We own 749 properties and have 8,000 leases with a rental value of SEK 9.8 billion per year.

Castellum's customers are a cross-section of the Swedish business and public sectors. This means that we are not overexposed in any of the most vulnerable sectors, but have strong diversification and thereby a healthy risk spread. One out of every four kronor in revenue is financed by the Swedish state, and our second-largest tenant is the Swedish Police – an operation that will continue its robust expansion in coming years.

Three quarters of the asset portfolio is offices and public sector properties in strong growth cities. The remaining one quarter comprises logistics and warehouses, and a small share of retail that Castellum has chosen, for strategic reasons, to decrease ownership of in recent years.

Castellum's net lettings have increased for twelve quarters in a row, and at year-end totalled SEK 161 million. In the like-for-like portfolio, rental income increased by 7.2 per cent *before* adjustments for inflation of around 10 per cent that will be seen in the income statement next quarter. In light of the concern over the office market that



arose during the pandemic, I regard this as a reassuring sign. The office is needed, as a meeting place, a vessel of culture, and the cement that holds society together. I believe that most of us realised this after the trials we endured during the pandemic.

It may seem paradoxical in the crisis year of 2022, but Castellum's core business delivered strongly, and at the half-year mark we reached our highest occupancy rate ever: 93.7 per cent.

Demand for offices and logistics/warehouses was significant throughout the year, with increasing rental levels. One of our major lettings during the year was 5,300 square metres to Martin & Servera, for whom we are developing a new head office in the Kungsholmen district of Stockholm, in the former premises of the Swedish Work Environment Authority.

But we also had increased operating costs as a result of the energy crisis and inflation. Operating costs increased by 20 per cent last year, driven primarily by runaway energy prices.

The company is carefully monitoring cost trends, and has identified different areas where costs need to be held in check in coming years. One of these areas is administrative costs, which were unusually high as a result of duplicate systems, duplicate functions, and higher personnel costs during the process of combination. Our employees are certainly the most important factor where achieving our goals are concerned, but we must continually adapt ourselves to the circumstances. Another key area is energy costs, where during the year we bound prices at unusually high levels. This will affect earnings in the first quarter of this year as well, but will subsequently fall back to lower levels again.

Every year we conduct a trend analysis titled **Work Life of the Future**, where we investigate the role of the office in the future. The latest survey (with just over 2,600 respondents) shows that:

- A majority feel that the office is **more important than ever**.
- Expectations for a **hybrid-positive** work environment are significant.
- Another interesting aspect that emerged is that the significance of the **office's location has changed**. Previously, proximity to retail and service offerings was in demand; now, **opportunities for exercise** and for **parking** are more important.

Other interesting data shows that:

- 8 out of 10 want to work at an office, either part-time or full-time
- The office is important or key to the culture, say 66 per cent
- 89 per cent feel their colleagues are the most important feature of the workplace

So the office market undoubtedly has a bright future if we look at what office users themselves are saying.

In the last quarter of the year, we impaired the property values in our portfolio by roughly 4 per cent. Spread out over the full year, the change in value was negative 2 per cent. The required market yield was impacted by rising interest rates and credit margins. At the same time, improved cash flows linked primarily to inflation indexing in the leases offset the higher required yield to some extent.

We internally evaluate the entire property portfolio every quarter in a robust evaluation process based on accepted market practice. In order to provide further assurance for the internal valuation, the values in Q2 and Q4 are confirmed by external assessments. In total, around 50 per cent of the property value was externally evaluated in Q4, and looking at full year 2022, nearly 75 per cent was externally evaluated.

In the autumn of 2022 we sold properties for around SEK 2.2 billion, and additionally letters of intent for an additional SEK 1.8 billion were signed. Sales have been on par with the latest valuation, and are proof that our property valuation is correct.

As I noted at the beginning, we find ourselves in a time of one crisis in the business world after another. This has had a major impact on the capital market, above all in the European bond market, where Castellum has half of all its financing.

The stock market has priced in even higher interest rate hikes going forward, which had a major effect on price performance in the preceding year. There was some recovery late last year and early this year, but from low levels.

It is the company's highest priority to further strengthen its financial position and safeguard its credit rating, which is important for us on the European bond market.

The loan-to-value ratio at year-end totalled 42 per cent. This must be brought under 40 per cent during the year.

With its own bank balances and bank loans, Castellum can manage all the maturities of its bonds during the year, but protecting and strengthening our credit profile requires greater margins than this, and it is in this light that we propose that the Annual General Meeting resolve on a new share issue for approximately SEK 10 billion.

Castellum has increased its project volume in recent years, thereby obtaining a sizeable addition to its asset portfolio with high quality and lengthy contracts in our locations with the most robust growth. In 2022, just over SEK 6 billion was invested in projects. 10 property projects were completed, with an annual rental value of SEK 220 million. The contract length is 12 years or more.

A few examples of completed properties are:

- Korsningen – 5,700 square metres for the Swedish Police in central Örebro. Our first NollCO₂-certified office building, made entirely of wood.
- GreenHaus – 7,000 square metres in the best location in the Oceanhamnen district of Helsingborg. Tenants include Grant Thornton, AFRY, and the

Helsingborg Healthcare Centre. GreenHaus has also been nominated for Building of the Year by the construction industry, which will be announced here in Stockholm on 28 March.

- Rotterdam, where we are now located for this AGM; 22,300 square metres with tenants including the production company NEP, Kanal 75, the sporting equipment company Head and the Eatery restaurant.

We are now slowing the pace of investment in favour of the balance sheet and amortising liabilities.

In 2023, just over SEK 2 billion was invested in the completion of ongoing projects. The company is putting greater focus on the completion of the ongoing projects and has an attractive development portfolio to start up with when the market conditions are favourable once more.

A few examples of the projects that will be completed during the year are:

- E.ON's head office in Malmö, 31,500 square metres, to be completed in late March
- The Swedish National Courts Administration building in Malmö, 26,500 square metres, also to be completed in March.
- The Hornsberg 10 property in Stockholm, where Martin & Servera will have its new head office; 8,700 square metres in total, completed in Q3.

Completed projects in 2023 will generate around SEK 280 million in rental value annually.

In 2021, an ownership share of 33 per cent was acquired in Entra ASA, the crown jewel of the Norwegian property market. This holding forms part of our Nordic strategy. Entra's asset portfolio contains the highest-quality properties in all of Norway, primarily in central Oslo. The company's management is very strong and



knowledgeable, it has an efficient capital structure and issued a significant dividend of around SEK 300 million in 2022.

In addition to the annual dividend, Castellum is able to include Entra's earnings in its report since ownership shares over 20 per cent result in associated company status.

The holdings in Entra give Castellum good exposure to the Norwegian property market with minimum effort in managing an asset portfolio of SEK 27 billion (Castellum's share). In practice, Entra is "Castellum Norway".

Castellum has long had a sharp focus on sustainability, and today it is a well-integrated part of the entire operation.

One of our largest areas of focus is enhancing energy efficiency, together with an increased degree of self-sufficiency in electricity through solar PV systems. This saves the environment and saves money for both ourselves and our customers.

Our property portfolio is very well suited for rooftop solar PV systems. The fact is that we have several record-setting rooftop solar PV systems, where the roof on Jollyroom's warehouse premises in Hisingen, outside Gothenburg, is the largest in northern Europe with a full 30,000 square metres that generate 3.3 million kWh per year.

All together, Castellum now has 76 plants covering 83,500 square metres that produce 7,339 MWh – which corresponds to 7 per cent of the company's annual energy consumption.

Energy efficiency in the property portfolio is one of the best in the industry. Energy consumption per square metre was 41 per cent better compared with the industry average. In 2022, we successfully reduced consumption by an additional 4.0 per cent in the like-for-like portfolio.



Another major – and quite new – focus for us is increasing the share of re-used materials when developing and adapting our premises. Castellum’s carbon dioxide emissions come primarily from material used in new production and renovations, where the manufacture of materials such as steel and concrete are the largest source of inspiration. Around 10 per cent of our emissions come from operating and managing our properties. Roughly 90 per cent of the emissions from us and from the industry are in the form of indirect emissions from new production and renovations.

Smart materials choices and re-use of material is an important – and crucial – way of reducing emissions. As a tangible example, I can name an ongoing renovation project for putting 5,300 square metres in order for Martin & Servera’s new head office in Stockholm, where we removed and saved 170 doors, 300 windows, and 200 glass panels for re-use. The windows were given a new life at a construction project in Estonia. The total climate savings in this project was 34 tonnes of carbon dioxide. This corresponds to driving a car almost 3.5 times around the globe.

Our sustainability commitment is also a social one. Every year, we offer apprenticeships and internships that help young people and newly arrived immigrants gain a foothold in working life. In our major new production projects, we also set requirements that our contractors offer apprenticeships. In 2022, 91 people had apprentice or intern jobs with us.

We also have a long-term partnership with Fryshuset in Stockholm, Gothenburg and Malmö, where we sponsor projects that are aimed at supporting young people and their families in vulnerable areas. Taking active responsibility for increased safety and inclusion in the areas where we ourselves operate is a key part of developing sustainable cities and simultaneously supporting our own business. In today’s vulnerable climate, this is a highly relevant matter.



I've said quite a lot now about how fantastic Castellum is. But the prospects for 2023 are divided, and we will face the challenges ahead with humility. Operationally, Castellum's underlying business is performing well, with stable cash flows and a low vacancy rate. At the same time, the finance market is characterised by continued uncertainty.

Looking forward, it is a matter of keeping to the clear strategy that has served Castellum since 1997. A focus on cash flows, an active portfolio shift towards higher quality, and geographical concentration on growth cities in the Nordic region.

Castellum has a strong starting point with stable rental income from a cross-section of Swedish business life and the public sector, which creates excellent resilience and risk spread in a slump.

As I mentioned previously, our greatest focus in the immediate future will be the company's financial stability and credit profile.

The proposed share issue will be used to secure our credit rating, pay off liabilities, and conclude ongoing projects that will generate a significant addition to the cash flow.

As previously communicated, we will also continue to divest properties that are not strategic to us or where, quite simply, we do not get paid very well. This will strengthen the balance sheet while we continue to increase the geographical streamlining in the portfolio.

I would like to take this opportunity to thank our employees for their fantastic efforts in 2022, when they put tremendous time and energy into integrating two major companies while the market situation changed radically with inflation and an energy crisis.

I would also like to thank all our tenants, partners, creditors, and especially you, our shareholders, for your tremendous commitment during a challenging year.



Thank you!