

Operations, financing, tax and risk management

Risks and risk management

Castellum continually and systematically identifies and monitors financial and operational risks encountered by the business. Risk management is based on careful analyses and documentation for decisions, for the purpose of reducing its risks and limiting their consequences.

Definition and procedure

Castellum defines risk as an uncertainty factor that may affect the company's capacity for achieving its objectives. Risk management is a matter of creating a balance between limiting risks and achieving business goals. In order to assess the effect of identified risks, an internal risk survey is conducted annually in which risk is assessed on the basis of both impact and likelihood. This assessment determines if the risks must be further monitored, whether actions need to be taken or if they can be managed through regular review and management.

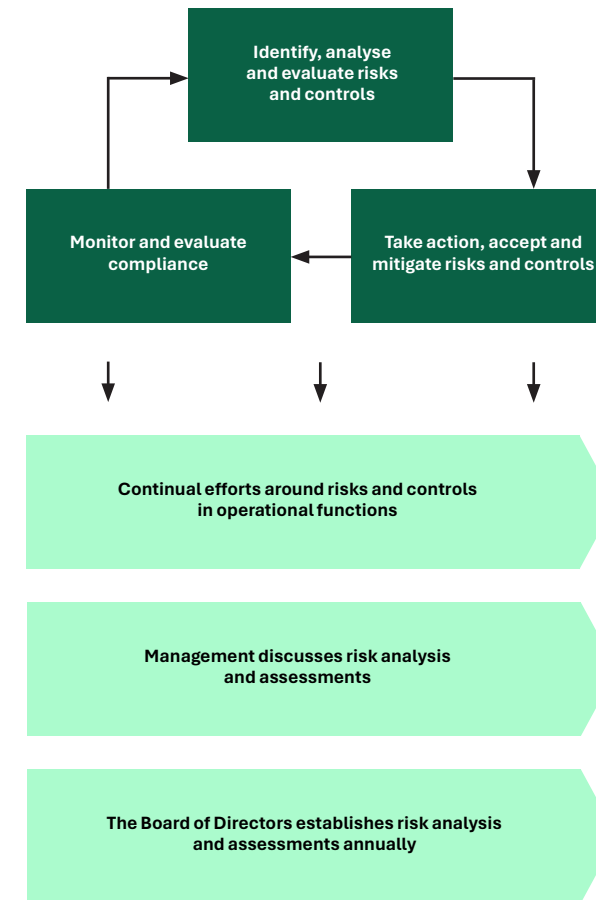
Risk categories

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

- **Business environment:** Risks associated with the business environment include crisis situations, geopolitical instability, contingency issues, disruptions in supply chains and macroeconomic factors such as inflation and increased

costs. These risks can impact the company's profitability, capacity for maintaining good property management, demand for commercial premises, investment opportunities and capacity for implementing projects as planned.

- **Operational:** Risks associated with routine property management such as fires, flooding, IT and information security, project implementation, skill supply and regulatory compliance. These risks could lead to financial losses, reduced profitability and legal penalties, and affect the company's capacity for fulfilling regulatory requirements and customer expectations.
- **Financial:** These risks consist primarily of uncertainties regarding financing, creditworthiness, currency and interest costs. These factors can impact the operation's stability and earnings. Risk management aims to minimise negative impacts and ensure long-term financial sustainability.
- **Sustainability:** These risks pertain to managing potential damage caused by climate change, shortages of resources, waste and emissions, risks linked to issues such as corruption, undocumented workforce and inadequate work environment. These risks could lead to increased costs, demands for investments and other negative impacts on the operation.



Market and business 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
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. These risks could also impact valuation assumptions and the mode of operation of the capital market.	The company continually monitors developments where the potential macroeconomic impact on both demand and financial position is highly significant. Castellum has a low loan-to-value ratio and a highly diversified financing structure, with a large proportion of liabilities with interest-rate hedging. The company also has a highly diversified customer base, with low exposure to individual tenants or industries, which reduces the risk of vacancies and significant loss of rent.	⟷
Crises	A crisis is a difficult-to-manage incident beyond Castellum's control that has a serious impact on operations, causes danger to life or health, damage to property or the environment, or damage to confidence in Castellum or its reputation. Increased geopolitical turbulence increases the risk of crises. The changing security situation and increased requirements for civil preparedness also involve greater expectations of property owners for ensuring the robustness and continuity of essential operations. 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.	Castellum partners with a broad network, and industry organisations, to widen the scope of its business intelligence. The company has appointed internal crisis management groups and developed crisis plans in every region and at Group level, which are activated as needed and in conjunction with regular crisis exercises. Crisis plans include escalation, crisis communication and clear allocation of responsibilities. Due to the increased geopolitical turbulence in the world around us, the company has stepped up its activity around issues of preparedness. Castellum continually reviews energy supply and other critical systems in its property portfolio in order to strengthen robustness. It monitors the development of the authorities' approach to civil preparedness and adapts its activities as necessary. All of the company's properties are insured for their full value in order to minimise the risk of major economic impacts caused by unforeseeable property damage.	∧

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
IT and information security	In a world of accelerating digitalization, deficiencies in information security are a growing risk with a continuously evolving threat landscape. Lack of information security can result in data breaches and ransomware attacks, and similar incidents have become increasingly common, resulting in significant consequences for both public and private operators. For those affected, the impact may include destroyed or lost data, disclosures of confidential information or the spread of disinformation. If an incident also involves personal data, it can lead to privacy violations for the data subjects as well as breaches of the GDPR and steep sanctions for the company.	In light of this changing external situation, Castellum is continually engaged in security prevention activities linked to IT security. These include penetration testing that challenges the company's security solutions, as well as identifying and fixing any vulnerabilities. There is an IT continuity plan that indicates which actions are to be taken in the event of unforeseen incidents. The company also has 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. These efforts are also a part of the company's overall contingency planning, since digital infrastructure and property systems comprise a core element of essential functions in several of Castellum's properties. IT risks are monitored at the Group level and reported to Executive Management.	
Loss of rent, and vacancy risk	In a rental market with changing customer demand, there is a great need for adaptation. This is why Castellum's capacity for developing and adjusting its asset portfolio – and diversifying its customer base – are important for reducing risks of vacancy and loss of rent.	Castellum has a diversified asset portfolio, geographically and across segments, that is trending toward modern and energy-efficient buildings in attractive locations. The rental contracts are spread out across notice periods, industries, tenant sizes and geographic locations. The portfolio is concentrated in emerging markets, with a large share of government agencies and departments as tenants. Leases with at least a three-year term are, either in part or in whole, subject to indexation. The risk for loss of rent is limited, since Castellum always conducts credit checks before new leases are signed and routinely monitors its tenants' creditworthiness. Furthermore, the company is actively working on adaptable and demand-driven solutions for its premises, as well as renegotiation of leases over the long term. Active property management, healthy customer dialogue and long-term customer relationships are central to day-to-day activities.	
Operating and maintenance costs	Castellum's operating and maintenance costs comprise primarily rate-based costs such as electricity and heating, as well as costs for materials and services. Increased operating costs that cannot be offset through rental income – such as cost increases resulting from backlogs in maintenance and repairs, or damage – could negatively impact earnings. Damage costs that cannot be recovered through insurance compensation impact earnings and increase our land rehabilitation costs, and also risk driving up insurance premiums.	In pace with the properties becoming increasingly connected, opportunities increase for remotely monitoring operations and detecting and addressing potential functional faults at an earlier stage. 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. Furthermore, the company works actively to keep maintenance plans for all properties updated and accessible. Castellum has a central purchasing function to ensure that procurements and purchases are carried out in a structured manner, and that framework agreements are signed with suppliers.	

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
Regulatory compliance	Castellum is a listed property company with operations in Sweden, Denmark and Finland, and indirectly in Norway through associated companies, which means that the company is obligated to comply with laws and regulations – for example, regulations for listed companies, environmental legislation and tax legislation – in force at any given time. The inability to comply with these 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 the regulators concerned and Castellum may have differing opinions on applicable law.	Castellum has various specialists in, for example, sustainability, tax and legal, in order to manage issues that target each specific field 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. Furthermore, Castellum works with external specialists to reduce the risk of violating regulations. Castellum has also appointed an external data protection officer.	◁▷
Projects	Investments in existing properties are associated with risks in the form of investments proving to be unprofitable. Furthermore, there are risks of delays and shortcomings in project implementation, or incidences 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, risks and degree of completion are routinely monitored over the course of the project.	▼
Employees	The risk that Castellum will not succeed in retaining committed and qualified personnel could result in a shortage of competence, and some positions not being immediately replaced. Furthermore, it can affect operations and the capacity for implementing strategies in the short term. Shortcomings in working conditions, work environment and safety at work can lead to workplace accidents as well as physical and mental ill health for the company's employees.	Castellum actively utilises the Castellum Experience employee survey to evaluate employee well-being. Additionally, Castellum has 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.	▼

Financial 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
Financing	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. 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	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 features a mix of fixed interest terms on loans and interest rate derivatives.	▼
Credit and counterparty	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	Currency risk refers to a negative currency effect on the income statement, balance sheet and cash flow. Furthermore, currency risk can be divided into translation exposure and transaction exposure.	Castellum's currency risks are to be limited, primarily through natural hedges and currency hedging, and by net exposure not exceeding 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 maintenance of and 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 – E1 SBM-3, pages 49–50; and Climate change – E1 IRO-1 E1-2 and E1-3 on pages 51–55.	↔
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 and incorrect handling of construction materials, all of which could lead to negative environmental impacts, increased costs and potential sanctions.	Castellum's Sustainability Policy, with the appurtenant appendix, defines how the company's operations are to be conducted sustainably. The company certifies its portfolio for sustainability, sets requirements for efficient resource management, reduces energy consumption and increases the proportion of renewable energy. Environmental inventories are carried out on the existing portfolio and during property acquisitions in order to identify and address environmental and health risks. Read more about Castellum's activities in the Sustainability Report on pages 24–97.	↔
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 lead to personal injuries and damage to Castellum's brand, which in turn could lead to financial impacts and loss of reputation.	To manage risks in the supply chain, Castellum has good ongoing internal control, clear purchasing and procurement procedures, and clear requirements regarding the company's suppliers. Castellum 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. All employees of the company are trained regularly in the internal Code of Conduct as well as other policy documents and guidelines concerning such subjects as purchasing, business conduct and anti-corruption. 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.	↔