

Operations, financing and risk management

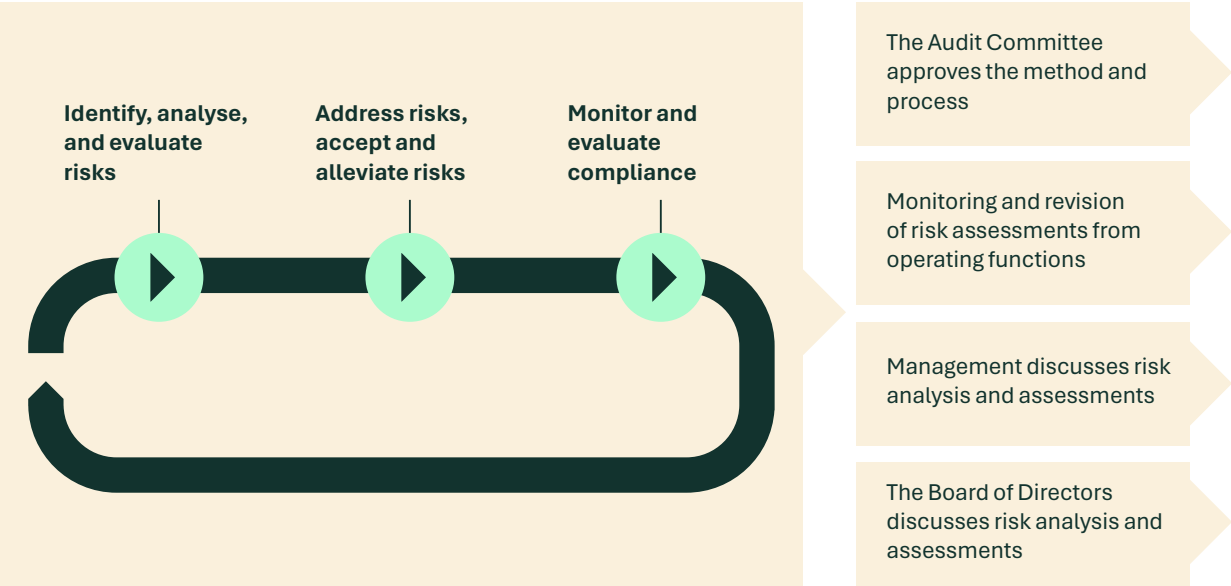
# Risks and risk management

Castellum works continually, in a structured manner, to identify and monitor financial and operational risks that the operations encounter. The Group’s risk management is based on careful analyses and documentation for decisions, for the purpose of mitigating and 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 to create a balance between 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 five-year perspective.

- To facilitate risk management, Castellum has chosen to classify risks into the following categories:
- Business environment risks – risks due to the influence of external factors and events.
  - Operational risks – risks associated with routine administration of Castellum’s operations and risks associated with laws and regulations.
  - Financial risks – risks attributable to Castellum’s financing.
  - Sustainability risks – risks associated with the environment, climate and social responsibility.



## Market and business risks



Risk	Risk description	Management	Castellum's assessment
Macroeconomic factors	Macroeconomic risks – such as an economic downturn that leads to increased unemployment, reduced growth, weaker profitability for companies and difficulties in obtaining financing – could result in reduced demand for premises, falling market rents, increased vacancy rates, higher financing costs and changed yield requirements, which in turn could have a negative impact on the market value of the properties.	Castellum monitors developments in the business environment, assessing the potential macroeconomic impact on both customer offering and financial position. A strong balance sheet with a properly composed financing structure counteracts interest cost and refinancing risks, and a well-composed lease portfolio reduces the risk of both significant falls in rent and vacancies. Business intelligence is continually gathered, with market trends being monitored and adjustments made to adapt the company’s offering to its customers’ needs and demands as well as to be a competitive operator in the property industry.	<div></div>
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 that the crisis is of such nature that the insurance does not apply.	All properties are insured for their full value in order to minimise the risk of major economic impacts 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 and in conjunction with regular crisis exercises. The crisis management groups lead the work when a crisis arises. The crisis plans include escalation criteria for when the Group-wide crisis plan is to be activated. They include a section on crisis communication, with a clear allocation of responsibilities and checklists.	<div></div>

# Operational risks



Risk	Risk description	Management	Castellum's assessment
IT and information security	Hacking, ransomware attacks or similar incidents can have serious impacts, for example, in the form of loss or destruction of data, leaks of confidential information or the spread of disinformation. Insufficient information security could lead to personal data breaches.	Castellum is continually engaged in preventive security efforts concerning IT security, firewalls, virus protection, hacking tests and systems that minimise risks associated with IT security in the operations. There is an IT continuity plan that specifies actions the company is to take in the event of unforeseen incidents. Routine training courses on information security and personal data processing are also offered. Castellum also has a data protection officer who works with issues linked to the GDPR.	<div> <div></div> </div>
Rental income and vacancy risk	Castellum’s income is impacted by rental levels, occupancy rates and its tenants’ ability to pay. Both the rental level and the occupancy rate are impacted by developments in the business cycle and demand for premises, which means that the risk increases for companies in vulnerable industries.	Castellum has a diversified lease portfolio with a spread across notice periods, industries, tenant size and geographic location and that is concentrated in growth markets where a large proportion comprises public sector and/or state-owned tenants. Leases with at least a three-year term are, either in part or in whole, subject to indexation. The risk of customer loss is limited, since Castellum always conducts credit checks before new leases are signed and routinely monitors its tenants’ creditworthiness. Furthermore, Castellum strives for long-term customer relationships and reduces the risk of vacancies by working closely with tenants in order to understand their needs. Castellum takes a long-term approach to renegotiating leases.	<div> <div></div> </div>
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.	Castellum works actively with the Castellum Experience employee survey to investigate employee well-being. Additionally, Castellum complies with collective bargaining 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 or go on sick leave. To avoid the risk of issues such as victimisation, incidents and so on, there are several local Safety Committees that monitor compliance with Castellum’s work environment handbook, local safety officers that employees can turn to regarding work environment issues, and a whistleblower function that is managed by an external party in order to safeguard anonymity. Employees undergo mandatory training in occupational health and safety at the start of employment.	<div> <div></div> </div>
Operating and maintenance costs	Castellum’s operating and maintenance costs comprise primarily rate-based costs such as electricity and heating, and price trends of purchased goods and services Increased operating costs that are not offset through rental income, or increased costs owing to backlogs in maintenance, repairs or damage can impact the market values of the properties and lead to higher insurance premiums.	In pace with the properties becoming increasingly connected online, the possibility of remotely monitoring operations and detecting and addressing potential functional errors at an earlier stage increases. Castellum engages in preventive actions in the form of self-checks, risk inspections, electricity audits and incident reporting in order to reduce the risk of damage to property, people and the environment. Castellum is works in accordance with thoroughly prepared guidelines for electricity trading. The guidelines are intended to minimise risk and ensure a more even cost trend, as well as minimise uncontrolled changes in the price of electricity for Castellum and its tenants. Castellum has a central purchasing function to ensure that purchases are procured in a structured manner, and that framework agreements are signed with suppliers.	<div> <div></div> </div>

# Operational risks



Risk	Risk description	Management	Castellum's assessment
Market values of the properties	The market values of our properties are impacted by a number of factors such as market offering, rental level, yield requirement, general business cycle trends, interest rates, and inflation as well as property-specific circumstances such as operating costs, vacancies, technical standard, property damage or changes in legal requirements. There is a risk that changes in any of these factors could negatively impact property values, or that erroneous assessments are made in the valuation of individual properties.	Castellum recognises its investment properties at fair value. Routine actions are taken to limit the risk of property-specific incidents negatively impacting the market value through, for example, active administration, full-value insurance and diversification in the composition of the asset portfolio. Experienced evaluators routinely monitor the market and conduct sensitivity analyses to prevent the inherent uncertainty in market assessments in conjunction with property valuations. Internal property valuations are carried out on the property portfolio in conjunction with quarterly reports and external property valuations of portions of the property portfolio are carried out in conjunction with the reports for the second and fourth quarters. Refer to Note 10 Investment properties.	<div> <div></div> </div>
Regulatory compliance	Castellum is a listed property company with operations in Sweden, Denmark and Finland, and indirectly in Norway through an associated company. The inability to comply with laws and regulations in force at any given time – which includes, for example, regulations for listed companies, environmental legislation and tax legislation – can lead to financial losses, unforeseen costs, sanctions, delisting or loss of reputation among tenants and shareholders. Regulations can also be open to interpretation, meaning that current regulators and Castellum may have different opinions.	Castellum has employees in different specialist fields, such as sustainability, tax and legal, in order to manage issues of varying complexity and to identify political decisions and proposed changes to regulations at an early stage. 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 specialists to reduce the risk of violation of regulations. Castellum has also appointed an external data protection officer.	<div> <div></div> </div>
Projects	New construction, extensions and reconstructions of properties are associated with risks in the form of investments proving to be unprofitable, delays or shortcomings in project implementation or incidents of personal injury, which could lead to increased costs and damage to Castellum’s brand.	Internal processes and high levels of competence in the project organisation ensure that high quality in both project implementation and products is maintained. Castellum carefully evaluates suppliers and contractors and imposes clear requirements for standards, safety, work environment and sustainability. Profitability and risks are routinely monitored over the course of the project.	<div> <div></div> </div>
Composition of the asset portfolio	Castellum’s ownership or acquisition of properties in the wrong sub-market, city or location, or properties that are not future-proof on the basis of tenant preferences, climate or environmental requirements, government agency requirements or flexibility in use and contractual terms could result in an increase in vacancies or costs, or a decrease in the value of properties.	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 climate risks.	<div> <div></div> </div>

# Financial risks



Risk	Risk description	Management	Castellum's assessment
Funding risk	Insufficient financing could lead to Castellum not being sufficiently competitive, 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, known as refinancing risk. This risk could also arise in the event Castellum's credit rating is impaired. The inability to comply with 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 our 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.	<>
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 limits this risk by requiring high credit ratings from its counterparties, which are currently all major Nordic banks.	<>
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.	<>

# Sustainability 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
Climate change	Climate change implies a risk of property damage caused by changing weather conditions, higher average temperatures, higher water levels and changes in the physical environment that impact properties. This could mean a risk of increased operating costs, unforeseen costs and a greater need for investments in properties.	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 and the risk of damage to and impact on operating and maintenance costs. Using climate scenario analyses that are reviewed annually, Castellum can identify financial and operational risks and opportunities attributable to climate change that impacts the company over both the short and long term. Routine analyses are conducted in order to identify necessary actions for properties that are exposed to physical climate risks. Refer to Climate change – impacts, risks and opportunities, pages 69–70, and Climate change – anticipated financial effects, page 77.	
Operational environmental risks	Operational environmental risks mean risks associated with the direct impact of the properties on the environment such as use of resources, energy consumption, water use, waste management and risk of emissions during renovation or maintenance. These risks can arise in conjunction with poor maintenance of properties, leaks of hazardous substances, inadequate handling of building materials or incorrect waste management, all of which could lead to negative environmental impacts, increased costs and sanctions.	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 consumption and increases the proportion of renewable energy. The company conducts inventories of the existing portfolio and during property acquisitions, in order to identify and address environmental and health risks. Read more about our efforts on page 25 and the Sustainability Report on pages 48–107.	
Business conduct, reputation and brand	In the construction and property industry, there are risks pertaining to work environment, corruption and human rights. These risks can be found not only within Castellum but also among hired suppliers and partners. Irregularities or unethical business behaviour could damage Castellum's brand, which in turn could lead to financial impacts and loss of confidence.	Castellum has good ongoing internal control, and clear purchasing and procurement procedures, clear requirements and continual monitoring are essential activities for managing risks in the supply chain. The Code of Conduct for suppliers is attached in conjunction with procurements and new contracts with suppliers. All employees are trained regularly in the internal Code of Conduct as well as other policy documents and guidelines on subjects including purchasing, business conduct and anti-corruption. Castellum informs and is routinely in dialogue with suppliers and other partners regarding requirements for compliance with the Code of Conduct for suppliers, and conducts systematic risk analyses of suppliers. In the event of suspected irregularities, there is a whistleblower function on Castellum's web site that is managed by an external party so as to ensure anonymity.	