

AUDITOR'S REPORT

To the general meeting of the shareholders of Trelleborg AB (publ),
corporate identity number 556006-3421

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Trelleborg AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 1-25, 62-127 and 130-131 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the annual accounts and consolidated accounts. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the annual accounts and consolidated accounts as a whole, taking into account the structure of the

Group, the accounting processes and controls, and the industry in which the group operates. Based on these considerations, we chose the entities we considered to be significant and determined the audit activities to be executed. We have included the larger production and sales entities within each business area. In the newly acquired group, CGS Holding, we have included the largest entities in the Czech Republic, Slovenia and the US. The entities not considered significant have been audited by the central audit team through an overall analysis in order to identify any possible material deviations.

In establishing the audit plan, we determined the type of work that needed to be performed for each significant entity. The majority of the group's operations are located outside Sweden and we obtain reporting from the local audit teams throughout the year. The central audit team annually determines the level of involvement required in order to be able to conclude whether sufficient and appropriate audit activities have been executed. The selection of the entities to be visited is on a rotation basis. In addition, we visit significant newly-acquired entities. As a stage in this follow up, the central audit team has during the year visited entities in the US, Brazil, the Netherlands, the Czech Republic and Slovenia.

Furthermore, the central audit team has, amongst other things, performed the audit of the parent company, the consolidation, the annual accounts and significant estimates and judgments. Based on the performed audit activities referred to above, we deem that we have obtained sufficient audit evidence to be able to provide an opinion on the annual accounts and consolidated accounts as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the annual accounts and consolidated accounts are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts and consolidated accounts.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the annual accounts and consolidated accounts as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the annual accounts and consolidated accounts as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Impairment of intangible assets</p> <p>As at 31 December 2016, goodwill and other intangible assets amount to SEK 23,203 M. In Note 17, the allocation of goodwill and other intangible assets is presented per business area, together with a description of the annual impairment review undertaken by Group management.</p> <p>Group management bases its impairment review on the discounted cash flow for the cash generating units comprising the company's business areas. The impairment test is based on assumptions regarding future cash flows and circumstances which are complex and which involve a high degree of judgment. Group management's assumptions regarding annual rate of growth beyond the next five years and weighted average cost of capital (WACC) involve a high degree of judgment. Changes in these factors can result in an impairment requirement. No impairment charge has been recorded by Group management against these balances in 2016.</p> <p>The business area, Trelleborg Offshore & Construction, reports goodwill and other intangible assets in a total of SEK 1,435 M, respective SEK 110 M. Part of the activities within this business area, consists of activities in the offshore oil & gas industry. In 2016, the activities in offshore oil & gas have been negatively impacted by a downturn in the offshore oil & gas market. If Group management's assumptions regarding growth rates and increased margins are not achieved, an impairment requirement can arise.</p>	<p>In our audit, we focus on assessing whether there is a risk that an impairment requirement can exist as regards to goodwill or other intangible assets. We have assessed the calculation model applied by management and we have reconciled important assumptions against the company's budget and strategic plan, and found them to be consistent.</p> <p>We have assessed assumptions and judgments made by Group management, concerning the expected market development within offshore oil & gas. We also assessed the impact these operations have on the business area, Trelleborg Offshore & Construction, as a whole. This has been done through analysis of how adjustments from previous years' assumptions were made, as a result of the development of the operations and the market. Other factors we have considered included cost savings from restructuring, market recovery and other external factors, such as oil price development.</p> <p>We have also challenged Group management's key assumptions, such as growth rates, EBIT-margin and weighted average cost of capital (WACC). We performed sensitivity analyses for each business areas. We have performed this analysis to ascertain the extent of changes in annual rate of growth beyond the next five years and WACC that, either individually or collectively, would be required for the goodwill and intangible assets to be impaired.</p>
<p>Reporting of the divestment of Vibracoustic</p> <p>As presented in Note 9 and Note 13, the shares in Vibracoustic have been divested in 2016. Vibracoustic has been owned in equal shares, since 2012, with Freudenberg. This divestment resulted in a capital gain of SEK 4,369 M.</p> <p>The accounting for this transaction is considered to be a risk due to being non-recurring and to the significant size of the transaction and the quantum of the result of the divestment.</p> <p>In conjunction with the divestment, Group management made a fair value assessment of the remaining assets and obligations which were related to the discontinuing operations. The significant judgments were primarily related to the valuation of the earn-out, which at year-end was estimated at SEK 685 M and to obligations relating primarily to potential environmental commitments.</p> <p>This assessment is based on a significant number of assumptions and estimates.</p>	<p>We have obtained and reviewed the agreement, in order to understand the terms and conditions for the transaction. We have assessed Group management's calculation of capital gain and have reconciled this against the agreement.</p> <p>We have evaluated and analysed Group management's valuation of the remaining receivables and obligations arising in conjunction with the transaction.</p> <p>We have checked the mathematical correctness of the calculation. We have reconciled the purchase price received against bank confirmations and tested costs arising in conjunction with the sale, such as lawyers' fees and similar costs, in order to ensure that such costs refer to the transaction.</p> <p>We have identified no significant deviations in conjunction with our audit procedures.</p>
<p>Reporting of the acquisition of CGS Holding a.s</p> <p>In 2016, CGS Holding was acquired, which is disclosed in Note 15. CGS Holding is a group with leading positions within agriculture, industry and specialty tires and within engineered polymer solutions.</p> <p>According to IFRS 3, identifiable acquired assets and assumed liabilities in a business combination, are initially measured at fair value on the date of acquisition. Group management shall identify and ensure the completeness and valuation of separately identifiable intangible assets and liabilities. This assessment is complex and includes significant assumptions and judgments. Group management has engaged external valuation specialists for support in this assessment. The acquisition price amounted to SEK 10,877 M and the allocation applied has resulted in goodwill of SEK 5,094 M and other intangible assets in an amount of SEK 2,686 M.</p> <p>An error either in the identification or valuation of intangible assets can lead to incorrect classifications in the balance sheet at point of acquisition and can, subsequently, also have an impact on the income statement.</p>	<p>We have obtained and reviewed Group management's assessment of the value of the acquired intangible assets and of their nature. We have evaluated assumptions based on the group accounting principles by:</p> <ul style="list-style-type: none"> » reviewing the purchase agreement » reviewing the due diligence report » meeting with previous auditors to discuss previous' years audits » performing overall audit activities as regards opening balances » engaging our internal valuation specialists to independently assess the models and assumptions applied by Group management and engaged external valuation specialists, in the identification and valuation of intangible assets, and » we have assessed the economic useful lifetime of the intangible asset (in addition to goodwill) and have ensured that this agrees with our understanding of the acquired asset and with accounting principles. <p>We have identified no significant deviations in conjunction with our audit procedures.</p>

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 26-45. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Trelleborg AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's responsibility* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- » has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- » in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Malmö the 17 February 2017
PricewaterhouseCoopers AB



Mikael Eriksson
Authorised public accountant
Auditor in charge



Cecilia Andrén Dorselius
Authorised public accountant