

# RISKS AND RISK MANAGEMENT

**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. For the Group, 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 4 areas as shown in the illustration below. Risks related to sustainability and 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 29–33.

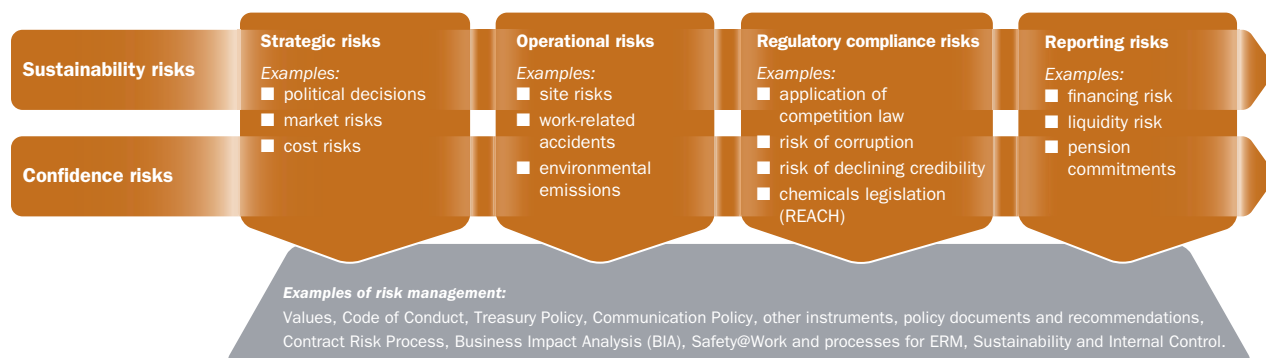
*Operational risks* are risks that Trelleborg can itself largely manage and prevent, and which mainly pertain to processes, assets and employees. Read more about how Trelleborg works to ensure safe and efficient use of resources and about diversity on pages 58–64.

*Regulatory compliance risks* relate to Trelleborg being 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 54–57.

*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 31, pages 126–128.

In the Corporate Governance Report, on pages 82–83, there is a detailed description of the internal controls used to manage the risks associated with financial reporting.

**Sustainability risks.** Risks relating to sustainability issues are a common thread through all areas. For example, this involves the risks relating to



shortages of resources or materials or the negative effects of emissions, as well as risks relating to the use of Trelleborg's products and solutions. 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.** Similarly, there is a risk that events and conduct could have a negative impact on the company's brand and credibility. 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 solved locally, close to the origin of the incident. The crisis organization at Group level, consisting of a team from Group Legal, Communications and HR, 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.** In addition to the financial risks (see Note 31 on pages 126–128), Trelleborg has identified 8 major risks that may result in damage or loss with substantial impact on the entire Group and therefore justify management of the risk at Group level.

The Group's various companies, business areas and business units have identified a total of about 250 risks. The vast majority of these risks are managed locally.

Some 30 of these approximately 250

risks that may have a major impact at a business area and/or Group level are identified each year and thus justify the risk being managed at one of these levels. The evaluation of the risks and consolidation of priorities 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.

On the basis of the risk prioritization prepared in the ERM process, the Board continuously identifies and prioritizes risks that may significantly affect the possibility of achieving the Group's objectives.

The 8 major risks that are deemed to have a significant impact on the entire Group are managed by the ERM Board, which leads the overall coordination and monitoring of risk activities. A total of 3 meetings of the ERM Board are planned for 2019, which are preparatory meetings for Audit Committee and Board meetings.

**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 31, pages 126–128.

**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 monitoring of the management of reported risks.

## RISKS THAT MAY SIGNIFICANTLY AFFECT THE GROUP

**Risks at Trelleborg.** Trelleborg has identified the relevant areas based on 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 occur and cause major financial damage or have an adverse impact on confidence in Trelleborg.



**Major risks at Trelleborg.** In addition to the financial risks (see Note 31 on pages 126–128), Trelleborg has identified 8 major risks that may result in damage or loss with substantial impact on the entire Group and therefore justify management of the risk at Group level.

### Regulatory compliance risks

- 1 Violation of laws and permits
- 2 Corruption and fraud

### Operational risks

- 3 Products in environments with elevated risk levels
- 4 Substandard and inappropriate agreements
- 5 Negative environmental impact
- 6 Risk of injury at sites
- 7 Disruptions to critical IT systems

### Strategic risks

- 8 Commercial failures

### Financial risks

Financial risks are described in Note 31, pages 126–128

# RISKS THAT MAY SIGNIFICANTLY AFFECT THE GROUP

## REGULATORY COMPLIANCE RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Violation of laws and permits	Compliance with applicable legislation	<ul style="list-style-type: none"> <li>• Training seminars in competition law and the EU's General Data Protection Regulation (GDPR).</li> <li>• Export control process focusing on embargoes and trade restrictions.</li> <li>• Established procedures for approving membership in organizations, for example.</li> </ul> Refer to page 54.	Establishment of a central Group steering committee, Compliance Task Force.  Formalization and expansion of Group Internal Control, focusing on regulatory compliance.  Regular legal reviews with a focus on monitoring and ensuring compliance in the Group companies.
Corruption and fraud	Measures preventing fraudulent conduct	<ul style="list-style-type: none"> <li>• Continuous training.</li> <li>• Established policies and procedures.</li> <li>• Acceptance Letters issued by the Group's President, whereby relevant employees sign a letter each year confirming their knowledge of the Code of Conduct and compliance with the Group's internal policy instruments.</li> <li>• Trelleborg's whistleblower policy and process, which implies that each employee is entitled, without repercussions, to report suspicions of legal or regulatory violations. Refer to page 54.</li> <li>• Review and evaluation of agency and distribution agreements.</li> <li>• Special committee for the counteraction of financial fraud.</li> </ul>	Review of Group's internal policy instruments.  Introduction of Policy Quick Guides to further increase the distribution and comprehension of regulations and the Group's core values.

## OPERATIONAL RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Products in environments with elevated risk levels	Review of products and solutions	<ul style="list-style-type: none"> <li>• Risk assessments to identify products with an elevated risk level, for example, in the areas of oil &amp; gas, marine hoses for oil and gas, healthcare &amp; medical and aerospace.</li> <li>• Legal review and risk assessment of contracts and processes concerning production and project management.</li> </ul>	Training and workshops that follow operationally specific risk assessments of products and contracts. The concept was initiated within the Trelleborg Offshore & Construction business area and has now been expanded to selected areas of the Group, such as aerospace and healthcare & medical.
Substandard and inappropriate agreements	Examination of agreements	<ul style="list-style-type: none"> <li>• Comprehensive training in issues concerning agreements.</li> <li>• Legal examination and evaluation of contracts in 11 prioritized areas.</li> </ul>	Further development of external services for focused and fast examination of contracts to facilitate business processes.

## OPERATIONAL RISKS, CONT.

Major risks	Focus	Management	Initiated and ongoing activities
Negative environmental impact	Review of the sites' local environment and focus on hazardous materials and chemicals	<ul style="list-style-type: none"> <li>• Mapping of environmental risks for all new construction and acquisitions.</li> <li>• Continuous surveillance of the sites in question and a focus on the handling of chemicals, rainwater and the risk of flooding.</li> <li>• Update of list of materials with restrictions (see page 58), in relation to the use of chemicals and continued environmental assessments at the point of acquisition.</li> </ul>	<p>Increased surveillance and monitoring of the handling of chemicals.</p> <p>Establishment of ISO 14001 multi-site certification, which results in increased standardized analysis and control.</p> <p>Establishment of a Group-wide steering committee for chemicals, Global Chemical Task Force.</p> <p>Further expand the internal list of chemical restrictions. Phase out chemicals with significant environmental and health effects.</p>
Risk of injury at sites	Protection of critical sites	<ul style="list-style-type: none"> <li>• External and internal analyses of the Group's operations with regard to results of critical sites.</li> <li>• Guidelines for new building and site upgrades.</li> <li>• Increase the number of risk-classified sites being upgraded to Highly Protected Risk level (HPR). Improve the lowest performing and most critical sites.</li> </ul>	<p>Selection of Group-wide risk areas and customization of injury-preventing guidelines and increased monitoring.</p> <p>Increased focus on and monitoring of major risks at critical sites.</p> <p>More in-depth mapping of natural disaster risks, with a particular focus on flooding.</p>
Disruptions to critical IT systems	Minimize disruptions	<ul style="list-style-type: none"> <li>• Improved level of service in terms of the IT infrastructure.</li> <li>• Implement upgrades in a structured, Group-wide manner.</li> <li>• Ensure compliance with legal requirements in the countries in which the Group operates.</li> <li>• Improve information security in and between systems.</li> </ul>	<p>Structuring of new Enterprise Resource Planning (ERP) implementations and increased monitoring of Internal Control.</p> <p>Localization of servers and review of physical protection and information security.</p>

## STRATEGIC RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Commercial failures	New product segments, major projects and acquisitions	<ul style="list-style-type: none"> <li>• Acquisition survey and examination program within the areas of finance, operations and legal.</li> <li>• Central approval of new products in selected segments, such as healthcare &amp; medical and aerospace.</li> </ul>	<p>Increased business support when establishing new product segments and larger projects concerning responsible risk management, legal risks and new establishments of operations.</p>