

# Report by the Board of Directors on internal control

The responsibility of the Board of Directors for internal control is regulated by the Swedish Companies Act and the Swedish Code of Corporate Governance. Internal control over financial reporting is included as a part of the overall internal control in Trelleborg, and is a central component of Trelleborg's corporate governance.

## Internal Control over financial reporting.

The following description represents the Board of Directors' report on internal control over financial reporting. The report has been examined by the company's auditor.

Internal Control over financial reporting aims to provide reasonable assurance of the reliability of external financial reporting in the form of interim reports, annual reports and year-end reports, and to ensure that external financial reporting is prepared in accordance with legislation, applicable accounting standards and other requirements on listed companies.

**Risk assessment.** Trelleborg's risk assessment of financial reporting aims to identify and evaluate the most significant risks that affect internal control over financial reporting in the Group's companies, business areas and processes. The risk assessment results in control targets that ensure that the fundamental demands placed on external financial reporting are fulfilled and comprise the basis for how risks are to be managed through various control structures. The risk assessment is updated on an annual basis under the direction of the Internal Control staff function and the results are reported to the Audit Committee.

Risk assessment in relation to other areas is carried out within the framework of the Enterprise Risk Management process, which is described on pages 38-43.

**Control environment.** The Board of Directors bears overall responsibility for internal control over financial reporting. The Board has established a written work plan for the Board of Trelleborg that defines the Board's responsibilities and regulates the internal distribution of work between itself and its committees. The Board has appointed an Audit Committee from within its ranks to represent

the Board in matters concerning the monitoring of the company's financial reporting and, in relation to the financial reporting, to monitor the efficiency of the company's internal control, internal audit and risk management. The Audit Committee shall also represent the Board by keeping itself informed in matters relating to the audit of the annual report and the consolidated financial statements, reviewing and monitoring the auditor's impartiality and independence and providing assistance when preparing proposals regarding the appointment of auditor for approval by the Annual General Meeting. The Board has also established instructions for the President of Trelleborg and instructions for financial reporting to the Board of Trelleborg. The responsibility for maintaining an effective control environment and the day-to-day work on internal control is delegated to the President.

The Group's Internal Control staff function serves as the Group's internal audit function and reports to the Audit Committee and the Group's CFO. The function focuses on developing, enhancing and securing internal control in the Group's financial reporting by proactively concentrating on the internal control environment and by examining the effectiveness of internal control.

Internal governance instruments for financial reporting primarily comprise the Trelleborg's Treasury Policy, Communication Policy, Finance Manual (defining the accounting and reporting rules), and the Group's definition of processes and minimum requirements for good internal control over financial reporting.

**Control structures.** The most significant risks identified in terms of financial reporting are managed through control structures in companies, business areas and processes. Management may entail that these risks are accepted, reduced

or eliminated. The control structures aim to ensure efficiency in the Group's processes and good internal control and are based on the Group's approximately 280 minimum requirements for good internal control in the seven defined, significant processes that are shown in the diagram on page 55. The minimum requirement encompasses about 100 subsidiaries of which the largest approximately 45 companies shall apply both A and B levels in respect of minimum requirements for good internal control and the approximately 55 smaller companies only the A level.

The control structures in the accounting and reporting process, which are significant for the reliability of the financial reporting, contain 50 of the around 280 minimum requirements for good internal control.

## Information and Communication.

Information and communication regarding internal steering instruments for financial reporting are available to all employees concerned on Trelleborg's intranet. Information and communication relating to financial reporting is also provided through training.

In the Group, there is a process by which all the relevant employees confirm awareness of and compliance with the Group's governance instruments.

The Group's CFO and the Head of the Internal Control staff function report the results of their work on internal control as a standing item on the agenda of the Audit Committee's meetings. The results of the Audit Committee's work in the form of observations, recommendations and proposed decisions and measures are continuously reported to the Board.

External financial reporting is performed in accordance with relevant external and internal governance instruments.

**Monitoring.** Monitoring to ensure the effectiveness of internal control over financial reporting is conducted by the Board, the Audit Committee, the President, Group Management, the Internal Control staff function, Group Treasury and the Group's companies and business areas. Monitoring includes the follow-up of monthly financial reports in relation to budget and targets, quarterly reports with results from self-assessments in the Group's companies and business areas, and results from internal audits. Monitoring also encompasses following up observations reported by the company's auditor. The Control function works in accordance with an annual plan that is approved by the Audit Committee. The plan is based on the risk analysis and encompasses prioritized companies,

business areas and processes, as well as work programs and budgets.

**Activities in 2012.** In 2012, the Internal Control Group staff function conducted 26 (37) internal audits in 12 (12) countries, of which 12 (9) were IT security audits. Focus was on Europe, India, Sri Lanka and the U.S. Most of the internal audits were conducted by the Internal Control staff function in cooperation with internal resources from other staff functions with specialist competence in such areas as purchasing and finance, or jointly with controllers from various business areas. Internal audits of IT security were carried out by the head of the IT Group staff function together with external consultants.

In 2012, the Internal Control staff

function worked on a broad front with reviews of all processes. A particular focus area for 2012 was the management of project accounting.

**Focus in 2013.** In 2013, the Internal Control staff function will continue to work broadly with the review of all processes and with a focus on project accounting in the relevant companies.

Geographically, the Internal Control staff function will focus more intently on high-growth markets, although about half of the internal audits will take place in Europe.

*Trelleborg, February 13, 2013  
Board of Directors of Trelleborg*

	Company 1	Company 2	Business area 1	Business area 2	Purchasing	Treasury	Etc.
	Self evaluation		Internal audits		Training/Tools		
<b>Financial reports and reporting processes</b>	<ul style="list-style-type: none"> <li>Group-wide reporting system with quarterly feedback from subsidiaries</li> <li>Companies respond to how they comply with the Group's minimum requirements for good internal control in selected processes</li> </ul>		<ul style="list-style-type: none"> <li>Internal audits are conducted by the Internal Control staff function in cooperation with internal resources from other staff functions and external consultants</li> </ul>		<ul style="list-style-type: none"> <li>Training programs in defined processes relating to minimum requirements for good internal control are carried out when necessary</li> </ul>		
<b>Purchasing process</b>	<ul style="list-style-type: none"> <li>Deficiencies are identified, measures are planned and implemented by the companies</li> </ul>		<ul style="list-style-type: none"> <li>Internal audits of IT security are carried out by the head of Group IT together with external consultants</li> </ul>		<ul style="list-style-type: none"> <li>The purpose of the training programs is to raise awareness and understanding of efficient processes and good internal control</li> </ul>		
<b>Inventory process</b>	<ul style="list-style-type: none"> <li>Encompasses approximately 100 subsidiaries, of which the largest approximately 45 companies shall apply both A and B levels in terms of minimum levels for good internal control and the approximately 55 smaller companies will only apply the B level</li> </ul>		<ul style="list-style-type: none"> <li>Comprises seven selected processes and about 280 minimum requirements for good internal control</li> </ul>		<ul style="list-style-type: none"> <li>Training programs are a forum for the exchange of experience and sharing best practice</li> </ul>		
<b>Sales process</b>	<ul style="list-style-type: none"> <li>Covers seven selected processes and about 280 minimum requirements for good internal control</li> </ul>		<ul style="list-style-type: none"> <li>Internal audits result in observations, recommendations and proposals for decisions and measures</li> </ul>		<ul style="list-style-type: none"> <li>Training programs in defined processes related to minimum requirements for good internal control are also held as an integrated part of the internal audits</li> </ul>		
<b>Process for property, plant and equipment</b>	<ul style="list-style-type: none"> <li>All relevant employees annually confirm in writing their knowledge of, and compliance with, the Group's internal governance instruments.</li> </ul>		<ul style="list-style-type: none"> <li>Identified deficiencies are followed up on a quarterly basis by business area controllers and the Internal Control staff function.</li> </ul>		<ul style="list-style-type: none"> <li>A section on the intranet section is available to provide employees access to standardized tools and documents, as well as examples of business solutions.</li> </ul>		
<b>IT security process</b>							
<b>Salary management process, incl. pensions and other compensation</b>							