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Definitions of performance measures

Trelleborg uses a number of alternative performance measures relating to its financial position: return on shareholders' equity and return on capital employed, net debt, debt/equity ratio and equity/assets ratio. The Group believes that these performance measures can be utilized by users of the financial statements as a supplement in assessing the possibility of dividends, making strategic investments and assessing the Group's ability to meet its financial commitments. Trelleborg also uses the cash flow metrics of operating cash flow and free cash flow to provide an indication of the funds generated by the operations in order to conduct strategic investments, carry out amortizations and generate a return for its shareholders. Trelleborg uses the performance metrics of EBITDA, EBITA and EBIT excluding items affecting comparability, which the Group considers to be relevant for investors seeking to understand its earnings generation before items affecting comparability. For further descriptions and calculations of performance measures, visit www.trelleborg.com/en/investors/financial--definitions.

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 20, 2020.

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, joint ventures and 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 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 IFRS applied from January 1, 2019

IFRS 16 Leases replaces IAS 17 Leases including IFRIC 4 and SIC 27.

The standard contains a leasing model for lessee entailing that almost all leases are to be recognized in the consolidated balance sheet. The right-of-use assets and liability are measured at the present value of future lease payments. The right-of-use assets also includes direct costs attributable to signing the leases. Depreciation of the right-of-use assets and interest expenses on lease liabilities are recognized in profit and loss.

Right-of-use assets are recognized on the line property, plant and equipment in the consolidated balance sheet. In subsequent periods, the right-of-use assets are recognized at cost less depreciation and any impairment and adjusted for any revaluation of the lease liability.

The lease liability is recognized on the lines interest-bearing non-current liabilities and interest-bearing current liabilities in the consolidated balance sheet. In subsequent periods, the liability is recognized at amortized cost and reduced by lease payments made. The lease liability is revalued in the event of changes to, for example, the lease term, residual value guarantees and any changes to lease payments.

Short-term leases (12 months or less) and leases in which the underlying asset is of low value do not need to be recognized in the statement of financial position. These items are recognized in operating profit in the same way as the former operating leases.

For lessors, IFRS 16 involves essentially no changes.

For more information, see Note 16.

Hedge accounting on IBOR-related flows

Trelleborg applies hedge accounting on IBOR-related flows. The IASB has amended IFRS 9 so that companies are not compelled to discontinue hedge accounting due to the uncertainty surrounding the transition to new interest rate benchmarks. The Group has decided to apply in advance the amendments to IFRS 9 due to the future change in interbank offered rates, "Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39, and IFRS 7." This change did not have any impact on the financial statements.

Other amended and new IFRS that came into effect in 2019 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. These amended standards or interpretations are not expected to have any impact on the Group's or Parent Company's financial statements.

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 primarily 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 are made at Group level to reporting in accordance with IFRS.
- 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 are 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.

The Parent Company applies the exception from application of IFRS 16 Leases. Leasing costs are charged to profit and do not impact the balance sheet.

2 Segment reporting

Accounting policies

Operating segments

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.

Organizational changes were made at the end of 2019 with the aim of focusing the Group on selected segments and at the same time highlight areas where improvement in positions and profitability must occur. In the new organization, Trelleborg's core businesses comprise three business areas compared with five previously, and a new reporting segment, Businesses Under Development.

The following business areas are included in the new organization:

- **Trelleborg Industrial Solutions**, focusing on selected polymer-based industrial applications and infrastructure projects. This business area comprises the majority of the previous operations, the engineered coated fabrics operation of Trelleborg Coated Systems and the operations of marine solutions and infrastructure projects of Trelleborg Offshore & Construction. In conjunction with the changes, certain operations were transferred from Trelleborg Industrial Solutions to Businesses Under Development.
- **Trelleborg Sealing Solutions**, focusing on polymer-based sealing solutions. Trelleborg Sealing Solutions was unaffected by the organizational changes.
- **Trelleborg Wheel Systems**, focusing on off-highway and specialty tires. Trelleborg Wheel Systems was only marginally affected by the transfer of its bicycle tire operation to Businesses Under Development.

A number of operations were transferred to the new reporting segment, Businesses Under Development, which is recognized separately from the business area structure. These operations are:

- The printing blankets operation of Trelleborg Coated Systems
- The oil & gas operation of Trelleborg Offshore & Construction
- The Swedish and Estonian operations for specialty molded components of Trelleborg Industrial Solutions
- The Czech operation for specialty molded components and technical rubber products of Trelleborg Industrial Solutions as well as the bicycle tire operation of Trelleborg Wheel Systems

The former business areas Trelleborg Coated Systems and Trelleborg Offshore & Construction were discontinued as business areas in connection with the reorganization.

Key figures from earlier years have been adjusted for this internal reorganization.