

Risk management

An important part of SP Group's strategic work is to identify potential business risks, assess which ones pose a threat and take the necessary measures to mitigate potential negative impacts – thereby reducing the overall level of risk

Risk management is included in SP Group's annual strategic plan, which is approved by the Board of Directors. Furthermore, at least once annually, the Board of Directors lays down the framework for managing interest rate, credit and currency risks as well as risks related to raw materials and energy prices.

Risk management

Each of the identified risks is assessed on the basis of the probability that it will occur and its potential impacts. This allows us to mitigate the negative impacts through a number of measures:

- **Prevent:** take steps to prevent a risk from occurring
- **Eliminate:** modify plans or processes to eliminate a risk
- **Mitigate:** reduce the probability of a risk occurring or reduce its impact
- **Transfer:** share or transfer the risk with or to other parties through insurance or partnerships
- **Monitor:** continuous monitoring and assessment
- **Accept:** accept the risk and its impacts without further action

Risk matrix

The risk matrix illustrates the positioning of individual risks in relation to probability and impact and thus provides an overview of the overall threat level.



Commercial risks



The market

Description

The risk of SP Group's sales and earnings being affected by increased competition, falling demand for certain products or low GDP growth.

Risk assessment

We operate in a market characterised by overcapacity, many small providers, price pressure and ever-increasing demands from customers for smaller production batches and greater flexibility. In addition, we are experiencing increasing competition from low-cost manufacturers in Eastern Europe and Asia.

Against this background, we focus on reducing costs and leveraging the Group's size and competencies to improve our competitiveness.

Risk management

To mitigate risks and strengthen our market position, we work on several fronts:

- (1) We increase sales outside Denmark with a focus on Northern Europe and the USA, while selected niche products and own brands are sold globally.
- (2) We continuously expand our factories in Poland, Slovakia, Latvia and the USA in order to maintain our ability to serve customers moving production to these areas. At the same time, this allows us to cultivate new markets.
- (3) We are suppliers to several industries and are not dependent on one specific industry.
- (4) We consolidate parts of the Scandinavian industry through mergers and acquisitions or by insourcing customers' own production.

Impact

High

Probability

Medium



Customers

The risk associated with a significant part of SP Group's income stemming from a few large customers. If these customers buy less, change suppliers or go bankrupt, this could negatively impact our financial stability and growth opportunities. Customer dependency can also weaken our negotiating power.

We have more than 1,000 active customers, of whom the ten largest account for 53.4% of revenue (46.3% in 2023) and the 20 largest for 60.6% of revenue (56% in 2023).

Our 20 largest customers are large, well-capitalised, international industrial groups. In 2024, two customers accounted for more than 10% of the Group's revenue. The largest customer accounted for 13.9% of total revenue, while the second largest accounted for 12.8%.

At factory level, the dependence on individual customers is higher as a result of the individual factories' specialisation and focus on specific industries.

In order to mitigate the risk of dwindling sales to individual customers, we seek to enter into multi-year customer and cooperation agreements that lay down the terms of future orders. Moreover, we engage in our customers' product development projects in order to build close and trusting partnerships.

Medium

Low



Supply chain

The risk of short or long-term changes in the supply chain making it difficult for SP Group to procure the necessary raw materials and machinery, or of the prices of raw materials, transport or energy increasing disproportionately. This may also affect our production and supplies to customers.

Our earnings depend on the prices of raw materials, energy and other materials for the production. If we cannot deliver to our customers as agreed, there is a risk that they will choose other suppliers.

We transfer risks to other parties by continuously entering into hedges relating to electricity, gas and raw materials. In addition, we have agreements with a number of customers for sales prices to be adjusted in the event of changes in the prices of energy or raw materials.

We have centralised our purchases of critical raw materials to ensure a higher level of reliability of supply and to strengthen our bargaining position by purchasing larger volumes. At the same time, we continuously examine the possibilities of sourcing critical raw materials globally.

Our vulnerability to changes in raw materials prices can be reduced, but is fundamentally a condition that we must accept.

Low

High



Production systems

The risk of SP Group's factories being affected by equipment failure, quality problems, interruptions or work-related accidents, both in connection with worn-down equipment and the process of installing new production systems.

We continuously improve our production systems, partly by investing in new production equipment and partly by changing systems and the distribution of responsibilities. This way, we gradually achieve a greater degree of production specialisation at the individual factories, while at the same time increasing efficiency. However, there is a risk that implementing these changes causes delays and disruptions and thus inflicts additional costs on the Group or affects the business volume.

We minimise costs and time spend by thoroughly carrying out a risk assessment and planning the reorganisation of production systems and implementing changes quickly and smoothly.

In a number of areas, we have factories that can take over production from another factory if the latter is temporarily at standstill due to a pandemic, fire, a cyber-attack, a natural disaster, etc.

In addition, we transfer part of the risk through a comprehensive insurance programme, which is adjusted annually.

Medium

Low

Commercial risks, continued



Environment

Description

The risk of accidents or breaches of safety procedures at SP Group's factories due to a lack of training, insufficient knowledge or errors, which may affect both employees and the environment negatively.

Risk assessment

We comply with current local and national environmental requirements and have implemented a number of environmental and quality management systems, including ISO 9001 (quality management), ISO 14001 (environmental management) and ISO 45001 (health and safety management).

We are aware that, despite extensive safety procedures, accidents or breaches of safety procedures may occur, adversely affecting our employees or the environment.

Risk management

We prevent environmental risks by ensuring that our production facilities comply with current regulatory requirements and a number of voluntary environmental and quality management systems that are inspected and checked annually by external auditors.

Our goal is for 100% of our manufacturing entities to have implemented the environmental and quality management systems by 2028 or, at the latest, three years after takeover.

Impact

Low

Probability

Low



Employees

The risk of SP Group not being able to attract or retain the necessary professionals, specialists and managers, which may lead to a loss of know-how and experience, increased recruitment costs, a decrease in productivity, a deterioration of quality, delays and a loss of competitiveness.

We rely on being able to attract and retain employees, in particular specialists and key managers.

While we have a high level of employee seniority, skilled professionals and a very experienced management team, we are facing a generational change over the course of the next ten years.

We prevent the risk by offering our employees attractive working conditions with fair pay, professional development and a healthy workplace culture. We also use incentive programmes to reward special efforts.

In the coming years, we will focus on cultivating new leadership talent across the companies, so that we can complete a generational shift in the management team in due time.

Medium

Low



IT and personal data security

The risk of SP Group's IT systems and data suffering damage or interruption due to hacker attacks, malware, system failure, human errors, power outages or natural disasters, or of personal data security being breached.

We have a decentralised IT structure, in which each company has its own network. This minimises the risk of breakdowns and disruptions affecting the entire Group at the same time.

Our production facilities are largely unconnected to the internet, making them less vulnerable.

To prevent damage to systems and limit access to critical parts, we have established a central IT department that has developed policies for IT security and personal data protection. All IT networks are checked at least once annually by the IT manager to ensure that the policies have been properly implemented.

Moreover, our employees undergo regular IT security training to avoid security breaches and human errors.

Low

Medium



Political and macroeconomic uncertainty

The risk of SP Group's operations and financial stability being affected by external political and macroeconomic conditions, e.g. geopolitical tensions, regulatory changes, economic crises or war, as well as pandemics or natural disasters.

We sell our products in 98 countries, have companies and employees in 13 countries and purchase raw materials from all over the world. This makes us dependent on a well-functioning global infrastructure and unhindered access to markets.

We accept that a range of global conditions are beyond our control, but we continuously monitor and assess risks to be able to mitigate impacts.

Our organisation is decentralised, and we have local production in Europe, the USA and China. This makes us less vulnerable to, for example, new national legislation or trade wars.

Medium

Medium

Financial risks



Interest rates

Description

The risk of changes in the market interest rate affecting SP Group's floating-rate loans or investments that are sensitive to interest rate changes.

Risk assessment

Interest rate risks relate to the net interest-bearing debt, i.e. mortgage debt, lease liabilities and bank debt less cash funds.

At year end, the net interest-bearing debt amounted to DKK 821.1 million, of which approximately 55% carried a fixed interest rate until maturity. A one percentage point increase in the general level of interest rates would result in an increase in our annual interest expenses before tax of approximately DKK 3.7 million.

Risk management

We monitor interest rate developments and focus on increasing cash flows from operating activities so that the net interest-bearing debt can be reduced and the Group can finance investments via its own operating activities. We aim to reduce the debt by selling non-value-creating assets and activities.

Impact

Low

Probability

Medium



Credit risk

The risk of one or more of SP Group's major customers becoming insolvent and unable to pay for orders placed.

We have not incurred any significant credit losses in the past five years. We have strong and long-standing relationships with our customers and business partners, who are well-reputed companies from many different industries. This reduces our overall credit risk.

At year end 2024, we had sold non-recourse invoices in an amount of DKK 145 million (2023: DKK 148 million) in order to reduce our credit risks.

We monitor the credit ratings of our customers and business partners and make use of credit insurance and factoring to partially hedge credit risks. No single customer or business partner poses an unusual credit risk to the Group.

Low

Low



Exchange rate fluctuations

The risk of SP Group incurring financial losses due to changes in foreign exchange rates.

In general, our income and expenses are balanced, as the bulk of sales is settled in DKK or EUR and fixed group costs are largely settled in DKK or EUR. The currency risk between PLN and EUR is partially hedged.

We monitor exchange rate fluctuations and make foreign exchange transactions in accordance with the Board's policies for hedging commercial agreements. Hedging is effected by means of borrowing, forward exchange contracts or option contracts, and Management continuously assesses the need to hedge each individual transaction.

Low

Medium



Financing and liquidity

The risk of SP Group being unable to raise sufficient capital to finance activities or meet financial liabilities, as well as the risk of not having sufficient cash funds to cover short-term liabilities.

We have adequate capital resources considering the Group's operations and sufficient liquidity to meet current and future liabilities.

Our objective is to have sufficient cash resources to be able to continuously make appropriate arrangements in case of unforeseen fluctuations in liquidity outflows.

We have strong, long-standing and constructive relationships with our financial business partners and did not neglect or default on any loan agreements during the financial year.

High

Low