

# 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 with regard to 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 in regard to 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.

### 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 its and its committees' internal distribution of work. 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 works 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 46. The minimum requirement encompasses about 100 subsidiaries of which the largest approximately 40

companies shall apply both A and B levels in respect of minimum requirements for good internal control and the approximately 60 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 in writing 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 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, as well as work programs and budgets.

#### Activities in 2011

In 2011, the Internal Control Group staff

function conducted 37 (30) internal audits in 12 (16) countries, of which nine (three) were IT security audits. Focus was on Europe, China, Brazil and the US. Most of the internal audits were



## Internal Control at Trelleborg

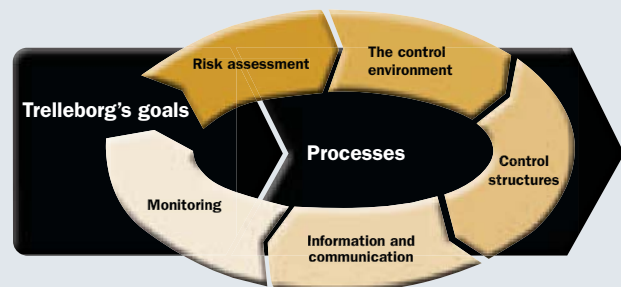
Trelleborg has defined internal control as a process that is influenced by the Board of Directors, the Audit Committee, the President, Group Management and other employees, and is formulated to provide reasonable assurance that Trelleborg's goals are achieved in terms of the following:

- appropriate and effective business activities
- reliable reporting
- compliance with applicable legislation and regulations.

The Internal Control process is based on a control environment that creates discipline and provides structure for the other four components of the process – risk assessment, control structures, information and communication, and monitoring. The starting point for the process is the regulatory framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSo), [www.coso.org](http://www.coso.org).

**Risk assessment** is conducted within the framework of Trelleborg's Enterprise Risk Management (ERM) process. This is described in greater detail under Risk and risk management on pages 28-33.

**The control environment** includes the values and ethics upon which the Board, the Audit Committee, the President and Group Management base their communication and actions, as well as the Group's organizational structure, leadership, decision channels, authorizations, responsibilities and the expertise of the employees. An overview of the Group's organization and governance, including external and internal steering instruments, which are important elements of Trelleborg's control environment, is outlined on pages 42-43. Key internal steering instruments are Trelleborg's Code of Conduct and Trelleborg's Values. The Code of Conduct comprises principles for how the business should be conducted, while Values is a long-term commitment that is linked to the business concept, objectives and strategies and guides employees in their day-to-day activities. Trelleborg is characterized by a decentralized organization, based on management by objectives with clear targets and performance-based rewards.



**Control structures** relate to the controls that are chosen to manage Group risks. Significant controls for Trelleborg are described in more detail on pages 28-33 under Risk and risk management, and on page 46 with regard to the significant processes that affect financial reporting.

**Information and Communication.** External information and communication include, for example, reporting to authorities and external financial reporting to owners and other stakeholders. Internal information and communication refer to creating awareness among Group employees of external and internal governance instruments, including authority and responsibilities. Important tools for this include Trelleborg's intranet and training programs. A process exists whereby Group employees affirm in writing that they have knowledge of Group policies. Trelleborg's whistleblower policy entails that each employee is entitled, without repercussions, to report suspicions of legal or regulatory violations. Internal information and communication also pertain to the information generated by Trelleborg's process for internal control being fed back to the Board, Audit Committee, President and Group Management as a basis for making well-founded decisions.

**Monitoring** aims to ensure efficiency in the process through a range of activities, such as the monitoring of operations in relation to set goals, self-assessments, internal audit and other monitoring activities.

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 2011, the focus remained on purchasing processes, inventory processes, sales processes and accounting and reporting processes. A special focus area in 2011 was the management of value-added tax. Training courses were implemented in several countries in Europe together with external consultants,

aimed at raising levels of competence for relevant personnel and thus reducing risks due to incorrect management. In 2011, the Internal Control Group staff function also participated in internal projects concerning new reporting procedures for Enterprise Risk Management and Corporate Responsibility, where the consolidation system played a significant role. This system is already in use in financial reporting and for reporting of work involving the internal control over the financial reporting.

**Focus in 2012**

In 2012, the Internal Control staff function will work broadly with the audit of all processes, but with a greater focus on

project accounting in relevant companies. Geographically, the Internal Control staff function will continue to focus on emerging markets, but the majority of internal audits will take place in Europe.

The Internal Control staff function's goal for 2012 is to involve local national controllers in the internal audits of smaller companies. This will take place under the supervision of the Internal Control staff function.

*Trelleborg, February 27, 2012  
Board of Directors of Trelleborg*

	Company 1	Company 2	Business area 1	Business area 2	Purchasing	Treasury	Etc.
	Self-evaluation						
Financial reports and reporting processes	<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>						
Purchasing process	<ul style="list-style-type: none"> <li>Deficiencies are identified, measures are planned and implemented by the companies</li> </ul>						
Inventory process	<ul style="list-style-type: none"> <li>Encompasses approximately 100 subsidiaries, of which the largest approximately 40 companies shall apply both A and B levels in terms of minimum levels for good internal control and the approximately 60 smaller companies will only apply the A level</li> </ul>						
Sales process	<ul style="list-style-type: none"> <li>Covers seven selected processes and about 280 minimum requirements for good internal control</li> </ul>						
Process for property, plant and equipment	<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>						
IT security process	<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> <li>Internal audits of IT security are carried out by the head of Group IT together with external consultants</li> <li>Comprises seven selected processes and about 280 minimum requirements for good internal control</li> <li>Internal audits result in observations, recommendations and proposals for decisions and measures</li> <li>Identified deficiencies are followed up on a quarterly basis by business area controllers and the Internal Control staff function.</li> </ul>						
Salary management process, incl. pensions and other compensation	<ul style="list-style-type: none"> <li>A number of training programs in defined processes relating to minimum requirements for good internal control took place in 2011</li> <li>Training programs are aimed at increasing knowledge levels and understanding pertaining to efficient processes and good internal control</li> <li>Training programs are a forum for the exchange of experience and sharing best practice</li> <li>A new intranet section has been available since 2009 to provide employees access to standardized tools and documents, as well as examples of business solutions.</li> </ul>						