



CASTELLUM

INTERIM REPORT  
JANUARY-SEPTEMBER

2017

# Interim Report January-September 2017

Castellum is one of the major listed real estate companies in Sweden. The fair value of the real estate portfolio amounts to SEK 77 billion, and comprises of commercial properties for office, retail, warehouse and logistics totaling 4.4 million sq.m. The real estate portfolio is owned and managed under the Castellum brand through a decentralized organization with strong and clear local presence in 20 cities from Copenhagen in the south to Sundsvall in the north. Castellum is listed on Nasdaq Stockholm Large Cap.

- Rental income for the period January-September 2017 amounted to SEKm 3,866 (SEKm 3,166 corresponding period previous year).
- Income from property management amounted to SEKm 1,956 (1,492), corresponding to SEK 7.16 (6.74) per share, an increase of 6%.
- Changes in value on properties amounted to SEKm 2,069 (2,065) and on derivatives to SEKm 204 (- 224).
- Net income after tax for the period amounted to SEKm 3,424 (2,491), corresponding to SEK 12.53 (11.25) per share.
- Net investments amounted to SEKm 4,560 (30,197) of which SEKm 3,452 (28,894) were acquisitions, SEKm 1,980 (1,384) new constructions, extensions and reconstructions and SEKm 872 (81) sales.
- Net lease for the period was SEKm 251 (94).

## KEY RATIOS

	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept
Rental income, SEKm	1,303	1,359	3,866	3,166
Net operating income, SEKm	954	967	2,731	2,176
Income of property management, SEKm	708	672	1,956	1,492
<i>D:o SEK/share*)</i>	2.59	2.46	7.16	6.74
<i>D:o growth</i>	+5%	+6%	+6%	+11%
Net income after tax, SEKm	777	1,647	3,424	2,491
Net investments SEKm	711	539	4,560	30,197
Net leasing, SEKm	52	47	251	94
Loan to value ratio	49%	53%	49%	53%
Interest coverage ratio	429%	359%	396%	355%
Long term net asset value (EPRA NAV) SEK/share*)	142	123	142	123
Actual net asset value (EPRA NNNAV) SEK/share*)	127	111	127	111

\*) The number of historical shares that have been recalculated with reference to the bonus-issue element (i.e. the value of the subscription right) in the completed new share issue. For more detailed information about Castellum visit [www.castellum.se](http://www.castellum.se).

Cover photo: Interior image from Castellum's head office in Gothenburg.



## Sustainability creates shareholder value

Castellum has invested in sustainability for many years, and the general definition of the field has changed over the years. For us, sustainability is not only about complying with regulations and requirements or winning coveted awards. It should be seen as an important investment for future profitability. Our customers and all their employees are expecting that we remain at the forefront pertaining sustainability and digitalization. In the future, they will be willing to pay more for a better all-round environment, and they will definitely be reluctant to settle for lesser options. Although sustainability is a well-used expression, there is much left to do and it is a key competitive factor that we continue to optimize.

We therefore view it as a great success that Castellum is now ranked both the world's top sustainable real estate developer as well as global-sector leader for the second consecutive year by the GRESB (Global Real Estate Sustainability Benchmark). For the Castellum share and our loan-financing status it is perhaps even more important that we are the only real estate company in the Nordic region to be included in the Dow Jones Sustainability Index.

### A broad view of sustainability

We're clearly aware that sustainability can be perceived as a rather vague concept. In Castellum's world, sustainability goes far beyond clean air and a healthy work environment. For us, the concept also encompasses facilitation of day-to-day working life or helping as many people as possible to acquire a meaningful job. Important examples include our apprenticeship program and Project *Samspelet*, where we have teamed up with Peab, a leading Nordic construction company, for an initiative connected to construction of the Citypassagen project in Örebro. Through this major development project, a platform has been created to promote meetings, inclusion and integration. Our partner in the project is the Örebro County Sports Association. The core idea behind the cooperation is to create entirely new conditions for community integration. In addition, the purpose is also to establish interest in the construction and real estate industries, where the recruitment need will be great in the next few years.

We're convinced that our investments in sustainability will create higher profitability, and also resulting in increased shareholder value for Castellum's shareholders.

### Leasing reaches another high level

As previously announced, the third quarter was affected – both from a growth perspective and compared with the same quarter last year – by the major sale of the Norrporten properties at the beginning of the year. With regards to this we delivered a 5% per-share increase in income from property management for the quarter, and accumulated over three quarters, the increase remains



at 6%. Once again, net leasing reached a strong level: + SEKm 52 during the quarter; + SEKm 251 so far, this year. The trend of increased leasing in the existing portfolio continues: SEKm 310 compared to SEKm 210 last year. In terms of income, the result will come into effect after a delay of 9-18 months.

The loan to value ratio remained stable, at 49%, even when the second dividend-payment date in September is taken into account. Net asset value increased to SEK 142 per share (123). Business operations continue to develop strongly, and the full effects of the Norrporten transaction, including synergies and strong net leasing, will be clearly visible in comparison figures for 2018.

### Projects underway

An increasing share of Castellum's investments will consist of our own projects. So far this year, these amount to SEKm 1,980. The total existing project portfolio for reported major projects totals SEKm 3,700 and these projects already enjoy a high occupancy rate, thereby adding rental income of SEKm 316 when completed and fully leased. New projects are being added all the time, and the assessment is that project volumes will increase in 2018. However, the downside of today's rapid growth in metropolitan areas is that authorities and municipal agencies are challenged to handle the growing number of planning and construction issues, which obstructs or even delays essential expansion.

That being concluded, it's difficult to remain other than positive about Castellum's continued development. We've set the basis for an excellent 2018.

Henrik Saxborn  
CEO

# Market comments

## Swedish and Danish economy

The Swedish economy continues to perform well, demonstrating strong GDP growth. Growth is expected to remain relatively strong in the foreseeable future, supported by solid domestic demand and favourable development in major Swedish export markets.

Geopolitical turmoil is ongoing, but has not so far affected the economy in any noticeable way. However, both Brexit and continued political moves by the US president, as well as increasing tension on the Korean Peninsula, create a measure of uncertainty, and long-term effects are difficult to foresee.

The Swedish labour market has been positively affected by the stronger economy. Labour demands tend to be increasing for several groups, primarily in the construction and public sectors. However, only marginal effects are expected for the unemployment rate. Inflation has begun to show signs of rising, but official inflation figures still remain low. The wage agreements concluded so far in Sweden during 2017 are in line with recent years' levels and are not expected to contribute to significantly higher inflation in the near future.

Development of the krona exchange rate plays a key role for inflation in Sweden, as a weak exchange rate normally contributes to higher inflation. The krona exchange rate has strengthened during the third quarter, but the currency is still considered to be somewhat undervalued.

## Macro indicators, Sweden

Unemployment	6.0%	(August 2017)
Inflation	2.3%	(Sept 2017 compared to Sept 2016)
GDP growth	1.3%	(Q2 2017 compared to Q1 2017)

Source: SCB

Danish GDP growth has strengthened significantly in recent months, and according to Danmarks Nationalbank comments (Sept 2017), growth is expected to increase to about 2.3% during 2017. A relatively high annual growth of 1.8% is forecast for Denmark for 2018 and 2019 as well. Increasing private consumption is the primary growth factor, against a backdrop of rising employment, but more favourable export prospects and investments are contributing as well. According to the Nationalbank, inflation in Denmark – expressed in terms of CPI – is expected to rise to approximately 1% for 2017 and there after up to 1.7% after having remained around zero in 2016.

## Rental market

The rental market continues to show stable and strong trending. Demand is high both for new and existing office premises. Rental increases continue for properties in prime locations of the Stockholm and Gothenburg metropolitan regions which have enjoyed record strong rental trends in recent years – for office space as well as for peri-urban warehouse facilities. A strong Swedish economy, urbanization and low vacancy rates due to the low supply situation prevailing in recent years have been significant drivers of this development. The new construction rate may increase in Stockholm, Gothenburg and Malmö in 2018–2019, provided that there

are sufficient resources for implementation and construction. Moreover, the positive rental trend has resulted in increased new-construction activities in several regional cities. To some extent, this might limit additional rental potential from current levels. In Copenhagen, demand is still primarily aimed at premises in prime locations. Rental levels in the Copenhagen CBD have remained relatively stable as rental potential is limited by the large number of building rights.

## Real estate market

Transaction-market volumes have remained high since 2014. The annual commercial transaction volume in 2016, approximately SEK 200 billion, resulted in a new record year. Transaction activities continued to thrive during the first half of 2017, primarily due to high volumes in March and June. However, for the latest three-month period (July–Sept), a degree of slowdown was noted for the transaction volume, which decreased by about SEK 14 billion compared with previous year. The uncertainty surrounding property-tax assessment presented in March is probably a contributing factor. Up until September 30 this year, the total volume was about SEK 101 billion compared with approx. SEK 127 billion for the corresponding period of 2016. For 2017 to date, foreign investors accounted for approx. 25% of the total, and about half of the total transaction volume occurred in Stockholm and Gothenburg. In 2014–2016, office space was the leading property segment, whereas residential premises accounted for the largest share of transaction volume in 2017 (28%). Office-space transactions conducted in Stockholm, Gothenburg and Malmö show stable yields compared with the previous quarter. In the Copenhagen CBD, the yield around 4% remained stable.

## Interest and credit market

The Swedish Riksbank continued to focus on the inflation target as well as its ultra-loose monetary policy. Since February 2016, when the repo rate was cut to a new historic low of -0.5%, the repo rate has remained unchanged. In Sept 2017, the Riksbank reinstated a variation band of 1-3% inflation and now uses the CPIF index as a measuring stick; the target remains at 2%. Although current statistics indicate that the CPIF is above 2%, the Riksbank's repo rate path still indicates that a first rise will occur in the mid 2018 and that the zero level will be reached in 2019.

The Riksbank will also continue to purchase government bonds throughout the remainder of 2017.

Of particular significance to Castellum, the 3-month STIBOR rate fluctuated between -0.4% to -0.5% during the third quarter. The spread between Swedish short- and long-term interest rates broadened slightly during the first three quarters of 2017. However, Swedish long-term interest rates remain at very low levels.

Credit margins in the Swedish bond market have gradually fallen during 2017, and access to financing in the Swedish capital and banking markets is considered favourable. In Denmark, the 3-month Cibor rate has fluctuated between -0.2% to -0.3% so far this year.

## Income, Costs and Results

Comparisons, shown in brackets, are made with the corresponding period previous year except in parts describing assets and financing, where comparisons are made with the end of previous year. When calculating the historical number of shares, adjustments were made with reference to the bonus-issue element (i.e. the value of the subscription right) in the new share issue 2016.

Income from property management, i.e. net income excluding transaction and restructuring costs, changes in value and tax, amounted for the period January - September 2017 to SEKm 1,956 (1,492), equivalent to SEK 7.16 (6.74) per share - an increase with 6%. Income from property management rolling four quarters amounted to SEKm 2,529 (1,873) equivalent to SEK 9.26 per share (8.78) - an increase of 5%.

During the period, changes in value on properties amounted to SEKm 2,069 (2,065) and on derivatives to SEKm 204 (-224). Net income after tax for the period was SEKm 3,424 (2,491), equivalent to SEK 12.53 (11.25) per share.

### Rental income

Group's rental income amounted to SEKm 3,866 (3,166). For office and retail properties, the average contracted rental level, including charged heating, cooling and property tax, amounted to SEK 1,611 per sq.m. (1,540), whereas for warehouse and logistics properties, it amounted to SEK 825 per sq.m. (810). Rental levels have in comparable portfolio increased by approx. 3% compared with previous year, which inter alia is an effect from indexation and renegotiations carried out.

The average economic occupancy rate was 90.5% (90.7%). The rental income for the period includes a lump sum of SEKm 3 (18) as a result of early termination of leases.

Gross leasing (i.e. the annual value of total leasing) during the period was SEKm 460 (328), of which SEKm 150 (97) were leasing of new constructions, extensions and reconstructions. Notices of termination amounted to SEKm 209 (234), of which bankruptcies were SEKm 6 (14) and SEKm 13 (2) were notices of termination with more than 18 months remaining length of contract. Net lease for the period was hence SEKm 251 (94).

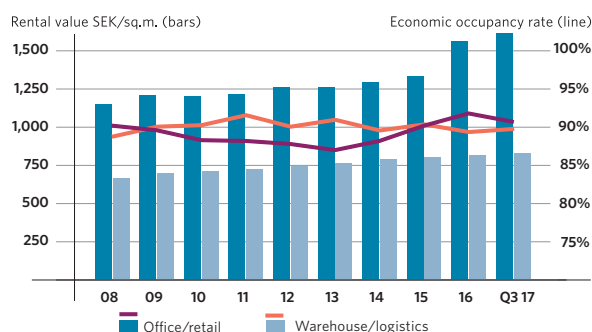
The time difference between reported net leasing and the effect in income thereof is estimated to be between 9-18 months of investment properties while it is 12-24 months for investments.

### Property costs

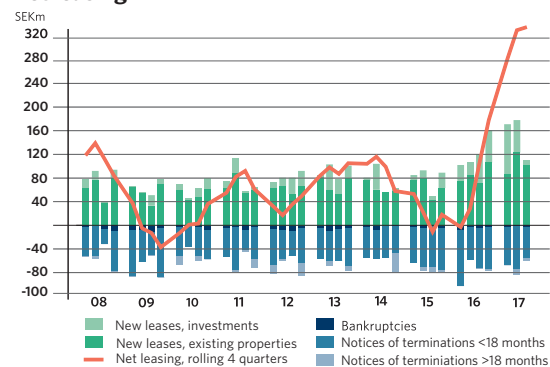
Property costs amounted to SEKm 1,135 (990) corresponding to SEK 347 per sq.m. (353). Consumption for heating during the period has been calculated to 92% (91%) of a normal year according to the degree day statistics.

Property costs SEK/sq.m	Office/ Retail	Warehouse/ logistics	2017 Total	2017 Total
Operating expenses	177	107	152	165
Maintenance	42	21	35	45
Ground rent	4	8	5	5
Real estate tax	95	23	70	69
Direct property costs	318	159	262	284
Leasing and property administration	-	-	85	69
<b>Total</b>	<b>318</b>	<b>159</b>	<b>347</b>	<b>353</b>
Previous year	345	157	353	

### Rental value and economic occupancy rate



### Net leasing



### Central administrative expenses

Central administration expenses amounted to SEKm 114 (104), and were charged with SEKm 8 in costs during the period for development activities in the Castellum Next20 – Castellum's long-term investment in digitalization. Administrative expenses also include costs for a performance- and share-price based incentive program of SEKm 7 (17), for 9 members of Executive Group Management. Moreover, the result for the period has also been charged with SEKm 5 (24) for ongoing Norrporten restructuring work during the period.

### Net interest

Net interest items were SEKm –661 (–584). The average interest rate level was 2.4% (2.7%). Net interest income was positively affected by approx. SEKm 63 due to average interest rate level decrease by 0.3%-units.

### Changes in value

The previous year featured a strong real estate market and 2017 has continued the trend, with high activity, strong demand and robust transaction volumes, although a certain slowdown was noted for this latest quarter. The proposal for changes in property tax from March this year created uncertainty and thus impacted the transaction market regarding both lead time and the negotiation of tax-reduction transactions. However, this impact was largely counterbalanced by ready access to financing and a continued strong rental market. For Castellum's part, this resulted in a value-change of SEKm 2,038, corresponding to 3%. In addition, 15 properties have been sold for a total of SEKm 872, after deduction for assessed deferred taxes and transaction costs totalling SEKm 24. The underlying property value – thus amounting to SEKm 896– exceeded the latest valuation of SEKm 841 by SEKm 55. As each property is valued individually, the portfolio premium that can be noted in the property market is not taken into account.

The value in the interest rate derivatives portfolio has changed by SEKm 217 (–225), mainly due to changes in long-term market interest rates.

### Change in value properties 2017

SEKm	
Cash flow	586
Project gains /building rights	462
Required yield	692
Acquisitions	298
Sales	31
<b>Total</b>	<b>2,069</b>

### Tax

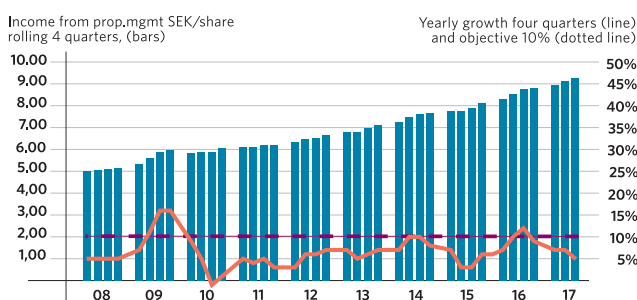
The nominal corporate tax rate in Sweden is 22%. Due to the possibility to deduct depreciation and reconstructions for tax purposes, and to utilize tax loss carry forwards, the paid tax is low. Paid tax occurs since a few subsidiaries have no possibilities to group contributions for tax purpose.

The period was charged with SEKm 60 in paid tax for 2016. However, deferred tax was reduced by an equivalent amount as the adjustment entailed increased loss carry-forwards. Hence, there was no impact on income.

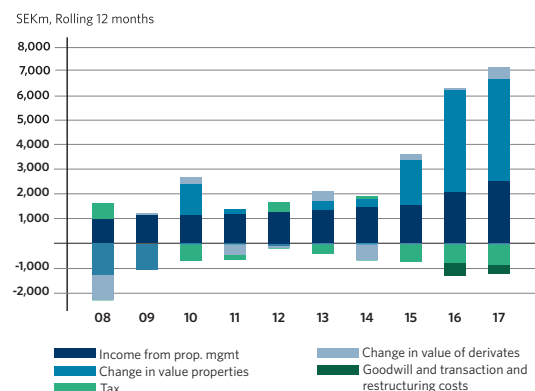
Remaining tax loss carryforwards can be calculated to SEKm 2,200 (2,656). Furthermore, there are untaxed reserves of SEKm 134. Fair values for the properties exceed their fiscal value by SEKm 40,324 (37,128) of which SEKm 3,025 (2,021) relates to the acquisition of properties accounted for as asset acquisitions. As deferred tax liability, a full nominal 22% tax of the net difference is reported, reduced by the deferred tax relating to asset acquisitions, i.e., SEKm 7,751 (7,030).

Castellum has no current tax disputes.

### Income from property management per share



### Income over time





## Tax calculation 2017-09-30

SEKm	Basis current tax	Basis deferred tax
Income from property management	1,956	
Deductions for tax purposes		
depreciations	- 742	742
reconstructions	- 149	149
Other tax allowances	25	137
Taxable income from property management	1,090	1,028
- current income tax is 22%, if tax losses are not utilized	240	
Properties sold	-	-464
Changes in value on properties	-	2,038
Adjustment for last year	- 272	-
Changes in value on derivatives	- 110	323
Taxable income before tax loss carry forwards	708	2,925
Tax loss carry forwards, opening balance	- 2,392	2,392
Tax loss carry forwards, closing balance	2,200	-2,200
Taxable income	516	3,117
<b>Tax according to the income statement for the period</b>	<b>- 114</b>	<b>-686</b>

## Current tax proposal

Castellum's interim report for the first and the second quarter briefly described a commission-report received by the government on March 30, 2017, regarding amended tax legislation designed to counter tax benefits in bundled transactions of properties. The proposal has subsequently been submitted for comment, and the period for comment expired on September 15, 2017. Simply expressed: the proposal implies that, for example, tax neutrality will prevail between direct or indirect real-estate sales (among companies). The proposed amendment would result in one additional tax compared with

current regulations on indirect sales. The new tax will correspond to the taxes that normally apply for direct transactions – namely, income tax on capital gains and stamp-duty/ownership-registration of an acquisition.

Furthermore, on July 12, 2016, the EU adopted a Directive laying down rules to counter tax avoidance methods. An important cornerstone of Directive implementation includes limiting interest-deduction possibilities. The Directive is to be incorporated in each respective member country by December 31, 2018. Consequently, the government received a June 2017 proposal of new regulations for the corporate sector: the introduction of a general limitation on interest deductions for the corporate sector – primarily as an EBIT rule (deductions of up to 35%) and secondly, as an EBITDA rule (deductions of maximum 25%) – combined with a reduction in corporate income tax from 22% to 20%. The period for comment expired by the end of September 2017.

Today's strong cash flow from operations, combined with historically low interest rates and proposals for reduced corporate taxes, means that interest-rate limitations – in cases where the proposal becomes a reality – do not significantly affect Castellum's paid taxes.

However, the proposal for reduced corporate taxation implies that the deferred tax liability of SEKm 7,751 will be revalued at 20% tax, resulting in a deferred tax income of SEKm 705 to September 30, 2017. This would result as above in an estimated deferred-tax market value of SEKm 2,602 – a reduction of SEKm 343. Accordingly, the proposal to reduce corporate taxation would entail an increase in short-term net asset value of 1%.



# Real Estate Portfolio

The real estate portfolio is located in growth areas in Sweden and Copenhagen. The commercial portfolio consists of 78% office and retail properties as well as 17% warehouse and logistics properties. The properties are located from inner city sites to well-situated working-areas with good means of communication and services. The remaining 5% consist of projects and undeveloped land.

Castellum owns approx. 868,000 sq.m. of unutilized building rights and furthermore ongoing projects with remaining investments of approx. SEKm 2,500.

## Investments

During the period, investments totalling SEKm 5,432 (30,278) were carried out, of which SEKm 3,452 (28,894) were acquisitions and SEKm 1,980 (1,384) new constructions, extensions and reconstructions. After sales of SEKm 872 (81) net investments amounted to SEKm 4,560 (30,197).

During the period the real estate portfolio has changed according to the table below.

## Changes in the real estate portfolio

	Value, SEKm	Number
Real estate portfolio on 1 January, 2017	70,757	665
+ Acquisitions	3,452	23
+ New constructions, extensions and reconstructions	1,980	2
- Sales	- 841	- 15
+/- Unrealized changes in value	2,038	-
+/- Currency translation	- 4	-
<b>Real estate portfolio on September 30, 2017</b>	<b>77,382</b>	<b>675</b>

## Property value

### Internal valuations

Castellum assesses the value of the properties through internal valuations, as at the year-end, corresponding to level 3 in IFRS 13. The valuations are based on a 10-year cash flow based model with an individual valuation for each property of both its future earnings capacity and the required market yield. In the valuation of a property's future earnings capacity, consideration has been taken of potential changes in rental levels, occupancy rates and property costs - as well as an assumed inflation level of 1.5%.

Projects in progress have been valued using the same principle, but with deductions for remaining investments. Properties with building rights have been valued on the basis of an estimated market value per square metre, on average approx. SEK 1,800 (1,600) per sq.m.

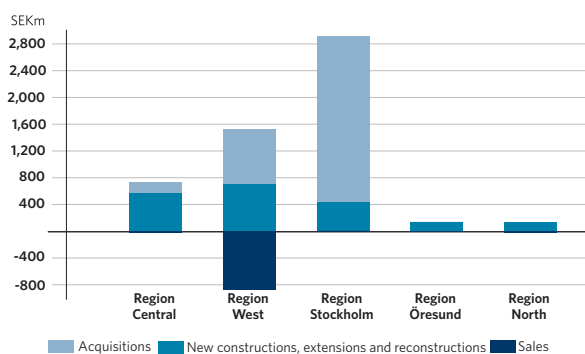
In order to ensure and validate the quality of the internal valuations, an external valuation - representing over 50% of the portfolio - is made every year-end. The difference between the internal and external valuations has historically been small.

Based on these internal valuations, property value at the end of the period were assessed to SEKm 77,382 (74,220), corresponding to SEK 17,569 per sq.m.

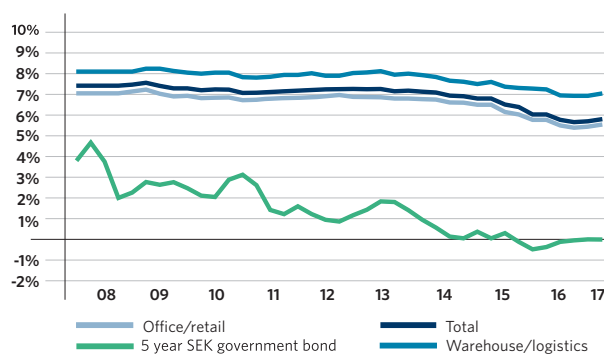
### Average valuation yield, SEKm

(excl. project/land and building rights)	SEKm
Net operating income properties	2,978
+ Estimated index-linking 2017: 1.5%	61
+ Real occupancy rate, 94% at the lowest	243
- Property administration, 30 SEK/sq.m.	- 99
<b>Normalized net operating income (9 months)</b>	<b>3,183</b>
Valuation (excl. building rights of SEKm 434)	73,134
<b>Average valuation yield</b>	<b>5.8%</b>

## Investments per region 2017-09-30



## Average valuation yield over time





## Castellums' real estate portfolio 2017-09-30

	2017-09-30				January-September 2017						
	No. of properties	Area thous. sq.m	Property value SEKm	Property value SEK/sq.m	Rental value SEKm	Rental value SEK/sq.m	Economic occupancy rate	Rental income SEKm	Property costs SEKm	Property costs SEK/sq.m	Net operating income SEKm
<b>Office/retail</b>											
Central	144	1,025	17,967	17,531	1,073	1,396	92.2%	989	229	298	760
West	83	481	10,291	21,420	531	1,474	88.9%	472	106	296	366
Öresund	73	570	13,682	23,989	794	1,856	87.5%	695	157	366	538
Stockholm	51	399	13,606	34,088	607	2,029	91.9%	558	102	339	456
North	28	259	4,915	18,946	298	1,531	94.2%	281	57	295	224
<b>Total office/retail</b>	<b>379</b>	<b>2,734</b>	<b>60,461</b>	<b>22,113</b>	<b>3,303</b>	<b>1,611</b>	<b>90.7%</b>	<b>2,995</b>	<b>651</b>	<b>318</b>	<b>2,344</b>
<b>Warehouse/logistics</b>											
Central	47	248	1,882	7,572	145	780	86.9%	126	29	159	97
West	105	672	5,725	8,523	385	764	92.9%	358	75	147	283
Öresund	33	229	1,609	7,019	125	723	79.3%	99	28	159	71
Stockholm	52	304	3,891	12,816	244	1,073	91.9%	224	41	183	183
<b>Total warehouse/logistics</b>	<b>237</b>	<b>1,453</b>	<b>13,107</b>	<b>9,020</b>	<b>899</b>	<b>825</b>	<b>89.8%</b>	<b>807</b>	<b>173</b>	<b>159</b>	<b>634</b>
<b>Total</b>	<b>616</b>	<b>4,187</b>	<b>73,568</b>	<b>17,569</b>	<b>4,202</b>	<b>1,338</b>	<b>90.5%</b>	<b>3,802</b>	<b>824</b>	<b>262</b>	<b>2,978</b>
Leasing and property administration									268	85	- 268
<b>Total after leasing and property administration</b>									<b>1,092</b>	<b>347</b>	<b>2,710</b>
Development projects	35	188	3,218	-	99	-	-	30	21	-	9
Undeveloped land	24	-	596	-	-	-	-	-	-	-	-
<b>Total</b>	<b>675</b>	<b>4,375</b>	<b>77,382</b>	<b>-</b>	<b>4,301</b>	<b>-</b>	<b>-</b>	<b>3,832</b>	<b>1,113</b>	<b>-</b>	<b>2,719</b>

The table above relates to the properties owned by Castellum at the end of the period and reflects the income and costs of the properties as if they had been owned during the period. The discrepancy between the net operating income of SEKm 2,719 accounted for above and the net operating income of SEKm 2,731 in the income statement is explained by the deduction of the net operating income of SEKm 49 on properties sold during the year, as well as the adjustment of the net operating income of SEKm 37 on properties acquired/completed during the year, which are recalculated as if they had been owned or completed during the whole period.

### Property related key ratios

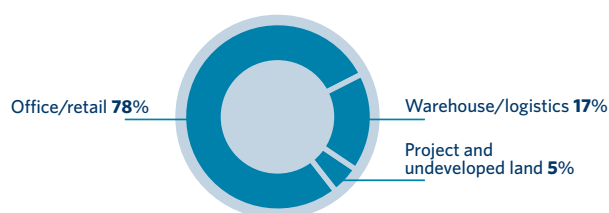
	2017 Jan-Sept	2016 Jan-Sept	2016 Jan-Dec
Rental value, SEK/sq.m.	1,338	1,302	1,304
Economic occupancy rate	90.5%	90.7%	91.3%
Property costs, SEK/sq.m.	347	354	376
Net operating income, SEK/sq.m.	863	828	816
Property value, SEK/sq.m.	17,569	15,817	16,558
Number of properties	675	740	665
Lettable area, thousand sq.m.	4,375	4,684	4,292
Valuation yield, on average	5.8%	6.0%	5.8%

### Segment information

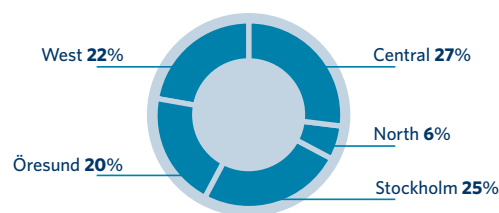
	Rental income		Income from property management	
SEKm	2017 Jan-Sept	2016 Jan-Sept	2017 Jan-Sept	2016 Jan-Sept
Central	1,122	892	584	418
West	850	641	468	317
Öresund	795	829	399	426
Stockholm	773	575	417	313
North	326	229	180	106
<b>Total</b>	<b>3,866</b>	<b>3,166</b>	<b>2,048</b>	<b>1,580</b>

The difference between the income from property management of SEKm 2,048 (1,580) above and the groups accounted income before tax of SEKm 4,224 (3,209) consists of unallocated income from property management of SEKm -92 (-88), transaction and restructuring costs of SEKm -5 (-150), changes in property value of SEKm 2,069 (2,065) and changes in values of derivatives of SEKm 204 (-224).

### Property value by property type



### Property value by region



# Larger investments and sales

## Larger projects

Property	Area, sq.m	Rental value		Econ. occup. Oct 2017	Total inv., land incl. SEKm	Remain. inv.		Completed	Comment
		SEKm	SEK/sq.m			SEKm			
Olaus Petri 3:244, Örebro	14,526	36	2,400	91%	440	337		Q2 2019	New construction office
Hyllie 4:2 (part of), Malmö	9,600	26	2,700	65%	353	353		Q1 2019	New construction office
Spejaren 4, Huddinge	9,300	25	2,700	40%	334	334		Q1 2019	New construction car retail
Gamlestaden 22:14, Gothenburg	12,000	21	1,800	100%	234	66		Q4 2017	Reconstruction office
Hisingen Logistic Park, Gothenburg	26,085	19	700	0%	220	171		Q2 2018	New construction logistics
Balltorp 1:124, Mölndal	18,000	15	850	100%	180	26		Q1 2018	New construction logistics
Varpen 11, Huddinge	5,555	14	2,550	100%	162	61		Q1 2018	New construction car retail
Rosersberg 11:130, Sigtuna	12,200	11	950	0%	137	81		Q2 2018	New construction logistics
Inom Vallgraven 4:1, Gothenburg	2,500	9	3,700	100%	114	1		Q4 2017	Extension and reconstruction cultural and entertainment venue
Spiran 12, Norrköping	7,915	18	2,300	39%	110	62		Q1 2018	Reconstruction office
Söderhällby 1:2 (part of), Uppsala	5,963	8	1,300	100%	101	52		Q1 2018	New construction logistics
Verkstaden 14, Västerås	3,545	8	2,250	35%	97	90		Q4 2018	New construction office/retail
Tjurhorner 15, Stockholm	5,786	1	250	-	74	3		Q4 2017	Parking facilities
Boländerna 35:2, Uppsala	4,883	5	1,050	93%	71	6		Q4 2017	New construction retail
Årsta 74:3, Uppsala	2,812	7	1,700	100%	65	27		Q4 2017	Reconstruction office
Visiret 3, Huddinge	2,440	6	2,400	100%	64	0		Q4 2017	New construction car retail
Generatort 1, Mölndal	3,800	5	1,350	100%	60	9		Q1 2018	New construction car retail
Boländerna 12:1, Uppsala	3,687	5	1,400	52%	58	8		Q4 2017	New construction warehouse/logistics
Boländerna 5:12, Uppsala	1,922	5	2,100	100%	55	55		Q4 2018	New construction office
Litografen 1, Örebro	6,957	4	1,150	35%	50	30		Q4 2017	Reconstruction retail/warehouse/office
Proppen 2, Norrköping	17,531	4	650	7%	50	45		Q4 2019	Reconstruction logistics

## Projects completed/partly moved in

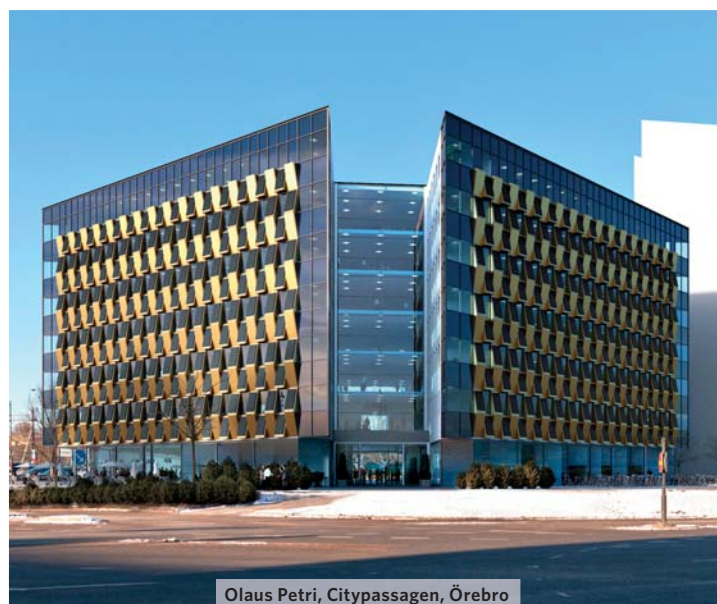
Lindholmen 30:5, Gothenburg	9,243	27	2,900	100%	268	0		Q1 2017	New construction office
Nordstaden 2:16, Gothenburg	12,300	9	3,300	95%	156	0		Q3 2017	Reconstruction office/retail
Spejaren 5, Huddinge	3,480	8	2,200	100%	97	2		Q3 2017	New construction car retail
Kranbilen 2, Huddinge	8,571	9	1,050	70%	97	1		Q1 2017	New construction warehouse/logistics
Majorna 163:1, Gothenburg	5,867	9	1,500	75%	91	0		Q1 2017	Reconstruction office/retail
Sändaren 1, Malmö	2,771	4	1,550	100%	57	0		Q2 2017	Reconstruction office

## Larger acquisitions during 2017

Property	Area, sq.m	Rental value		Econ. occup. Oct 2017	Acquisition SEKm	Access	Category
		SEKm	SEK/sq.m				
Isotopen 1, Stockholm	22,714	87	3,800	95%	1,642	March 2017	Office/retail
Sabbatsberg 24, Stockholm	13,716	-	-	-	781	May 2017	Project
14 properties in Borås	80,996	55	700	91%	479	April 2017	Office and warehouse/logistics
Krokslätt 20:6 and 154:8, Gothenburg	8,624	16	1,900	96%	282	Dec 2017	Office
Boländerna 11:2 and 11:3, Uppsala	11,525	9	800	66%	102	March 2017	Warehouse/logistics
Kålsared 1:5 and 1:108	-	-	-	-	62	Oct 2017	Land
Tibble 1:647 and 1:648, Upplands-Bro	-	-	-	-	51	March 2017	Land

## Larger sales during 2017

Property	Area, sq.m	Rental value		Underlying prop. price, SEKm	Deferred tax and Trans. costs SEKm	Net sales price, SEKm	Access	Category
		SEKm	SEK/sq.m					
9 properties in Mölndal and Partille	39,969	41	1,050	498	-1	497	April 2017	Office
Hönekulla 1:571 in Härryda and Kallebäck 3:4 in Gothenburg	35,072	30	850	357	-22	335	Dec 2017	Warehouse/logistics and office
Österbotten 4, Jönköping	2,944	2	650	25	-1	24	May 2017	Warehouse/office





## Financing

Castellum shall have low financial risk, meaning a loan to value ratio not permanently exceeding 55% and an interest coverage ratio of at least 200%. Castellum's assets had on September 30, 2017, a value of SEKm 80,652 (78,313) and are financed by shareholders' equity of SEKm 31,343 (29,234), deferred tax liabilities of SEKm 7,751 (7,065), interest bearing liabilities of SEKm 38,147 (38,467) and non interest bearing liabilities of SEKm 3,411 (3,547).

### Interest bearing liabilities

At the end of the period Castellum had binding credit agreements totalling SEKm 56,642 (53,259) of which SEKm 45,239 (40,358) was long term and SEKm 11,403 (12,901) short term.

During 2017, credit agreements of SEKm 1,249 were terminated or expired while agreements totalling SEKm 12,915 were renegotiated. SEKm 370 of these were bank overdrafts. This means that guarantees decreased by a total of SEKm 4,687. In addition, loan agreements for EURm 75 were entered into with the European Investment Bank (EIB). Moreover, during the year, MTNs for SEKm 1,600 expired while SEKm 5,850 were newly issued. After the end of the quarter further MTN's for SEKm 450 has been newly issued.

After deduction of cash of SEKm 258 (257), net interest bearing liabilities were SEKm 37,889 (38,210), of which SEKm 13,511 (9,256) were MTN and SEKm 7,992 (7,702) outstanding commercial papers. (Nominal SEKm 13,525 respectively SEKm 8,000)

Most of Castellum's loans are short-term revolving loans, utilized in long-term binding credit agreements in Nordic banks. This means great flexibility. Bonds issued under the MTN program and the commercial papers are a complement to the existing funding in banks and broaden the funding base. At the end of the period the fair value of the liabilities is in principle in line with the value accounted for.

Long-term loan commitments in banks are secured by pledged mortgages in properties and/or financial covenants. Outstanding commercial papers and bonds under the MTN-program are unsecured.

Net interest bearing liabilities amounted to SEKm 37,889 (38,210) of which SEKm 16,386 (21,252) were secured by the company's properties and SEKm 21,503 (16,958) unsecured. The proportion of used secured financing was thus 21% of the property value. The financial covenants state a loan-to-value ratio not exceeding 65% and an interest coverage ratio of at least 175%, which Castellum fulfils with comfortable margins, 49% and 396% respectively. The average duration of Castellum's credit agreements was 2.9 years (3.0).

Margins and fees on long-term credit agreements had an average duration of 2.4 years (2.4).

### Credit maturity structure 2017-09-30

SEKm	Credit agreements	Utilized in		
		Bank	MTN/Cert	Total
0-1 year	11,403	1,362	9,542	10,904
1-2 years	14,415	2,766	3,498	6,264
2-3 years	14,403	6,979	3,021	10,000
3-4 years	8,727	2,027	1,000	3,027
4-5 years	3,766	27	3,739	3,766
> 5 years	3,928	3,225	703	3,928
<b>Total</b>	<b>56,642</b>	<b>16,386</b>	<b>21,503</b>	<b>37,889</b>

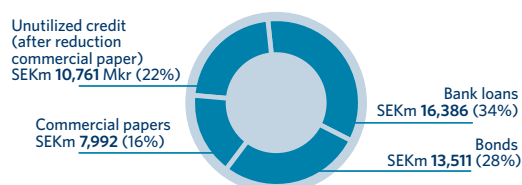
### Interest rate maturity structure

In order to secure a stable and low net interest cash flow the interest rate maturity structure is distributed over time. The average fixed interest term as per September 30, 2017 was 2.5 years (2.4). The average effective interest rate on the same date was 2.4% (2.6%).

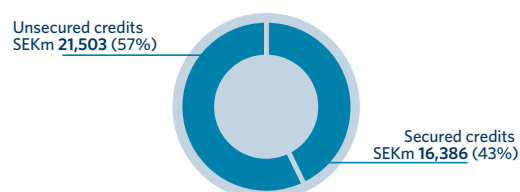
Castellum utilizes interest rate derivatives to achieve the desired interest rate maturity structure. Interest rate derivatives is a cost effective and flexible way to achieve the desired fixed interest term. Castellum's cost effectiveness is negatively affected at the moment due to negative Stibor interest rate. In the interest rate maturity structure, interest rate derivatives are accounted for in the earliest time segment in which they can mature.

Credit margins and fees are distributed in the table by reported underlying loans.

### Distribution of interest bearing financing 2017-09-30



### Secured credit facilities 2017-09-30



### Interest rate maturity structure 2017-09-30

	Credit, SEKm	Interest rate derivatives SEKm	Net. SEKm	Closing interest rate	Average fixed interest rate term
0-1 year	31,294	- 15,285	16,009	2.9%	0.2 year
1-2 years	650	1,750	2,400	1.1%	1.6 years
2-3 years	1,897	3,635	5,532	1.6%	2.5 years
3-4 years	2,350	2,200	4,550	2.3%	3.5 years
4-5 years	1,498	1,850	3,348	1.7%	4.4 years
5-10 years	200	5,850	6,050	2.9%	7.1 years
<b>Total</b>	<b>37,889</b>	<b>-</b>	<b>37,889</b>	<b>2.4%</b>	<b>2.5 years</b>

### Currency

Castellum owns properties in Denmark with a value of SEKm 5,417 (5,395), which means that the Group is exposed to currency risk. The currency risk is primarily related to when income statement and balance sheet in foreign currencies are translated into Swedish kronor.

### Interest rate and currency derivatives

Castellum utilizes interest rate derivatives to achieve the desired interest rate maturity structure. According to the accounting standard IAS 39, derivatives are subject to market valuation. If the agreed interest rate deviates from the market interest rate, notwithstanding credit margins, there is a theoretical surplus or sub value in the interest rate derivatives where the non-cash-flow

affecting changes in value are reported in the income statement. At maturity, a derivative's market value is dissolved in its entirety and the change in value over time has thus not affected equity. Castellum also has derivatives in order to hedge currency fluctuation in its investment in Denmark. As for currency derivatives, a theoretical surplus/sub value occurs if the agreed exchange rate deviates from the current exchange rate, where the effective portion of value changes is accounted for in other total income.

To calculate the market value of derivatives, market rates for each term and, where appropriate, exchange rates, as quoted on the market at the closing date are used. Interest rate swaps are valued by discounting future cash flows to present value while instruments containing options are valued at current repurchase price.

As of September 30, 2017, the market value of the interest rate derivatives portfolio amounted to SEKm – 1,360 (– 1,608) and the currency derivative portfolio to SEKm – 5 (+26). All derivatives are, as at previous year, classified in level 2 according to IFRS 13.

## Castellum's financial policy and commitments in credit agreements

	Policy	Commitment	Outcome
Loan to value ratio	Not in the long run exceeding 55%	No more than 65%	49%
Interest coverage ratio	At least 200%	At least 175%	396%
Funding risk			
- average capital tied up	At least 2 years		2.9 years
- proportion maturing within 1 year	No more than 30% of outstanding loans and unutilized credit agreements		7%
- average maturing credit price	At least 1.5 years		2.4 years
- proportion capital market financing	No more than 75% of outstanding interest bearing liabilities		57%
- liquidity reserve*	Secured credit agreements corresponding to SEKm 750 and 4.5 months upcoming loan maturities		Fulfilled
Interest rate risk			
- average interest duration	1.0-3.5 years	-	2.5 years
- proportion maturing within 6 months	At least 20%, no more than 55%	-	38%
Credit and counterparty risk			
- rating restrictions	Credit institutions with high ratings, at least S&P BBB+		Fulfilled
Currency risk			
- translation exposure	Shareholders equity is not secured	-	Not secured
- transaction exposure	Handled if exceeding SEKm 25	-	Under SEKm 25

# Condensed Consolidated statement of Comprehensive Income

SEKm	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept	Rolling 4 quarters Oct 16-Sept 17	2016 Jan-Dec
Rental income	1,303	1,359	3,866	3,166	5,233	4,533
Operating expenses	- 136	- 149	- 505	- 448	- 728	- 671
Maintenance	- 43	- 49	- 117	- 109	- 197	- 189
Ground rent	- 7	- 6	- 18	- 17	- 25	- 24
Property tax	- 75	- 89	- 227	- 181	- 308	- 262
Leasing and property administration	- 88	- 99	- 268	- 235	- 384	- 351
<b>Net operating income</b>	<b>954</b>	<b>967</b>	<b>2,731</b>	<b>2,176</b>	<b>3,591</b>	<b>3,036</b>
Central administrative expenses	- 31	- 36	- 114	- 104	- 153	- 143
Transaction and restructuring costs	-	- 17	- 5	- 150	- 18	- 163
Results from joint venture	-	-	-	3	-	3
- of which income from property management	-	-	-	4	-	4
- of which tax	-	-	-	- 1	-	- 1
Net interest costs	- 215	- 259	- 661	- 584	- 909	- 832
<b>Income from property management incl. results joint venture</b>	<b>708</b>	<b>655</b>	<b>1,951</b>	<b>1,341</b>	<b>2,511</b>	<b>1,901</b>
- of which income from property management*	708	672	1,956	1,492	2,529	2,065
Revaluation of results due to stepwise acquisition	-	-	-	27	-	27
Write-down goodwill	-	-	-	-	- 373	- 373
<i>Changes in value</i>						
Properties	245	1,449	2,069	2,065	4,089	4,085
Derivatives	52	- 1	204	- 224	510	82
<b>Income before tax</b>	<b>1,005</b>	<b>2,103</b>	<b>4,224</b>	<b>3,209</b>	<b>6,737</b>	<b>5,722</b>
Current tax	- 32	- 16	- 114	- 26	- 111	- 23
Deferred tax	- 196	- 440	- 686	- 692	- 721	- 727
<b>Net income for the period/year</b>	<b>777</b>	<b>1,647</b>	<b>3,424</b>	<b>2,491</b>	<b>5,905</b>	<b>4,972</b>
<b>Other total net income</b>						
<b>Items that will be reclassified into net income</b>						
Translation difference of currencies	27	32	12	41	16	63
Change in value derivatives, currency hedge	- 15	- 24	39	- 44	44	- 57
<b>Total net income for the period/year</b>	<b>789</b>	<b>1,655</b>	<b>3,475</b>	<b>2,488</b>	<b>5,965</b>	<b>4,978</b>
<b>Total net income for the year related to:</b>						
- Shareholders in the parent company	777	1,647	3,424	2,491	5,905	4,972
- No minority interests	-	-	-	-	-	-
Average number of shares, thousand	273,201	273,201	273,201	221,511	273,201	234,540
Income, per share	2.84	6.03	12.53	11.25	21.61	21.20

\* For calculation see Financial Key Ratios, page 17.



# Condensed Consolidated Balance Sheet

SEKm	Sept 30, 2017	Sept 30, 2016	Dec 31, 2016
<b>Assets</b>			
Investment properties	77,382	74,220	70,757
Goodwill	1,659	2,032	1,659
Other fixed assets	109	78	93
Current receivables	1,244	636	5,547
Liquid assets	258	391	257
<b>Total assets</b>	<b>80,652</b>	<b>77,357</b>	<b>78,313</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	31,343	26,744	29,234
Deferred tax liability	7,751	7,030	7,065
Other provisions	5	15	9
Derivatives	1,365	1,950	1,582
Interest-bearing liabilities	38,147	39,611	38,467
Non interest-bearing liabilities	2,041	2,007	1,956
<b>Total shareholders' equity and liabilities</b>	<b>80,652</b>	<b>77,357</b>	<b>78,313</b>
Pledged assets (property mortgages)	31,040	33,880	33,130
Pledged assets (chattel mortgage)	-	841	838
Contingent liability	-	-	-

# Condensed Changes in Equity

SEKm	Number of outstanding shares, thousand	Share capital	Other capital contribution	Currency transl. reserve	Currency hedge reserve	Non- controlling interest	Retained earnings	Total equity
<b>Shareholders equity 2015-12-31</b>	<b>164,000</b>	<b>86</b>	<b>4,096</b>	<b>- 12</b>	<b>11</b>	<b>-</b>	<b>11,587</b>	<b>15,768</b>
Dividend, March 2016 (4.90 SEK/share)	-	-	-	-	-	-	- 804	- 804
New issue of shares	82,000	41	6,273	-	-	-	-	6,314
Non-cash issue /Sales of own shares	27,201	10	2,160	-	-	-	905	3,075
Issue expenses	-	-	- 123	-	-	-	-	- 123
D:o Effect on tax	-	-	28	-	-	-	-	28
Acquired minority shareholding	-	-	-	-	-	- 2	-	- 2
Net income Jan-Sept 2016	-	-	-	-	-	-	2,491	2,491
Other total net income Jan-Sept 2016	-	-	-	41	- 44	-	-	- 3
<b>Shareholders equity 2016-06-30</b>	<b>273,201</b>	<b>137</b>	<b>12,434</b>	<b>29</b>	<b>- 33</b>	<b>- 2</b>	<b>14,179</b>	<b>26,744</b>
Net income Oct-Dec 2016	-	-	-	-	-	-	2,481	2,481
Other total net income Oct-Dec 2016	-	-	-	22	- 13	-	-	9
<b>Shareholders equity 2016-12-31</b>	<b>273,201</b>	<b>137</b>	<b>12,434</b>	<b>51</b>	<b>- 46</b>	<b>- 2</b>	<b>16,660</b>	<b>29,234</b>
Dividend, March and Sept 2017 (5.00 SEK/share)	-	-	-	-	-	-	- 1,366	- 1,366
Net income Jan-Sept 2017	-	-	-	-	-	-	3,424	3,424
Other total net income Jan-Sept 2017	-	-	-	12	39	-	-	51
<b>Shareholders equity 2017-09-30</b>	<b>273,201</b>	<b>137</b>	<b>12,434</b>	<b>63</b>	<b>7</b>	<b>- 2</b>	<b>18,718</b>	<b>31,343</b>

# Condensed Cash Flow Statement

SEKm	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept	Rolling 4 quarters Oct 16-Sept 17	2016 Jan-Dec
Net operating income	954	967	2,731	2,176	3,591	3,036
Central administrative expenses	- 31	- 36	- 114	- 104	- 153	- 143
Reversed depreciations	2	3	7	10	11	14
Net interest rates paid	- 199	- 285	- 657	- 561	- 910	- 814
Tax paid	- 12	- 8	44	36	17	9
Translation difference of currencies	48	8	33	- 2	41	6
<b>Cash flow from operating activities before change in working capital</b>	<b>762</b>	<b>649</b>	<b>2,044</b>	<b>1,555</b>	<b>2,597</b>	<b>2,108</b>
Change in current receivables	- 124	- 60	- 243	- 107	- 183	- 47
Change in current liabilities	- 259	- 196	- 421	215	- 437	199
<b>Cash flow from operating activities</b>	<b>379</b>	<b>393</b>	<b>1,380</b>	<b>1,663</b>	<b>1,977</b>	<b>2,260</b>
Investments in new constructions, extensions and reconstructions	- 624	- 582	- 1,980	- 1,384	- 2,715	- 2,119
Property acquisitions	- 103	- 5	- 3,452	- 396	- 3,930	- 874
Change in liabilities at acquisitions of property	72	-	344	- 4	344	- 4
Property sales	16	48	872	108	7,545	6,781
Change in receivables at sales of property	- 42	-	4,546	18	- 425	- 4,953
Business combination	-	- 126	-	- 11,313	- 56	- 11,369
Other investments	- 14	- 17	- 27	- 12	- 38	- 23
<b>Cash flow from investment activities</b>	<b>- 695</b>	<b>- 682</b>	<b>303</b>	<b>- 12,983</b>	<b>725</b>	<b>- 12,561</b>
Change in long term liabilities	934	255	- 320	6,288	- 1,464	5,144
Change in long-term receivables	-	-	4	- 2	- 5	- 11
New issue of shares	-	-	-	6,190	-	6,190
Dividend paid	- 683	-	- 1,366	- 804	- 1,366	- 804
<b>Cash flow from financing activities</b>	<b>251</b>	<b>255</b>	<b>- 1,682</b>	<b>11,672</b>	<b>- 2,835</b>	<b>10,519</b>
<b>Cash flow for the period/year</b>	<b>- 65</b>	<b>- 34</b>	<b>1</b>	<b>352</b>	<b>- 133</b>	<b>218</b>
Liquid assets opening balance	323	425	257	39	391	39
<b>Liquid assets closing balance</b>	<b>258</b>	<b>391</b>	<b>258</b>	<b>391</b>	<b>258</b>	<b>257</b>

## The Parent Company

<b>Condensed Income statement</b>				
SEKm	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept
Income	9	4	23	14
Operating expenses	- 36	- 27	- 125	- 82
Net financial items	8	- 21	10	- 20
Change in derivatives	67	4	257	- 210
Sales of shares in subsidiaries	-	-	-	2,784
<b>Income before tax</b>	<b>48</b>	<b>- 40</b>	<b>165</b>	<b>2,486</b>
Tax	- 11	9	- 36	65
<b>Net income for the period/year</b>	<b>37</b>	<b>- 31</b>	<b>129</b>	<b>2,551</b>
<b>Comprehensive income for the parent company</b>				
Net income for the period/year	37	- 31	129	2,551
<b>Items that will be reclassified into net income</b>				
Translation difference foreign operations	8	13	1	33
Unrealized change, currency hedge	- 8	- 13	1	- 33
<b>Total net income for the period/year</b>	<b>37</b>	<b>- 31</b>	<b>129</b>	<b>2,551</b>

<b>Condensed Balance sheet</b>			
SEKm	Sept 30 2017	Sept 30 2016	Dec 31 2016
Participations in group companies	19,762	22,503	19,403
Receivables, group companies	29,741	23,720	32,250
Other assets	4,958	393	157
Liquid assets	0	0	0
<b>Total</b>	<b>54,461</b>	<b>46,616</b>	<b>51,810</b>
Shareholders' equity	16,564	15,757	17,801
Derivatives	1,365	1,487	1,259
Interest bearing liabilities	33,962	26,708	27,912
Interest bearing liabilities, group companies	2,426	2,501	4,702
Other liabilities	144	163	136
<b>Total</b>	<b>54,461</b>	<b>46,616</b>	<b>51,810</b>
Pledged assets (receivables group companies)	26,118	21,455	21,986
Contingent liability (guaranteed commitments for subsidiaries)	3,710	8,613	7,353

# Financial Key Ratios

A number of the financial measures presented by Castellum in the interim report are not defined in accordance with the IFRS accounting standards. However, the company believes that these measures provide useful supplementary information to both investors and Castellum management, as they facilitate evaluation of company performance. It is to be noted that, since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies. Hence, these financial measures should not be seen as a substitute for measures defined according to the IFRS. Unless otherwise stated, the table below presents measures, along with their reconciliation, which are not defined according to the IFRS. Definitions for these measures appear on the page 23.

	July-Sept 2017	July-Sept 2016	Jan-Sept 2017	Jan-Sept 2016	Rolling 12 months Oct 16 - Sept 17	Jan-Dec 2016
Average number of shares, thousand (related to financial key ratios) *	273,201	273,201	273,201	221,511	273,201	234,540
Outstanding number of shares, thousand (related to balance sheet ratios) *	273,201	273,201	273,201	273,201	273,201	273,201

\*) The number of historical shares that have been recalculated with reference to the bonus-issue element (i.e. the value of the subscription right) in the completed new share issue, and utilized in all ratio calculations for SEK-per-share.

## INCOME FROM PROPERTY MANAGEMENT

Castellum's operations are focused on cash-flow growth from ongoing management operations – i.e. income growth from property management – the prime yearly objective being a 10% increase in property management income. Income from property management also forms the basis of the annual shareholder dividend: at least 50% of property-management income. Income from property management is calculated before paid tax, as well as after the theoretical tax that Castellum would have paid on income from property management, had there been no loss carryforwards.

	July-Sept 2017 SEKm SEK/share		July-Sept 2016 SEKm SEK/share		Jan-Sept 2017 SEKm SEK/share		Jan-Sept 2016 SEKm SEK/share		Rolling 12 months Oct 16 - Sept 17 SEKm SEK/share		Jan-Dec 2016 SEKm SEK/share	
<b>Income from property management</b>												
Income before tax	1,005	3.68	2,103	7.70	4,224	15.46	3,209	14.49	6,737	24.66	5,722	24.40
Reversed												
Transaction and restructuring costs	-	-	17	0.06	5	0.02	150	0.68	18	0.07	163	0.69
Revaluation of results due to stepwise acquisition	-	-	-	-	-	-	- 27	- 0.12	-	-	- 27	- 0.12
Write-down goodwill	-	-	-	-	-	-	- 2,065	- 9.32	373	1.37	373	1.59
Changes in value, properties	- 245	- 0.90	- 1,449	- 5.30	- 2,069	- 7.57	224	1.01	- 4,089	- 14.97	- 4,085	- 17.42
Change in value, derivatives	- 52	- 0.19	1	0.00	- 204	- 0.75	-	-	- 510	- 1.87	- 82	- 0.34
Tax joint venture	-	-	-	-	-	-	1	0.00	-	-	1	0.00
<b>= Income from property management</b>	<b>708</b>	<b>2.59</b>	<b>672</b>	<b>2.46</b>	<b>1,956</b>	<b>7.16</b>	<b>1,492</b>	<b>6.74</b>	<b>2,529</b>	<b>9.26</b>	<b>2,065</b>	<b>8.80</b>
<b>EPRA Earnings (Income from prop. management after tax)</b>												
Income from property management	708	2.59	672	2.46	1,956	7.16	1,492	6.74	2,529	9.26	2,065	8.80
Reversed; Current tax Income from property management	- 103	- 0.38	- 46	- 0.17	- 240	- 0.88	- 110	- 0.50	- 258	- 0.94	- 128	- 0.54
<b>EPRA Earnings / EPRA EPS</b>	<b>605</b>	<b>2.21</b>	<b>626</b>	<b>2.29</b>	<b>1,716</b>	<b>6.28</b>	<b>1,382</b>	<b>6.24</b>	<b>2,271</b>	<b>8.31</b>	<b>1,937</b>	<b>8.26</b>

## NET ASSET VALUE

Net asset value is the total equity which the company manages for its owners. Based on this equity, Castellum wants to create return and growth at a low level of risk. Net asset value can be calculated both long and short term. Long-term net asset value is based on the balance sheet, with adjustments for items that will not lead to any short-term payment. In Castellum's case, these would include such things as goodwill, derivatives and deferred tax liability. Actual net asset value is equity according to the balance sheet, adjusted for the market value of the deferred tax liability.

Net asset value	SEKm SEK/share		SEKm SEK/share		SEKm SEK/share	
Equity according to the balance sheet	31,343	115	26,744	98		29,234 107
Reversed:						
Derivatives according to balance sheet	1,365	5	1,950	7		1,582 6
Goodwill according to balance sheet	- 1,659	- 6	- 2,032	- 7		- 1,659 - 6
Deferred tax according to balance sheet	7,751	28	7,030	25		7,065 26
<b>Long term net asset value (EPRA NAV)</b>	<b>38,800</b>	<b>142</b>	<b>33,692</b>	<b>123</b>		<b>36,222 133</b>
Deduction						
Derivatives as above	- 1,365	- 5	- 1,950	- 7		- 1,582 - 6
Estimated real liability, deferred tax 7% (2016:5%)*	- 2,602	- 10	- 1,486	- 5		- 1,558 - 6
<b>Short term net asset value (EPRA NNAV)</b>	<b>34,833</b>	<b>127</b>	<b>30,256</b>	<b>111</b>		<b>33,082 121</b>

\* Estimated real deferred tax liability net has been calculated to 7% based on a discount rate of 3%. Further, assessments have been made that tax loss carry forwards are realized in 2 years with a nominal tax of 22%, giving a present value of deferred tax liability of 21%, and that the properties are realized in 50 years where 33% are sold directly with a nominal tax of 22% and that 67% are sold indirect through company disposals where the buyers tax discount is 11%, which gives a present value of deferred tax liability of 7%.



## FINANCIAL RISK

Castellum's strategy is to own, develop and manage properties at low financial risk. This is expressed in a loan-to-value ratio not permanently exceeding 55% and an interest-coverage ratio of at least 200%.

	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept	Rolling 12 months Oct 16-Sept 17	Jan-Dec 2016
<b>Interest coverage ratio</b>						
Income from property management	708	672	1,956	1,492	2,529	2,065
Reversed;						
Net interest	215	259	661	584	909	832
Income from prop. management joint venture	-	-	-	- 4	-	- 4
<b>Income from prop. management excl. net interest and joint venture</b>	<b>923</b>	<b>931</b>	<b>2,617</b>	<b>2,072</b>	<b>3,438</b>	<b>2,893</b>
Interest cover ratio	429%	359%	396%	355%	378%	348%
<b>Loan to value ratio</b>						
Interest-bearing liabilities			38,147	39,611		38,467
Liquid assets			-258	- 391		- 257
<b>Net interest-bearing liabilities net</b>			<b>37,889</b>	<b>39,220</b>		<b>38,210</b>
Investment properties			77,382	74,220		70,757
Acquired properties not taken into possession			- 355	- 11		- 11
Divested properties still in Castellum's possession			425	-		4,971
<b>Net investment properties</b>			<b>77,452</b>	<b>74,209</b>		<b>75,717</b>
Loan to value ratio			49%	53%		50%

## INVESTMENT

In order to achieve the overall objective of 10% growth, i. e. income from property management per share, annual net investments of at least 5% of the property value will be made.

	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept	Rolling 12 months Oct 16-Sept 17	Jan-Dec 2016
<b>Net investments</b>						
Acquisitions	103	5	3,452	28,894	3,930	29,372
New constructions, extensions and reconstructions	624	582	1,980	1,384	2,715	2,119
<b>Total investment</b>	<b>727</b>	<b>587</b>	<b>5,432</b>	<b>30,278</b>	<b>6,645</b>	<b>31,491</b>
Net sales price	- 16	- 48	- 872	- 81	- 7,545	- 6,754
<b>Net investments</b>	<b>711</b>	<b>539</b>	<b>4,560</b>	<b>30,197</b>	<b>- 900</b>	<b>24,737</b>
Proportion of the property value, %	1%	1%	6%	72%	- 1%	59%

## Other Financial Key Ratios

	2017 July-Sept	2016 July-Sept	2017 Jan-Sept	2016 Jan-Sept	Rolling 12 months Oct 16-Sept 17	2016 Jan-Dec
Net operating income margin	73%	71%	71%	69%	69%	67%
Interest rate level, on average	2.4%	2.6%	2.4%	2.7%	2.5%	2.7%
Return on longterm net asset value	9.7%	26.8%	12.1%	20.7%	17.4%	25.3%
Return on actual net asset value	10.2%	27.8%	9.9%	16.2%	17.6%	20.9%
Return on total capital	5.8%	12.6%	8.0%	9.4%	9.8%	11.9%
Return on equity	10.2%	26.3%	16.0%	16.7%	22.6%	20.1%
Property value, SEK/share	283	272	283	272	283	259
Gross leasing	111	120	460	328	621	489
Net leasing	52	47	251	94	335	178

## Accounting Principles

Castellum follows the EU-adopted IFRS standards. This interim report has been prepared according to IAS 34 Interim Financial Reporting and the Annual Accounts Act. Disclosures in accordance with IAS 34 Interim Financial Reporting are presented either in the notes or elsewhere in the interim report. Otherwise, accounting principles and methods for calculations have remained unchanged compared with the Annual Report of the previous year.

# Opportunities and Risks for Group and Parent Company

## Opportunities and risks in the cash flow

Over time, increasing market interest rates normally constitute an effect of economic growth and increasing inflation, which is expected to result in higher rental income. This is partly due to the fact that the demand for premises is thought to increase. This leads, in turn, to reduced vacancies and hence to the potential for increasing market rents. It is also partly due to the fact that the index clause in commercial contracts compensates for increased inflation.

An economic boom therefore means higher interest costs but also higher rental income, while the opposite relationship is true during a recession. The changes in rental income and interest cost do not take place at the exact same time, which is why the effect on income in the short run may occur at different points in time.

## Sensitivity analysis - cash flow

Effect on income next 12 months

	Effect on income, SEKm	Probable scenario	
	+/- 1% (units)	Boom	Recession
Rental level / Index	+ 51 / - 51	+	-
Vacancies	+ 56 / - 56	+	-
Property costs	- 15 / + 15	-	0
Interest costs	- 69 / - 84*	0	-

\* Due to inter alia the interest-rate floor in credit agreements, Castellum is not able to take full advantage of negative interest rates. This results in a negative outcome, even for a one-percentage-point reduction of the interest rate.

## Opportunities and risks in property values

Castellum reports its properties at fair value with changes in value in the income statement. This means that the result in particular but also the financial position may be more volatile. Property values are determined by supply and demand, where prices mainly depend on the properties' expected net operating incomes and the buyers' required yield. An increasing demand results in lower required yields and hence an upward adjustment in prices, while a weaker demand has the opposite effect. In the same way, a positive development in net operating income results in an upward adjustment in prices, while a negative development has the opposite effect.

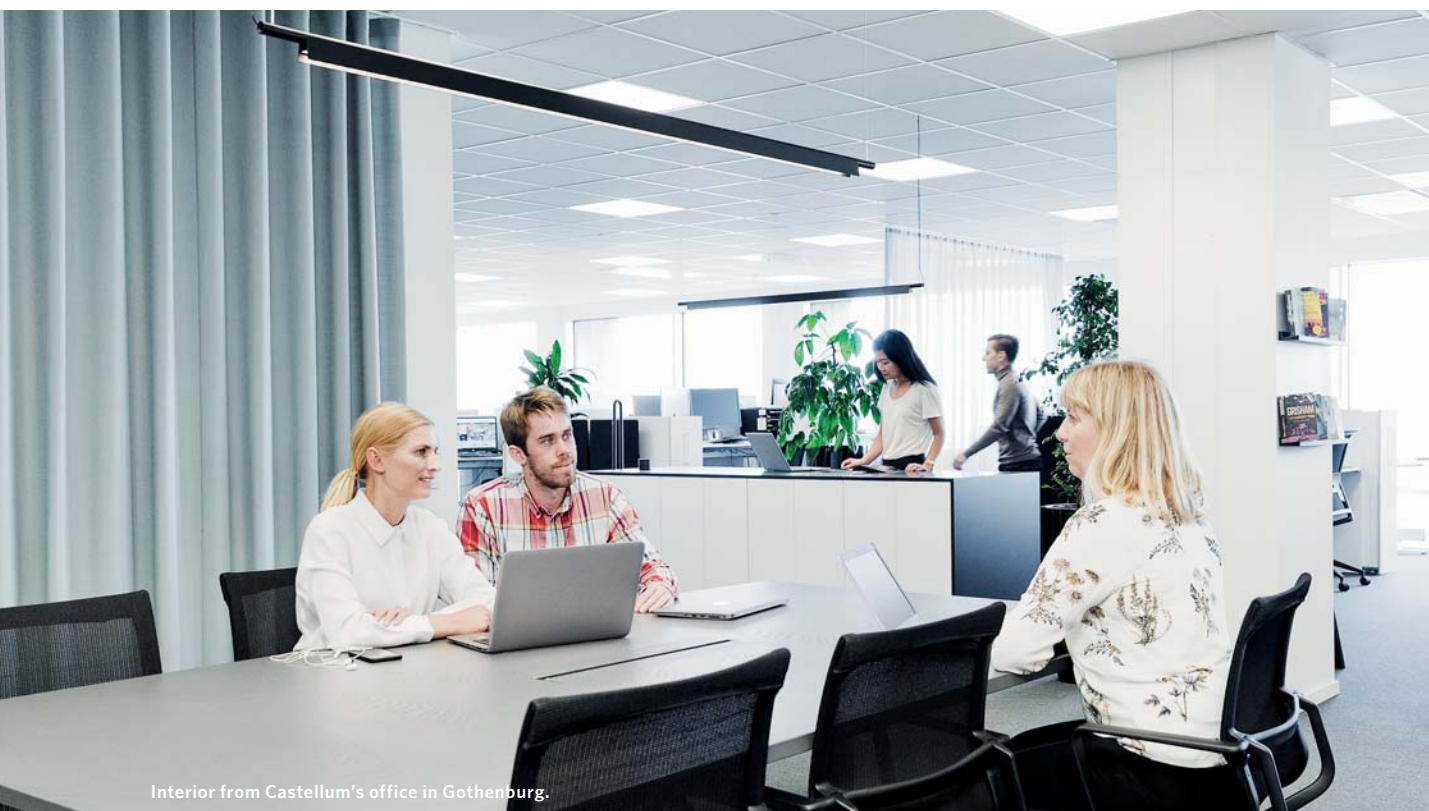
In property valuations, consideration should be taken of an uncertainty range of +/- 5-10%, in order to reflect the uncertainty that exists in the assumptions and calculations made.

## Sensitivity analysis - change in value

Properties	- 20%	- 10%	0%	+ 10%	+ 20%
Changes in value, SEKm	- 15,746	- 7,738	-	7,738	15,746
Loan to value ratio	61%	54%	49%	44%	41%

## Financial risk

Ownership of properties presumes a working credit market. Castellum's greatest financial risk is to lack access to funding. The risk is reduced by a low loan-to-value ratio and long-term credit agreements.



Interior from Castellum's office in Gothenburg.

## Election Committee

At Castellum AB's Annual General Meeting held on March 23, 2017, it was resolved that the Election Committee for the Annual General Meeting 2018 should consist of the Chairman of the Board of Directors and a representative from each of the three largest ownership registered or otherwise known shareholders, as per the last trading day of August 2017. If such a shareholder should not wish to appoint a member, the fourth largest shareholder should be consulted, and so on.

Castellum's Chairman of the Board has contacted the largest shareholders, and the Election Committee now consists of:

- Vincent Fokke, appointed by Stichting Pensioenfonds ABP
- Torbjörn Olsson, appointed by Sjätte AP-fonden
- Hans Op 't Velt, appointed by PGGM
- Charlotte Strömberg, the Chairman of the Board

In total, the Election Committee represents approximately 14% of the total number of shares and votes in the company. The Election Committee will appoint a Chairman among its members.

The Election Committee's task for the Annual General Meeting 2018 is to propose a Chairman for the Annual General Meeting, the number of members of the Board of Directors, members of the Board of Directors and Chairman of the Board of Directors as well as auditors. The Election Committee will also propose remuneration to members of the Board of Directors and the auditors. Finally, the Election Committee will propose principles for appointing the Election Committee for the Annual General Meeting 2019.

Shareholders are welcome to submit their proposals and views to the Election Committee by December 1, 2017, at the latest, to Castellum AB, Att: Charlotte Strömberg, Box 2269, 403 14 Gothenburg, or by e-mail to [charlotte.stromberg@castellum.se](mailto:charlotte.stromberg@castellum.se).

The Election Committee's proposals will be announced in the notice for the Annual General Meeting 2018 and on the company's website. The Annual General Meeting in Castellum AB will be held on March 22, 2018.

For additional information visit [www.castellum.com](http://www.castellum.com).

Gothenburg October 20, 2017

Henrik Saxborn  
CEO

*This Interim Report has not been examined  
by the company's auditors.*



Interior from Castellum's office in Gothenburg.



# The Castellum Share

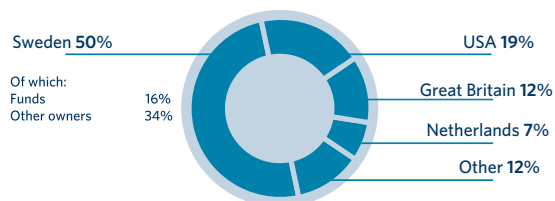
The Castellum share is listed on Nasdaq Stockholm Large Cap. At the end of the period the company had about 37,500 shareholders. Shareholders registered abroad cannot be broken down in terms of directly held and nominee registered shares except for one foreign shareholder who has flagged for holding over 5%, Stichting Pensioenfonds ABP. Castellum has no direct registered shareholder with holdings exceeding 10%. The ten single largest shareholders registered in Sweden are presented in the table below.

## Shareholders on 2017-09-30

Shareholders	Number of shares thousand	Percentage of voting rights and capital
Sjätte AP-fonden	11,851	4.3%
Lannebo Småbolag	7,150	2.6%
M2 Asset Management AB	5,876	2.2%
AMF Pensionsförsäkring AB	5,000	1.8%
Stiftelsen Global Challenges	3,000	1.1%
AFA Sjukförsäkrings AB	2,802	1.0%
Handelsbanken Svenska Småbolag	2,700	1.0%
Magdalena Szombatfalvy	2,635	1.0%
Länsförsäkringar fastighetsfond	2,209	0.8%
SEB Sverigefond	2,023	0.7%
Board and executive management Castellum	264	0.1%
Other shareholders registered in Sweden	90,261	33.1%
Shareholders registered abroad	137,430	50.3%
<b>Total registered shares</b>	<b>273,201</b>	<b>100.0%</b>

There is no potential common stock (eg. convertibles)  
Source: Information from Euroclear Sweden AB

## Distribution of shareholders by country 2017-09-30



The Castellum share price as at September 30, 2017 was SEK 127.80 (128.50) equivalent to a market capitalization of SEK 34.9 billion (35.1), calculated on the number of outstanding shares.

Since the beginning of the year a total of 214 million (209) shares were traded, equivalent to an average of 1,140,000 shares (1,040,000) per day, corresponding on an annual basis to a turnover rate of 104% (101%). The share turnover is based on statistics from Nasdaq Stockholm, Chi-X, Turquoise and BATS Europe.

## Net asset value

The net asset value is the aggregated capital that the company manages for its owners. From this capital, Castellum wants to generate return and growth at low risk.

The long term net asset value (EPRA NAV) can be calculated to SEK 142 per share (123). The share price at the end of the period was thus 90% (103%) of the long term net asset value.

## Earnings

Income from property management rolling 12 months adjusted for tax attributable to income from property management (EPRA EPS) amounted to SEK 8.31 (8.34) on rolling annual basis. This results in a share price yield of 6.5% (6.5%) corresponding to a multiple of 15 (15). Income from property management must be adjusted by a longterm increase in the property value and effective tax paid.

Net income after tax amounted on rolling annual basis to SEK 21.61 per share (17.58), which from the share price gives a yield of 16.9% (13.6%), corresponding to a P/E of 6 (7).

## Dividend yield

The recent AGM approved a dividend of SEK 5.00 (4.25), corresponding to a yield of 3.9% (3.3%).

## Total share yield

During the last 12-month period the total yield of the Castellum share has been 3.6% (30.6%), including a dividend.

## Net asset yield including long-term change in value

In companies managing real assets, such as real estate, the income from property management only reflects part – albeit a large part – of the overall result. The definition of a real asset is that its value is protected. This means that over time – and with proper maintenance – the real asset increases in value to compensate for inflation.

The net asset value – i.e., the denominator of the yield ratio income/capital – is adjusted annually in accordance with IFRS regulations for changes in value. In order to provide an accurate figure of the yield, the numerator – i.e., income – must be similarly adjusted. Therefore, the recorded net income has to be supplemented with a component of value changes as well as with effective tax to provide an accurate view of income and yield.

One problem is that changes in value can vary greatly between years and quarters, thus leading to volatile results. However, by being a long-term player with stable cash flow and a balanced real estate portfolio, Castellum is able to make use of long-term value changes.

## Net asset yield and earnings including long-term change in value

	Sensitivity analysis		
	-1%-unit	+1%-unit	
Income from prop. management rolling 12 months	2,529	2,529	2,529
Change in property value (on average 10 years)	953	220	1,686
D:o %	1.3%	0.3%	2.3%
Current tax, 7%	- 189	- 189	- 189
<b>Earnings after tax</b>	<b>3,293</b>	<b>2,560</b>	<b>4,026</b>
Earnings SEK/share	12.05	9.37	14.74
Return on actual long-term net asset value	9.7%	7.5%	11.9%
Earnings / share price	9.4%	7.3%	11.5%
P/E	11	14	9

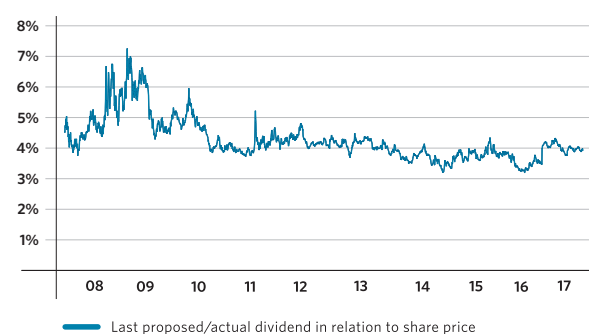
## EPRA Key ratios

	Sept 30 2017	Sept 30 2016	Dec 31 2016
EPRA Earnings (Income from property management after tax), SEKm	1,716	1,382	1,937
EPRA Earnings (EPS) SEK/share	6.28	6.24	8.26
EPRA NAV (Long term net asset value), SEKm	38,800	33,692	36,222
EPRA NAV, SEK/share	142	123	133
EPRA NNNAV (Net asset value), SEKm	34,833	30,256	33,082
EPRA NNNAV, SEK/share	127	111	121
EPRA Vacancy Rate	10%	9%	9%

## Growth, yield and financial risk

	1 year	3 years average/ year	10 years average/ year
<b>Growth</b>			
Rental income SEK/share	2%	3%	5%
Income from prop. management SEK/share	5%	7%	7%
Net income for the year after tax SEK/share	23%	56%	9%
Dividend SEK/share	18%	11%	7%
Long term net asset value SEK/share	15%	14%	7%
Actual net asset value SEK/share	14%	14%	6%
Real estate portfolio SEK/share	4%	11%	7%
Change in property value	5.2%	4.5%	1.3%
<b>Yield</b>			
Return on actual long term net asset value	17.5%	18.2%	11.6%
Return on actual net asset value	17.6%	17.1%	11.0%
Return on total capital	9.8%	9.1%	6.6%
<b>Total yield of the share (incl. dividend)</b>			
Castellum	3.6%	14.3%	10.2%
Nasdaq Stockholm (SIX Return)	163%	13.0%	8.0%
Real Estate Index Sweden (EPRA)	4.6%	20.9%	12.7%
Real Estate Index Europe (EPRA)	3.7%	9.6%	3.2%
Real Estate Index Eurozone (EPRA)	4.5%	13.0%	4.9%
Real Estate Index Great Britain (EPRA)	4.7%	5.5%	0.6%
<b>Financial risk</b>			
Loan to value ratio	49%	49%	50%
Interest coverage ratio	378%	360%	310%

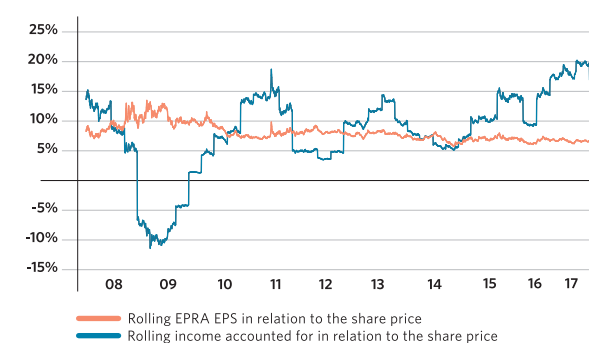
## The share's dividend yield



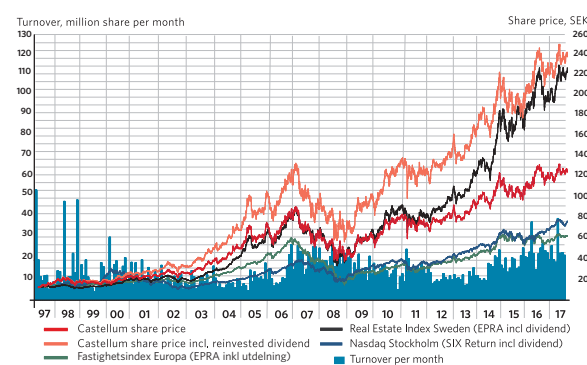
## Share price/net asset value



## Yield earnings per share



## The Castellum share's price trend and turnover since the IPO May 23, 1997 until September 30, 2017



# Definitions

## Data per share

In calculating income and cash flow per share the average number of shares has been used, whereas in calculating assets, shareholders' equity and net asset value per share the number of outstanding shares has been used. The number of historical shares that have been recalculated with reference to the bonus-issue element (i.e. the value of the subscription right) in the completed new share issue.

## Dividend pay out ratio

Dividend as a percentage of income from property management.

## Dividend yield

Proposed dividend as a percentage of the share price at the end of the period.

## Economic occupancy rate

Rental income accounted for during the period as a percentage of rental value for properties owned at the end of the period. Properties acquired/completed during the period have been restated as if they had been owned or completed during the whole year, while properties disposed of have been excluded entirely. Development projects and undeveloped land have been excluded.

## EPRA EPS (Earnings Per Share)

Income from property management adjusted for nominal tax attributable to income from property management, divided with the average number of shares. With taxable income from property management means income from property management with a deduction for tax purposes of depreciation and reconstruction.

## EPRA NAV (Long term net asset value)

Reported equity according to the balance sheet, adjusted for interest rate derivatives, goodwill and deferred tax.

## EPRA NNNAV (Actual net asset value)

Reported equity according to the balance sheet, adjusted for actual deferred tax instead of nominal deferred tax.

## Income from property management

Net income for accounted for after reversal of transaction and restructuring costs, revaluation of results due to stepwise acquisition, depreciation goodwill, changes in value and tax, both for the Group and for joint venture.

## Interest coverage ratio

Income from property management after reversal of net financial items and income from property management in joint venture as a percentage of net interest items.

## Loan to value ratio

Interest-bearing liabilities after deduction for liquid assets as a percentage of the properties' fair value with deduction for acquired properties not taken in possession, and with addition for properties disposed of, still in possession, at the year-end.

## Net operating income margin

Net operating income as a percentage of rental income.

## Number of shares

Registered number of shares - the number of shares registered at a given point in time.

Outstanding number of shares - the number of shares registered with a deduction for the company's own repurchased shares at a given point in time.

Average number of shares - the weighted average number of outstanding shares during a given period.

The number of historical shares that have been recalculated with reference to the bonus-issue element (i.e. the value of the subscription right) in the completed new share issue.

## Operating expenses, maintenance, etc.

This item includes both direct property costs, such as operating expenses, maintenance, ground rent and real estate tax, as well as indirect costs for leasing and property administration.

## Property type

The property's primary rental value with regard to the type of premises. Premises for purposes other than the primary use may therefore be found within a property type.

## Rental income

Rents debited plus supplements such as reimbursement of heating costs and real estate tax.

## Rental value

Rental income plus estimated market rent for vacant premises.

## Return on actual net asset value

Income after tax as a percentage of initial net asset value during the year, but with actual deferred tax instead of nominal tax. In the interim accounts the return has been recalculated on an annual basis, disregarding seasonal variations normally occurring in operations.

## Return on equity

Income after tax as a percentage of average equity. In the interim accounts the return has been recalculated on an annual basis, disregarding seasonal variations normally occurring in operations.

## Return on long term net asset value

Income after tax with reversed changes in value of derivatives and deferred tax as a percentage of initial long term net asset value. In the interim reports the return has been recalculated on annual basis, disregarding seasonal variations normally occurring in operations.

## Return on total capital

Income before tax with reversed net financial items and changes in value on derivatives during the year as a percentage of average total capital. In the interim accounts the return has been recalculated on an annual basis, disregarding seasonal variations normally occurring in operations.

## SEK per square metre

Property-related key ratios, expressed in terms of SEK per square metre, are based on properties owned at the end of the period. Properties acquired/completed during the year have been restated as if they had been owned or completed for the whole year, while properties disposed of have been excluded entirely. Development projects and undeveloped land have been excluded. In the interim accounts key ratios have been recalculated on an annual basis, disregarding seasonal variations normally occurring in operations.

## Total yield per share

Share price development with addition of the dividends during the period which was reinvested in shares that day shares traded ex-dividend.

## Calendar

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Year-end Report 2017	January 25, 2018
Annual Report 2017	Available at <a href="http://castellum.com">castellum.com</a> during Mid-February 2018
Annual General Meeting 2018	March 22, 2018
Interim report January - March 2018	April 17, 2018
Half-year Report January - June 2018	July 13, 2018
Interim Report January - September 2018	October 17, 2018

### **[www.castellum.com](http://www.castellum.com)**

On Castellum's website it is possible to download as well as subscribe to Castellum's Press releases and Interim Reports. For further information please contact Henrik Saxborn, CEO Castellum AB, phone +46 31 60 74 50 or Ulrika Danielsson, CFO Castellum AB, phone +46 706 47 12 61.

## Region offices

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In the event of conflict in interpretation or differences between this report and the Swedish version, the latter will have priority.

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