

RISKS AND RISK MANAGEMENT

All business activities involve risk. Risks that are effectively managed may lead to opportunities and value creation, while risks that are not managed correctly could result in damage 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. With 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 units. 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 demand from which often balances 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.

Sustainability-related risks. In addition to the identified major risks described on pages 66–69, there are at least three risk areas related to sustainability issues: the first area pertains to *Regulatory compliance*, meaning the risk of insufficient compliance within both the organization and the supplier chain (refer also to page 51); the second area pertains to *Resources* and primarily relates to risks associated with resource or material shortages or the negative impact of emissions; the third pertains to *Products*, mainly risks associated with the use of Trelleborg's products and services. Although these areas of sustainability-related risk are not considered major risks for the Group, they could all impact confidence in the Trelleborg Group should they arise.

Confidence risks. As one of the leading companies in the polymer industry, Trelleborg is subject to high expectations from all of its stakeholders. The Group is exposed to a risk that the behavior, business decisions and deliveries of individual employees could destroy the confidence built up over a long period of time, not least since the Group operates in a global market with a strong brand and in certain segments with an elevated risk level. It is thus crucial that events and conduct that could have a negative impact on the company's brand and credibility are monitored and minimized.

Trelleborg focuses on a variety of issues and activities to strengthen and build stakeholder trust 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 be solved locally, as far as possible, close to the origin of the incident. The crisis organization at Group level, consisting of a team from Legal, Communications and HR, is to ensure that relevant employees at Trelleborg have the necessary knowledge and capabilities to handle various incidents. In the event of a major incident, which can be considered to impact the Group as a whole, then the Group's crisis organization, including the Board of Directors, is informed and assesses how to handle the event.

The Corporate Responsibility section on pages 46–63 includes information about Trelleborg's proactive work related to regulatory and code compliance and other areas.

The Corporate Governance Report on pages 64–83 contains a detailed description of the internal controls used to manage the risks associated with financial reporting.

Financial risks are described in Note 31, pages 118–120.

Enterprise Risk Management. Trelleborg has an established process for Enterprise Risk Management (ERM process) 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.

ERM priorities. Trelleborg has identified 8 major risks in five areas. These include 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 identified risks and consolidation of priorities to manage the risks 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, as well as Group Management and the staff functions.

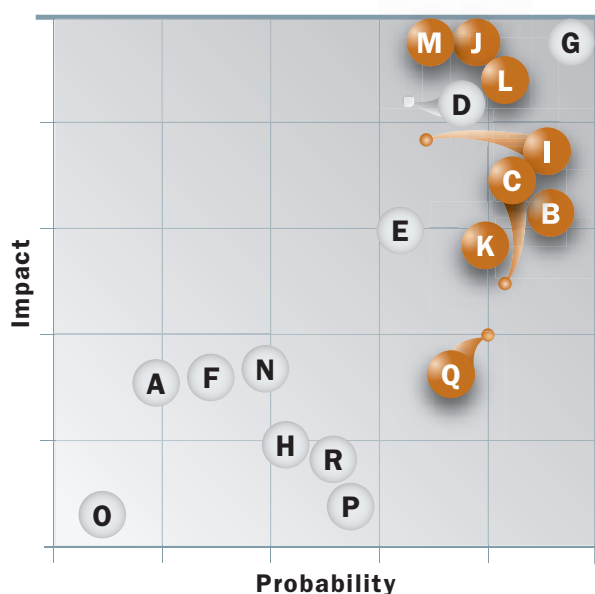
On the basis of the risk prioritization prepared in the ERM process, the Board continuously identifies and prioritizes risks that may significantly affect the possibility of achieving the Group's objectives.

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. 3 meetings are planned in the ERM Board for 2018, which are preparatory meetings for Audit Committee and Board meetings.

Read more about Trelleborg's major risks on pages 68–69.



RISKS THAT MAY SIGNIFICANTLY AFFECT THE GROUP



The move indicates change in relation to the preceding year.

Risks at Group level

- A Liquidity risk
- B Commercial failures
- C Products in environments with elevated risk levels
- D Political risk
- E Disruptions at key suppliers
- F Parent Company and bank guaranties
- G Increases in raw material prices
- H Patent & trademark risks
- I Disruptions to critical IT systems
- J Violation of laws and permits
- K Negative environmental impact
- L Substandard and inappropriate agreements
- M Risk of injury at sites
- N Confidence risk
- O Incentive program
- P Complex and changing tax legislation
- Q Corruption and fraud
- R Loss of niche markets

Major risks at Trelleborg*

Rules

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

Products and agreements

- 3 Products in environments with elevated risk levels
- 4 Substandard and inappropriate agreements

Sites

- 5 Negative environmental impact
- 6 Risk of injury at sites

IT

- 7 Disruptions to critical IT systems

Disruptive activities

- 8 Commercial failures

* For more details, refer to pages 68–69.



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 IT Group 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 118–120.

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.

MAJOR RISKS AT TRELLEBORG

RULES








Major risks	Focus	Established key processes	Initiated and ongoing activities
Violation of laws and permits	Compliance with competition law	<ul style="list-style-type: none"> • Training seminars in applicable competition law. • Export control focusing on embargoes and trade restrictions. • Established procedures for approving membership in organizations, for example. Refer to pages 51.	Establishment of a central Group steering committee, Compliance Task Force. ● Formalization and expansion of Group Internal Control, focusing on regulatory compliance. ●
Corruption and fraud	Measures preventing fraudulent conduct	<ul style="list-style-type: none"> • Continuous training. • Established policies and procedures. • 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. • 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 51. • Review and evaluation of agency and distribution agreements. • Special committee for the counteraction of financial fraud. 	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. ●

PRODUCTS & AGREEMENTS




Major risks	Focus	Established key processes	Initiated and ongoing activities
Products in environments with elevated risk levels	Review of products and solutions	<ul style="list-style-type: none"> • Risk assessments to identify products with an elevated risk level, for example, in the areas of oil & gas, marine oil and gas hoses, healthcare & medical and aerospace. • Legal review and risk assessment of contracts and processes concerning production and project management. 	Training and workshops which 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. ●
Substandard and inappropriate agreements	Examination of agreements	<ul style="list-style-type: none"> • Comprehensive training in issues concerning agreements. • Legal examination and evaluation of contracts in 11 prioritized areas. 	Further development of external services for focused and fast examination of contracts to facilitate business processes. ●

Percentage of risk work completed: ● 25% ● 50% ● 75% ● 100%


SITES

Major risks	Focus	Established key processes	Initiated and ongoing activities
Negative environmental impact	Review of the sites' local environment and focus on hazardous material and chemicals	<ul style="list-style-type: none"> • Mapping of environmental risks for all new building and acquisitions. • Continuous surveillance of the sites in question and a focus on the handling of chemicals, rainwater and the risk of flooding. • Update of list of materials with restrictions (see page 52), in relation to the use of chemicals and continued environmental assessments at the point of acquisition. 	<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"> • External and internal analyses for the Group's operations and results of critical sites. • Guidelines for new building and site upgrades. • Increase the number of risk-classified sites being upgraded to Highly Protected Risk level (HPR). Improve the lowest performing and most critical sites. 	<p>Selection of Group-wide risk areas, 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>

IT

Major risks	Focus	Established key processes	Initiated and ongoing activities
Disruptions to critical IT systems	Minimize disruptions	<ul style="list-style-type: none"> • Improved level of service in terms of the IT infrastructure. • Implement upgrades in a structured, Group-wide manner. <p>Ensure compliance with legal requirements in the various countries in which the Group operates.</p> <ul style="list-style-type: none"> • Improve information security in and between systems. 	<p>Structuring of new ERP implementations and increased monitoring of Internal Control. </p> <p>Localization of servers and review of physical protection and information security. </p> <p>Preparations to ensure the Group's compliance with the requirements in the new EU General Data Protection Regulation (GDPR). </p>

DISRUPTIVE ACTIVITIES

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

Percentage of risk work completed:  25%  50%  75%  100%