Notes – Group

1 General accounting policies

The Parent Company, Trelleborg AB (publ) is a limited liability company with its registered office in Trelleborg, Sweden. The Parent Company is listed on Nasdaq Stockholm. The Board of Directors resolved to adopt these consolidated financial statements for publication on February 16, 2018.

Basis of preparation

The Trelleborg Group's financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Corporate Groups and the International Financial Reporting Standards (IFRS) and IFRIC interpretations, as approved by the EU.

The Group's financial statements have been prepared in accordance with the cost method, with the exception of certain financial instruments that were measured at fair value.

The Parent Company applies the same accounting policies as the Group, except in the instances stated below under "Parent Company's accounting policies." The differences arising between the Parent Company and the Group's accounting policies are attributable to limitations on the ability to apply IFRS in the Parent Company, primarily as a result of the Swedish Annual Accounts Act.

Amendments to IAS 1 Presentation of Financial Statements are being made within the framework of the IASB's Disclosure Initiative, a project aimed at improving disclosures in financial statements. The amendments clarify a number of issues, including materiality, separate disclosure and subtotals, and the order of notes. For Trelleborg, this has involved a rearrangement of the note structure, with certain applicable accounting policies presented under the respective notes since 2016. In addition, general accounting policies were applied that are presented below.

These policies were applied consistently for all years presented, unless otherwise stated.

Consolidated financial statements

Group

The consolidated financial statements include the Parent Company and all subsidiaries and joint ventures/associated companies. Intra-Group transactions, balance-sheet items and income and costs for intra-Group transactions are eliminated. Gains and losses resulting from intra-Group transactions and which are recognized in assets are also eliminated.

Translation of foreign currencies

Functional currency and reporting currency

Items included in the financial statements of the various entities of the Group are valued in the currency used in the primary economic environment of each company's operations (functional currency). Swedish kronor (SEK), which is the Parent Company's functional currency and presentation currency, is utilized in the consolidated financial statements.

Transactions and balance-sheet items

Transactions in foreign currency are translated into the functional currency in accordance with the exchange rate prevailing on the transaction date. Exchange rate gains and losses resulting from settlement of such transactions and from the translation at the closing rate of monetary assets and liabilities in foreign currency are recognized in profit and loss. An exception is made when hedging transactions meet the requirements for cash-flow hedging or net-investments hedging whereby gains and losses are recognized directly against other comprehensive income after adjustment for deferred taxes. Reversal to profit and loss takes place at the same time as the hedged transaction impacts profit and loss.

Subsidiaries

The earnings and financial position of the Group subsidiaries, joint ventures and associated companies (none of which use a high-inflation currency) are prepared in the functional currency of each company. In the consolidated financial statements, the earnings and financial position of foreign subsidiaries are translated into Swedish kronor (SEK) in accordance with the following:

Income and expenses in the income statements of subsidiaries are translated at the average exchange rate for the applicable year, while assets and liabilities in the balance sheets are translated at the closing rate. Exchange rate differences arising from translation are recognized as a separate item in other comprehensive income. Translation differences arising on financial instruments, which are held for hedging of net assets in foreign subsidiaries, are also entered as a separate item in other comprehensive income. On divestment, the accumulated translation differences attributable to the divested unit, previously recognized in other comprehensive income, are realized in the consolidated income statement in the same period as the gain or loss on the divestment.

Goodwill and adjustments of fair value arising in connection with the acquisition of foreign operations are treated as assets and liabilities of these operations, and are translated at the closing rate.

Cash-flow statements

Cash-flow statements are prepared in accordance with the indirect method.

Other accounting and valuation policies

Non-current assets and non-current liabilities comprise amounts expected to be recovered or paid more than 12 months from the closing date. Current assets and current liabilities comprise amounts expected to be recovered or paid within 12 months of the closing date. Assets and liabilities are measured at cost, unless otherwise indicated.

New and amended standards applied from January 1, 2017

Amendments to IAS 7 Statement of Cash Flows

The amendments have entailed a new disclosure requirement to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The disclosure requirement relates to changes that arise from both cash inflows and cash outflows as well as non-cash changes (for example, changes resulting from acquisitions and translation differences). The changes are to be applied prospectively for fiscal years beginning on or after January 1, 2017.

Other amended and new IFRS that came into effect in 2017 did not have any material impact on the Group's accounts.

New standards and interpretations that have not yet come into effect

A number of new and amended IFRS have not yet come into effect and were not applied prospectively in connection with the preparation of the Group's and Parent Company's financial statements. The standards that could potentially impact the Group's and Parent Company's financial statements are described below. Other new or amended standards or interpretations are not expected to have any impact on the Group's or Parent Company's financial statements.

IFRS 9 Financial Instruments IFRS 9 encompasses the recognition of financial assets and liabilities and replaces IAS 39 Financial Instruments: Recognition and Measurement. Similar to IAS 39, financial assets are classified in various categories, some of which are measured at amortized cost and others at fair value. IFRS 9 introduces other categories than those specified in IAS 39. Classification under IFRS 9 is based in part on the instruments' contractual cash flows and in part on the company's business model. IFRS 9 also introduces a new model for impairment of financial assets. The purpose of the new model is to recognize credit losses earlier than under IAS 39. In relation to financial liabilities, IFRS 9 is largely consistent with IAS 39. However, for liabilities recognized at fair value, the part of the change in fair value attributable to own credit risk is to be recognized in other comprehensive income instead of profit and loss as long as this does not give rise to inconsistency in the reporting. Changed criteria for hedge accounting may result in more financial hedging strategies meeting the requirements for hedge accounting under IFRS 9 than under IAS 39.

IFRS 9 Financial Instruments takes effect on January 1, 2018 and will be applied by the Group. A project was conducted within Trelleborg on the basis of the following areas: classification, measurement and documentation of financial liabilities and assets, adjustment of documentation relating to hedge accounting to the new regulation and calculation of the effects of the transition to a new model for recognition of anticipated credit losses, known as the expected loss model. The conclusion is that the new standard will not have any material impact on the Trelleborg Group's reporting. Given the immaterial effects of the new standard, previous periods will not be restated. In the first quarter of 2018, the Group intends to recognize a non-recurring item of approximately SEK 5 M in equity on account of the modified calculation model for anticipated credit losses on accounts receivable and about SEK 1 M for anticipated credit losses in cash and cash equivalents.

IFRS 15 – Revenue from Contracts with Customers IFRS 15 will replace IAS 18 Revenue, IAS 11 Construction Contracts and associated interpretations. The new standard introduces a new model for revenue recognition (five-step model) that is based on when control of a good or service is transferred to the customer. The core principle is that an entity is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model consists of the following framework:

Step 1 Identify the contract(s)

Step 2 Identify the performance obligations

Step 3 Determine the transaction price

Step 4 Allocate the transaction price to the performance obligations

Step 5 Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15 contains more guidance and comprehensive disclosure requirements. Trelleborg has chosen to retroactively restate the 2017 fiscal year. During the fiscal year, the Group completed its IFRS 15 project, which involved taking an inventory of customer contracts and assessing these in accordance with the five-step model. The review concluded that the transition to IFRS 15 will not have any material impact on the Group's financial statements.

IFRS 16 Leases IFRS 16 replaces IAS 17 as of January 1, 2019. According to the new standard, the lessee is to recognize the obligation to pay lease fees as a lease liability in the balance sheet. The right to use the underlying asset during the lease period is recognized as an asset. Depreciation of the asset is recognized in profit and loss as is the interest on the lease liability. Paid lease fees are recognized as payment of interest and repayment of the lease liability. The standard provides exemption for leases with a duration of less that 12 months (short-term leases) and leases for low-value assets.

During the year, the Group commenced an evaluation of the effects of the standard. Both recognized assets and liabilities are expected to increase. The income statement and financing activities in the cash flow statement will also be affected, but it has not yet been possible to carry out a reliable estimation of the relevant amounts.

Critical accounting estimates and judgments

Company management and the Board of Directors make estimates and assumptions about the future. These estimates and assumptions impact recognized assets and liabilities, as well as revenue and expenses and other disclosures, including contingent liabilities. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The conclusions reached in this manner form the basis for decisions concerning the carrying amounts of assets and liabilities where these cannot be determined by means of other information. The actual outcome may diverge from these estimates if other assumptions are made, or other conditions arise. Estimates and assumptions that may have a significant effect on the Group's earnings and financial position are provided for each Note where appropriate.

Parent Company's accounting policies

The financial statements of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2. In its financial reporting, the Parent Company applies International Financial Reporting Standards (IFRS) that have been endorsed by the EU where this is possible within the framework of the Swedish Annual Accounts Act and with consideration of the link between accounting and taxation. This entails the following differences between accounting in the Parent Company and the Group:

- The Parent Company recognizes its pension obligations in accordance with the Pension Obligations Vesting Act. Adjustments in accordance with IFRS are made at the Group level.
- Group contributions are recognized as appropriations.
- Shareholders' contributions to subsidiaries are added to the value of shares and participations in the balance sheet, after which impairment testing is conducted.
- Liabilities in foreign currencies that represent effective hedging instruments for the Parent Company's investments in subsidiaries were measured at the historical rate of exchange. Gains or losses on liabilities that are replaced are recognized as other assets or liabilities until such time as the net investment has been divested.