

# Report by the Board of Directors on Internal Control

The responsibility of the Board of Directors for internal control is regulated in the Swedish Companies Act and in the Swedish Code of Corporate Governance, which also includes requirements on annual external information disclosure concerning how internal control is organized insofar as it affects financial reporting.

Internal Control as regards financial reporting is a part of the total internal control within Trelleborg, whose starting point for the process is in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model, refer to review below, and is a key component in Trelleborg's Corporate Governance. Internal Control is also a part of the Group's Enterprise Risk Management process; refer to page 36.

The following description was prepared in accordance with the Swedish Code for Corporate Governance and represents the Board of Directors' report on internal control regarding financial reporting. This description does not constitute part of the formal Annual Report documents and has not been reviewed by the company's auditor.

## Internal Control over financial reporting

Internal Control as regards financial reporting aims to provide reasonable assurance with regard to the reliability of the external financial reporting in the form of interim reports, annual reports and year-end reports, and that external financial reporting is prepared in accordance

with legislation, applicable accounting standards and other requirements on listed companies.

## Control environment

The Board of Directors bears the overall responsibility for internal control of the financial reporting. The Board has established a written formal work plan that clarifies the Board's responsibilities and regulates the Board's and its committees' internal distribution of work.

Furthermore, the Board has appointed an Audit Committee, the primary task of which is to ensure that established principles for financial reporting and internal control are adhered to and that appropriate relations are maintained with the company's auditors. The Board has also established instructions for the President and instructions for financial reporting to the Board of Trelleborg. The responsibility for maintaining an effective control environment and the ongoing work on internal control as regards the financial reporting 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 and enhancing internal control over the financial reporting in the Group by proactively concentrating on the internal control environment and by examining the effectiveness of the internal control.

Internal steering instruments for financial reporting primarily comprise the Group's Treasury Policy, Communication Policy and Finance Manual, which define the accounting and reporting rules, and the Group's definition of processes and minimum requirements for internal control over financial reporting.

## Internal Control – a process that supports operational goal achievement

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 appropriate and effective business activities, reliable reporting and compliance with applicable legislation and regulations. The process is based on a control environment that creates discipline and structure for the other four components of the process, namely, risk assessment, control structures, information and communication, and monitoring. The starting point for the process is the framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), [www.coso.org](http://www.coso.org).

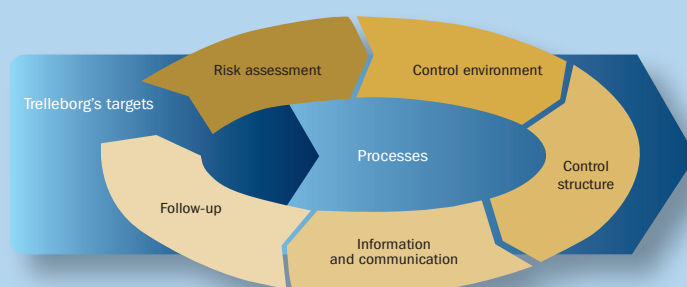
**The control environment** includes the values and ethics upon which the Board, the Audit Committee, the President and Group Management base their communication and actions, as well as the Group's organizational structure, leadership, decision routes, authorizations, responsibilities and the expertise of the employees. An overview of the Group's organization and governance, including external and internal steering instruments that are important elements of Trelleborg's control environment, are outlined on pages 10–11 and 48–49. Trelleborg's values constitute a long-term commitment, which, combined with business concepts, targets and strategies, guides the employees in their daily work. Trelleborg's Code of Conduct comprises principles for how business should be conducted. Trelleborg is characterized by a decentralized organization that is managed based on target-oriented leadership with clear targets and rewards based on performance.

**Risk assessment** is described on pages 36–39.

**Control structures** are about which controls were chosen to manage Group risks. Examples of control strategies that are applied in the Group are found on pages 36–39 and on page 55.

**Information and communication**, external and internal. External information and communication include, for example, reporting to authorities and external financial reporting. Internal information and communication are about creating awareness among Group employees about external and internal steering instruments, including authority and responsibilities. Important tools for this include Trelleborg's intranet and training programs. A process exists where Group employees confirm that they comply with Group policies. Trelleborg also has a whistle blower policy, which means that each employee may, without repercussions, report suspicions of legislation or regulation violations. Internal information and communication also concerns 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 being able to make well-founded decisions. The Group's CFO and Head of the Internal Control Group staff function submits a report to the Audit Committee, which in turn submits a report to the Board.

**Monitoring** aims to secure the effectiveness of the process through a number of different activities, such as monitoring of operations in terms of established goals, self-evaluations, internal audit and other monitoring activities.



### Risk assessment

Trelleborg's risk assessment as regards financial reporting aims to identify and evaluate the most significant risks that affect internal control over 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 financial reporting are fulfilled and comprise the basis for how risks shall 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 structures

The most significant risks identified as regards 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 purpose of the control structures is to ensure efficiency in the Group's processes and effective internal control and is based on the Group's minimum requirements for effective internal control in defined, significant processes, which is demonstrated in the diagram below. Minimum requirements comprise more general as well as detailed controls and can be both preventive and detective in nature and have been subdivided into A and B levels, according to which the A level shall be applied by all of the companies in the Group and the B level by only the Group's largest companies.

A comprehensive revision of minimum requirements for IT security controls was conducted in 2008. In addition, the Purchasing process and the annual accounts and reporting process, with the associated minimum requirements for effective internal control, were developed in 2008 and will be introduced in the Group in 2009.

### Information and Communication

Information and communication regarding internal steering instruments for financial reporting are available on Trelleborg's intranet to all employees concerned.

In 2008, some 60 key employees completed a number of training courses relating to the sales process and the inventory management process under the supervision of the Internal Control staff function. The flow chart detailing defined processes connected to the minimum requirements for effective internal control was distributed and discussed during training. A new section of the intranet is under development

and will provide coworkers with the possibility to access tools and documents that support effective internal control and steering and give examples of sound operational solutions. This service will be launched at the beginning of 2009.

One of the processes utilized by the Group requires all relevant employees to confirm compliance with Trelleborg's policies on an annual basis. The Group's CFO and the Head of the Internal Control staff function have reported 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 steering instruments.

### Monitoring

Monitoring to ensure the effectiveness of internal control as regards financial reporting is conducted by the Board, the Audit Committee, the President, Group Management, the Internal Control staff function and by the Group's companies and business areas. Monitoring includes the follow up of monthly financial reports in relation to budget and targets, as well as quarterly reports with results from self-assessments in the Group's companies and business areas, and using results from internal audits performed by the Internal Control staff function or external consultants, Deloitte, under the direction of the Internal Control staff function. 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. In 2008, focus areas for the Internal Control staff function were the sales process, the IT security process and training in the sales process and inventory management process. Focus areas in 2009 will include the purchasing process, the annual accounts and reporting process, and the launch of a new section of the intranet containing standardized tools, documents and examples of operational solutions.

*Trelleborg, February 10, 2009  
The Board of Directors of Trelleborg*

### Significant processes:

- self assessment
- internal audit
- training/tools

