

Charlotta Grähs & Heléne Vibbleus

En koncernlednings syn på riskhantering

RISK FORUM 2016
en värld i förändring





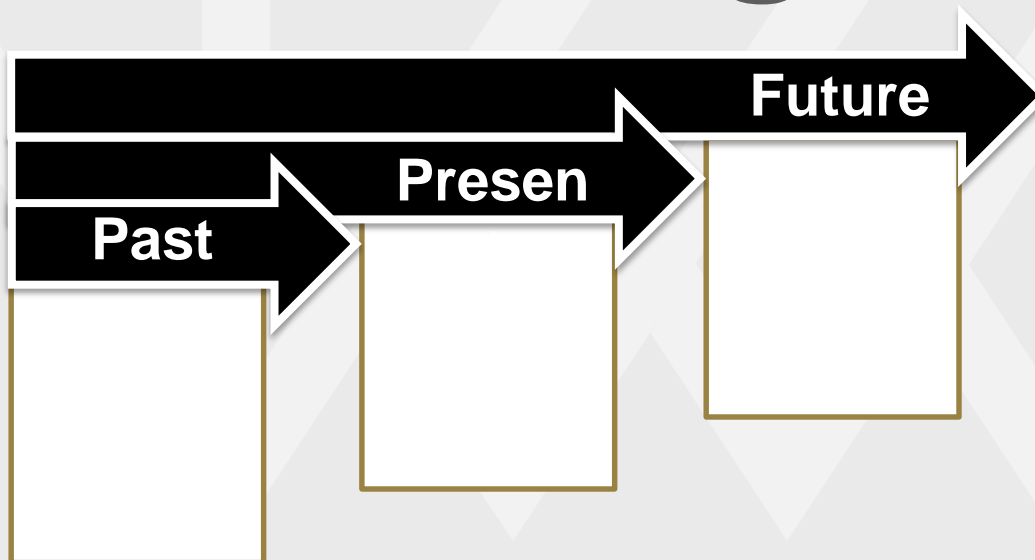
Welcome to the World of Trelleborg

En koncernlednings syn på riskhantering

RISK FORUM March 17, 2016 - Heléne Vibbleus & Charlotta Grähs



Our view on Risk Management



A perspective from Group Management and Board of Directors

The speakers

Heléne Vibbleus

Board member and Chairman of the Audit Committee of Trelleborg AB



- Board member in Marine Harvest ASA, Nordic Growth Market NGM AB, Scandi Standard AB, Swedbank Sjuhärad AB, Tyréns AB
- Current position at Autoliv
- Experience from risk management work from roles at Elekta AB, AB Electrolux, PwC.

Charlotta Grähs

General Counsel and Secretary of the Trelleborg Group



- General Counsel/Corporate counsel roles for 10 years at Dometic and Husqvarna
- Associate/lawyer roles for 7 years at Mannheimer Swartling and Hengler Mueller in Germany

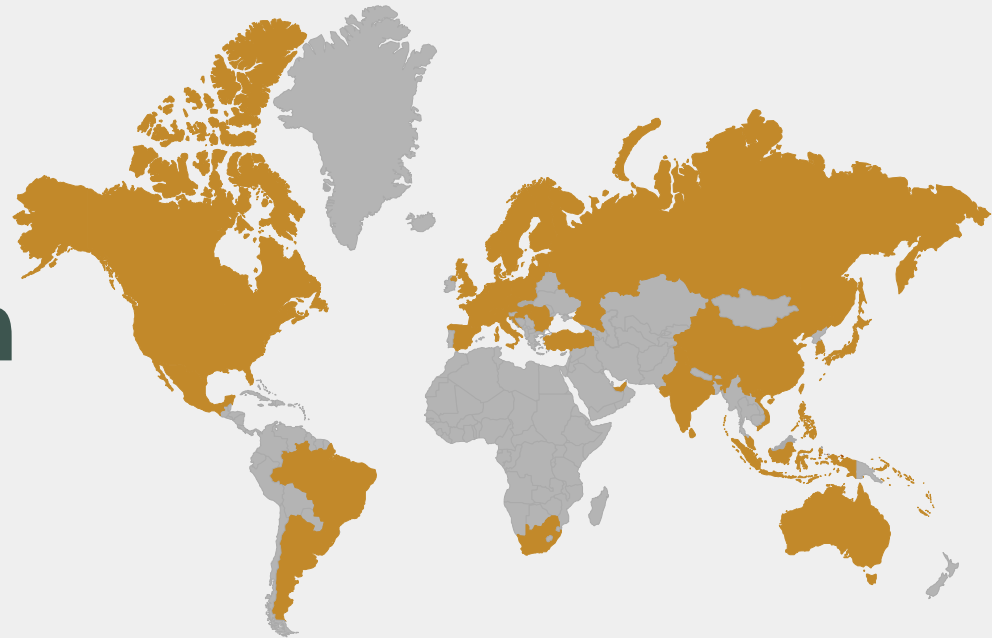
A world leader in engineered polymer solutions

1905
FOUNDED

24,8 billion
TURNOVER

16,500
EMPLOYEES

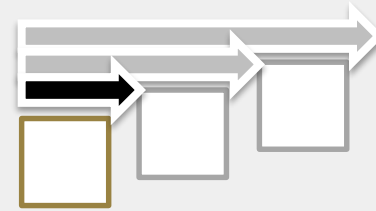
95
PRODÜCTION UNITS



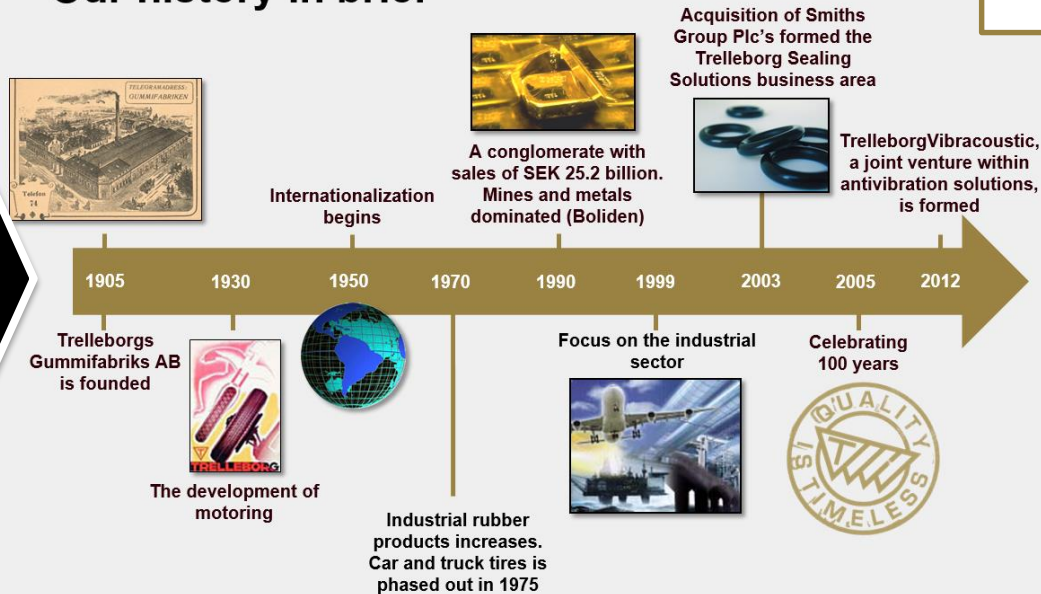
- Well Diversified | Broad range of customers in various market segments with invoicing in 140 countries. A number of risks remain.
- Owns 50 percent of TrelleborgVibracoustic

The Past

Our history in brief



The core of the business has changed



The risk landscape has changed

- Initially operated locally in Scandinavia
- From rubber products to conglomerate to polymer focus
- Legal framework has developed and is more challenging
- Financial accounting requirements and more challenging controlling environment

Survey on Good Board of Directors Governance

Performed by PwC and the Swedish Board Academy in Sweden*

- Yesterday the questions were related to
 - new IT- technology, and
 - slow pace of change in the organization
- Today the questions are related to
 - global economy,
 - impact of the financial sector,
 - character of the new markets, and
 - that the unlikely just suddenly is likely
 - Natural Catastrophes
 - Nuclear Catastrophes
 - Oil pollution
 - Withdrawal of permission from the Financial Supervisory Authority
 - Cybercrime
 - The power of social media
 - Corruption
 - Market conditions in certain industries
 - Changed political climate
 - Financial distress

the complexity and the
pace of change in the
surrounding world is
increasing

The Legal/Accounting Framework

The Swedish Companies Act | *Aktiebolagslagen*

Chapter 8, sec 49 b: ...an **audit committee** must ... in relation to the financial reporting, monitor the efficiency of the company's internal controls, internal audits and **risk management**...

The Swedish Corporate Governance Code | *Svensk kod för bolagsstyrning*

3.1 The principle tasks of the board of directors include ...control of the company's operations and the **risks to the company that are associated with its operations**...

The Annual Accounts Act | *Årsredovisningslagen*

The Annual Accounts Act Chapter 6, 1§ : **Risks** relevant for the company must be reflected and provided

International financial reporting standards | *IFRS*

"**Risk** disclosure requirements"

Enterprise Risk Management Framework and Risk Management Principles and Guidelines

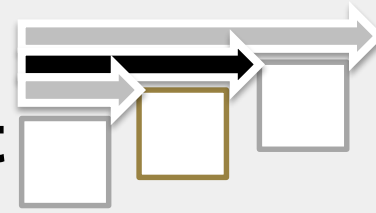
Enterprise Risk Management Integrated Framework COSO |

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives

Risk Management – Principles and Guidelines ISO 31000|

Risk management creates and protects value. Risk management contributes to the demonstrable achievement of objectives and improvement of performance in, for example, human health and safety, security, legal and regulatory compliance, public acceptance, environmental protection, product quality, project management, efficiency in operations, governance and reputation

Our view on 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**.



Targets for the Trelleborg Group

Targets for the Trelleborg Group

Organic Growth >5%

Operating Margin > 12%

Return on Equity >15%

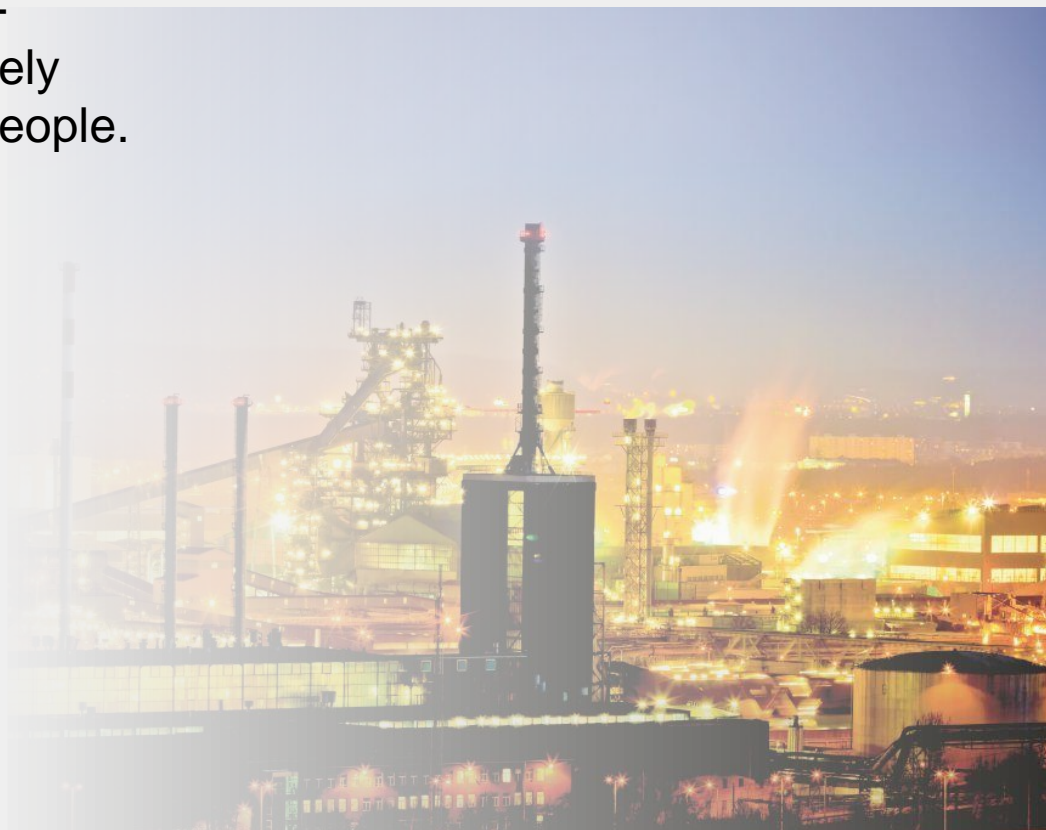
Strategic Risks

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.



Operational Risks

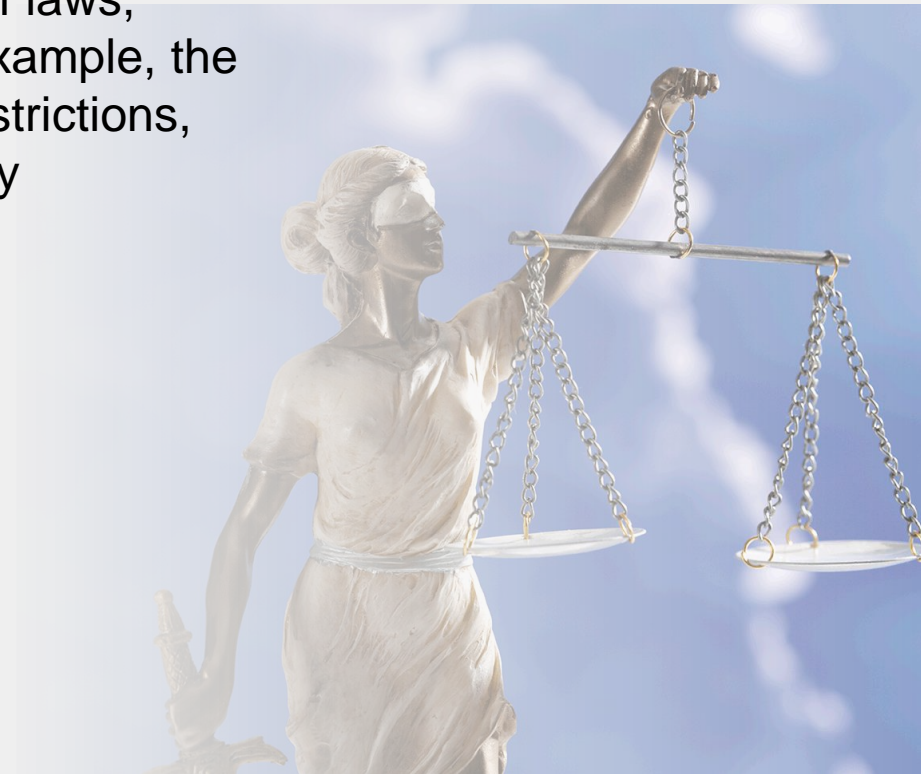
Operational risks are risks that can be managed through Trelleborg's self-assessment process, and that largely pertain to processes, assets and people.



Compliance and Legal Risks

Regulatory compliance, including standards

Due to the global nature of Trelleborg's operations, the Group 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.



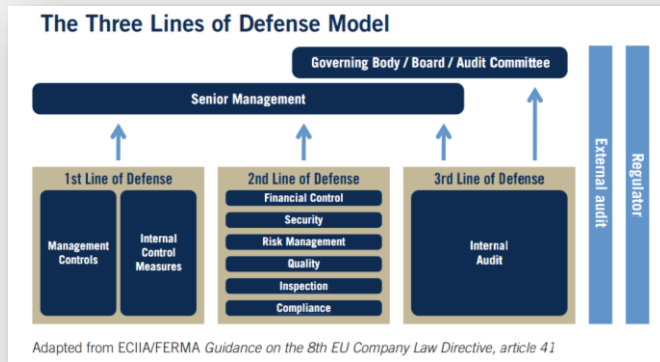
Reporting Risks

Reporting risks refer to the risk of incorrect reporting to authorities and the risk of misstatements in the Group's financial reporting to, for example, the stock market.



Risk Management within Trelleborg

Main segments | Our defense lines



1

Risk Management on a Business Area/Legal Entity Level

- Management Controls
- Internal Control

2

Risk Management on a Group Level

- ERM Board Processes
- Internal Excellence programs
- Policies and Procedures
- Financial Manual

3

Risk Management on a Board of Directors/Audit Committee Level

- Internal Control Audits
- Legal Audits
- HSE Audits
- Risk Assessment Audits

ROLES AND RESPONSIBILITIES IN THE 3 LINES OF DEFENSE MODEL

1st Line of Defense

Group, Business Areas,
Subsidiaries, Functions etc

On a day to day basis, **Management and Personnel** are responsible for designing, executing and maintaining an effective system of risk management and internal control, as well as monitoring and reporting on its effectiveness

Defined Processes, for example:

- Management Processes
- Business Process
- Supporting Processes

Defined Internal Controls:

- Entity-level Controls
- IT General Controls
- Process Controls, including Business and Financial Processes

Defined Control Environment, including Policies and other requirements for example:

- Code of Conduct
- Risk Policy
- Finance Policy
- Financial Manual
- Anti-corruption and Anti-bribery
- Health & Safety
- Information Technology
- Human Resource

**Risk
Management**

Compliance

Internal Control

Quality

**Controlling Security
IT Legal HR etc**

- Clarify Risk Management and Internal Control requirements
- Evaluate adherence to defined requirements

2nd Line of Defense

Risk Management, Compliance,
Internal Control, Quality,
Controlling, Security, IT, Legal, HR
Functions etc

Internal Audit

3rd Line of Defense

Internal Audit
Function

- Provide assurance in alignment with a risk based internal audit plan
- Provide advisory support on governance, risk management and internal control
- Provide guidance and follow up on remediation actions
- Report to management, Audit Committee and the Board of Directors as applicable

Risk Management | Business Area/Legal Entity Level

Risk Management on a Business Area/Legal Entity Level

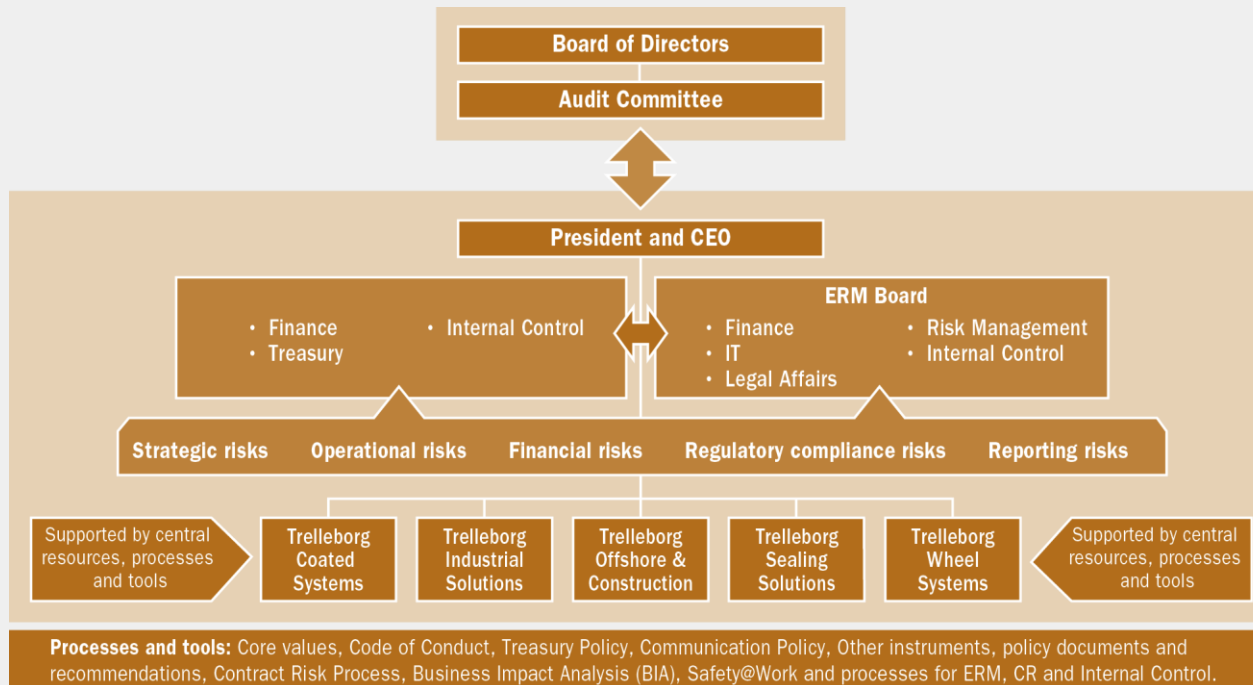
- All in managers Trelleborg's legal entities, business areas and business units are **responsible** for risk management in their own respective areas.
 - day-to-day work pertaining to operational and other relevant risks,
 - leading and developing risk management activities.
- The managers are **supported** 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.
- Internal audit
- Certain selected risk management activities - Group-wide, central Group resources can be allocated to selected risk focus areas.



Risk Management | Group Level

Enterprise Risk Management process (ERM process)

- **Purpose of the ERM process** is to provide a Group-wide overview of Trelleborg's risks, to evaluate them, provide a basis for decision-making and to enable follow-up of risks and recommendation of management.
- Appropriate balance between **preventive** and **risk-reducing** measures.



Scope for the ERM Board

ERM Board

1. Core ERM team
2. Annual planning/fixed schedule
3. Interviews with key individuals in order to get the business perspective of the risks
4. Identify core risks
5. Add risks to the process
6. Set action plans, monitor and follow up

Internal
Control

IT

Compliance Task
Force






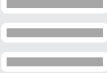

Product
Liability /
Contracts

Chemicals

Legal
Reviews

Process Risk
Audits

ERM Status | Main focus areas | Activities

Focus Area	Main Activities	Status
Enhanced Competition Law Compliance Program	<ul style="list-style-type: none"> • AGM processes are used as a control tool • Training and seminars • Export control, focus on embargoes and trade restrictions 	
Measures to prevent corruptive behavior (fraud and bribery)	<ul style="list-style-type: none"> • Fraud task force is established • Training and seminars • Agent and distributor agreement reviews and evaluations 	
Enhanced risk products/applications review system	<ul style="list-style-type: none"> • Work with each BA to develop product risk assessments to target high risk applications • Legal and Risk review including contract audits and risk review of processes • Tailor Risk Packs for target segments and develop Pricing 4 Risk at the same time 	
Prevent substandard or unsuitable contract terms	<ul style="list-style-type: none"> • Contract sales training sales managers in the Group • Include contract training in the Trelleborg University as a base line course offering • Legal review and contract audits –evaluation of 11 Commandments compliance 	
Natural Hazards review	<ul style="list-style-type: none"> • Always include reviews for Greenfield and M&A • Continuous monitoring of the locations that are affected • Add areas of concern 	
Jumbo Risks connected to environmental control	<ul style="list-style-type: none"> • Develop an internal Restricted Materials List (RML) • Align with Manufacturing Excellence and focus on use of chemicals • Continue to perform high level environmental audits for M&A targets 	
Protect critical sites/assets	<ul style="list-style-type: none"> • Risk audits made by insurance companies and internal audits • Greenfield policy implementation including major renovations • Add more HPR sites, improve Bottom 10 and our Critical locations 	

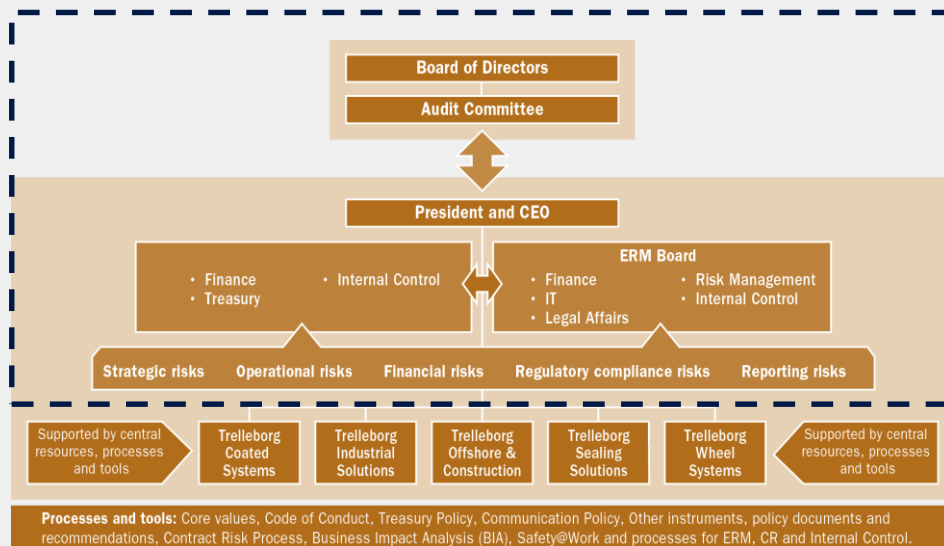
Risk Review Areas - Examples

Continuously evaluate our risks with products/industry/geography

Product	Industry	Geography	Analysis & Mitigation
Hoses	Chemical	USA	<ul style="list-style-type: none">• Instruction and Warnings•
Seals	Automotive	Germany	<ul style="list-style-type: none">••
Fenders	Marine / Design and Consulting	World-wide	<ul style="list-style-type: none">••
Life Science R&D	Life Science	USA	<ul style="list-style-type: none">••
Aerospace Applications	Aerosce / Private Launch (Space X)	USA, EU and China	<ul style="list-style-type: none">••
Ship to Shore Applications	Marine	World-wide	<ul style="list-style-type: none">••
Infrastructure Project Related Applications	Infrastructure / Marine	World-wide	<ul style="list-style-type: none">••
Marine Hoses	Offshore	World-wide	<ul style="list-style-type: none">••

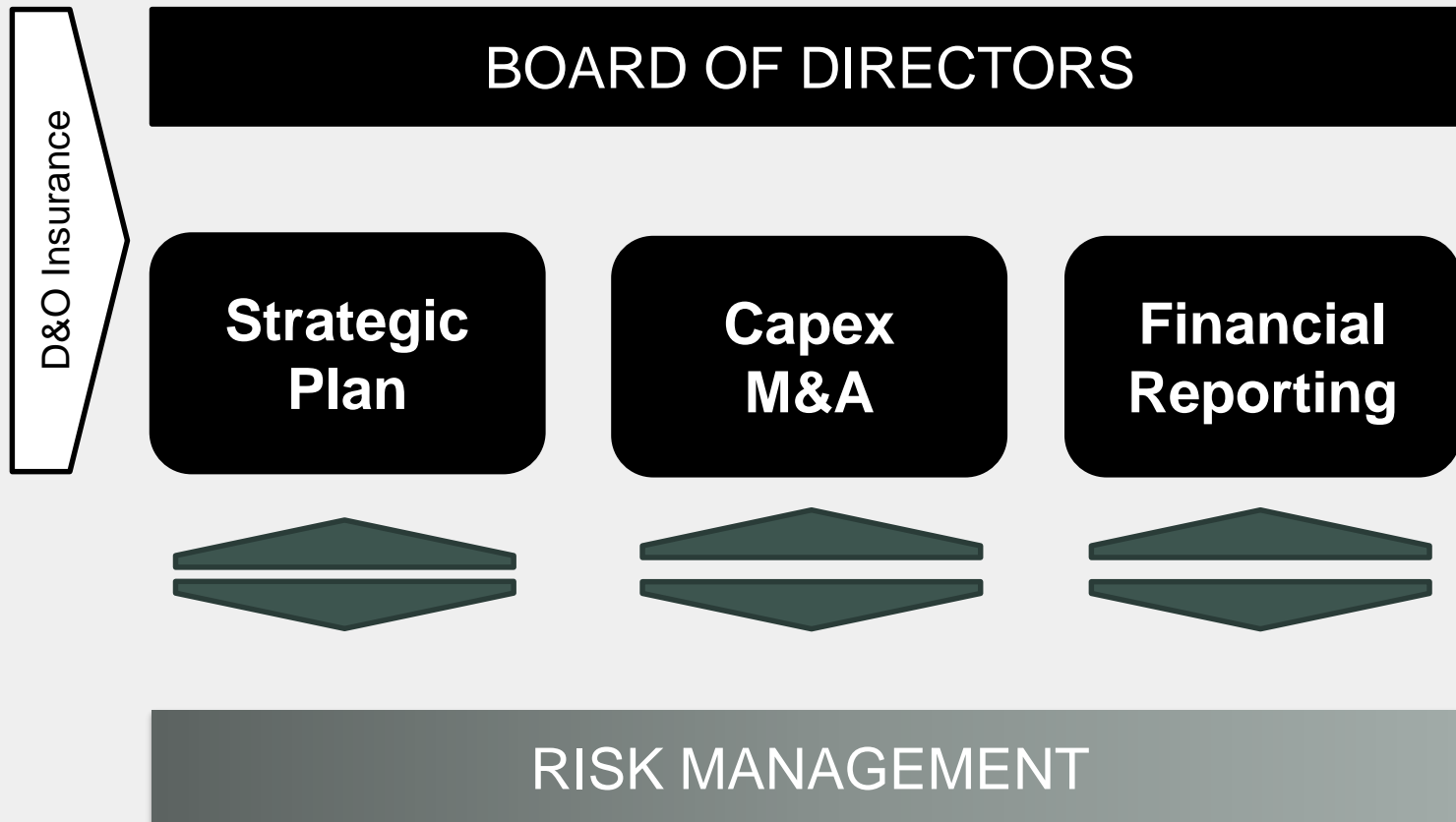
Risk Management | Board of Directors/Audit Committee Level

- Reporting from Group Management
- Reporting from ERM Board
- Input from Board of Directors/other stakeholders via yearly interviews



Risk Management | Board of Directors/Audit Committee Level

Risk Review Areas | Examples



Which risks are deemed to be the greatest?

Recall situations

- Greater exposure within certain product categories
-

Competition/anti-corruption - awareness and compliance

- Lack of compliance can be a great exposure for the business
-

Critical manufacturing sites

- Exposure of natural hazards, fires and potentially contaminated sites

Contractual challenges

- High risk applications, new areas, complex projects
-

Disruptive activities

- New markets, new fields of business, new business models, change of management
-

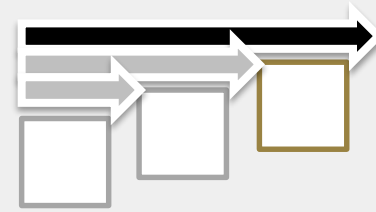
Perspective on risk | From micro to macro

Is the view upon this question different dependent upon if you ask?



Legal Entities | Business Area | Group Management | Board of Directors

The Future



Our Risk Universe continue to change over time in a faster pace

The Risk Universe

- Adapt the Risk Universe to the changing risk landscape facing companies
- Risk Universe to include known risks, emerging risks and black swans

Group Management Perspective

- Faster...
- More tailored and specialist solutions?
- Personal?
- Access to information /analytics?
- Robotics?

The Board Perspective

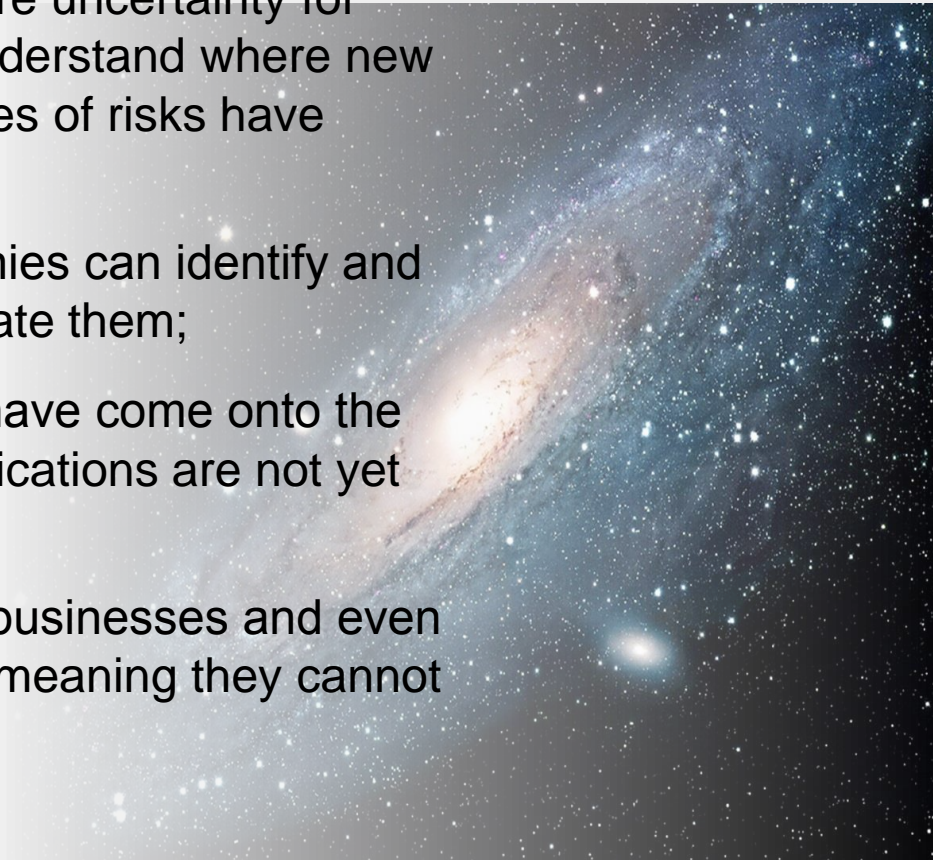
- Spend more time on risks that could impact the achievement of objectives
- Understand the changing risk landscape facing companies
- Risk response to known risks, emerging risks and black swans



The risk landscape facing companies is changing

Today's fast changing world creates more uncertainty for organizations and makes it harder to understand where new risks are going to come from. Three types of risks have been identified:

- The first is 'known risks' that companies can identify and plan for, in an effort to avoid or mitigate them;
- The second is 'emerging risks' that have come onto the radar, but whose full extent and implications are not yet completely clear;
- The third is 'black swans', which hit businesses and even society as a whole without warning, meaning they cannot be predicted or avoided.*





Thank You!
Questions are welcome