

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 organisational bodies are described in governance documents and instructions 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 a result enhance capabilities to create, preserve and ultimately realise value. Risk management responsibilities have been assigned along these lines:

The Board of Directors is ultimately responsible for ensuring that risk management is properly organised in the Adapteo Group. The Board continuously decides on acceptable risk exposure. The Board's Audit Committee is responsible for monitoring that the company's 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.

The Group's Risk Management function belongs to the Treasury function and is responsible for maintaining the risk management policy and operating model and for facilitating the practical implementation of risk management procedures. The annual cycle sets forth the framework for risk management activities, which also includes arranging for the Group management's annual risk assessment and reporting to the Board of Directors. Group Treasury also has the operational responsibility for financial risk management as described in the Group's Treasury policy, which has been approved by the Board of Directors.

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 creates awareness of risk and control throughout the organisation and supports informed decision making. Continuous communication and dialogue are necessary to promote risk awareness throughout the Adapteo Group and to ensure successful integration of risk management into strategic planning, budgeting, daily decision-making, and operations.

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

Risk overview

Risk	Risk description
■ Global economic and financial conditions	<ul style="list-style-type: none"> ■ The general economic condition and the functioning of financial markets have significant impact on Adapteo's business. ■ Economic fluctuations may affect demand, supply, and financing of operations.
Continued impact from covid-19	<ul style="list-style-type: none"> ■ Covid-19 continues to present significant short-term risks and it may have direct and indirect impact also on the Adapteo's operations, markets, and employees. ■ Possible temporary lockdowns or the unavailability of personnel can lead to delays in project deliveries and completions. ■ Persistent threat of covid-19 can affect the purchasing decisions and timing of customers or investors.
■ Competition environment	<ul style="list-style-type: none"> ■ Adapteo operates in a highly competitive market environment with growing competitive pressure. ■ Market position is dependent on continuous commercial and operational development.
■ Employees	<ul style="list-style-type: none"> ■ Strategy execution is highly dependent on personnel resources. ■ Both scarce availability and possible loss of key personnel may have a material adverse effect on successful strategy implementation.
Initiative prioritisation	<ul style="list-style-type: none"> ■ As a result of recent acquisitions and growth plans, Adapteo has multiple development projects ongoing simultaneously. ■ Insufficient prioritisation and staffing of internal initiatives may have an adverse effect on core business operations, which in turn may affect the company's results.
■ Regulatory changes	<ul style="list-style-type: none"> ■ Adapteo's business is subject to various regulatory requirements. ■ Changes in legislation and authorities' permit processes may slow down project deliveries and have a negative impact on business and operations.
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.
Business and IT integration	<ul style="list-style-type: none"> ■ Adapteo's business operations are dependent on the integration of business requirements and information systems capabilities. ■ Failures in integration may affect the efficiency of operations and the correctness of both internal and external reporting, which in turn may lead to wrong decisions and actions.
Project pricing and profitability	<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 lifecycle management	<ul style="list-style-type: none"> ■ Most of Adapteo's business is project business. The company 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.
Brand awareness	<ul style="list-style-type: none"> ■ Adapteo's brand awareness in the market is low due to the short time of operating under the Adapteo brand. ■ This may affect Adapteo's ability to attract new customers or personnel.
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 with high quality in project deliveries.
■ Health and safety risks	<ul style="list-style-type: none"> ■ Managing risks related to occupational health and safety is a key responsibility considering the inherent dangers related to building assembly sites. ■ Failure to do so may result in injuries, serious, or even fatal accidents.
Integration processes	<ul style="list-style-type: none"> ■ Adapteo's strategy to also grow through acquisitions means that integration work occurs from time to time. It is essential that the company can realise the synergies and benefits expected from such acquisitions
Compliance risks	<ul style="list-style-type: none"> ■ Adapteo's governance, risk management, and compliance processes may fail to meet internal and external requirements resulting in possible regulatory penalties, reputational harm, fraud, or other financial losses.
■ Portfolio management	<ul style="list-style-type: none"> ■ Adapteo's business is dependent on efficient portfolio management. ■ Inefficiencies in portfolio management may affect Adapteo's ability to take advantage of sales and rental opportunities, cause additional costs, impair brand value, or lead to damage liabilities.
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 low 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, including slow or negative economic growth, may have a negative impact on Adapteo's business, financial condition, and results of operations in several different ways, including lower 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 strategy and operations in order to mitigate risks related global economic and financial conditions.</p>
<p>Competition environment Adapteo operates in a competitive market where 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, portfolio 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 with supply. Additionally, Adapteo performs customer surveys to ensure optimisation between portfolio 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 to ensure an optimal 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 a 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 may 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 modular units.</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 all countries where the company operates. Based on such analysis, impact assessment is performed, and action plans are prepared and implemented to allow for proactive adaptation of operating methods and possible portfolio specification changes in relation to regulatory requirements.</p>
<p>Portfolio management Effective management of Adapteo's portfolio 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 units that are beyond economic repair, impair brand value, or lead to liabilities to pay damages.</p>	<p>Adapteo actively analyses portfolio composition against market demand in order to ensure a high portfolio utilisation ratio and optimised portfolio specifications. Portfolio inspection, maintenance, and stocktaking processes are under continuous development to ensure the high quality of portfolio. Slow-moving portfolio 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 aims 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>