

Risk management

All business activities are exposed to risks varying in likelihood and impact. The primary objective of risk management in Adapteo Group is to support the company's strategy execution, continuity of operations and realisation of business objectives by anticipating any risks involved in the Group's operations and managing them in a proactive manner.

Enterprise risk management emphasizes the role of corporate culture and is an integrated part of operations, planning and decision-making in Adapteo Group.

Responsibilities

Adapteo Group's risk management governance is based on a three lines of defense model. The roles and responsibilities of various organisational bodies are described in the pertinent documents of Adapteo, such as charters and job descriptions. This model helps the Board of Directors and management at all levels of the company to properly address risks and opportunities the company is facing, and as result enhance capabilities to create, preserve and ultimately realise value. Risk management responsibilities have been assigned:

Board of Directors is ultimately responsible for ensuring that risk management is properly organised in Adapteo Group. The Board defines the risk appetite continuously, according to the current conditions. The Board Audit Committee is responsible for monitoring that Adapteo Group risk management process operates effectively.

Business Units and Group Functions are responsible for identifying, assessing, managing and performing risk mitigation activities as a part of day-to-day business activities. Risks are identified taking into account local market conditions, business operations and surrounding risk factors.

Group Treasury and Risk Management is responsible for maintain the risk management policy and operating model and facilitating the practical implementation of risk management procedures. The annual cycle sets forth the framework for risk management activities. Facilitation includes also assisting the Group management for preparation of annual risk assessment to the Board of Directors. Group Treasury also has the operational responsibility for financial risk management under the Group Treasury policy which has been approved by the Board of Adapteo.

Enterprise risk management and main risks

Adapteo Group's annual risk management process consists of risk identification, risk assessment, risk management, risk monitoring and risk reporting. The risk management framework fosters awareness of risk and control throughout the organisation and supports informed decision making. Continuous communication and dialog are necessary to promote risk awareness throughout Adapteo Group and to ensure successful integration of risk management into strategic planning, budgeting, daily decision-making and operations.

As a result of risk management process, Adapteo's main risks have been identified for which mitigation plans and activities have been defined, implemented and further monitored throughout the year. According to the annual cycle, the Group management risk workshop has concluded on the main risks for Adapteo Group, which are reviewed in the Board of Directors periodically. A risk overview, summary of identified main risks and mitigation activities for Adapteo Group are presented on the following pages.

Risk overview

Risk	Risk description
Business and IT integration	<ul style="list-style-type: none"> ■ Adapteo's business operations are dependent on the integration of business requirements and IT capabilities. ■ Failures in integration may affect the efficiency of operations and the correctness of both internal and external reporting.
 Global economic and financial conditions	<ul style="list-style-type: none"> ■ Adapteo's business is exposed to general economic conditions. ■ Economic fluctuations may affect demand, supply and financing of operations.
 Competition environment	<ul style="list-style-type: none"> ■ Adapteo operates in a highly competitive market environment with growing competitor presence. ■ Market position is dependent on continuous operational development.
Brand awareness	<ul style="list-style-type: none"> ■ Adapteo's brand awareness in the market may be affected by the relatively young age of the company. ■ This may affect Adapteo's ability to attract new customers especially in emerging markets.
 Employees	<ul style="list-style-type: none"> ■ Strategy execution is highly dependent on personnel resources. ■ Both availability and possible loss of key personnel may have a material adverse effect on strategy implementation.
Operating platform scalability	<ul style="list-style-type: none"> ■ Growth of Adapteo's business operations is dependent on the scalability of the company's operating platform. ■ Failures in operating model adaptation and development may affect Adapteo's ability to reach its growth targets.
 Regulatory changes	<ul style="list-style-type: none"> ■ Adapteo's business is subject to various regulatory requirements. ■ Changes in legislation and official regulations may have material impacts on business and operations.
Initiative prioritisation	<ul style="list-style-type: none"> ■ As a relatively young independent listed company, Adapteo has multiple development projects ongoing simultaneously. ■ Insufficient prioritisation and staffing of internal initiatives may affect core business operations.
Compliance risks	<ul style="list-style-type: none"> ■ Adapteo's governance, risk and compliance processes may fail to meet internal and external requirements resulting in possible regulatory penalties, reputational harm and fraud.
Performance management	<ul style="list-style-type: none"> ■ Failures in performance management and its alignment with Adapteo's strategic and operational targets may adversely affect the company's ability to reach its targets.
Project lifecycle management	<ul style="list-style-type: none"> ■ Adapteo has a standardised project sales, delivery and management model which aims to harmonise project lifecycle management related processes and activities. ■ Failures in adapting and following the project lifecycle management process may cause process inefficiencies and margin losses.
Project pricing and profitability	<ul style="list-style-type: none"> ■ Inability on implement company level pricing strategies, related processes and tools may increase the risk of cost overruns and margin slippages. ■ Risk of not being able to price projects taking into account market competition and dynamics.
 Fleet management	<ul style="list-style-type: none"> ■ Adapteo's business is dependent on effective fleet management. ■ Inefficiencies in fleet management may affect Adapteo's ability to take advantage of sales and rental opportunities, cause additional costs, impair brand value and lead to damage liabilities.
 Health and safety risks	<ul style="list-style-type: none"> ■ Managing risks related to occupational health and safety are in a key role considering the inherent dangers related to modular assembling sites. ■ Failure to do so may result in injuries, serious or even fatal accidents.
Company culture and internal communication	<ul style="list-style-type: none"> ■ Adapteo's company culture and the clarity of internal communication are key drivers for organisational success and job satisfaction. ■ Failures in maintaining, developing and communicating Adapteo culture may result in weakened job satisfaction and create organisational silos affecting Adapteo's future success.

Key risks and mitigation activities

Identified key risks	Risk mitigation activities
<p>Global economic and financial conditions Adapteo's business is exposed to general economic conditions. Economic fluctuations, and slow or negative economic growth could have a negative impact on Adapteo's business, financial condition and results of operations in several different ways, including weakened demand, increased expenses as well as suppliers, contractors or Adapteo's customers experiencing difficulties in meeting their contractual obligations.</p>	<p>Adapteo constantly monitors the economic and geopolitical situation and actively adapts its operations and strategies in order to mitigate risks related global economic and financial conditions.</p>
<p>Competition environment Adapteo operates in a competitive market where both new competitors have emerged and existing competitors have expanded their presence. Adapteo's market position is dependent on the continuous development of services, products and production methods and processes, as well as customer relationships.</p>	<p>Adapteo performs ongoing market and competitor analysis to gain understanding of the competition environment, pricing factors and emerging solutions. Through ongoing service, fleet and process development Adapteo is able to provide a broad range of different solutions to match customer needs and enable fast delivery and matching demand and supply. Additionally, Adapteo performs customer surveys to ensure optimisation between fleet specifications and customer needs.</p>
<p>Employees Adapteo's success and the execution of its strategy is dependent on its ability to recruit, retain and develop highly qualified, motivated and skilled personnel. The availability and loss of key personnel may have a material adverse effect on Adapteo's business.</p>	<p>Adapteo actively maps its existing competencies with business needs. Recruitments are proactively planned and performed in order to ensure an optimised mix of personnel resources. Succession plans are maintained for key personnel to mitigate possible risks related to employment termination. Employment terms are actively assessed against market practices to ensure competitive advantage.</p>
<p>Regulatory changes Adapteo's business is subject to regulatory requirements concerning, for example, building, zoning, environmental and safety regulations. Changes in general or local legislation and official regulations could have a material impact on Adapteo's business and result of operations especially in the form of higher costs caused by significant modification costs or even scrapping of modules.</p>	<p>Adapteo is in active communication with regulators and continuously analyses the regulatory environment including current and upcoming changes in general and local legislation in the respective countries that the company operates in. Based on the analysis, impact assessment is performed, and action plans prepared and implemented to allow for proactive adaptation of operating methods and possible fleet specification changes in relation to regulatory requirements.</p>
<p>Fleet management Effective management of Adapteo's fleet is crucial to the success of Adapteo's business. Failure to properly manage the design, manufacturing, repair and maintenance of its fleet could adversely affect Adapteo's ability to take advantages of sales and rental opportunities, cause additional upgrade and refurbishment costs or even impairment losses for modules that are beyond economic repair, impair brand value or lead to liabilities to pay damages.</p>	<p>Adapteo actively analyses fleet composition against market demand in order to ensure a high fleet utilisation ratio and optimised fleet specifications. Fleet inspection, maintenance and stocktaking processes are under continuous development to ensure the high quality of fleet. Slow moving fleet items are actively tracked and disposed if necessary. Depreciation schemes are assessed on an ongoing basis to ensure the correctness and reliability of financial reporting.</p>
<p>Health and safety risks Managing risks related to occupational health and safety are in a key role considering the inherent dangers related to modular assembling sites. Failure to do so may result in injuries, serious or even fatal accidents.</p>	<p>Adapteo focuses on prevention of accidents through relevant and regular employee safety training and safety communication in accordance with guidelines and operating procedures. Adapteo aim to closely monitor the development of occupational safety ratios at all levels of the company and performs root cause analysis to ensure ongoing development of health and safety precautions. The group has committed to conduct consistent work to strengthen occupational health and safety culture.</p>