

Risks and risk management

The Beijer Ref group's operations are affected by a number of external factors whose effects on the group's operating profit can be monitored to varying degrees.

Group-wide rules, which are established by the board, form the basis for managing these risks at different levels within the group. The aim of these rules is to get an overall picture of the risk situation, to minimise negative effects on profit and to clarify responsibilities and authority within the group. Monitoring compliance with the rules is controlled by the designated persons and reported to the board.

Control environment and structure

Beijer Ref has a strong ownership influence and the major shareholders are represented on the board.

Beijer Ref is by its nature decentralised and the individual companies' own organisations fulfil important functions in terms of company culture and the control environment, through the short decision-making paths that exist and the strong presence of local management. The legal organisation very much coincides with the operational one and there are therefore few decision-making fora that are not linked to the responsibilities of the various legal entities that are regulated by law.

The management work is based on the work of the board, which is the backbone of company management, and the organisation's various company boards. The regulatory framework that covers company management, such as the Swedish Companies Act, forms the basis for how the work of the board is performed and, through this way of working, powers and responsibilities are regulated by these laws. The decisions taken by the boards are minuted and followed up carefully. It is through this board work that control activities and follow-up of these is decided and carried out with local endorsement. It is the consistent practice within the group that, with critical issues such as important personnel issues, organisational issues etc., the immediate manager refers to their respective manager so as to endorse decisions before they are made.

The principle of far-reaching decentralisation is of great importance for the different companies' sense of their own significance and for motivation to work. The dissemination of responsibilities and powers leads to a strong will to live up to this responsibility and the expectations that come with it.

Risk Management

The work of identifying, evaluating, managing and following up risks is an important part of the management and control of Beijer Ref's operations. Beijer Ref has an established process for enterprise risk management, which provides a framework for the group's work on risks. The process aims to provide a group-wide overview of the group's risks, thus enabling follow-up and management. The highest governing body for risk management is Beijer Ref's Board of Directors and its Audit Committee, which continuously reviews the risks. Risks are also managed on an ongoing basis at group level by a Risk Board led by the CFO, with representatives from Legal, IT, HR and Finance.

Senior executives in group and business area management are represented on boards at an underlying organisational level and in individual companies of significance. It is through this board work that control activities and follow-up of risks, among other things, are decided and implemented locally. The principle of far-reaching decentralisation is of great importance for the subsidiaries' own commitment and drive in each company. The dissemination of responsibilities and powers leads to a strong will to live up to this responsibility and the expectations that come with it. The large geographical spread of products and services offered within the group and the number of customers and suppliers provide a good underlying risk diversification.

Risk assessment regarding financial reporting at Beijer Ref aims to identify and evaluate the most significant risks that affect internal control of financial reporting in the group's companies, business areas and processes. The present situation is assessed and improvement points are established. Control activities are also evaluated and assessed on an ongoing basis.

Concerning sustainability risks, the group has developed a framework that deals with procedures and guidelines in areas such as the environment, employees, business ethics and efforts to avoid corruption, responsible supply chain and partnerships. The framework is disseminated to all subsidiaries, which then report back on action plans and results. With regard to the risks of compliance with new environmental laws and resolutions for HFC gases, Beijer Ref has conducted a review of its own handling and upgraded leakage safety in all filling stations to minimise the risk of leakage. With regard to risks in social working conditions, diversity and inclusion, ethics and anti-corruption, the group

has evaluated its own and its subsidiaries' management. Risks in social working conditions, ethics and anti-corruption are minimised by complying with the company's codes of conduct for employees and suppliers and other policies. The company also works on continuous e-learning in these areas.

Beijer Ref's crisis management is decentralised. As far as possible, incidents are handled and resolved locally, close to the occurrence of the incidents. The crisis organisation at group level, consisting of the CFO and members of the group Legal, Communications and Human Resources staff, shall ensure that relevant employees have the skills and abilities needed to handle incidents. In the event of a major incident that may have an impact on the group as a whole, the group's crisis organisation, including group management and the board, must be informed and assess how the incident is to be handled.

Insurance is handled centrally at the group's head office by the Treasury department together with insurance brokers.

Follow up to ensure the effectiveness of internal control of financial reporting is performed by the board, CEO, CFO and group management. The follow up includes monthly financial statements compared with budget, previous year and goals and quarterly reports with results supplemented by written comments. The follow up also includes following up on observations reported by Beijer Ref's auditor. Beijer Ref works according to an annual plan, which takes its starting point in the risk analysis and includes priority companies, acquired companies, main processes and specific risk areas.

Risks at Beijer Ref

Within Beijer Ref, a risk is defined as a future event that may adversely affect the Beijer Ref group's ability to fulfil its goals. The risk definition focuses on risks with significant potential to threaten one or more defined strategic goals. The risks are evaluated based on their impact on the overall strategic goals and the likelihood of the risk occurring within the next five years. Measures and action plans are also developed for each risk. The risks are then mapped based on probability and effect. Beijer Ref groups the risks in the areas Strategic, Business, Regulatory Compliance and Financial.

Identified risks	Management and exposure
Access to capital and interest rate risks	New banking requirements and higher interest rates, as well as the general economic situation, may affect the availability of capital. This is offset by Beijer Ref having financing with different banks and sources of financing, as well as different maturity dates for the credits.
Beijer Ref's corporate culture	There is a risk that Beijer Ref's corporate culture will be depleted unless the culture is preserved and maintained on a regular basis. Beijer Ref has a Code of Conduct to enhance and maintain the culture, as well as policies for business ethics and morality. The company also has an introductory course, an e-learning system for all new employees and new companies and global internal sales training.
Changed legal requirements and regulations	Changed legal and regulatory requirements, not least changes in environmental requirements, affect Beijer Ref's business. The company regularly monitors these requirements as part of its global surveillance. The company is positively affected by the European phase-out programme for CO ₂ equivalents, at the same time as demand for the company's environmentally friendly range is increasing. The phasing-out will run until 2030 and the new technologies will gradually be established in other markets outside Europe, for example in Australia and New Zealand.
Competition with existing customers	As Beijer Ref delivers more and more systems, installation is usually included, which can compete with existing customers. The risk is mitigated by educating and offering services that customers take responsibility for.
Currency risks	The company is exposed to currency fluctuations, and continually hedges the foreign exchange exposure in certain subsidiaries so as to counterbalance this risk.
Dependence on larger suppliers	The company has a number of important agreements with HVAC suppliers. Beijer Ref has however, the strategy of having at least one supplier within each price segment and at least two suppliers in each market. Carrier, Toshiba, Mitsubishi Heavy Industries, Rheem and Gree are all important partners of the company in HVAC.
Digitalisation and e-commerce	Digitalisation and e-commerce create new trade patterns and behaviours that are continuously being evaluated. The risk is minimised by working under various different brands and via a differentiated product range. There is always a risk that the company will be affected by new players challenging the industry in this area.
Increased competition and concentration in Europe	Beijer Ref has a strong position in Europe and has historically had a head start, which could lead to downward price pressure on the market prices when new actors enter. Better products and entering new markets can reduce this risk.
Macroeconomics	Negative economic trends or a weakening of the purchasing power of Beijer Ref's end customers in the markets where Beijer Ref operates could trigger an industry-wide sales decline. Beijer Ref's business model is decentralised and flexible. Decision-making is close to the local market and the cost structure is flexible.

Identified risks	Management and exposure
Political risks	Political risks can affect liquidity and the general business climate. Beijer Ref continuously monitors and follows the political situation as part of the business analysis and avoids particularly vulnerable markets.
Risk of data failure and data intrusion	Data failure and intrusion affect Beijer Ref's sales and customer relationships to a limited extent, since the group has a decentralised IT environment. The company works to strengthen perimeter protection and is also working on other security solutions, such as password policy and double logins. The company continuously conducts cyber awareness training for all employees.
Risk of fire, destruction, natural disasters and pandemic	In emerging markets, the risk of natural disasters is greater and the company weaves this risk into its insurance solution and business interruption insurance so as to minimise the risk of harm and losses. One consequence of globalisation is that it is difficult to protect the company from pandemics; in these situations the company follows the WHO's recommendations. Like any other company, the company is affected by a pandemic, although the impact is minor since the business is classified as societally important.
Risk of irregularities	Beijer Ref has a decentralised organisation and its subsidiaries are governed by regular board meetings. A self-evaluation of internal control is performed annually. The company also has a whistleblower function and a code of conduct.
Risks in new markets	Before Beijer Ref enters new markets, a market analysis of the market is conducted, in order to become aware of the risks and to be able to manage them. The company ensures that there are skilled personnel to handle the new markets.
Risks in the product range	The risk that Beijer Ref does not get new environmentally friendly products on the market. This risk is mitigated against by a central category manager for each product segment who takes responsibility for the product throughout its entire life cycle and who is also responsible for bringing in new products.
Risk related to dealers – customers buying directly from suppliers	Customers tend to contract directly with suppliers, in order to obtain lower prices. Beijer Ref has many small customers, which can counteract this risk, while the company has a high level of availability in its product range.
Risks related to product liability	Poor quality products always negatively affect the Beijer Ref brand. The company always works with at least two brands in all markets and within different price segments. A central category manager, contracts with clear guarantee and liability clauses together with testing of products counteract this risk.
Suppliers sell directly to larger customers and by-pass the wholesaler	Beijer Ref's distribution network through branches and presence in 45 countries counteracts this risk and constitutes a fully-fledged alternative to suppliers and own brands, which further strengthens Beijer Ref's position.