

Operations, financing and risk management

Risks and risk management

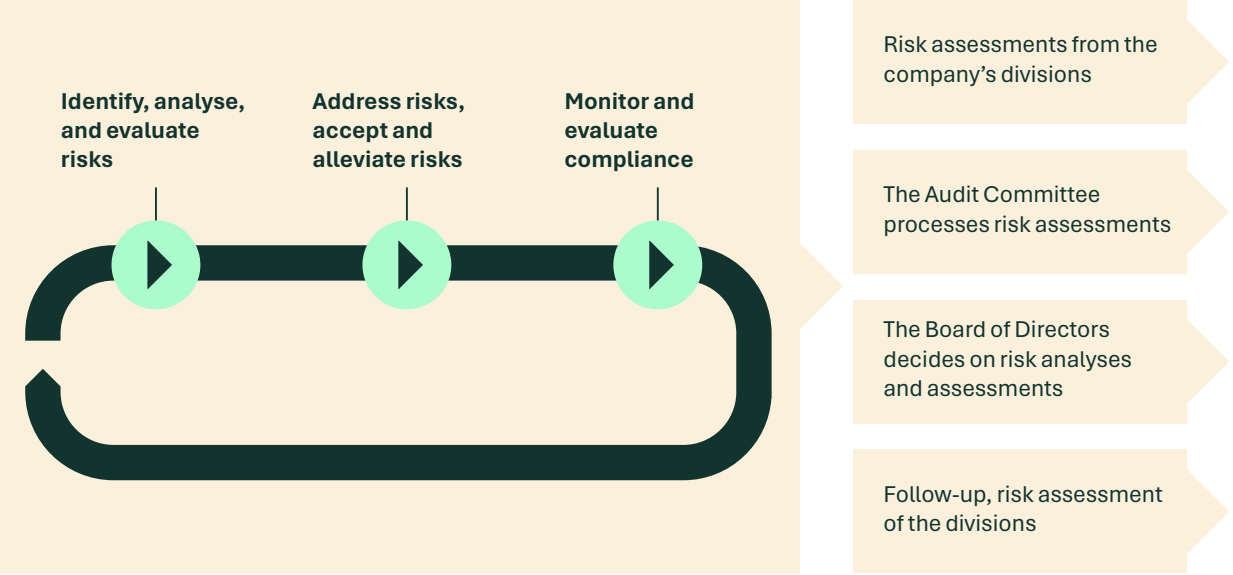
Castellum works continually, in a structured manner, to identify and actively monitor financial and operational risks that our operations encounter or are faced with. The Group's risk management is based on careful analyses and documentation for decisions, for the purpose of limiting consequences.

Risks and risk management

Castellum defines risk as an uncertainty factor that may affect the company's ability to achieve the objectives it has set. Risk management aims at balancing the desire to limit the company's risks and achieve the company's objectives. In order to assess the effect of identified risks, an annual internal risk survey is conducted in which each risk is assessed based on both impact and likelihood. This process determines if the risks should be further monitored, if actions need to be taken or if they can be handled through standard review and management. All the risks are then consolidated, and the result is Castellum's overall risk assessment, which is reported on the following pages. The risks are analysed primarily from a three-year perspective.

To facilitate risk management, Castellum has chosen to classify risks into the following categories:

- Market and business risks – risks due to the influence of external factors and events, and risks associated with laws and regulations.
- Operational risks – risks associated with routine administration of Castellum's properties.
- Financial risks – risks attributable to Castellum's financing.
- Sustainability risks – risks associated with the environment, climate, social responsibility and people in and around the company's properties.



Risk level assessment



Change in assessment of risk group since previous year



Market and business risks

Risk	Risk description	Management	Castellum's assessment
Macroeconomic factors	An economic downturn with increased unemployment, reduced growth, weaker profitability for companies and difficulties in obtaining financing could result in reduced demand for office, logistics and warehouse properties, falling market rents, increased vacancy rates and higher financing costs.	Castellum continually monitors developments in the company's business environment, with assessment of the potential macroeconomic impact on both customer offering and financial position. A strong balance sheet with a properly composed financing structure counteracts interest expense and refinancing risks. On the operational side, the tenant portfolio consists of a spread in terms of notice periods, industries, tenant size and geographic location concentrated in growth markets, which reduces the risk of significant loss of rent and vacancies. Business intelligence is continually gathered, with market trends being monitored and continual adjustments to adapt the company's offering to the customers' needs and demands as well as to be a competitive player in the property industry.	
Crises	A crisis is a difficult-to-manage incident beyond Castellum's control that has a serious impact on or disrupts operations, causes danger to life or health, damage to property or the environment, or damage to confidence in Castellum or its reputation. In the event of a crisis, there is also the risk that insurance coverage will be insufficient or of such nature that the insurance does not apply.	At Castellum, it is a fundamental principle that all properties are insured for their full value in order to minimise the risk of major economic consequences caused by unforeseeable property damage. Furthermore, Castellum partners with a broad network of contacts and industry organisations to widen the scope of its business intelligence. Castellum has internal crisis management groups and crisis plans in every region and at Group level, which are activated as needed. The crisis management groups lead the work when a crisis arises. The crisis plan includes escalation criteria for when the Group-wide crisis plan is to be activated. It also includes a section on crisis communication, with a clear allocation of responsibilities and checklists.	
Regulatory compliance	An inability to comply with legislation or regulations could mean that Castellum incurs unforeseen costs, taxes and sanctions or risks being delisted. Moreover, it could result in a loss of reputation among tenants and shareholders. Castellum also operates in Denmark and Finland, and indirectly in Norway via holdings in associated companies, which means that the company also needs to comply with applicable regulations in other countries.	Castellum works with business intelligence in order to identify political decisions and proposed changes to regulations and legislation at an early stage. The company also has employees in different specialist fields, such as sustainability managers, tax specialists and company lawyers, in order to manage issues of varying complexity and scope. In addition, there is also an Insider Committee to ensure that inside information is handled correctly. Annual internal audits are conducted based on such factors as applicable environmental legislation and tax legislation, as well as regular training courses for all employees in IT security, the GDPR and sustainability. Moreover, Castellum works with external parties to ensure the quality of its operations and to reduce risks of violation of regulations. Castellum has also appointed an external data protection officer.	
Business ethics, reputation and brand	Irregularities, unethical business behaviour, or disputes could damage the company's brand, which in turn could lead to financial implication and loss of confidence.	Central functions at several stages that work in a structured manner supported by an internal control function and external quality assurance of the external reports. Anyone can report a suspicion of impropriety on Castellum's website using the whistleblower service, which is managed by an external party in order to ensure anonymity. Reports that are submitted are handled immediately by Castellum's Chief Legal Officer, the Head of People & Culture and the chair of the Audit Committee. Castellum also works to ensure that employees and external parties comply with applicable policies. For information on Castellum's Codes of Conduct, refer to "More information" under "Violations of the Code of Conduct".	
IT and information security	Insufficient IT security such as hacking and/or ransomware attacks could have serious consequences, for example, in the form of loss or destruction of data and leaks of confidential information. There is also a risk of attempted fraud, such as phishing and fraudulent invoices. Insufficient information security could also lead to personal data breaches.	Castellum works actively with IT security, and has both routine and annual checks that minimise the risks associated with IT security in its operations. The annual checks also encompass partnership agreements that have been signed. There is a continuity plan for IT that specifies measures the company is to take in the event of unforeseen incidents. The IT division is routinely engaged in preventive security, and performs stress tests on the company's IT environment. Information on relevant threats is communicated immediately to the company's personnel. Routine training courses on information security and personal data processing are also offered.	

Operational risks

Risk level assessment
■ Low ■ Moderate ■ High

Change in assessment of risk group since previous year
▼ Lower ↔ Unchanged ▲ Higher

Risk	Risk description	Management	Castellum's assessment
Rental income and vacancy risk	Castellum's income is impacted by rental levels received and the occupancy rate in the properties. Both the rental level and occupancy rate are impacted by the current macroeconomic situation, market competition and demographic growth.	Castellum has properties primarily in growth markets, where demand for premises is generally high. Moreover, risk is reduced through a diversified contract portfolio with a large share of public and/or state tenants, varying contract lengths and a structured check of tenants' ability to pay. Castellum conducts risk assessments before new leases are signed. Furthermore, Castellum strives for long-term customer relationships and reduces the risk of vacancies by working closely with tenants and understanding their needs. Prior to the expiration of a contract, Castellum works proactively with renegotiating leases. A customer satisfaction index (CSI) survey is also conducted every year to understand how the company's tenants value different key figures and how market needs are changing, and this forms the basis for taking potential measures.	↔
Operating and maintenance costs	The condition of the properties and sudden unpredictable events comprise a risk of increased costs in conjunction with repair and maintenance work. Neglected efforts relating to preventive risk management heighten the risk of a decrease in the value of the properties and increase the risk of higher costs in the form of insurance premiums and incidents.	Castellum monitors the properties through self-checks, risk inspections, electricity audits and incident reporting. In pace with the company's properties becoming increasingly connected to online monitoring systems, the possibility increases for detecting any dysfunctions as regards the operation and maintenance of properties. Castellum is also engaged in preventive measures to eliminate the risk of property, personal and environmental damage. The company's properties are routinely assessed in order to adapt them to physical climate risks that in turn could cause damage and impact operation and maintenance. Moreover, Castellum works with a well-prepared energy strategy that is intended to minimise risk and obtain smoother cost performance, as well as minimise uncontrolled changes in the price of electricity for Castellum and the tenants.	▼
Composition of the asset portfolio	Incorrect investment decisions could result in Castellum owning properties in the wrong sub-market, city or location. This risk could also consist of Castellum owning defective properties with a property portfolio that is not future-proof based on tenant preferences, technical requirements, government agency requirements, micro-location or flexibility in use and contractual terms and conditions. This could result in an increase in the number of future vacancies and a property portfolio that decreases in value.	Castellum annually reviews existing property portfolio as well as its composition regarding such aspects as country, town and micro-location. Following this, annual risk assessments are also conducted on the property portfolio based on the type, size, condition and standard of the property. Prior to a potential acquisition, a risk assessment is conducted as above that also includes an evaluation of the property pertaining to factors such as yield, future vacancies and environment. Furthermore, an additional assessment is conducted to determine whether the property would be a good fit for Castellum's portfolio.	↔
Change in values on properties	The value of our properties is impacted by a number of factors such as market offering, vacancy rate, rental level and operating costs, residual value, yield requirement, general business cycle developments, interest rates, and inflation. The risk that the company does not capture these in its financial reporting thus arises, and can in turn impact the Group's financial position and earnings.	Castellum has experienced evaluators that routinely monitor the market and conduct sensitivity analyses to prevent the inherent uncertainty in market assessments in conjunction with property valuations. Refer to the sensitivity analysis in Note 10, Investment properties. In conjunction with its quarterly reports, Castellum conducts internal valuations of the property portfolio. The property portfolio is also evaluated by external specialists, which is compared to the internal evaluation and reviewed by auditors. All specialists possess detailed knowledge of Castellum's properties and leases.	▼
Projects	Risk that projects and investments prove to be inefficient, more expensive than estimated or delivered later than expected. This means a potentially unprofitable investment, which in turn could adversely impact operations and the value of Castellum's properties.	Prior to entering partnerships, Castellum carefully evaluates suppliers and contractors, with clear requirements placed on standards, safety and sustainability as well as suitability assessments being part of the process early on. Profitability and risks are routinely monitored over the course of the project. From start to finish there is a precise decision-making process with clear references to detailed framework programmes.	▼

Financial risks

Risk level assessment

Change in assessment of risk group since previous year


Risk	Risk description	Management	Castellum's assessment
Funding risk	Insufficient financing could lead to Castellum not being competitive enough, and being unable to conduct the Group's operations in a suitable and cost-efficient manner. There is also a risk that Castellum is given less favourable terms in conjunction with renegotiating loans. This risk could also arise in the event Castellum's credit rating is impaired. The inability to comply with its covenants could lead to credits immediately falling due for payment.	Funding risk and refinancing risk are managed through advance planning, an appropriate debt maturity structure, balanced loan pricing, diversification of financing sources and maturities. Castellum is also actively engaged in providing its operation with a reasonable liquidity reserve in a proactive manner. Castellum has a cautious and well designed financial policy that is routinely monitored and addresses both the company's covenants placed by credit institutions and the requirements from independent issuers of credit ratings.	
Interest rate risk	By definition, interest rate risk refers to a potentially negative impact on the income statement and balance sheet caused by a change in market interest rates.	To limit fluctuations in net interest costs, Castellum feature a mix of fixed interest rate durations on loans and interest rate derivatives.	
Currency risk	Currency risk refers to a negative impact on the income statement, balance sheet and cash flow due to changes in exchange rates. Currency risk can be divided into translation exposure and transaction exposure.	Castellum's currency risks are to be limited, primarily through natural hedges, by net exposure not exceeding amounts corresponding to 10 per cent of the balance sheet total.	
Credit and counterparty risk	Credit and counterparty risk is the risk that the counterparty cannot fulfil its commitments, such as liquidity supply or payment. In financial operations, credit and counterparty risk arises primarily in connection with long-term credit agreements, derivative contracts and the investment of cash and cash equivalents.	Castellum mitigates this risk by requiring high credit ratings from its counterparties, which are currently all major Nordic banks.	

Sustainability risks



Risk	Risk description	Management	Castellum's assessment
Sustainable employees	Castellum depends on committed employees with the right skills for creating competitive operations and growth. There is a risk that Castellum will not succeed in retaining qualified personnel, which could result in a shortage of competence, and that some positions cannot be immediately replaced, which would impact operations and the ability to implement strategies over the short term.	The company works actively with the Castellum Experience employee survey to investigate employee well-being. Additionally, Castellum complies with collective agreements and offers competitive, market-based remuneration as well as competence and leadership development. Castellum has a succession plan to ensure that key functions are not eliminated if key individuals leave the company. Furthermore, Castellum attempts to minimise dependency on individual persons by working on duality in conjunction with critical tasks. There is also a Safety Committee that monitors compliance with Castellum's work environment handbook and ensures that there are safety officers that employees can turn to regarding work environment issues. If an accident occurs, there are also internal procedures and employee support services.	
Climate change	From a corporate perspective, climate change implies a risk of property damage caused by weather conditions changing over time, higher water levels, higher average temperatures and changes in the physical environment that impact properties. Castellum believes that these risks are increasing globally over time, with greater intensity and frequency over the long term. This could mean increased need for investments in properties located in vulnerable areas so that objects do not become damaged. In addition, environmental policy decisions could impact Castellum, especially in the form of necessary investments.	Castellum works to ensure that both operations and the property portfolio have the conditions to manage a changing climate. All investments are reviewed from a climate perspective in order to assess a property's sensitivity to climate change. Using climate scenario analyses that were prepared in 2019 and are reviewed annually, Castellum can identify financial and operational risks and opportunities attributable to climate changes that impact the company over both the short and long term. In 2022, the entire portfolio was analysed to identify the properties that are exposed to physical climate risks. Furthermore, in-depth assessments were carried out in 2023 to identify necessary measures in the most vulnerable properties. Refer to the in-depth explanation in Environmental disclosures on pages 47–50 and of risks under Climate scenarios – risks and opportunities, pages 57–58.	
Operational environmental risks	Environmental risks directly related to Castellum's operations can include the physical environment that impacts people and properties. Environmental risks in the company's operations consist primarily of the following: <ul style="list-style-type: none"> – pollutants or toxic substances are found on properties and in buildings – greenhouse gas emissions (direct and indirect) – waste management 	Castellum's Sustainability policy, with the appurtenant appendix, defines how the company's operations are to be conducted sustainably. Castellum certifies its portfolio for sustainability, sets requirements for efficient resource management, reduces energy use and increases the proportion of renewable energy. The company conducts an environmental inventory of the existing portfolio and during property acquisitions, in order to identify and address environmental and health risks. Read more about the company's work on pages 9–13 and 27 and sustainability reports on pages 35–46.	
Violations of the Code of Conduct	As a major player in the construction and property industry, there are risks pertaining to working environment, social responsibility, corruption and human rights that could harm Castellum's business and brand. These risks can be found within the company, but also among hired suppliers and partners working on assignments for Castellum.	Castellum endeavours to maintain an open business climate and a high level of business ethics involving safety and respect for all people who are affected by the operations. All employees are trained in Castellum's Codes of Conduct, which accounts for a significant portion of the mandatory training in sustainability. There are two Codes of Conduct that have been adopted by the Board of Directors: the Code of Conduct and the Code of Conduct for suppliers. Suppliers to Castellum that are procured via a framework agreement, for example, are obligated to comply with the Code of Conduct for suppliers. Castellum also conducts systematic risk assessments of suppliers to identify those with a high risk of departures from the Code of Conduct and to implement measures as needed.	