

Risks and risk management

All business activities involve risk. Risks that are effectively managed may lead to opportunities and value creation, while risks that are not managed correctly could result in damage and losses.

Risk spread and credibility. The ability to identify, evaluate, manage and monitor risks plays a central role in the management and control of Trelleborg's business operations. The aim is to achieve the Group's targets while applying well-considered risk-taking within set parameters.

Trelleborg's operations are aimed at a broad range of customers, market segments and niches, with a wide geographic spread. Sales (invoicing) are conducted in just over 140 countries worldwide and the Group's manufacturing operations are carried out at about 90 production units in some 40 countries. The business is diversified, which provides Trelleborg with an effective underlying risk spread.

Demand for the Group's products and solutions largely moves in line with fluctuations in global industrial production. Trelleborg focuses on maintaining an exposure in its market segments that has a good balance between early and late cyclical industry, meaning general and capital-intensive industry, the demand from which often balances each other out. Seasonal effects occur in the

various market segments. For the Group as a whole, demand is usually higher in the first half of the year than in the second half of the year.

As one of the leading companies in the polymer industry, Trelleborg is subject to high expectations from all of its stakeholders. It is thus crucial that events and conduct that could have a negative impact on the company's brand and credibility are monitored and minimized.

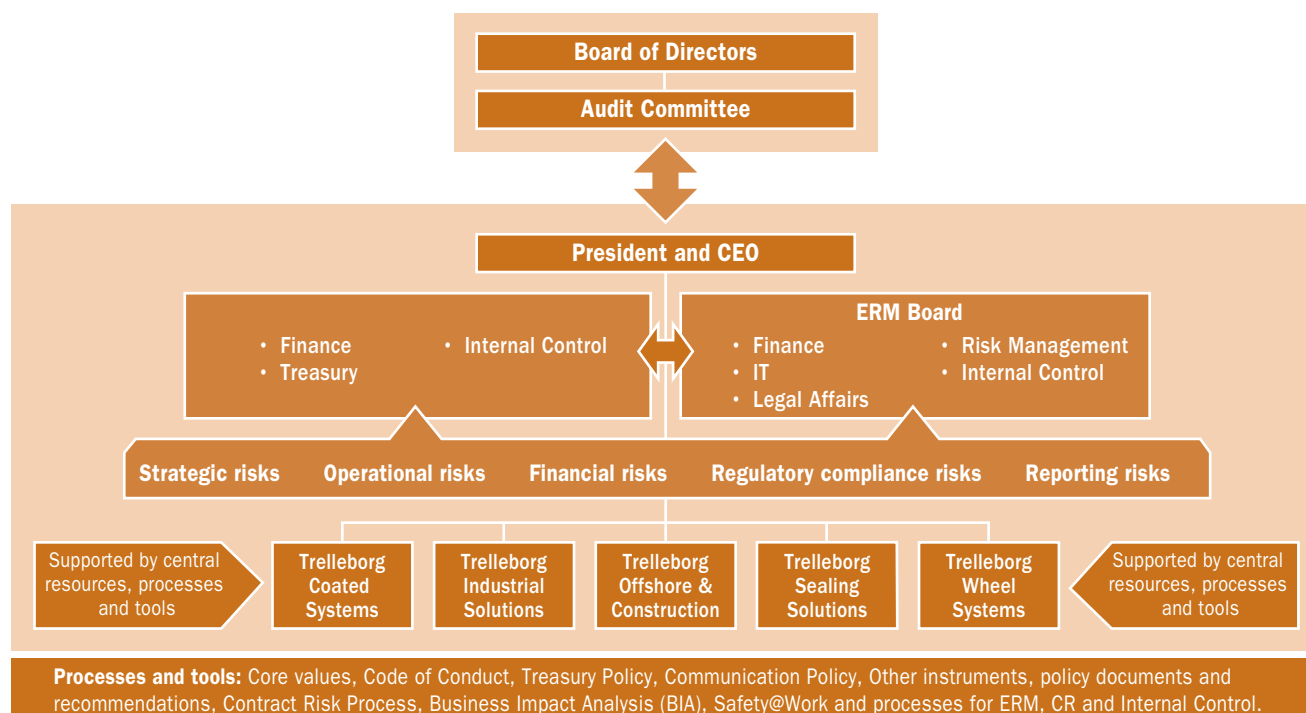
Events or decisions beyond Trelleborg's control that could lead to operational disruptions, damage or loss of substantial impact for the entire Group are also important to monitor and maintain readiness for.

The Corporate Governance Report on pages 63-73 contains a detailed description of the internal controls used to manage the risks pertaining to financial reporting.

Financial risks are described on pages 60-61 and in Note 27.

Enterprise Risk Management. Trelleborg has an established process for Enterprise Risk Management (ERM process) that provides a framework for the Group's risk activities. The purpose of the ERM process is to provide a Group-wide overview of Trelleborg's risks by identifying them, evaluating them and providing a basis for decision-making regarding the management of risks, and to enable a follow-up of the risks and how they are managed. Responsibility and reporting channels in the ERM process are illustrated in the diagram below.

ERM priorities. Trelleborg has identified nine large risks in five areas. These include risks that may result in damage or loss with substantial impact on the entire Group and therefore justify management of the risk at Group level. The process used to identify these risks is illustrated below on page 57.



The Group's various companies, business areas and business units have identified a total of about 250 risks. The vast majority of these risks are managed locally.

Some 30 of these approximately 250 risks that may have a major impact at a business area and/or Group level are identified and discussed each year and thus justify the risk being managed at one of these levels. The evaluation of the risks and consolidation of priorities

is led by the Risk Management staff function and comprises a component of the annual strategy process. This process primarily involves the management teams of the business areas, but also Group Management and the staff functions.

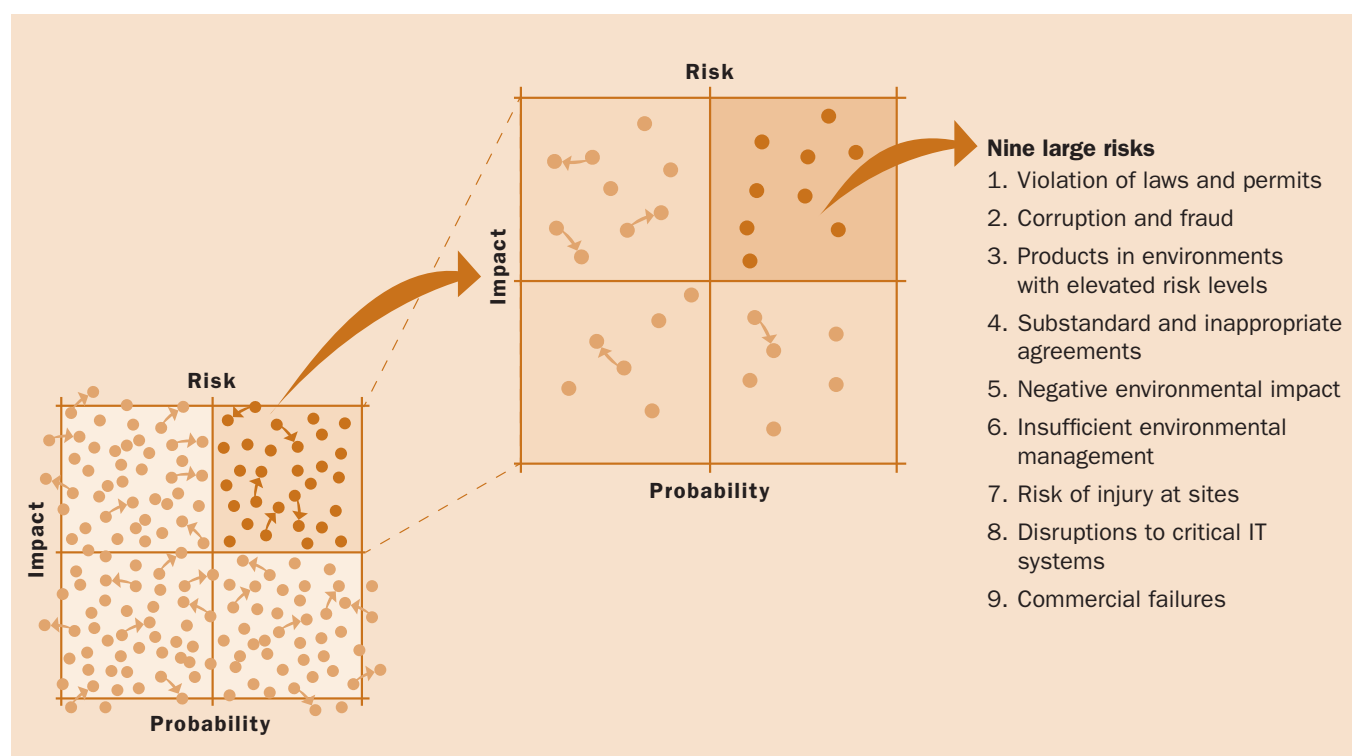
On the basis of the risk prioritization prepared in the ERM process, the Board also identifies and prioritizes risks in conjunction with the strategy process that may significantly affect the possi-

bility of achieving the Group's objectives.

The nine large risks that are deemed to have a significant impact on the entire Group are managed by the ERM Board, which leads the overall coordination and monitoring of risk activities. Five meetings are planned in the ERM Board for 2016, which are preparatory meetings for Audit Committee and Board meetings.













Read more about Trelleborg's large risks on pages 58-59.


Of 250 identified risks, nine are managed at Group level







These risks may, over time, have more or less of an impact on the business and are more or less likely to occur. Some risks concern all operations in the Group, while others relate only to specific areas or individual operations.

Major risks at Trelleborg

Area	Large risks	Focus	Established key processes	Initiated and ongoing activities
Rules	Violation of laws and permits	Compliance with competition law	<ul style="list-style-type: none"> • Training seminars in applicable competition law. • Export control focusing on embargoes and trade restrictions. • Established procedures for approving membership in organizations, for example. Refer to page 46. 	<p>Establishment of a central Group steering committee, Compliance Task Force. </p> <p>Formalization and expansion of Group Internal Control, focusing on regulatory compliance. </p>
	Corruption and fraud	Measures preventing fraudulent conduct	<ul style="list-style-type: none"> • Continuous training. • Established policies and procedures. • Acceptance Letters issued by the Group's President, whereby relevant employees sign a letter each year confirming their knowledge of the Code of Conduct and compliance with the Group's internal policy instruments. • Trelleborg's whistleblower policy and process, which implies that each employee is entitled, without repercussions, to report suspicions of legal or regulatory violations. Refer to page 46. • Review and evaluation of agency and distribution agreements. • Special committee for the counteraction of financial fraud. 	<p>Review of Group's internal policy instruments. </p> <p>Introduction of so-called Policy Quick Guides to further increase the distribution and comprehension of regulations and the Group's core values. </p>
Products & agreements	Products in environments with elevated risk levels	Review of products and solutions	<ul style="list-style-type: none"> • Risk assessments to identify products with an elevated risk level, for example, in the areas of oil & gas, marine oil and gas hoses, life sciences and aerospace. • Legal review and risk assessment of contracts and processes concerning production and project management. 	Training and workshops which follow operationally specific risk assessments of products and contracts. The concept has been initiated within the Trelleborg Offshore & Construction business area. 
	Substandard and inappropriate agreements	Examination of agreements	<ul style="list-style-type: none"> • Comprehensive training in issues concerning agreements. • Legal examination and evaluation of contracts in 11 prioritized areas. 	Further development of external services for focused and fast examination of contracts to facilitate business processes. 
Sites	Negative environmental impact	Review of the sites' local environment	<ul style="list-style-type: none"> • Mapping of environmental risks for all new building and acquisitions. • Continuous surveillance of the sites in question and a focus on the handling of chemicals, rainwater and the risk of flooding. 	<p>Increased surveillance and monitoring of the handling of chemicals. </p> <p>Establishment of ISO 14001 multisite certification, which results in increased standardized analysis and control. </p>
	Insufficient environmental management	Focus on hazardous materials and chemicals	<ul style="list-style-type: none"> • Update of list of materials with restrictions (see page 48), in relation to the use of chemicals and continued environmental assessments at the point of acquisition. 	<p>Establishment of a Group-wide steering committee for chemicals, Global Chemical Task Force. </p> <p>Further expand the internal list of chemical restrictions. </p>
	Risk of injury at sites	Protection of critical sites	<ul style="list-style-type: none"> • External and internal analyses for the Group's operations and results of critical sites. • Guidelines for new building and site upgrades. • Increase the number of risk-classified sites being upgraded to Highly Protected Risk level (HPR). Improve the lowest performing and most critical sites. 	<p>Selection of Group-wide risk areas, customization of injury-preventing guidelines and increased monitoring. </p> <p>Increased focus on and monitoring of major risks at critical sites. </p>

Percentage of risk work completed:  25%  50%  75%

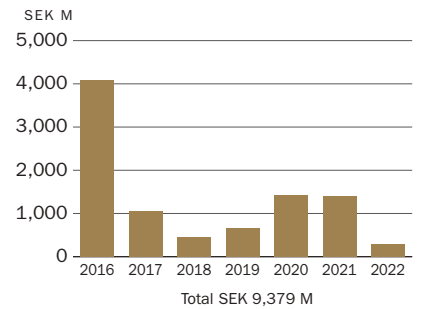
Area	Large risks	Focus	Established key processes	Initiated and ongoing activities
IT	Disruptions to critical systems	Minimize disruptions	<ul style="list-style-type: none"> Improved level of service in terms of the IT infrastructure. Implement upgrades in a structured, Group-wide way. Ensure compliance with legal requirements in the various countries in which the Group operates. Improve information security in and between systems. 	<p>Structuring of new ERP implementations and increased monitoring of Internal Control. </p> <p>Localization of servers and review of physical protection and information security. </p>
Disruptive activities	Commercial failures	New product segments, major projects and acquisitions.	<ul style="list-style-type: none"> Acquisition survey and examination program within the areas of finance, operations and law. Central approval of new products in selected segments, such as life sciences and aerospace. 	Increased business support when establishing new product segments and larger projects concerning responsible risk management and legal risks. 

Percentage of risk work completed:  25%  50%  75%



Financial risks at Trelleborg

Financial risks include financing risks and liquidity risks relating to difficulties in raising new loans or shareholders' equity, interest rate and foreign exchange risks that adversely impact the Group's earnings, and financial credit risks.

Risk	Policy and comments																																				
<p>Financing risks and liquidity risks</p> <p>Financing risk is the risk that the refinancing of maturing loans may become difficult or costly, thereby impairing the Group's ability to fulfill its payment obligations. Liquidity risks refer to the risk of not being able to fulfill payment obligations as they fall due.</p>	<p>Policy. Contracted credit facilities with a term of at least 12 months must be available in an amount equivalent to the Group's gross debt plus a liquidity reserve corresponding to at least 5 percent of consolidated net sales. Trelleborg's net debt/equity ratio target interval is between 50 and 100 percent.</p> <p>During the year, the amount by which the Group's contracted credit facilities exceeded the aggregate of gross debt plus the liquidity reserve was in line with the Group's policy.</p> <p>The Group monitors the capital structure on the basis of several key figures, one of which is the net debt/equity ratio, which amounted to 34 percent (40) at year-end. Both the key figures related to the Group's capital structure and forecasts for the Group's liquidity reserve are continually monitored on a monthly basis.</p> <p>At December 31, 2015, Trelleborg's committed confirmed credit facilities totaled SEK 23,182 M (14,766), of which SEK 20,090 M (11,222) was unutilized. At year-end 2015, the Group's committed confirmed credit facilities principally comprised a syndicated loan facility for financing day-to-day business operations and a loan facility for the acquisition of the CGS Group. The syndicated loan facility provides revolving credit in multiple currencies and comprises two tranches of EUR 750 M (SEK 6,858 M) and USD 625 M (SEK 5,221 M), as well as a swingline facility. The facility was extended in its entirety in 2014 and the main portion of the facility was extended again for one year in 2015. As a result, 95 percent of the facility's EUR tranche and 90 percent of the facility's USD tranche will mature in 2020, while the remaining portion will mature in December 2019. The facility is provided by a total of 17 financial institutions from Europe, Asia and the U.S. Based on the number of participating banks and their status, Trelleborg deems that the banking syndicate behind the facility is strong. The loan facility for the acquisition of the CGS Group comprises two tranches of EUR 725 M (SEK 6,630 M) and USD 300 M (SEK 2,506 M). The facility was contracted in November 2015 and is provided in equal parts by two of the Group's core banks. The facility matures in November 2016 and can be extended twice for a maximum total of 12 months, if so requested by Trelleborg. Both of the banks behind the facility are or have previously been classified as global systemically important financial institutions (G-SIFIs) by the Financial Stability Board and Trelleborg is confident of the quality of the facility.</p> <p>At year-end 2015, the Group's total interest-bearing liabilities amounted to SEK 9,379 M (8,716). The Group has good access to short-term borrowing in the money market, mainly through a Swedish commercial paper program of SEK 4,000 M. The program was used extensively throughout 2015, with an average outstanding volume of about SEK 2,291 M (1,800). In addition to this, the Group raised two short-term bilateral bank loans in 2015. Borrowing via short-term bilateral bank loans averaged SEK 1,874 M (1,480) during the year. This led to reduced borrowing requirements under Trelleborg's syndicated loan facility and thereby lower interest expenses. Throughout 2015, the Group's total current liabilities were consistently covered by the Group's long-term committed confirmed credit facilities.</p> <p>The Group has access to the capital market through a Medium Term Note (MTN) program with a program limit of SEK 5,000 M for issuance in the Swedish bond market. Private placements, such as Schuldscheins, as well as bilateral and syndicated loans are also utilized.</p> <p>Following a debut transaction under the MTN program, which took place in 2011 through the issuance of a bond of EUR 110 M with a six-year term, Trelleborg has continued to establish an issuance track record. A bond of EUR 50 M with a seven-year term was issued under the MTN program in November 2012. In 2013, Trelleborg issued a debut Schuldschein of EUR 55 M with a 5.5-year tenor. In the second half of 2014, Trelleborg conducted its first MTN issuances in the SEK market: in November 2014, Trelleborg issued two MTNs with tenors of 6 years and 2 months for a total of SEK 1,000 M. In 2015, Trelleborg issued an MTN of SEK 300 M with a seven-year tenor and an MTN of EUR 45 M with a six-year tenor.</p> <div data-bbox="499 1373 941 1422"> <p>Maturity term structure of the Group's interest-bearing liabilities per December 31, 2015</p> </div>  <table border="1"> <caption>Maturity term structure of the Group's interest-bearing liabilities per December 31, 2015</caption> <thead> <tr> <th>Year</th> <th>SEK M</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>4,100</td> </tr> <tr> <td>2017</td> <td>1,000</td> </tr> <tr> <td>2018</td> <td>500</td> </tr> <tr> <td>2019</td> <td>700</td> </tr> <tr> <td>2020</td> <td>1,400</td> </tr> <tr> <td>2021</td> <td>1,300</td> </tr> <tr> <td>2022</td> <td>200</td> </tr> <tr> <td>Total</td> <td>9,379</td> </tr> </tbody> </table> <div data-bbox="970 1373 1437 1422"> <p>Maturity term structure of the Group's committed confirmed credit facilities per December 31, 2015</p> </div>  <table border="1"> <caption>Maturity term structure of the Group's committed confirmed credit facilities per December 31, 2015</caption> <thead> <tr> <th>Year</th> <th>SEK M</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>2,000</td> </tr> <tr> <td>2017</td> <td>9,000</td> </tr> <tr> <td>2018</td> <td>100</td> </tr> <tr> <td>2019</td> <td>1,000</td> </tr> <tr> <td>2020</td> <td>11,000</td> </tr> <tr> <td>2021</td> <td>100</td> </tr> <tr> <td>2022</td> <td>100</td> </tr> <tr> <td>Total</td> <td>23,182</td> </tr> </tbody> </table> <p>Current liabilities maturing in 2016 amounted to SEK 4,077 M (4,493) and mainly comprised short-term bilateral bank loans of SEK 1,509 M (2,400) and a commercial paper of SEK 2,408 M (859).</p> <p>Non-current liabilities amounted to SEK 5,302 M (4,223) and mainly comprised an outstanding bond of SEK 3,675 M (3,046), as well as utilization of the syndicated loan facility in the amount of SEK 1,583 M (1,102).</p>	Year	SEK M	2016	4,100	2017	1,000	2018	500	2019	700	2020	1,400	2021	1,300	2022	200	Total	9,379	Year	SEK M	2016	2,000	2017	9,000	2018	100	2019	1,000	2020	11,000	2021	100	2022	100	Total	23,182
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<p>Interest rate risk</p> <p>Since most of Trelleborg's net debt bears variable interest, the Group focuses on interest-rate-related cash-flow risk, meaning the risk that movements in market interest rates could have an impact on the financial cash flow and earnings. The size of the impact depends on the fixed interest term of the borrowing and investment.</p>	<p>Policy. The average fixed-interest term on the Group's gross borrowing, including the impact of derivative instruments, may not exceed four years. The average fixed-interest term on interest-bearing investments, including the effects of derivative instruments, may not exceed two years on a maximum amount of SEK 2,000 M, or the equivalent amount in other currencies.</p> <p>At December 31, 2015, interest-bearing net debt amounted to SEK 6,282 M (7,195), with an average remaining fixed-interest term of about 37 months (20). See also Note 27.</p>																																				

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Foreign exchange risks																																								
Foreign exchange risks relate to the risk of adverse impacts on the consolidated income statement, balance sheet and/or cash flow as a result of exchange rate fluctuations. Foreign exchange risks exist in the form of transaction and translation risks.																																								
Transaction risks	<p>Policy. Group companies must generally hedge between 50 and 100 percent of there 12-month forecast net flows on a rolling basis. Deviations from the rule are permitted in the event that currency hedging is not practicable in relation to a currency and/or in the event it is associated with excessive costs. Subsidiaries shall conduct this hedging through Group Treasury.</p> <p>The Group's net exposure is estimated at an annual value corresponding to approximately SEK 4,100 M (3,700). The currency pairs with the highest net flows, defined as those expected to exceed the equivalent of SEK 150 M over a period of 12 months from January 2016, and the amounts hedged per currency pair at December 31, 2015 are shown in the table below.</p> <p>For the stated period, the currencies with the highest forecast net flows are EUR (SEK 1,330 M equivalent), USD (SEK 1,460 M equivalent) and LKR (negative SEK 620 M equivalent).</p> <p>Forecast annual exposure per currency pair with the highest 12-month net flow from January 2016, and currency hedges as of December 31, 2015, SEK M</p> <table><tr><th>Currency pair</th><th>Net flow</th><th>Currency hedges</th></tr><tr><td>EUR/LKR</td><td>442</td><td></td></tr><tr><td>USD/BRL</td><td>412</td><td></td></tr><tr><td>EUR/DKK</td><td>403</td><td>-374</td></tr><tr><td>USD/SEK</td><td>298</td><td>-321</td></tr><tr><td>USD/CNY</td><td>250</td><td>-43</td></tr><tr><td>EUR/PLN</td><td>173</td><td>-142</td></tr><tr><td>EUR/ZAR</td><td>-169</td><td></td></tr><tr><td>GBP/USD</td><td>-159</td><td>92</td></tr><tr><td>EUR/GBP</td><td>157</td><td>-65</td></tr><tr><td>EUR/CNY</td><td>154</td><td>-1</td></tr><tr><td>EUR/TRY</td><td>153</td><td></td></tr><tr><td>EUR/CZK</td><td>151</td><td>-95</td></tr></table>	Currency pair	Net flow	Currency hedges	EUR/LKR	442		USD/BRL	412		EUR/DKK	403	-374	USD/SEK	298	-321	USD/CNY	250	-43	EUR/PLN	173	-142	EUR/ZAR	-169		GBP/USD	-159	92	EUR/GBP	157	-65	EUR/CNY	154	-1	EUR/TRY	153		EUR/CZK	151	-95
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Translation risks – Income statement	<p>Policy. The Group does not normally hedge this risk.</p> <p>Trelleborg's earnings are largely generated outside Sweden. Accordingly, the impact of exchange rate fluctuations on the Group's sales and earnings can be significant. In 2015, operating profit for continuing operations was affected by a total of SEK 300 M (135) and profit after tax by about SEK 195 M (88), due to exchange rate fluctuations upon translation of the income statements of foreign subsidiaries compared with exchange rates in the preceding year.</p> <p>Translation effects: exchange rate effects on the income statement, SEK M</p> <table><tr><th>Currency</th><th>Net sales</th><th>Operating profit</th><th>Net profit</th></tr><tr><td>EUR</td><td>220</td><td>21</td><td>17</td></tr><tr><td>GBP</td><td>334</td><td>53</td><td>40</td></tr><tr><td>USD</td><td>1,291</td><td>94</td><td>29</td></tr><tr><td>Other</td><td>287</td><td>132</td><td>109</td></tr><tr><td>Total 2015</td><td>2,132</td><td>300</td><td>195</td></tr><tr><td>Total 2014</td><td>897</td><td>135</td><td>88</td></tr></table>	Currency	Net sales	Operating profit	Net profit	EUR	220	21	17	GBP	334	53	40	USD	1,291	94	29	Other	287	132	109	Total 2015	2,132	300	195	Total 2014	897	135	88											
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Translation risks – Balance sheet	<p>Policy. Investments in foreign subsidiaries and joint venture/associated companies may be hedged by between 0 and 100 percent of the investment value (which, because of the tax effect, implies a maximum hedge of approximately 78 percent of the investment value). Decisions on any hedging are made following a comprehensive assessment of exchange rate levels, the effects of costs, liquidity and tax, and impact on the Group's net debt/equity ratio.</p> <p>At year-end 2015, net investments in Trelleborg's foreign operations amounted to SEK 27,155 M (24,370). At December 31, 2015, 31 percent (41) of the net investments were hedged. See also Note 27.</p>																																							
Financial credit risks	<p>Policy. Counterparties must possess a high creditworthiness and preferably participate in the Group's medium and long-term financing. The Group's Treasury Policy contains a specific counterparty regulation that stipulates the maximum level of credit risk exposure to various counterparties. Refer to Note 27 for further information.</p>																																							
Financial credit risk is the risk of losses if those counterparties with which the Group has invested in cash and cash equivalents, short-term bank deposits or entered into financial instruments with positive market values, do not fulfill their obligations.																																								