

RISKS AND RISK MANAGEMENT

Risks are associated with all business operations. Properly managed risks can lead to opportunities and value creation, while risks that are managed incorrectly can lead to damages 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 serves a broad range of customers in a variety of market segments and niches. The business has 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 more than 100 production sites. 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 demands from which often balance each other out. Seasonal effects occur in the various market segments, particularly in the agricultural segment, which normally experiences higher demand for tires for agricultural machinery during the first half of the year. Even 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.

Risk management. Trelleborg has an established process for Enterprise Risk Management (ERM) 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 and to enable a follow-up of the risks and how they are managed.

The vast majority of risks are managed locally. However, some 30 of these risks may have a major impact at a business area and/or Group level and are thus managed at one of these levels. These risks are shown in the risk radar illustration on page 50. The risks on the risk radar, which in turn may have a substantial impact on the possibility of reaching the Group's goals, are described in more detail on pages 50–51 and in

Note 32 on pages 107–109 concerning financial risk management.

The highest governing body for risk management is the Board of Directors and its Audit Committee, which routinely manages these risks. In addition, risks are managed in such forums as:

- » ERM Board
- » Compliance Task Force
- » Global Chemicals Task Force
- » IT Governance Board
- » Sustainability Risk Task Force

Risks. Trelleborg has chosen to group the risks into four areas.

- » **Strategic risks** include external factors that could impact Trelleborg's operations, and internal factors that could impede opportunities to achieve the operation's strategic goals. Read more about Trelleborg's strategic cornerstones on pages 18–21.
- » **Operational risks** are risks that Trelleborg can itself largely manage and prevent, and which mainly pertain to processes, assets and employees. Read more about how Trelleborg works to ensure safe and efficient use of resources and about diversity on pages 36–39.
- » **Regulatory** compliance risks relate to Trelleborg having a global operation that is subject to a large number of laws, regulations and rules pertaining to, for example, the environment, health and safety, trade restrictions, anti-competition regulations and currency regulations. Read more about Trelleborg's compliance with laws and codes on pages 40–43.
- » **Financial risks** include interest rate and foreign exchange risks that could adversely impact the Group's earnings. Furthermore, there are financing risks and liquidity risks, which could result in difficulties in raising new loans or shareholders' equity, as well as financial credit risks. Read more about Trelleborg's financial risk management in Note 32, pages 107–109.

In the Corporate Governance Report on pages 58–59, there is a detailed description of the internal controls used to manage the risks associated with financial reporting.

Sustainability risks run as a common thread through these areas and relate to climate impact, work environment risks or risks in the area of human rights. It also includes the risks relating to failure to comply with laws and rules, both as a Group and among the Group's suppliers.

Confidence risks – that is, events and behaviors that negatively impact the company's brands and confidence – are another risk that the Group highlights. For example, the behavior or business decisions of an individual employee could destroy the confidence built up over a long period of time. Trelleborg works on a variety of issues and activities to strengthen and build confidence 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.

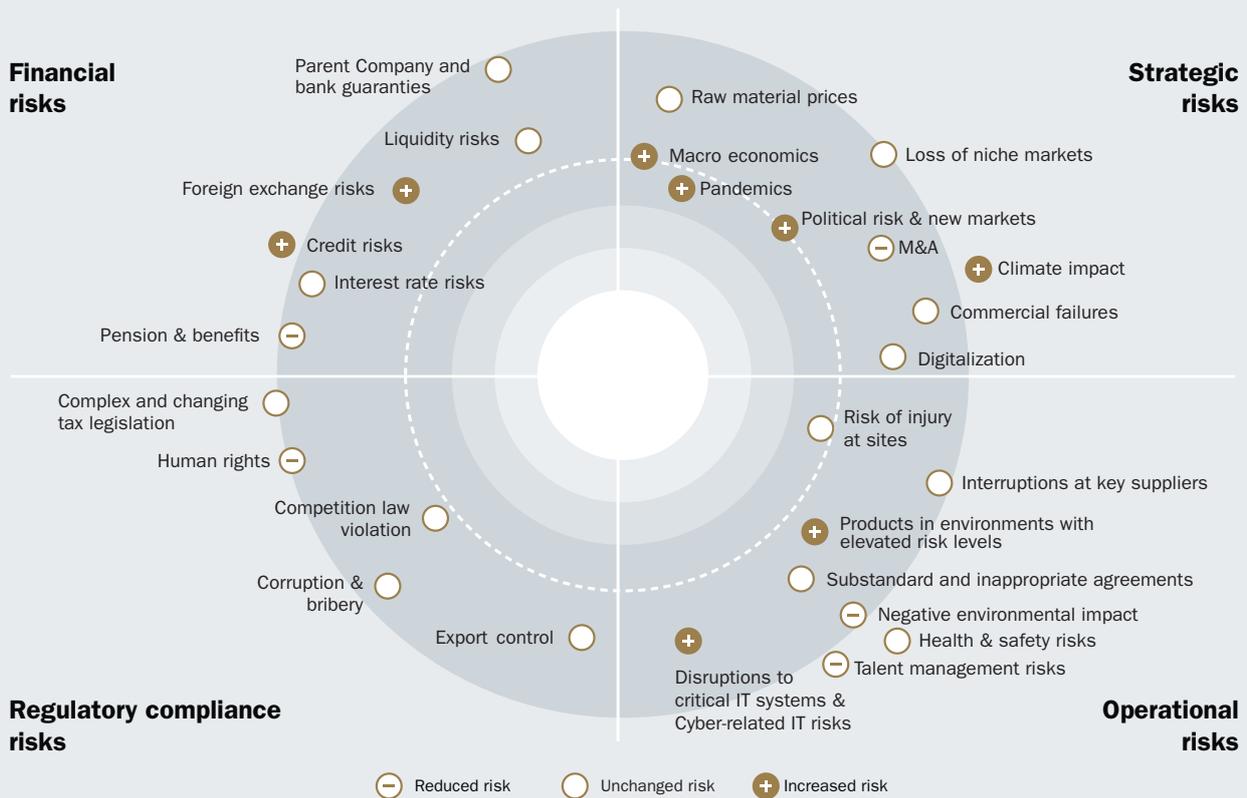
Crisis management. Trelleborg's crisis management is decentralized, which means events should, as far as possible, be resolved locally, close to the origin of the incident. The crisis organization at Group level – consisting of a team from the Group Legal, Communications and HR staff functions – is to ensure that relevant employees at Trelleborg have the necessary knowledge and capabilities to handle incidents. In the event of a major incident, which can be considered to impact the Group as a whole, the Group's crisis organization, including Group Management and the Board of Directors, is informed and assesses how to handle the event.

The Coronavirus pandemic in 2020 is an event that affected the Group's earnings. The pandemic as such was new for Trelleborg, but, in principle, its management followed an already established order. Operational and business-centric decisions are managed at a local level, according to the local conditions and restrictions issued by the authorities. A temporary national coordination task force was instituted to ensure a shared approach to

the measures required in a country that has several Trelleborg units. In turn, the national coordination task force reported to the Group's crisis organization, which ensured that those affected had the tools and support they required to manage the situation.

RISKS THAT COULD SIGNIFICANTLY AFFECT THE GROUP

Risks at Trelleborg. Trelleborg has identified some 30 strategic risks, operational risks, regulatory compliance risks and financial risks using a so-called risk radar. The closer a risk area is to the center of the illustration below, the higher the probability that it will cause financial damage or have an adverse impact on confidence in Trelleborg. The appearance of the risks in the model below indicates changes in relation to the preceding year.



REGULATORY COMPLIANCE RISKS ¹

Risks	Focus	Management and main activities	Relevance for UN goals
Violation of laws and permits	Compliance with applicable legislation	The Compliance Task Force leads and coordinates initiatives in this area, see page 40. Training seminars are arranged, including competition law and the EU's General Data Protection Regulation (GDPR). There is an established process for export control with a focus on embargoes and trade restrictions, and there are procedures, for example, for approval of membership in organizations and approval of collaborations with third parties. Regular legal reviews are conducted with a focus on monitoring and ensuring compliance in the Group companies. The Group's internal controls, which are focused on regulatory compliance, have been both expanded and formalized over the past few years.	16.3 
Corruption and fraud	Measures preventing fraudulent conduct	Established policies and procedures form the basis of the work in this area, which is supplemented with routine training and a letter of acceptance, signed yearly, for the relevant employees, see page 40. Trelleborg's Whistleblower Policy also entitles all employees to report any suspected legal or regulatory violations without repercussions, see page 128. Review and evaluation of agency and distribution agreements are regularly conducted. The Group's internal policy instruments have been reviewed, and Policy Quick Guides have been produced to further increase the distribution and comprehension of regulations and the Group's core values.	16.5 
Risks in the area of human rights	Child labor/forced labor in the supply chain	Supplier reviews and supplier audits in the areas of risk are conducted based on the Group's geographic and materials risk assessments, see page 43 and 128.	8.8 

¹ Risks in the social sphere are managed by Trelleborg as part of Regulatory compliance risks.

OPERATIONAL RISKS

Risks	Focus	Management and main activities	Relevance for UN goals
Products in environments with elevated risk levels	Review of products and solutions	Not only risk assessments but also training and workshops are conducted to identify products and contracts where it is especially important that the products comply with the quality and functional requirements necessary in extremely demanding environments – for example, oil and gas, marine hoses for oil and gas, healthcare & medical, and aerospace. Contracts and processes concerning production and project management are also subjected to legal review and risk assessment.	
Substandard and inappropriate agreements	Examination of agreements	Not only comprehensive training, but also internal and external legal reviews of contract issues and evaluation of contracts in prioritized areas.	
Negative environmental impact	Review of the sites' local environment and focus on hazardous materials and chemicals	Environmental risks are identified in conjunction with all new construction and all acquisitions, with a focus on chemicals management, rainwater and the risk of floods. Sites that are susceptible to risk are routinely monitored. The Global Chemical Task Force leads the work to phase out and replace substances that are considered harmful, and monitors such substances that may be of interest in the future, using an internal Restricted Materials List, see page 36. In addition, there is ISO 14001 multi-site certification, which results in increased standardized analysis and control.	 12.4
Risk of injury at sites	Protection of critical sites	External and internal analyses of the Group's operations are carried out with regard to the most critical sites. Also a more in-depth mapping of natural disaster risks is made, with a particular focus on flooding and wind effects, including such risks that are related to climate change. There are guidelines for new construction and upgrades of risk-classified sites. The number of such sites upgraded to Highly Protected Risk (HPR) has increased over the past few years. One aim is to improve the lowest performing and most critical sites.	 13.1
Work environment risks	Health and safety	Risks in the area of health and safety are managed via Safety@Work, see page 38. Issues concerning employees are otherwise monitored as part of Compliance with laws and codes, see pages 41–42, and diversity, see pages 38–39.	 8.8
Disruptions to critical IT systems	Minimize disruptions	IT infrastructure service levels are in focus, as is the implementation of Group-wide upgrades in a structured manner. Ensuring compliance with legal requirements in the countries in which the Group operates is an important part, as is information security within and among the systems.	

STRATEGIC RISKS

Risks	Focus	Management and main activities	Relevance for UN goals
Commercial failures	New product segments, major projects and acquisitions	In conjunction with all acquisitions, there is a due diligence program covering the areas of finance, operations and legal. New products in selected segments such as healthcare & medical and aerospace are approved centrally before development work begins. For the past few years, there has been increased business support when establishing new product segments and for larger projects concerning liability risk management, legal risks and new establishments of operations.	
Climate risks	Adaptation of production and products	Climate and other environmental issues drive local legislation and political instruments, and Trelleborg adapts itself to these in the relevant production countries. At the same time, several of the Group's products and solutions help to reduce atmospheric emissions and protect society from climate change, see the examples on pages 20–23.	
	Reduction of CO ₂ emissions	During the year, the Group resolved on new climate targets, "50 by 25", for the period 2021–2025. In line with society's target to keep global warming lower than 1.5°C, Trelleborg's established climate target for the period is to reduce direct and indirect CO ₂ emissions (Scope 1 and Scope 2) by 50 percent relative to sales, with 2020 as the base year. Refer to pages 22–23. For many years, energy efficiency has been the focus of the Manufacturing Excellence program, see pages 36–37.	 13.1

FINANCIAL RISKS

Read more about Trelleborg's financial risk management in Note 32, pages 107–109.