

# 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 both 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 mainly follows the cyclical fluctuations in global industrial production. The Group focuses on segments, industries and geographies with healthy growth potential that can maintain stable earnings even in conjunction with adverse cyclical fluctuations in individual industries.

### Risk management

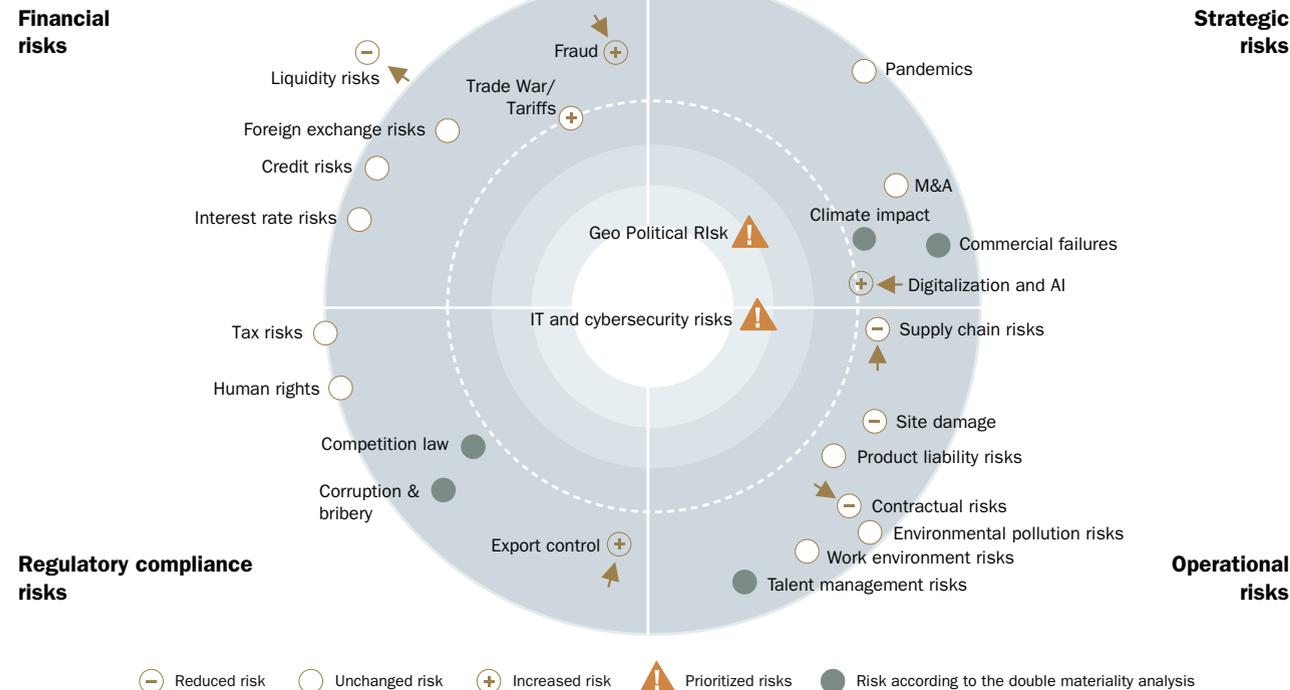
Trelleborg has an established process for Enterprise Risk Management (ERM) that provides a framework for the Group's risk activities. The purpose of the ERM process is to provide a Group-wide overview of Trelleborg's risks and to enable a follow-up of the risks and how they are managed.

The vast majority of risks are managed locally. However, some 25 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 below risk radar illustration. 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 48–49 and in Note 32 on pages 148–151 concerning financial risk management, and also

on pages 60–61. The highest governing body for risk management is the Board of Directors and its Audit Committee, which routinely manages these risks. >>>

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



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In addition, risks are managed in such forums as:

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

**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 12–16.
- » 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 76–79 and 85–88, respectively.
- » 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 93–96.
- » 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 148–151.

In the Corporate Governance Report on pages 32–35, there is a detailed description of the internal controls used to manage the risks associated with financial reporting.

Risks in the sustainability domain included in the Group’s double materiality assessment (see pages 60–61) run like a red thread through these areas and concern financial risks linked to

climate impact, resource use and circularity, and occupational health and safety risks. 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 on page 46, 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 on page 46 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 48–49.



KATARINA OLSSON  
SENIOR VICE PRESIDENT, GENERAL COUNSEL

**“We are continuously and proactively evaluating our main risks via our ERM Board, which brings together Group functions and business areas. The work is initiated and pursued in operations – each business area continuously assesses its risks and is responsible for mitigation. Our main focus during the year was on cyber, macroeconomics and compliance, in parallel with managing a wide range of risks.”**

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## Material risks at Trelleborg

### REGULATORY COMPLIANCE RISKS

Risks	Focus	Management and main activities
Violation of laws and permits	Compliance with applicable legislation	<p>The Compliance Task Force leads and coordinates initiatives in this area, see pages 93–96. Regular training sessions are arranged in such areas as competition law, anti-corruption and the EU’s General Data Protection Regulation (GDPR). During the year, Compliance Day was launched, an interactive training course specializing in all aspects of regulatory compliance.</p> <p>There is an established process for export control with a focus on embargoes and trade restrictions. There are also established procedures 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 program is formalized and ensures that operating companies undergo regular review where shortcomings are noted and followed up. During the year, there was a continued strong focus on the export control process in view of developments concerning sanctions. Each business area has local export review resources and pursues an ongoing project to identify the areas where additional system support can be obtained from external databases that monitor sanctions data at company and individual level.</p>
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 that includes the newly launched Compliance Day and acceptance letters, signed yearly, for the relevant employees. Trelleborg’s Whistleblower Policy also entitles all employees and external stakeholders to report any suspected legal or regulatory violations without repercussions.</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 policies and the Group’s core values. In addition, continuous training is arranged, both on site and via e-learning. Read more on pages 93–96.</p>
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 pages 56 and 89–91.

### OPERATIONAL RISKS

Risks	Focus	Management and main activities
Work environment risks	Health and safety	Risks in the area of health and safety are managed via the Safety@Work program, see page 84. Issues concerning employees are otherwise monitored as part of compliance with laws and codes, see page 94, and diversity, see pages 85–88, and are measured and monitored through the Group’s employee survey.
Product liability – 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.
Contractual risks – 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. There are internal rules and principles in place governing the level of exposure that is acceptable together with an escalation procedure for any deviations. AI-based tools, together with specifically developed review principles, are used to review and assess contractual risks in certain industrial segments.
Environmental pollution risks	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, see pages 73–75. In addition, environmental management systems and ISO 14001 certification are used to achieve greater standardization of analysis and control. During the year, the circularity program was expanded and the collaboration between the Global Chemical Task Force and Polymers for Tomorrow was further developed, see pages 76–79.</p>

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

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cont. OPERATIONAL RISKS

Risks	Focus	Management and main activities
Site damage – Risk of damage to production and storage facilities	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 physical risks that are related to climate change. During the year, this risk was assessed as being on a par with previous years. Sites that were constructed during the year have a high level of protection in accordance with the Group's newly revised Greenfield and Project Directive.</p> <p>A control program has been underway for some time now 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>
IT and cybersecurity risks – disruptions to critical IT systems	Minimize disruptions	<p>Service levels and security are in focus when it comes to IT infrastructure. Lead times for implementing updates have continued to decline, which in turn reduces the risk of hacker attacks and disruptions. During the year, security remained in focus in a number of areas. With regard to the user interface, security has been enhanced through 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. IT security training for staff has been expanded, with modules added that address different risk aspects and risk areas.</p>

STRATEGIC RISKS

Risks	Focus	Management and main activities
Commercial failures	New product segments, major projects and acquisitions	<p>In conjunction with all acquisitions, there is a due diligence program covering the areas of finance, operations and legal, and an analysis of the company and its risks and opportunities is carried out using a well-established process. New products in selected segments such as healthcare &amp; 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. In addition, Trelleborg works to prevent risks of reduced sales as a result of a fall in demand for fossil-based products and materials. The Polymers for Tomorrow program served as central support and provides impetus in these activities.</p>
Climate risks (refer also to the section on pages 65–67)	Adaptation of production and products	<p>Adaptation of production and products (physical climate risks): Work aimed at reducing the Group's fossil-fuel dependence was intensified during the year for both own products and production resources. In the product segment, there is a greater focus on circularity, increasing the degree of recycled material and generally examining how to reduce the number of fossil-based products. Climate change increases the risk of floods, hurricanes and droughts. We are therefore evaluating our existing sites and performing risk assessments taking these factors into consideration – a process that also applies to new sites.</p>
	Reduction of CO <sub>2</sub> emissions	<p>Reduction of CO<sub>2</sub> emissions (transition risks): Climate issues and other environmental topics drive local legislation and political instruments, and Trelleborg adapts itself to these in the relevant production countries. Climate issues in focus include carbon taxation and climate impact reporting requirements. 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 13 and 20.</p>
Political risks	Geopolitics	<p>The geopolitical situation is dynamic and is being continuously monitored. It is considered in all business plans and adjusted on an ongoing basis. The purchasing functions continue to work on securing alternative suppliers, now also with a greater focus on geographical diversification.</p>
Purchasing risks – supply chain disruptions	Material shortages and delays	<p>The situation involving global supply disruptions and impacts on the supply chain was stable during the year, with very little impact from various regional conflicts. The Group has well-established tools in place to ensure parallel supplies and evaluates and balances purchasing between local, respective global suppliers, which limits disruption.</p>

FINANCIAL RISKS

Read more about Trelleborg's financial risk management in Note 32, pages 148–151.

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