

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 some 40 countries, sales are conducted in just over 140 countries worldwide and manufacturing operations are carried out at about 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 tire operation, the Group has become less cyclical since there are 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 35. 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 36–37 and in Note 33 on pages 94–96 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 17–20.
- » **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 with diversity on pages 127–129.
- » **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 work with business conduct on pages 132–133.
- » **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 94–96.

In the Corporate Governance Report on pages 44–45, 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.

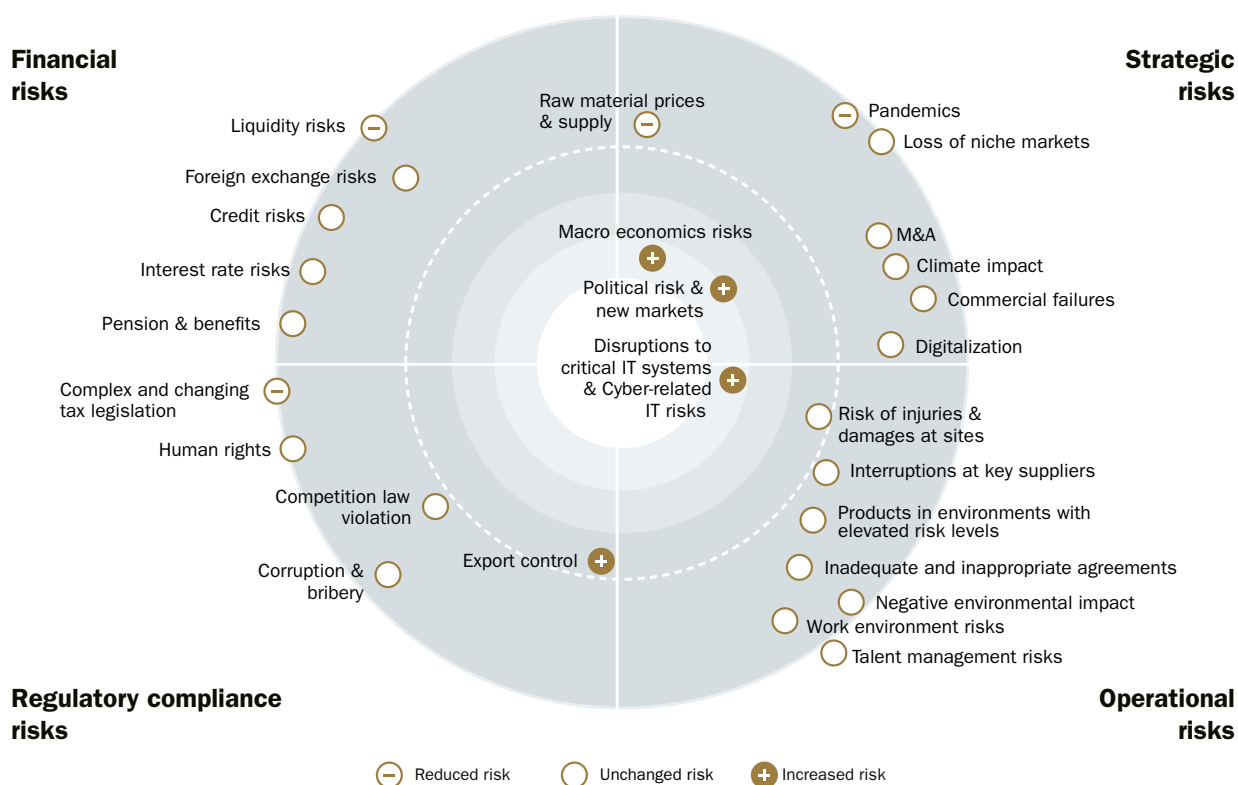
Crisis management

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 36–37.

RISKS IN THE TRELLEBORG GROUP AND MOVEMENTS IN RISK LEVELS






Material risks at Trelleborg

REGULATORY COMPLIANCE RISKS ¹


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 pages 108–109. Training seminars are arranged, including competition law, anti-corruption and the EU's General Data Protection Regulation (GDPR).</p> <p>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 according to an established control program 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, Belarus and China. Each business area has added further local resources during the year to review exports.</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 132. Trelleborg's Whistleblower Policy also entitles all employees and external stakeholders to report any suspected legal or regulatory violations without repercussions, refer to pages 132–133.</p> <p>Review and evaluation of agency and distribution agreements are regularly conducted. Policy Quick Guides are in place to further increase the distribution and comprehension of regulations and the Group's core values. In addition, continuous training is arranged, both on site and via e-learning. During the year, nearly 1,000 employees completed the Anti-Bribery and Corruption course.</p>	 16.5
Risks in the area of human rights	Child labor/forced labor in the supply chain	<p>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.</p>	 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 SDGs
Work environment risks	Health and safety	<p>Risks in the area of health and safety are managed via the <i>Safety@Work program</i>, refer to page 129. Issues concerning employees are otherwise monitored as part of compliance with laws and codes, refer to page 129, and diversity & inclusion, refer to pages 129–130.</p>	 8.8
Products in environments with elevated risk levels	Review of products and solutions	<p>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.</p>	
Inadequate and inappropriate agreements	Examination of agreements	<p>Not only comprehensive training, but also internal and external legal reviews of contract issues and evaluation of contracts in prioritized areas. AI-based tools are used to review and assess risks in agreements in certain industrial segments.</p>	
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, emissions to air, 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 pages 124–125. In addition, environmental management systems and ISO 14001 certification are used to achieve greater standardization of 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. During the year, a new control program was launched based on systematic self-assessment, how units comply with the Group's guidelines for property and business interruption risks, and follow-up with internal and external audits.</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	<p>IT infrastructure service levels and security are in focus, as is the implementation of Group-wide upgrades in a structured and secure manner. During the year, safety work was intensified in a number of areas. With regard to the user interface, security has been enhanced via multi factor authentication (MFA), and also in terms of more general systematic monitoring of internet traffic. 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.</p>	

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 116–118 and 122–124)	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 115. 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 ₂ emissions	In 2023, the Group adopted new climate targets, committing to halve its direct and indirect CO ₂ emissions (Scope 1 and 2) by 2030 compared to the base year 2021, and during the same period reduce emissions along the value chain (Scope 3) by 25 percent. During the year, the new targets were reviewed and validated by the Science Based Targets initiative (SBTi), meaning that they are in line with the Paris Agreement's goal of limiting global warming to 1.5°C. Refer to pages 116–118. For many years, energy efficiency has been the focus of the <i>Manufacturing Excellence</i> program, refer to pages 20 and 122–124.	 13.1
Political risks	Geopolitics and sanctions	Trelleborg has discontinued its operations in Russia and does not do business with Russia or Belarus. What remains of the former business is now a dormant Russian company, with no operations. The liquidation of this company is set to be initiated in first half of 2024. The geopolitical situation is being monitored and is taken into account in all business plans. The purchasing functions continue to work on securing alternative suppliers and now also with a greater focus on geographical diversification.	
Supply chain disruptions	Material shortages and delays	During the year, global supply disruptions and supply chain impacts have normalized and the effects of the coronavirus pandemic and the war in Ukraine, among other factors, have diminished. 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 94–96.