

# INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is included as a part of the overall internal control at Trelleborg, and constitutes a central component of Trelleborg's corporate governance. The key goals are that internal control is appropriate and effective, provides reliable reports and complies with laws and regulations.

Trelleborg's Board of Directors has concluded that the current Internal Control set up is sufficient from a corporate governance perspective and that there is no need for an internal audit function.

The starting point for the internal control process is the regulatory framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). According to COSO, the review and assessment are conducted in five areas where the control environment creates discipline and provides structure for the other four areas: risk assessment, control structures, information and communication, and monitoring.

**Control environment.** The control environment provides the basis for the internal control. One important aspect is that decision making, authority and responsibility are clearly defined and communicated between different levels within Trelleborg and that policy instruments, in the form of policies, manuals and recommendations, exist (refer to page 53 for a list of external and internal policy instruments) and are observed.

The Board of Directors bears overall responsibility for financial reporting where the Audit Committee assists the Board by monitoring, for example, the efficiency of Trelleborg's internal control, internal audit and risk management.

The responsibility for maintaining an effective control environment and the day-to-day work involving 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 over the Group's financial reporting by proactively concentrating on the internal control environment and by examining the effectiveness of internal control.

**Risk assessment.** Risk assessment aims to identify and evaluate the most significant risks, including risk of fraud and risks in connection with significant changes, that affect internal control within the Group.

The 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.

**Control activities.** The most significant risks are managed through control structures in the Group. 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 minimum requirements for good internal control in defined processes. Refer to the illustration on page 59.

**Information and communication.** The internal policy instruments are available to all relevant employees on Trelleborg's intranet and are generally provided through training. Special campaigns are conducted covering, for example, the Group's whistleblower initiative. All relevant employees annually confirm in writing their knowledge of, and compliance with, the Group's internal policy 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. The minutes of the Audit Committee meetings are presented to the Board and the Chairman of the Audit Committee reports on its work.

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

**Monitoring.** Monitoring to ensure the effectiveness of internal control is conducted by the Board, the Audit Committee, the President, Group Management, the Internal Control staff function, Group Finance, Group Treasury and Group Tax as well as the Group's companies and business areas.

Monitoring includes the follow-up of monthly financial reports in relation to 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 Trelleborg's auditor.

The Internal Control staff 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 within the Group, as well as work programs and budgets.

**Activities in 2020.** In 2020, the Internal Control staff function conducted 30 internal controls in 13 countries, of

which seven were IT security controls. The focus was primarily on Europe. The lower number of internal controls compared with earlier years was attributable to the pandemic. Most of the internal controls 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, finance and legal affairs, or jointly with controllers from various business areas. Internal controls of IT security were carried out by external IT consultants together with the Group IT staff function. In 2020, the Internal Control

staff function worked on a broad front with reviews of all processes and most controls were conducted digitally.

**Activities in focus in 2021.** The planned number of internal controls will generally remain at the same level as in 2018 and 2019. Geographically, the Internal Control staff function will primarily devote a greater focus to Asia and the US. In 2021, the Internal Control staff function will continue to work broadly with reviews of all processes. A small number of internal controls are planned with the support of record analysis.

## INTERNAL CONTROL STRUCTURE OF THE TRELLEBORG GROUP

	Self-assessment	Internal controls	Training/Tools
Financial reports and reporting processes	<ul style="list-style-type: none"> <li>Group-wide reporting system with quarterly feedback from subsidiaries.</li> </ul>	<ul style="list-style-type: none"> <li>Internal controls 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>
Purchasing process	<ul style="list-style-type: none"> <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 controls 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>
Inventory process	<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>Covers 7 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>
Sales process	<ul style="list-style-type: none"> <li>Encompasses approximately 170 subsidiaries.</li> </ul>	<ul style="list-style-type: none"> <li>Internal controls 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>
Process for property, plant and equipment	<ul style="list-style-type: none"> <li>Covers 7 selected processes and about 280 minimum requirements for good internal control.</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>Material available on the intranet to provide employees access to standardized tools and documents, as well as examples of business solutions.</li> </ul>
IT security process			
Salary management process, incl. pensions and other compensation	<ul style="list-style-type: none"> <li>All relevant employees annually confirm in writing their knowledge of, and compliance with, the Group's internal policy instruments.</li> </ul>		

## THE FOLLOWING INFORMATION IS AVAILABLE AT [WWW.TRELLEBORG.COM](http://WWW.TRELLEBORG.COM):

- » The Articles of Association
- » The Code of Conduct
- » Corporate Governance Reports from 2007 and onward
- » Information regarding Trelleborg's Annual General Meetings from 2004 and onward (notifications, minutes, President's speeches, press releases)
- » Information regarding the Nomination Committee
- » Information regarding the principles for remuneration of senior executives
- » Information for the 2021 Annual General Meeting



A summary of Trelleborg's 115-year history can be found on [www.trelleborg.com](http://www.trelleborg.com).