1 General information

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 19, 2016.

Summary of important accounting policies

The most important accounting policies applied in the preparation of these consolidated financial statements are described below. These policies were applied consistently for all years presented, unless otherwise stated.

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.

New and amended standards applied by the Group

Standards, amendments and interpretations that come into effect for fiscal years beginning on or after January 1, 2015 are deemed to have no material impact on the consolidated financial statements:

New standards and interpretations that have not yet been applied by the Group

A number of new standards, amendments and interpretations of existing standards that apply to the fiscal year commencing after January 1, 2015 were not applied by the Group in the preparation of these consolidated financial statements. However, none of these standards, amendments or interpretations of existing standards are expected to have any material effect on the Group apart from those presented below.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that address classification and measurement of financial instruments. While IFRS 9 retains a mixed-measurement model, it simplifies this method in some regards. There will be three measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The manner in which an instrument will be classified depends on the company's business model and the instrument's characteristics. Investments in equity instruments are to be recognized at fair value through profit and loss, but there is also the possibility upon initial recognition to recognize the instrument at fair value through other comprehensive income. The instrument will not subsequently be reclassified to profit and loss upon divestment. IFRS 9 also introduces a new model for calculating the credit loss reserve that is based on expected credit losses. The classification and measurement of financial liabilities have not been changed except for when a liability is measured at fair value through profit and loss on the basis of the fair value alternative. In such a case, changes in value attributable to changes in credit risk are to be recognized in other comprehensive income. IFRS 9 reduces the requirements for application of hedge accounting by replacing the 80-125 criteria with requirements for the establishment of a financial relationship between the hedging instrument and the hedged item and by stipulating that the hedging ratio should be the same as the figure applied in connection with risk management. Changes were also made to hedging documentation compared with the requirements in IAS 39. The standard is to apply to fiscal years beginning on or after January 1, 2018. Prospective application is permitted. Work is under way in the Group to assess the effects of implementing the standard.

IFRS 15 Revenue from Contracts with Customers regulates the manner in which revenue is recognized. The principles on which IFRS 15 is based aim to provide users of financial reports with more useful information on the company's revenues. The expanded disclosure obligation entails that information must be submitted concerning the category of revenue, settlement date, uncertainty linked to revenue recognition and cash flow attributable to the company's customer contracts. According to IFRS 15, revenue must be recognized when the customer gains control of the sold goods or services and has the opportunity to use or gain benefit from the goods or services. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the associated SIC and IFRIC guidance. IFRS 15 comes into effect on January 1, 2018. Early adoption is permitted. Work is under way in the Group to assess the effects of implementing the standard.

IFRS 16 Leases. In January 2016, the IASB published a new standard for leases, which will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires, with a few exceptions, that assets and liabilities attributable to all leases be recognized in the balance sheet. This method of recognition is based on the approach that the lessee has a right to use an asset for a specific period of time and an obligation to pay for this right. In all material respects, the recognition of the lessor will remain unchanged. The standard is to apply to fiscal years beginning on or after January 1, 2019. Early adoption is permitted. The standard has not yet been adopted by the EU. The Group has not yet assessed the effects of IFRS 16.

No other IFRS or IFRIC interpretations that have not yet come into effect are expected to have any material impact on the Group.

Consolidated financial statements

Group

The consolidated financial statements include the Parent Company and all subsidiaries and joint ventures/associated companies.

Subsidiaries

Subsidiaries are all companies (including special purpose entities, SPEs) in which the Group has the right to formulate financial and operating strategies in a manner commonly accompanying participations amounting to more than half of the voting rights. The occurrence and effect of potential voting rights that are currently available to utilize or convert are taken into account in the assessment of whether the Group exercises controlling influence over another company. The Group also determines that control exists despite not having a participation exceeding half of the voting rights but for which it nonetheless is able to govern financial and operating strategies in the company.

Subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group. They are excluded from the consolidated financial statements from the date on which the control ceases.

The purchase method is used to recognize the Group's business combinations. The consideration for the acquisition of a subsidiary comprises the fair value of transferred assets, liabilities that the Group assumes from previous owners of the acquired company and the shares issued by the Group. The consideration also includes the fair value of all assets or liabilities that result from an agreement covering a contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition. For each acquisition, that is, on an acquisition-by-acquisition basis, the Group determines whether non-controlling interest in the acquired company is to be recognized at fair value or at the shareholding's proportional share in the carrying amount of the acquired company's identifiable net assets.

Acquisition-related costs are expensed as they arise.

If the business combination is completed in several steps, the previous equity interests in the acquired company are measured at fair value at the date of acquisition. Any gain or loss arising is recognized in profit and loss.

Each contingent consideration to be transferred by the Group is recognized at fair value at the date of acquisition. Subsequent changes to the fair value of a contingent consideration classed as an asset or liability are recognized in line with IAS 39, either in profit and loss or in other comprehensive income. Contingent considerations classed as equity are not remeasured and the subsequent settlement is recognized in equity.

Goodwill is initially measured as the amount by which the total purchase consideration and fair value of non-controlling interests exceeds the value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of the acquired company's net assets, the difference is recognized directly in profit and loss.

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. Where necessary, the accounting policies for subsidiaries have been adjusted to guarantee consistent application of the Group's policies.

When the Group no longer holds a controlling influence, each remaining holding is measured at fair value at the date on which the Group ceased to hold the controlling influence. The change in the carrying amount is recognized in profit and loss. The fair value is used as the initial carrying amount and comprises the basis for the future recognition of the remaining holdings as an associated company, joint venture or financial asset. All amounts pertaining to the divested unit that were previously recognized in other comprehensive income are recognized as if the Group had directly divested the attributable assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit and loss.

Associated companies

Associated companies are companies in which the Parent Company directly or indirectly has a significant, but not controlling, influence, generally corresponding to between 20 and 50 percent of the voting rights. Investments in associated companies are recognized in accordance with the equity method and are initially recognized at cost. The Group's recognized value of the holdings in associated companies includes the goodwill

identified in conjunction with the acquisition, net after any recognition of impairment losses. The associated companies essentially carry out the same operations as the Group's other business activities and, accordingly, the share of profit in these companies is recognized in operating profit.

The Group's share in the post-acquisition results of an associated company is recognized in profit and loss in the item "Share of profit or loss in associated companies," and is included in operating profit. Accumulated post-acquisition changes are recognized as changes in the carrying amount of the investment. When the Group's share in the losses of an associated company amount to, or exceed, the Group's investment in the associated company, including any unsecured receivables, the Group does not recognize further losses unless obligations have been incurred or payments made on behalf of the associated company. Unrealized gains on transactions between the Group and its associated companies are eliminated in proportion to the Group's participation in the associated company. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

Joint ventures

The Group applies IFRS 11 Joint Arrangements from January 1, 2014. Under IFRS 11, a holding in a joint arrangement is classified as either a joint operation or a joint venture depending on the contractual rights and obligations each investor has. Trelleborg has assessed its joint arrangements and determined them to be joint ventures. Joint ventures are recognized in accordance with the equity method. The Group's participation in TrelleborgVibracoustic is reported as a joint venture and the participation in profit is recognized in profit and loss in the lines "Participations in TrelleborgVibracoustic" and "Tax attributable to TrelleborgVibracoustic" and is included in operating profit.

The equity method entails that holdings in joint ventures are to be initially recognized in the consolidated statement of financial position at cost. The carrying amount is subsequently increased or decreased to take into account the Group's share of profit and other comprehensive income from its joint ventures after the date of acquisition. The Group's share of profit is included in consolidated earnings, and the Group's share of other comprehensive income is included in other comprehensive income in the Group. When the Group's share of the losses in a joint venture is the same amount or exceeds the holdings in this joint venture (including all long-term receivables that in reality comprise part of the Group's net investment in the joint venture), the Group does not recognize any additional losses, unless the Group has undertaken commitments or has made payments on behalf of the joint venture.

Transactions with non-controlling interests

Transactions with non-controlling interests are treated as transactions with the Group's shareholders. This means that, in connection with an acquisition from a non-controlling interest, the difference between the purchase consideration paid and the actual share acquired of the carrying amount of the subsidiary's net assets is recognized in equity. Gains and losses on divestments to non-controlling interests are also recognized in equity.

Discontinuing or divested operations

Discontinuing or divested operations comprise significant parts of operations and assets that the Group has determined to fully, or almost fully, discontinue or divest through disposal or distribution. These assets are recognized at the lower of the carrying amount and fair value, less selling expenses. These non-current assets are not depreciated from the date of reclassification.

Items affecting comparability

Non-recurring expenses related to the action programs aimed at enhancing the Group's efficiency and structure are recognized as items affecting comparability. A project is classified as affecting comparability only when it amounts to an equivalent of at least SEK 20 M and it has been approved by the Board. In addition to the action programs, costs and income can, in exceptional cases, also be classified as items affecting comparability. Exceptional items refers to material income or expense items recognized separately due to the significance of their nature or amount.

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.

Income tax

Income tax in the income statement includes both current tax and deferred tax. Income tax is recognized in profit and loss except when an underlying transaction is recognized directly against equity or comprehensive income, in which case the related tax effect is also recognized in equity or comprehensive income. Current tax is tax payable or recoverable for the current year. This also includes adjustment for current tax attributable to prior periods. Deferred tax is recognized in its entirety and calculated using the balance sheet approach on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is measured at the nominal amount and calculated by applying the tax rates and tax rules enacted or announced at the closing date. Temporary differences arise in business combinations on the differences between the consolidated value of assets and liabilities and their tax bases.

Temporary differences that arise on initial recognition of an asset or liability, and which are not attributable to a business combination and have not affected recognized or taxable earnings, do not entail a deferred tax asset or tax liability in the balance sheet. Temporary differences are not recognized for participations in subsidiaries and joint ventures/associated companies, as the Group can control the date when these temporary differences are reversed and when it is unlikely that they will be reversed in the foreseeable future.

Deferred tax assets are recognized insofar as it is probable that tax surpluses will be available in the future against which temporary differences can be utilized.

Segment reporting

Operating segments are reported in a manner consistent with the internal reports presented to the chief operating decision maker. The chief operating decision maker is the function responsible for the allocation of resources and the assessment of the operating segments' earnings. For the Group, this function has been identified as the President. The division of operating segments corresponds to the Group's business areas. For a description of the various segments, see *pages 12-21*.

The Group is divided into five business areas: Trelleborg Coated Systems, Trelleborg Industrial Solutions, Trelleborg Offshore & Construction, Trelleborg Sealing Solutions and Trelleborg Wheel Systems.

It also includes Group items defined as central staff functions and two operations, the first of which is Group-wide and the second of which is in the build-up and integration phase.

Segment reporting for the business areas comprises operating revenues and expenses and capital employed. Capital employed encompasses all property, plant and equipment, intangible assets and participations in associated companies, plan assets, inventories and operating receivables, less operating liabilities including pension liabilities.

The business areas are charged with Group-wide expenses amounting to 0.4 percent of external sales, which does not affect recognized cash flows.

In the presentation of the Group's geographical markets, the operations have been subdivided as follows: Western Europe, Rest of Europe, North America, South and Central America, and Asia and Rest of the World.

Net sales are recognized according to customer location, while assets and capital expenditures are recognized according to the actual physical location of these assets.

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.

Revenue recognition
Revenue comprises the fair value of the amount that has been received, or will be received, for goods and services sold in the Group's operating activities, less VAT and discounts, and after elimination of intra-Group sales. Revenue is recognized as follows:

Sales of goods
Revenue from sales of goods is recognized during the period in which the product is delivered and when all significant risks and rewards related to ownership have been transferred to the buyer. Accordingly, the Group no longer has any involvement in the goods that is ownership-related, nor does it exercise any real control over the goods when revenue is recognized. Sales are recognized after deduction of VAT and are adjusted for any discounts.

Contract and service assignments
Revenue recognition is conducted using the percentage-of-completion method. Revenue is recognized on the basis of the stage of completion whereby it is probable that the Group will obtain the financial benefits related to the assignment, and when a reliable calculation can be made. Anticipated losses are expensed immediately.

Royalty revenue
Royalty revenue is recognized on an accruals basis in accordance with the financial conditions of the relevant agreements.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income
Dividend income is recognized when the right to receive payment has been determined.

Other operating income and expenses
Other operating income and expenses include external rental revenue, capital gains from the sale and scrapping of property, plant, equipment and tools, exchange rate differences, derivatives and also gains or losses on divestments of associated companies and subsidiaries.

Borrowing costs
The Group capitalizes borrowing costs that are directly attributable to acquisitions, construction or the production of a qualifying asset requiring a substantial period of time to complete for use or sale, as a portion of the cost of that asset. Other borrowing costs are expensed in the period in which they occur. No borrowing costs were capitalized in 2015.

Transaction costs for loans raised are recognized over the duration of the loan applying the effective interest method.

Intangible assets
Goodwill
The amount by which the transferred consideration, any non-controlling interests and the fair value of previous shareholdings on the date of transfer exceeds the fair value of the Group's share of identifiable acquired net assets is recognized as goodwill. Goodwill on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill on acquisition of joint ventures/associated companies is included in the value of the investment in the associated company and is tested, taking into account possible impairment losses, as a portion of the value of the total investment. Goodwill that is recognized separately is tested annually to identify possible impairment losses and is measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of a unit include the remaining carrying amount of the goodwill attributable to the disposed unit. In the impairment tests, goodwill is allocated to cash-generating units. The allocation is made between the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination giving rise to the goodwill item. These cash-generating units comprise the Group's investments in each primary segment.

Research and development
Expenditure for development and research is expensed when it arises. Expenditure for development and testing of new or significantly improved materials, products, processes or systems is capitalized once the following criteria have been fulfilled:

- it is technically feasible to complete the intangible asset such that it can be utilized or sold,
- management intends to complete the intangible asset and utilize or sell it,
- there are prerequisites in place to utilize or sell the intangible asset,
- it can be demonstrated that the intangible asset will generate probable, future economic benefits,
- adequate technical, economic and other resources are available to complete the development and to utilize or sell the intangible asset, and
- the expenditure associated with the intangible asset during its development can be calculated in a reliable manner.

Other development expenditure is expensed as incurred. Development expenditure previously expensed is not capitalized in subsequent periods. Capitalized development expenditure is recognized as intangible assets. Capitalized development expenditure has a finite useful life and is amortized straight-line from the point at which commercial production of the product commences. Amortization is based on the anticipated useful life, normally a period of five years.

Other intangible assets
Other intangible assets include externally acquired assets, such as capitalized IT expenditure, patents, brands and licenses. Assets with a finite useful life are measured at cost less accumulated amortization and impairment losses. Subsequent expenditure for an intangible asset is added at carrying amount or recognized as a separate asset, depending on which is suitable, only when it is probable that future economic benefits associated with the asset will accrue to the Group and the cost of the asset can be reliably measured. Other expenditure is expensed as incurred. Other intangible assets are amortized straight line over their useful life, normally five to 15 years.

Property, plant and equipment (PPE)
PPE primarily encompasses plants and buildings. PPE is measured at cost less accumulated depreciation and, where applicable, impairment losses. Cost includes expenses directly attributable to the acquisition of the asset. Cost may also include transfers from equity of gains and losses from cash-flow hedges relating to purchases in foreign currency, if these meet the requirements for hedge accounting.

Depreciation is applied until the estimated residual value is reached. The residual value and useful life of the assets are assessed on each closing date, and, if necessary, are adjusted.

The carrying amount of an asset is immediately impaired to the recoverable value if the carrying amount of an asset exceeds its estimated recoverable value. See the section relating to impairment losses.

Depreciation is based on cost and is allocated on a straight-line basis over the asset's estimated useful life.

The following depreciation rates apply:

Land	Not depreciated
Buildings	1.5-6 percent
Machinery	5-33 percent
Tools and molds	33 percent
Office equipment	10-20 percent

Subsequent expenditure for a PPE is added to the carrying amount or recognized as a separate asset, depending on which is suitable, only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured in a reliable manner. The carrying amount of the replaced portion is derecognized from the balance sheet. All other forms of repairs and maintenance are expensed as incurred.

Gains and losses on disposals are determined by comparing the sales proceeds and the carrying amount, and are recognized in profit and loss as other operating income and other operating expenses, respectively.

Leasing
Lease contracts for non-current assets are classified as either finance leases or operating leases. Finance leases apply when the financial risks and rewards related to ownership are, for all practical purposes, transferred to the Group. At the inception of the lease period, financial leases are recognized on the basis of the leased asset's fair value, or at the present value of the lease payments, whichever is lower. The leased asset is recognized as a non-current asset. Each lease payment is divided into amortization of the liability and financial costs to achieve a fixed interest rate for the recognized liability. The equivalent payment undertaking, less financial costs, is included as an interest-bearing liability. The interest portion of the financial costs is recognized in profit and loss over the lease term, so that each reporting period is charged with an amount equivalent to a fixed interest rate for the liability recognized for each period. Non-current assets held under finance lease agreements are depreciated in accordance with the same principles applicable to other assets of the same type, according to plan, or over the leasing period if it is shorter and the right of ownership is not expected to be transferred at the end of the leasing period. Lease agreements not classified as finance leases represent operating lease agreements. Lease payments for operating leases are expensed as operating costs straight-line over the term of the lease.

Impairment losses on non-financial assets
Assets with an indefinite useful life, for example goodwill, are not amortized but are tested annually for impairment. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or

changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the highest of fair value less selling expenses and value in use. Value in use refers to the total present value of the estimated future cash flows and the calculated residual value at the end of the useful life. In calculating value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of risk-free interest and risk related to the specific asset, known as WACC (Weighted Average Cost of Capital). The Group bases the calculation on achieved earnings, forecasts, business plans, financial forecasts and market data. For assets dependent on other assets generating cash flow, the recoverable amount is calculated for the smallest cash-generating unit to which the asset belongs. The cash-generating units comprise the Group's operating segments. Impairment losses are reversed if there is a change in the recoverable amount, with the exception of impairment losses on goodwill.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amounts will primarily be recovered on the basis of a sales transaction, and when a sale is deemed to be highly probable. These assets are recognized at the lower of carrying amount or fair value, less selling expenses, if their carrying amounts will primarily be recovered on the basis of a sales transaction, and not through continuous use.

Financial instruments

Financial instruments recognized in the balance sheet include the following assets and liabilities: cash and cash equivalents, securities, other financial receivables, accounts receivable, accounts payable, loans and derivatives.

A financial asset or liability is initially recognized in the balance sheet when the company becomes a party to the contractual conditions of the instrument.

A financial asset is derecognized from the balance sheet when all benefits and risks associated with ownership have been transferred. A financial liability is derecognized from the balance sheet when the obligations of the contract have been met, or otherwise extinguished.

Financial instruments are initially measured at fair value and, subsequently, at fair value or accumulated amortized cost, depending on their classification. All financial derivatives are measured at fair value. The purchase and sale of financial assets is recognized on the transaction date, which is the date the Group undertakes to purchase or sell the asset. On each closing date, the Group tests whether any financial asset or group of financial assets has been impaired.

Classification of financial instruments

The Group classifies its financial instruments into the following categories: financial assets or liabilities at fair value through profit and loss, loan receivables and accounts receivable and financial liabilities measured at amortized cost.

The classification depends on the purpose for which the instrument was acquired. The classification is determined on the initial recognition of the instrument and is reassessed on each subsequent reporting occasion.

Calculation of fair value

The fair value of listed financial instruments is based on the appropriate market quotation on the closing date. For unlisted financial instruments, or if the market of a certain financial asset is not active, the value is determined by applying recognized measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the closing date. Market rates form the basis for the calculation of fair value of long-term loans. For other financial instruments with no specified market value, the fair value is deemed to correspond to the carrying amount.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are measured at the exchange rate prevailing on the closing date. Exchange rate differences on operating receivables and operating liabilities are included in operating profit and loss, while exchange rate differences on financial receivables and liabilities are classified as financial items.

Financial assets at fair value through profit and loss

This category comprises both financial assets held for trading and assets designated in this category from the date of the investment that is to be measured at fair value through profit and loss. The Group's assets in this category comprise non-current and current securities investments and financial derivatives not identified as hedges. Assets in this category are classified as current assets if held for trading or expected to be realized within 12 months from the closing date. Financial assets at fair value through profit and loss are measured at fair value, both initially and subsequent to the date of acquisition, while associated transaction costs are recognized in profit and loss. Gains and losses attributable to changes in fair value are recognized in profit and loss as a financial item in the period in which they occur.

Financial liabilities at fair value through profit and loss

This category comprises derivatives with a negative fair value that are not used for hedge accounting and financial liabilities held for trading. The liabilities are measured continuously at fair value and the change in value is recognized in profit and loss as a financial item. Only derivatives were recognized in this category during the year.

Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets that are not derivatives with fixed or determinable payments, and which are not quoted in an active market.

Loan receivables and accounts receivable are initially measured at fair value and, subsequently, at amortized cost by applying the effective interest method, less any provisions for impairment.

A bad debt provision is established when there is objective evidence that the Group will not be able to secure all amounts maturing in accordance with the original conditions of the receivable. Significant financial difficulties experienced by a debtor, the probability of the debtor entering into bankruptcy or undergoing financial reconstruction and payments not being made or being made late (fallen due by more than 30 days) are all considered to be indications that a bad debt provision may be required.

The size of the provision comprises the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted by the receivable's effective interest rate. The carrying amount of the asset is reduced by using a value depletion account and the loss is recognized under the item "Selling expenses". When a receivable cannot be collected, it is eliminated against the value depletion account for receivables. The reversal of amounts that were previously eliminated is credited under the item "Selling expenses" in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and balances with banks and other institutes maturing within three months from the date of acquisition, as well as short-term liquid investments with a maturity, from the date of acquisition, of less than three months, and which are exposed to a minimal risk of fluctuations in value.

Borrowings

Borrowings are initially measured at fair value, net, after transaction costs and, subsequently, at amortized cost. Any difference between the amount received and the amount to be repaid is recognized in profit and loss over the loan period by applying the effective interest method. Borrowings are classified as interest-bearing non-current or current liabilities in the balance sheet.

Accounts payable

Accounts payable are initially recognized at fair value and, thereafter, at amortized cost using the effective interest method.

Offsetting of financial instruments

Financial assets and liabilities are offset and recognized at net amount in the balance sheet only when a legal right exists to offset the recognized amount and there is an intention to settle the amount net, or simultaneously realize the asset and settle the liability. This legal right may not be dependent on future events and it must be legally binding for the company and the counterparty in the normal business operations and also in the event of payment cancellation, insolvency or bankruptcy.

Impairment of financial assets

Assets carried at amortized cost: At the end of each reporting period, the Group tests whether there is objective evidence to recognize impairment losses on a financial asset or group of financial assets. Impairment losses will be recognized on a financial asset or group of financial assets only if there is objective evidence of an impairment requirement resulting from the occurrence of one or more events after the asset was initially recognized (a "loss event") and if this event (or events) has (have) an impact on estimated future cash flows for the financial assets or group of financial assets that can be estimated reliably.

Financial derivatives

The Group utilizes derivatives to cover the risk for exchange rate fluctuations and to hedge its exposure to interest rate risks. The Group also uses derivatives for commercial trade within the framework of the mandates determined by the Board. Holdings of financial derivatives include interest rate and currency swaps, FRAs and foreign exchange forwards, and interest rate and currency options.

Derivatives are recognized in the balance sheet from the contract date and are measured at fair value, both initially and in subsequent remeasurement. The method for recognizing the gains or losses arising in connection with remeasurement depends on whether or not the derivatives have been identified as a hedging instrument and whether this is a hedge of fair value, cash flow or net investment.

Derivatives not identified as hedging instruments are classified in the balance sheet as financial assets and liabilities measured at fair value through profit and loss. Gains and losses resulting from changes in fair value are recognized as financial items in profit and loss in the period in which they occur.

Hedge accounting
The Group applies hedge accounting for financial instruments intended to hedge the following financial risks: future commercial cash flows – internal and external – in foreign currency, cash flows in future interest payments on the Group's borrowing and net investments in foreign operations.

When entering into the transaction, the relationship between the hedging instrument and the hedged item or transaction is documented, as is the objective of risk management and the strategy according to which various hedging measures are implemented. Both at the inception of the hedging transaction and on an ongoing basis, the Group also documents its assessment as to whether or not the derivatives used for the hedging transaction are efficient in terms of offsetting changes in the fair value of the hedged items or in terms of the cash flows pertaining to them.

Hedges are designed so that they can be expected to be effective. Changes in the fair value of such derivatives not meeting the requirements for hedge accounting are recognized directly in profit and loss.

Hedging of future commercial cash flows in foreign currencies
To hedge future forecast and contracted commercial cash flows, both within the Group and externally, the Group secures foreign-exchange forward contracts and currency option contracts. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income.

The gain or loss attributable to any ineffective portion is recognized directly in operating profit in profit and loss. Accumulated amounts in equity are transferred back to profit and loss in the periods in which the hedged item affects profit, such as when a forecast external sale takes place.

When a hedging instrument expires or is sold, or when the hedge no longer meets the requirements for hedge accounting, accumulated gains or losses remain in equity and are recognized as income/loss at the same time as the forecast transaction is finally recognized in profit and loss. If a forecast transaction is no longer expected to take place, the accumulated gain or loss recognized in equity is immediately transferred to profit and loss.

Hedging of cash flows in future interest payments on Group borrowing
The Group secures interest-rate derivatives to ensure the required interest rate on the Group's net borrowings. Amounts to be paid or received in relation to interest rate derivatives are recognized on an ongoing basis as interest income or interest expense. Changes in the fair value of hedging instruments are recognized in equity until the maturity date. Any ineffective portion is recognized directly in profit and loss. If the loan, and consequently, future interest payments, cease to exist, the accumulated gain or loss recognized in equity is transferred immediately to profit and loss.

Hedging of net investments in foreign subsidiaries
The Group has borrowings or foreign-exchange forward contracts in foreign currencies to hedge investments in foreign subsidiaries. These borrowings and contracts are measured at the closing rate. In the consolidated balance sheet, the borrowings are measured at the closing rate and exchange rate differences are recognized directly against equity, after adjustment for the tax portion.

The Group has borrowings in foreign currency with certain subsidiaries where the loans represent a permanent part of the Parent Company's financing of the subsidiary. These loans are hedged for foreign-exchange risks in the same way as investments in foreign subsidiaries are hedged. Loans and hedges are recognized at the closing rate, with exchange rate differences on these loans and hedging instruments recognized directly in equity. Any ineffective portion of the exchange rate difference is recognized directly in profit and loss as a financial item.

Accumulated gains and losses in equity are recognized in profit and loss when the foreign operations are disposed of.

Realized exchange rate differences on borrowings and forward contracts are recognized in the cash-flow statement under "Financing activities."

Inventories
Inventories are measured at the lower of cost and net realizable value on the closing date. Cost is calculated according to the first-in/first-out (FIFO) principle. For finished products and work in progress, cost consists of raw materials, direct personnel costs, other direct costs and related indirect production costs. Normal capacity utilization is used in the measurement of inventories. Borrowing costs are not included. The net realizable value is calculated as the estimated selling price less applicable variable selling expenses. Deductions are made for internal gains generated through intra-Group sales.

Equity
Costs arising in connection with new share issues and the repurchase of equity instruments are recognized directly in equity.

The redemption of convertibles and the exercise of share warrants entail new shares being issued while the exercise of call options may entail the utilization of treasury shares.

The proceeds from the sale of treasury shares are recognized directly in equity. Holdings of treasury shares reduce profit brought forward. When treasury shares are canceled, the share capital is reduced by an amount corresponding to the par value of the shares and profit brought forward is increased by the corresponding amount.

Provisions
Provisions are recognized when the Group has a legal or constructive obligation resulting from past events and it is probable that payment will be required to meet the obligation, and that the amount can be calculated in a reliable manner. The provision for restructuring primarily covers costs relating to severance pay and other costs affecting cash flow arising in conjunction with restructuring the Group's operations.

Provisions are established when a detailed, formal plan for measures to be undertaken has been established and valid expectations have been raised by those who will be affected by such measures. No provisions are made for future operating losses. Provisions are made for environmental activities related to earlier operations when it is probable that a payment liability will arise and when the amount can be estimated with reasonable precision. Provisions are divided into non-current and current provisions.

Government grants
Government grants are measured at fair value when it is probable that the terms associated with the grants will be met and that the grants will be received. Government grants relating to the acquisition of assets reduces the cost of the assets. Government grants providing compensation for expenses are recognized systematically over the same period as the expenses to be offset.

Employee benefits
Pension obligations
Within the Group, there are a number of defined contribution pension plans and defined benefit pension plans, of which a small number have plan assets in foundations or similar.

A defined contribution pension plan is a plan in which the Group pays fixed fees to a separate legal entity. The Group does not have any legal or informal obligations to pay additional contributions if this legal entity has insufficient assets with which to make all pension payments to employees that are associated with the current or past service of employees.
In a defined benefit pension plan, the amount of the pension benefit an employee will receive after retirement is based on factors such as age, period of service and salary.

Pension plans are normally financed through contributions to a separate legal entity from each Group company and from the employees.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation on the closing date, less the fair value of plan assets.

For defined benefit plans, the liability is calculated using the Projected Unit Credit Method, which allocates the cost over the employee's working life. The calculations are undertaken by actuaries, who also annually reassess the value of the pension obligations. These assumptions are based on the present value of future pension payments and are calculated using a discount rate corresponding to the interest on first-class corporate bonds or government bonds with a remaining maturity largely matching that of the current pension obligations. For funded pension plans, the fair value of plan assets reduces the calculated pension obligation. Funded plans with net assets, meaning where the assets exceed the obligations, are recognized as plan assets.

Actuarial gains and losses as a result of experience-based adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

Costs for services rendered in previous years are recognized directly in profit and loss.

Some of the ITP plans in Sweden are financed through insurance premiums paid to Alecta. This is a defined benefit plan and encompasses several employers. As Trelleborg did not have access to information to enable it to recognize this plan as a defined benefit plan, it was, consequently, recognized as a defined contribution plan.

The Group's pension payments for defined contribution plans are expensed in all functions in profit and loss in the period in which the employees carried out the service to which the contribution refers. Prepaid contributions are recognized as an asset insofar as cash repayments or reductions of future payments can benefit the Group.

Other post-employment benefits
Certain Group companies, primarily in the U.S., provide post-retirement medical care benefits for their employees. Entitlement to these benefits normally requires that the employee remains in service until retirement and works for the company for a specific number of years. The anticipated cost of these benefits is recognized over the period of service through the application of an accounting method similar to that used for defined
benefit pension plans. Actuarial gains and losses are recognized over the expected average remaining working life of the employees concerned. These obligations are assessed by qualified actuaries.

Variable salaries
Provisions for variable salaries are expensed on an ongoing basis in accordance with the financial implications of the agreement.

Remuneration on termination
Remuneration is normally payable if employment is terminated prior to normal retirement age, or when an employee accepts voluntary termination in exchange for remuneration. The Group recognizes severance pay when a detailed formal plan has been presented.

Related-party transactions
The Group's transactions with related parties pertain to purchases and sales to joint ventures/associated companies. All transactions are priced in accordance with market terms and prices; refer to *Note 6 for further information*. In addition, compensation is paid to the Board of Directors and senior executives; refer to *Note 3 for further information*.

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. Areas involving estimates and assumptions that may have a significant effect on the Group's earnings and financial position include:

- Impairment testing of goodwill and other assets: The impairment requirement for goodwill implies that goodwill is tested annually in conjunction with the year-end financial statements, or as soon as changes indicate that a risk of impairment exists, such as when the business climate changes or a decision is made on the divestment or closure of an operation. Impairment losses are recognized if the carrying amount exceeds the estimated value in use. For further information, refer to *Note 14*. Consolidated goodwill represents approximately 59 percent of the Group's equity.
- Other PPE and intangible assets are recognized at cost, less accumulated depreciation and any impairments. The Group has no intangible assets, other than goodwill and certain brands, with a non-finite useful life. Amortization and depreciation take place over the estimated useful life, down to the assessed residual value. The carrying amount of the Group's non-current assets is tested as soon as changed conditions show that a need for impairment has arisen. Value in use is measured as anticipated future discounted cash flow, primarily from the cash-generating unit to which the asset belongs, but in specific cases, also in relation to individual assets. Testing of the carrying amount of an asset also becomes necessary when a decision is taken to sell the asset. The asset is measured at the lower of the carrying amount and the fair value, less selling expenses. Not including goodwill, PPE and intangible assets amount to approximately 42 percent of the Group's equity.
- Calculation of deferred tax assets and liabilities: Assessments are made to determine current and deferred tax assets and liabilities, particularly with regard to deferred tax assets. In this manner, an assessment is made of the probability that the deferred tax assets will be utilized for settlement against future taxable gains. The fair value of these future taxable gains may deviate, owing to the future business climate and earnings potential, or to changes in tax regulations. For further information, refer to *Note 17*.
- Calculation of remuneration to employees: The value of pension obligations for defined benefit pension plans is derived from actuarial calculations based on assumptions concerning discount rates, expected yield from plan assets, future salary increases, inflation and the demographic conditions. At year-end, the Group's defined benefit obligations amounted to SEK 555 m.
- Calculations regarding legal disputes and contingent liabilities: The Group is involved in a number of disputes and legal proceedings within the framework of its operating activities. Management engages both external and internal legal expertise in these matters. According to assessments made, the Group is not involved in any legal disputes that could entail any major negative effect on the operations or on the financial position. For further information, refer the Risk management section on *pages 56-61*.
- Calculations of provisions for restructuring measures, other provisions and accrued expenses: The amount of provisions for restructuring is based on assumptions and estimations regarding the point in time and cost for future activities, such as the amount of severance payments or other obligations in connection with termination of employment. Calculations of this type of cost are based on the particular situation in the negotiations with the parties concerned.

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

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.

2 Segment reporting

A description of the Group's operating segments is presented on *pages 12-21*.

Net sales and operating profit by operating segment

	2015						2014					
		Net sales						Net sales				
SEK M	External	Internal	Total	Profit/loss	Of which, items affecting comparability	Of which, profit/loss in joint ventures/associated companies	External	Internal	Total	Profit/loss	Of which, items affecting comparability	Of which, profit/loss in joint ventures/associated companies
Trelleborg Coated Systems	2,432	127	2,559	197	–120	–	1,794	138	1,932	112	–115	–
Trelleborg Industrial Solutions	5,069	48	5,117	539	–21	–	4,905	51	4,956	495	–34	–
Trelleborg Offshore & Construction	4,324	7	4,331	138	–61	–	3,692	5	3,697	262	–19	–
Trelleborg Sealing Solutions	8,242	60	8,302	1,850	–35	2	7,584	64	7,648	1,714	–16	1
Trelleborg Wheel Systems	4,315	0	4,315	456	–12	–	4,167	0	4,167	497	–7	0
Group items	421	84	505	–218	–8	–	391	89	480	–305	–35	–
Elimination of intercompany sales		–326	–326					–347	–347			
TrelleborgVibracoustic	–	–	–	509	–	509	–	–	–	298	–	298
Operating profit	**24,803**	**0**	**24,803**	**3,471**	**–257**	**511**	**22,533**	**0**	**22,533**	**3,073**	**–226**	**299**
Financial income				36						50		
Financial expenses				–189						–184		
Income tax				–713						–703		
Profit for the year, continuing operations				**2,605**						**2,236**		
Profit for the year, discontinuing operations				–						–9		
Net profit				**2,605**						**2,227**		