

## 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 machines 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.

**Enterprise 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 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.

Trelleborg has chosen to group the risks into four areas as shown in the illustration to the right. Risks

related to confidence run as a common thread through these 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 34–35.

*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 38–40 and 46–47.

*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 & safety, trade restrictions, anti-competition regulations and currency regulations. Read more about Trelleborg's compliance with laws and codes on pages 42–45.

*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 110–112.

In the Corporate Governance Report on pages 60–65, there is a detailed description of the internal controls used to manage the risks associated with financial reporting.

Sustainability risks, such as climate impact, work environment risk or risks in the field of human rights are integrated into the four areas. 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.** Risks relating to confidence are a common thread through all areas – that is, events and behaviors that negatively impact the company's brands and confidence. 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 dialogue, 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 the Board of Directors, is informed and assesses how to handle the event.

**ERM priorities.** Trelleborg's risk activities are carried out at various levels within the Group. The Group's various companies, business areas and business units have identified a total of about 250 risks. The vast majority of these are managed locally. But 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 53. 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 54–55 and in Note 32 on pages 110–112 concerning financial risk management.



Evaluation of identified risks and consolidation of priorities in risk management is led by the Risk Management staff function. The evaluation comprises a component of the annual strategy process and primarily involves the management teams of the business areas, but also Group Management and the staff functions. The risks that are deemed material and therefore have a significant impact on the entire Group are managed by the ERM Board. The ERM Board leads the overall coordination and monitoring of risk activities. The highest governing body is the Board of Directors and its Audit Committee, which routinely manages these risks.

**Responsibility.** Like the ERM Board, the ERM process and work pertaining to risk are controlled centrally by the Group's Risk Management staff function led by the General Counsel, who assumes ultimate responsibility. In addition to these people and the Internal Control staff function, the ERM Board consists of the Group's CFO and Group IT staff function. The ERM Board is tasked with coordinating and prioritizing the risks and risk processes and ensuring that there is clear ownership of prioritized risks.

Responsibility for risk management lies with the respective managers of Trelleborg's various companies, business areas and business units. This responsibility encompasses the day-to-day work pertaining to operational and other relevant risks, as well as leading and developing risk management activities. The managers are supported by central Group resources in the form

of the Risk Management, Internal Control and Group Treasury staff functions, as well as Group-wide risk processes and tools.

Group Treasury is responsible for financial risk management activities. The unit is in charge of Group companies' external bank relations, liquidity management, net financial items, interest-bearing liabilities and assets, Group-wide payment systems and netting of currency positions. Centralization of the Group's treasury management ensures substantial economies of scale, lower financing costs, strict management of the Group's financial risks and improved internal controls.

Read more about financial risk management in Note 32, pages 110–112.

**Monitoring.** Trelleborg's risk management is systematically monitored by Group Management using such tools as monthly reports from the managers in charge. The reports describe the status within their respective areas of responsibility, including the status of identified risks. The Group's General Counsel reports regularly to the Audit Committee on the Group's risk and risk management, and the Group's CFO reports regularly to the Audit Committee on the status of the financial risks. Furthermore, the President regularly provides the Board with reports on the development of the Group's risks. The Group's companies, business areas and business units use a consolidation system for systematic identification, analysis, evaluation and for monitoring of the management of reported risks.

## RISKS WITH MAJOR IMPACT AT THE BUSINESS AREA AND/OR GROUP LEVEL

**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 colors of the risks indicate change in relation to the preceding year.



**Material risks at Trelleborg.** The risks on the risk radar above that the Group considers material and therefore justify management at Group level, are as follows:

### Regulatory compliance risks

- » Violation of laws and permits (Competition law and Export control)
- » Corruption and fraud
- » Human rights-related risks

### Operational risks

- » Products in environments with elevated risk levels
- » Substandard and inappropriate agreements
- » Negative environmental impact
- » Risk of injury at sites
- » Work environment risks
- » Disruptions to critical IT systems

### Strategic risks




- » Commercial failures
- » Climate impact

### Financial risks


- (see Note 32, pages 110–112)
- » Liquidity risks
  - » Interest rate risks
  - » Foreign exchange risks
  - » Credit risks

# RISKS THAT COULD SIGNIFICANTLY AFFECT THE GROUP

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



Risks	Focus	Management and main activities	Relevance for UN goals
Violation of laws and permits	Compliance with applicable legislation	<p>The Compliance Task Force leads and coordinates initiatives in this area, see pages 42–43. Training seminars in competition law and the EU's General Data Protection Regulation (GDPR) are arranged. 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.</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>	 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 a letter of acceptance, signed yearly, for the relevant employees, see page 43. Trelleborg's Whistleblower Policy also entitles all employees to report any suspected legal or regulatory violations without repercussions, see page 134.</p> <p>Agency and distribution agreements are regularly reviewed and evaluated, and a special group has been formed to counteract financial fraud. The Groups 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	<p>Supplier reviews and supplier audits in the areas of risk are conducted based on the Group's geographic and materials risk assessments, see page 44 and 134.</p>	 8.8

## OPERATIONAL RISKS


Risks	Focus	Management and main activities	Relevance for UN goals
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, oil and gas, marine hoses for oil and gas, healthcare &amp; medical, and aerospace. Contracts and processes concerning production and project management are also subjected to legal review and risk assessment.</p>	
Substandard and inappropriate agreements	Examination of agreements	<p>In contractual matters, comprehensive training in addition to internal and external legal examinations and evaluations of contracts are carried out in prioritized areas.</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, 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 monitors such substances that may be of interest in the future, using an internal Restricted Materials List, see page 38. In addition, there is ISO 14001 multi-site certification, which results in increased standardized analysis and control.</p>	 12.4

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

## OPERATIONAL RISKS, CONT.

Risks	Focus	Management and main activities	Relevance for UN goals
Risk of injury at sites	Protection of critical sites	External and internal analyses of the Group's operations with regard to results of the most critical sites. Also a more in-depth mapping of natural disaster risks, 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 & 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 page 43, and diversity, see page 46.	 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	Reduction of CO <sub>2</sub> emissions  Adaptation of production and products	For many years, energy efficiency has been the focus of the Manufacturing Excellence program, see pages 38–39. The Group's future climate targets will take scientific best practices into consideration for their establishment, see page 41, and a process for the Group's management of certificates of origin for renewable energy is in development. There is Group-level planning for investments and other measures for the purpose of reducing emissions.  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 37.	 13.1