Risks and risk management

Risks, exposure and risk management

Property ownership and management exposes operations to internal and external risks, or uncertainty factors that could impact the Group's ability to achieve its overall objectives for growth.

Castellum therefore works continually, in a structured manner, to identify and actively monitor financial and other risks that operations encounter or are faced with. The Group's risk management involves a structured process of analysis and decision-making with the aim of establishing a balance between the desire to limit uncertainty or risk and the task of generating growth and shareholder value.

Risks, exposure and risk management

Castellum defines risk as an uncertainty factor that may affect the company's ability to achieve its objectives. Risk management aims at balancing the desire to limit risk and achieving objectives. In order to assess the effect of identified risks, an internal risk rating is conducted in which each risk is assessed, from the perspectives of impact and probability. This process determines if the risk should be further monitored (Monitor), if actions should be taken (Focus) or if it can be handled through standard review and management (Review). Castellum conducts an annual risk survey in which all the company's risks are assessed based on likelihood, impact, priority and development. Short- and medium-term risks are analysed for a period of up to 10 years. Over the last several years, Castellum has also worked on analysing various future climate-related risks and possibilities over the long term up through 2050. To facilitate risk management, Castellum has chosen to classify risks into the following categories:

- Business environment – risks due to the influence of external factors and events.
- Strategic risks – risks associated with reputation or the ownership of Castellum's asset portfolio.
- Operational risks – risks associated with routine administration of Castellum's property holdings.
- Sustainability and climate risks – risks associated with the environment, corporate responsibility and/or liability risks.
- People – risks associated with our employees and the people in and around our properties.
- Financial risk – risks in Castellum's financing and reporting.

Risk category	Risk	Impact	Probability	Priority	Change
BUSINESS ENVIRONMENT					
Macroeconomic risks	**1.** Macro – crisis	Serious	Likely	Focus	↑
Crises	**2.** Crises	Medium	Likely	Focus	↑
Changes in legislation	**3.** Changes in legislation	Medium	Certain	Focus	◇
	4. Regulatory compliance	Serious	Likely	Focus	↑
STRATEGIC RISKS					
Composition of the asset portfolio	**5.** Composition of the asset portfolio	Major	Unusual	Monitor	◇
	6. Obsolete product/property	Medium	Likely	Monitor	◇
	7. Size – too big in a sub-market/area	Minor	Unusual	Review	◇
Reputation	**8.** Brand	Major	Low	Monitor	↓
	9. Digitalisation	Medium	Possible	Monitor	◇
Investments	**10.** Investments	Major	Likely	Focus	◇
	11. Strategic acquisitions	Serious	Possible	Focus	◇
Changes in value	**12.** Changes in value – property	Serious	Certain	Focus	◇
OPERATIONAL RISKS					
Rental income	**13.** Rental income	Major	Possible	Focus	↑
	14. Dissatisfied tenants/customers	Serious	Low	Focus	◇
Property costs	**15.** Property costs	Insignificant	Possible	Review	◇
Tax	**16.** Tax	Major	Low	Review	◇
SUSTAINABILITY AND CLIMATE-RELATED RISKS					
Sustainability	**17.** Operational environmental risks	Serious	Low	Focus	◇
	18. Risks attributable to climate change	Medium	Possible	Monitor	◇
	19. Breach of the Code of Conduct	Serious	Low	Focus	◇
	20. Liability risks	Major	Possible	Monitor	◇
PEOPLE					
People	**21.** Employees	Serious	Likely	Focus	↑
	22. People	Serious	Likely	Monitor	◇
FINANCIAL RISK					
Financing	**23.** Financing	Serious	Possible	Focus	◇
Reporting	**24.** Reporting	Serious	Unusual	Focus	◇
Changes in value	**25.** Changes in value – derivatives	Medium	Likely	Monitor	◇

↓ Reduced focus on risk area since previous year. ◇ Unchanged focus on risk area since previous year. ↑ Increased focus on risk area since previous year.

Business environment

External environment risks refer to risks due to the influence of external factors, mainly outside Castellum's control, but to which Castellum has to relate. These risks can be divided into macroeconomic risks, crises changes in legislation and regulatory compliance.

Risk	Management	Exposure
MACROECONOMIC RISKS		**PRIORITY: FOCUS** — **DEVELOPMENT** (increased)
1. Macro – crisis Macroeconomic risks are risks associated with a general reduction in demand in the economy, low inflation, deflation or situations which entail general difficulties in obtaining financing, or alternatively obtaining financing at higher credit margins.	• Business intelligence. • Strong balance sheet and low loan-to-value ratio. • Well-composed contract portfolio with a wide spread regarding notice period, industry, type of premises, contract size and geography. • Deflation protection or a minimum upward adjustment of leases. • Multiple sources of financing. • Frequent renegotiations and supply of new credit agreements. • Asset portfolio concentrated on growth areas. • Natural macroeconomic hedging mechanism between higher/lower interest costs and rental income, but with some time delay.	A weak economy negatively impacts the demand for premises, leading to increased vacancies, falling market rents and loss of indexation for existing leases. In addition, the risk of payment problems – or even bankruptcies – among tenants increases, resulting in immediate negative effects on cash flow. Limited access to capital reduces Castellum's opportunities to conduct operations. Ultimately, reduced demand in the economy leads to declining property values. Risks linked to changed customer needs based on the pandemic of the last two years, which has led to an increase in working remotely. Could lead to increased vacancy, falling rental levels and reduced property values.
CRISES		**PRIORITY: FOCUS** — **DEVELOPMENT** (increased)
2. Crises Crises include all crisis events that arise in the business environment that Castellum cannot influence and are difficult to foresee, for example, terrorist attacks, cyber attacks, pandemics, extreme weather events and environmental disasters as well as information leaks.	• Crisis plan. • Succession planning for senior executives. • Full coverage insurance, properties. • Guidelines for information security and the creation of understanding and awareness among users that information is an asset that should be handled with care. • Continuity plan IT. • Expanded efforts in digitalisation throughout our entire operations. • Increase knowledge of the impact of climate change on operations.	• No one has remained unaffected by last year's global coronavirus pandemic. Castellum was affected as well, even though it has a highly differentiated asset portfolio. • In pace with rapid digitalisation, the threats and vulnerability that digitalisation entails also increase. • IT attacks and hacking in the world around us have increased over the last few years. • In pace with a continued increase in greenhouse gas emissions internationally, the risk of more extreme weather events and environmental catastrophes increases, as do their consequences.
CHANGES IN LEGISLATION		**PRIORITY: FOCUS** — **DEVELOPMENT** (unchanged)
3. Changes in legislation Changes in legislation or ordinances, both national and international, can impact Castellum. Some examples are tax legislation, new regulations for banks, procedures for planning processes, and so on.	• Monitor developments regarding laws, regulations, praxis and so on within the areas most essential to Castellum. • Actively participate as much as possible in debate. • Prepare Castellum for new or amended regulations. • Continual renegotiation of credit agreements. • Broaden the financing base via more sources of financing and financiers.	Changes in legislation can impact future opportunities to invest, or alternately result in price increases, which lead to poorer yields moving forward. New banking legislation can impact access to financing and the price of borrowed capital, and could trigger credit covenants that would lead to increased financing costs. Changes in tax rates and tax legislation, such as proposals regarding interest deduction limitations, new regulations concerning tax depreciation and prohibitions on "bundling" of properties, may affect Castellum's future tax expenses.
		PRIORITY: FOCUS — **DEVELOPMENT** (increased)
4. Regulatory compliance Inadequate compliance could lead to financial losses, supervisory sanctions, loss of reputation, and in the worst case to delisting. Some regulations, such as IFRS, are open to interpretation, which means that Castellum and regulatory supervisors may have different opinions.	• A corporate culture built on high ethical ideals. • Strict internal control processes with quality assurance at several stages. • Code of Conduct. • Competent and responsible employees. • Monitor the development of legislation, praxis, court orders etc. • Compliance function that reports directly to the Audit and Finance Committee. • Whistleblower function.	Conducting Castellum's operations responsibly is crucial for the Group's long-term success. The company's operations and ability to continue creating value are based on relationships among employees, tenants, partners, investors, authorities and so on. Each and every employee jointly creates a shared image of Castellum through their conduct and what they provide to the surrounding community.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Strategic risks

Strategic risks are risks associated with Castellum's reputation or the ownership of Castellum's asset portfolio, which in turn can be divided into risks regarding the composition of the portfolio, reputation, digitalisation, investments and corporate acquisitions as well as changes in value on properties.

SENSITIVITY ANALYSIS – CASH FLOW

Effect on income, next 12 months

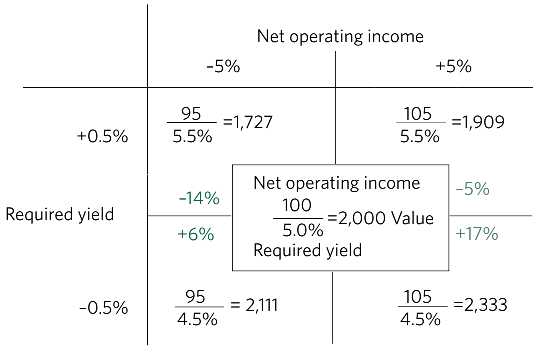
	Effect on income, MSEK	Probable scenario	
	+/– 1 ppt	Boom	Recession
Rental level/index	+83 / –83	+	—
Vacancy	+92 / –92	+	—
Property costs	–24 / 24	—	0
Interest costs[1]	–335 / 194	0	—
Valuation, required yield	–24,506 / 37,685	+	—

1. The asymmetry is due to the fact that at present, Castellum deems the opportunities for fully including negative market rates to be limited.

SENSITIVITY ANALYSIS – CHANGE IN VALUE

Properties	-20%	-10%	0	+10%	+20%
Change in value, MSEK	-30,629	-15,315	0	15,315	30,629
LTV ratio	48%	43%	39%	36%	34%

VALUE RANGE – SIMPLIFIED EXAMPLE



Figures in green relate to change in value

Risk	Management	Exposure

ASSET PORTFOLIO

PRIORITY: MONITOR DEVELOPMENT:

5. Composition of the asset portfolio
The composition of the asset portfolio can be affected at two levels: unfavourable geographical distribution (Castellum owns properties in the wrong sub-market, community or location with regard to factors such as future growth and current strong urbanisation trend) or that Castellum owns obsolete properties – a property portfolio that is not future-proof based on customer preferences, climate changes, technical requirements, micro-location or flexibility in usage and contractual terms and conditions.

Management:
- Macro analysis: regular reviews of the sub-markets' conditions as regards economic growth, rental market, partnership climate, infrastructure investments and so on.
- Annual review of the asset portfolio regarding both geographic exposure and product types.
- Strategy documents established annually by the Board of Directors.
- Monitor climate risks in the asset portfolio, and analysis of climate risks in conjunction with investment decisions.

Exposure:
Castellum's portfolio is found in Swedish growth regions as well as in Copenhagen and the Helsinki area. Currently, all locations are assessed as having the right conditions for continued holding or investments.
Additionally, major transactions have been carried out over the last few years for the purpose of creating better conditions for growth in the cash flow going forward.
The Group's asset portfolio in the commercial property segment is divided into offices, public sector properties, and warehouse and logistics. All segments are linked to growth possibilities.

PRIORITY: MONITOR DEVELOPMENT:

6. Obsolete product/property
A property portfolio that is not futureproof may become obsolete due to customer preferences, climate change, technical requirements, micro-location or to flexibility in usage and contractual terms and conditions. It entails a risk of increased vacancies and a decline in value as a result, or alternately large investment commitments.

Management:
- Monitor the rental market and its trends/offering.
- "Trendspotting".
- Be customer-centric, to understand not only the needs of today but also those of tomorrow.
- Monitor infrastructure investments.
- Participate actively in city/sub-market development.
- Innovation efforts (an innovation lab) that follows technological developments, focusing on megatrends.
- Routinely invest in the existing portfolio to "upgrade" and sell properties that are not deemed "right" going forward.
- Monitor climate crises.

Exposure:
Castellum annually invests approximately SEK 6 billion, net, evenly distributed in a normal year between acquisitions and new construction, extensions and reconstructions.
Castellum also actively works on sales in order to reallocate capital to investment opportunities with better yields.

PRIORITY: REVIEW DEVELOPMENT:

7. Size – too big in a sub-market/area
Becoming too big in a sub-market or city may result in the municipality or the business environment placing stricter demands on Castellum, for example requiring the company to take overall financial responsibility for an area regarding infrastructure and so on.

Management:
- Be among the top three property owners in each respective city.
- Monitor market share, which is taken into account in the investment strategy established.
- Conduct annual analysis of the coming three-year period to identify available growth opportunities.

Exposure:
The property portfolio is concentrated in selected cities, all of which are regarded as stable with favourable conditions for long-term positive development.

REPUTATION

PRIORITY: MONITOR DEVELOPMENT:

8. Brand
Insufficient preparation for managing sensitive issues, discontent and/or crisis risks triggering a crisis, creating rumours and damaging confidence as a result.

Management:
- Open culture for creating the confidence to pass on information regarding any problematic state of affairs at an early stage.
- Monitoring in traditional and social media.

Exposure:
- Misdirected campaign that creates shock and upset risks ruining our reputation and confidence among tenants, employees and other target groups.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Risk	Management	Exposure
REPUTATION, CONT.		**PRIORITY: MONITOR** DEVELOPMENT: Reduced
9. Digitalisation Trends in digitalisation move quickly, creating new conditions for the property industry. New digital or innovative solutions replace old technology and working methods, making new service possible and changing tenant demands. These trends also mean that new players enter the market. Players who do not adapt their operations to changing conditions could lose customers, suppliers and employees.	• Business intelligence with a focus on megatrends and their impact on changing behaviours in operations and people. • Innovation initiatives/lab that promote business development. • Connected technology in properties to gather data and learn from it. • Acquisition of United Spaces, a coworking company, in January 2019.	• Risk of inefficient working methods and/or lost tenants and employees if innovation, new technology, digitalisation and efficiency enhancements are not utilised. • Risk that new players take over parts of Castellum's business, including tenant contact.
INVESTMENTS		**PRIORITY: FOCUS** DEVELOPMENT: Unchanged
10. Investments Erroneous investment strategy or alternately inability to execute the selected investment strategy, or inability to identify profitable investment projects. Investments can be in the form of new construction, extensions and reconstructions, or via acquisitions. Acquisitions of individual properties can be carried out directly as property acquisitions, or indirectly in corporate wrappers. Acquisitions can also be large-scale, either in the form of regional portfolios or property categories, or in the form of strategic corporate acquisitions (i.e. the purchase of an existing organisation).	• Annual review and evaluation of the chosen investment strategy. • Investment decisions linked to the chosen investment strategy to ensure the correct decision. • Several investment discussions in parallel. • Three-year follow-up of investments made. • Risk-based model to determine the share of developments that can start without tenants. • Structured decision-making process that analyses market conditions and risks. • Contract forms that limit risk • Leases signed prior to the production start are designed to limit the negative impact of unforeseen production delays, additional requirements, and so on. • Quality assurance and monitoring of completed projects. • Quality assured due diligence process regarding legal, financial and tax issues. • Introduction programme for new employees.	Investments with low yield and/or lack of growth potential mean that the growth target of 10% in income from property management is not reached. Additionally, the growth target requires making annual investments, which in a powerfully competitive property market entails increased risk that the chosen investment strategy cannot be carried out. Risks associated with new construction, extensions and reconstructions relate to both the technological side in the form of production risks such as choice of supplier, form of contract, technical design and so on; and to the market side in the form of lease and vacancy risks as well as misjudgements regarding potential rental level and customer desires. In addition, there are risks in the form of negative environmental impact and climate crises. Acquisitions via corporations also involve company-specific risks in the acquired companies – tax, disputes and environmental issues, for example. Takeover of personnel further entails employee integration.
		PRIORITY: FOCUS DEVELOPMENT: Unchanged
11. Strategic corporate acquisitions Strategic acquisitions can be carried out to obtain various advantages, but can also entail risks such as difficulties integrating operations and employees, drawing management's attention away from other important business issues, a possibly new market the acquirer has limited or no experience with, expenditures for unknown or potential legal liabilities in the acquired company, and an overly expensive acquisition.	• Due diligence. • Thorough planning and structured processes for incorporating a new company. • Identify in advance the skills and market awareness needed. • Identify key people in advance. • Access to the market's best advisers.	Castellum has the efficient processes and skills (directly or indirectly via advisers) required for major strategic acquisitions. Kungsleden was acquired in 2021, which means there are major integration initiatives between two corporate cultures in progress.
		PRIORITY: FOCUS DEVELOPMENT: Unchanged
12. Changes in values – property Changes in value can occur either as a result of macroeconomic factors (see section on macroeconomic risks), microeconomic factors (usually the wrong sub-market, city or location) or property-specific causes (often cash flow-related). In addition, there is also the risk of individual properties being incorrectly appraised. Whatever the reason, changes in value impact the income statement, the financial position and the loan-to-value ratio.	• Strong balance sheet. • A large number of properties, a geographically diversified property portfolio and great variation in lease agreements result in lower volatility in asset portfolio value. • Routine analysis of the transaction market and quarterly reviews of the asset portfolio valuation yield early warning signs. • Internal quality assurance and internal control of internal valuations. • Annual external valuation of at least 50% of the portfolio.	Large negative changes in value can ultimately lead to agreed terms and commitments in credit agreements being broken, thus resulting in costlier borrowing, or in the worst-case scenario credits falling due for payment.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Operational risks

Operational risks refer to risks connected with routine administration of Castellum's property portfolio, which directly impacts income from property management. These can be categorised as rental income, dissatisfied customers/tenants, property costs and tax.

Risk	Management	Exposure
RENTAL INCOME		**PRIORITY: FOCUS** **DEVELOPMENT:** Increased
13. Rental income Rental income is impacted by a number of factors, both external and internal. External factors may include falling market rents, loss of indexation and bankruptcy (see section on macroeconomic risks). Poor property management can result in dissatisfied tenants, unnecessary vacancies and customer loss owing to a poorly adapted customer offering.	• Properties in growth areas and a contract portfolio with a large number of agreements, not dependent on a single tenant or business sector, and a maturity structure spread over time. • Proximity and attentiveness to customers. • Experienced and competent property management and leasing staff who prevent notices of termination through active renegotiations before contract expiry. • Competitor analysis; measure customer satisfaction and follow up on net lettings. • Strive for leases with an index clause with deflation protection and minimum adjustment.	For Castellum, reduced income can be derived from lower rental value, which is the potential rent that can be obtained from vacant premises, or alternately lower rental income, which is the actual rent received. Rental income is thus dependent on both the market rent of the property and on how Castellum handles vacancies. Reduced rental income ultimately leads to poorer cash flow and thus to a decline in the value of the asset portfolio. Because of the pandemic, numerous companies have begun reviewing their office spaces. Will these companies need as much office space going forward? Many companies may let their staff work from home to a greater extent even after the pandemic. The needs for creating attractive meeting places that replace traditional office premises are increasing. The acquisition of Kungsleden entails a better risk spread through a more diversified contract portfolio as well as longer average tenors on leases.
		PRIORITY: FOCUS **DEVELOPMENT:** Unchanged
14. Dissatisfied tenants/customers Several tenants or customers are dissatisfied and leave the Group. The opportunity to attract new tenants disappears, with large vacancies and decline in value as a result.	• Be close and attentive to customers. • Experienced and competent property management and leasing staff. • Annual measurement, Customer Satisfaction Index.	Castellum has a strong and clear customer focus, and it is important that the Group lives up to its tenants' expectations. This is why a Customer Satisfaction Index measurement is conducted annually.
PROPERTY COSTS		**PRIORITY: REVIEW** **DEVELOPMENT:** Unchanged
15. Property costs Risks concerning property costs relate primarily to cost increases beyond what Castellum can be compensated for through contractual rents, indexation and supplementary charges for costs incurred. It can also refer to unforeseen costs and extensive renovation needs.	• High percentage of cost re-invoicing. • Compensation via minimum indexation. • Continuous optimisation of operations and efficiency enhancement. • Demarcation list landlord/tenant. • Preventing customer losses via background checks and "in-house" debt recovery. • Long-term maintenance planning, in order to optimise maintenance costs over time.	The price of electricity is determined by supply and demand in an open, deregulated and partly international market. Other media costs are partly controlled by local monopolies, which creates uncertainty in future costs. The basis for calculating site leasehold fees may change in future renegotiations, and political decisions can change both tax rate and tax assessment value used for calculating property tax. Indirect costs for employees – such as payroll taxes and other obligations – could also be affected by political decisions.
TAX		**PRIORITY: REVIEW** **DEVELOPMENT:** Unchanged
16. Tax Castellum failing to comply with existing regulations or to adapt to changing regulations regarding income tax and VAT. Additionally, tax is an important parameter in a calculation context.	• Strict internal control processes and external quality assurance of income tax returns, for example. • Open claims regarding doubtful items. • Routine training of employees. • Closely following trends in legislation, praxis and court orders.	Incorrect tax governance can lead to the wrong tax being paid, tax penalties and in some cases to remarks in the auditor's report. Incorrect fiscal management in calculations can lead to overestimation of yield – which means insufficient actual yield – or underestimation of yield with the risk of a profitable investment not being made.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Sustainability and climate-related risks

Sustainability risks refer to risks directly or indirectly associated with environmental risks, climate change, the Code of Conduct and liability risks.

Risk	Management	Exposure
SUSTAINABILITY		**PRIORITY: FOCUS** **DEVELOPMENT:**
17. Operational environmental risks Environmental risks directly related to Castellum's operations can include the physical environment that impacts people and properties, as well as prices for natural resources in the form of materials and energy. Castellum estimates that risks related to rising raw materials prices owing to potential resource shortages will increase over the long term. With new construction, extensions and reconstructions there is also a risk that the materials and methods being used could subsequently prove hazardous in the future. In addition, political decisions and general opinion on specific environmental issues could impact Castellum.	• All new constructions are certified for sustainability. • Develop green relationships with customers. • Require more efficient use of resources. • Prioritise environmental aspects in all parts of operations. • Monitor developments in laws and ordinances.	Inadequate management of the work on environmental risks could affect Castellum's brand, legal compliance, and direct costs. Castellum works with certification for sustainability and environmental inventory to reduce environmental and health risks. 48% of the property portfolio is certified and 93% has undergone environmental inventory. Efficient property management focusing on decreased use of resources reduces the risk of high costs and environmental and health impacts, as well as providing customers with a healthy working environment. Since 2007, energy consumption has been reduced by 34% per square metre and carbon dioxide emissions by 77% per square metre.
		PRIORITY: FOCUS **DEVELOPMENT:**
18. Risks attributable to climate change Climate change poses a great risk to humanity from a global perspective. From a corporate perspective, climate change implies a risk of property damage caused by weather conditions changing over time, higher water levels and other changes in the physical environment that impact properties. Castellum estimates these risks will increase over the long term. This could mean increased need for investment in properties located in vulnerable areas, so that objects do not become obsolete. In addition, environmental policy decisions could impact Castellum, especially in the form of increased taxes or necessary investments.	• All investment issues are to be reviewed from a climate perspective in order to assess a property's sensitivity to climate change. • All new constructions are certified for sustainability. • Prioritise environmental aspects in all parts of operations. • Monitor developments in laws and ordinances. • Environmental inventory of existing portfolio and when acquiring properties, in order to identify and address environmental and health risks. • Climate scenario analyses were drawn up in 2019 and are reviewed annually to provide Castellum with tools and knowledge of how climate change could affect its operations.	Inadequate efforts in analysing climate risks can lead to extensive unforeseen costs for Castellum in the form of emergency measures or obsolete properties, and thus lost rental income. Climate change could also entail increased operating costs. Investments in the wrong kind of measures in our properties could result in a risk of unprofitable investments, if climate change is not taken into account. Castellum is currently reviewing every investment issue from a climate perspective; we also work with sustainability certification to reduce climate risks.
		PRIORITY: FOCUS **DEVELOPMENT:**
19. Breach of the Code of Conduct For a major player in the construction and property industry, there are risks pertaining to working environment, corruption and human rights. These risks can be found within the company, but also among suppliers and partners working on assignments for Castellum. This corporate responsibility risk can cause significant damage to Castellum's operations and brand.	• Mandatory training for Castellum employees on the internal Code of Conduct. • Castellum's Code of Conduct for suppliers to be incorporated into contracts. • Compliance function works systematically with monitoring and management. • Whistleblower function. • Comply with standards and documentation requirements.	Risk of breaches of the Code of Conduct may exist internally as well as among engaged suppliers. Through properly integrated codes of conduct in the form of procurement requirements, mandatory training for all Castellum employees, an active compliance function and a whistleblower function, the risk of a breach is considered low.
LIABILITY RISKS		**PRIORITY: MONITOR** **DEVELOPMENT:**
20. Liability risks All ownership entails responsibility. For Castellum, the properties could be destroyed by fire, water, theft or other damage. Moreover, through negligence Castellum could cause personal injury or property damage and cause environmental damage for which it will be held liable.	• Preventive measures to minimise the risk of damage to property, persons or the environment. • Unlimited cover insurance on all properties. • Insurance coverage for liability and property damage. • Environmental inventory of existing portfolio and when acquiring properties, in order to identify and address environmental and health risks.	Inadequate insurance coverage may result in unforeseen costs for Castellum. The obligation to pay compensation for damage caused can also arise for personal injury and damage to the property of another, as well as for remediation of environmental damage.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

People

Risks related to people affect both employees and people in Castellum's business environment.

Risk	Management	Exposure
PEOPLE		**PRIORITY: FOCUS** **DEVELOPMENT:** Increased
21. Employees Employees are one of our most important assets; their decisions and actions drive our business forward. The largest risk is failure to recruit, develop and retain employees and senior executives with the right skills, which may lead to underperformance at Castellum.	• Castellum's core values. • Open and transparent work environment. • Skills and leadership development. • Employee survey. • Succession plan for key employees/senior executives. • Market-based, competitive remuneration. • Analysis of staff turnover.	Wrong employees in the wrong place, dissatisfied employees, poor management and an organisation that does not encourage open dialogue and development can lead to employees feeling unhappy, underperforming or quitting. In turn, dissatisfied employees and high employee turnover lead to increased costs, poorer customer relations and reduced internal efficiency, which results in impaired profitability. Castellum is in the midst of a process of change in which both a reorganisation and the integration of Kungsleden are in progress.
		PRIORITY: MONITOR **DEVELOPMENT:** Unchanged
22. People Castellum works actively to minimise the risk of employees, insourced staff or other people being injured physically or mentally in connection with its offices, developments or properties.	• Continual work in accordance with Castellum's health and safety manual. • Routine monitoring. • Protection committee. • Design and architecture with "people in focus" in order to ensure a good environment for tenants, visitors and employees. • Provide attractive offices and environments where people feel happy and are encouraged to create good conditions for performance.	Castellum works actively to minimise the risk of employees, outside staff hired by us or other people being injured in a workplace-related accident or an accident related to deficient working conditions, work environment or work safety.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Financial risk

Castellum's single greatest risk is not having access to financing. Conditions and rules in the credit market can change quickly, which impacts interest rate risk and financing costs as well as the opportunity to obtain and extend credits. Risks can be divided into funding risk, reporting and changes in values on derivatives.

Risk	Management	Exposure
FINANCING		**PRIORITY:** FOCUS — **DEVELOPMENT:** Unchanged
23. Financing Liquidity and funding risk: Financing is either not available or very disadvantageous at a given time. Lacking proper access to the capital market through a loss of an investment-grade rating. Chosen capital structure: Castellum breaching the 50% loan-to-value ratio or similar covenant for 65% can impact market confidence in the company; and • A proportion greater than 65% could entail certain agreements falling due. • A proportion greater than 45% secured borrowing in relation to the Group's total assets could mean certain bond financing will fall due for payment. For the Kungsleden Group, there are also covenants for the debt/equity ratio, the loan-to-value ratio and the interest coverage ratio, all of which have been fulfilled by a wide margin. Interest rate risk: the risk of earnings or cash flow impact as a result of changing market rates. Castellum could breach the established mandate of an interest coverage ratio of not less than 200% or corresponding covenants of a minimum of 150%.	• A financial policy that establishes risk mandates. • Liquidity reserves/unutilised credit facility. • Multiple sources of financing in various geographical markets (banks, capital markets including bonds and commercial paper). • Several lenders, moreover only counterparties with high credit ratings. • Continuous renegotiation of credit agreements. • Strong balance sheet. • An interest rate maturity structure spread across various tenors. • Reduced loan-to-value ratio. • Reduced share of secured assets. • Long-term credit agreements with fixed margins. • Revolving credits to obtain maximum flexibility. • Established calculation formulas. • Reconciliation between internal and external appraisals. • Compliance function to ensure independence.	Property ownership is a capital-intensive business that requires a well-functioning credit market. Access to financing is fundamental for Castellum and for continued growth. Insufficient liquidity reserves could result in Castellum missing out on business opportunities. All lenders are not equally strong financially, however, which means there are counterparty risks in the system. Changes in capital structure might cause Castellum to breach the agreed financial key metrics of the loan conditions, which would lead to more expensive loans or to credit agreements maturing. Failure to ensure an appropriate capital structure could negatively impact capital market confidence in Castellum. The market interest rate is impacted by central bank monetary policy, expectations for financial trends – both national and international – and unexpected events. The pandemic has affected financing possibilities. Owing to the prevailing situation globally, there is a significant level of uncertainty on the finance market. The acquisition of Kungsleden has resulted in a significantly larger loan portfolio, which means increased access to diversified sources of financing and a stronger negotiating position in relation to external creditors.
REPORTING		**PRIORITY:** FOCUS — **DEVELOPMENT:** Unchanged
24. Reporting The risk that an official report, in the form of interim or annual reports, does not provide a true and fair view of Castellum's operations, earnings and financial position.	• A corporate culture based on high ethical ideals and orderliness. • Strict internal control processes with quality assurance at several stages. • Skilled and experienced staff. • Monitor trends in regulations in order to implement new changes in good time. • Compliance function that reports directly to the Board's Audit and Finance Committee. • External audit, full-year and half-year.	A misleading report would give Castellum bad will and a poor reputation in the market. This could lead to uncertainty among investors, increased risk premium and ultimately to a negative exchange rate impact, creating economic losses for Castellum's current owners. Other effects include investors making incorrect investment decisions, regulators imposing sanctions and ultimately the Castellum share being delisted.
CHANGES IN VALUE		**PRIORITY:** MONITOR — **DEVELOPMENT:** Unchanged
25. Change in values on derivatives Changes in value to Castellum's interest rate derivatives or currency derivatives arise from changes in market interest rate or exchange rates.	• Financial policy that establishes which derivative instruments may be utilised for interest rate fixing and currency risk. • Only marketable instruments in the market to be used, which is why listed prices can be obtained. • Established calculation formulas. • Reconciliation between internal and external appraisals. • Compliance function to ensure independence.	Changes in market interest rate and exchange rates impact the market value of the derivatives portfolio. Improper valuation of derivatives may provide an inaccurate picture of the Group's financial position.

Reduced focus on risk area since previous year. Unchanged focus on risk area since previous year. Increased focus on risk area since previous year.

Emissions scenarios – risks and opportunities

Castellum uses emissions scenarios to identify financial and operational risks and opportunities linked to climate changes that impact the company over both the short and long term. The purpose is to ensure that both operations and the property portfolio have the conditions to manage climate changes.

Climate reporting

For three years, Castellum has provided climate reporting in accordance with the voluntary international recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This year, the TCFD's updated recommendations for the property sector were also taken into account. The purpose is to report climate-related financial disclosures and make it possible for investors and other stakeholders to better understand the company's exposure to climate-related risks and opportunities.

Two emissions scenarios: the world in 2050

In 2019, an analysis was conducted to evaluate climate risks and opportunities based on two different emissions scenarios linked to how the world might look in the year 2050. The scenarios used were developed by the UN Intergovernmental Panel on Climate Change (IPCC):

- Fulfilling the Paris Agreement (RCP 2.6)
- On the beaten path (RCP 8.5)

RCP 2.6 is a scenario in which we have succeeded in limiting the temperature increase to 1.5–2 degrees Celsius. RCP 8.5 is a "business as usual" scenario in which the world has failed to make any changes and greenhouse gas emissions continue to increase at the current rate.

Both scenarios entail risks for Castellum, but opportunities as well. The company needs to be resilient, adapting its operations based on changed climate conditions both locally and nationally.

Evaluating climate risks

Castellum conducts an annual survey of all the company's risks based on the perspectives of likelihood, impact, priority and development for a period of up to ten years. For climate risks, we have a more long-term perspective, with an analysis based on emissions scenarios up through 2050.

As regards climate risks, both physical and transition risks that could follow from a changed climate are assessed. Ahead of investments in new production, the climate risks are evaluated for a building during its technical service life, with emphasis on precipitation, extreme weather and the risk of flooding. The intermediate IPCC scenario, which involves emissions increasing up until 2040 and then tapering off, is also used here. Ahead of decisions on investment, the Head of Sustainability assesses the investment from a sustainability perspective, in which climate change is an important issue.

The resistance of properties to climate change

Castellum is investigating the possibilities of evaluating the exposure of its property portfolio to climate change through participation in the EU-financed Carbon Risk Real Estate Monitor (CRREM) research project. This project will define scientifically-based measures to reduce carbon emissions in commercial properties and housing in the property sector for the purpose of achieving the Paris Agreement.

"Fulfilling the Paris Agreement" (RCP 2.6)[1]

- Greenhouse gas emissions halved by 2050.
- +1.5–3° C national temperature increase in Sweden.
- New renewable energy technology introduced on a large scale.
- Low energy intensity.
- Dramatic changes made to society, the infrastructure and buildings.
- The countries of the world succeed in collaborating on shared initiatives.
- Political decisions, taxes and regulations regarding greenhouse gases introduced.
- Increased regulations with sustainability requirements regarding land use and construction codes.
- Changed demands from customers and investors.

1. Sources: smhi.se/klimat/framtidens-klimat and TCFD, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities

"On the beaten path" (RCP 8.5)[1]

- Greenhouse gas emissions continue to increase at current rates.
- +2–4° C national temperature increase in Sweden.
- Rising ocean levels.
- More days with extreme weather and flooding.
- Increased number of forest fires.
- Unchanged behaviour and demands from customers and investors.
- High energy intensity and heavy dependence on fossil fuels.
- Political climate initiatives and collaboration fail.
- Poorer indoor climate impacts peoples' health.
- Increased population and immigration to Sweden.
- Operations become more event-driven owing to extreme weather.

1. Sources: smhi.se/klimat/framtidens-klimat and TCFD, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities

The world in 2050

Emissions scenario: "Fulfilling the Paris Agreement"

Risks

- Increased regulation, taxes and fees for carbon emissions, land use, construction codes, etc.
- Older properties could become obsolete.
- Risk of unprofitable investments if unproven technology is used to rapidly initiate the transition.
- Requirements for zero emissions of greenhouse gases throughout the value chain; the circular economy requires major changes in the business model.
- Price increase for construction materials, transportation and energy owing to political restrictions.
- Volatile or steeper energy prices.
- Increased need for investments in new technology, new construction and existing properties.

Opportunities

- Increased production of solar energy and increased use of renewable energy.
- Increased demand for innovation and new technology.
- Increased urbanisation and need for consolidation in core city areas make the portfolio attractive.
- Decreased energy needs owing to more efficient resource use.
- Changed customer and investor preferences, as well as increased sustainability requirements make Castellum an attractive property owner and investment.

Potential impact on Castellum's financial performance

- Increased investments in the transition.
- Increased costs for climate adaptation.
- Increased operating costs.
- Decreased value of properties that are not climate-adapted or are located in risk areas.
- Increased value of climate-adapted properties.

Emissions scenario: "On the beaten path"

Risks

- Water damage owing to flooding in ocean-front constructions and low-lying zones.
- Damages to roofs and façades owing to extreme weather such as storms, heat waves and fires.
- Decreased demand for properties located in areas at risk.
- Risk of obsolete properties, since the cost of climate adaptation measures exceeds the value.
- Increased need for maintenance, repairs and periodic building closures, as construction materials and technology are negatively impacted by increased temperatures and a moist climate.
- Increased shortages of electricity and energy, which is strongly driven by increased electrification and the need for more energy in society.
- Increased competition from low-price operators who lack sustainable agendas.

Opportunities

- Increased production of solar energy and increased use of renewable energy.
- Measures to enhance energy efficiency become more profitable to carry out.
- Increased requirements for indoor climate place demands on more adaptable properties and districts.
- Climate-adapted properties make Castellum a more attractive property owner.

Potential impact on Castellum's financial performance

- Dramatically increased investments in managing climate changes.
- Dramatically increased costs for climate adaptation.
- Volatile or reduced rental incomes.
- Volatile or increased energy costs.
- Dramatic increase in operating costs.
- Increased insurance costs.
- Decrease in or eradication of value of properties that are not climate-adapted or are located in risk areas.
- Increased value of climate-adapted properties.

Strategies that deal with climate risks and climate opportunities

- Net-zero carbon emissions according to the Science Based Targets initiative.
- Climate-proof properties.
- Production of renewable energy and energy storage.
- Enhancements to energy efficiency and limitation of effects.
- Sustainability programme for investments.
- Climate requirements for larger projects.
- Sustainability certifications and environmental inventories of buildings.
- Portfolio analysis of climate impact (planned).
- Increased focus on circularity and re-use of resources and materials.

Castellum's "100 på sol" (100 on Solar) solar cell programme

Read more on pages 23, 26 and 33.

Financial impact on rental income and the portfolio's value in the event of obsolete properties

In the IPCC's various emissions scenarios, the Nordic countries where Castellum conducts its operations are generally less affected by physical climate changes than countries further south in Europe. Castellum has developed a sensitivity analysis showing how the company is impacted financially if 10% of its properties become unusable or unlettable as a result of flooding or water shortages, or that properties that have not been adapted for climate become unattractive in the market. In 2020, a selection of the properties in Castellum's portfolio were stress-tested. The test showed that approximately 10% of the properties analysed will be affected by physical climate risks in the RCP 8.5 emissions scenario. The stress-test initiatives and refined impact assessments will continue over the coming years.

Castellum	Reduced rental income (MSEK)	Reduced total property value (MSEK)
If 10% of properties become obsolete	635	15,315