

# 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 not managed in the correct manner 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 industries and niches. The business has a wide geographic spread. The Group has operations in 40 countries, sales are conducted in just over 140 countries worldwide and manufacturing operations are carried out at 100 production sites. The business is diversified geographically and across a range of different industries, 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. With the divestment of the business area Trelleborg Wheel Systems, the Group has become less cyclical since there used to be distinct seasonal effects especially in agriculture. The Group focuses on industries and geographies with healthy growth that can report consistent earnings even when adverse cyclical fluctuations occur in individual industries.

## 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 39. 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 40–41 and in Note 33 on pages 102–104 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 strategy on pages 18–23.
- » **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 how it works with diversity on pages 128–129.
- » **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 130–132.
- » **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 33, pages 102–104.

In the Corporate Governance Report on pages 48–49, 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.

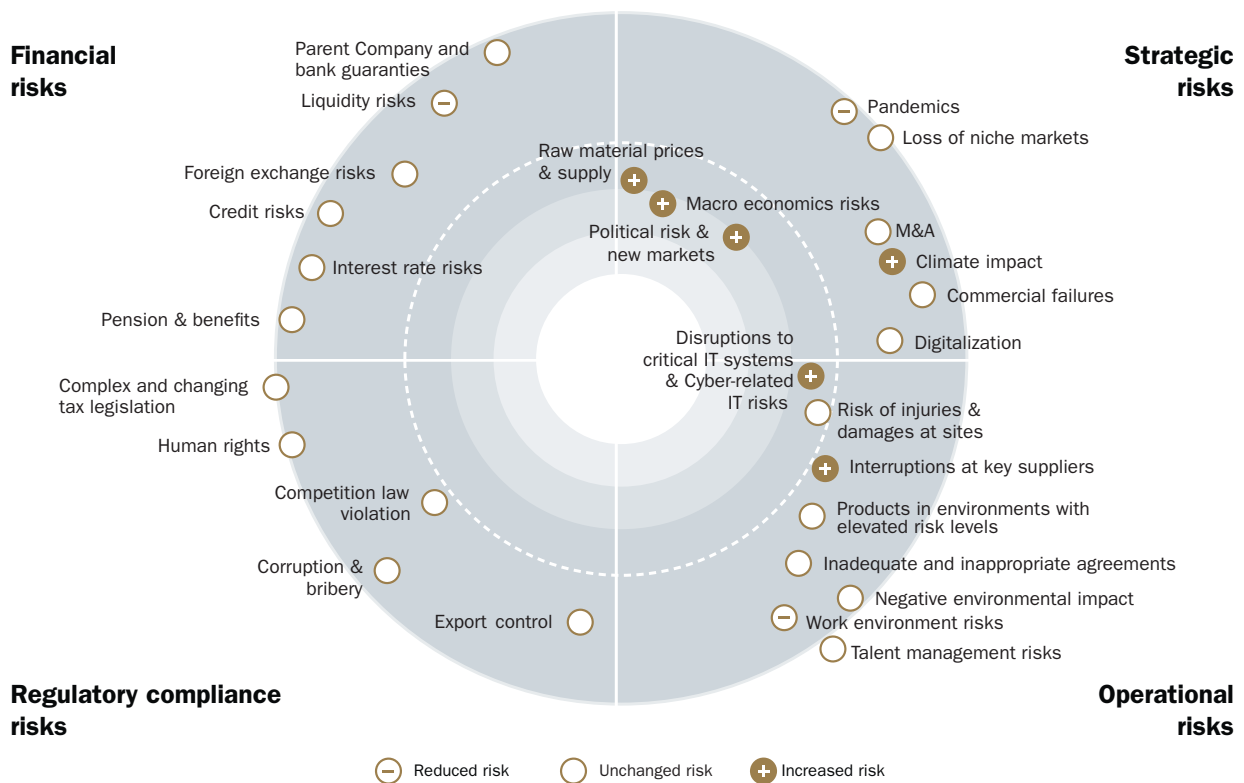
**Crisis management**

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 the Chief Financial Officer and members from 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.

**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. Risks with a material impact on the opportunity to achieve the Group’s targets are listed in the table on pages 40–41.

**RISKS IN THE TRELLEBORG GROUP AND MOVEMENTS IN RISK LEVELS**






## Material risks at Trelleborg

### REGULATORY COMPLIANCE RISKS <sup>1</sup>


Risks	Focus	Management and main activities	Relevance for SDGs
Violation of laws and permits	Compliance with applicable legislation	<p>The Compliance Task Force leads and coordinates initiatives in this area, refer to page 130. 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.</p> <p>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.</p> <p>During the year, the export control process was intensified with a particular focus on developments in sanctions against Russia and Belarus.</p>	 16.3
Corruption and fraud	Measures preventing fraudulent conduct	<p>Established policies and procedures form the basis of the work in this area, which is supplemented with routine training and acceptance letters, signed yearly, for the relevant employees, refer to page 130. Trelleborg's Whistleblower Policy also entitles all employees to report any suspected legal or regulatory violations without repercussions, refer to page 130.</p> <p>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.</p>	 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, refer to pages 131–132.	 8.8

<sup>1</sup> 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 SDGs
Work environment risks	Health and safety	Risks in the area of health and safety are managed via the Safety@Work program, refer to page 128. Issues concerning employees are otherwise monitored as part of compliance with laws and codes, refer to pages 130–132, and diversity & inclusion, refer to pages 128–129.	 8.8
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, marine infrastructure, 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.	
Inadequate 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. In 2022, AI-based tools began to be used to review and assess risks in agreements.	
Negative environmental impact	Review of the sites' local environment and focus on hazardous materials and chemicals	<p>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.</p> <p>The Global Chemical Task Force leads the work to phase out and replace substances that are considered harmful and actively monitors developments in materials and chemicals legislation, refer to page 38. In addition, there is ISO 14001 multi-site certification, which results in increased standardized analysis and control.</p>	 12.4
Risk of injury at sites	Protection of critical sites	<p>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.</p> <p>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.</p>	 13.1
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 SDGs
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 (refer also to the section on pages 118–120)	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 page 123. Work aimed at reducing the Group's fossil-fuel dependence was intensified during the year with respect to both own products and production resources.	
	Reduction of CO <sub>2</sub> emissions	In 2021, 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 below 1.5°C, Trelleborg's climate target for the period is to reduce direct and indirect CO <sub>2</sub> emissions (Scope 1 and Scope 2) by 50 percent relative to sales, with 2020 as the base year, and significant reductions of emissions along the value chain (Scope 3). Refer to pages 124–125. For many years, energy efficiency has been the focus of the Manufacturing Excellence program, refer to page 23.	 13.1
Political risks	Geopolitics and sanctions	In 2022, the Group started to discontinue its operations in Russia. The Group complies with all relevant sanctions introduced as a result of the war in Ukraine and previous plans for a manufacturing site in Russia were stopped early in the year. The geopolitical situation is being monitored and is taken into account in all business plans.	
Supply chain disruptions	Material shortages and delays	There was greater focus on the supply chain in 2022 compared with previous years, as a result of disruptions to global deliveries and the impact of the Coronavirus pandemic and the war in Ukraine on supplies. The Group has well-established tools in place to ensure parallel supplies and evaluates and balances purchasing between local, or global, suppliers, which limits disruption.	

## FINANCIAL RISKS

Read more about Trelleborg's financial risk management in Note 33, pages 102–104.