

RISK 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. 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. The Group has operations in about 50 countries, sales are conducted in just over 150 countries worldwide and manufacturing operations are carried out at 120 production units. 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 to its market segments that has a good balance between early and late cyclical industry, meaning general as well as capital-intensive industry, the demand from which often balances each other out. Seasonal effects occur in the various market segments, particularly in the agriculture segment, which normally experiences higher demand for tires for agricultural machines during the first half of the year. For the Group, demand is usually higher in the first half of the year than in the second half of the year.

Sustainability-related risks. In addition to the identified major risks described on pages 64-67, there are at least three risk areas related to sustainability issues: the first area pertains to *Regulatory compliance*, meaning the risk of insufficient compliance within both the organization and the supplier chain (refer also to page 54); the second area pertains to *Resources* and primarily relates to risks associated with resource or material shortages or the negative impact of emissions; the third pertains to *Products*, mainly risks associated with the use of Trelleborg's products and services.

Although these areas of sustainability-related risk are not considered major risks for the Group individually, they could all result in credibility risks should they arise.

Credibility risks. As one of the leading companies in the polymer industry, Trelleborg is subject to high expectations from many of its stakeholders. The Group is exposed to a risk that the behavior or business decisions of individual employees could destroy the credibility built up over a long period of time, not least since the Group operates in a global market with a strong brand and in certain segments with an elevated risk level. 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.

Trelleborg focuses on a variety of issues and activities to strengthen and build stakeholder trust in the Group, such as training in the Code of Conduct, a clear and well-known brand promise, stakeholder dialog, product safety and so forth.

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 Responsibility section on pages 46-61 includes information about Trelleborg's proactive work related to regulatory and code compliance and other areas.

The Corporate Governance Report on pages 73-75 contains a detailed description of the internal controls used to manage the risks associated with financial reporting.

Financial risks are described in Note 31, pages 114-116.

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 on page 65.

ERM priorities. Trelleborg has identified 9 major risks in 5 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.

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.

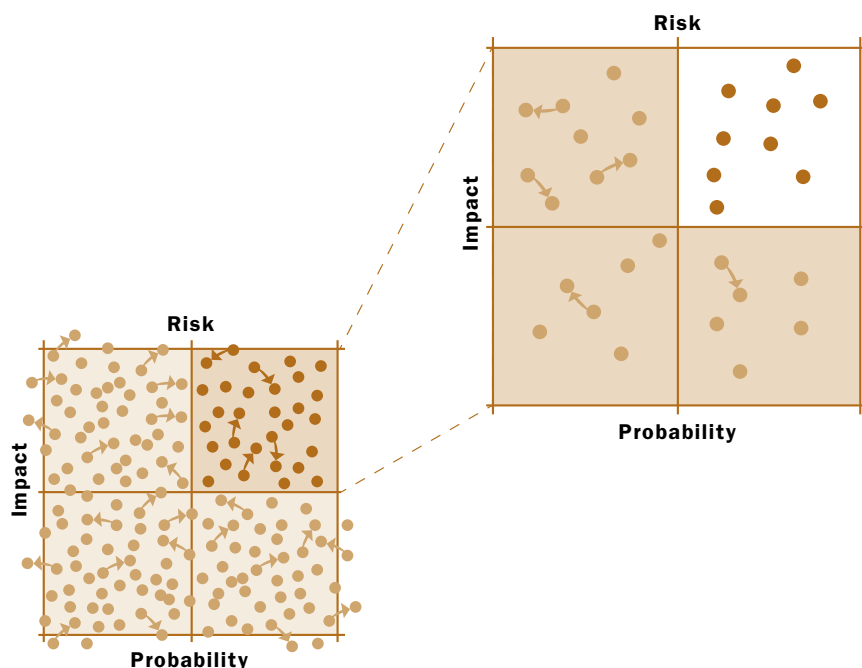
On the basis of the risk prioritization prepared in the ERM process, the Board continuously identifies and prioritizes risks that may significantly affect the possibility of achieving the Group's objectives.

The 9 major 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. 5 meetings are planned in the ERM Board for 2017, which are preparatory meetings for Audit Committee and Board meetings.

Read more about Trelleborg's major risks on pages 66-67.



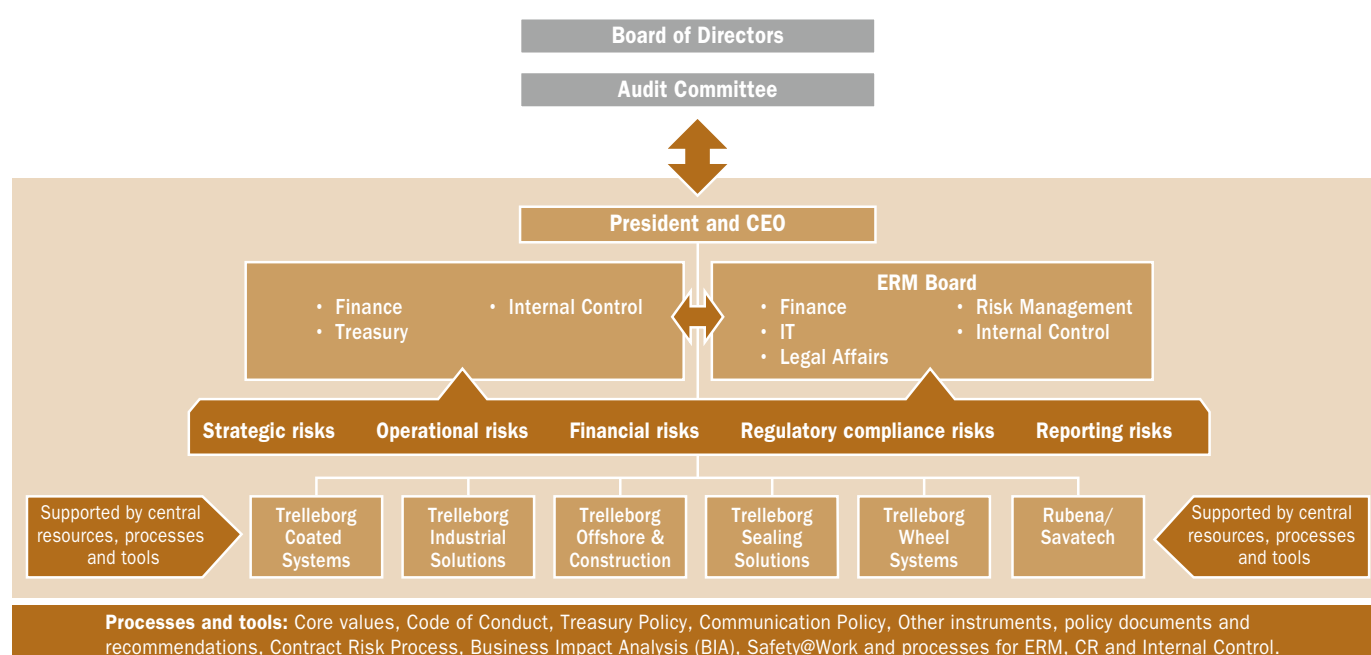
OF 250 IDENTIFIED RISKS, 9 ARE MANAGED AT GROUP LEVEL



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.

Nine major Group risks

1. Violation of laws and permits
2. Corruption and fraud
3. Products in environments with elevated risk levels
4. Substandard and inappropriate agreements
5. Negative environmental impact
6. Insufficient environmental management
7. Risk of injury at sites
8. Disruptions to critical IT systems
9. Commercial failures



MAJOR RISKS AT TRELLEBORG

RULES








Major risks	Focus	Established key processes	Initiated and ongoing activities
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 pages 52-53.	Establishment of a central Group steering committee, Compliance Task Force. ● Formalization and expansion of Group Internal Control, focusing on regulatory compliance. ●
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 52. • Review and evaluation of agency and distribution agreements. • Special committee for the counteraction of financial fraud. 	Review of Group's internal policy instruments. ● Introduction of Policy Quick Guides to further increase the distribution and comprehension of regulations and the Group's core values. ●

PRODUCTS & AGREEMENTS




Major risks	Focus	Established key processes	Initiated and ongoing activities
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, healthcare & medical 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 was initiated within the Trelleborg Offshore & Construction business area and has now been expanded to selected areas of the Group. ●
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. ●

Percentage of risk work completed: ● 25% ● 50% ● 75% ● 100%


SITES

Major risks	Focus	Established key processes	Initiated and ongoing activities
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 multi site 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 54), 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. Phase out chemicals with significant environmental and health effects. </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> <p>More in-depth mapping of natural disaster risks, with a particular focus on flooding. </p>

IT

Major risks	Focus	Established key processes	Initiated and ongoing activities
Disruptions to critical IT 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 manner. • 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> <p>Preparations to ensure the Group's compliance with the requirements in the new EU Data Protection Act. </p>

DISRUPTIVE ACTIVITIES

Major risks	Focus	Established key processes	Initiated and ongoing 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 healthcare & medical and aerospace. 	<p>Increased business support when establishing new product segments and larger projects concerning responsible risk management, legal risks and new establishments of operations. </p>

Percentage of risk work completed:  25%  50%  75%  100%