



TRELLEBORG

**2018 Annual Report**  
WITH ASSURED **Sustainability Report**

**WE SEAL, DAMP AND PROTECT  
CRITICAL APPLICATIONS  
IN DEMANDING ENVIRONMENTS**

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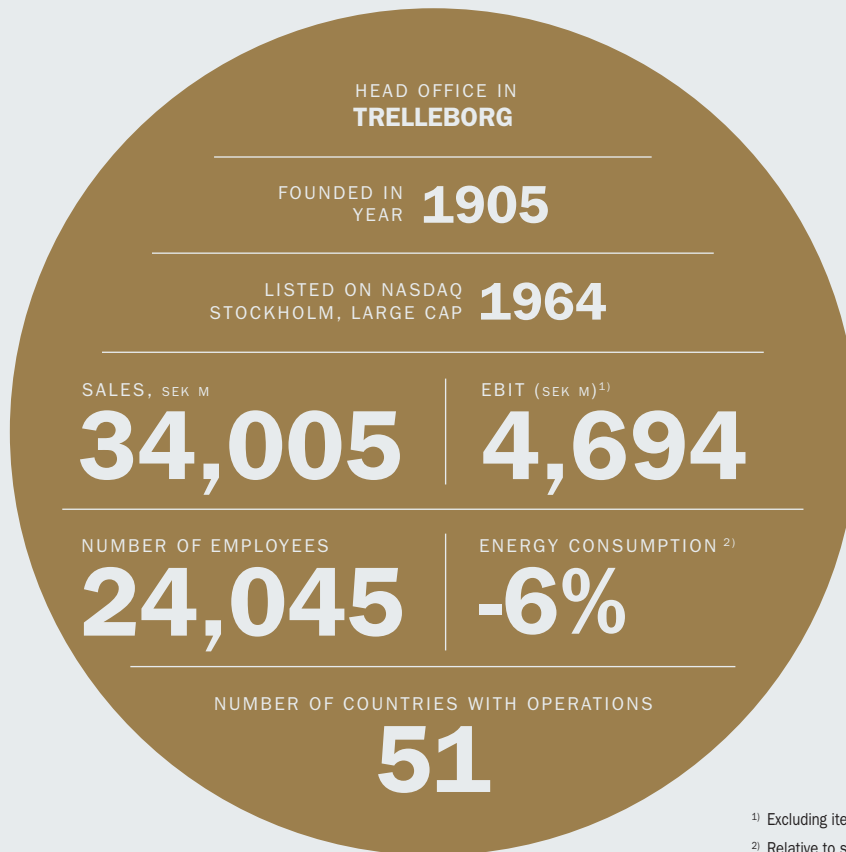
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# TRELLEBORG AND 2018 IN BRIEF



<sup>1)</sup> Excluding items affecting comparability.

<sup>2)</sup> Relative to sales.

## EARNINGS IMPROVEMENT FOR THE YEAR

Net sales for 2018 increased 8 percent to SEK 34,005 M. Organic sales contributed 3 percent.

EBIT, excluding items affecting comparability, rose 15 percent to SEK 4,694 M, corresponding to an EBIT margin of 13.8 percent. Both EBIT and EBIT margin were the highest to date for the Group for a full year.

Earnings per share for continuing operations, excluding items affecting comparability, amounted to SEK 12.34. For the Group in its entirety, earnings per share amounted to SEK 11.77.

Energy-efficiency measured as consumption relative to sales, improved 6 percent, which is clearly better than the annual internal goal of 3 percent.

## KEY EVENTS IN 2018

● **February 1, 2018** Acquisition of U.K. manufacturer of coated fabrics for primarily the healthcare & medical industry

● **February 15, 2018** Proposal of two new members to the Board and a new Chairman by the Nomination Committee

● **February 2, 2018** Interim Report, October–December and full-year 2017

● **April 28, 2018** Interim report, January–March 2018

● **April 28, 2018** Annual General Meeting held in Trelleborg, Sweden

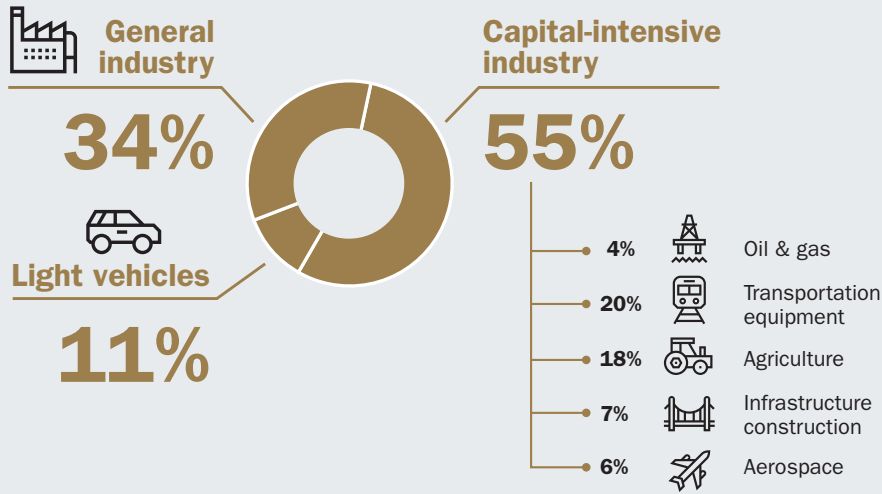
● **June 5, 2018** Capital Markets Day held in Stockholm, Sweden

2018

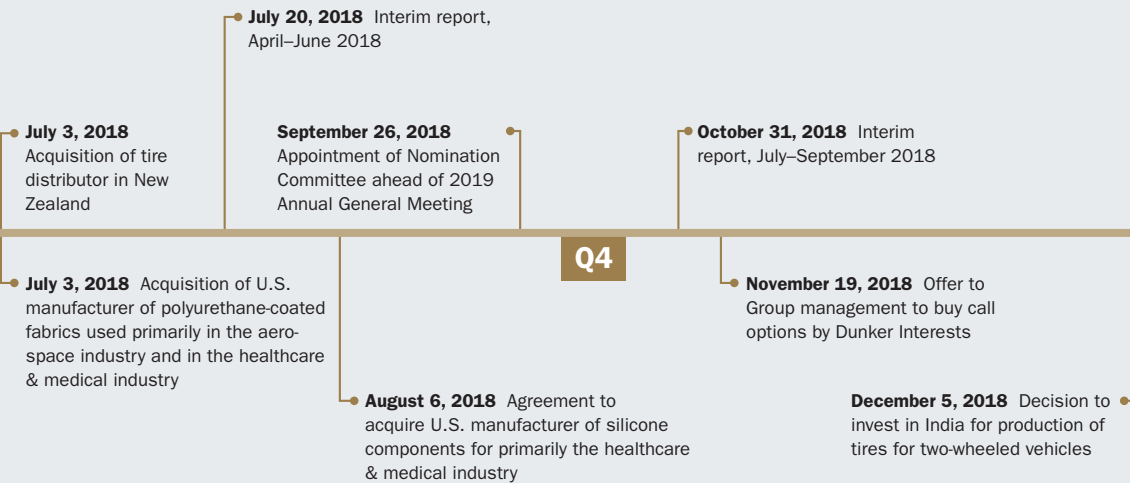
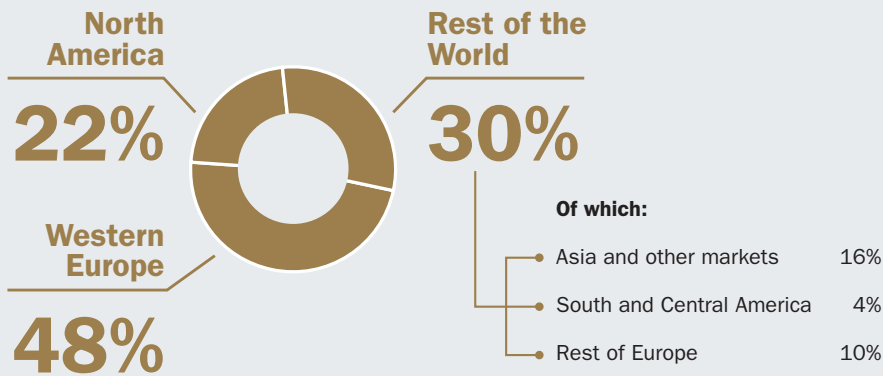
Q2

Q3

Share of the Trelleborg Group's net sales



Net sales per region



All of Trelleborg's corporate press releases and news regarding products and solutions are available at [www.trelleborg.com](http://www.trelleborg.com).

Polymers – rubber and plastics as they are commonly known – are made up of many small molecules that are linked in long chains. The illustration on the cover shows such a chain of polymers.





# POLYMERS THAT SEAL, DAMP AND PROTECT

**Trelleborg** is a world leader in engineered polymer solutions that seal, damp and protect critical applications in demanding environments.

Modern-day society would not function without polymer materials, or rubber and plastics as they are commonly known. Machines, tools and accessories need sealing, damping and protecting using a material that is durable, elastic and tough.

Polymers are long chains of molecules that serve as building blocks in rubber and plastics. While there is only one chemical variant of natural rubber, synthetic rubber is available in some 20 variants. Using additives and mixes of various types, and when combined with other materials, such as metals and textiles, polymers gain very different properties.

Trelleborg uses natural rubber in its large tires, springs and rubber bearings as well as its hoses, seals and coated fabrics. Synthetic rubber, such as styrene butadiene rubber (SBR) and isoprene rubber, has properties that are similar to those of natural rubber. In mixes, it is used as outer rubber in blasting hoses, oil and gasoline hoses, tires and more. Nitrile rubber (NBR) is often used with other types of rubber for added elasticity, abrasion resistance and ability to withstand low temperatures. Ethylene-propylene rubber (EPM/EPDM) is suitable for high temperatures and used for sealing profiles, hoses and more.

## SEAL

To seal is to fill a gap when joining two static or moving (dynamic) surfaces, thereby separating different media from each other.



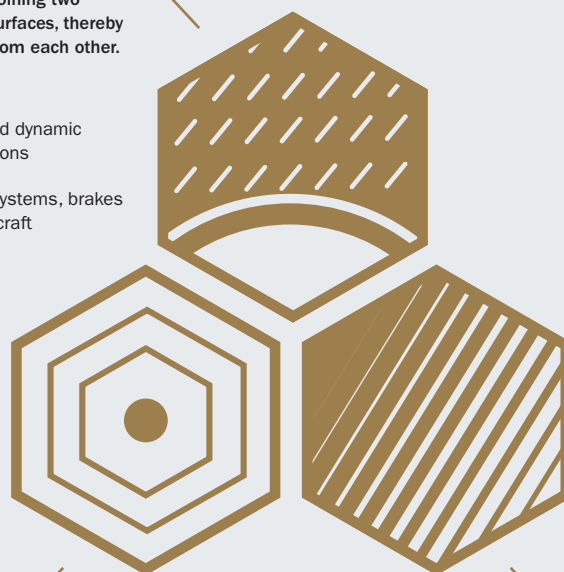
Seals for static and dynamic industrial applications



Seals for control systems, brakes and engines in aircraft



Coated fabrics for train bellows



## PROTECT

To protect is to help the environment, people, infrastructure and other assets to manage the impact from natural and man-made forces.



Boots for drive shafts and steering applications in vehicles



Agricultural tires that protect the soil



Passive fire protection solutions on oil platforms

## DAMP

To damp is to absorb energy, thereby reducing vibration and noise.



Systems that protect against vibrations in rail vehicles



Fenders for safe mooring in ports



Systems that protect against vibrations in industrial applications

“ We are investing at a historically high level, including in an ultramodern innovation center for sealing solutions in Germany.”



**The Trelleborg Sealing Solutions business area has moved to** new premises in Stuttgart, Germany, and has substantially upgraded its innovation center that specializes in sealing solutions. The facility forms the hub of a global R&D network for sealing solutions and houses laboratories with analysis and measuring equipment, premises for innovation and prototypes, and a large testing area with a fully equipped tool room and a materials laboratory.

The R&D capabilities range from standardized mechanical testing to material analysis, including thermal gravimetric analysis (TGA), differential scanning calorimetry (DSC), fourier-transform infrared spectroscopy (FTIR), and an extremely advanced high-resolution scanning electron microscope (SEM) with energy-dispersive X-ray spectroscopy. When these various types of technologies and capabilities are combined, complex problems can be assessed and solved faster.

# OUR STRONGLY DECENTRALIZED ORGANIZATION PROVIDES BUSINESS SUCCESS

Trelleborg's work on small, everyday operational improvements has generated results. Both our EBIT and EBIT margin were the highest ever for the Group for a full year. The balance sheet is not restricting the Group's flexibility and cash flow remains healthy.

**Peter Nilsson, President and CEO of Trelleborg, you would like to begin by mentioning your employees.**

Yes, I would like to begin by paying tribute to all of my colleagues and employees in all areas of Trelleborg. I want to thank everyone for the work they do now and which they also did throughout 2018. They are Trelleborg and they are the ones who ensure that we continue to develop.

Our way of working – with a strongly decentralized organization, with local accountability and commitment – requires that everyone at Trelleborg assumes responsibility and wants to perform better. This is also the basis of our model for profitability and business success overall. My view is that decisions are best made when they are based on the local conditions of those closest to the business.

Naturally, managers decide on the major priorities and provide direction, but our employees are our foremost resource on all levels. We must enable them to grow and

develop with us. Those with most talent must be given the opportunity to change and gradually assume greater responsibility over time. It is a process that is constantly ongoing, which we must never stop if we are to remain successful.

Our employer branding motto is *Shaping industry from the inside*. And this is precisely what our strongly decentralized organization promotes. As an employee, you have a real opportunity to influence decisions that are closely related to the business and to be involved in the development of new markets, products, solutions and services.

**How would you describe the past year and the near future?**

The short version of the year is that we advanced our work to continuously improve our leading positions in selected segments and to make it easier to do business with us. We worked with small, everyday operational improvements, constantly raising the bar and wanting to achieve more. Over the year, we continued to implement our growth initiatives, but also supplemented them with acquisitions. Overall, this has further advanced our positions.

The bigger picture is that, 20 years ago, Trelleborg began its transformation from a conglomerate to a more specialized company focused on polymers. Over the past 10 years, this transformation has been constantly fine-tuned with many small steps, with exposure toward the light vehicles industry, in particular, being reduced and focused. We are now present in the segments and niches where we want to be and where we can make a difference. Our markets don't all develop in the same way and we regard this as a strength.

We are now seeing increasing turbulence and growing uncertainty in our environment. This means that we need to keep well-in-

formed and have the ability to act swiftly, which is what our organizational model supports. Turbulence and uncertainty obviously create challenges. But it also provides opportunities for those who know where they want to be in the future.

**To what do you attribute Trelleborg's results for 2018?**

We now have generally favorable positions and a well-composed portfolio. Naturally, everything can be improved, but our starting point is good. There is a reasonable balance between operations that are growing early and late in their business cycles. During 2018, we saw a gradual improvement in several segments and geographies in which we are active. This applies in particular to aerospace, agriculture and the slightly broader segment of general industry. Combined, they represent nearly 60 percent of our sales.

The situation has remained difficult for our operation that is involved in oil & gas. There was certainly an upturn in the level of activity at the end of 2018, but we expect that an earnings improvement will occur in the second half of 2019, when a higher activity level rolls over into increased sales. At the same time, this portion only comprises 4 percent of Trelleborg's sales and is of even less significance for profitability.

For more than 20 consecutive quarters now, we have increased our profit year-on-year. The balance sheet is not restricting the Group's flexibility and cash flow remains healthy. We are continuing to invest at a historically high level to better capitalize on the opportunities we see. We are increasing capacity in certain parts of Trelleborg, such as the tire facilities in the Czech Republic and Serbia. We are continuing to upgrade the technology in other parts of the opera-





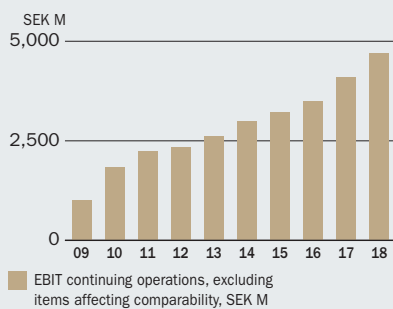
“I believe that our continuous improvement over the past ten years demonstrates that our strategy is working.”

Trelleborg’s strategy is to secure leading positions in selected segments. The Group has, and will continue to have, a strong operational focus to improve and develop both existing and new operations, and to ensure continued efficiency and growth throughout Trelleborg.

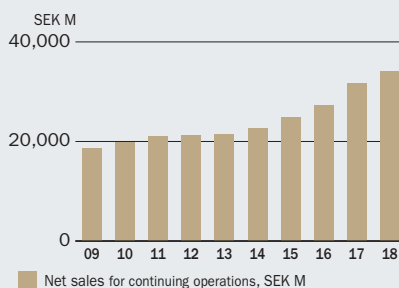
In 2009, a major strategic review of Trelleborg was initiated, especially the business dedicated to the light vehicles industry. Since then, Trelleborg has divested some 15 businesses and acquired approximately 40 companies.

In combination with other growth initiatives that support Trelleborg’s strategy, net sales increased and the earnings trend was strong.

**Strong earnings trend**



**Increased net sales**



tions, for example, relating to the clean-room capacity in Switzerland and the U.S. But we are also increasingly investing in innovation, for example, through a new ultramodern innovation center for seals in Germany. Moreover, we are continuing to expand our presence in selected geographies and during the year we opened new production sites in China and India.

**You are present in a large number of niches.**

Yes, and that is both natural and deliberate. The need to seal, damp and protect the most critical applications in demanding environments exists in many different industries and niches. This might involve static and dynamic seals in various industrial applications or systems that damp vibrations in buildings, machines and vehicles. We can offer solutions for many different applications and markets.

At the same time, breadth and depth strengthen us through long-term stability. If a niche happens to be small, that is really of minor importance to Trelleborg. We want to be leading in the niches in which we operate in order to be the best partner for our customers. This means that we are their first choice when they continue to improve their operations.

When the economy is weak in some industries then it is strong in others. We can distribute resources, continue to grow at a Group level, remain long-term and, above all, achieve stable and healthy profitability. I believe that our continuous improvement over the past ten years demonstrates that our strategy is working.

**What segments and niches are important for Trelleborg’s continued growth?**

Some of the largest and most important changes for us are, for example, the mech-



anization and automation of agriculture, which has significance for our agricultural tires. The electrification of cars, machines and tools is also important and is a central issue for our seals operation. We stand strong in both of these areas.

In addition, healthcare & medical is an attractive and growing area for us; sensors and electrical transistors are another. In these cases, for example, we can benefit from our cleanroom technology. The key to success is that we can always combine our polymer expertise with in-depth application know-how in the niche in question.

**How do you view Trelleborg’s responsibility regarding the climate issue?**

This is an issue in which the perspective must obviously be more long-term than usual and where the signals come less from daily customer contact, at least until now, and more from other stakeholders in society.

In general, it’s important to be ambitious: We must be at the forefront of our industry, which we definitely believe that we are. Supporting renewable energy is one way forward for us. We are going to take a closer look at how we can adjust in terms



of technology and find local projects that gradually improve us in all areas of the Group. For instance, we want to improve cooperation with our suppliers to reduce the emissions related to our purchasing and transport.

When it comes to legal requirements or government intervention, it is important that the rules are presented and clarified. In principle, we take a positive view as long as this is done with advance warning and entails a level playing field for all of those involved.

#### **What does technical acceleration mean for Trelleborg?**

Basically, it means focusing on finding new ways of doing things with new technical solutions and deliveries. This is often done with the help of digital tools for developing both products and services. Equally important as technology is having employees who understand the business and how the new solutions can best help our customers. The focus is always on making it easier for our customers to do business with us.

New methods of collecting and processing data give us new possibilities to adapt products and total solutions so that they can create even greater value. For example, we are working with cognitive seals that monitor various properties related to the seal. For instance, this could be a change in oil pressure that triggers a signal that it is time to change the seal. Technology development is constantly underway throughout the Group. And even if the results are not always spectacular, they are significant. It could be that our coated fabrics receive better coatings, vibration dampers are specially adapted to new applications, seals have even less friction, and so forth.

The work on intelligent – connected – production is under way, with robotics creating new opportunities and eliminating monotonous work tasks. Simplification is also at the core of this. We are developing new tools and conducting several pilot studies at a number of our production sites to enable us to also take the lead here.

#### **How do you see the role of the Chinese market in your growth?**

We have had healthy organic growth in Asia and, in particular, in China, and 2018 was no exception. Even if the pace declines somewhat moving forward, this is the part of the world in which the largest growth will continue to occur – in China's domestic market, but also in other countries in Southeast Asia and South Asia.

We want to primarily grow organically in these markets, but are naturally also open to relevant acquisitions in Asia. As recently as January 2019, we invested in a joint venture in Malaysia to increase our global production capacity and strengthen our offering in industrial hoses in the composite hoses niche.



#### **How are you impacted by the global sequence of events in 2018–19?**

As I mentioned earlier, The market outlooks contain greater uncertainty than previously and trade policy decisions can have consequences for global financial development. Trade restrictions of different kinds are never good for long-term business, even if they might create local benefits in the short term.

Trelleborg stands relatively well prepared, even for these partly new conditions. For us, it is a new parameter to consider in our daily work and in our long-term strategy. We have a large local presence, which means that we are less affected than many others, for example, by trade tariffs. At the same time, our decentralized model enables us to make rapid changes when necessary, such as relocating production.

#### **Do you have any concluding remarks?**

I would like to reconnect to the beginning of this interview and highlight the local driving force within the Group. Good leadership at all levels and in all geographies is a question of maintaining a high pace of activity built on trust and mandates, openness and humility. Naturally, the direction must be clear, but it is in the daily work that things happen. And last but not least, much is based on motivating our employees and we need to be confident enough to be personal and show our appreciation of everyone who does a good job for us.

This is how I try to work as a manager and when it is successful, you receive an enormous amount in return, while seeing continuous improvements emerge over time.

*Trelleborg, February 2019*





**Trelleborg's microspheres** are often found aboard spacecrafts with their sights set on, for example, the planet Mars. Traveling through the planet's thin atmosphere gives rise to friction and intense heat. For this reason, spacecrafts are protected by a shell that envelops and protects them on their journey.

Thanks to high thermal resistance, low weight and customizable properties, Trelleborg's glass microspheres represent a key material component in ablator, insulation and adhesive systems on spacecrafts, where they can be found in heatshield systems in the crucial aft shell. Properties of the microspheres include excellent heat resistance in temperatures up to 900 degrees Celsius.

# STOCK MARKET YEAR FOR THE TRELLEBORG SHARE

Following several years with an upward trend, the Nasdaq Stockholm fell for the first time since 2011. The performance of the Trelleborg share was also negative during the year, which adversely affected the share's total yield during the 12-month period.

**Share performance.** The price of Trelleborg's Series B share declined 27 percent (+6) in 2018 while the index of comparable industrial companies, SX2000 Stockholm Industrials, fell 14 percent (+16). Nasdaq Stockholm, in its entirety, declined 8 percent (+6).

**Total yield.** The Trelleborg share's total yield fell 25 percent during the year, compared with a decline of 4 percent for the SIXRX index<sup>1)</sup>. Over the past five years, Trelleborg's Series B share has averaged a total yield of 5 percent per year. The corresponding figure for SIXRX is 8 percent.

**Share price and turnover.** In addition to Nasdaq Stockholm, the Trelleborg share is traded on such marketplaces as Chi-X, Turquoise and BATS Europe. Nasdaq Stockholm is the largest, with 67 percent (65) of the share trading.

Total trading in the Trelleborg Series B share in 2018 amounted to 272 million shares (261) at a total value of SEK 50,552 m (51,129), which corresponds to an average daily turnover of 1,088,413 shares (1,040,030) or SEK 202 m (204) per trading day.

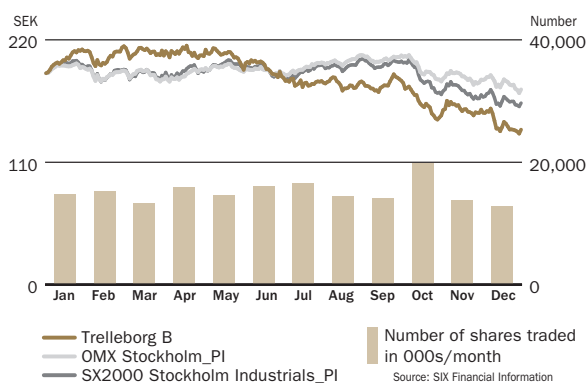
During the year, the highest price was SEK 215.10 on February 27, and the lowest price was SEK 134.70 on December 20.

**Shareholders.** Trelleborg's Series B share has been listed on the stock exchange since 1964. The share is currently quoted on the Nasdaq Stockholm Large Cap under TREL B. The share capital in Trelleborg amounts to SEK 2,620 m, represented by 271,071,783 shares, each with a par value of SEK 9.67. Trelleborg has two classes of shares: 28,500,000 Series A shares and 242,571,783 Series B shares. Each Series A share carries ten votes and each Series B share carries one vote.

All of the Series A shares are owned by the Dunker Interests, comprising a number of foundations, donation funds and asset-management companies created through testamentary disposition by former owner and founder of the Helsingborg and Trelleborg rubber production plants, Henry Dunker, who died in 1962. For further information about the Dunker Interests and its holding in Trelleborg AB, visit [www.trelleborg.com](http://www.trelleborg.com).

**Analysts.** For a current list of the analysts who continuously monitor Trelleborg, visit [www.trelleborg.com](http://www.trelleborg.com).

## Price trend and trading volume Jan 1 – Dec 31, 2018



## Total yield, Trelleborg compared with SIX Return Index



<sup>1)</sup> SIXRX, Six Return Index, the average trend on Nasdaq Stockholm including dividends.

## TRELLEBORG AS AN INVESTMENT

Trelleborg is working continuously to create value for all its stakeholders. For those who have already, and those who are considering, an investment in Trelleborg, there are a number of factors that form the basis for the Group's value creation.

### » Global trends support business focus

Trelleborg operates in selected market segments where the Group has the potential to achieve favorable profitability and leading positions. Global trends such as urbanization, population growth and increased transportation benefit Trelleborg's choice of segments and support the focus on products and solutions for better sustainability.

### » Strong position and value creation built on applications expertise

Trelleborg's strong positions with engineered products and solutions are the result of in-depth applications expertise that reflects customers' needs and play a critical role in their applications. The Group is characterized by far-reaching delegation of responsibilities and powers and encourages rapid decisions.

### » Continuous optimization of the portfolio and processes

Trelleborg's continuous efforts to improve its geographic balance, optimize its portfolio, improve structures and strive for Excellence have yielded consistent and strong results, even in years with lower growth.

### » Balanced earnings and strong cash flow

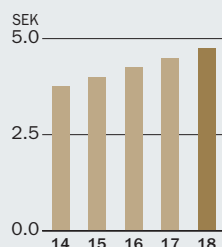
Trelleborg operates in market segments with a favorable balance between early and late cyclical industry, thus providing balanced earnings. The Group's strong cash flow allows it to maintain a high rate of acquisitions and favorable dividends in parallel with facilitating organic growth.

## DIVIDEND

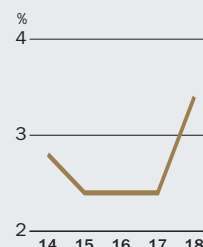
Trelleborg's dividend policy is that, over the long term, the dividend should amount to between 30 and 50 percent of the net profit for the year. The dividend is adjusted for such factors as the Group's earnings level, financial position and future development potential.

For 2018, the Board proposes a dividend of SEK 4.75 (4.50), which corresponds to about 40 percent of the net profit for the year.

### Dividend per share

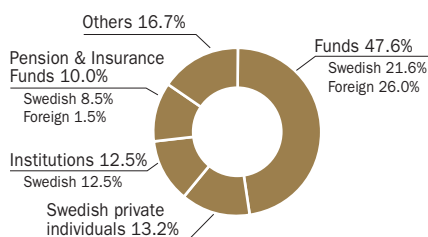


### Dividend yield



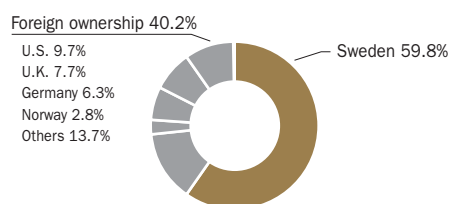
Dividend as a percentage of the closing price on the final trading day.

### Owner types, % of capital



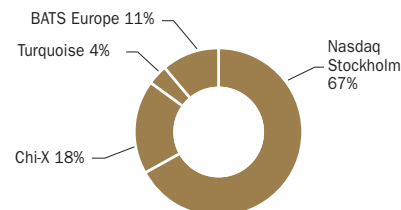
Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others

### Owner by country, % of capital



Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others

### Trading platforms for the Trelleborg share, % of total trading



Source: SIX Financial Information

**Key data per share**

SEK	2018	2017	2016	2015	2014
<b>Continuing operations</b>					
Earnings	11.77	10.60	8.18	7.73	7.13
Earnings, excl. items affecting comparability <sup>1)</sup>	12.34	10.82	9.23	8.39	7.79
<b>Total</b>					
Earnings <sup>2)</sup>	11.77	10.60	24.30	9.60	8.20
Shareholders' equity <sup>2)</sup>	111.14	100.40	92.73	68.70	65.54
Dividend <sup>3)</sup>	4.75	4.50	4.25	4.00	3.75
Dividend as a % of earnings per share	40	42	17	42	46
Dividend yield, %	3.4	2.4	2.4	2.4	2.8
Total dividend, SEK M	1,288	1,220	1,152	1,084	1,017
P/E ratio	12	18	7	17	16

<sup>1)</sup> Earnings per share for full-year 2018 were adjusted by SEK +0.57 (+0.22), which relates to items affecting comparability after tax, and costs related to a taxreform in the U.S.

<sup>2)</sup> There were no dilutive effects.

<sup>3)</sup> As proposed by the Board of Directors.

**Series B share**

SEK	2018	2017	2016	2015	2014
Highest price	215.10	212.40	186.00	180.20	147.90
Lowest price	134.70	173.20	134.50	123.20	109.20
Market price, Dec. 31, last paid price	139.35	190.00	179.30	164.80	132.00
Market capitalization, Dec. 31, SEK M	37,774	51,504	48,603	44,673	35,781
No. of shares, Dec. 31, Series A and B shares	271,071,783	271,071,783	271,071,783	271,071,783	271,071,783
No. of shareholders	48,125	49,709	52,282	50,849	53,019

**Trelleborg AB's ten largest shareholders, December 31, 2018**

Shareholder	TREL A (No. of shares)	TREL B (No. of shares)	Value (SEK M)	% of capital	% of voting rights
1 Henry Dunker Donation Fund & Foundations	28,500,000	400,000	4,308.99 <sup>4)</sup>	10.7	54.1
2 Didner & Gerge Funds		16,738,919	2,495.77	6.2	3.2
3 Allianz Global Investors		13,490,455	2,011.43	5.0	2.6
4 Janus Henderson Investors		12,001,443	1,789.42	4.4	2.3
5 AMF Insurance & Funds		10,121,277	1,509.08	3.7	1.9
6 Lannebo Funds		9,530,000	1,420.92	3.5	1.8
7 First Swedish National Pension Fund		7,473,590	1,114.31	2.8	1.4
8 Vanguard		6,519,579	972.07	2.4	1.2
9 Handelsbanken Funds		6,382,718	951.66	2.4	1.2
10 Norges Bank		5,093,260	759.41	1.9	1.0

Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others

<sup>4)</sup> TREL A is not traded on any marketplace but is assessed as having the same value as TREL B.

**Distribution of shares, December 31, 2018**

No. of shares	No. of shareholders	% of capital	% of voting rights
1–1,000	40,029	4.1	2.1
1,001–5,000	6,713	5.39	2.77
5,001–20,000	1,039	3.52	1.81
20,001–	344	86.99	93.32
<b>Total</b>	<b>48,125</b>	<b>100.0</b>	<b>100.0</b>

**Class of shares, number of shares, capital and votes**

Class of share	No. of shares	% of capital	% of voting rights
Series A shares	28,500,000	10.5	54.0
Series B shares	242,571,783	89.5	46.0
<b>Total</b>	<b>271,071,783</b>	<b>100.0</b>	<b>100.0</b>

Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others

# TARGETS AND OUTCOMES 2018

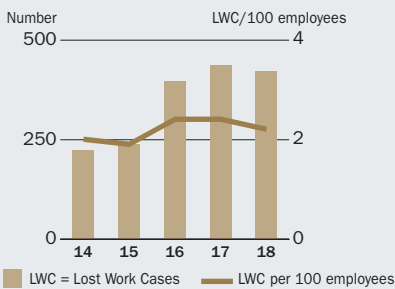
## RESOURCES

### Health and safety

**Focus and target:** The focus is to prevent and eliminate risks in the work environment. Occupational injuries and illnesses with at least one day's absence is defined as Lost Work Cases (LWC) per 100 full-time employees per year. In addition, the number of working days lost due to occupational injuries and illnesses is measured.

**Outcome:** In 2018, the average was 2.2 LWCs (2.4) per 100 employees. The average number of days lost per injury was 28.7 (30.3). The statistical improvements in the safety area during the year were overshadowed by two fatal accidents, refer to page 60.

### Health and safety



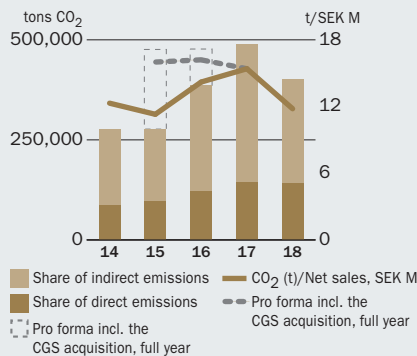
### Climate

**Focus and target:** The “20 by 20” target aims to reduce direct and indirect carbon emissions (Scope 1 and 2) by at least 20 percent relative to sales by 2020 (compared with base year 2015 of 16.0 metric tons/SEK M, see below and pages 52–53 and 59–60 for more information).

**Outcome:** In 2018, the value was 11.8 metric tons/SEK M (15.4), with the reduction compared with 2017 pointing to major improvements in the transition to green energy sources and via improved energy-efficiency.

Refer to pages 59–60 for details, including an overview of the years ahead.

### Climate impact



## REGULATORY COMPLIANCE

### Anti-corruption and human rights

**Focus and target:** Zero tolerance applies to bribery, corruption, cartel and other criminal behavior, child and forced labor, and discrimination (reported and reviewed).

**Outcome:** 0 cases (0) of significant breaches of laws and permits that resulted in legal consequences or fines were reported in 2018. Furthermore, 0 cases (0) of child labor or forced labor were reported.

Of 7 reported cases of discrimination (5), a settlement was reached between the parties or other measures were taken in 4 (4), while 3 cases (1) are still being processed.

During the year, 18 matters (18) were dealt with that originated from the whistleblower system. In some cases, reviews were carried out, which identified non-compliances with the Group's Code of Conduct, and relevant measures were taken in these cases.

### Suppliers

**Focus and target:** The goal is to only work with suppliers who adhere to Trelleborg's Code of Conduct. Suppliers corresponding to 80 percent of the relevant purchasing spend in the production units are to have completed a self-assessment.

**Outcome:** Trelleborg met the defined target level in 2018. Supplier corresponding to 85.5 percent (84) of the relevant purchasing spend were reviewed.

Refer to pages 56–57 to read about how supplier audits strengthen the review activities.

SALES GROWTH

EBIT MARGIN

RETURN ON SHAREHOLDERS' EQUITY

FINANCIAL

RESOURCES

REGULATORY COMPLIANCE

TARGET OR



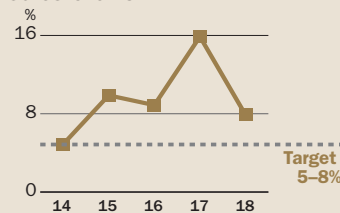
## TARGET 5–8%

Total sales growth, including organic growth in excess of the underlying market growth for continuing operations over an economic cycle

## OUTCOME 8%

Sales growth was 8 percent (16). Organic sales increased 3 percent, structural changes made a positive contribution of 1 percent and exchange rate effects had a positive impact on sales of 4 percent compared with 2017.

### Sales Growth



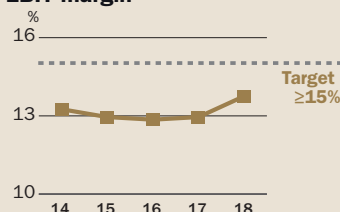
## TARGET ≥ 15%

EBIT margin, excluding items affecting comparability for continuing operations over an economic cycle

## OUTCOME 13.8%

The EBIT margin was 13.8 percent (13.0), the highest margin to date for the Group for a full year. It was positively impacted by continued high efficiency and cost control.

### EBIT margin



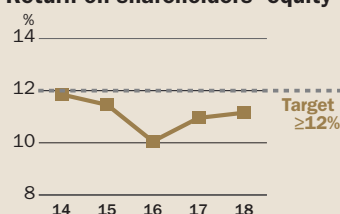
## TARGET ≥ 12%

Return on shareholders' equity (ROE) including items affecting comparability for continuing operations over an economic cycle

## OUTCOME 11.1%

Return on shareholders' equity for continuing operations rose to 11.1 percent (11.0). The change is attributable to the improved earnings during the year.

### Return on shareholders' equity



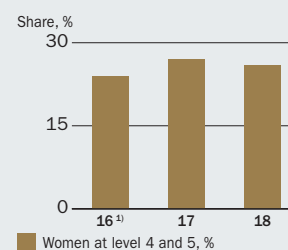
### DIVERSITY

**Focus and target:** Trelleborg works to achieve a balanced mix in terms of age, ethnicity and gender, especially at management levels. The aim is to continuously increase the share of female managers at management levels 4–5.

**Outcome:** In 2018, the share of women at management levels 4–5 in Trelleborg's units was 26 percent (27), which was on a par with 2017.

The share of women in Group Management is 10 percent (10), and on the Board 38 percent (38). The share of women for the organization as a whole is 25 percent (24).

### Gender distribution at management levels 4–5



<sup>1)</sup> Excluding the CGS acquisition.

### SOCIETY

**Focus and target:** Trelleborg supports the local communities in which the Group conducts operations by participating in a variety of social activities, and at selected locations, by providing support for teaching and educational activities for young people. These operations are continuously developed by adding new programs.

**Outcome:** In most of the locations where Trelleborg operates, the company has partnerships with, for example, schools and universities. With regard to sports sponsorship, youth and community activities are prioritized. Trelleborg is also involved in a number of special programs for children and youth development in such countries as Sri Lanka, India and Sweden, refer to pages 66–67.

TARGETS

DIVERSITY

SOCIETY

MENTATION

# GROWTH AND IMPROVED EARNINGS



” The Trelleborg Group’s net sales increased during the year on account of underlying organic sales growth and a positive impact from acquired units. Exchange rate effects had a positive impact of 4 percent on sales compared with the previous year.

The market trend was positive in the majority of segments served by Group. The market situation improved in general industry in most geographic markets.

The agricultural sector, automotive industry, and the aerospace and transportation equipment segments generally performed well. The situation in oil & gas remained challenging, at the same time as deliveries in the infrastructure construction segment also declined.

Improved efficiency, good cost control and strong market positions had a positive impact on EBIT. Net sales, EBIT and EBIT margin reached the highest levels to date on a full-year basis. The rate of investment was high compared with previous years, thereby impacted operating cash flow, which declined compared with 2017.”

**Ulf Berghult,**  
Chief Financial Officer

## SENSITIVITY ANALYSIS

The calculations have been made based on figures from the end of the year and on the assumption that all else is equal.

### Costs

- » The annual cost of purchasing materials and services for 2018 amounted to SEK 16,412 M. Employee remuneration amounted to SEK 10,003 M. An increase or reduction in purchasing costs of 1 percent would reduce or increase EBIT by approximately SEK 165 M. Correspondingly, an increase in the cost for employees of 1 percent would lead to a reduction in EBIT of approximately SEK 100 M. However, Trelleborg’s cost control and strong market position, combined with margin discipline, mean that when costs for raw materials increase, the Group as a premium supplier does not need to raise its prices in percentage terms as much as its competitors to compensate for higher raw material prices.
- » A reduction or increase in interest rates of 1 percent would have a positive or negative effect on net financial earnings of approximately SEK 47 M based on the current level.

### Currency impact

- » Trelleborg’s earnings are largely generated outside Sweden. Exchange rate

fluctuations therefore impact the consolidated net sales and earnings when translating the foreign operations from local currencies to SEK. Based on 2018’s EBIT in local currency, a 5-percent depreciation or appreciation of SEK against all currencies would have led to a positive or negative impact of approximately SEK 225 M on consolidated EBIT in 2018.

- » Trelleborg is principally exposed to USD, EUR, GBP and CZK. Based on 2018’s currency flows, the year’s EBIT would have increased or decreased by approximately SEK 120 M in the event of a 5-percent appreciation or depreciation of USD, EUR, GBP and CZK against SEK.

### Tax accounting

- » Trelleborg complies with tax laws and regulations in all of the countries in which the Group has operations. Trelleborg will apply new rules on tax reporting as they are introduced in local legislation.
- » Trelleborg considers tax to be part of its corporate responsibility and its social responsibility for the Group to contribute to public welfare. Taxes as a portion of the total value created by Trelleborg, as reported on page 15, have been part of the Sustainability Report ever since the company started to follow the GRI guidelines.

### Price fluctuations

- » The supply and price of input goods, in

the form of raw materials and components, fluctuate over time and could impact Trelleborg’s business and earnings. Trelleborg does not work actively with price-hedging instruments for input goods. It instead endeavors to establish sales agreements that allow price hikes to be passed on to the customer, immediately or with a certain delay. Trelleborg’s strategy of working with several suppliers for critical input goods provides a certain degree of protection against large and sudden price hikes.

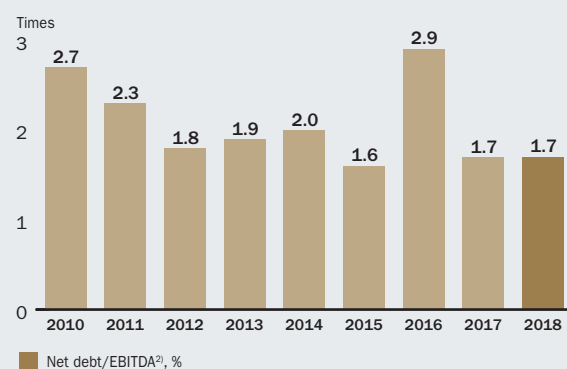
### Effects of Brexit

- » The U.K. accounts for about 5 percent of the Group’s sales and about 1,600 employees work in the country. The manufacturing units in the U.K. supply local and global markets and customers.
- » All business areas have analyzed the effects of Brexit for customers and suppliers with regard to the supply chain. The conclusion drawn is that the Group generally has a high level of preparedness to address the various scenarios and that the potential negative effects on the Group are considered to be limited. However, it is not possible to estimate the indirect negative effects of Brexit due to the number of variables included in such an assessment.

Key figures, continuing operations, SEK M	2018	2017	2016	2015	2014
Net sales	34,005	31,581	27,145	24,803	22,533
Organic sales, %	+3	+4	-5	-2	-1
Structural changes, %	+1	+12	+15	+2	+2
Exchange rate effects, %	+4	0	-1	+10	+4
EBIT, excluding items affecting comparability	4,694	4,091	3,496	3,219	3,001
EBIT margin, %	13.8	13.0	12.9	13.0	13.3
Items affecting comparability	-176	-69	-391	-257	-226
EBIT	4,518	4,022	3,105	2,962	2,775
Profit before tax	4,236	3,792	2,896	2,809	2,641
Net profit, discontinuing operations	-	-	4,369	509	289
Net profit, Group	3,190	2,874	6,585	2,605	2,227
Earnings per share for continuing operations, SEK <sup>1)</sup>	11.77	10.60	8.18	7.73	7.13
Earnings per share, Group, SEK <sup>1)</sup>	11.77	10.60	24.30	9.60	8.20
Operating cash flow	3,488	3,688	3,460	2,282	2,705

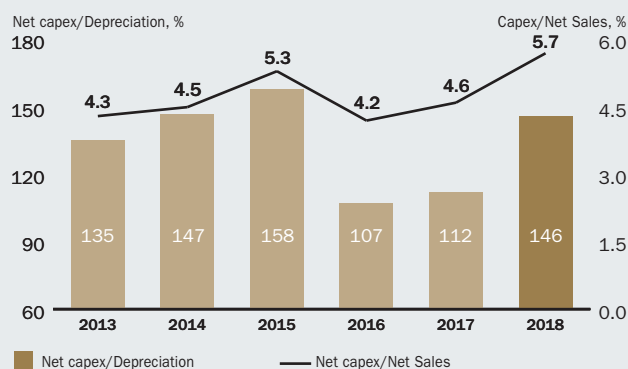
<sup>1)</sup> Including items affecting comparability.

### Net debt in relation to EBITDA



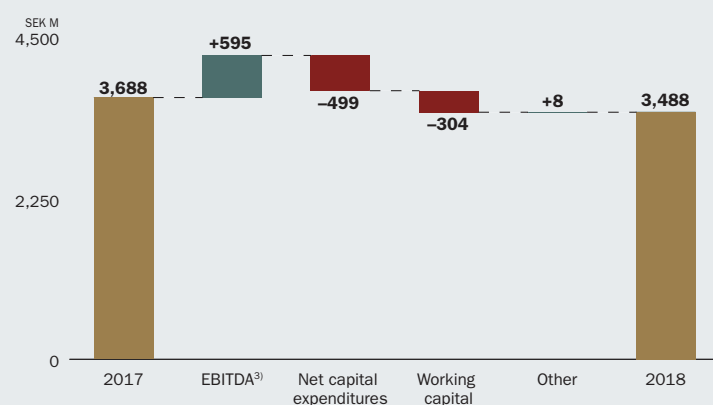
Net debt/EBITDA was relatively high in 2016 when the industrial Group CGS Holding was acquired.

### Investments in relation to depreciation/amortization and net sales



In 2018, the rate of investment was high compared with depreciation/amortization, but is expected to return to normal levels after 2019.

### Operating cash flow, change between 2017 and 2018 <sup>2)</sup>



<sup>2)</sup> Excluding items affecting comparability.

<sup>3)</sup> Including other non-cash items.

The operating cash flow declined compared with 2017, impacted primarily by a higher investment level.

### LONG-TERM FINANCIAL GUIDANCE

- » Dividend: 30–50 percent of net profit
- » Capital expenditures: ~4–5 percent in relation to net sales
- » Gearing net debt/equity: 50–100 percent

### FINANCIAL GUIDANCE 2019

- » Restructuring costs: ~SEK 250 M
- » Capital expenditures: ~SEK 1,800–2,000 M
- » Underlying tax rate: ~26 percent
- » Amortization of intangible assets: ~SEK 300 M

For complete income statements, balance sheets and cash-flow statements, refer to pages 89–97.

# VALUE GENERATION AT TRELLEBORG



## ► BUSINESS CONCEPT

**Business concept to seal, damp and protect.** Trelleborg's business concept is to seal, damp and protect critical applications in demanding environments.

## ► STRATEGY

**Strategy for leading positions.** Trelleborg's strategy is to secure leading positions in selected segments. This means that Trelleborg seeks segments, niches and product categories that – by virtue of the Group's market insights, core capabilities and offering of advanced products and solutions – provide market leadership. In this manner, long-term shareholder value and added value are generated for customers.

Trelleborg works with the strategy, both Group-wide and in the business areas, supported by four strategic cornerstones that – individually and in combination – underpin the strategy. The strategic cornerstones are:

- » Geographic balance
- » Portfolio optimization
- » Structural improvements
- » Excellence

Read more on pages 29–33.

## ► CORE VALUES

**Trelleborg's core values** – customer focus, innovation, responsibility, and performance – are long-term commitments that, together with Trelleborg's business concept, targets and strategies, guide the Group when making decisions and conducting business.

## ► CORPORATE CULTURE

**Trelleborg's internal culture.** The Trelleborg Group is characterized by far-reaching delegation of responsibilities and powers. The Group gives its employees extensive freedoms under responsibility and encourages rapid, proactive leadership. Trelleborg has built up a culture over many years that promotes commitment, responsibility, good ethics in business relationships, and positive interaction with the community in which the Group operates.

## ► CORE CAPABILITIES

Polymer engineering and local presence combined with global reach form the basis of Trelleborg's offering. Together with the value-driving factors of applications expertise and customer integration, these act as a business accelerator for Trelleborg's customers.

### » Polymer engineering

Trelleborg should be best at developing polymer-based solutions that optimize and accelerate customers' applications and processes.

### » Local presence, global reach

Trelleborg leverages global strength and capabilities, while acting as a local partner to customers.

## ► Raw materials

The Group's most important raw materials comprise polymers, usually natural or synthetic rubber, that are combined with metal components or textiles as well as additives, such as softening agents, fillers and vulcanizing agents.

Read more about chemicals and Trelleborg's preventative work on page 58.

## ► Energy and climate

The Group's energy consumption and climate impact are mainly linked to its own generation of steam for production purposes (direct energy/direct emissions) and to purchased electricity, steam or district heating (indirect energy/indirect emissions).

Read more about outcomes for the year, risks and Trelleborg's preventative work on pages 52–53 and 58–61.

## ► Impact on people and the environment

Trelleborg's manufacturing and the materials used impact people and the environment in several ways. Examples include occupational accidents and illnesses, energy consumption, climate impact, water consumption, waste and emissions (mainly to air).

Read more about outcomes for the year, risks and Trelleborg's preventative work on pages 47–68.

## ► Upstream in the value chain

The production of components upstream in the value chain has itself a significant environmental impact. Moreover, the environment is affected by transport activities and historical soil or groundwater contamination.

Read more about suppliers, indirect emissions and Trelleborg's preventative work on pages 53 and 55–57.

► INNOVATION

**Better function, better business, better sustainability.** The core of Trelleborg's product development is engineered polymer solutions that meet customer-specific requirements for functional properties. In various ways, the purpose of these is also to improve business factors – productivity, costs, sales and profitability – and the sustainability profile for customers.

► MARKET SEGMENTS

**Trelleborg's market segments.** The 7 chosen market segments are a mix of general industry, capital-intensive industry and light vehicles, which represent as a whole a favorable balance between early and late cyclical industries. The Group's exposure to various market segments has changed over time to balance the demand. Read more about the market segments on pages 42–45.



GENERAL INDUSTRY



OIL & GAS



TRANSPORTATION EQUIPMENT



AGRICULTURE



INFRASTRUCTURE CONSTRUCTION



AEROSPACE



LIGHT VEHICLES

» **Applications expertise**

Trelleborg should be best at understanding customers' applications, thereby adding the most value.

» **Customer integration**

Trelleborg makes it easy to do business with the Group and integrates in close partnerships with its customers.

» **Business accelerator**

Powered by these core capabilities, the aim is always to improve, accelerate and grow customers' businesses. Trelleborg grows with its customers.

► **Products and circular society**

Synthetic rubber is normally made from petroleum (oil) by chemical means. A long-term technological challenge is to replace these products and materials with ones based on renewable sources. A more immediate challenge is to integrate a circular approach in current processes and products.

**Values for stakeholders**

**Customers:**

- » Innovative solutions that seal, damp and protect
- » Better functionality, business and sustainability via the solutions
- » Customer satisfaction via Trelleborg's core capabilities

**Suppliers:**

- » Payment for material and services
- » Evaluation according to Trelleborg's stringent requirements

**Employees:**

- » Salaries and benefits
- » Health and safety
- » Job satisfaction
- » Personal development

**Shareholders:**

- » Share price trend
- » Dividend

**Society:**

- » Job opportunities
- » Tax revenue
- » Trelleborg's social engagement

**Creditors:**

- » Interest income

**Distributed economic value**

In total in 2018, Trelleborg's operations generated economic value totaling SEK 34,601 M (32,755) of which SEK 31,148 M (29,127) was distributed among stakeholders as shown in the description below and the diagram:

**Suppliers:** Payment for material and services: SEK 18,664 M (17,603), Note 4. **59.9%**

**Employees:** Salaries and benefits: SEK 10,003 M (9,280), Note 4. **32.1%**

**Shareholders:** Dividend in 2018: SEK 1,220 M (1,152). Long-term dividend policy: 30–50 percent of net profit for the year, refer to page 8. **3.9%**

**Society:** Taxes paid: SEK 919 M (732). **3.0%**

**Creditors:** Interest expenses SEK 342 M (360), Note 8. **1.1%**





## FROM SPACE TO SEABED

Trelleborg has chosen to organize the company into five business areas:

- » **Trelleborg Coated Systems:**  
polymer-coated fabrics
- » **Trelleborg Industrial Solutions:**  
polymer-based industrial applications
- » **Trelleborg Offshore & Construction:**  
polymer-based project solutions
- » **Trelleborg Sealing Solutions:**  
polymer-based sealing solutions
- » **Trelleborg Wheel Systems:**  
tires mainly for agricultural machinery and material handling vehicles

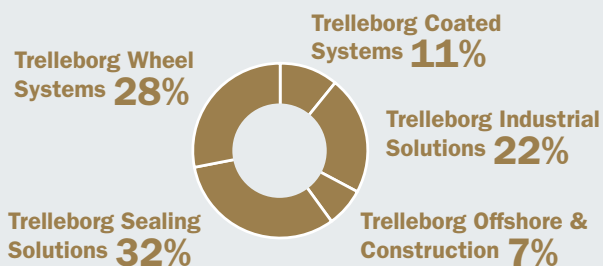
**Critical solutions.** The common feature of the products and solutions in each business area is that they seal, damp and protect critical applications in demanding environments – from space to the seabed.

**Critical functions.** The products often have a critical function in the customer's solution, while representing a minor portion of the total manufacturing cost. The tendency to replace them with a product of inferior quality is thus minimal. Trelleborg's business is also increasingly shifting from supplying only products to delivering service and solutions.

**Research and development.** The majority of Trelleborg's innovation work consists of applied development that takes place in close collaboration with customers. Projects are also conducted focusing on fundamental physical and chemical material sciences in respect of polymers and other materials, as well as in relation to various applications and the actual design of products and solutions.

**Few comparable competitors.** Competition in the various markets largely comprises a very significant number of smaller companies that are regional specialists in one or more niche markets in various market segments or product categories. Trelleborg's broad-based operation means that the Group has no single matching competitor. There are, however, global players that compete in certain segments and niches. Such major competitors include Bridgestone, Continental and Freudenberg, as well as Hutchinson, NOK, Parker Hannifin and Sumitomo Riko.

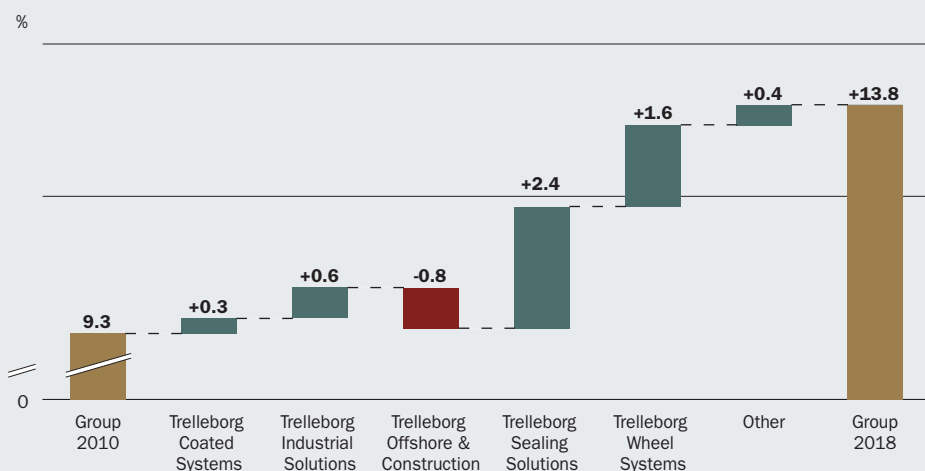
**Business areas' share of consolidated net sales**



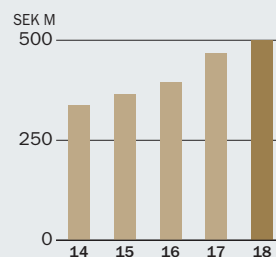
Trelleborg serves a broad range of customers in a variety of market segments and niches. The Group is diversified and is dispersed over a wide geographic area, which provides an effective underlying risk spread.

In recent years, Trelleborg Wheel Systems share of consolidated net sales has increased while Trelleborg Offshore & Construction's share has decreased.

**Business areas' share of consolidated EBIT margin**



**Research and development <sup>1)</sup>**



<sup>1)</sup> Expensed, excluding amortization.

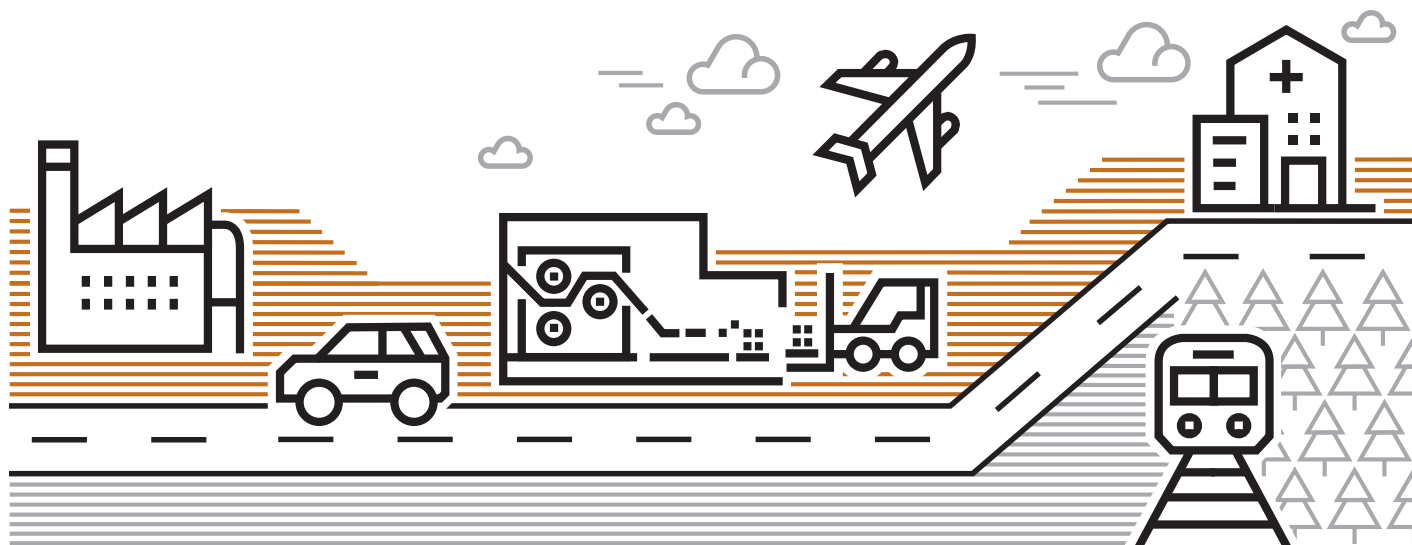
In 2018, Trelleborg's research and development expenditure amounted to SEK 499 M (467), corresponding to about 1.5 percent (1.5) of sales.

**TRELLEBORG'S MARKET SEGMENTS**

Segment	Trelleborg Coated Systems	Trelleborg Industrial Solutions	Trelleborg Offshore & Construction	Trelleborg Sealing Solutions	Trelleborg Wheel Systems	Group total
<b>General industry</b>	85%	53%		44%		<b>34%</b>
<b>Capitalintensive industry</b>						
Oil & gas		3%	41%	2%		<b>4%</b>
Transportation equipment	1%	18%		11%	42%	<b>20%</b>
Agriculture				4%	58%	<b>18%</b>
Infrastructure construction		13%	59%			<b>7%</b>
Aerospace	13%			15%		<b>6%</b>
<b>Light vehicles</b>	1%	13%		24%		<b>11%</b>
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# Trelleborg BUSINESS AREA Coated Systems

Trelleborg Coated Systems is a leading global supplier of unique customer solutions for polymer-coated fabrics deployed in several industrial applications.



” Our position as a premium supplier of engineered polyurethane-coated fabrics was strengthened in healthcare & medical with the acquisitions of Dartex and Lamcotec and we are now building increasingly strong offerings in several of our selected niches.”

” Our printing blanket solutions are at the technological cutting edge with several product innovations released during the year, and we are investing broadly in marketing and sales to increase our local presence.”



**Dario Porta,**  
Business Area President

**Polymer engineering.** The development and production of polymer-coated fabrics requires expertise and applications know-how in the field of polymer engineering. From these fabrics, printing blankets are made for all types of printing, including coated fabrics that form part of a large number of products, from space rockets to inflatable products, such as rescue boats. A common feature of the products is their high technological content and their critical role in the overall solution, while at the same time representing a relatively small share of total costs for customers.

The business area is unique in its markets in that it has a global production capacity and a major local presence. Sales and customer support are carried out both directly and via distributors in more than 100 countries. Trelleborg holds leading positions in its selected niches.

A new online shop for printing blankets – the first of its kind – was launched in the French market in 2018.

Trelleborg offers a variety of functions and features for its different niche products, such as high technical content and innovative products for aerospace focusing on safety and weight, and robust, reliable and secure solutions for transportation


equipment with the emphasis on continuous and safe operations. Healthcare & medical products often have short development cycles. Requirement specifications are demanding and the materials have a high technology content. The business area broadened its offering in the area in 2018 with the acquisitions of U.K. company Dartex and U.S. company Lamcotec, thus strengthening the business area’s position as the premium supplier of engineered polyurethane-coated fabrics.


**Sales and earnings 2018.** Organic sales declined 2 percent compared with 2017. Sales of coated fabrics remained unchanged during the year. North America and Asia contributed a positive organic performance, although this could not fully offset the lower sales in Europe. Organic sales of printing blankets decreased during the year, with North America and Asia noting a stable trend while the performance in other regions was weaker.


EBIT and the EBIT margin increased year on year, due primarily to improved productivity. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 12 M on EBIT compared with 2017.

**MARKET SEGMENT**

 Printing and coating plate solutions for all types of offset printing, as well as flexo and digital printing. Carrier sleeve product line for packaging flexo printing. Coated fabrics and calendared materials for multiple industrial applications including belts, gaskets, seals and hoses, as well as healthcare & medical accessories, such as wound retractors, blood pressure cuffs and mattresses.

 Coated fabrics for train bellows, among other applications.

 Coated fabrics used in, for example, aircraft evacuation slides, aerostats, life vests, life rafts, helicopter safety floats and thermal insulation for space rockets.

 Calendared materials for brake shims and belts, for example.

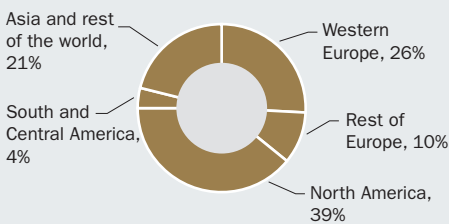
**PRODUCTION UNITS:** Brazil, China, France, Italy, Slovenia, Sweden, the U.K. and the U.S.

**EXAMPLES OF BRANDS/PRODUCT NAMES:** Axcyl®, Dartex®, Printec®, Rollin®, Sava and Vulcan®.

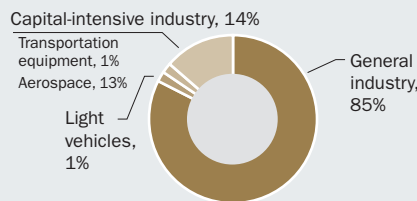
**KEY CUSTOMERS:** Companies mainly active in the general industry segment, including the graphic industry, the healthcare & medical industry and aerospace industry.

**PRINCIPAL COMPETITORS:** Continental, Flint Group, Kinyo, Meiji and Pennel & Flipo.

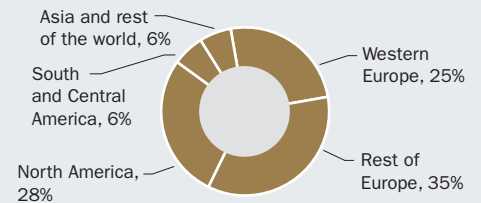
**Net sales per geographic market, %**



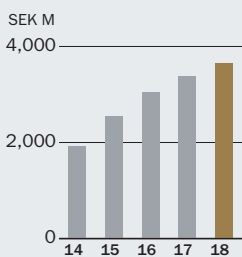
**Net sales per market segment, %**



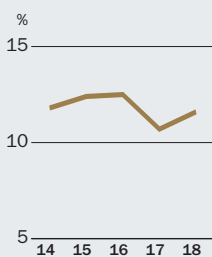
**Employees per geographic market, %**



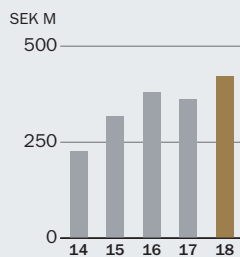
**Net sales**



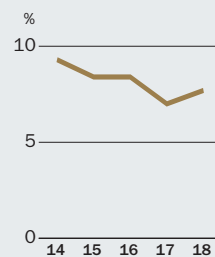
**EBIT margin**



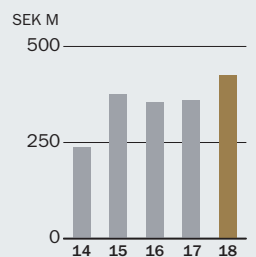
**EBIT**



**ROCE**



**Operating cash flow**



**BUSINESS AREA  
LONG-TERM TARGET  
FOR EBIT MARGIN  
>15%**

Key figures, excluding items affecting comparability, SEK M	2018	2017
Net sales	3,651	3,377
Share of consolidated net sales, %	11	11
EBIT	423	361
EBIT margin, %	11.6	10.7
Capital employed	5,644	5,021
Return on capital employed (ROCE), %	7.7	7.0
Capital expenditures	184	148
Operating cash flow	429	361
Operating cash flow/operating profit, %	101	100
Number of employees at year-end, including insourced staff and temporary employees	2,014	1,902

# Trelleborg BUSINESS AREA Industrial Solutions

Trelleborg Industrial Solutions is a leading supplier of polymer-based critical solutions in such industrial application areas as selected hose and sealing systems and antivibration solutions for rail vehicles, vessels and industrial equipment.



” Our focus on selected niches and applications has proved successful. We have concentrated on being in the right place with the right business to ensure a more efficient structure.”

” We are broadening our offering and creating added value for our customers, providing opportunities to grow organically, not least by adding seemingly simple yet important functions to our products.”

**Jean-Paul Mindermann,**  
Business Area President



**Application expertise.** The products in the business area are highly varied, but the common denominator is that Trelleborg brings a high level of applications expertise. Every solution is driven by in-depth knowledge of a specific, and often niche, application. Understanding of the market and close cooperation with customers is a critical factor in the development of each solution.

The business area is a leader in its global niches, such as hoses, sealing profiles, antivibration systems, pipe seals and automotive boots.

The pace of innovation is high and combined with a focus on making it easy for customers. For example, new axle guiding bush technology for railroad cars saves both energy and maintenance costs. Built-in wear indicators in industrial hoses make it easier for customer to plan maintenance. Comprehensive solutions for repairing pipes without needing to dig a trench make it easier, less expensive and more environmentally compatible for customers.

A significant share of the business area's operations and share of sales is in Europe, but the business area has also made acquisitions and grown in other parts of the world in recent years. For instance, the U.S. sealing profiles operations were


consolidated in 2018 to enhance production efficiency and to meet growth in the market, while certain work flows were transferred to a new production site in Mexico, thereby bringing them closer to the customer base.


**Sales and earnings 2018.** Organic sales rose 8 percent compared with 2017. Most market segments, apart from the construction industry, reported positive organic sales.


EBIT increased compared with the preceding year, due primarily to higher volumes, previously implemented acquisitions and completed restructuring measures. The EBIT margin remained at the same level as a year earlier and was impacted by the shortage of qualified labor in the Czech Republic. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 11 M on EBIT compared with 2017.




**MARKET SEGMENT**


 Fluid-handling solutions, for example, in hoses, expansion joints and elastomer materials. Antivibration solutions, such as vibration dampers and precision components. Specialized V-belts. Sealing profiles for facades, windows and doors.

 Marine hoses for handling oil and gas.

 Pipe seals and repair of drinking water and wastewater systems. Inflatable rubber dams.

 Vibration-damping and acoustic solutions

for rail vehicles and marine applications as well as off-highway and heavy vehicles.

 Polymer boots for drive shafts and steering applications. Vibration-damping and acoustic solutions, as well as rubber components.

**PRODUCTION UNITS:** Brazil, China, the Czech Republic, Estonia, Finland, France, Germany, India, Lithuania, Mexico, Poland, Spain, Sweden, Turkey, the U.K. and the U.S.

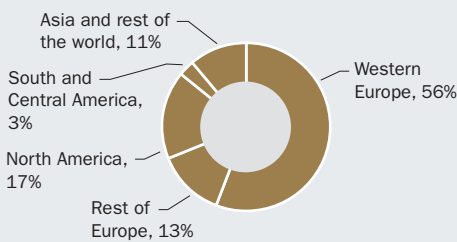
**EXAMPLES OF BRANDS/PRODUCT NAMES:** CRYOLINE®, DragonCoat®, KLELINE®, Metalastik®, Novibra®, Power-Lock™,

Rubena, Sava, SEALINE®, Sewer-Lock™, TRELLELINE® and TRELIVAC.

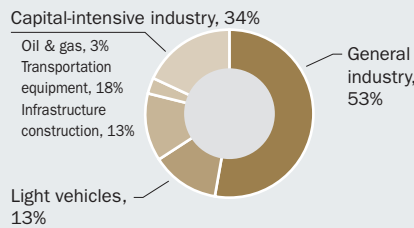
**KEY CUSTOMERS:** Companies active in general industry, infrastructure and construction, the transportation industry and offshore oil & gas.

**PRINCIPAL COMPETITORS:** Continental, Freudenberg, GMT, Hamilton Kent, Hultec, Hutchinson, IVG, Lord, M.O.L., Parker Hannifin, Sanok Rubber, Semperit, Tremco and Tyman.

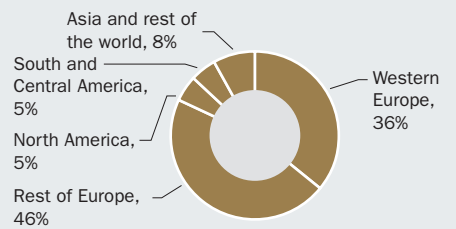
**Net sales per geographic market, %**



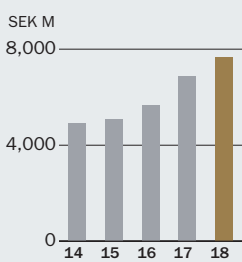
**Net sales per market segment, %**



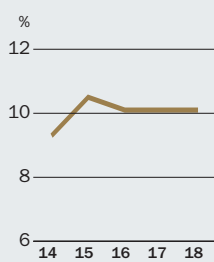
**Employees per geographic market, %**



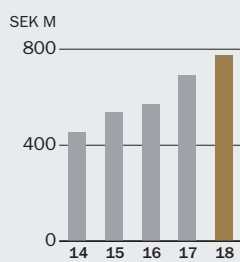
**Net sales**



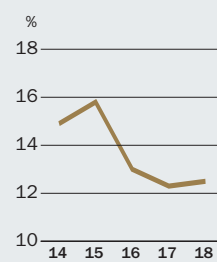
**EBIT margin**



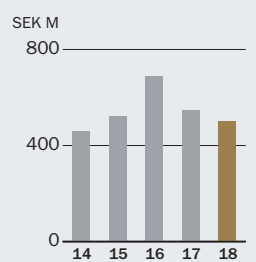
**EBIT**



**ROCE**



**Operating cash flow**



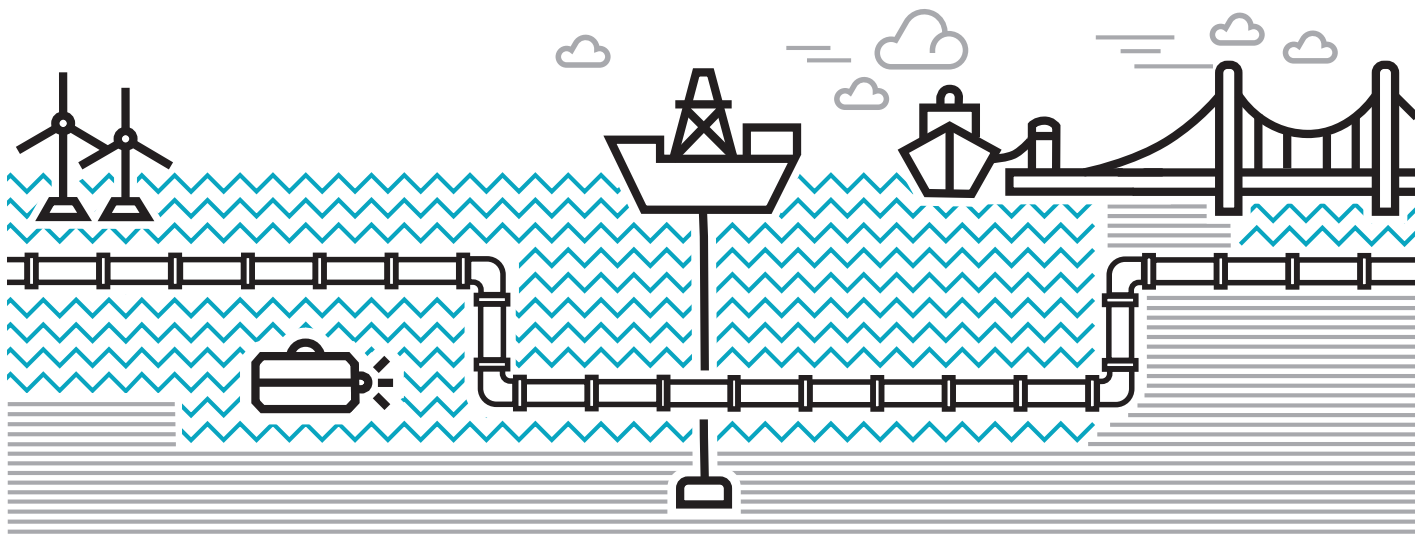
**BUSINESS AREA  
LONG-TERM TARGET  
FOR EBIT MARGIN  
>12%**

Key figures, excluding items affecting comparability, SEK M	2018	2017
Net sales	7,665	6,884
Share of consolidated net sales, %	22	21
EBIT	775	693
EBIT margin, %	10.1	10.1
Capital employed	6,283	5,790
Return on capital employed (ROCE), %	12.5	12.3
Capital expenditures	564	372
Operating cash flow	503	547
Operating cash flow/operating profit, %	65	79
Number of employees at year-end, including insourced staff and temporary employees	6,123	5,789

# Trelleborg

## BUSINESS AREA Offshore & Construction

Trelleborg Offshore & Construction is a leading global project supplier of polymer-based critical solutions deployed in highly demanding offshore oil & gas and infrastructure construction environments.



” Our proven products and solutions protect major investments. We have an impressive list of references for effective solutions already installed around the world that plays a key role when it comes to selling in new projects.”

” Supplying solutions to various infrastructure projects is becoming increasingly common. We have unique and complete solutions for ports that focus on safety and cost efficiency.”



**Peter Nilsson,**  
Business Area President

**Local presence, global reach.** The business area is a dedicated project-based operation. Just over half of the business area’s solutions are sold to infrastructure projects, such as marine solutions, while the remaining share comprises solutions for offshore oil & gas. A common feature is that the solutions are designed to perform in the toughest of environments where there is no room for error. Local presence and global reach are key factors for the business area’s customers.

Trelleborg offers complete and intelligent solutions for ports. From fenders to module-based pilot and port management systems. Ports and pilots face a number of challenges as the size of cargo vessels increases. A shortage of berth space leads to a focus on safety and efficiency. Trelleborg’s SmartPort solutions are unique in the market and make it easier for the pilot to perform his or her work well, quicker and more safely.


Like everyone in the offshore oil & gas industry, the business area has been impacted by the challenging market situation. Trelleborg is late cyclical in this field, meaning that the economic downturn was not felt until about 12–18 months afterwards. There is a corresponding delay as


the economy improves. Trelleborg has both consolidated the relevant areas of the operations and broadened its offering to closely related sectors, such as cable protection for offshore wind farms, or passive fire protection solutions for industries that are susceptible to explosions and fuel fires.

**Sales and earnings 2018.** Organic sales declined 18 percent compared with 2017, primarily impacted by the low level of market activity in parts of offshore oil & gas, but also by weaker deliveries in construction infrastructure. The order book for deliveries in 2019 improved during the year.

EBIT and the EBIT margin were lower compared with the preceding year, mainly as a result of lower project deliveries in offshore oil & gas but also due to lower sales in infrastructure construction. Activities to adapt the organization to the lower market activity continued in 2018, including a gradual closure of a facility in the U.S. Exchange rate effects from the translation of foreign subsidiaries had a negative impact of SEK 6 M on EBIT compared with 2017.

**MARKET SEGMENT**

 Polymer-based solutions for exploration and extraction of offshore oil and gas, from platform to seabed, with buoyancy modules, thermal insulation, bend restriction, cable and flowline protection, fire protection and other engineered solutions.

 Sealing and vibration-damping solutions for tunnels, bridges and other large construction and civil engineering projects. Marine structures and smart technologies for berthing, docking and mooring in ports and offshore.

**PRODUCTION UNITS:** Australia, Brazil, Denmark, China, Netherlands, Norway, Singapore, U.K. and U.S.

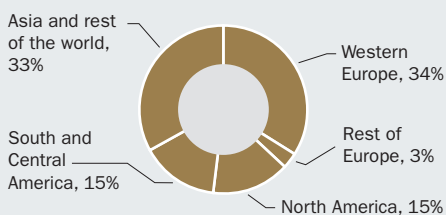
**EXAMPLES OF BRANDS/**

**PRODUCT NAMES:** ANDRE, AutoMoor, Ecofloat®, Elastopipe™, FireNut, NjordGuard, RiserGuard, Scandura, SCN Super Cone, SeaGuard, SeaTechnik™, SmartDock®, SmartPort, Ultra M.I.S., Unitex, Uraduct® and Vikotherm®.

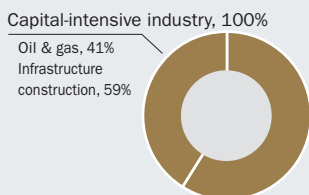
**KEY CUSTOMERS:** Companies active in offshore oil & gas and companies that construct and manage tunnels, bridges, buildings, ports and shipyards, including construction companies and engineering consultancies.

**PRINCIPAL COMPETITORS:** Balmoral, Dätwyler, FenderCare, Hutchinson, Mampaey, Matrix, ShibataFenderTeam, Tekmar and Yokohama.

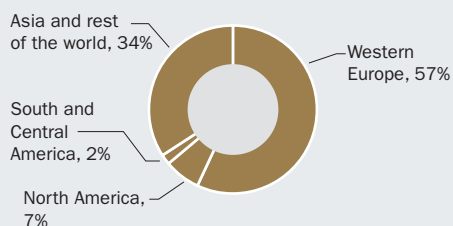
**Net sales per geographic market, %**



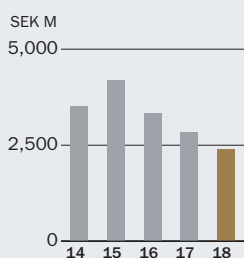
**Net sales per market segment, %**



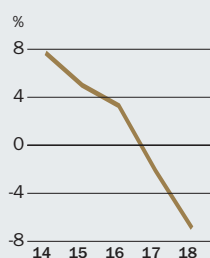
**Employees per geographic market, %**



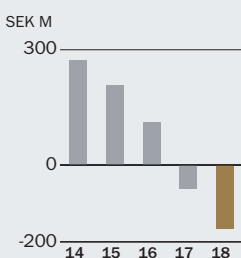
**Net sales**



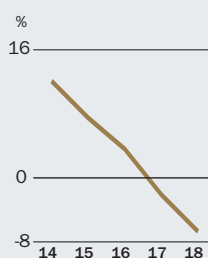
**EBIT margin**



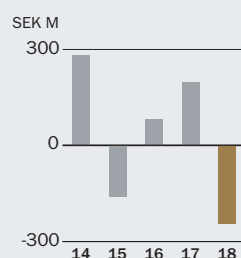
**EBIT**



**ROCE**



**Operating cash flow**



**BUSINESS AREA LONG-TERM TARGET FOR EBIT MARGIN >10%**

Key figures, excluding items affecting comparability, SEK M	2018	2017
Net sales	2,386	2,841
Share of consolidated net sales, %	7	9
EBIT	-165	-61
EBIT margin, %	-6.9	-2.1
Capital employed	2,467	2,323
Return on capital employed (ROCE), %	-6.7	-2.1
Capital expenditures	161	69
Operating cash flow	-245	197
Operating cash flow/operating profit, %	149	neg
Number of employees at year-end, including insourced staff and temporary employees	1,511	1,566

# Trelleborg

## BUSINESS AREA

# Sealing Solutions

Trelleborg Sealing Solutions is a leading global supplier of polymer-based critical sealing solutions deployed in demanding general industry, light vehicle and aerospace environments.



” We are leading the way in new solutions that make it easy for customers to do business with us. The pace of development is high – we are continuously developing new products and solutions. Completed acquisitions have contributed positively to the business, in terms of both earnings and expertise.”

” The digital trend is being addressed through digital services and apps for customers, as well as through cognitive sealing – our specific approach to predictive maintenance for sealing systems.”



**Peter Hahn,**  
Business Area President

**Business accelerator.** Developing the optimal solution for our customers’ sealing challenges forms the basis for how the business area acts; from concept to delivery. Cooperation with and understanding of the customers’ business and their markets is an important parameter, as is being a partner who it is easy to do business with.

The business area holds leading positions in its segments. The products often have a critical function in the customer’s solution, while representing a minor portion of the total manufacturing cost. Most of the products are engineered using materials that have patented compositions.

The business area is growing in such areas as healthcare & medical, which is seeing strong demand in, for example, surgery, cardiology and drug delivery. With the acquisition of Sil-Pro in January 2019, the product range was expanded in such areas as drug-eluting devices, skin substitutes for burns and chronic wounds, and components for continuous glucose monitoring systems for people with diabetes.

Another growth area is electrification – not only cars, but also machines and tools in general. Advances are setting new demands on machinery design, requiring

somewhat different sealing solutions than those found today.

Service PLUS is a growing innovative service that is offered to selected customers. This may, for example, involve helping customers automate reordering by using the innovative IntelliStok solution. Based on sensors, IntelliStok detects demand for replenishment and initiates reordering automatically, without any manual work involved.

**Sales and earnings 2018.** Organic sales rose 7 percent compared with 2017. All geographic regions demonstrated a positive organic trend, with sales increasing to general industry and the automotive and aerospace industries. The strongest organic sales growth was noted in Asia, but growth was also favorable in Europe and North America.

EBIT rose primarily as a result of higher volumes, acquisitions and effective cost control. The EBIT margin was maintained at a high level throughout the year, despite a certain impact from completed acquisitions with lower margins. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 72 M on EBIT compared with 2017.

**MARKET SEGMENT**

Precision seals for a range of industrial applications with a focus on O-Rings, rotary seals and hydraulic seals.

Safety-critical aircraft seals used in such application areas as engines, flight control actuators, landing gear, wheels and brakes as well as aerodynamic seals.

Advanced and often safety-critical seals, mainly for fuel systems, steering, air conditioning and exhaust systems, as well as composite technology designed for damping and sealing.



Specially engineered sealing solutions in, for example, trains.



Sealing configurations for hydraulic equipment in, for example, tractors.



Specialty seals in various oil and gas installations.

**PRODUCTION UNITS:** Brazil, Bulgaria, China, Denmark, France, India, Italy, Malta, Mexico, Poland, Switzerland, the U.K., Sweden and the U.S.

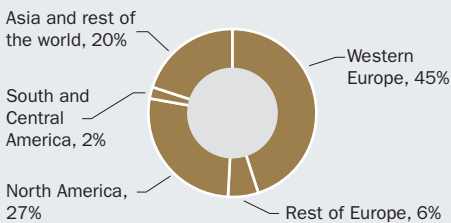
**EXAMPLES OF BRANDS/**

**PRODUCT NAMES:** American Variseal®, Busak+Shamban, Forsheda®, GNL, Nordex, Orkot®, Palmer Chenard, Polypac®, Rubore®, SF Medical, Shamban®, Silcotech, Skega®, Stefa® and Wills Rings®.

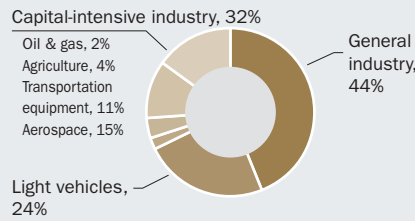
**KEY CUSTOMERS:** Global companies active primarily in general industry, including the healthcare & medical industry, and suppliers to aircraft and light vehicle manufacturers.

**PRINCIPAL COMPETITORS:** Federal Mogul, Fenner, Freudenberg, Greene Tweed, Hutchinson, Kirkhill-TA, Meggitt, NOK, Parker Hannifin, Saint Gobain, SKF, and Wolverine.

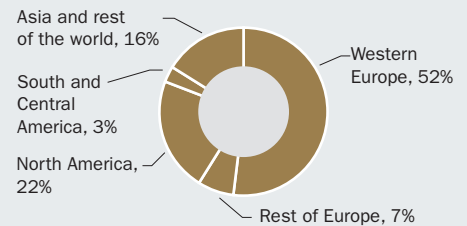
**Net sales per geographic market, %**



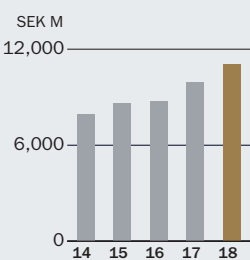
**Net sales per market segment, %**



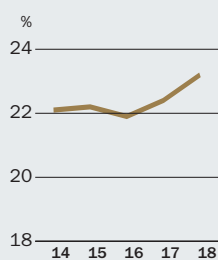
**Employees per geographic market, %**



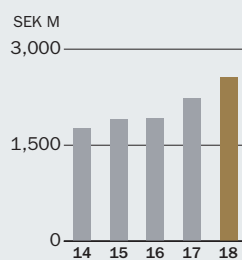
**Net sales**



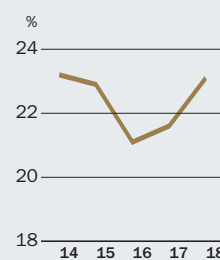
**EBIT margin**



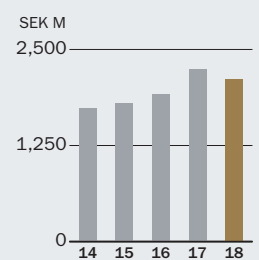
**EBIT**



**ROCE**



**Operating cash flow**



**BUSINESS AREA  
LONG-TERM TARGET  
FOR EBIT MARGIN  
>22%**

**Key figures, excluding items affecting comparability, SEK M**

	2018	2017
Net sales	11,049	9,956
Share of consolidated net sales, %	32	31
EBIT	2,559	2,231
EBIT margin, %	23.2	22.4
Capital employed	11,350	10,258
Return on capital employed (ROCE), %	23.1	21.6
Capital expenditures	510	387
Operating cash flow	2,120	2,241
Operating cash flow/operating profit, %	83	100
Number of employees at year-end, including insourced staff and temporary employees	6,799	6,356



# Trelleborg BUSINESS AREA Wheel Systems

Trelleborg Wheel Systems is a leading global supplier of tires and complete wheels for agricultural machines, materials handling and construction vehicles, and two-wheeled vehicles.

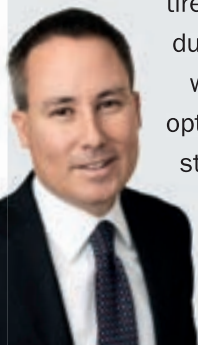


## “ Our customer relationships are the focus of everything we do.

New products and solutions are the result of such customer collaboration. Precision farming technologies are gradually transforming the agricultural industry into a high-tech business and our products are becoming increasingly intelligent.”

## “ The integration of the CGS

tire business continued during the year. We are working intensively to optimize the production structure and thus our capacity utilization.”



**Paolo Pompei,**  
Business Area President

**Customer integration.** The business area’s close cooperation with its customers worldwide is central for addressing shifts in the global market. For example, the business area has extensive co-engineering and co-marketing programs with major tractor manufacturers.

Trelleborg is a leader in the business of tires for agriculture and material handling vehicles, with a growing presence in selected niches for construction and two-wheeled vehicles. For example, an investment during the year was made in India via a joint venture to boost production capacity and operate more globally in niches for two-wheeled motor vehicles, such as enduro and motocross.

Two tire distributors were acquired during the year. The largest, TRS Tyre & Wheel, is based in New Zealand and is a distributor of tires and complete wheels for tire resellers and tractor dealers. The other acquisition, a tire distributor for material handling vehicles, such as forklifts, represents a strategic element for the growth of the Interfit concept, which offers a variety of aftermarket tire services, including answering customer-service calls and sending out service technicians.


The business area continued integration


of the CGS tire business, Mitas, during the year. The integration process is relatively complex and several projects are under way in key countries, such as Serbia and the Czech Republic, to optimize the production structure and thus capacity utilization. This work is aimed at realizing the synergies expected from the acquisition.

**Sales and earnings 2018.** Organic sales increased 2 percent compared with 2017. The organic sales trend for tires for agricultural machinery, material handling vehicles and construction machinery all developed well, with a somewhat weaker end to the year.

EBIT and the EBIT margin rose sharply, mainly due to synergies from acquisitions completed earlier and higher volumes. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 38 M on EBIT compared with 2017.

**MARKET SEGMENT**

 Tires and complete wheels for tractors and other vehicles used in agriculture and forestry.

 Tires and complete wheels for material handling vehicles, including forklifts and other highly utilized and high-load material handling vehicles, such as construction vehicles. High-performance tires for bicycles and motorcycles.

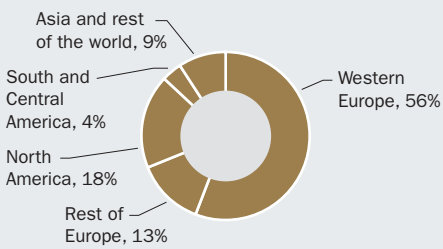
**PRODUCTION UNITS:** Brazil, China, the Czech Republic, Italy, Latvia, Serbia, Slovenia, Sri Lanka and the U.S.

**BRANDS:** Cultor, Interfit, Maximo, Mitas and Trelleborg.

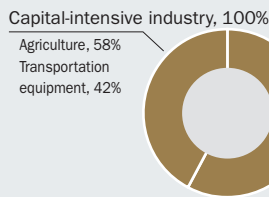
**KEY CUSTOMERS:** Manufacturers, distributors and dealers of agricultural and forestry machinery, and end customers. Manufacturers and distributors of forklifts, distributors and dealers of tires and tire service companies for material handling vehicles and construction vehicles. Suppliers of custom-made bicycles and motorbikes.

**PRINCIPAL COMPETITORS:** BKT, Continental, Bridgestone/Firestone, Goodyear/Titan, Michelin/Camso, Nokian, Vredestein and Yokohama/Alliance.

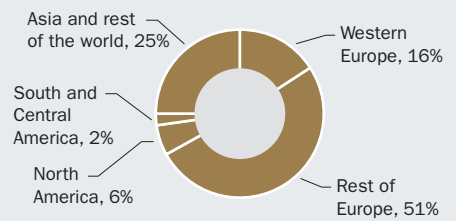
**Net sales per geographic market, %**



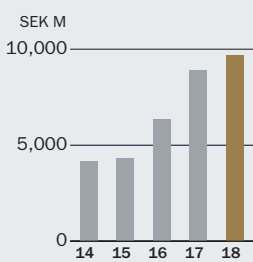
**Net sales per market segment, %**



**Employees per geographic market, %**



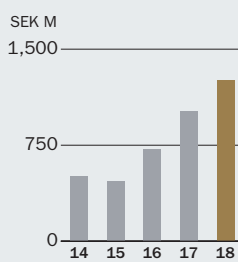
**Net sales**



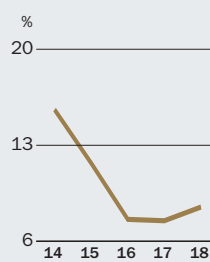
**EBIT margin**



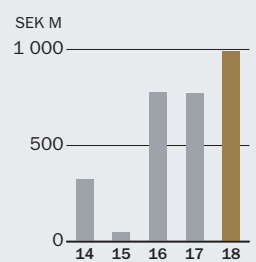
**EBIT**



**ROCE**



**Operating cash flow**



**BUSINESS AREA  
LONG-TERM TARGET  
FOR EBIT MARGIN  
>15%**

Key figures, excluding items affecting comparability, SEK M	2018	2017
Net sales	9,688	8,878
Share of consolidated net sales, %	28	28
EBIT	1,255	1,016
EBIT margin, %	13.0	11.4
Capital employed	14,808	13,936
Return on capital employed (ROCE), %	8.5	7.5
Capital expenditures	496	403
Operating cash flow	992	773
Operating cash flow/operating profit, %	79	76
Number of employees at year-end, including insourced staff and temporary employees	7,296	7,251

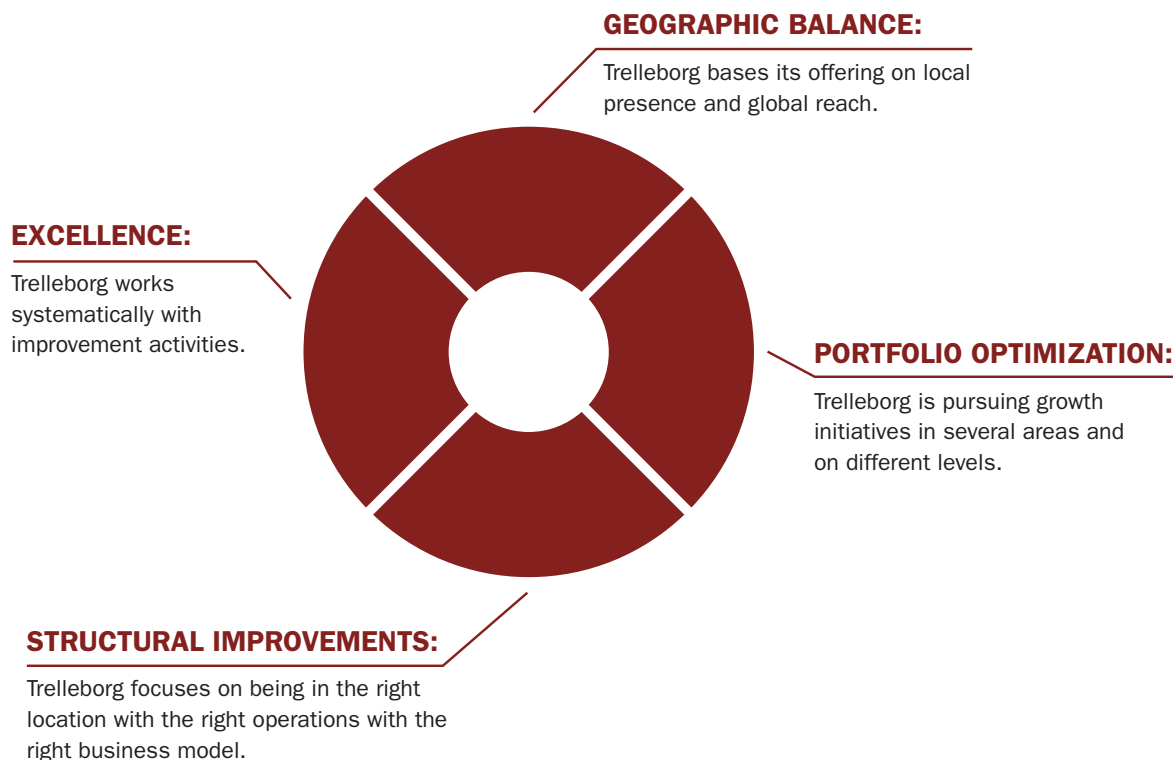


**Precision agriculture** is today used on more than 5 percent of the world's cultivated area, and this is forecast to increase to 20 percent within the next decade. Driverless machines and robots will become increasingly common, to enable agriculture to produce more with fewer resources.

One contribution from Trelleborg is the Variable Inflation Pressure (VIP) system, a smart tire construction that automatically adapts tire pressure to load and ground conditions. This has two effects in economic and environmental terms: better crop yield next season and lower power requirements when plowing.

# TRELLEBORG'S STRATEGY FOR LEADING POSITIONS

Trelleborg's strategy of securing leading positions in selected segments is supported by four strategic cornerstones. These ensure that all levels within the Group maintain focus and conduct activities that are in line with the strategy.

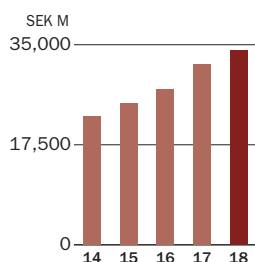


These are the cornerstones that Trelleborg works with Group-wide and in the business areas to optimize its respective operations and, thereby, capture market leadership. The cornerstones support the strategy individually and in combination.

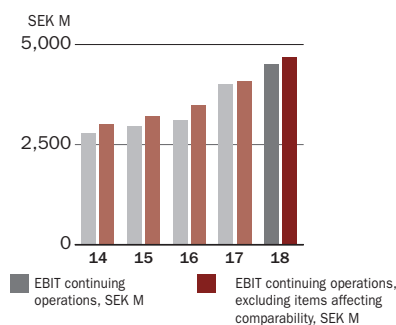
Trelleborg's continuous efforts to improve its geographic balance, optimize its portfolio, hone its structures and strive for Excellence have yielded consistent and strong results, even in years with lower growth. Since 2014, net sales have

increased 50 percent, profit, EBIT for continuing operations, has increased about 63 percent in the same period. In the same way, earnings per share reported a positive trend and grew approximately 45 percent.

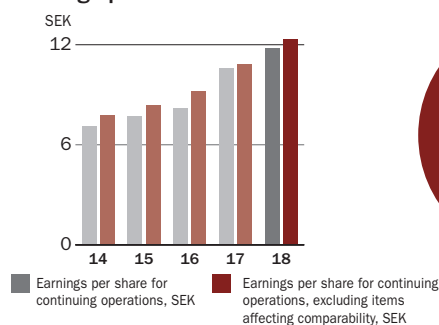
Net sales



EBIT



Earnings per share

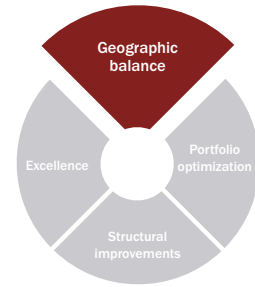


Acquisitions form part of Trelleborg's portfolio management



# Enhanced geographic balance

Trelleborg bases its offering on local presence and global reach.



**Geographic balance.** In recent years, Trelleborg has prioritized strengthening its market presence in selected markets outside Western Europe and North America to further improve the geographic balance.

The principal drivers include proximity to customers in expanding and profitable segments, following them in their globalization processes and developing local customer relationships, which may become global. Trelleborg's long-term ambition is to achieve a geographic balance, where Western Europe and the Rest of the World each account for an expected 40 percent of the Group's sales, while the remaining share is expected to continue being generated in North America.

However, the European and North American markets remain important for Trelleborg. The Group both acquires and invests in these geographic areas when it strengthens the total Group.

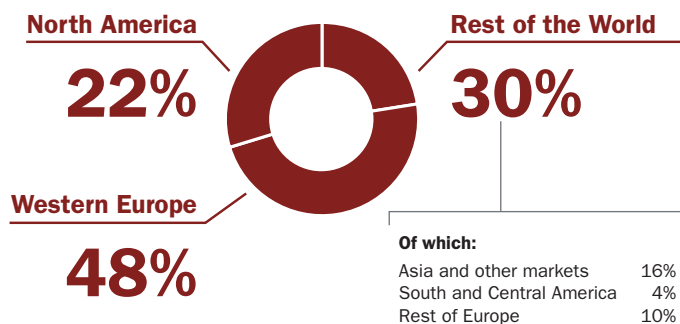
**Local presence, global reach.** Trelleborg's local presence in combination with global experience is often critical in business. This especially applies to the aerospace and automotive industries, which are truly global industries.

For example, in aerospace Trelleborg has the capacity to manufacture seals, bearings and airframe solutions using the same uniform standards, drawings and quality requirements worldwide. However, it is also important to have local technical support where customers conduct operations. A global customer can receive help with design and development work in one country while receiving support in manufacturing or assembly in another.

Another example where Trelleborg's

local presence and global reach is important is in the automotive industry. A clear trend here is that the number of global platforms from original equipment manufacturers is on the increase and the production of vehicles is becoming uniform across several continents. Trelleborg has followed this development. Operations for automotive boots for drive shafts and control system applications were, for example, originally European but are now based in four regions of the world.

## GEOGRAPHIC DISTRIBUTION OF THE TRELLEBORG GROUP'S NET SALES IN 2018



### CAR MARKET BOOMING IN CHINA

With the rapid growth of the Chinese car market, Trelleborg realized a few years ago that the existing Chinese production capacity for automotive boots in Wuxi in the Province of Jiangsu would not be sufficient. Instead of investing in an expansion, Trelleborg studied locations where the future hub for the Chinese automotive industry could be built. It chose Xiaogan in the Province of Hubei.

The Xiaogan facility has been in operation since 2017. With an annual capacity of 26 million boots, the new production site is designed to meet demand in China in the future. The construction of the facility was characterized by close cooperation between Trelleborg's Chinese and French teams. Trelleborg's business in France has been in operation for 25 years and is highly skilled in both production and product development.

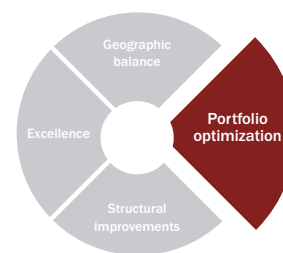
In a similar manner, Trelleborg has focused on a local presence in North America and North Africa.





# Continued portfolio optimization

Trelleborg is pursuing growth initiatives in several areas and on different levels.



**Correctly positioned business.** The Group pursues, based on the strategy to secure leading positions in selected segments, focused systematic activities involving a number of growth initiatives on several levels and in different areas.

The portfolio is being continuously reviewed to assess how the Group can continue to improve its positions in the selected segments. The rate of investment is, therefore, high as is the pace of development for new products and solutions.

Initiatives can be launched in several dimensions. They may concern the expansion into new segments, niches or product categories, or to new geographic areas. The customer segments in which the Group operates is another dimension, as are the aspects of its presence in mature and growing markets.

This includes Trelleborg's operations in antivibration solutions for rails and rail vehicles, vessel and industrial applications that have in recent years developed and grown due to a combination of product innovations, geographic expansion, structural improvements and acquisitions.

**Acquisitions and divestments.** Trelleborg is driven by an interaction between organic

and acquired growth. Trelleborg conducts acquisitions in attractive niches where opportunities exist to achieve competitive advantages and a leading position. This is a central activity and Trelleborg focuses continuously on new acquisitions that can develop the Group.

The portfolio optimization that has taken place, and is continuing today, is primarily within segments, in new geographic areas and in closely-related segments or technologies that broaden

Trelleborg's customer offering but also provide risk diversification.

During 2018, 4 acquisitions took place that contribute toward strengthening the Group in various ways.

Over the past decade, Trelleborg has divested some 15 businesses and shares in a major joint venture. These businesses were primarily in the automotive industry and were divested to obtain a more balanced market exposure, greater stability in cyclical fluctuations and an improved EBIT margin.

Acquisitions, 2018 <sup>1)</sup>	Sales (2017), SEK M	No. of employees
Laminating Coating Technologies, Inc. (Lamcotec) (coated fabrics for healthcare & medical), Trelleborg Coated Systems	185	60
TRS Tyre & Wheel Ltd (tire distributor), Trelleborg Wheel Systems	160	40
Industrial Tire Service (tire distributor), Trelleborg Wheel Systems	10	3
Dartex Holdings Ltd (coated fabrics for healthcare & medical), Trelleborg Coated Systems	135	75
<b>After year-end:</b>		
Sil-Pro, LLC (silicon and thermoplastic components for healthcare & medical), Trelleborg Sealing Solutions	350	320
Pneus ICM Inc. (tire distributor), Trelleborg Wheel Systems	23	8
<b>Total</b>	<b>863</b>	<b>506</b>
<b>Divestments, 2018 <sup>1)</sup></b>		
No significant divestments took place during the year.		

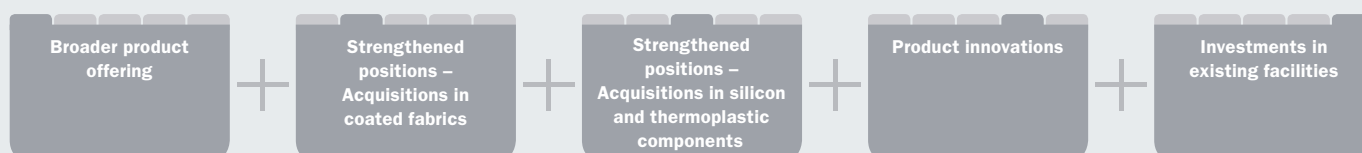
<sup>1)</sup> A list of Trelleborg's acquisitions and divestments since 1999 can be viewed at [www.trelleborg.com](http://www.trelleborg.com).

## STEADY GROWTH IN HEALTHCARE & MEDICAL

In recent years, Trelleborg has carried out several major investments and structural improvements in the area of healthcare & medical. Trelleborg's product range and innovations extends from the smallest seal in, for example, insulin pens to polyurethane-coated fabrics for hospital beds.

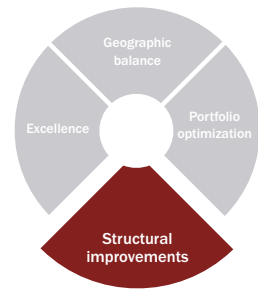
A large share of R&D conducted is released in the global market via North America and particularly the U.S. Trelleborg has therefore a presence in the U.S. with technologically advanced facilities that, for example, work with precise liquid injection-molding, using liquid silicon rubber (LSR) and manufacturing in cleanroom environments. Similar capacity is also available in Europe, with a world-class production site in both Switzerland and Bulgaria.

The bolt-on acquisitions carried out in the area strengthen the Group in various ways. The latest U.S. acquisition, Sil-Pro, broadened Trelleborg's product range in areas such as drug-eluting devices, skin substitutes for burns and chronic wounds, and components for continuous glucose monitoring systems that remove the need for routine finger-stick tests for people with diabetes. The 2018 acquisition of U.K. company Dartex and U.S. Lamcotec enabled Trelleborg to broaden its offering and strengthen the Group's positions as a premium supplier of engineered polyurethane-coated fabrics in healthcare & medical.



# Improved structure

Trelleborg focuses on being in the right location with the right operations and with the right business model.

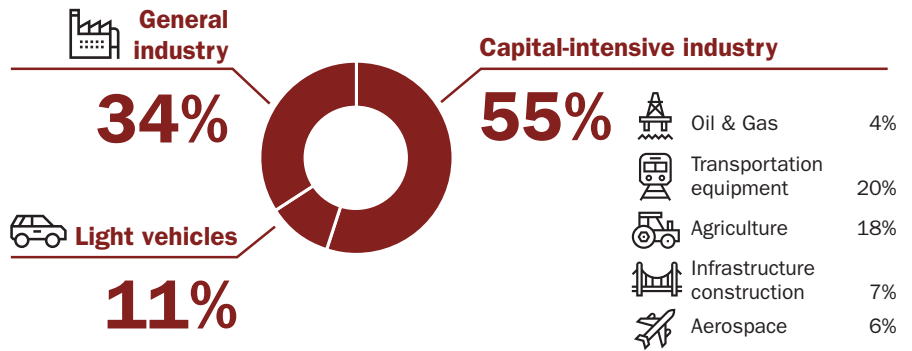


**Right place for right business with the right business model.** The globalization of Trelleborg's business involves being in the right location with the right operations. The focus is on developing operations and localizing them to areas where Trelleborg can grow and recruit the right talent and do the best job. In certain cases, this means that Trelleborg moves an operation to another geographic market; in other cases, it means upgrading and developing the operation where it is.

For example, in 2018 Trelleborg substantially upgraded an innovation center focusing on sealing solutions. The facility, which is located in Germany, forms the hub of a global R&D network for sealing solutions and houses laboratories with analysis and measuring equipment, premises for innovation and prototypes and a large testing area with a fully equipped tool room and a materials laboratory.

Trelleborg also consolidates operations to achieve better and more cost-efficient production structures. For example, in 2017 it was announced that the manufacturing of subsea buoys for drilling equipment in deep-water environments was to be discontinued at the facility in the U.S. and transferred to an operation in the U.K. This transition was ongoing during 2018 and is expected to be completed in the first half of 2019.

## SEGMENT DISTRIBUTION 2018



**Enhanced market exposure.** Trelleborg endeavors to maintain an exposure toward market segments that as a whole have a favorable balance between early and late cyclical industry, meaning general as well as capital-intensive industry, the demands from which often balance each other out. In this way, the Group's risks are spread during adverse cyclical fluctuations in individual segments.

**Leading in attractive segments.** Trelleborg invests in attractive market segments and ensures optimal market presence as well as an effective and competitive business

structure. This includes developing offerings that make life easier and increase value for customers but also developing and working within new business models.

Trelleborg also invests in new technology and machinery, human capital, international management, local managers and development of local markets, all with the aim of improving and honing its structure.

### CENTER OF EXCELLENCE FOR WHEELS AND RIMS

In 2018, Trelleborg concentrated all of its rim production to its facility in Latvia. This entailed the closure of the corresponding plant in Sweden during the year. The facility in Latvia now manufactures rims with diameters from 3 inches to 54 inches, intended for everything from forklifts and agricultural machinery to large forestry machines. The wheels, which are often customized products, are delivered to international original equipment manufacturers (OEMs) of agricultural and industrial vehicles.

The facility has worked with several improvement activities. The SMED method (Single-Minute Exchange of Die) helped reduce setup times for a production series from eight hours to one hour, which saves the plant about EUR 85,000 per year. The team in Latvia has also worked with Hoshin planning, which freed up approximately 1,000 square meters available for new machines and more operators, at the same time as improving efficiency. The entire process flow was reviewed and throughput improved by 20 percent. In addition to the actual changes, it was noted that operators felt a greater sense of responsibility and commitment for their actions.



# Excellence in core processes

Trelleborg works systematically with improvement activities.



**Excellence.** Trelleborg works proactively and systematically to further optimize the core processes: purchasing, production and sales, where the supply chain is a common thread through all these elements. Starting in 2019, People Excellence will be added as part of Trelleborg Excellence.

The long-term aim of the Excellence programs is to boost value generation for Trelleborg’s customers through systematic work with tools, training, exchange of experience and other improvement activities at all units.

**Purchasing Excellence.** Trelleborg works systematically to ensure increased competi-

tiveness in all aspects of its purchasing function. Standardized processes and tools are to be applied – regardless of who implements a purchase – with a clear set of objectives and deadlines for all potential suppliers.

**Manufacturing Excellence.** The purpose of this program is to work systematically to improve production in relation to Safety, Quality, Delivery Precision and Efficiency. The focus is on minimizing non-value-generating activities and identifying and correcting deviations through daily efficient control. The vision is Zero accidents, Zero defects, Zero delays and Zero waste. Each

site has an individualized improvement program with monthly follow-up.

The work environment and resource efficiency are integrated parts of Manufacturing Excellence.

Refer to pages 58–61.

**Sales Excellence.** The program aims to contribute to increased sales and growth via an improved sales process and standardized sales tools. The program also focuses on strategic marketing and positioning, digital market communication and pricing.

**Supply Chain Excellence.** This program commenced in 2018 and permeates purchasing, production and sales. The goal is to improve planning processes that link all parts of the supply chain with a clear customer focus at all stages. The overriding target is to improve delivery capacity while optimizing inventory levels thereby reducing tied-up capital.

**People Excellence.** The program starts in 2019 to support leaders at all levels in building strong teams and untapping people’s potential to deliver higher performance.

## TRELLEBORG EXCELLENCE



### FOCUS ON MAINTENANCE SPECIALISTS

It is essential to keep machinery running to guarantee an even production flow and timely delivery to customers.

Trelleborg’s Manufacturing Excellence has existed for more than 10 years. One of the key elements is the Manufacturing Excellence School, which offers a broad education in the principles of Lean Manufacturing. A new course began in 2018 with the aim of training specialists in Total Productive Maintenance (TPM). TPM is a form of miniature production system aimed at improving Overall Equipment Effectiveness (OEE). In other words, the aim is to eliminate losses when a machine is in operation – downtime, quality losses, and waiting to manufacture a product, such things that cost money rather than add value.

Trelleborg’s already trained specialists will initially conduct TPM projects locally, but will also be available as experts for other facilities that need help to develop their TPM expertise.





# INNOVATIVE SOLUTIONS FOR BETTER SUSTAINABILITY

Trelleborg's innovative products and solutions are found many different areas of society. They contribute to greater sustainability for customers and for society as a whole.



Trelleborg's products and solutions improve sustainability for customers and for society in general. They protect in a number of ways what is important, such as the environment, people, infrastructure and other assets. They save energy, cut emissions and protect the soil. They contribute to good health. They reduce noise and vibrations, creating a quieter and more comfortable work environment. They extend the service life of community infrastructure, such as bridges, tunnels and skyscrapers.

This creates a triangle *Trelleborg - Customers - Society* where all parties reap

the benefits achieved from innovative solutions that contribute to better sustainability.

Some typical sustainability-related properties of the company's products are described on the next page. Trelleborg works with the effect of such products for better sustainability both for customers and society. This work is also to achieve the UN's Sustainable Development Goals, particularly in the areas of environmental and energy issues, food and health and in cities and infrastructure. Refer to pages 36–37 and 42–45.

The company's commercial progress is

therefore connected to sustainable development. The transition to a sustainable society creates a wealth of business opportunities for Trelleborg as an innovative world leader in engineered polymer solutions.

The company naturally works at the same time to steadily improve earnings with respect to internal sustainability work, and the UN goals are used to guide these improvements. Refer to pages 36–37.

**SOLUTIONS THAT PROTECT WHAT MATTERS:  
PEOPLE, ENVIRONMENT, INFRASTRUCTURE AND ASSETS**



Better sustainability is the common factor for Trelleborg's products and solutions that protect important parts of society: people, environment, infrastructure and assets. Examples of some of the most important needs satisfied by the solutions are given below. These needs coincide well with a number of the global goals defined by the UN. Refer to the column to the right and pages 36–37 and 44–45.

**TRELLEBORG'S SOLUTIONS SATISFY THE NEEDS OF SOCIETY**

**People's health and food**

- » Healthcare & medical products with a direct function or effect on people's health.
- » Dartex mattress material for healthcare that prevents pressure ulcers.
- » Antivibration solutions that reduce noise and vibrations in vehicles and industrial production operations.
- » Agricultural tires designed to protect crop yield and save fuel.
- » PneuTrac hybrid tires that protect the soil in vineyards and orchards with steep slopes.

**Sustainable environmental and energy solutions**

- » Cable solutions for wind farms.
- » Solutions that offer safe deep-sea mining, fire protection solutions on oil platforms.
- » Energy-optimized sealing solutions minimize losses from friction.
- » Sealing profiles for windows and doors as well as entire facades.

**Sustainable cities and infrastructure**

- » Solutions that offer increased safety and extend the service life of bridges, tunnels, buildings and pipe systems.
- » Watertight solutions that protect cities and cultural sites.
- » Seals for pipe systems for freshwater and wastewater that remain sealed during earthquakes.
- » Railway solutions that prevent abrasion damage to wheels and track profiles and reduce energy losses.
- » Noise damping "slipper", a spring that keeps brake pads in place and reduces noise from vehicle brakes.

**UN GOALS WITH A BUSINESS POTENTIAL FOR TRELLEBORG**

**PEOPLE'S HEALTH AND FOOD**



**Zero hunger**  
**Goal 2** is to end hunger, achieve food security, achieve better eating habits and promote sustainable agriculture.



**Good health and well-being**  
**Goal 3** is to ensure that everyone can live a healthy life and to promote well-being for all people of all ages.

**ENVIRONMENTAL AND ENERGY SOLUTIONS**



**Clean energy**  
**Goal 7** is to ensure that everyone has access to reliable, sustainable and modern energy at an affordable price.



**Climate action**  
**Goal 13** is to take immediate action to combat climate change and its effects.

**CITIES AND INFRASTRUCTURE**



**Clean water and sanitation**  
**Goal 6** is to ensure access to sustainable management of water and sanitation for everyone.



**Sustainable industry, innovation and infrastructure**  
**Goal 9** is to develop a resilient infrastructure, promote an inclusive and sustainable industrialization and promote innovation.



**Sustainable cities and communities**  
**Goal 11** is that cities and settlements are to be inclusive, safe, resilient and sustainable.

Read more about products and business opportunities on the next page.



# SOLUTIONS FOR BETTER SUSTAINABILITY AND THE UN'S GLOBAL GOALS

In addition to being functional and driving business, Trelleborg's products and solutions should also contribute to better sustainability for customers and society. The solutions are in line with the UN Sustainable Development Goals. They protect the environment, people, infrastructure and assets.



## LONGLASTING SOLAR ENERGY

Trelleborg's sealing profile solution for solar panels seals well, looks attractive and is easy to install. This guarantees a long service life for both the solar panels and the building under.



## INNOVATIVE PROTECTION OF WIND FARMS

NjordGuard is a cable protection system used to protect the cables carrying the electrical power generated by wind farms from the converter platform back to shore. It is designed to manage the increased amount of heat generated by power cables.



## SIGNALING FOR CHANGE AT THE RIGHT TIME

Pit Stop Line from Trelleborg has been developed to indicate when a tire on a forklift must be replaced. An orange line appears on the surface of the tire when the tire has about 80 to 100 hours of service life remaining.



## PROTECTING CITIES AND CULTURAL SITES

Watertight infrastructure – with seals from Trelleborg – plays an important role in protecting cities and cultural sites from flooding in every corner of the world, from Los Angeles to Venice and St. Petersburg.



**TIRES FOR GREATER SUSTAINABILITY**

Trelleborg's tire solutions for the agricultural sector are built on qualities that reduce climate impact while improving performance in terms of reduction of work hours, soil compaction and fuel consumption.



**MEDICINE VIA PLASTERS**

Trelleborg is working with device developers and manufacturers of advanced microneedle patches using liquid silicone rubber (LSR) for drug delivery systems. When a patch is applied, the needles penetrate the skin and the drug is administered to the body.



**AVOID LEAKAGES AND TECHNICAL DISRUPTION**

Trelleborg's trenchless technology offers an environmentally friendly alternative to the replacement of sewer pipes. The technology seals pipes from the inside. This method avoids problems that occur in connection with digging up streets, polluting the air and obstructing traffic.

**TRELLEBORG AND THE GLOBAL GOALS**

The UN Sustainable Development Goals introduced in 2015 encompass 17 areas that are of key significance to the world. In many of these areas, Trelleborg can – particularly through its innovative solutions – make an important contribution to social development worldwide. See also pages 42–45.

UN Goals	Trelleborg's solutions contribute to sustainable development	Trelleborg's internal sustainability
		Decent wages and remuneration.
	Sustainable agriculture. Sustainable systems for food production.	
	Components in medical equipment. Administration of medicine and vaccines.	Work in health and safety. Reduced air pollution.
	Support for local educational projects within the framework of the Social Engagement focus area.	Education for lifelong learning at Trelleborg, for example, via Trelleborg Group University. Cultural and ethnic diversity in the organization.
		Work against discrimination and harassment. Greater gender equality is part of diversity work.
	Safeguarding and protecting water resources.	Efficiency enhancements in water use. WASH, meaning water-related hygiene services, available everywhere they are needed.
	Safe extraction and transport of energy. Components for wind, solar and hydro power solutions.	Gradual transition to renewable energy in production. Increase in local renewable energy produced internally.
		Decent working conditions at all workplaces. The company's economic development and value generation for society.
	Reliable, sustainable, resilient and high-quality infrastructure.	Steady efficiency improvements to all key processes. Sustainable industrialization.
		Local community involvement, particularly in countries where the initiatives make the most difference.
	Protection against earthquake and water-related catastrophes, and unnecessary noise. Protecting and safeguarding the world's cultural and natural heritage. Safe, reliable and sustainable transportation systems.	Safe chemicals handling and increased recycling.
		Constant improvements in waste efficiency. Transparent sustainability reporting. Developing digital products and services. Increased circular approach in processes and products.
	Build resilience against climate hazards and catastrophes.	Trelleborg's own climate targets "15 by 15" (in 2015) and "20 by 20" (in 2020). Transparent climate reporting to CDP.
		Efficient water use and sustainable water management. Concern for biodiversity. Strong economic presence in island nations, such as Sri Lanka and Malta.
		Concern for ecosystems and biodiversity.
	Preventive measures across the value chain against child and forced labor as well as against corruption and anti-competitive measures.	Zero tolerance to child and forced labor as well as to corruption and anti-competitive measures.
	Signing and supporting sustainability initiatives, such as the UN Global Compact, applying international standards for sustainability reporting (GRI), climate reporting (CDP) and environmental management systems (ISO 14001).	Internal Code of Conduct – updated in 2019 – based on international agreements and guidelines. Review of and collaboration with suppliers for greater sustainability.

# FOCUSING ON MAKING IT EASY FOR CUSTOMERS

Trelleborg focuses on making it easier for customers to do business with the Group. The ambition with digitalization is to use the new technology to simplify both internal processes and external offerings.

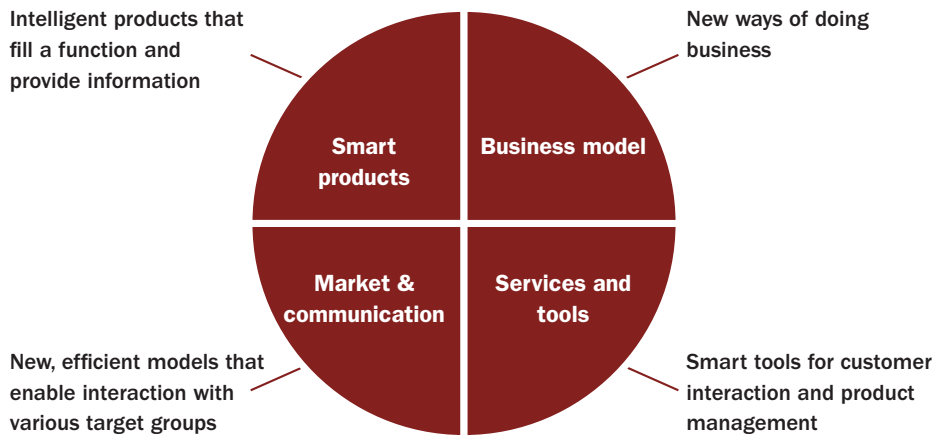
**New technology enables new ways to generate value** for and interact with customers. Trelleborg offers various services supported by digital tools to make life easier and increase value for its customers. This involves smart products with built-in sensors and tracking systems, but also making it easier to do business with Trelleborg via online design programs and digital channels, such as web-based and mobile applications. As a result, Trelleborg's business is increasingly shifting from supplying products to also delivering service and solutions.

The Group is also investing in smart technology in manufacturing and in various smart logistics solutions.

**The focus of Trelleborg's work** with simplification driven by new technology is on four areas: *Smart and intelligent products* relates to products that provide enhanced functionality and knowledge. *ConneCTire* is, for example, a sensor-based smart tire that monitors two basic variables; tire pressure and temperature. The integrated GPS functionality also registers the tractor's position, which helps to keep lone workers safe at the same time as reducing the risk of theft. Farmers can also use it to monitor the number of machines driving over each square meter of land, which helps to reduce soil compaction.

*Marketing and communication* relates to various ways to interact with different target

## EASIER TO DO BUSINESS WITH TRELLEBORG

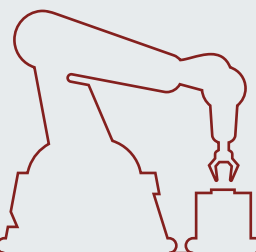
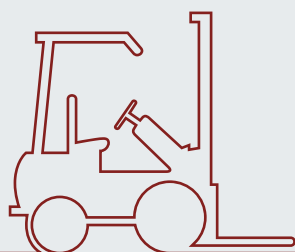
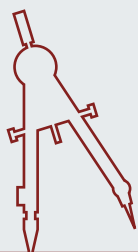


groups. For example, new ways of adapting to specific target groups and using engaging digital marketing and cutting-edge communication in order to strengthen the brand and reach existing and new customers.

New ways of doing business could entail developing and working with *new business models*. One example of this is Trelleborg's online selling. *Seals-Shop.com* is an e-commerce platform focusing primarily on hydraulic seals for the Maintenance, Repair and Operations (MRO) market and smaller

Original Equipment Manufacturer (OEM) customers in Europe. The platform is constantly evolving with new functionality and currently offers approximately 13,000 different seals.

Various *services and smart tools* can interact with customers and manage products. This could include advanced logistics solutions with kitting or solutions that allow customers to design their own products and solutions using, for example, apps.

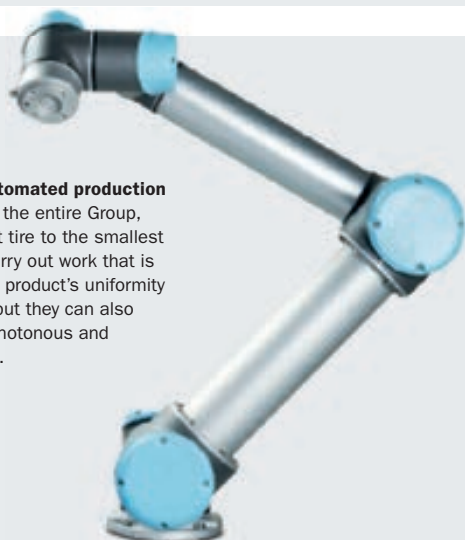


Customers who buy sealing solutions from Trelleborg are invited to be part of a **series of service innovations**. The aim is to simplify the customer's work

flows throughout their supply chain. This may, for example, involve helping customers automatize reordering by using the innovative IntelliStok

solution. Based on sensors, IntelliStok detects demand for replenishment and initiates reordering automatically, without any manual work involved.

**Robots and automated production** are used within the entire Group, from the largest tire to the smallest seal. Robots carry out work that is necessary for a product's uniformity and precision, but they can also be used for monotonous and repetitive tasks.



**SmartPort** is the collective term for Trelleborg's solutions in marine systems. These are products and equipment for berthing, docking and mooring but also a technology platform that communicates with and provides valuable data to vessels, pilots and port authorities, in order to make navigation and berthing more efficient and safe.



**Cognitive seals** monitor various properties related to the seal. For instance, this could be a change in oil pressure that triggers a signal that it is time to change the seal.



**Smart hoses** that signal when it is almost time to replace them help avoid unnecessary maintenance and production downtime.



Trelleborg offers some thirty apps with a variety of objectives. Some have been developed for small, but key, customer groups. The Trelleborg Unit and Hardness Converter app has, on the other hand, reached most users, with more than **1,430,000 downloads**.



Trelleborg's **variable inflation pressure (VIP)** system consisting of a set of sensors measuring several parameters along with an electronic central processor controlling a compressor and valves to adjust the pressure of an agricultural tire.



**Strategic marketing** is used to strengthen the brand and identify potential customers. To effectively process, track and measure potential business, there is particular focus on the use of digital marketing channels, such as the web and social media and on marketing automation.





# GLOBAL TRENDS THAT INFLUENCE TRELLEBORG

Trelleborg operates in market segments where the Group has the best conditions for achieving favorable profitability and leading positions. The global trends influence how Trelleborg positions itself in the market.

In a constantly changing world, there are favorable prospects for Trelleborg to continue to hold leading positions in selected segments. Demand exists for advanced, engineered and integrated solutions and the current development of technology benefits organizations such as Trelleborg that encourage rapid, proactive

leadership under responsibility. Significant potential for business success is mainly found in the high-growth economies of Asia, a region in focus for Trelleborg.

Trelleborg evaluates aspects and relevant outcomes of global megatrends, such as the changed dynamic of the global economy,



## Global trends



Geo-economic changes and shifts in power



Accelerated technological development



Interconnected markets and urbanization



Resource efficiency for sustainability



the interdependence between countries, cities and markets, the increasing scarcity of natural resources and demographic changes. These and other factors influence how Trelleborg positions itself in the market.

## A changing world

**The growth that is taking place** and is expected to continue in Asia demonstrates geo-economic and geopolitical shifts in power eastwards. China is becoming the largest global economy at the same time as traditional power structures in the West are changing. Africa is eventually expected to follow Asia as a high-growth region. Global economic growth could slow because of the political and social changes facing several influential countries and geographical areas.

**New technological solutions** that are simpler and often more cost-efficient than existing ones, known as disruptive technologies, are being developed rapidly. Resources are being used to find values in big data, which is often used as a basis for increased digitalization of goods and services.

**Population movements** from rural areas to cities is continuing. At the same time, globalization is moving markets and people closer together resulting in rising global trade, increased transportation and flows of capital. Urbanization entails, for example, growing demands for efficient cities and also a sustainable countryside that can produce more for more people.

**Global population growth** and economic growth in certain geographies in the form of an expanding middle class is making demands on a more efficient and sustainable society. Negative climate change and scarce natural resources, such as water, oil, grain and minerals, are major challenges for all stakeholders to solve. Local environmental regulations are being implemented to promote sustainable energy and lower emissions.

## Trelleborg's positioning

**The local** presence and global reach of Trelleborg provides strength where the Group's local team can offer customers the expertise and production resources of a global company. The drivers include proximity to customers in expanding and profitable segments in different geographic areas.

**Trelleborg** is investing in making life easier for, and interacting with, customers by taking the lead in developing smart products, efficient business models, simple digital tools and communication solutions. The Group is also investing in smart technology in manufacturing and in smart logistics solutions.

**Trelleborg's** experience of global infrastructure and civil engineering projects provides support for customers when they are specifying requirements for products that often have to last a lifetime or longer. Trelleborg is also developing innovative engineered solutions for sustainable agriculture that also facilitate a faster transition to automated mechanical and industrial solutions.

**Trelleborg** is to conduct its business in a sustainable direction. Most products and solutions have distinct properties and effects that contribute to a more sustainable society, while the Group is working for a safe and efficient use of resources. In terms of energy and climate, focus is on energy consumption and also direct emissions caused by energy produced internally and indirect emissions from purchased energy.

# TRELLEBORG'S MARKET SEGMENTS

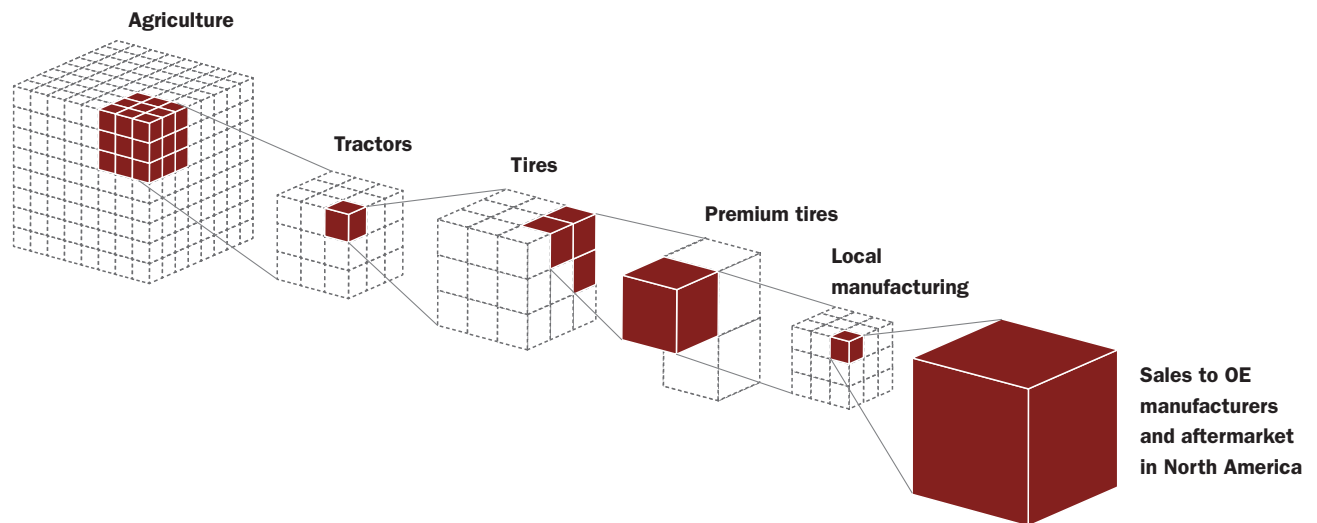
Trelleborg's strategy is to secure leading positions in selected segments. In these segments, Trelleborg is positioning itself in attractive niches or product categories with the aim, in each individual case, of being among the three top players in terms of market share.

**Investments in several dimensions.** Several factors determine the choice of niche or product category in a mature or growing market; stage of the value chain, customer categories, global and local conditions and so forth. The portfolio is being continuously

reviewed to assess how the Group can continue to improve its positions. The rate of investment is, therefore, high as is the pace of development for new products and solutions.

Trelleborg is active in 7 market

segments that are a mix of general industry, capital-intensive industry and the automotive industry. The following pages describe these segments with examples from niches in which Trelleborg has chosen to invest.



## Resting protectively



**34%**

OF TRELLEBORG'S SALES

**General industry.** Trelleborg's offering includes antivibration systems, polymer-coated fabrics, hoses, expansion joints, seals and bearings.

A bed is probably thought to be the most basic item in terms of patient care. However, its construction and the textile it is covered in can suppress the development of pressure ulcers.

Trelleborg's polyurethane-coated fabrics for support surface fabrics are known in the industry and have set the standards of the hospital bed world.

The challenge in engineering a mattress textile is to achieve a balance between breathability and durability. Breathability is important for the patient to remain cool and comfortable.

Durability is vital to avoid cracks or puncture.

The more durable a cover is, the less breathable it is, and vice versa. For Trelleborg, it is therefore essential to understand the use of the mattress. For example, for a mattress used in a burns unit, where a patient would have exuding wounds, breathability would be the priority to keep the skin cool and dry – while for a mattress for community use, where it is likely to be moved frequently from bed to bed and perhaps handled robustly, durability becomes important.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 3: GOOD HEALTH AND WELL-BEING**



**4%**

OF TRELLEBORG'S SALES

**Oil & gas.** Trelleborg's products and solutions are used from the platform to the seabed, both in oil & gas and in renewable energy. These products include specialty seals, buoyancy modules, thermal insulation, cable and flowline protection, fire protection and other engineered solutions.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 9: SUSTAINABLE INDUSTRY, INNOVATION AND INFRASTRUCTURE**



When it comes to fire, there are no shortcuts. Passive fire protection solutions based on polymers can play a vital role in ensuring the protection of people, structures and equipment. The offshore environment is one example of an extreme environment with a high fire risk. Exposed to the corrosive effects of the sea, platforms also have to withstand the vibration of oil pumps and the motion of waves.

The solutions that Trelleborg offers prevent the spread of fumes and flames and also damp vibration and give noise protection.

A rubber-based compound can be molded to fit

each section of offshore risers, or vertical pipeline, in the "splash zone" – the area between the water's surface and the platform. Covering this vulnerable area with this durable, polymer-based, corrosion-free fire-protective coating ensures full protection. When it comes to protecting the platforms' helipads and other surfaces from fire, tiled rubber surfacing is used. Besides offering fire protection, it can withstand corrosion and wear, and is highly resistant to abrasion, impact, blasting and jet fire.

## Straight into a curve



Getting a train around a bend is a bit like getting a square peg into a round hole. Railroad wheels want to go straight ahead.

A Trelleborg innovation allows the wheels to soften up when they go through a curve by allowing the alignment of the wheel and the axle to be varied in response to different running conditions. This is done by allowing hydraulic fluid to flow between two cavities in the unit according to the frequency of the vibration of the axle.

When the car is moving fast and straight, the frequency of the vibration in the system is higher, and the high frequency prevents hydraulic fluid from moving through the tube. That makes the system rigid and the wheels and axle run tightly in the bogie. When the car is moving through a curve, the frequency of the vibration is lower and the fluid can move along, allowing the wheel to steer in the direction of movement.

The technique stops the screeching of the wheels on a tight curve. Screeching is a sign that the wheels are producing very high friction levels. This can cause damage to the profiles of both wheels and track, potentially necessitating regular regrinding and replacement, and wasting a large amount of energy.



**20%**

OF TRELLEBORG'S SALES

**Transportation equipment.** Trelleborg offers a number of antivibration, acoustic and sealing solutions for rail vehicles, as well as tires and complete wheels for various types of material handling vehicles and construction vehicles.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 11: SUSTAINABLE CITIES AND COMMUNITIES**





**18%**

OF TRELLEBORG'S SALES

**Agriculture.** Trelleborg offers a range of applications for agricultural machinery, such as tires and complete wheels, seals, antivibration systems and engineered molded components.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 2: ZERO HUNGER**

## On track with PneuTrac

The steep slopes and muddy terrain of vineyards and orchards can make maneuvering a tractor tricky. Trelleborg's PneuTrac is a tailored solution that helps makes fruit cultivation both productive and sustainable. In short, it is a hybrid solution. PneuTrac combines the advantages of a radial agricultural tire in terms of fuel efficiency, comfort and handling, with the footprint and traction benefits of a track. It delivers unbeatable performance on difficult terrain and reduces downtime to virtually zero.

For years, Trelleborg has been working to meet the specific needs of fruit farmers, listening carefully to their increased demands for innovation and cutting-edge technology.

PneuTrac is a tire engineered to boost a farming operation's productivity, sustainability and efficiency. For example, the roots of vines are incredibly precious and susceptible to damage. As with conventional agriculture, the top soil needs to be protected and machine slippage could easily damage both the soil and roots. PneuTrac delivers all the flotation of a conventional agricultural track while reducing the total width of the track compared with a standard tracked solution.



## Withstanding seismic shocks

When a major seismic event occurs, the tremors and aftershock can be devastating for the surrounding communities and infrastructure. Fully functional underground pipeline systems are a cornerstone of the modern urban human community, carrying fresh water for drinking and washing, and channeling away both stormwater and sewage. If pipes buckle or burst, the damage can cause critical disruption to society and present a significant danger to public health.

Flexible connector seals in infrastructure systems are essential because they allow for

lateral joint movement. Flexible pipes with Trelleborg's seals have performed well in places where earthquakes are common, with significantly fewer breaks and leaks observed compared with other commonly used nonflexible pipes. Trelleborg offers a series of flexible pipe connectors including seals for concrete pipes and manholes. The most widely used flexible connector in sanitary sewer applications throughout the world, Trelleborg's Kor-N-Seal, is easy to install and meets specifications for resilient connectors between reinforced concrete manhole structures, pipes and laterals.



**7%**

OF TRELLEBORG'S SALES

**Infrastructure construction.** Trelleborg's offering extends from seals and antivibration solutions in construction vehicles and equipment for solutions for ports, marine equipment and marine technology to seals and bearings used in construction and civil engineering projects.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 6: CLEAN WATER AND SANITATION**



## Seals in the sky

Within aerospace, quality and reliable solutions are crucial because safety is the most important aspect of aircraft manufacturing.

Almost no aircraft in the world take off without advanced solutions from Trelleborg on board. Trelleborg was pioneering in its work with polytetrafluoroethylene (PTFE) as a sealing material and its Turcon compounds and proprietary seal design have become the industry standard.

The Turcon material, with its low friction properties, wide operating temperature range and resistance to lubricants, is an ideal solution for hydraulic systems. Hydraulic systems are used on all parts of the aircraft, for example, in controls, brakes, suspension and landing gear. All flight control surfaces on the wings and tail of larger aircraft



are also maneuvered hydraulically. These systems require countless seals, and in most cases the requirement is for combinations of different types of seals. Their job is partly to

keep the hydraulic media on the outside and lubricants on the inside, and partly to generate a back-pumping effect to increase the degree of efficiency.



## Noiseless brakes

There is nothing worse than the sound of squealing brakes or the dreaded clunking of calipers. A key piece of hardware can completely solve the problem: the damped abutment clip, otherwise known as the slipper.

Trelleborg has a unique solution that can be tailored to any sliding caliper brake system, ensuring its smooth operation.

Imagine a carefully engineered "layer cake" with a temper-rolled stainless steel core coated with PTFE (polytetrafluoroethylene) and rubber, holding

the brake pad in place. Sandwiched between the brake pad "ear" and contact points in the anchor bracket, the abutment clip dampens the clunk or low-frequency noise by decoupling the pad ear, isolating it from the anchor bracket and preventing in-plane energy from being transmitted to the calipers. It also enables the easy retraction of the pad on the release of brake pressure, reducing the risk of residual drag.

 **6%**

OF TRELLEBORG'S SALES

**Aerospace.** Trelleborg's offering extends from seals on an aircraft to engineered coated fabrics for airships and thermal insulation in space rockets.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 11: SUSTAINABLE CITIES AND COMMUNITIES**

 **11%**

OF TRELLEBORG'S SALES

**Light vehicles.** Trelleborg offers seals for fuel systems and exhaust systems, composite technology designed for damping and sealing as well as polymer solutions for drive shafts, for example, and coated fabrics for brake shims.



**TRELLEBORG'S CONTRIBUTION TO UN GOAL 9: SUSTAINABLE INDUSTRY, INNOVATION AND INFRASTRUCTURE**





Natural rubber is included in tire products from Trelleborg. An outline of principles of the value chain for natural rubber is available on page 56.

In 2018, long-term dialogs were conducted with natural rubber producers and also included a visit to a factory and plantation in the Ivory Coast, where the supplier SAPH runs social projects with living quarters, daycare, schools and health centers in addition to rubber production (refer to text and images on page 67).



# WE PROTECT WHAT MATTERS



**With regard to sustainability**, Trelleborg has an important role to play in society's transition. One important part of the UN sustainable development goals (read more on pages 34–37) is the goals that we can help to solve through our products and innovation capability. Through our expertise of polymer solutions and how they can best be designed for various uses.

**Over the past year**, we have formulated what we have used as a guiding principle ever since the company was established more than 100 years ago. That we *protect what matters* has been true for Trelleborg ever since the time of raincoats, since bike and passenger car tires were our main products. And it is truer than ever today, when our products and solutions are everywhere and protect people, the environment and infrastructure. They remove noise and vibrations, save energy and reduce emissions, and extend the service life of bridges, tunnels, pipe systems and buildings.

At the same time, our production naturally impacts the environment, for which we assume responsibility and wish to minimize in every way possible. This may involve climate impact, water consumption, emissions or waste management. The same is true for all resources used in our production process: We are to minimize all waste.

**This is our clear vision:** We are working as part of Excellence toward zero accidents, zero waste, zero late deliveries and zero complaints due to quality defects. These long-term targets on the horizon mean we must raise the bar and be better and more efficient on all relevant measurement points. In line with this and starting this year, we are also introducing into our reporting a ten-year follow up of key sustainability figures in order to monitor trends. Refer to page 143.

In terms of safety, we will intensify our efforts. Even if almost all figures are pointing in the right direction, we cannot be satisfied. For a company that always reports no fatal accidents, the two fatalities reported in 2018 are unacceptable. Trelleborg is to be a safe and very secure workplace regardless of where you work worldwide. We have therefore taken stock of similar risks everywhere in our production process in order to eliminate these. New tools and e-learning are being used to continue our global safety efforts – once again to protect what really matters.

**Climate impact is being discussed everywhere** following a year when its effects are increasingly visible in society. Trelleborg continuously monitors ongoing climate changes and measures and what these entail in the form of risks and business opportunities for our own operations and our facilities, and we are striving for continuous improvements. To highlight the current situation, we have added extra space in this annual report (pages 52–53) that explains general developments in climate work, where Trelleborg stands today and what we want to achieve moving forward. Such an important issue deserves to be clearly explained.

Peter Nilsson, President and CEO



## TRELLEBORG AND THE UN GLOBAL COMPACT

Since 2007, Trelleborg has been affiliated with the UN Global Compact network, an initiative to promote responsible business practices in the areas of the environment, labor, human rights and anti-corruption.

## REPORTING ACCORDING TO GRI STANDARDS AND THE SWEDISH ANNUAL ACCOUNTS ACT

Trelleborg's 2018 Sustainability Report is based on GRI standards, the Global Reporting Initiative's Sustainability Reporting Guidelines, with Core options. See the GRI Content Index on page 69. For more information and a detailed GRI Content Index, refer to the separate 2018 Sustainability Report, which can be downloaded from [www.trelleborg.com](http://www.trelleborg.com). The 2018 Sustainability Report is adapted to regulations for sustainability reporting in compliance with the Swedish Annual Accounts Act.

## EXTERNAL ASSURANCE

Deloitte has performed a limited assurance of the sustainability report with focus on the most significant areas. Refer to Deloitte's Assurance Report on page 141.

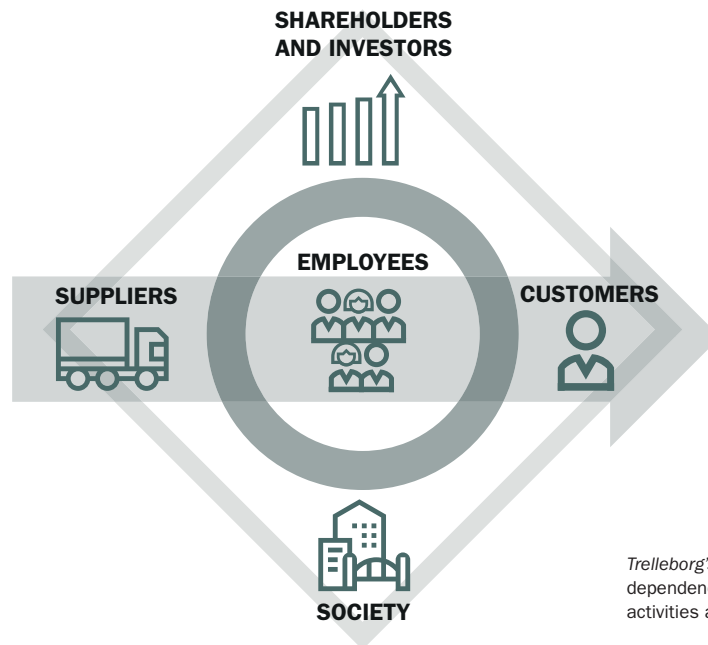
**FURTHER INFORMATION ON THE TRELLEBORG GROUP'S SUSTAINABILITY GOALS AND OUTCOMES CAN BE FOUND ON PAGES 10–11 AND 143 (TEN-YEAR OVERVIEW).**

**READ MORE ABOUT TRELLEBORG'S CONTRIBUTION TO THE UN SUSTAINABLE DEVELOPMENT GOALS ON PAGES 34–37.**

# STAKEHOLDER DIALOG FOCUSING ON MATERIAL ASPECTS

Trelleborg's internal and external stakeholder groups are characterized by mutual dependence, proximity and direct influence on the company's operations. Trelleborg has combined the areas in sustainability that stakeholder groups consider most material into four focus areas: *Regulatory Compliance, Resources, Diversity and Social Engagement.*

## TRELLEBORG'S KEY STAKEHOLDERS



*Trelleborg's key stakeholders.* Groups where mutual dependency and proximity to the company and its activities are distinct factors.

**Key stakeholders.** The determination of key stakeholders for Trelleborg is primarily based on mutual *dependency* and the *proximity* between these groups and the company.

Such key stakeholder groups with mutual and close relationships with the company and its activities can be mainly found across the value chain, which consists of *Suppliers, Employees and Customers.* Another key group with a strong mutual relationship to the company is *Shareholders, including Investors,* meaning potential shareholders.

A further decisive dimension that characterizes key stakeholders is the *direct influence* the business and its activities have on their stakeholder groups.

Stakeholders in the group *Society* comprise to a certain degree citizens with a direct connection to Trelleborg's operations,

such as those living close to Trelleborg's facilities. Another growing group in the *Society* stakeholder group are customers that, via Trelleborg's products and solutions, have a positive effect on the overall sustainability of society. As part of Trelleborg's focus on solutions for sustainability (refer to pages 34–35) this contribution to society in the business will be further accentuated in the future.

In addition, *Society* is represented by interest groups, the media, researchers and students, for example, whose interaction with the company takes the form of personal meetings with company representatives as well as other forms of dialog and communication, such as websites, social media or Sustainability and Annual Reports.

Another important factor to monitor is overall criteria in investors' and customers'

questionnaires. Examples are questions in the different forms of CDP, CDP Supply Chain and the Dow Jones Sustainability Index.

**Trelleborg's stakeholder engagement** is constantly evolving, with 2018 standing out in this respect. More stakeholders than ever before have during this year asked questions and expressed views in various ways about the company's sustainability activities. This increase in activity was mainly manifested in the key group *Shareholders and Investors.* See the key stakeholders above.

The issues addressed by stakeholders were primarily Climate, Suppliers and UN Sustainable Development Goals (refer to page 50). In addition, there has been an increase in general interest about how the company's sustainability activities contribute to risk reduction and value generation.



**Materiality analysis.** Several rounds of materiality analyses have been conducted since 2007 using surveys and interviews with internal and external stakeholders. The purpose of these analyses is to ensure that the company's sustainability efforts take into consideration the significance of Trelleborg's operations for various stakeholder groups and that its sustainability communication actually meets their expectations.

The predominant aspects in the outcome of these analyses have consistently been regulatory expectations such

as *Compliance with laws and human rights, Measures against corruption and bribery and Measures against anti-competitive behavior* as well as a number of key environmental aspects for the industry such as *Energy consumption, Emissions, Waste and Handling hazardous chemicals.*

For some stakeholder groups, other aspects such as *Diversity, Community relations, Open and honest communication, Corporate governance and transparency and Environmental performance of products* have also emerged as highly significant.

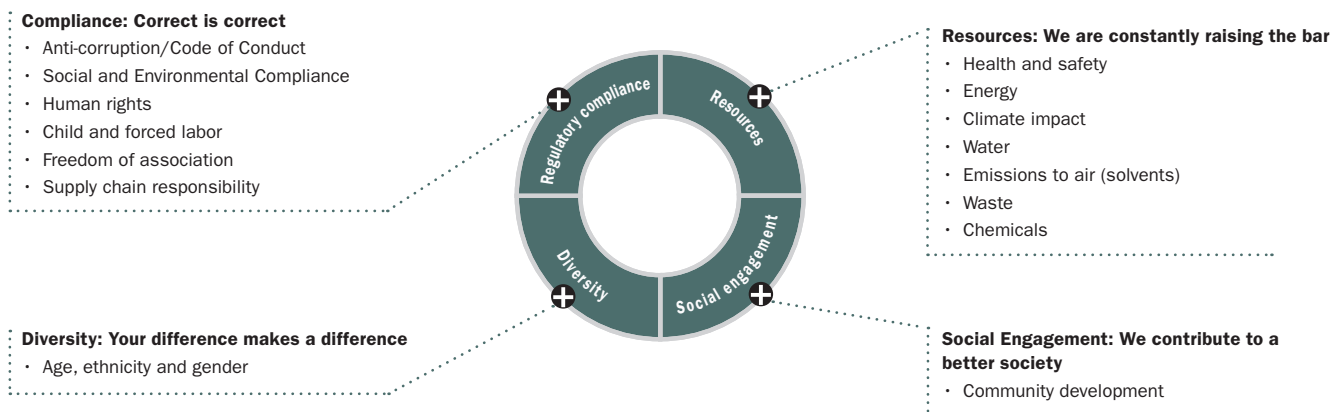
Using this analysis, Trelleborg has combined its most material sustainability aspects into four focus areas: *Regulatory Compliance, Resources, Diversity and Social Engagement.* For a more detailed overview of the focus areas, refer to the diagrams below and the Index on page 69.

**2018 review.** Trelleborg's priorities for sustainability work (refer to the Materiality analysis diagram) were also reviewed in 2018. The stakeholder engagement described was more intensive than ever,

### MATERIALITY ANALYSIS



### Trelleborg's four focus areas in sustainability



## STAKEHOLDER ENGAGEMENT 2018, EXAMPLES AND MAIN AREAS FOR DIALOG

**Shareholders and Investors**

**Examples from 2018:** Nordea, SEB, Folksam, Länsförsäkringar, CDP, Hermes, Nordic Equities, Ethibel, etc.

**Main areas:** Sustainability in general, Climate, UN SDGs, Suppliers.

**Society**

**Examples from 2018:** Dagens Industri (media), Aktuell Hållbarhet (media), Lund University/International Institute for Industrial Environmental Economics (IIIEE) (researchers/students), Örebro University, etc.

**Main areas:** UN SDGs, Education, Sustainability in general.

**Suppliers**

**Examples from 2018:** Natural rubber suppliers

**Main areas:** Working conditions, Human rights, Social responsibility.

**Employees**

**Examples from 2018:** The Board, Representatives from community projects, Participants in the One Young World Summit.

**Main areas:** Code of Conduct, UN SDGs, Energy/Climate, Social responsibility.

**Customers**

**Examples from 2018:** CNH Industrial, Volvo Cars, the CDP Supply Chain survey primarily from vehicle customers.

**Main areas:** Climate, Water.

**The main areas for dialog** refer to sustainability aspects addressed in this report:

- » Sustainability in general (the entire report)
- » UN SDGs (34–37)
- » Energy/Climate (52–53, 58–60)
- » Water (59, 61)
- » Code of Conduct (54, 57)
- » Suppliers (55–57, 67)
- » Human rights (55, 57)
- » Working conditions (58, 60)
- » Education (51, 64, 66)
- » Social responsibility (66)

and in October 2018 exercises were again conducted with about 40 students from Örebro University and the newly established master's program in *Sustainable business*, refer to the picture on page 51.

The goal of the exercises was to evaluate Trelleborg's Sustainability Report from the perspective of key stakeholder groups. Students were offered an opportunity to comment on and criticize the Report in two workshops and in work during the intervening period.

**The conclusions**, together with the most common questions highlighted by the stakeholder engagement and review, are presented in the figure above, and in examples below. Overall, the results reinforce the view that *Trelleborg's products and solutions for sustainability* is becoming

an increasingly important area. The strong connection to the UN Sustainable Development Goals (refer to pages 34–37) is a decisive factor.

The conclusions from the review were thus addressed in work on the 2018 Sustainability Report and corresponding Sustainability pages on [www.trelleborg.com](http://www.trelleborg.com).

**A selection of questions and suggestions in 2018:****Regulatory compliance**

- » Call for continued dialog with natural rubber producers to improve the situation in terms of risks in working conditions and human rights, where possible together with other rubber customers.

**Trelleborg's comments:** The initiatives that began back in 2014 relating to natural rubber suppliers, that aim to clarify the

risks and to communicate Trelleborg's Code of Conduct, will continue.

In 2018, dialogues included factory and plantation visits in Ivory Coast (see pictures on page 67).

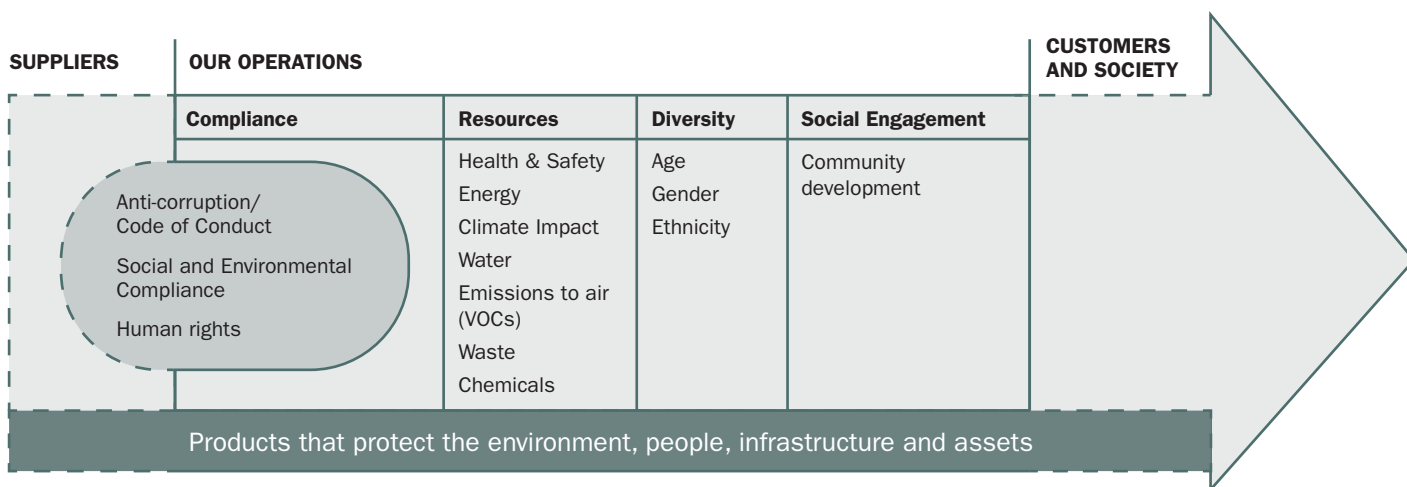
In 2016–17, meetings and dialog took place with suppliers from Southeast Asia and Africa. The focus for 2014–15 was on information meetings directly with more than 1,000 representatives for growers in Sri Lanka.

**Resources**

- » How is Trelleborg taking into account the 1.5 degree goal for global warming as announced by the IPCC for society as a whole?

**Trelleborg's comments:** Climate impact and the company's energy optimization have

TRELLEBORG AND THE VALUE CHAIN



SOLUTIONS FOR BETTER SUSTAINABILITY

**Trelleborg and the value chain.** While Trelleborg’s focus areas when it comes to sustainability have historically been based on the Group’s operations, they have been expanded over time to include other activities both upstream and downstream in the value chain. In terms of materiality, an additional aspect that extends across the value chain should be highlighted: Products that protect the environment, people, infrastructure and assets, and that thereby contribute to the sustainability of customers and society.

been highly prioritized areas for many years.

The climate target established for the end of 2020, “20 by 20”, means Trelleborg is intending to reduce emissions by 20 percent in relation to sales, compared with the base year 2015.

For the subsequent period, 2020–2025, Trelleborg will take into account the recognized 1.5 degree goal for society – by using a science-based analysis – and emissions across the value chain (also known as Scope 3), mainly via purchased products and services, but also from transportation.

Read more about IPCC, Trelleborg and climate on pages 52–53.

**Social Engagement/products**

» How is Trelleborg working with the UN Sustainable Development Goals?

**Trelleborg’s comments:** For Trelleborg, the Sustainable Development Goals mainly offer guiding principles for product and business development. Trelleborg has existing products and solutions that contribute in various ways toward a more sustainable society in several of the different areas included in the goals (refer to pages 34–37).

Equally important in these critical areas for the world, is the material expertise and

application knowledge Trelleborg possesses as a world leader in polymer solutions, and that it leverages so the company continues to provide sustainable innovation.

In Trelleborg’s internal operating improvements in the field of sustainability, the company already complies with GRI’s guidelines and the UN Global Compact’s principles. The UN Sustainable Development Goals have a more complementary role. Both societal and internal benefits are described in more detail on pages 36–37.



**Qualified feedback.** Trelleborg uses Master’s students to provide feedback on the Sustainability Report and materiality analysis. Örebro University has the *Sustainable business* profile as part of the Master’s Program in Business Administration. Students work in teams in workshops to behave as various stakeholder groups. The picture shows, from the left, Julia Berglund, Amanda Aittamaa, Theodor Nyström Berglind and Erik Häggström, representing one of the student teams. Sustainable business is Sweden’s first two-year Master’s program in business administration with this focus. It is addressed to students who are interested in working with sustainability issues and has strong support from the business community.

**TRELLEBORG THIRD IN ITS CATEGORY IN 2018 RANKING**

Trelleborg was in joint third place with ABB in the Durable consumer goods category in the new Swedish sustainability ranking Hållbara Bolag 2018, presented by magazine Aktuell Hållbarhet and business daily Dagens Industri. First and second in the category were Skanska and SKF.

The ranking includes companies listed on OMX Nasdaq. In addition to information from company reports and websites, the companies have completed a survey about how they work with the UN Sustainable Development Goals, environment, climate, human rights, anti-corruption and HR issues. The ranking was carried out by the Lund University School of Economics together with an advisory committee.

# TRELLEBORG AND CLIMATE: HOW TO BUILD THE WAY FORWARD?



IPCC, the international climate panel, advocates faster and more comprehensive measures to combat global warming. In its report from 2018, the IPCC wants to limit warming to below 1.5 degrees Celsius rather than the earlier 2 degrees. This is because the world is already – at 1 degree of global warming – experiencing the clear impact, with extreme weather, rising sea levels and the decreasing Arctic ice cap.

Trelleborg's products and solutions help to reduce CO<sub>2</sub> emissions in society. Products such as tires and seals are designed to minimize energy consumption and emissions. The company is active in renewable energy, including wind, solar and hydro power. Read more on pages 34–37.

## Facts: Trelleborg's current and future climate targets

### Current climate target

The climate target of "20 by 20" is aimed at making Trelleborg 20 percent more emission-efficient, using 2015 as the base year, by the end of 2020. By the end of 2018, Trelleborg had achieved a reduction of more than 26 percent since 2015, with the base value of 16.0 tons/SEK M.

The emissions in question are the direct emissions caused by energy produced internally (Scope 1) and the indirect emissions caused by energy purchased for own consumption (Scope 2), refer to the diagram at the top of page 53.

### Green energy is key

In addition to becoming more emission-efficient every year through work in the Manufacturing Excellence program (see page 33), Trelleborg is aiming to aggressively reduce emissions by using renewable energy from sources such as wind, solar and hydro power.

In 2018, most of the Group's units in the Czech Republic have transitioned to renewable energy, which corresponds to a reduction in CO<sub>2</sub> emissions by approximately 80,000 tons annually, or about 20 percent of total emissions for 2018.

### After the "20 by 20" goal

After the current "20 by 20" target, a new climate target will be drawn up. The target will apply until the end of 2025, using 2020 as the base year. This will take into account not only Scope 1 and 2, but also Scope 3 (see page 53). Trelleborg intends with future targets to consider scientific practice of a 1.5 degree goal for society, how the transition to green energy can be implemented in different countries, technical innovation and other factors that influence the potential rate of emission reductions.

### Science-Based Targets

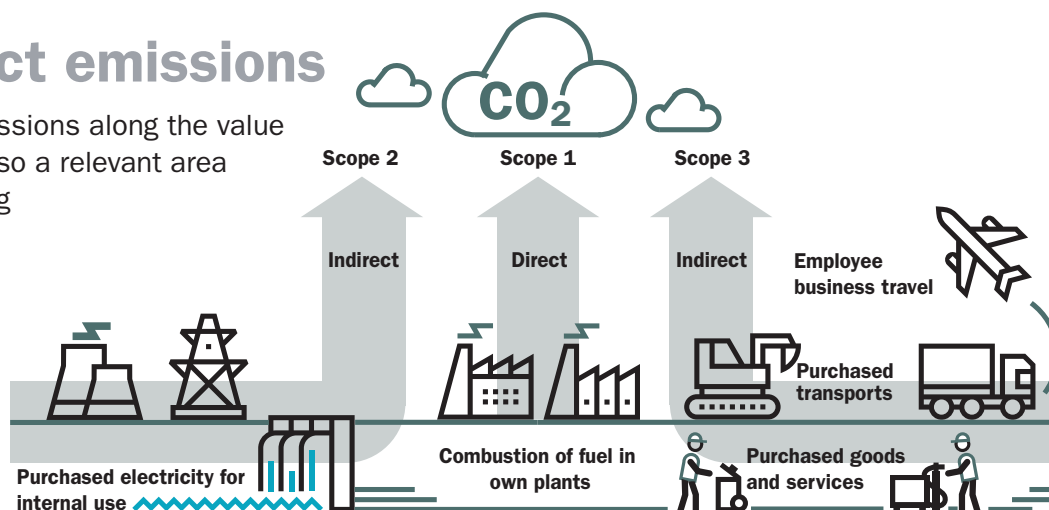
Science-Based Targets is a cooperative initiative that defines and supports science-based practice in the setting of climate objectives, taking into account the 1.5 degree goal for global warming.

The Science-Based Targets initiative is a collaboration between CDP, UN Global Compact, World Resources Institute and WWF, among other organizations.



## Indirect emissions

Indirect emissions along the value chain are also a relevant area for Trelleborg



In 2018, an analysis was conducted in cooperation with the consultancy EY aimed at obtaining an initial general picture of indirect CO<sub>2</sub> emissions along Trelleborg's value chain, meaning Scope 3 in the diagram above.

The analysis showed that these emissions are significant and overall clearly exceed the current total emissions in Scope 1 and 2. Since the analysis is based on own estimates and not on information from

suppliers, there is still a substantial margin of error.

**Purchased products and services** are considered the single largest emission category in Scope 3, including more than half of the emissions. Next is purchased transportation, downstream and upstream. Other categories have much less significant emissions.

Back in 2016, EY calculated emissions from Trelleborg's purchased transportation

downstream to be substantial. These annual emissions were then assessed to be approximately on a par with the reported Scope 2 emissions.

**As a consequence of this analysis,** and in preparing a new climate target for 2020–2025, Trelleborg will over the next few years further expand monitoring particularly of supplier emissions. Focus will probably be on polymers suppliers and transportation.

## Climate efforts in brief according to TCFD

Based on the recommendations from the call for climate action from the financial markets, the *Task Force on Climate-related Financial Disclosures* (TCFD), a description of how climate work is organized at Trelleborg, how the company is contributing to lower emissions in society, climate risks/opportunities and goals and metrics is presented below.

### Organization

Climate change has been an important issue on Trelleborg's sustainability agenda for many years. The organization and governance is the same as for other sustainability issues. The Board – which regularly includes sustainability/climate on its agenda, and in particular its Audit Committee – is the highest governing body, see diagram on page 68.

### Strategy

For society as a whole, many of Trelleborg's solutions help to save energy and reduce CO<sub>2</sub> emissions, and contribute to renewable energy supply. With regard to climate issues, Trelleborg therefore has an important role to play in the transition of the global society.

Internally, the target to continuously become more energy-efficient, and thus more climate efficient, is a fundamental part of the Group's efforts to achieve world-class manufacturing. This systematic effort in all of the Group's units is associated with the strategic Trelleborg Excellence program, which aims to improve core processes (see page 33). In addition to this, the company

is pursuing a transition of its own energy supply toward green, renewable energy (see previous page).

### Climate risks and opportunities

**Risks.** Within the scope of work with corporate risks, Trelleborg addresses risks at all sites associated with rain and flooding.

The number of plants classified as Highly Protected Risks, meaning those that have taken the necessary measures to prevent significant risks, is constantly increasing. Refer to page 71 on sustainability-related risks.

**Opportunities.** Trelleborg's products and solutions help customers save energy and thereby also reduce their CO<sub>2</sub> emissions. This is clearest in tires and seals. The latest advance in agricultural tires is Trelleborg's Variable Inflation Pressure (VIP) solution in which the tire uses sensors to adjust the tire pressure itself depending on the ground. This saves fuel and reduces emissions.

In Trelleborg's sealing solutions for hydraulic systems, carefully considered material use and configuration can provide substantial energy savings compared with competing solutions.

Trelleborg also has solutions that are transitioning energy supplies in society toward renewable sources, where a few of the relevant products are floating elements and cable protection for offshore wind farms and seals for solar cells.

In addition, the company has solutions that directly address the consequences of climate change, such as flooding.

Trelleborg's solutions for water management provide knowledge and experience of how to protect cultural sites and infrastructure in sensitive areas from flooding. Large seals to control the water level in the Venetian Lagoon is one such spectacular example, refer to page 36.

### Targets and metrics

Trelleborg monitors on an annual basis both direct (Scope 1) and indirect (Scope 2) CO<sub>2</sub> emissions. These are measured relative to sales to relate these to the scale of production.

Refer to the table on page 60 [III](#), as well as the previous page *Facts: Trelleborg's current and future climate targets*.

# COMPLIANCE WITH LAWS AND CODES

Trelleborg's Code of Conduct covers laws and rules, human rights, environment, OHS and ethics and applies to all employees, without exception. Together with the whistleblower policy, it constitutes an important linchpin for regulatory compliance in operations.

## Anti-corruption and competition law.

Trelleborg has a zero tolerance policy toward all forms of corruption, including bribery and extortion, blackmailing, nepotism, racketeering and embezzlement. The contents of Trelleborg's Group-wide Compliance Program have been continuously developed and, in addition to competition law, includes such issues as anti-corruption, export control and employee relations, as well as matters relating to professional conduct and business ethics.

Recently introduced elements are aimed at achieving excellence in the management of contracts, and in issues related to global distributors and agents. The program also provides information and guidance on the relevant legislation, such as the U.K. anti-corruption law.

In 2018, new training material in the e-learning format was created in the field of data protection, which allowed the rapid rollout to European target groups during 2018. This training initiative will continue in 2019, also for target groups in Asia, Oceania and North and South America.

The Group's Compliance Program supports senior and middle management, as well as employees in the field and on the shop floor. They are supported by Compliance Officers in each company, who undergo special training in which they are encouraged as a group to share best practice in compliance issues to help others

# 630

employees (560) underwent classroom training in anti-corruption, competition law, contract management and so forth.

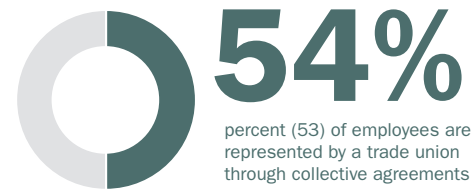


respond to the situations that may arise in their daily work.

Compliance with laws and regulations is an ongoing and long-term commitment for Trelleborg, and this has been monitored by a Compliance Task Force with senior representatives from staff functions that was established in 2015. The Task Force has been assigned to lead and coordinate initiatives across the broader area of regulatory compliance.

During 2018, the Compliance Task Force held 4 meetings that addressed, among other things, an update to training courses for the Code of Conduct and Group policies, (see box below and page 56) proposal for a new Code of Conduct, trade restrictions, compliance and effects of new legislation such as new rules for data protection, information security, a review of legal entities and the integration of acquired businesses.

All employees are required to comply with applicable Group policies and internal governance documents, which have been strengthened at senior management levels



of the company with acceptance documents that must be signed annually.

The Group's Whistleblower Policy also entitles all employees to report any suspected legal or regulatory violations without repercussions. Refer to the table on page 57 [III](#) for matters reported via the whistleblower system. This system was supplemented with employee surveys carried out at regular intervals that receive a high response rate, in 2018: 76 percent (84). In addition to drawing attention to areas for local improvement projects, these surveys provide a clear indication of any problems with management or similar shortcomings.

In 2018, Trelleborg's Compliance Task Force continued its initiated review of Group policies to ensure that the messages they contain are understood by all individuals representing Trelleborg.

Specific legislation must be followed in certain countries, such as the U.S. (the Dodd-Frank Wall Street Reform and Consumer Protection Act related to conflict minerals, and Technology Transfer Control

## THE NEW CODE OF CONDUCT IS THE BASIS FOR REGULATORY COMPLIANCE

Trelleborg's Code of Conduct in the areas of environment, OHS and ethics forms a basis for all operations in the Group, and applies to all employees, without exception. In 2017, an initiative was launched in which more than 80 percent of all employees underwent training in the Code of Conduct – which further helped to raise awareness of applicable legislation, and of Group policies and rules.

A comprehensive review of the Code of Conduct was carried out in 2018 and is ready for a new global training initiative in 2019. E-learning and other training material is available in more than ten languages.

The new Code of Conduct is based on internationally recognized conventions and guidelines, such as the Universal Declaration of Human Rights, the ILO conventions, the OECD guidelines and the UN Global Compact, and contains new regulations in areas such as trade restrictions, information processing and diversity. It is available externally from [www.trelleborg.com](http://www.trelleborg.com).

Trelleborg's whistleblower policy and system means each employee is given the right and opportunity, by telephone or online, to report suspicions of legal or regulatory violations in their own language, without repercussions.



legislation) and the U.K. (Bribery Act, Modern Slavery Act – which is designed to prevent forced labor and sex trafficking, see below).

**Compliance with laws and permits.** Being a listed company with global operations, Trelleborg is subject to a range of laws, regulations and directives. Significant breaches of laws and permits leading to legal consequences or fines as well as breaches of environmental and OHS-related laws are shown in the table on page 57 [☰](#).

**The area of human rights** comprises fundamental rights defined by conventions and declarations, including those pertaining to child and forced labor, freedom of association, discrimination/diversity, gender equality and the right to collective bargaining. All of these areas are addressed in Trelleborg's Code of Conduct, see at the bottom of the previous page.

Within the framework of Trelleborg's ERM processes for internal risk identification and assessment, none of the Group's units has assessed the risk of human rights violations to be significant internally.

**Child labor.** A number of potential risks in the supply chain have been evaluated. Among those leading to measures was the risk of child labor at rubber plantation level, see the image illustrating the stages of the value chain for natural rubber on page 56. For many years, Trelleborg has cooperated with Save the Children in joint community initiatives, which has also strengthened internal know-how in the field of child labor.

**Forced labor** includes various phenomena, from slavery to forced relocation and forced exploitation of human beings (trafficking). The risk of this is also judged to exist primarily in the supply chain.

During 2018, Trelleborg's corporate website renewed its statement regarding the management of issues concerning forced labor and trafficking, mainly in accordance with the UK's Modern Slavery Act and Californian law, and also incorporated child labor into the statement.

**Freedom of association.** Trelleborg's policy is to recognize local union clubs, and

the right to collective agreements. No units are assessed to be at serious risk of violation in this area. In China, however, certain restrictions related to freedom of association apply.

The percentage of employees with union representation is shown in the table on page 57 [☰](#).

**Discrimination.** No discrimination of employees is permitted on the grounds of gender, religion, age, disability, sexual orientation, nationality, political views or social or ethnic origin, which is presented clearly in the Code of Conduct. Special training initiatives are continuing in efforts to prevent harassment.

Read more about outcomes for the year in relation to discrimination in the table on page 57 [☰](#) and about Trelleborg's diversity activities on pages 62–64.

**The environmental area** comprises regulatory compliance with local environmental laws and permits, as well as certified environmental management systems.

**Environmental management systems.** A cornerstone of the Group's environmental strategy is that major production units must have an ISO 14001-certified environmental management system. Facilities that are incorporated following an acquisition are allowed a certain period of time to achieve this certification. The percentage of certified units is presented on page 57.

**Environment laws and permits.** Fines or sanctions for breaches of environment or OHS-related rules is shown in the table on page 57 [☰](#). This also applies to unplanned emissions.

**Contaminated soil.** Historically, the handling of oil and solvents has given rise to soil and groundwater contamination, which is further described in the table on page 57 [☰](#).

**Environmental studies.** For potential acquisitions and divestments, Trelleborg performs environmental studies of the companies to assess and outline their environmental impact and to identify potential environmental liabilities. The number of environmental studies conducted in 2018 is presented in the table on page 57 [☰](#).



At the end of 2018, 87 units (89) were certified under ISO 14001, corresponding to 73 percent (79) of all facilities.



Contaminated soil is currently being remediated at 9 units (9). Another 11 facilities (12) are expected to require remediation, although the extent has not yet been determined.



During the year, 18 matters (18) were reported via the Whistleblower system, most of which concerned complaints about local management and measures such as staff reductions.



In 2018, 18 environmental studies (11) of facilities were performed in conjunction with (potential) acquisitions or closures.

[☰](#) See detailed information in the table.

**Suppliers.** A total of about 23,000 suppliers are concentrated in Europe, North America and Asia. Trelleborg's main raw materials are synthetic and natural rubber, (see below and on pages 56 and 58), metal components and various additives.

While purchasing is based on a joint process, it is distinctly decentralized to the operational units, in line with a far-reaching responsibility for performance. The exception to this is when purchases at the business area or Group level yield cost benefits, particularly regarding rubber material and material and services that are not directly included in products.

**Supplier assessment.** Supplier assessments have continued in 2018, primarily via Group-wide questionnaires, containing questions related to human rights, and also OHS, environmental management and social responsibility. Unsatisfactory responses are investigated. Refer to the table on page 57 for the year's outcome.

**Supplier audits.** Work auditing "at-risk suppliers" through site visits continued in 2018, when 22 suppliers in China were visited and audited. The focus has been on textile suppliers, chemicals suppliers and natural rubber suppliers. The basis for selection of suppliers to audit is both a geographic and material risk assessment. Underperforming suppliers are given a deadline of 1 to 3 months for corrective measures following an audit. The time limit varies depending on the severity of the breaches.

**Dialog with natural rubber suppliers.** In 2018, dialogs with natural rubber suppliers included factory and plantation visits in Ivory Coast, refer to the text and pictures on page 67. Refer also to page 50 for more information about dialogs in previous years.

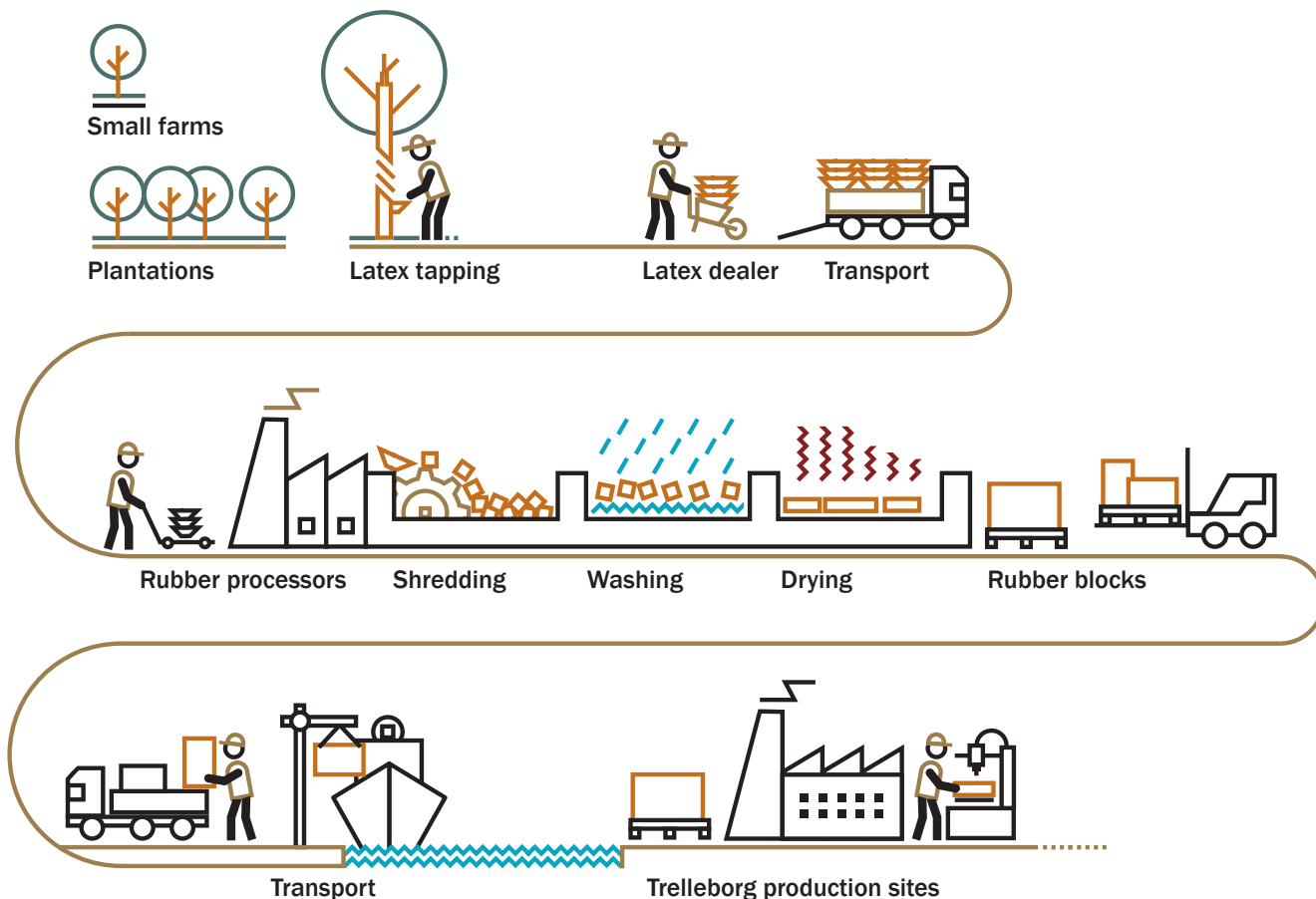
The image below shows the principle value chain for the production of natural rubber and the distance between Trelleborg's own production units and rubber producers.

**GROUP POLICIES IN THE AREA OF COMPLIANCE**

All relevant employees sign an Acceptance Letter every year where they confirm knowledge of and compliance with all of the Group's policies. The following Group policies are considered to form the core of the regulations Trelleborg applies in the area of Compliance:

- » Anti-corruption Policy
- » Competition Law Policy
- » Whistleblower Policy
- » Policy for Handling of Agreements
- » Policy for Transactions with Related Parties

**PRODUCTION OF NATURAL RUBBER**



**Natural rubber.** The value chain is relatively long from grower to Trelleborg's production facilities. Three or four stages is not unusual, but this varies depending on the country/continent.



## Outcome in 2018 in the area of Compliance

Compliance	Where?	Outcome 2018	Goals and main governance
Anti-corruption and competition law	■	630 (560) employees underwent classroom training in anti-corruption, competition law, contract management and so forth. In addition, e-learning webinars are available.	Zero tolerance applies to all types of bribery, corruption, cartel and other criminal behavior. Knowledge about relevant Group policies and the Code of Conduct is a requirement that is ensured through recurring training sessions for all employees, which are supplemented with special training programs in the area.
Training in the Code of Conduct	■	During the previous year, 83 percent of <i>all</i> of the Group's employees underwent training in the Code of Conduct, and this was in line with the goal. This training initiative continued in 2018, primarily for new employees. A new Code of Conduct was drawn up during the year, focusing on a new global roll out early in 2019, refer to the bottom of page 54.	In line with this aim, new employees underwent training sessions, e-learning or classroom training during the year.
Compliance (general)	■	There were zero (0) reported significant breaches of laws and permits during the year.	Local governance in accordance with the Code of Conduct and local legislation. All significant cases in terms of fines and sanctions are reported to Group Legal and are included in reporting. The Compliance Task Force is a central forum for all compliance issues, refer to page 54.
Environmental compliance	■	2 cases (5) of fines or sanctions for breaches of environment or OHS-related laws and regulations were reported, totaling SEK 40,000 (209,000)	Local governance in accordance with the Code of Conduct, permits and local legislation. All significant cases in terms of fines and sanctions are reported to Group Legal and are included in reporting.
Whistleblower cases	■	During the year, 18 matters (18) were reported via the Whistleblower system, most of which concerned complaints about local management and measures such as staff reductions. In some cases, reviews were carried out and identified non-compliances with the Group's Code of Conduct and policies, and relevant measures have been taken in these cases.	Trelleborg's Whistleblower Policy implies that every employee is entitled to report suspicions of legal or regulatory violations without repercussions.
Discrimination	■	7 cases (5) of discrimination from the U.S., U.K. and Sweden were reported and reviewed. In some of these cases, a settlement was reached between the parties while in others, relevant measures were taken. 3 cases are under investigation.	Zero tolerance applies to discrimination (reported and reviewed cases). Local governance in accordance with the Code of Conduct. Reported cases are dealt with at local level and reported centrally.
Freedom of association	■	54 percent (53) of employees are represented by a trade union through collective agreements. In China, however, certain restrictions related to freedom of association apply.	The right to freedom of association, through union or other personal representation, and collective bargaining, is highlighted in the Code of Conduct.
Child labor	■ ■	Zero breaches (0) were reported in 2018.	Zero tolerance applies to child labor, which is also seen as an area of particular importance in the supplier reviews conducted in part through a questionnaire, and in part through selected cases in supplier audits.
Forced labor	■ ■	Zero breaches (0) were reported in 2018.	Zero tolerance applies to forced labor, which is also seen as an area of particular importance in the supplier reviews conducted in part through a questionnaire, and in some cases via supplier audits.
Suppliers	■	Supplier reviews were carried out corresponding to 85.5 percent (84) of the relevant purchasing spend. Zero ongoing investigations were reported in December 2018 (0). No supplier relationships (1) were terminated during the year for reasons related to the Code of Conduct. 22 supplier audits (15) were conducted in 2018 by visiting suppliers in China. The most serious breaches that were rectified included inadequate procedures for handling inflammable chemicals.	The goal is to only work with suppliers who adhere to applicable sections of Trelleborg's Code of Conduct. Reviews, including self-assessments, are to be completed with at least 80 percent of the relevant purchasing spend. Site visits with an audit of "at-risk suppliers" (based on geographic and material risk assessment) supplement the self-assessments. Since 2016, 51 supplier audits have been conducted, mainly in China, but also in India, Turkey and Indonesia. Refer also to page 56.
Environmental management systems	■	At the end of 2018, 87 units (89) were certified under ISO 14001, corresponding to 73 percent (79) of all facilities.	The goal is that all major production units will have an ISO 14001-certified environmental management system.
Unplanned emissions	■	During the year, 2 unplanned emissions (2) were reported, of wastewater and natural gas respectively, totaling less than 6 cubic meters.	Local governance of all handling operations subject to permits, even via the environmental management systems in accordance with ISO 14001.
Remediation of contaminated soil	■	Contaminated soil is currently being remediated at 9 units (9). Another 11 facilities (12) are expected to require remediation, although the extent has not yet been determined. Provisions for environmental liabilities amounted to SEK 62 M.	Trelleborg is also active as one of several parties in additional cases of remediation, although with marginal liability for costs.
Environmental studies	■ ■	In 2018, 18 environmental studies (11) of facilities were performed in conjunction with potential acquisitions or closures.	Environmental studies are conducted to assess and outline the environmental impact and identify potential environmental liabilities for the company.

**Symbols:** ■ = Internal, all units   ■ = Internal, all production units   ■ = Internal, certain units   ■ = External, suppliers or acquisition candidates

# SAFE AND EFFICIENT USE OF RESOURCES

The Manufacturing Excellence Program, which develops Trelleborg's production processes, and the Group's Safety@Work program relating to health and safety, are two of the pillars of the company's efforts to achieve a safe workplace and efficient resource management.

The most important program to achieve a safe workplace and efficient resource management is Manufacturing Excellence, which also includes the occupational health and safety program Safety@Work.

The Manufacturing Excellence framework takes a systematic approach to improvements for enhanced safety, quality, delivery precision that also yields distinct positive effects on resource consumption by focusing on minimizing all resource waste. Read more about this and other Excellence Programs on page 33.

## Work environment – health and safety.

Trelleborg's Safety@Work program aims to create a shared safety culture and to prevent occupational accidents and injuries at all of the Group's production units. The program includes all staff, both employees and insourced, without exception.

The program is monitored by performing annual internal audits in which the facilities are assessed in relation to best practice in terms of occupational health and safety management, machine safety, accident follow-ups with the aim of avoiding a recurrence of the same type of incident and so forth.

In 2018 two fatal accidents occurred – see page 60 – which resulted in specific measures to eliminate similar risks and strongly contributed to a renewed focus on preventing and eliminating risks in the work environment, which included new teaching tools and e-learning. See the President and CEO's comments on page 47.

The total outcome for the year for OHS-

related indicators is shown in the table on page 60 [III](#).

**Raw materials and chemicals.** The Group's principal raw materials in Trelleborg's processes are polymers (rubber, composites and plastics) and metal components, as well as additives comprising softening agents (oils), fillers such as carbon black, and vulcanizing agents (sulfur, peroxides).

The Trelleborg's Group environmental policy stipulates that attention is given to the precautionary principle, and that hazardous substances and materials are, to the greatest extent possible, to be reduced and replaced in products and processes. As a chemical user, Trelleborg is affected by the EU REACH regulation. In addition to the local work with REACH compliance, work related to chemicals during the year was carried out by the Global Chemical Task Force, a corporate-level team. The team assists the business units in their efforts to phase out and replace substances that are currently considered harmful, and monitors such substances that may be of interest in the future. An internal Restricted Materials List has been compiled, and a project was actively pursued in 2018 by the Global Chemical Task Force focusing on such prioritized materials.

Within the scope of ETRMA, the European organization for tire and rubber manufacturers, Trelleborg is represented and participates in work monitoring and implementing EU legislation in, for example, chemicals.

**Energy.** A significant portion of the Group's energy consumption – and thus its climate impact – is connected to fossil-fuel combustion for the production of steam (direct energy and emissions) and purchased electricity, steam and district heating (indirect energy and emissions).

Energy Excellence, a long-standing initiative for systematic energy optimization at all units, is an integrated part of the Manufacturing Excellence program (refer to page 33).

All production units must present an activity plan to reduce energy consumption. In addition to process-related measures, many units are focusing on systems for improved monitoring of energy consumption and on increasing energy awareness among personnel.

The outcome for the year (see table on page 60 [III](#)) reflects ongoing efficiency enhancements that is most clearly seen in profit improvements for the Group's recently acquired units.

**Renewable energy.** The proportion of renewable energy increased in 2018, and is for the first time reported as a separate indicator in the table on page 60 [III](#).

More units are making the transition: a project is under way in Sri Lanka, where biomass is to replace the current fossil fuel for production starting in 2019.

Internally generated electricity is being produced using solar cells in India and Malta.



## TRANSPARENT REPORTING ON ISSUES OF CLIMATE AND WATER IN ACCORDANCE WITH THE CDP

Since 2007, Trelleborg has participated in the CDP's (formerly referred to as the Carbon Disclosure Project) voluntary reporting of greenhouse gas emissions. This involves openly reporting relevant key figures and data, measures to prevent adverse climate impacts, and products, solutions and initiatives to improve society in this respect.

In the Annual CDP Report for 2018 on climate issues, Trelleborg received a score of B (2017: C), which means the company demonstrates *Governance of how environmental concerns are inter-related with operations*. This is higher than the sector average, and higher than Europe's regional average of B-. Water issues are also reported for the first time, and here Trelleborg received a score of B-.

A company's path towards a high level of environmental protection/administration is described by CDP using a process in four scoring levels that begin with D (Transparency), continues with C (Awareness), followed by B (Governance), and finally A (Leadership).

**Climate.** Trelleborg's "20 by 20" climate objectives (refer to pages 52 and 60) address and reflect the carbon intensity (no other greenhouse gases are included), meaning the total size of CO<sub>2</sub> emissions relative to the size of operations, as well as work on a transition to emission-optimization of energy sources in each country. The outcome in 2018 for climate-related indicators is shown in the table on page 60 [III](#). An overview of targets and challenges in the climate area is presented on pages 52–53.

The acquisitions of recent years have entailed that operations have become more energy-intensive as a result of an increased proportion of tire manufacturing. For the next few years, one key goal is to continue work to make recently acquired units more energy-efficient.

The base line for the "20 by 20" climate goal was set on the basis of the performance of all Trelleborg units in 2015. Using this baseline, developments in 2018 were highly favorable and provide a solid foundation moving forward. Trelleborg is carefully following developments in order to achieve the "20 by 20" climate target.

The calculation of CO<sub>2</sub> emissions from the consumption of purchased electricity or steam is mainly based on national conversion factors from the International Energy Agency. These factors reflect the average total energy mix of each country. Emissions are lower from hydro and nuclear power, but higher from coal and oil.

The most recently acquired units are primarily located in countries (the Czech Republic, Serbia, etc.) with a national energy mix featuring a high level of fossil fuels, which initially produces relatively high emissions.

In the Czech Republic, several units transitioned to "green electricity" during the year, which produced a distinct improvement in results. At the same time, a rising price for "green" electricity was noted in most markets.

Only two of the Group's units – Prague in the Czech Republic and Tivoli in Italy – are included in the EU Emissions Trading System (EU ETS). Described simply, operations are allotted emission allowances (1 allowance = 1 ton CO<sub>2</sub>) after applying for

and/or purchasing emission allowances on the international market. Each year, these operations must report their emissions of CO<sub>2</sub> and transfer emission allowances corresponding to the emissions caused.

**Water.** Water is mainly used for cooling and washing in our production processes.

The outcome for the year for water-related indicators is shown in the table on page 61 [III](#). Major reductions in consumption have been made since 2008 by using, for example, improved cooling and recycling systems.

Emissions to water are limited. They mainly comprise organic matter.

A mapping of water scarcity has been carried out for regions where Trelleborg's production units are located, and indicates that certain units are located in regions where water scarcity may become an issue, such as in China, Italy, Malta, the U.S. and Sri Lanka. The focus for the central follow-up is on these regions.

**Waste.** Continuous efforts are taking place within local operations to cut production waste, which helps to reduce the amount of waste, and to increase the rate of recycling. Recycling is carried out by external partners and internally.

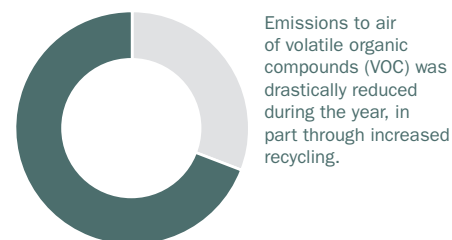
The outcome for the year is shown in the table on page 61 [III](#).

**Emissions to air.** In addition to energy-related emissions – such as CO<sub>2</sub> (see page 60), sulfur dioxide and nitrogen oxides – the company's emissions to air mainly consist of volatile organic compounds (VOCs). Trelleborg uses the same definition of VOC as the EU.

Emissions are mainly derived from the use of solvent-based adhesives, which are critical only for a relatively limited number of products and production units.

The reduction of VOC emissions is a priority, both from an environmental and health perspective, and these emissions have been continuously reduced in recent years, see table on page 61 [III](#). The latest example being a newly installed solvents recovery plant that was commissioned in Barueri, in Brazil, in 2018.

 **-31%**



**-6%** 

Energy consumption relative to sales, decreased 6 percent in 2018, which is clearly better than the internal goal of 3 percent.

**-10%** 

Water use decreased during the year, despite growth in sales and production volumes. In total, the Group reduced water use by 10 percent relative to sales.

**-5%** 

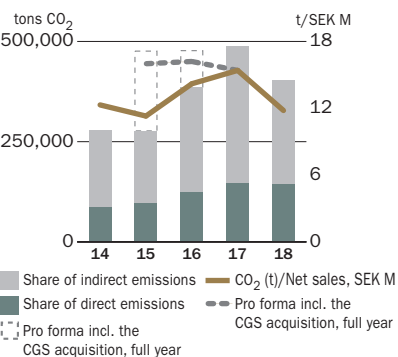
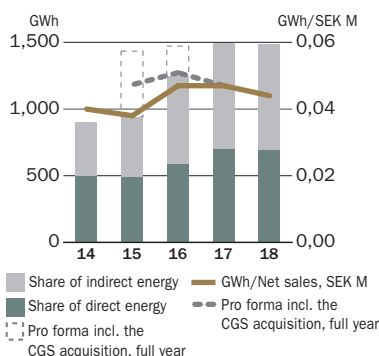
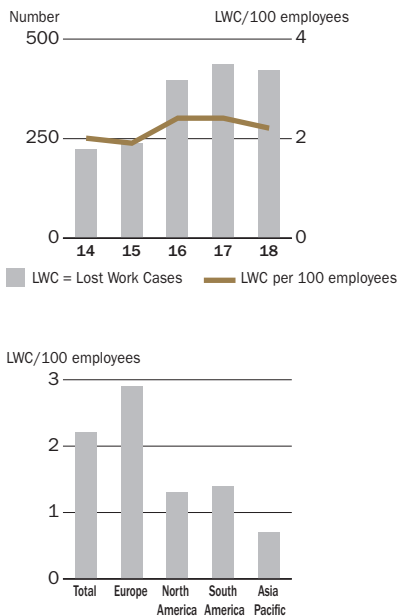
Relative to sales, total waste decreased 5 percent. The volume of hazardous waste is also gradually decreasing.

**CDP: B**

Trelleborg is at levels B and B- respectively in its transparent report to the CDP of climate and water issues. Both levels are better than the sector average, and better than Europe's regional average.

Outcome in 2018 in the area of Resources

Resources	Where?	Outcome 2018	Goals and main governance
<b>HEALTH AND SAFETY</b>		The curve shows the number of work-related injury/illness cases per 100 employees resulting in more than one day's absence (LWC). This figure has gradually declined. In 2018, the figure declined approximately 8 percent.	<p>The Safety@Work program aims to establish a shared safety culture through improvement programs and preventive measures at all production units. Self-assessment is combined with internal and external audits.</p> <p>By 2020, the number of accidents is to decrease so LWC per 100 employees falls below 2.0.</p>
Fatal accidents		2 fatal accidents (0). In Barueri in Brazil, an employee was killed in an accident involving a paper machine in March 2018. In Xingtai in China, an employee was killed in conjunction with the explosion of a tire during fitting in July 2018.	
LWC		422 cases (438) resulting in at least one day's absence (LWC). Of these, 9 were insured employees, and 21 women.	
LWC per 100 employees		2.2 LWC per 100 employees (2.4). For insured employees, the figure was 1.3, and for women 0.3. See the diagram to the right for the regional situation.	
LWD		28.7 work days lost on average per injury (30.3).	
Safety committee		89 percent of facilities have a safety committee (84) with representatives from both employers and employees.	
Absenteeism in Sweden		5.0 percent of normal working hours (5.2).	
<b>ENERGY</b>		In total, energy consumption has been at a slightly lower level year-on-year, despite volume increases. Relative to sales, consumption is decreasing, which is consistent with the expectation that Trelleborg's systematic measures for energy-efficiency over time will lead to improved results despite the fact that acquisitions may have a temporary impact.	<p>Energy-efficiency has been a prioritized area for Trelleborg for some time through the Energy Excellence initiative, which is part of the Manufacturing Excellence program (refer to page 33).</p> <p>The internal target for the Group is to improve its energy-efficiency by at least 3 percent annually. Local energy coordinators are trained via global training sessions, and a shared toolbox is available.</p> <p>The proportion of renewable energy is to gradually increase, both direct and indirect energy.</p>
Energy consumption		Total of 1,486 GWh (1,493). The share of direct energy is 692 GWh (696), and the share of indirect energy is 794 GWh (797).	
Energy consumption relative to sales		0.044 GWh per SEK M (0.047) Energy consumption relative to sales declined approximately 6 percent.	
Renewable energy		12 percent of total energy consumption, consisting of renewable electricity, biomass and internally generated electricity. The internally generated electricity is produced from solar cells and amounted to 524 MWh.	
Energy cost		SEK 789 M (734). The figure for the preceding year is adjusted.	
<b>CLIMATE</b>		Both in total and relative to sales, CO <sub>2</sub> emissions decreased in 2018, which is primarily due to more green electricity in the European tire manufacturing. Trelleborg's systematic measures for energy-efficiency also contribute to results, which for 2018 reached a 26-percent decrease in CO <sub>2</sub> emissions in relation to sales compared with the base value from 2015 (refer to the bottom of page 52). For 2015 and 2016, pro forma values are included in the diagram that reflect the total full-year outcome for Trelleborg including CGS units (acquired in 2016).	<p>The "20 by 20" climate goal aims to achieve a 20 percent reduction of CO<sub>2</sub> emissions in relation to sales in the 2015–2020 period. Energy-efficiency is supported by the Energy Excellence initiative (page 33) and has been a prioritized method to reduce emissions. This is supplemented by a transition to green energy. Read more in "Trelleborg and climate" on page 52–53.</p>
Total CO <sub>2</sub> emissions		401,900 tons (487,200), of which direct emissions amounted to 142,400 tons (144,700), and indirect emissions 259,500 tons (342,500). The reduction in total emissions compared with 2017 reflects a higher proportion of green electricity, primarily for tire manufacturing in Italy and the Czech Republic.	
CO <sub>2</sub> emissions relative to sales		11.8 tons per SEK M (15.4) Compared with last year, there was an improvement during 2018, both in terms of increased energy-efficiency and the transition to green energy and through improvements in energy-efficiency.	



Symbols: ■ = Internal, all units ■ = Internal, all production units ■ = Internal, certain units ■ = External, suppliers



Outcome in 2018 in the area of Resources

Resources	Where?	Outcome 2018	Goals and main governance
<b>WATER</b>		In 2018, water use, meaning water for production and sanitary water, decreased in both absolute terms and relative to sales.	<p>Even if water is one of the central environmental key figures reported, consumption is most crucial in production areas with water shortages, or where water shortages can be expected. Refer to page 59.</p>
Water use		2.29 million m <sup>3</sup> (2.36)	
Water use relative to sales		67.4 m <sup>3</sup> per SEK M (74.7)	
Water withdrawal		60 percent municipal water (61) 19 percent from the company's own wells (18) 20 percent surface water (rivers, lakes, etc.) (20) 1 percent other sources (1)	
<b>WASTE</b>		In 2018, the amount of waste increased slightly in absolute terms with rising production volumes, although a decrease was noted relative to sales due to efficiency enhancements. The volume of hazardous waste decreased clearly, which was in line with goals. Waste management methods, both for hazardous waste and other waste, are shown in the diagram.	<p>Waste minimization is an expressed goal in the Manufacturing Excellence initiative, which is conducted in all production units and is followed up on a monthly basis, see also page 33. The volume of hazardous waste is to gradually decrease.</p>
Waste volume		54,700 tons (53,500). Of the total volume, rubber accounted for 30 percent (28) Hazardous waste totaled 5,240 tons (7,113).	
Waste volume relative to sales		1.6 tons per SEK M (1.7)	
Waste cost		SEK 59 M (51)	
Waste management		1 percent to internal material recycling (4) 48 percent to external material recycling (47) 15 percent for energy recovery (14) 3 percent to incineration (-) 23 percent to landfill (24) 10 percent for other disposal (11) The distribution between methods for handling non-hazardous waste and hazardous waste is presented in the diagram to the right. The handling method was chosen by the supplier in more than half of the cases. In about a quarter of cases, the method was chosen by Trelleborg, and in about a quarter of cases the chosen method was the only available.	
<b>EMISSIONS</b>		Emissions of volatile organic compounds (VOC), measured as total emissions and relative to sales, clearly declined during the year despite increased production volumes. The bulk of this decrease is due to the new recovery plant that was commissioned in Brazil. Emissions of sulfur dioxides and nitrogen oxides decreased somewhat despite higher production volumes.	<p>Significant emissions comprise mainly VOC (volatile organic compounds), defined according to EU standards. Reducing VOC emissions is a priority both from an environmental and health perspective.</p>
VOC		655 tons (952)	
VOCs relative to sales		0.019 tons per SEK M (0.030)	
Sulfur dioxide		181 tons (187)	
Nitrogen oxides		62 tons (65)	

Symbols: = Internal, all units = Internal, all production units = Internal, certain units = External, suppliers

# DIVERSITY PROVIDES OPPORTUNITIES

A significant factor in Trelleborg's value creation is the expertise and diversity of its employees.



**26%** 

The company is endeavoring to achieve a balanced gender mix. The share women at management levels 4 and 5 is 26 percent, and is to continuously increase, which also creates a recruitment base for higher levels.



**15**

At year-end 2018, management at levels 1–3 of the company (senior management team and those in senior positions in the business areas) comprised 15 different nationalities (13).

Trelleborg works to achieve a balanced mix of ethnicities, ages and genders, taking into consideration the type of operation being pursued.

The new *Group Diversity Policy* was adopted in 2018 and recognizes that diversity is a strength for the Group. Enhanced diversity and inclusion has the potential to further drive Trelleborg's performance and results, both at team level and individually. Better customer communication and problem solving are only a few such examples.

Diversity and inclusion are generally seen as important elements in situations such as recruitment, training, evaluation, pay structures and succession planning. Trelleborg should therefore continue the work started to identify and establish key figures in the focus area of *Diversity*, for continuous follow-up and reporting,

for example via the annual report.

Alongside the fundamental rules against special treatment and discrimination in the Code of Conduct (see page 54), the company values knowledge wherever it is found, with no other criteria than the fundamental view that all people are equal and have the same rights. Refer to discrimination on pages 55 and 57.

**Ethnicity.** A basic rule is that the company's senior management and other managers should have local roots, which naturally leads to ethnic diversity in the management of a company that operates in more than 40 countries. The proportion of Swedes at high levels within the company is gradually decreasing, see the table on page 64 [III](#).

At year-end 2018, management at levels 1–3 of the company (senior manage-



## TRELLEBORG'S GLOBAL PRESENCE

The number of employees in the Group at year-end, including insourced and temporary employees, was 24,045 (23,152). Of the total number of employees, 95 percent work outside Sweden.

During the year, the average number of employees in the Group's operations increased to 22,420 (22,112), of whom women accounted for 25 percent (24). Refer to Note 10, page 106.

Salaries and other benefits for employees (excluding insourced employees) in the Group's operations amounted to SEK 7,770 M (7,388).

Personnel turnover (not taking terminations and retirements into consideration) varies between countries and facilities, and usually reflects the local labor situation.

### Number of employees at year-end <sup>1)</sup>

Distributions by country	2018	2017
Czech Republic	4,561	4,531
U.S.	2,911	2,869
China	1,693	1,628
U.K.	1,631	1,497
Italy	1,316	1,282
Sweden	1,240	1,222
Germany	1,116	1,018
France	1,051	1,005
Slovenia	942	924
Sri Lanka	937	923
Other	6,647	6,253
<b>Total</b>	<b>24,045</b>	<b>23,152</b>

<sup>1)</sup> Including insourced and temporary employees.

ment team and those in senior positions in the business areas) comprised 15 different nationalities (13). See also the table on page 64 [III](#).

**Age.** A core issue for all knowledge organizations, including Trelleborg, is the ability to recruit young talent. The total age distribution is presented in the table on page 64 [III](#).

Trelleborg has for a number of years focused on the younger generations – employees born 1980 and later (Generation Y), and different initiatives have been carried out, for examples the *One Young World Summit*, where selected young employees took part in a global congress on the theme of sustainability, innovation and diversity. In addition to this, the company has expanded its Graduate Program to two programs per year instead of one.

**Gender.** In an engineering-dominated company like Trelleborg, efforts to achieve a more even gender balance for this type of operation present challenges that require work at all levels. Higher Group and business area levels remain dominated by men, but the gender distribution is significantly more balanced in the business operations.

A key figure was introduced that measures the proportion of women at management levels 4 and 5 in the company (refer to the table of diagrams on page 64 [III](#)), with the ambition to raise the percentage of women managers at these levels from year to year, and over time create a better gender-balanced recruitment base at higher levels.

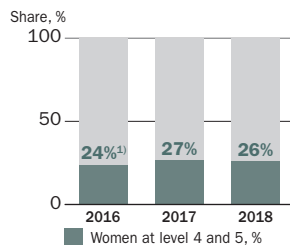
Efforts to achieve an improved gender balance include actively seeking women candidates for all executive and managerial positions, and for all of the Group's training

and development programs, particularly its leadership training courses.

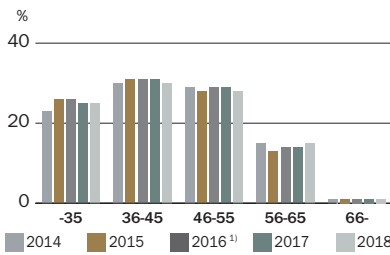
Trelleborg has also put new emphasis on *Employer Branding*, meaning the type of employer the company is and how we want to be perceived, both internally and externally. To this end, a motto has been written that reflects Trelleborg's promise as an employer as part of an initiative to increase focus on attracting, retaining and developing talented people. This motto – *Shaping industry from the inside* – is used internally and externally, in both digital channels and in print as well as at career days, trade fairs and other events.

Outcome in 2018 in the area of Diversity

Diversity	Where?	Outcome 2018	Goals and main governance
Ethnicity	••••	<p>15 nationalities (13) are represented in management at levels 1–3 (senior management team and those in senior positions in the business areas). The situation in relation to this distribution of nationalities is stable.</p> <p>The distribution of nationalities among managers at senior levels (2–4) improved – greater diversity – in 2018 to 19 percent Swedes and 81 percent of a different nationality, compared with 28 percent Swedes in the preceding year.</p>	Senior management and other managers must have local roots. Principal responsibility for diversity issues is with HR, centrally and locally.
Gender	■	<p>At management levels 4 and 5 in Trelleborg's units, where level 4 corresponds a position reporting to a Business Unit president, the proportion of women is 26 percent (27), maintaining a similar level but with no improvement.</p> <p>For the organization as a whole, the proportion of women is 25 percent (24).</p> <p>10 percent of Group Management are women (10), and 38 percent (38) of the Board of Directors are women.</p>	<p>The company is endeavoring to achieve a more even gender balance. The share of women at management levels 4 and 5 is to continuously increase, which also creates a recruitment base for higher levels.</p>
Age	■	<p>The age distribution for salaried employees at Trelleborg remained stable during the 2015–2018 measurement period.</p>	<p>The company is endeavoring to achieve a balanced age distribution for the type of operation conducted by Trelleborg.</p>



<sup>1)</sup> Excluding CGS acquisition.



<sup>1)</sup> Excluding the CGS acquisition.

**Symbols:** ■ = Internal, all units   ■ = Internal, all production units   •••• = Internal, certain units   ■ = External, suppliers

**MORE DIVERSITY INITIATIVES IN 2018**

In 2018, the company undertook several initiatives related to diversity:

- » In February 2018, the Group launched its first Diversity Policy, which is aimed at clarifying the company's approach to the subject, but also to address areas of responsibility, both for the company and the employee.
- » Online training (e-learning) for the entire organization on the topic of diversity and inclusion was launched in October 2018 to increase awareness of the significance of diversity and unconscious prejudices.

- » Questions were added to the Group's annual employee survey for 2018 regarding diversity and inclusion with the aim of identifying specific areas of improvement, globally and locally.
- » As part of the Group's global focus on diversity, local initiatives were taken in 2017 and 2018. Two examples of these are Tijuana, in Mexico, and São Paulo, in Brazil, both of which are units where initiatives were taken to increase diversity awareness.
- » The distribution of nationalities among managers at senior levels (2–4) was

improved in 2018 to 19 percent Swedes and 81 percent of a different nationality, compared with 28 percent Swedes in the preceding year.

- » The introduction program in 2018 for new managers contained 39 percent women, compared with 32 percent in the preceding year.
- » For the first time, the TIMP I training course (for first-line managers) was also held in Chinese in 2018. Historically, this training course has always been conducted in English.





# BROAD-BASED SOCIAL ENGAGEMENT

Trelleborg’s role in society ranges from innovation for better sustainability to local programs for development and diversity.

**Trelleborg’s value for society.** In the longer term, Trelleborg’s products and solutions – what Trelleborg calls Blue Dimension™ – represent the company’s broadest and clearest opportunity to contribute to improvements in the sustainability of society in accordance with the UN Sustainable Development Goals. This is achieved through the ability of its products and solutions to protect the environment, people, infrastructure and assets, which is described in more detail on pages 34–35.

Trelleborg’s total value creation and its distribution in 2018 between various stakeholders in society is presented in text and figures in the tables below and on page 15.

**Local development programs.** In all of the different places and forms in which the company operates, Trelleborg aims to promote the social integration of groups, such as children/young people and functionally diverse groups. This is usually through educational and development initiatives, which include meaningful recreational activities, such as culture, physical activity and sports. A number of programs with this focus are taking place in various countries, see examples on this page and the next. One positive, long-term effect of these programs is also that young talent are made aware of Trelleborg as employer.

Other similar cooperation – support

or sponsorship – of activities with an environmental, health or social focus are in progress locally at a significant number of Trelleborg units. In local collaborations with sports clubs, diversity is prioritized, primarily in the form of activities targeting young people and mixed genders.

In addition to these, Trelleborg collaborates with a number of schools and universities, such as internships with the University of Malta, Örebro University and Lund University/the International Institute for Industrial Environmental Economics in Sweden (refer also to pages 49–51 for examples of collaboration with Örebro) as well as with various interest groups.

**Sri Lanka.** In partnership with Star for Life, a school program has been ongoing in Sri Lanka since 2012 and this was extended over time to include two schools in the Colombo area: Kelani College and Bellana College. The formal start of the collaboration with Bellana College took place in 2017.

The program aims to inspire and support school children to believe in their future and their dreams through regular coaching sessions and sports and music activities.

After three years of the program at Kelani College, the program was evaluated, and was found to have resulted in improvements in attendance, positive attitudes, better study results, physical and mental

balance and a reduction in absenteeism and fewer conflicts.

In Sri Lanka, Trelleborg has also been running a pre-school under the name Antonio Bianchi’s House since 2010. The pre-school has daily Montessori activities for children from families with limited resources.

**India.** In 2018, partnerships with several different voluntary organizations in India continued.

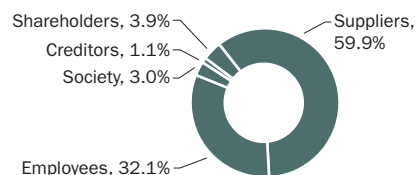
A Village Uplift Program was run, for example, in cooperation with the *Hand in Hand* organization, with the aim of creating an environment and an infrastructure to promote local development for the Maralunkunte community in the Bengaluru region, located some 70 km from Trelleborg’s facilities.

**For integration and diversity.** The company also runs local initiatives in Sweden to contribute to social integration. For a number of years, the company has had a recurring cooperation with Trelleborgs FF and Ramlösa Södra clubs, organizations that stand out as having used sport as a method for community initiatives, such as creating social interaction and meaningful recreational activities for groups of young people, for example newly arrived refugees and the disabled.

## Outcome in 2018 in the area of social engagement

Social Engagement	Where?	Outcome 2018	Goals and main governance
Distributed economic value	■	In total, Trelleborg’s operations generated economic value of SEK 34,601 M (32,755) of which SEK 31,148 M is distributed between stakeholders (suppliers, employees, shareholders, creditors, society). See details on page 15.	The company’s value creation for surrounding society is described in both monetary terms (in the annual report) and through transparent sustainability reporting. This is accented through Trelleborg’s various products and solutions that contribute to the sustainability of society (more on pages 34–35).
Local communities	■	Educational and development programs continued to be run in Sri Lanka (one pre-school, two schools for pupils at the equivalent of secondary level), India, Sweden and a number of other countries in 2018.	Good relationships with local communities wherever the company operates is one goal that Trelleborg strives to achieve through local – and sometimes centrally supported – educational and development initiatives, often targeting children and young people.

**Distributed value 2018**



**Symbols:** ■ = Internal, all units   ■ = Internal, all production units   ■ = Internal, certain units   ■ = External





### THE IVORY COAST: TAKING SOCIAL RESPONSIBILITY SERIOUSLY DURING A PRICE SQUEEZE

Trelleborg’s most important natural rubber supplier in Africa is in the Ivory Coast. The company – SAPH – is part of a family-owned group.

Trelleborg visited SAPH’s largest rubber facility in November 2018 and had a closer look not just at the company’s production itself but also at its extensive social projects, with living quarters, daycare, schools, cafeterias and health centers.

“The operation gives independent rubber farmers a chance to earn income. Unfortunately, oversupply in combination with a low rubber price has led to economic development stalling somewhat in the last few years. But there is no doubt that the facility is contributing to the social safety net in that area,” says Rosman Jahja, responsible for sustainability issues, Trelleborg AB.

Find out more about the dialogs with suppliers on page 50.



### TRAINING AND DEVELOPMENT IN SRI LANKA

Trelleborg is conducting various training and development initiatives for children and young people in places where it conducts operations. In Sri Lanka, young people are coached in two schools for a better life and study results through the Star for Life program. Pre-school children from disadvantaged families are offered educational development and nutritious meals. The pictures are from Bellana College and Antonio Bianchi’s House.



# MANAGING SUSTAINABILITY IN TRELLEBORG

## TRELLEBORG'S SUSTAINABILITY GOVERNANCE



**Code of Conduct and monitoring.** A pillar of the internal sustainability work is Trelleborg's Code of Conduct (new version launched in 2019, see also page 54) and policies in the areas of environment, occupational health and safety (OHS) and ethics. The Code is based on internationally recognized conventions and guidelines, such as the Universal Declaration of Human Rights, the ILO conventions, the OECD guidelines and the UN Global Compact, which Trelleborg signed in 2007.

The Code of Conduct applies to all employees without exception, and training in the content of the Code is mandatory for all employees. Refer to page 54.

Internal sustainability governance is further supported by various types of internal audits, within the framework of the occupational Safety@Work program and the ISO 14001 environmental management system. Random external audits are also carried out, such as initiatives to monitor compliance with the Code of Conduct.

**Whistleblower Policy.** Trelleborg's Whistleblower Policy also supports the sustainability framework. The Whistleblower Policy enables all employees to report suspected legal or regulatory violations without repercussion. Reports can be submitted by phone or online in the employee's own language.

**Reporting and external reporting.** The internal collection of data relates to all units included in the Group during the

relevant period and is mainly performed within the framework of monthly reporting via Manufacturing Excellence (see page 33) and via specific sustainability reporting from all Trelleborg units twice per year. The same system is used to report both financial and sustainability data.

The external reporting of sustainability issues that is published in Trelleborg's Annual Report and in the annual, more comprehensive Sustainability Report is based on the GRI Standards guidelines, according to the Core option. The separate Sustainability Report contains detailed descriptions and an index to clarify exactly how the report follows the GRI guidelines.

In addition, there is a Sustainability section under *About Us* on Trelleborg's website [www.trelleborg.com](http://www.trelleborg.com), from where Annual Reports and Sustainability Reports can be downloaded, including those published in previous years. The Sustainability Reports also serve as Trelleborg's annual Communication on Progress (COP) reports for the UN Global Compact.

**Organization.** At Board level, the Audit Committee has been assigned to monitor the Group's work with sustainability issues.

Starting in 2016, the entire Board was regularly presented with case stories during meetings from Trelleborg's daily sustainability work. A more in-depth review of sustainability targets and indicators for each focus area for the coming period is also presented at the annual Board meeting after mid year. Overall, this clearly reflects

the Board's commitment to the strategic direction.

The operational sustainability organization is led by a Steering Committee comprising the managers of Group Legal, Group Communications and HR staff functions, while the day-to-day activities take place in the Sustainability Forum, a group comprising representatives from the Communications, Legal, Environment, HR, Purchasing and Finance/Treasury staff functions, and from the Manufacturing Excellence Program, as well as out in the operational units.

Direct responsibility for environmental and occupational health and safety (OHS) issues is locally delegated – each production plant has an environmental coordinator and an OHS officer.

### ORGANIZATION





# GRI INDEX OVERVIEW

To make it easier to find information about Trelleborg's Sustainability work in the Annual Report, material issues have been grouped in the table in areas with page references that conform to the GRI Standards Reporting Guidelines, according to the Core option.

Material sustainability aspects according to GRI can be found under the respective report area in the first column. Those that do not constitute specific GRI Aspects are written in *italics*.

The second column contains material GRI disclosures for the respective sustainability aspect, with page references in the third column. The page references are printed at the bottom of each page in the Annual Report. Unless specified otherwise, the disclosures refer to the 2016 standards.

Reference to descriptions of governance (Management Approach Disclosures, MAD) for each focus area, can be found in the second column in white.

The fourth column contains references to the UN Global Compact, which Trelleborg signed back in 2007.

A more detailed GRI Content Index with boundaries and omitted parts is included in the separate Sustainability Report for 2018. This will be available for download from April 2019 on [www.trelleborg.com/About Us/Sustainability](http://www.trelleborg.com/About%20Us/Sustainability).

The 2018 Sustainability Report is prepared according to guidelines for *sustainability reporting in compliance with the Swedish Annual Accounts Act*, see the color coding below and the explanations at the bottom of the page.

Areas/sustainability aspects	GRI disclosures	Pages in the Annual Report	Connection to principles in the UN Global Compact
<b>Company's Sustainability Profile</b>			
CEO's comments	102-14	3–5, 47	
Trelleborg profile, incl. business model, overriding targets and governance	102-1 – 102-10, 102-18	Cover, 1, 7–9, 13–27, 30–32, 34–39, 42–45, 63, 68, 77, 113, 143, 145	3, 6
Code of Conduct/Group policies and external initiatives	102-12 – 102-13, 102-16	14, 29, 33–37, 42–47, 51–54, 56–60, 62, 64, 68–69, 77, 80	
Stakeholder engagement	102-40 – 102-44	15, 48–51, 54	
Report profile, incl. materiality analysis	102-45 – 102-56	47, 49–51, 60, 69, 111–112, 141, 144–145	
<b>Focus areas with sustainability aspects based on GRI Standards</b>			
<b>1 Compliance with laws and codes</b>			
103-1 – 103-3 50, 54–57			
Anti-corruption	205-2 – 205-3	10, 54, 57, 143	10
Competition issues	206-1	57, 143	
Regulatory compliance (general)	419-1	54–55, 57, 143	
Regulatory compliance (environmental)	306-3, 307-1	55, 57, 143	7
Non-discrimination	406-1	10, 55, 57, 143	1, 2, 6
Freedom of association and collective bargaining	407-1	55, 57, 143	1, 2, 3
Child labor	408-1	10, 55, 57, 143	1, 2, 5
Forced labor	409-1	10, 55, 57, 143	4
Suppliers and compliance in supply chain	308-2, 414-1 – 414-2	10, 55–57, 143	
<b>2 Resources</b>			
103-1 – 103-3 50, 58–61			
Energy	302-1, 302-3 – 302-4	10, 58–60, 143	7, 8, 9
Climate and emissions	305-1 – 305-5, 305-7	10, 52–53, 59–61, 143	7, 8, 9
Water	303-1 (2018), 303-3 (2018)	61	7, 8, 9
Waste	301-2 306-2	59, 61, 143	7, 8, 9
Chemicals	102-11	58, 61	
Health and safety	403-1 (2018), 403-8 – 403-10 (2018)	10, 58–60, 143	6
<b>3 Diversity</b>			
103-1 – 103-3 50, 62–64			
Professional development	404-2	64	
Group diversity policy and categories	405-1	11, 62–64, 81, 143	6
<b>4 Social Engagement</b>			
103-1 – 103-3 50, 66–67			
Community development	201-1 – 413-1	11, 15, 66-67, 143	1

Requirements in the Annual Accounts Act concerning sustainability reporting: ■ Business model ■ Risks ■ Policy/Target ■ Anti-corruption ■ Environment ■ Human rights ■ Social conditions incl. diversity



The long life and performance of hydraulic systems depend on a sealing configuration within a rod and piston housing that involves multiple seals. Even if hydraulic systems are not always visible, they are everywhere. They are what make cranes and excavators work.

In these contexts, Trelleborg prescribes the use of both a primary and a secondary seal. The primary seal does the job of sealing in lubricant and the secondary seal takes over when needed. Trelleborg's Lubrication Management System adjusts the conditions for the individual sealing elements, such that the load on each element is reduced to ensure performance of the primary seal and the extended life of the secondary seal.

# RISKS AND RISK MANAGEMENT

**Risk spread.** The ability to identify, evaluate, manage and monitor risks plays a central role in the management and control of Trelleborg's business operations. The aim is to achieve the Group's targets while applying well-considered risk-taking within set parameters.

Trelleborg serves a broad range of customers in a variety of market segments and niches. The business has a wide geographic spread. The Group has operations in about 50 countries, sales are conducted in just over 150 countries worldwide and manufacturing operations are carried out at more than 100 production sites. The business is diversified, which provides Trelleborg with an effective underlying risk spread.

Demand for the Group's products and solutions largely moves in line with fluctuations in global industrial production. Trelleborg focuses on maintaining an exposure to its market segments that has a good balance between early and late cyclical industry, meaning general as well as capital-intensive industry, the demands from which often balance each other out. Seasonal effects occur in the various market segments, particularly in the agricultural segment, which normally experiences higher demand for tires for agricultural machines during the first half of the year. For the Group, demand is usually higher in the first half of the year than in the second half of the year.

**Enterprise Risk Management.** Trelleborg has an established process for Enterprise Risk Management (ERM) that provides a framework for the Group's risk activities. The purpose of the ERM process is to provide a Group-wide overview of Trelleborg's risks by identifying them, evaluating them and providing a basis for decision-making regarding the management of risks, and to enable a follow-up of the risks and how they are managed.

Trelleborg has chosen to group the risks into 4 areas as shown in the illustration below. Risks related to sustainability and confidence run as a common thread through these areas.

*Strategic risks* include external factors that could impact Trelleborg's operations, and internal factors that could impede opportunities to achieve the operation's strategic goals. Read more about Trelleborg's strategic cornerstones on pages 29–33.

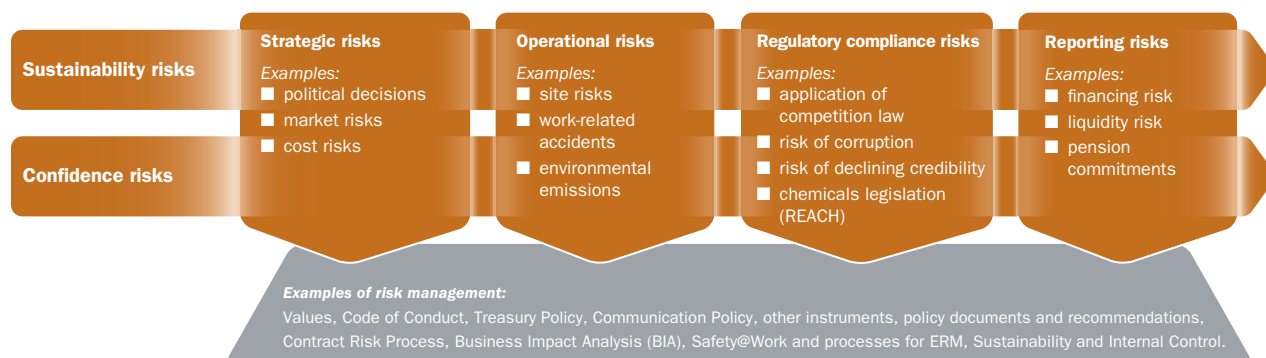
*Operational risks* are risks that Trelleborg can itself largely manage and prevent, and which mainly pertain to processes, assets and employees. Read more about how Trelleborg works to ensure safe and efficient use of resources and about diversity on pages 58–64.

*Regulatory compliance risks* relate to Trelleborg being a global operation that is subject to a large number of laws, regulations and rules pertaining to, for example, the environment, health and safety, trade restrictions, anti-competition regulations and currency regulations. Read more about Trelleborg's compliance with laws and codes on pages 54–57.

*Financial risks* include interest rate and foreign exchange risks that could adversely impact the Group's earnings. Furthermore, there are financing risks and liquidity risks, which could result in difficulties in raising new loans or shareholders' equity, as well as financial credit risks. Read more about Trelleborg's financial risk management in Note 31, pages 126–128.

In the Corporate Governance Report, on pages 82–83, there is a detailed description of the internal controls used to manage the risks associated with financial reporting.

**Sustainability risks.** Risks relating to sustainability issues are a common thread through all areas. For example, this involves the risks relating to





shortages of resources or materials or the negative effects of emissions, as well as risks relating to the use of Trelleborg's products and solutions. It also includes the risks relating to failure to comply with laws and rules, both as a Group and among the Group's suppliers.

**Confidence risks.** Similarly, there is a risk that events and conduct could have a negative impact on the company's brand and credibility. For example, the behavior or business decisions of an individual employee could destroy the confidence built up over a long period of time. Trelleborg works on a variety of issues and activities to strengthen and build confidence in the Group, such as training in the Code of Conduct, a clear and well-known brand promise, stakeholder dialog, product safety and so forth.

**Crisis management.** Trelleborg's crisis management is decentralized, which means events should, as far as possible, be solved locally, close to the origin of the incident. The crisis organization at Group level, consisting of a team from Group Legal, Communications and HR, is to ensure that relevant employees at Trelleborg have the necessary knowledge and capabilities to handle incidents. In the event of a major incident, which can be considered to impact the Group as a whole, the Group's crisis organization, including the Board of Directors, is informed and assesses how to handle the event.

**ERM priorities.** In addition to the financial risks (see Note 31 on pages 126–128), Trelleborg has identified 8 major risks that may result in damage or loss with substantial impact on the entire Group and therefore justify management of the risk at Group level.

The Group's various companies, business areas and business units have identified a total of about 250 risks. The vast majority of these risks are managed locally.

Some 30 of these approximately 250

risks that may have a major impact at a business area and/or Group level are identified each year and thus justify the risk being managed at one of these levels. The evaluation of the risks and consolidation of priorities is led by the Risk Management staff function. The evaluation comprises a component of the annual strategy process and primarily involves the management teams of the business areas, but also Group Management and the staff functions.

On the basis of the risk prioritization prepared in the ERM process, the Board continuously identifies and prioritizes risks that may significantly affect the possibility of achieving the Group's objectives.

The 8 major risks that are deemed to have a significant impact on the entire Group are managed by the ERM Board, which leads the overall coordination and monitoring of risk activities. A total of 3 meetings of the ERM Board are planned for 2019, which are preparatory meetings for Audit Committee and Board meetings.

**Responsibility.** Like the ERM Board, the ERM process and work pertaining to risk are controlled centrally by the Group's Risk Management staff function led by the General Counsel, who assumes ultimate responsibility. In addition to these people and the Internal Control staff function, the ERM Board consists of the Group's CFO and Group IT staff function. The ERM Board is tasked with coordinating and prioritizing the risks and risk processes and ensuring that there is clear ownership of prioritized risks.

Responsibility for risk management lies with the respective managers of Trelleborg's various companies, business areas and business units. This responsibility encompasses the day-to-day work pertaining to operational and other relevant risks, as well as leading and developing risk management activities. The managers are supported by central Group resources in the form of the Risk Management, Internal Control and Group Treasury staff functions, as well as Group-wide risk processes and tools. Group Treasury is responsible for financial

risk management activities. The unit is in charge of Group companies' external bank relations, liquidity management, net financial items, interest-bearing liabilities and assets, Group-wide payment systems and netting of currency positions. Centralization of the Group's treasury management ensures substantial economies of scale, lower financing costs, strict management of the Group's financial risks and improved internal controls.

Read more about financial risk management in Note 31, pages 126–128.

**Monitoring.** Trelleborg's risk management is systematically monitored by Group Management using such tools as monthly reports from the managers in charge. The reports describe the status within their respective areas of responsibility, including the status of identified risks. The Group's General Counsel reports regularly to the Audit Committee on the Group's risk and risk management, and the Group's CFO reports regularly to the Audit Committee on the status of the financial risks. Furthermore, the President regularly provides the Board with reports on the development of the Group's risks. The Group's companies, business areas and business units use a consolidation system for systematic identification, analysis, evaluation and monitoring of the management of reported risks.



## RISKS THAT MAY SIGNIFICANTLY AFFECT THE GROUP

**Risks at Trelleborg.** Trelleborg has identified the relevant areas based on strategic risks, operational risks, regulatory compliance risks and financial risks using a so-called risk radar. The closer a risk area is to the center of the illustration below, the higher the probability that it will occur and cause major financial damage or have an adverse impact on confidence in Trelleborg.



**Major risks at Trelleborg.** In addition to the financial risks (see Note 31 on pages 126–128), Trelleborg has identified 8 major risks that may result in damage or loss with substantial impact on the entire Group and therefore justify management of the risk at Group level.

### Regulatory compliance risks

- 1 Violation of laws and permits
- 2 Corruption and fraud

### Operational risks

- 3 Products in environments with elevated risk levels
- 4 Substandard and inappropriate agreements
- 5 Negative environmental impact
- 6 Risk of injury at sites
- 7 Disruptions to critical IT systems

### Strategic risks

- 8 Commercial failures

### Financial risks

Financial risks are described in Note 31, pages 126–128

# RISKS THAT MAY SIGNIFICANTLY AFFECT THE GROUP

## REGULATORY COMPLIANCE RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Violation of laws and permits	Compliance with applicable legislation	<ul style="list-style-type: none"> <li>• Training seminars in competition law and the EU's General Data Protection Regulation (GDPR).</li> <li>• Export control process focusing on embargoes and trade restrictions.</li> <li>• Established procedures for approving membership in organizations, for example.</li> </ul> Refer to page 54.	Establishment of a central Group steering committee, Compliance Task Force.  Formalization and expansion of Group Internal Control, focusing on regulatory compliance.  Regular legal reviews with a focus on monitoring and ensuring compliance in the Group companies.
Corruption and fraud	Measures preventing fraudulent conduct	<ul style="list-style-type: none"> <li>• Continuous training.</li> <li>• Established policies and procedures.</li> <li>• Acceptance Letters issued by the Group's President, whereby relevant employees sign a letter each year confirming their knowledge of the Code of Conduct and compliance with the Group's internal policy instruments.</li> <li>• Trelleborg's whistleblower policy and process, which implies that each employee is entitled, without repercussions, to report suspicions of legal or regulatory violations. Refer to page 54.</li> <li>• Review and evaluation of agency and distribution agreements.</li> <li>• Special committee for the counteraction of financial fraud.</li> </ul>	Review of Group's internal policy instruments.  Introduction of Policy Quick Guides to further increase the distribution and comprehension of regulations and the Group's core values.

## OPERATIONAL RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Products in environments with elevated risk levels	Review of products and solutions	<ul style="list-style-type: none"> <li>• Risk assessments to identify products with an elevated risk level, for example, in the areas of oil &amp; gas, marine hoses for oil and gas, healthcare &amp; medical and aerospace.</li> <li>• Legal review and risk assessment of contracts and processes concerning production and project management.</li> </ul>	Training and workshops that follow operationally specific risk assessments of products and contracts. The concept was initiated within the Trelleborg Offshore & Construction business area and has now been expanded to selected areas of the Group, such as aerospace and healthcare & medical.
Substandard and inappropriate agreements	Examination of agreements	<ul style="list-style-type: none"> <li>• Comprehensive training in issues concerning agreements.</li> <li>• Legal examination and evaluation of contracts in 11 prioritized areas.</li> </ul>	Further development of external services for focused and fast examination of contracts to facilitate business processes.

## OPERATIONAL RISKS, CONT.

Major risks	Focus	Management	Initiated and ongoing activities
Negative environmental impact	Review of the sites' local environment and focus on hazardous materials and chemicals	<ul style="list-style-type: none"> <li>• Mapping of environmental risks for all new construction and acquisitions.</li> <li>• Continuous surveillance of the sites in question and a focus on the handling of chemicals, rainwater and the risk of flooding.</li> <li>• Update of list of materials with restrictions (see page 58), in relation to the use of chemicals and continued environmental assessments at the point of acquisition.</li> </ul>	<p>Increased surveillance and monitoring of the handling of chemicals.</p> <p>Establishment of ISO 14001 multi-site certification, which results in increased standardized analysis and control.</p> <p>Establishment of a Group-wide steering committee for chemicals, Global Chemical Task Force.</p> <p>Further expand the internal list of chemical restrictions. Phase out chemicals with significant environmental and health effects.</p>
Risk of injury at sites	Protection of critical sites	<ul style="list-style-type: none"> <li>• External and internal analyses of the Group's operations with regard to results of critical sites.</li> <li>• Guidelines for new building and site upgrades.</li> <li>• Increase the number of risk-classified sites being upgraded to Highly Protected Risk level (HPR). Improve the lowest performing and most critical sites.</li> </ul>	<p>Selection of Group-wide risk areas and customization of injury-preventing guidelines and increased monitoring.</p> <p>Increased focus on and monitoring of major risks at critical sites.</p> <p>More in-depth mapping of natural disaster risks, with a particular focus on flooding.</p>
Disruptions to critical IT systems	Minimize disruptions	<ul style="list-style-type: none"> <li>• Improved level of service in terms of the IT infrastructure.</li> <li>• Implement upgrades in a structured, Group-wide manner.</li> <li>• Ensure compliance with legal requirements in the countries in which the Group operates.</li> <li>• Improve information security in and between systems.</li> </ul>	<p>Structuring of new Enterprise Resource Planning (ERP) implementations and increased monitoring of Internal Control.</p> <p>Localization of servers and review of physical protection and information security.</p>

## STRATEGIC RISKS

Major risks	Focus	Management	Initiated and ongoing activities
Commercial failures	New product segments, major projects and acquisitions	<ul style="list-style-type: none"> <li>• Acquisition survey and examination program within the areas of finance, operations and legal.</li> <li>• Central approval of new products in selected segments, such as healthcare &amp; medical and aerospace.</li> </ul>	<p>Increased business support when establishing new product segments and larger projects concerning responsible risk management, legal risks and new establishments of operations.</p>

## CORPORATE GOVERNANCE THAT SUPPORTS TRELLEBORG'S CONTINUED DEVELOPMENT



The Board's work to establish a clear and precise regulatory structure supports long-term value generation and provides Trelleborg with a firm foundation to stand on. Combined with the Group's strategic approach and work, Trelleborg continues to have favorable conditions to help it meet the challenges and opportunities of the market.

**Corporate governance that promotes value generation.** In the Board's work, it is important to keep the sights on the long-term objective, that Trelleborg is to secure leading positions in selected segments. The Board of Directors is to support the management in developing the Group in this direction. This means that we evaluate various options in the form of major investments, restructuring and acquisitions. We have a favorable mix of capabilities and experience on the Board of Directors that makes a contribution to these discussions.

We also monitor that the acquisitions are integrated with the Group in a forward-looking and structurally correct manner. As a result of acquisitions made earlier, such as in Trelleborg's agricultural tire operation, the Board has resolved on investments aimed at optimizing the production structure and accordingly, the capacity utilization at the tire facilities in the Czech Republic and Serbia. This will enable us to retain and strengthen the Group's positions in this area.

The Board of Directors also follows up on sustainability issues of various dimensions.

**Balance between opportunities and risks.** At the same time, it is important to maintain a good balance between the development of the Group's business opportunities, and identification and management of the risks we face in an increasingly complex and dynamic world, in the short and long term.

For example, we foresee a growing uncertainty in our business environment that must be monitored and addressed. Trelleborg is already well prepared to manage fluctuating market conditions as a result of such factors as its decentralized organization model, which encourages rapid and proactive leadership.

The corporate governance at Trelleborg also entails that there is to be a clear structure, with clear rules and processes that ensure that the focus of the management and employees is set on developing the business.

This is where Trelleborg's Code of Conduct plays a key role in providing the framework for the business. The Code forms a basis for all operations in the Group, and applies to all employees, without exception. During the year, the Code was updated and information and training material are currently being rolled out in the Group.

**Strong financial base for the operations.** The year's results demonstrate that Trelleborg is continuing to consolidate its position as a world leader in engineered polymer solutions. Trelleborg's capital structure is healthy, which provides flexibility moving forward. The debt/equity ratio is relatively low at 33 percent. The balance sheet gives the Group flexibility, as does cash flow.

Overall, with these factors in place, I am confident about 2019.

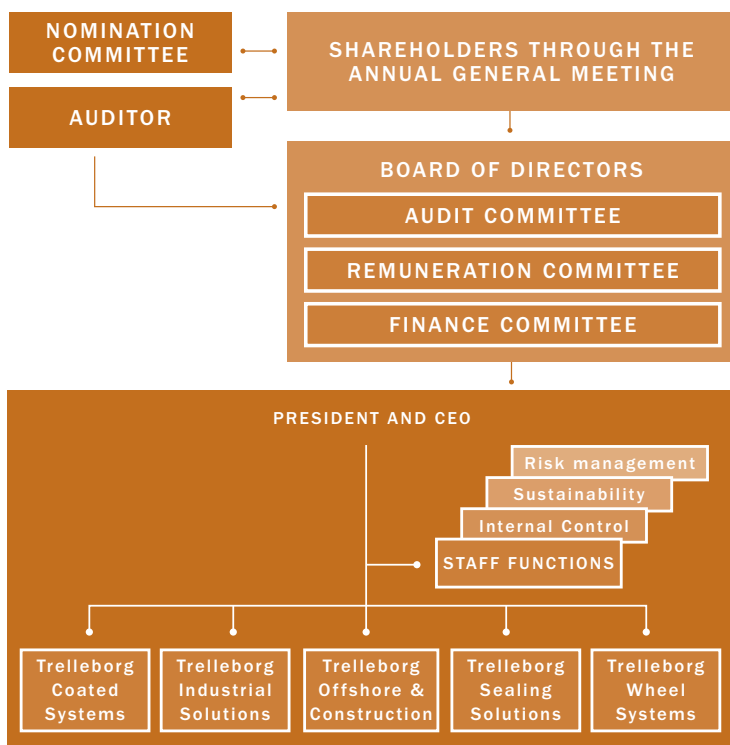
Hans Björck, Chairman



# CORPORATE GOVERNANCE REPORT 2018

Trelleborg is a publicly traded Swedish limited liability company listed on Nasdaq Stockholm Large Cap. Trelleborg applies the Swedish Corporate Governance Code and presents its 2018 Corporate Governance Report in this section. Trelleborg has no deviations to report.

The auditor's review was conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement.



## EXTERNAL POLICY INSTRUMENTS

The external policy instruments that constitute the framework of corporate governance at Trelleborg include:

- The Swedish Companies Act
- The Swedish Annual Accounts Act
- Nasdaq Stockholm's rules and regulations
- The Swedish Corporate Governance Code
- IFRS
- Applicable EU regulations

## INTERNAL POLICY INSTRUMENTS

The internally binding policy instruments include:

- The Articles of Association
- The rules of procedure for the Board of Directors
- Instructions for the Audit Committee, Remuneration Committee, President and financial reporting to the Board of Directors
- Core values
- The Code of Conduct
- The Treasury Policy
- The Communication Policy
- Other instruments, policy documents, manuals and recommendations

In addition to the above, processes are in place for Enterprise Risk Management (ERM), Sustainability and Internal Control.

**SHAREHOLDERS** Shareholders exercise their power at the Annual General Meeting, which is Trelleborg's highest decision-making body. The Meeting adopts the Articles of Association and, at the Annual General Meeting, the shareholders appoint Board members, the Chairman of the Board and auditor, and make decisions regarding their fees. In addition, the Annual General Meeting passes resolutions regarding the adoption of the income statement and the balance sheet, the allocation of the company's profit and the discharge from liability toward the company of the Board members and the President. The Annual General Meeting also makes resolutions regarding the appointment of the Nomination Committee and its work, and the principles for the remuneration and employment terms for the President and other senior executives.

**NOMINATION COMMITTEE** The Nomination Committee represents the company's shareholders, nominates Board members, the Chairman of the Board and the auditor, and proposes remuneration to be paid to these.

**AUDITOR** The Annual General Meeting appoints an auditor that examines the annual report and accounts, the consolidated financial statements, the administration of the Board of Directors and President and the annual report and accounts of subsidiaries, and submits an audit report.

**BOARD OF DIRECTORS** The Board of Directors is responsible for the organization and management of Trelleborg's affairs. In accordance with the Articles of Association, the Board of Directors is to consist of 3 to 10 members, without deputies. Board members are elected annually by the Annual General Meeting for the period until the close of the next Annual General Meeting.

**Chairman of the Board.** The responsibility of the Chairman of the Board is to lead and guide the work of the Board and ensure that the work is well organized and conducted efficiently, and that the Board fulfills its obligations. The Chairman monitors operations in dialog with the President and is responsible for ensuring that other Board members receive the information and documentation necessary to maintain a high level of quality in discussions and decisions, and for ensuring that the Board's decisions are executed.

**Board Committees.** The Board has established 3 committees from within its ranks without this otherwise impacting the Board's responsibilities and duties. These are the Audit, Remuneration and Finance Committees.

» **Audit Committee.** The Audit Committee represents the Board in matters such as monitoring the processes concerning financial reporting, risk management and

internal control and also assists the Nomination Committee with proposals for the election of auditor.

» **Remuneration Committee.** The Remuneration Committee represents the Board in such matters as remuneration and other employment conditions for the President and other senior executives, management succession and succession planning, and leadership development.

» **Finance Committee.** The Finance Committee acts on behalf of the Board, preparing the strategic issues in relation to financing, evaluating the Group's existing and required financing scope, as well as potential acquisitions and their impact on the Group.

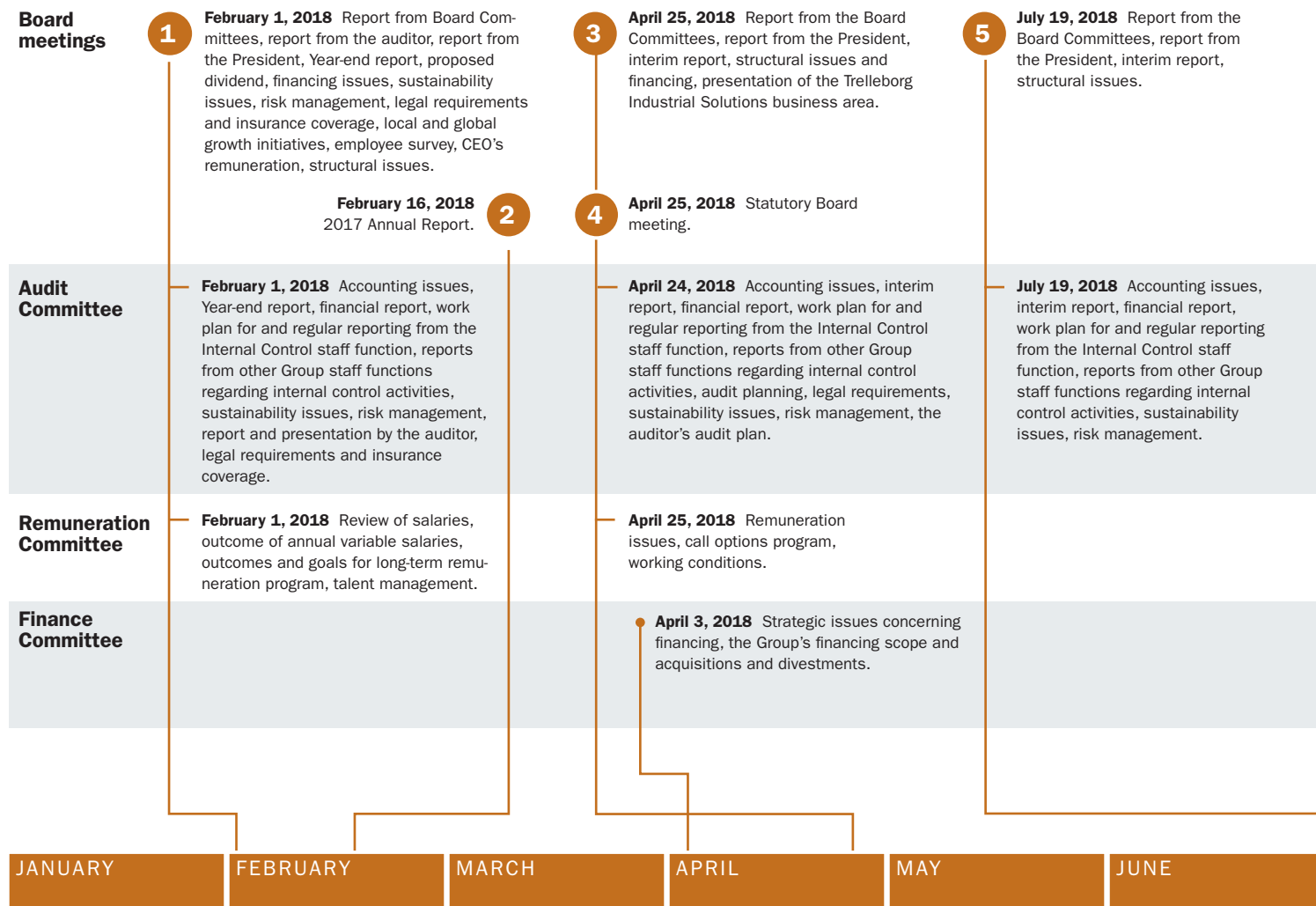
**PRESIDENT AND CEO** The President and CEO manages the day-to-day administration of Trelleborg. The President is assisted by Group Management comprising presidents of business areas and managers of corporate staff functions.

**STAFF FUNCTIONS** Trelleborg has a number of staff functions that support the Group and business areas with Group-wide expertise and duties. The sub-staff functions include:

» **Internal Control.** 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.

» **Sustainability.** Group Communications has coordinating responsibility for sustainability reporting. Reports are presented to the Audit Committee and to the President and CEO. The daily sustainability activities take place in the Sustainability Forum, which is a group comprising representatives from the Group Communications, Legal, Environment, HR, Purchasing and Finance/Treasury staff functions, and the Manufacturing Excellence Program, as well as out in the operational units.

» **Risk management.** The Risk Management staff function is responsible for the Group's Enterprise Risk Management (ERM) that provides a framework for the Group's risk activities. The function reports to the Audit Committee and to the Group's General Counsel. Risk management focuses on evaluating identified risks and consolidating priorities in order to manage risk. Group Treasury is responsible for financial risk management activities.



### Annual General Meeting 2018

The 2018 Annual General Meeting took place on April 25, 2018, in Trelleborg, Sweden. At the meeting, 656 shareholders were in attendance, personally or by proxy, representing about 74 percent of votes in Trelleborg. The Chairman of the Board, Sören Mellstig, was elected Chairman of the Meeting. All Board members elected by the Annual General Meeting and Group Management were present.

The complete minutes and information on the 2018 Annual General Meeting are available at [www.trelleborg.com](http://www.trelleborg.com).

The resolutions passed by the Meeting included the following:

- » Dividend of SEK 4.50 per share for the 2017 fiscal year.
- » Re-election of Board members: Hans Biörck, Gunilla Fransson, Johan Malmquist, Peter Nilsson, Anne Mette Olesen and Susanne Pahlén Åklundh. Sören Mellstig and Bo Risberg had declined re-election.
- » Election of Panu Routila and Jan Ståhlberg as new members of the Board.

- » Election of Hans Biörck as new Chairman of the Board.
- » Election of Deloitte AB as auditor.
- » Remuneration for the Board members and the auditor.
- » Principles for remuneration and other employment terms for the President and other senior executives.

For information on shareholders and the Trelleborg share, refer to pages 7–9 and [www.trelleborg.com](http://www.trelleborg.com).

Trelleborg's 2019 Annual General Meeting will be held on March 27, 2019 in Trelleborg. For more information, refer to page 144.

### Nomination Committee for the 2019 Annual General Meeting

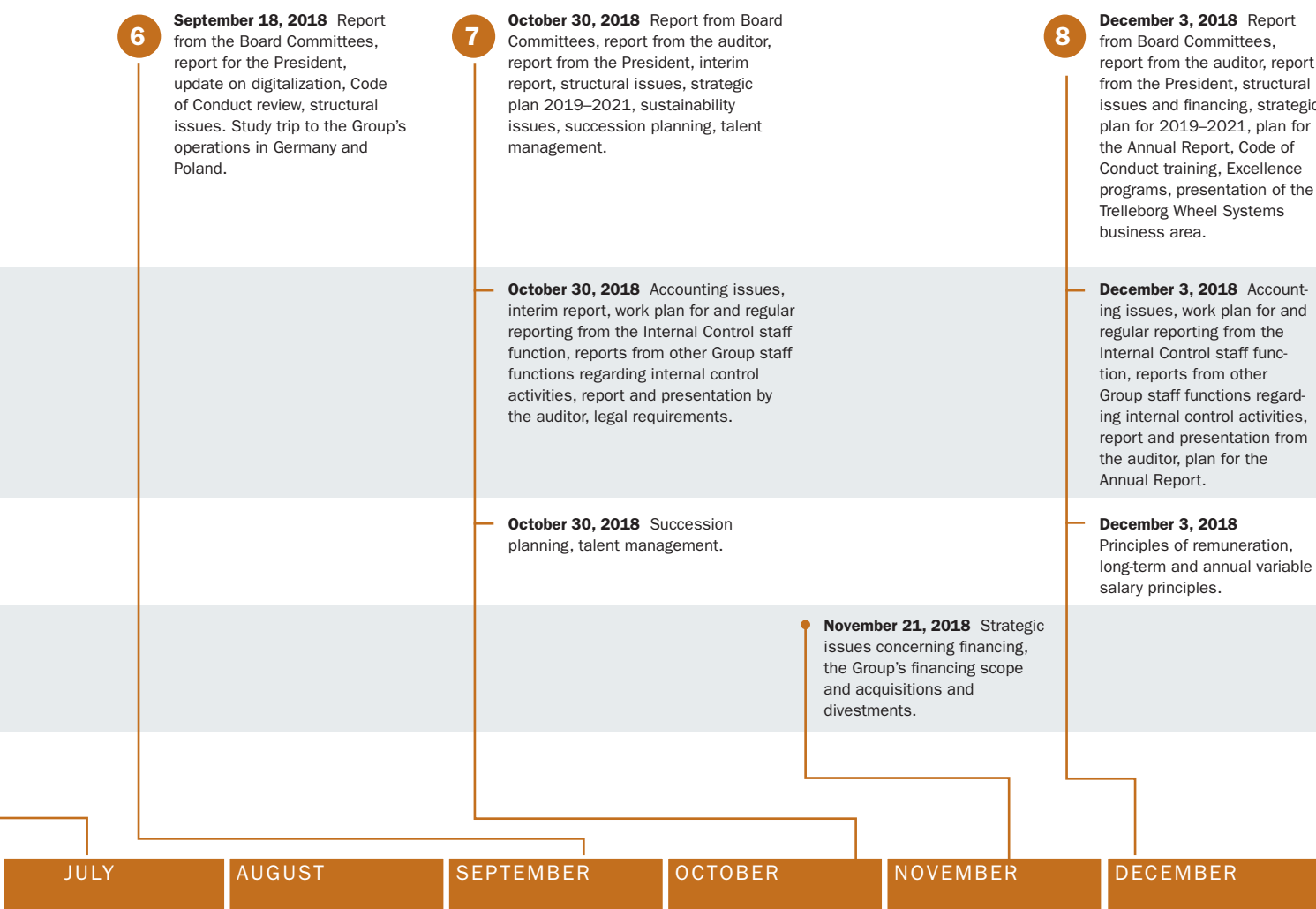
The 2018 Annual General Meeting passed a resolution regarding the Nomination Committee and assigned the Chairman of the Board the task of asking representatives of Trelleborg's five major shareholders, not later than by the end of August, to each appoint one member to the Nomination Committee.

The Nomination Committee also included the Chairman of the Board as a co-opted member.

No payment is made to members of the Nomination Committee.

The Nomination Committee for 2019 held 2 minutes meetings and maintained continuous contact up to and including February 19, 2019. As a basis for the Nomination Committee's work, the Chairman of the Board presented a report on the work of the Board, which included an internal evaluation of the work and function of the Board, as well as holding meetings with the President and a couple of Board members.

The Nomination Committee's guidelines for the selection of candidates to be nominated to the Board specify that they shall possess knowledge and experience relevant to Trelleborg's operations. The Diversity Policy applied for the Group's Board of Directors is item 4.1 in the Swedish Corporate Governance Code. The objective is that the Board of Directors, considering Trelleborg's operations, stage of development and conditions in general, is to have a suitable composition, characterized by diversity



and breadth as regards the expertise, experience and background of the members elected by the Annual General Meeting, and that an even gender balance is to be sought.

The Nomination Committee took into consideration the Diversity Policy when preparing its proposal for the election of Board members ahead of the 2018 AGM, which resulted in the Board composition presented on pages 84–85.

The Nomination Committee's proposals to the 2019 Annual General Meeting will be published in the official notification and on [www.trelleborg.com](http://www.trelleborg.com).

### Board of Directors 2018

In 2018, Trelleborg's Board of Directors comprised 8 members elected by the Annual General Meeting, including the President and CEO. Employees elect 3 representatives and 1 deputy to the Board of Directors. The Group's CFO attends the Board meetings as does the General Counsel, who serves as the Board's secretary. Other members of Group Management participate in Board meetings when necessary.

For further information on Board members, refer to pages 84–85 and Note 10, pages 106–107.

### Work of the Board of Directors

The Board held 8 meetings during the year, including one statutory Board meeting. The Board of Directors is responsible for establishing Trelleborg's overriding targets, developing and following up the overall strategy, deciding on major acquisitions, divestments and investments and continuously monitoring operations. The work of the Board follows an annual plan. Recurring issues at Board meetings include reports from the Board Committees, reports from the President, interim reports and structural issues.

Board decisions were unanimous and no conflicting opinions were recorded on any issue decided during the year.

In addition to the Board meetings, a study trip was undertaken to the Group's various operations in Germany and Poland.

The President presents a report on the operations' performance at scheduled Board meetings. The Board conducts reviews with the auditor when audit reports

are to be considered. The auditor also has meetings with the Board of Directors without the presence of Group Management.

The Audit Committee briefs the Board of Directors on work related to the whistleblower system.

Trelleborg's Board complies with the Swedish Corporate Governance Code's requirements stipulating that the majority of the Board members elected by the General Meeting must be independent in relation to Trelleborg and company management, and that at least 2 of these are also to be independent in relation to Trelleborg's major shareholders.

The Chairman of the Board is responsible for evaluating work on the Board and toward the management. In 2018, an internal survey of Board members was conducted and the results were analyzed on the basis of this. The results were presented and discussed by the Board and Nomination Committee, forming the basis for evaluating the size and composition of the Board. The evaluation focused on the Board activities in general and, to a certain degree, on the contributions made by individual Board

members, including the Chairman and President. Board evaluations carried out in previous years have distinctly influenced the work of the Board and committees.

#### Board Committees

For the past number of years, the Board has established 3 committees from within its ranks; the Audit, Remuneration and Finance Committees.

*Audit Committee.* Recurring issues at Audit Committee meetings are accounting issues, interim reports, financial reports, work plans for and regular reporting from the Internal Control staff function, sustainability issues, risk management, and reports from the auditor.

The Audit Committee is to 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 Audit Committee is also to represent the Board by monitoring the Group's work in relation to sustainability and ERM issues and day-to-day financing operations, and annually reviews and makes proposals for changes to the Treasury Policy.

*Remuneration Committee.* Recurring issues at Remuneration Committee meetings are remuneration, succession planning and leadership development issues.

*Finance Committee.* Recurring issues at Finance Committee meetings are the Group's financing, financing scope and acquisitions.

Refer to the illustration on pages 78–79.

#### Auditor 2018

The Annual General Meeting resolved that the auditing firm Deloitte AB shall be Trelleborg's auditor for a period of one year.

See also page 81 for further information.

#### Group Management 2018

At the end of 2018, Group Management comprised 9 individuals. For additional information about Group Management, refer to pages 86–87.

In 2018, Group Management held 4 meetings. These meetings focused on the Group's strategic and operational performance and budget follow-up.

Trelleborg's operations are organized into 5 business areas. The business areas consist of about 20 business units, which in turn comprise approximately 40 product areas. The organization is based on the principle of responsibility and decentralized authority.

Each legal unit, which does not necessarily reflect the operating units, has its own Board of Directors that focuses on regulatory compliance, among other aspects.

#### Sustainability reporting

Trelleborg's separate 2018 Sustainability Report is adapted to regulations for sustainability reporting in compliance with the Annual Accounts Act. Refer to the overview on page 69.

#### Internal culture

Trelleborg applies an approach involving far-reaching decentralized responsibility to drive and implement the Group's strategy. The Group's operating activities are pursued through independent operational units with responsibility for profit, balance sheet and cash flows. Local managers and their

coworkers make the commercial decisions, ensure that these are handled correctly and with a balanced approach to risk-taking. As a means of support, the individual business areas regularly follow up the results of their business units' operations, similar to the manner in which Group Management follows up the business areas as part of a well established work process.

#### Core values

Trelleborg is a global Group characterized by individual and cultural diversity and shared value systems are therefore particularly important. The core values are long-term commitments, which, when coupled with Trelleborg's business concept, goals and strategies, guide the Group in making decisions and conducting business. The core values are:

- » Customer focus: Working in partnership, we aim to add value for our customers, as well as for Trelleborg.
- » Innovation: We promote an innovative attitude and corporate culture. Innovation is a key driver for our growth.
- » Responsibility: We all share responsibility for our company as a whole and for its results.
- » Performance: We shall perform better than our competitors.

#### Diversity

Trelleborg works to achieve a balanced mix of ethnicities, ages and genders in its operations. The Group's Diversity Policy recognizes that diversity is a strength for the Group. Enhanced diversity and inclusion has the potential to further drive Trelleborg's performance and results, both at team level and individually. Refer to page 62.

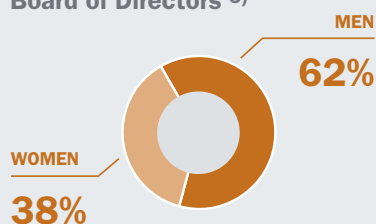


## Members of Board Committees at December 31, 2018

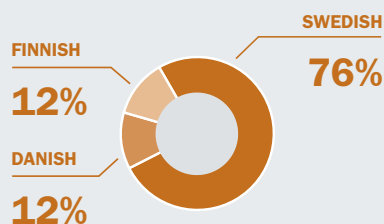
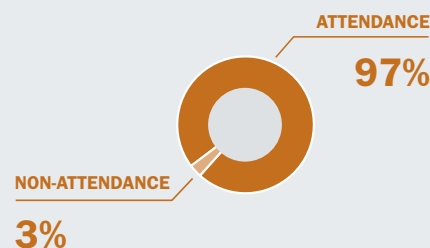
AUDIT COMMITTEE	REMUNERATION COMMITTEE	FINANCE COMMITTEE
Gunilla Fransson, Chairman	Hans Biörck, Chairman <sup>1)</sup>	Hans Biörck, Chairman <sup>1)</sup>
Hans Biörck	Johan Malmquist	Johan Malmquist
Susanne Pahlén Åklundh <sup>1)</sup>	Anne Mette Olesen	Jan Ståhlberg <sup>2)</sup>
Panu Routila <sup>2)</sup>		

<sup>1)</sup> Replaced the former Chairman of the Board Sören Mellstig during the year.

<sup>2)</sup> Replaced the former Board member Bo Risberg during the year.

Gender distribution in the Board of Directors <sup>3)</sup>

## Nationality

Board meeting attendance <sup>4)</sup>

<sup>3)</sup> Including the President and CEO.

<sup>4)</sup> Including Board members elected up to the Annual General Meeting and those elected after.

## Nomination Committee for the 2019 Annual General Meeting

Name/Representing	Share of votes Aug 31, 2018	Share of votes Dec 31, 2018
Ragnar Lindqvist, Dunker Interests	54.02%	54.10%
Henrik Didner, Didner & Gerge Funds	3.14%	3.17%
Tomas Risbecker, AMF Insurance & Funds	2.91%	1.92%
Peter Lagerlöf, Lannebo Funds	1.70%	1.81%
Olof Jonasson, First AP Fund	1.43%	1.42%
<b>Total</b>	<b>63.20%</b>	<b>62.41%</b>

## Auditor's remuneration 2018

SEK M	2018	2017
<b>Deloitte</b>		
Audit assignment	24	24
Audit activities other than audit assignment	1	1
Tax consultancy services	0	1
Other services	0	1
<b>Other auditors</b>		
Audit assignment	3	3
Audit activities other than audit assignment	0	0
Tax consultancy services	0	0
Other services	0	0
<b>Total</b>	<b>28</b>	<b>30</b>

## Auditors 2018

**Hans Warén****Authorized Public Accountant, Auditor in Charge**

Auditor of the Trelleborg Group since the 2017 Annual General Meeting.

Partner of Deloitte AB since 1998.

Qualifications: Graduate in business administration.

Authorized Public Accountant since 1992.

Other assignments: Axfood, Castellum, Gunnebo and Lindab.

Born: 1964.

**Maria Ekelund****Authorized Public Accountant**

Auditor of the Trelleborg Group since the 2017 Annual General Meeting.

Partner of Deloitte AB since 2008.

Qualifications: Masters degree in business administration.

Authorized Public Accountant since 2002.

Other assignments: Atos Medical, CellaVision, Ikano Bostad and Xylem.

Born: 1970.

# 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 72 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 83.

**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.

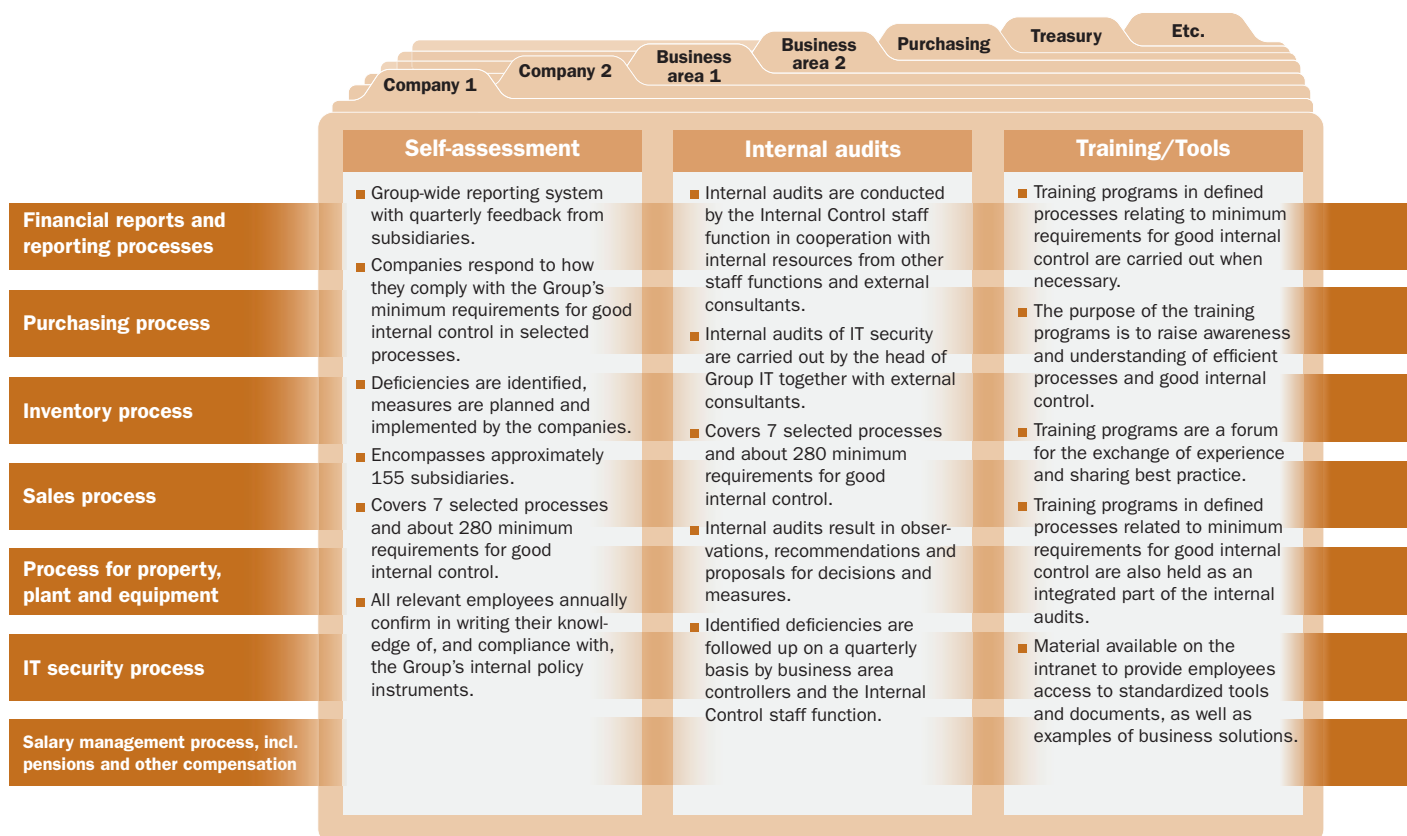
Monitoring includes the follow-up of monthly financial reports in relation to targets, quarterly reports with results from self-assessments in the Group's companies and business areas, and results from internal audits. Monitoring also encompasses following up observations reported by Trelleborg's auditor.

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 2018.** In 2018, the Internal Control staff function conducted 55 internal audits in 18 countries, of which 16 were IT security audits. The emphasis was on Europe, Asia and the U.S. Most of the internal audits 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 audits of IT security were carried out by external IT consultants together with the Group IT staff function. In 2018, the Internal Control staff function worked on a broad front with reviews of all processes.

**Activities in focus in 2019.** The number of internal audits will generally remain at the same level as 2017 and 2018. Geographically speaking, the Internal Control staff function will primarily devote a greater focus to Europe and the U.S. In 2019, the Internal Control staff function will continue to work broadly with reviews of all processes. A small number of combined financial and legal internal audits are planned in cooperation with Group Legal.

## INTERNAL CONTROL STRUCTURE OF THE TRELLEBORG GROUP



**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 2004 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 2019 Annual General Meeting



	Hans Björck	Gunilla Fransson	Johan Malmquist	Peter Nilsson	Anne Mette Olesen	Susanne Pahlén Åklundh
	Chairman	Member	Member	Member	Member	Member
<b>Year elected</b>	2009	2016	2016	2006	2015	2016
<b>Born</b>	1951	1960	1961	1966	1964	1960
<b>Nationality</b>	Swedish	Swedish	Swedish	Swedish	Danish	Swedish
<b>Qualifications</b>	Graduate in business administration	M.Sc. Eng. and Licentiate of Technology	Graduate in business administration	M.Sc. Eng.	MBA and B.Sc. Eng.	M.Sc. Eng.
<b>Other assignments</b>	Chairman of the Board of Skanska AB. Board member of Svenska Handelsbanken AB	Chairman of the Board of Net Insight AB. Board member of Eltel AB, Nederman AB, Enea AB and Permobil AB	Chairman of the Board of Arjo AB and Tingstad Papper AB. Board member of Dunker Interests, Elekta AB, Getinge AB, Mölnlycke Health Care AB, Stena Adactum AB and the Chalmers University of Technology Foundation	Chairman of the Board of Cibes Holding AB. Board member of the South Sweden Chamber of Commerce	Board member of EASIS A/S	Board member of Alfdex AB
<b>Professional experience</b>	Full-time Board member and/or Chairman. Formerly CFO of Skanska AB, Autoliv Inc. and Esselte AB	Full-time Board member and/or Chairman. Formerly various senior positions at Saab AB and Ericsson AB	Full-time Board member and/or Chairman. Formerly President and CEO of Getinge AB and various senior positions at Electrolux AB	President and CEO and Business Area President of Trelleborg Offshore & Construction. Formerly Business Area President at Trelleborg and other posts within the Trelleborg Group, as well as management consultant at BSI	Chief Marketing Officer at AAK AB. Formerly senior positions at Coloplast A/S, Chr. Hansen A/S and Danisco Ingredients A/S	Executive Vice President at Alfa Laval AB. Formerly various management positions at Alfa Laval
<b>Dependence</b>	No	No	Yes. Dependent in relation to the company's major shareholders through his assignment on behalf of Trelleborg's main owner, the Dunker Interests	Yes. Dependent in relation to the company as a result of his position as Trelleborg's President	No	No
<b>Own and related-party holdings 2018</b>	10,000 shares	3,000 shares	5,000 shares	60,572 shares and 250,000 call options (2016) <sup>4)</sup> and 50,000 call options (2018) <sup>4)</sup>	2,500 shares	3,000 shares
<b>Shares in related companies</b>	–	–	–	–	–	–
<b>Board meeting attendance</b>	Chairman 8 of 8	Member 8 of 8	Member 8 of 8	Member 7 of 8 <sup>5)</sup>	Member 8 of 8	Member 8 of 8
<b>Audit Committee attendance</b>	Member 5 of 5	Chairman 5 of 5	–	–	–	Member 3 of 5 <sup>6)</sup>
<b>Remuneration Committee attendance</b>	Chairman 2 of 4 <sup>2)</sup>	–	Member 4 of 4	–	Member 4 of 4	–
<b>Finance Committee attendance</b>	Chairman 1 of 2 <sup>3)</sup>	–	Member 2 of 2	–	–	–
<b>Total reimbursement 2018, SEK 000s<sup>1)</sup></b>	<b>1,970</b>	<b>775</b>	<b>715</b>	<b>–</b>	<b>645</b>	<b>705</b>
Of which Board, SEK 000s	1,650	575	575	–	575	575
Of which Committee, SEK 000s	320	200	140	–	70	130

Board assignments and holdings in Trelleborg as stated above reflect the situation as per December 31, 2018.

<sup>1)</sup> Remuneration paid to the Board of Directors for the period May 2018–April 2019. The fees paid to the members of the Board of Directors elected by the Annual General Meeting are approved by the Annual General Meeting based on the proposals of the Nomination Committee. For the 2018 calendar year, remuneration was paid as per Note 10. No consulting fees were paid to the Board members. Remuneration is not paid to executive Board members. Remuneration excludes travel allowances.

<sup>2)</sup> Succeeded former Chairman of the Board Sören Mellstig on the Remuneration Committee as of meeting No. 3.

<sup>3)</sup> Succeeded former Chairman of the Board Sören Mellstig on the Finance Committee as of Meeting No. 2.

<sup>4)</sup> Refer to page 86 for more information about call options.

<sup>5)</sup> Not present at meeting number 4.

<sup>6)</sup> Succeeded former Chairman of the Board Sören Mellstig on the Audit Committee as of meeting No. 3.





	Panu Routila	Jan Ståhlberg	Jimmy Faltin	Peter Larsson	Lars Pettersson	Ingemar Thörn
	Member	Member	Employee representative	Employee representative	Employee representative	Deputy employee representative
<b>Year elected</b>	2018	2018	2018	2011	2018	2014
<b>Born</b>	1964	1962	1965	1965	1965	1972
<b>Nationality</b>	Finnish	Swedish	Swedish	Swedish	Swedish	Swedish
<b>Qualifications</b>	M.Sc. in Economics	Graduate in business administration	Training in behavioral science, contract and labor law	Engineer	Cabinetmaker, training in negotiation and in salary system development	Engineer, training in purchasing and logistics
<b>Other assignments</b>	Board member of the East Office of Finnish Industries Oy, Onvest Oy and Teknologi-industri in Finland	Chairman of the Board of Bactiguard Holding AB. Board member of Dunker Interests and ITB-Med AB. Senior Advisor EQT AB	Member of the Trelleborg European Work Council, the Trelleborg Swedish Works Council (LO) and the Negotiating Delegation Technology Agreement IF Metall. Division Chairman IF Metall Norra Västerbotten	Chairman of Unionen Trelleborg AB. Member of Trelleborg European Works Council and Trelleborg Swedish Works Council (PTK)	Member of Unions of the Trelleborg Group (LO)	Deputy Chairman of Unionen Trelleborg AB. Member of Trelleborg Swedish Works Council (PTK)
<b>Professional experience</b>	President and CEO of Konecranes. Formerly President and CEO of Ahlström Capital Oy, President of Alteams Oy, Director and controller of Outokumpu Group, various management positions in Partek Group	Investment and advisory business through the Trill operations. Co-founder of EQT AB. Formerly various positions in Ovako Steel	Machine operator, appointed by the Unions of the Trelleborg Group (LO)	Plant manager, appointed by the Unions of the Trelleborg Group (PTK)	Machine operator, appointed by the Unions of the Trelleborg Group (LO)	Customer service, appointed by the Unions of the Trelleborg Group (PTK)
<b>Dependence</b>	No	Yes. Dependent in relation to the company's major shareholders through his assignment on behalf of Trelleborg's main owner, the Dunker Interests	–	–	–	–
<b>Own and related-party holdings 2018</b>	–	130,000 shares	–	3,000 shares	–	100 shares
<b>Shares in related companies</b>	–	–	–	–	–	–
<b>Board meeting attendance</b>	Member 4 of 8 <sup>7)</sup>	Member 5 of 8 <sup>9)</sup>	Employee representative 5 of 8 <sup>11)</sup>	Employee representative 8 of 8	Employee representative 5 of 8 <sup>11)</sup>	Employee representative 8 of 8
<b>Audit Committee attendance</b>	Member 3 of 5 <sup>8)</sup>	–	–	–	–	–
<b>Remuneration Committee attendance</b>	–	–	–	–	–	–
<b>Finance Committee attendance</b>	–	Member 1 of 2 <sup>10)</sup>	–	–	–	–
<b>Total reimbursement 2018, SEK 000s <sup>1)</sup></b>	<b>705</b>	<b>645</b>	–	–	–	–
Of which Board, SEK 000s	575	575	–	–	–	–
Of which Committee, SEK 000s	130	70	–	–	–	–

Board assignments and holdings in Trelleborg as stated above reflect the situation as per December 31, 2018.

<sup>1)</sup> Remuneration paid to the Board of Directors for the period May 2018–April 2019. The fees paid to the members of the Board of Directors elected by the Annual General Meeting are approved by the Annual General Meeting based on the proposals of the Nomination Committee. For the 2018 calendar year, remuneration was paid as per Note 10. No consulting fees were paid to the Board members. Remuneration is not paid to executive Board members. Remuneration excludes travel allowances.

<sup>7)</sup> Assumed the role of Board member as of Meeting No. 4. Not present at Meeting No. 4.

<sup>8)</sup> Succeeded former Board member Bo Risberg on the Audit Committee as of Meeting No. 3.

<sup>9)</sup> Assumed the role of Board member as of Meeting No. 4.

<sup>10)</sup> Succeeded former Chairman of the Board Sören Mellstig on the Finance Committee as of Meeting No. 2.

<sup>11)</sup> Assumed the role of Employee representative as of Meeting No. 4.



	Peter Nilsson	Ulf Berghult	Dario Porta	Jean-Paul Mindermann	Peter Hahn	Paolo Pompei
<b>Position</b>	President and CEO and Business Area President of Trelleborg Offshore & Construction	Chief Financial Officer (CFO)	Business Area President, Trelleborg Coated Systems	Business Area President, Trelleborg Industrial Solutions	Business Area President, Trelleborg Sealing Solutions	Business Area President, Trelleborg Wheel Systems
<b>Employed</b>	1995	2012	2006	2011	2001	1999
<b>In current position since</b>	2005	2012	2012	2017	2018	2017
<b>Born</b>	1966	1962	1959	1965	1958	1971
<b>Nationality</b>	Swedish	Swedish	Italian	German	U.S./German	Italian
<b>Qualifications</b>	M.Sc. Eng.	Graduate in business administration	M.Sc. Eng.	Graduate in business administration	M.Sc. Eng.	B.Sc. in economics, M.Sc. in international trade
<b>Other assignments</b>	Chairman of the Board of Cibes Holding AB. Board member of Trelleborg AB and the Chamber of Commerce and Industry of Southern Sweden			President of Context Holding GmbH and Board member of Herschel Infrared Ltd		
<b>Professional experience</b>	Business Area President at Trelleborg and other posts within the Trelleborg Group, as well as management consultant at BSI	CFO of Dometic Group, Thule Group, Rolls-Royce Marine Systems and controller at the Trelleborg Group	Business Unit President at the Trelleborg Group and President of Reeves	Business Unit President at the Trelleborg Group, President of Premia Group, CEO of Watts Industrial Tires and other senior management functions	Business Unit President at the Trelleborg Group and various senior positions at 4M Technologies, Leybold and Degussa	Business Unit President at the Trelleborg Group, among other positions
<b>Own and related-party holdings 2018</b>	60,572 shares and 250,000 call options (2016) <sup>1)</sup> and 50,000 call options (2018) <sup>2)</sup>	15,000 shares and 12,500 call options <sup>2)</sup>	1,000 shares and 12,500 call options <sup>2)</sup>	3,000 shares and 12,500 call options <sup>2)</sup>	12,500 call options <sup>2)</sup>	12,500 call options <sup>2)</sup>
<b>Shares in related companies</b>	–	–	–	–	–	–

<sup>1)</sup> In February 2016, the principal owner – The Henry Dunker Donation Fund & Foundations – offered the President and CEO 250,000 call options in Trelleborg, with a term of five years. Peter Nilsson purchased these call options at a price of SEK 15.20 per call option. Each call option entitles the holder to purchase one Series B share at a call price of SEK 143.16. The Black & Scholes method was used in the valuation of the call options. The principal owner's intention in introducing the program was to encourage the President and CEO's long-term commitment to the company. Trelleborg AB did not participate in the offer and will not be charged with any earnings effect related to the offer.

<sup>2)</sup> In November 2018, the principal owner – The Henry Dunker Donation Fund & Foundations – offered the members of Group management 12,500 call options each in Trelleborg, except the President and CEO who was offered 50,000 call options, with a term of five years. The members of Group management purchased these call options at a price of SEK 9.86 per call option. Each call option entitles the holder to purchase one Series B share at a call price of SEK 175.83. The Black & Scholes method was used in the valuation of the call options. The principal owner's intention in introducing the program is to encourage Group management's long-term commitment to the company. Trelleborg AB did not participate in the offer and will not be charged with any earnings effect related to the program.



	Paolo Astarita	Charlotta Gråhs	Patrik Romberg
<b>Position</b>	Senior Vice President, Human Resources	Senior Vice President, General Counsel and Secretary	Senior Vice President, Communications
<b>Employed</b>	2001	2014	2006
<b>In current position since</b>	2015	2014	2011
<b>Born</b>	1959	1971	1966
<b>Nationality</b>	Italian	Swedish	Swedish
<b>Qualifications</b>	Master of Law	Master of Law	MBA and university studies in behavioral science and education
<b>Other assignments</b>			
<b>Professional experience</b>	Vice President Human Resources Trelleborg Wheel Systems and various positions in HR at Pirelli and Manuli Rubber	Group General Counsel at Dometic Group and Senior Corporate Counsel at Husqvarna Group, lawyer at Mannheimer Swartling Advokatbyrå and Hengeler Mueller Rechtsanwälte	Various positions at the Trelleborg Group and Unilever
<b>Own and related-party holdings 2018</b>	2,340 shares and 12,500 call options <sup>2)</sup>	12,500 call options <sup>2)</sup>	901 shares and 12,500 call options <sup>2)</sup>
<b>Shares in related companies</b>	–	–	–

<sup>2)</sup> In November 2018, the principal owner – The Henry Dunker Donation Fund & Foundations – offered the members of Group management 12,500 call options each in Trelleborg, except the President and CEO who was offered 50,000 call options, with a term of five years. The members of Group management purchased these call options at a price of SEK 9.86 per call option. Each call option entitles the holder to purchase one Series B share at a call price of SEK 175.83. The Black & Scholes method was used in the valuation of the call options. The principal owner's intention in introducing the program is to encourage Group management's long-term commitment to the company. Trelleborg AB did not participate in the offer and will not be charged with any earnings effect related to the program.

## Remuneration of Group Management 2018

SEK 000s		Fixed salary	Annual variable salary	Long-term incentive program <sup>1)</sup>	Other benefits	Total	Pension	Total including pension
President	<b>2018</b>	<b>10,867</b>	<b>5,447</b>	<b>6,489</b>	<b>203</b>	<b>23,006</b>	<b>4,771</b>	<b>27,777</b>
	2017	10,208	6,038	6,300	180	22,726	4,121	26,847
Group Management, others (8 persons)	<b>2018</b>	<b>25,134</b>	<b>11,499</b>	<b>12,253</b>	<b>1,725</b>	<b>50,611</b>	<b>9,478</b>	<b>60,089</b>
	2017	30,849	10,659	13,166	1,474	56,148	10,492	66,640
<b>Total</b>	<b>2018</b>	<b>36,001</b>	<b>16,946</b>	<b>18,742</b>	<b>1,928</b>	<b>73,617</b>	<b>14,249</b>	<b>87,866</b>
<b>Total</b>	2017	41,057	16,697	19,466	1,654	78,874	14,613	93,487

<sup>1)</sup> Expensed in 2018. Payment is made in the first quarter, 2019 to 2021, on condition that the individual is employed in the Group on December 31 of the preceding year.

## Principles for remuneration

The following are the principles for remuneration of senior executives adopted by the Annual General Meeting:

- » Trelleborg will offer market-based terms of employment that enable the company to recruit, develop and retain senior executives.
- » The remuneration structure is to comprise fixed and variable salary, pension and other remuneration, which together form the individual's total remuneration package.
- » Trelleborg continuously gathers and evaluates information on market-based remuneration levels for relevant industries and markets.
- » Principles for remuneration may vary depending on local conditions.

» The remuneration structure will be based on such factors as position, expertise, experience and performance.

Senior executives comprise the President and other members of Group Management. The principles are supplemented by a policy for benefits for senior executives as well as a global Remuneration Policy covering all managers and senior salaried employees. In 2018, total remuneration of Group Management amounted to SEK 73,617,000 (78,874,000), excluding pension premiums, and SEK 87,866,000 (93,487,000), including pension premiums.

For additional information concerning remuneration, refer to Note 10, pages 106–107.



With growing world trade, ports and pilots are facing a number of substantial challenges. To improve profitability, cargo vessels are becoming larger. It is difficult in many locations to expand ports at a similar rate and this results in safety challenges and a shortage of berth space.

An enormous potential exists to improve efficiency. Trelleborg is helping to build the smart ports of the future. The module-based SafePilot system can be expanded to a full-scale pilot and port management system with full port and pilot functionality, integrated databases and schedules, complete transparency, efficient information exchange and access to relevant information in real time. Because of the system, Trelleborg stands for safe and efficient pilot and port management.



# COMMENTS ON THE CONSOLIDATED INCOME STATEMENTS

The Trelleborg Group's net sales increased during the year on account of underlying organic sales growth and a positive impact from acquired units. The market trend was positive in the majority of segments served by the Group. The market situation improved in general industry in most geographic markets. The agricultural sector, automotive industry, and the aerospace and transportation equipment segments generally performed well. The situation in oil & gas remained challenging, at the same time as deliveries in the infrastructure construction segment also declined. Improved efficiency, good cost control and strong market positions had a positive impact on EBIT. Net sales, EBIT and EBIT margin reached the highest levels to date on a full-year basis. The rate of investment was high compared with previous years, thereby impacting operating cash flow, which declined compared with 2017.

## Net sales

Consolidated net sales increased 8 percent during the year to SEK 34,005 m (31,581). Organic sales rose 3 percent, or SEK 877 m. The effects of structural changes amounted to 1 percent, or SEK 356 m. Exchange rate effects upon translation of sales in 2017 to the exchange rates applying for 2018 amounted to approximately SEK 1,191 m, an increase of 4 percent. The organic sales trend for the year was positive for the Trelleborg Industrial Solutions, Trelleborg Sealing Solutions and Trelleborg Wheel Systems business areas. However, organic sales growth for the Trelleborg Coated Systems and Trelleborg Offshore & Construction business areas was negative.

The distribution of the consolidated net sales between various market segments was relatively constant compared with the preceding year. The share of consolidated net sales attributable to capital-intensive industry amounted to 55 percent (55), with sales related to oil & gas declining, while sales in transportation equipment increased. The portion related to general industry was 34 percent (34) and the portion attributable to the light vehicles market segment amounted to 11 percent (11).

Organic sales for the year in the Trelleborg Coated Systems business area declined 2 percent year on year. Sales of coated fabrics remained unchanged during the year. North America and Asia contributed a positive organic performance, although this could not fully offset the lower sales in Europe. Organic sales of printing blankets decreased during the year, with North America and Asia noting a stable trend while the performance in other regions was weaker. Sales also declined as the result of a strategic decision to adapt a specific compounding operation more in line with internal requirements and value-generating products. Structural growth contributed 7 percent to the sales increase.

The Trelleborg Industrial Solutions business area conducts operations in several of the Group's market segments. Organic sales for the full year increased 8 percent compared with the preceding year. Most market segments, apart from the construction industry, reported positive organic sales. Organic sales increased in all major geographical regions.

Organic sales in the Trelleborg Offshore & Construction business area declined by 18 percent compared with the preceding year. The negative sales trend was primarily impacted by the low

level of market activity in parts of offshore oil & gas, but also by weaker deliveries in infrastructure construction. The order book for deliveries in 2019 improved during the year.

For the Trelleborg Sealing Solutions business area, organic sales increased by 7 percent compared with the preceding year. All geographic regions demonstrated a positive organic trend, with sales increasing to general industry and the automotive and aerospace industries. The strongest organic sales growth was noted in Asia, but growth was also favorable in Europe and North America. Structural growth contributed 1 percent to the sales increase.

For the Trelleborg Wheel Systems business area, organic sales increased by 2 percent compared with the preceding year. The organic sales trend for tires for agricultural machinery, material handling vehicles and construction machinery all developed well, with a somewhat weaker end to the year. Structural growth contributed 2 percent to the sales increase.

## Net sales per market

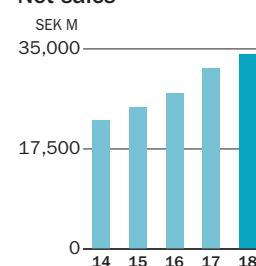
The organic sales trend, excluding deliveries to project operations, increased by 4 percent overall for the Group. In Western Europe, organic sales increased by 4 percent compared with the preceding year. The increase was generally positive in the Group's key markets of Germany, France, the U.K., Sweden and Italy. The trend in the Czech Republic and Poland was negative, while a sales increase was recognized in Russia. In total, for the Rest of Europe, sales declined by 4 percent. Organic sales in the U.S. rose by 6 percent, while sales in the Canadian market increased by 8 percent. Sales in Brazil increased 26 percent and the performance in Mexico was also positive, up 23 percent. The total increase for South and Central America was 19 percent. In Asia and other markets, organic sales increased by about 6 percent compared with the preceding year, when sales in China rose by 9 percent.

For the Group as a whole, Western Europe accounted for 48 percent (47) of consolidated net sales. In the Rest of Europe, the share was 10 percent (11). The share in North America was 22 percent (22). South and Central America accounted for 4 percent (4), while the combined share for the markets in Asia and the Rest of the world was 16 percent (16).

## Net sales by business area

SEK M	2018	2017	Organic sales, %	Structural changes, %	Exchange rate fluctuations, %	Total change, %
Trelleborg Coated Systems	3,651	3,377	-2	7	3	8
Trelleborg Industrial Solutions	7,665	6,884	8	-	3	11
Trelleborg Offshore & Construction	2,386	2,841	-18	-	2	-16
Trelleborg Sealing Solutions	11,049	9,956	7	1	3	11
Trelleborg Wheel Systems	9,688	8,878	2	2	5	9
Group items, elimination	-434	-355				
<b>Group</b>	<b>34,005</b>	<b>31,581</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>8</b>

## Net sales



**Consolidated income statements**

SEK M	Note	2018	2017
<b>Net sales</b>	2, 3	<b>34,005</b>	<b>31,581</b>
Cost of goods sold		-23,048	-21,398
<b>Gross profit</b>		<b>10,957</b>	<b>10,183</b>
Selling expenses		-2,669	-2,556
Administrative expenses		-3,361	-3,109
R&D costs		-565	-516
Other operating income	6	787	641
Other operating expenses	6	-458	-562
Share of profit or loss in associated companies	12	3	10
<b>EBIT, excluding items affecting comparability</b>		<b>4,694</b>	<b>4,091</b>
Items affecting comparability	5	-176	-69
<b>EBIT</b>	4, 7, 10	<b>4,518</b>	<b>4,022</b>
Financial income	8	60	62
Financial expenses	8	-342	-292
<b>Profit before tax</b>		<b>4,236</b>	<b>3,792</b>
Tax	9	-1,046	-918
<b>Net profit</b>		<b>3,190</b>	<b>2,874</b>
– shareholders of the Parent Company		3,190	2,874
– non-controlling interests		–	–

**Earnings per share <sup>1)</sup>, SEK**

Group, total	11.77	10.60
Group, excluding items affecting comparability <sup>2)</sup>	12.34	10.82

<sup>1)</sup> There were no dilutive effects.

<sup>2)</sup> Earnings per share for full-year 2018 were adjusted by SEK +0.57 (+0.22), which relates to items affecting comparability after tax, and costs related to the tax reform in the U.S.

**Number of shares, dividend**

On the balance sheet date	271,071,783	271,071,783
Average	271,071,783	271,071,783
Dividend, SEK <sup>3)</sup>	4.75	4.50

<sup>3)</sup> As proposed by the Board of Directors.

**Statements of comprehensive income**

SEK M	2018	2017
<b>Net profit</b>	<b>3,190</b>	<b>2,874</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to the income statement</b>		
Reassessment of net pension obligation	49	38
Income tax relating to components of other comprehensive income	-9	-15
	40	23
<b>Items that may be reclassified to the income statement</b>		
Cash-flow hedging <sup>4)</sup>	15	75
Hedging of net investment	-620	-15
Translation differences	1,393	282
Income tax relating to components of other comprehensive income	120	-5
Other comprehensive income attributable to divested operations	–	-3
	908	334
<b>Other comprehensive income, net of tax</b>	<b>948</b>	<b>357</b>
<b>Total comprehensive income</b>	<b>4,138</b>	<b>3,231</b>
<i>Total comprehensive income attributable to:</i>		
Shareholders of the Parent Company	4,138	3,231
Non-controlling interests	–	–

<sup>4)</sup> See also Note 27.

**Net sales per geographic market**

SEK M	2018		2017	
	Net sales	Share of total sales, %	Net sales	Share of total sales, %
Western Europe	16,349	48	14,896	47
Rest of Europe	3,318	10	3,343	11
North America	7,680	22	7,115	22
South and Central America	1,315	4	1,118	4
Asia and Rest of the World	5,343	16	5,109	16
<b>Group</b>	<b>34,005</b>	<b>100</b>	<b>31,581</b>	<b>100</b>

**Organic growth 2018**

	Organic growth 2018, %	Excluding project deliveries <sup>1)</sup> , %
Western Europe	4	4
Rest of Europe	-3	-4
North America	3	6
South and Central America	21	19
Asia and Rest of the World	0	6
<b>Group</b>	<b>3</b>	<b>4</b>

<sup>1)</sup> Project deliveries refer to the whole of Trelleborg Offshore & Construction and Trelleborg Industrial Solutions' marine hose operations for oil & gas applications.

**EBITA and EBIT**

Consolidated EBITA, excluding items affecting comparability, amounted to SEK 5,003 M (4,385), up 14 percent. The EBITA margin was 14.7 percent (13.9). Amortization of intangible assets increased during the year and amounted to an expense of SEK 309 M (expense: 294).

Consolidated EBIT, excluding items affecting comparability, amounted to SEK 4,694 M (4,091), up 15 percent. The improved earnings were largely a consequence of improved efficiency, cost control and strong market positions in most of the Group's areas. The completed acquisitions contributed to the earnings increase, but not to the same high degree as in the preceding year as the acquisitions were less significant in 2018. The efficiency enhancement efforts that have been ongoing for many years via the Group's Excellence programs in manufacturing, purchasing, capital management and sales continued during the year. Both implemented and ongoing action programs continued to generate positive effects in the form of more efficient structures and lower costs. Despite proactive cost adjustments, the challenging market conditions in the oil & gas segment had a negative impact on earnings. The impact of exchange rate effects – the translation of the earnings of foreign subsidiaries in 2017 to the exchange rate applying in 2018 – amounted to SEK 134 M, with the largest impact from the translation of subsidiaries with financial statements in EUR. The EBIT margin was 13.8 percent (13.0).

**EBIT specification**

SEK M	2018	2017
EBITDA, excluding items affecting comparability	5,977	5,382
Depreciation of tangible assets	-974	-997
EBITA, excluding items affecting comparability	5,003	4,385
Amortization of intangible assets	-309	-294
EBIT, excluding items affecting comparability	4,694	4,091
Items affecting comparability	-176	-69
<b>EBIT</b>	<b>4,518</b>	<b>4,022</b>

**EBIT, excluding items affecting comparability**

SEK M	2018	2017
Trelleborg Coated Systems	423	361
Trelleborg Industrial Solutions	775	693
Trelleborg Offshore & Construction	-165	-61
Trelleborg Sealing Solutions	2,559	2,231
Trelleborg Wheel Systems	1,255	1,016
Group items	-153	-149
<b>Group</b>	<b>4,694</b>	<b>4,091</b>

EBIT and the EBIT margin for the Trelleborg Coated Systems business area rose compared with the preceding year, mainly due to improved productivity. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 12 M on EBIT compared with 2017. The EBIT margin rose to 11.6 percent (10.7).

For Trelleborg Industrial Solutions, EBIT increased compared with the preceding year, due primarily to higher volumes, acquisitions finalized earlier and completed restructuring measures. The EBIT margin remained on the same level year on year and amounted to 10.1 percent. The margin was slightly impacted by the shortage of qualified labor in the Czech Republic. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 11 M on EBIT compared with 2017.

For the Trelleborg Offshore & Construction business area, EBIT and the EBIT margin declined year on year, mainly as a result of lower project deliveries in Offshore Oil & Gas but also due to lower sales in infrastructure construction. Activities to adapt the organization to the lower market activity continued in 2018, including a gradual closure of a plant in the U.S. Exchange rate effects from the translation of foreign subsidiaries had a negative impact of SEK 6 M on EBIT compared with 2017. The EBIT margin declined to a negative 6.9 percent (neg: 2.1).

EBIT for Trelleborg Sealing Solutions rose primarily as a result of higher volumes, acquisitions and effective cost control. The EBIT margin was maintained at a high level throughout the year, despite a certain impact from implemented acquisitions with lower margins, and amounted to 23.2 percent (22.4). Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 72 M on EBIT compared with 2017.

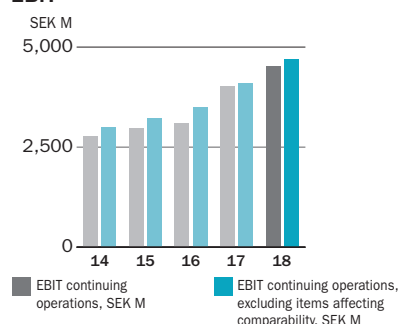
EBIT for Trelleborg Wheel Systems increased significantly during the year, mainly due to synergy gains from acquisitions finalized earlier and higher volumes. Exchange rate effects from the translation of foreign subsidiaries had a positive impact of SEK 38 M on EBIT compared with 2017. The EBIT margin rose to 13.0 percent (11.4).

**Items affecting comparability**

Items affecting comparability totaled negative SEK 176 M (neg: 69). For 2018, the amount in its entirety pertains to restructuring costs, while for 2017, the figures pertained to restructuring costs of negative SEK 1,008 M, a capital gain from the divestment of the compounding operation in Lesina, in the Czech Republic, of SEK 472 M and a positive earnings effect from an earnout of SEK 467 M related to the divestment of Vibracoustic. The largest restructuring projects in 2018 were primarily the optimization of the production capacity for printing blankets in the U.S., the optimization of the structure for rim manufacturing in the Trelleborg Wheel Systems business area, as well as costs relating to a merger of inventory sites and sales offices in Trelleborg Wheel Systems.

**Earnings, Group**

EBIT for Group, including items affecting comparability, amounted to SEK 4,518 M (4,022), up 12 percent. The Group's financial income and expenses amounted to a net expense of SEK 282 M (expense: 230). Net financial items in relation to net debt amounted to 2.7 percent (2.1). Profit before tax totaled SEK 4,236 M (3,792). The tax cost for the year totaled SEK 1,046 M (cost: 918). The tax rate for the Group was 25 percent (24). As with the situation in 2017, the bill in the U.S. that was passed at the end of 2017 and the clarifications published by the U.S. authorities in 2018, had a negative impact of approximately SEK 51 M (neg: 129) on the Trelleborg Group's tax expense. The expense is attributable to profits from foreign subsidiaries that are taxed in the U.S. without the possibility of deducting the tax already charged to the subsidiaries in their domiciles. The Trelleborg Group also expects a negative outcome in 2019, corresponding to the 2018 level. Earnings per share amounted to SEK 11.77 (10.60), an increase of 11 percent.

**EBIT**


**Significant events after the close of the period**

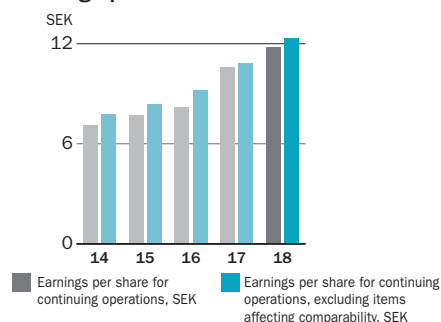
Trelleborg Sealing Solutions finalized the acquisition of Sil-Pro, LLC, a U.S.-based privately owned contract manufacturer of high-tolerance silicone and thermoplastic components. The acquisition complements and broadens Trelleborg’s current offering in the healthcare & medical industry. Its sales amounted to about SEK 350 M in 2017. This bolt-on acquisition is part of Trelleborg’s strategy to strengthen its positions in attractive market segments.

Trelleborg Wheel Systems signed an agreement and finalized the acquisition of the Canadian based privately owned company Pneus ICM Inc. The company specializes in distribution and service of industrial tires to customers in eastern Canada. The acquisition strengthens and enlarges Trelleborg’s industrial tire distribution network for Industrial Tires to a new important geographic market. Sales totaled approximately SEK 23 M in 2018. This bolt-on acquisition is part of Trelleborg’s strategy to strengthen its positions in attractive market segments.

Trelleborg Industrial Solutions signed an agreement with Wellcall Hose (M) SDN. BHD. to form a joint venture in Malaysia to manufacture and sell industrial hoses in composite materials. For Trelleborg, this venture is part of the Group’s strategy to strengthen its positions in attractive market segments. The joint venture will establish a production site in Malaysia. The first hose deliveries are scheduled to begin in 2020. Trelleborg will own 51 percent of the joint venture.

Trelleborg Industrial Solutions acquired the remaining 49 percent of shares in the North American group Max Seal. Max Seal develops and manufactures polymer-based sealing systems for various types of pipes for water and wastewater systems. The acquisition has previously been fully consolidated.

**Earnings per share**



**Key figures per quarter**

**Net sales**

SEK M	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec	
	2018	2017	2018	2017	2018	2017	2018	2017
Trelleborg Coated Systems	890	912	889	885	913	768	959	812
Trelleborg Industrial Solutions	1,923	1,756	1,982	1,813	1,870	1,609	1,890	1,706
Trelleborg Offshore & Construction	576	718	603	735	558	647	649	741
Trelleborg Sealing Solutions	2,800	2,623	2,840	2,596	2,787	2,388	2,622	2,349
Trelleborg Wheel Systems	2,505	2,328	2,583	2,360	2,280	1,992	2,320	2,198
Group items, elimination	-117	-39	-111	-124	-108	-93	-98	-99
<b>Group</b>	<b>8,577</b>	<b>8,298</b>	<b>8,786</b>	<b>8,265</b>	<b>8,300</b>	<b>7,311</b>	<b>8,342</b>	<b>7,707</b>

**EBIT, excluding items affecting comparability**

SEK M	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec	
	2018	2017	2018	2017	2018	2017	2018	2017
Trelleborg Coated Systems	113	102	104	93	92	77	114	89
Trelleborg Industrial Solutions	212	186	223	191	174	146	166	170
Trelleborg Offshore & Construction	-34	5	-25	-21	-45	-33	-61	-12
Trelleborg Sealing Solutions	684	618	693	611	647	533	535	469
Trelleborg Wheel Systems	368	283	373	278	268	215	246	240
Group items	-52	-40	-75	-63	-3	-18	-23	-28
<b>Group</b>	<b>1,291</b>	<b>1,154</b>	<b>1,293</b>	<b>1,089</b>	<b>1,133</b>	<b>920</b>	<b>977</b>	<b>928</b>



# COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

## Capital employed

The Group's total capital employed was SEK 40,597 M (37,256), representing an increase of SEK 3,341 M attributable to:

Opening balance, capital employed, SEK M	37,256
Company acquisitions	435
Divested operations	10
Change in working capital	673
Net change in non-current assets	592
Change in participations in associated companies	2
Exchange rate effects upon translation of foreign subsidiaries	1,629
<b>Change in capital employed, 2018</b>	<b>3,341</b>
<b>Closing balance, capital employed, SEK M</b>	<b>40,597</b>

During the year, acquired operations accounted for an increase in capital employed of SEK 435 M, of which SEK 288 M pertained to goodwill and other intangible assets. For a summary of acquisitions for the year, see the table on page 31 and Note 14. Divested operations of SEK 10 M pertain to the sale of a small business in the Czech Republic.

The total impact of the change in working capital amounted to SEK 673 M, mainly related to inventory accumulation, driven by a generally higher level of activity in most of the Group's business areas.

Non-current assets, excluding the impact from acquired units, increased by a net of SEK 592 M. Gross capital expenditure amounted to SEK 1,943 M (1,437). Investments for the year are distributed as follows: SEK 1,822 M in property, plant and equipment and SEK 121 M in intangible assets. Depreciation and amortization during the year amounted to SEK 1,335 M (1,284). Impairment losses for the Group, net after reversals, totaled SEK 37 M (436). Participations in associated companies increased by SEK 2 M.

Exchange-rate effects increased capital employed by SEK 1,629 M during the year.

## Specification of capital employed

SEK M	2018	2017
Total assets	51,749	48,612
Less:		
Interest-bearing receivables <sup>1)</sup>	111	877
Cash and cash equivalents	2,341	1,994
Tax assets	1,662	1,609
Operating liabilities	7,038	6,876
<b>Capital employed, Group</b>	<b>40,597</b>	<b>37,256</b>
of which discontinuing operations	-	-75
<b>Capital employed, continuing operations</b>	<b>40,597</b>	<b>37,331</b>

<sup>1)</sup> 2017 included receivable linked to divestment of Vibracoustic.

Return on capital employed for continuing operations, excluding items affecting comparability, was 11.6 percent (10.8).

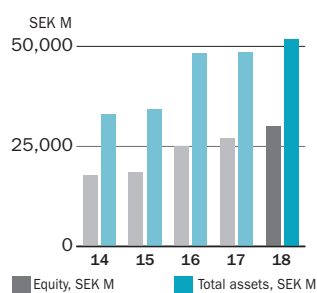
## Return on capital employed, %

	2018	2017
Excluding items affecting comparability	11.6	10.8
Including items affecting comparability	11.3	10.6

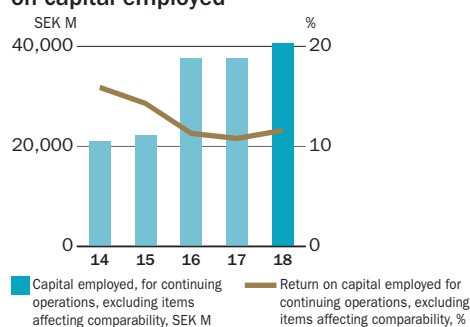
## Net debt and financing

Net debt at year-end amounted to SEK 9,978 M (9,593), up SEK 385 M, and was impacted by a positive net cash flow of SEK 412 M and negative exchange rate differences SEK 797 M. Payment of the receivable of SEK 467 M that was booked at the end of 2017, connected with the final part payment from the divestment of Trelleborg's share of the Vibracoustic joint venture, was received in 2018.

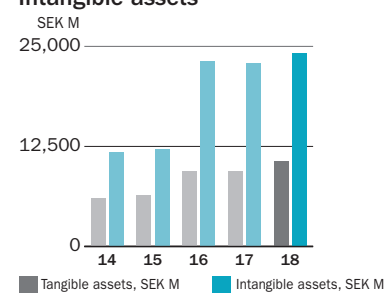
## Capital structure



## Capital employed and return on capital employed



## Tangible assets and Intangible assets



Consolidated balance sheets

December 31, SEK M	Note	2018	2017
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	15	10,612	9,444
Goodwill	16	19,100	18,127
Other intangible assets	16	5,013	4,843
Participations in associated companies	12	81	76
Financial non-current assets	13, 25, 29	67	57
Deferred tax assets	9	692	718
<b>Total non-current assets</b>		<b>35,565</b>	<b>33,265</b>
<i>Current assets</i>			
Inventories	17	6,142	5,383
Current operating receivables	18, 19, 21	6,657	6,235
Current tax assets		970	891
Interest-bearing receivables	26	74	844
Cash and cash equivalents	24	2,341	1,994
<b>Total current assets</b>		<b>16,184</b>	<b>15,347</b>
<b>TOTAL ASSETS</b>		<b>51,749</b>	<b>48,612</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
	27		
Share capital		2,620	2,620
Other capital contributions		226	226
Other reserves		2,132	1,224
Profit brought forward		21,958	20,272
Net profit for the year		3,190	2,874
<b>Total</b>		<b>30,126</b>	<b>27,216</b>
Non-controlling interests			
		-	-
<b>Total equity</b>		<b>30,126</b>	<b>27,216</b>
<i>Non-current liabilities</i>			
Interest-bearing non-current liabilities	28	9,367	8,097
Other non-current liabilities	22	99	111
Pension obligations	11	530	570
Other provisions	23	227	228
Deferred tax liabilities	9	944	791
<b>Total non-current liabilities</b>		<b>11,167</b>	<b>9,797</b>
<i>Current liabilities</i>			
Interest-bearing current liabilities	28	3,028	4,337
Current tax liability		1,098	1,134
Other current liabilities	20, 21, 22	6,041	5,699
Other provisions	23	289	429
<b>Total current liabilities</b>		<b>10,456</b>	<b>11,599</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>51,749</b>	<b>48,612</b>

Trelleborg Group, change in total equity

Equity	Attributable to shareholders of the Parent Company								Non-controlling interests		Total	
	Share capital		Other capital contributions		Other reserves		Profit brought forward		2018	2017	2018	2017
	2018	2017	2018	2017	2018	2017	2018	2017				
SEK M												
Opening balance, January 1	2,620	2,620	226	226	1,224	887	23,146	21,404	-	-	27,216	25,137
Nonrecurring item attributable to IFRS 9							-8	-	-	-	-8	-
Net profit for the year							3,190	2,874	-	-	3,190	2,874
Other comprehensive income					908	337	40	20	-	-	948	357
Dividend							-1,220	-1,152	-	-	-1,220	-1,152
<b>Closing balance, December 31</b>	<b>2,620</b>	<b>2,620</b>	<b>226</b>	<b>226</b>	<b>2,132</b>	<b>1,224</b>	<b>25,148</b>	<b>23,146</b>	<b>-</b>	<b>-</b>	<b>30,126</b>	<b>27,216</b>

For other reserves, refer to Note 27.

The Board of Directors proposes a cash dividend of SEK 4.75 per share (4.50), a total of SEK 1,288 M (1,220).

**Net debt**

SEK M	2018	2017
Non-current interest-bearing investments and receivables	2	3
Current interest-bearing receivables	74	844
Cash and cash equivalents	2,341	1,994
<b>Total interest-bearing assets</b>	<b>2,417</b>	<b>2,841</b>
Interest-bearing non-current liabilities	-9,367	-8,097
Interest-bearing current liabilities	-3,028	-4,337
<b>Total interest-bearing liabilities</b>	<b>-12,395</b>	<b>-12,434</b>
<b>Net debt</b>	<b>-9,978</b>	<b>-9,593</b>
<i>Change in net debt:</i>		
Net debt at January 1	-9,593	-12,125
Net cash flow for the year	412	1,705
Receivables linked to divestment of Vibracoustic	-	467
Exchange rate differences	-797	360
<b>Net debt at year-end</b>	<b>-9,978</b>	<b>-9,593</b>
<i>Group</i>		
Debt/equity ratio, %	33	35
Net debt/EBITDA, multiples	1.7	1.7
EBITDA/net interest income, multiples	20.3	23.7
Return on shareholders' equity	11.1	11.0

The debt/equity ratio was 33 percent (35) at the end of the period.

Net debt in relation to EBITDA, including items affecting comparability, was 1.7 (1.7). The EBITDA/net interest income ratio for the Group was 20.3 (23.7) at year-end.

**Trelleborg's credit facilities**

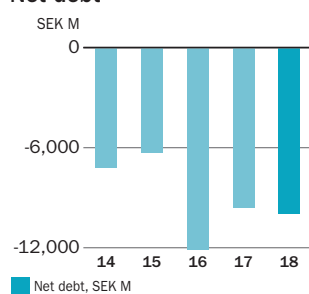
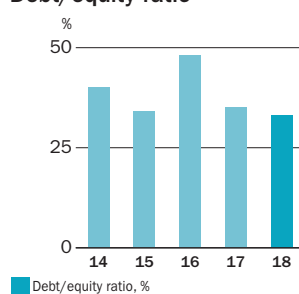
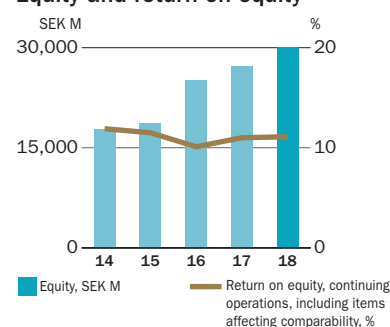
The major portion of Trelleborg's core EUR 560 M and USD 625 M syndicated multicurrency revolving credit facility matures in December 2020. On account of Trelleborg's significant presence in the Czech Republic, there is also a syndicated facility of CZK 6,750 M. The facility matures in 2023 and may be extended by an additional year, subject to lender consent. During the year, a new long-term loan was taken of EUR 150 M with a tenor of eight years. In 2018, Trelleborg issued a Medium Term Note of SEK 500 M in the Swedish bond market, with a two-year tenor.

**Equity**

Total shareholders' equity increased during the year by SEK 2,910 M to SEK 30,126 M (27,216).

Net profit for the year contributed SEK 3,190 M (2,874) to equity. Effects of translation differences, cash-flow hedging and the hedging of net investments increased total equity by a net amount of SEK 908 M (337) after tax. Effects of the restatement of the net pension obligation under IAS 19 Employee Benefits was income of SEK 40 M after tax (23). An adjustment of effects from the implementation of IFRS 9 had an impact of negative SEK -8 M on the opening balance. The total dividend amounted to SEK 1,220 M (1,152).

Equity per share was SEK 111 (100), up 11 percent. The equity/assets ratio was 58 percent (56). The return on shareholders' equity excluding items affecting comparability amounted to 11.7 percent (11.2). The total return on shareholders' equity for the Group was 11.1 percent (11.0).

**Net debt**

**Debt/equity ratio**

**Equity and return on equity**


# COMMENTS ON THE CONSOLIDATED CASH-FLOW STATEMENTS

The Group's operating cash flow was SEK 3,488 M (3,688). The cash conversion ratio was 74 percent (90) for the year. The earnings improvement compared with the preceding year, in part from acquired units, had a positive impact on cash flow. The rate of investment increased 35 percent compared with 2017 to SEK 1,943 M (1,437), comprising 5.7 percent (4.6) of sales. The change in working capital was a negative SEK 583 M (neg: 279). During the year, payments related to items affecting comparability amounted to an outflow of SEK 263 M (outflow: 275). After deductions for payments pertaining to financial items, outflow of SEK 238 M (outflow: 247), and taxes paid, outflow of SEK 919 M (outflow: 732), free cash flow amounted

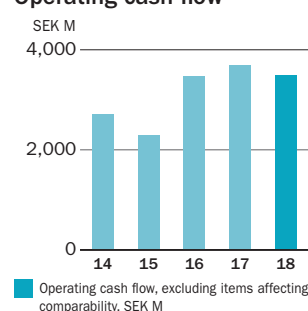
to SEK 2,068 M (2,434), corresponding to SEK 7.63 per share (8.98).

Four acquisitions took place during the year, refer to page 31. The total cash flow effect of acquisitions amounted to an outflow of SEK 440 M (outflow: 226).

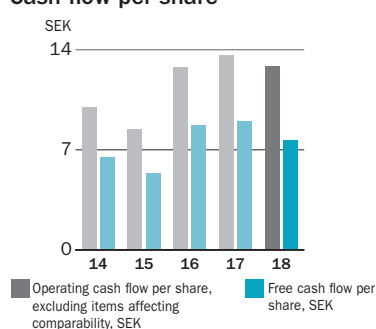
During the year, a small business in the Czech Republic was divested resulting in a cash flow effect of SEK 4 M (649). The divestment in the preceding year pertains to a compounding operation in Lesina, in the Czech Republic. The dividend for the year to shareholders of the Parent Company amounted to SEK 1,220 M (1,152).

Net cash flow amounted to SEK 412 M (1,705).

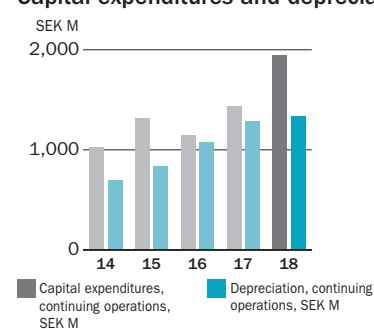
## Operating cash flow



## Cash flow per share



## Capital expenditures and depreciation



## Cash-flow report

SEK M	EBITDA		Gross capital expenditures		Sold non-current assets		Change in working capital		Dividend from associated companies		Other non-cash items		Total cash flow	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Trelleborg Coated Systems	588	511	-184	-148	8	2	4	-17	-	-	13	13	429	361
Trelleborg Industrial Solutions	1,066	973	-564	-372	9	4	-35	-85	0	-	27	27	503	547
Trelleborg Offshore & Construction	-64	48	-161	-69	1	4	-30	201	-	-	9	13	-245	197
Trelleborg Sealing Solutions	2,930	2,580	-510	-387	7	17	-346	-4	2	2	37	33	2,120	2,241
Trelleborg Wheel Systems	1,639	1,395	-496	-403	8	9	-188	-261	-	-	29	33	992	773
Group items	-182	-125	-28	-58	11	1	12	-113	-	-	-124	-136	-311	-431
<b>Operating cash flow</b>	<b>5,977</b>	<b>5,382</b>	<b>-1,943</b>	<b>-1,437</b>	<b>44</b>	<b>37</b>	<b>-583</b>	<b>-279</b>	<b>2</b>	<b>2</b>	<b>-9</b>	<b>-17</b>	<b>3,488</b>	<b>3,688</b>
Cash-flow effect of items affecting comparability													-263	-275
Financial items													-238	-247
Tax paid													-919	-732
<b>Free cash flow</b>													<b>2,068</b>	<b>2,434</b>
Acquisitions													-440	-226
Divested operations													4	649
Dividend paid – shareholders of the Parent Company													-1,220	-1,152
<b>Total net cash flow</b>													<b>412</b>	<b>1,705</b>



## Consolidated cash-flow statements

SEK M	Note	2018	2017
<b>Operating activities</b>			
EBIT including participations in associated companies		4,518	4,022
Adjustment for items not included in operating cash flow:			
Depreciation of property, plant and equipment	15	1,026	990
Amortization of intangible assets	16	309	294
Impairment of property, plant and equipment	15	-37	57
Impairment of intangible assets	16	0	379
Dividend from associated companies		2	2
Participations in associated companies and other non-cash items		-9	-17
Earnings effect related to Vibracoustic		-	-467
Capital gain in divested operations		-	-472
Interest received and other financial items		52	40
Interest paid and other financial items		-290	-287
Tax paid		-919	-732
<b>Cash flow from operating activities before changes in working capital</b>		<b>4,652</b>	<b>3,809</b>
<b>Cash flow from changes in working capital</b>			
Change in inventories		-463	-451
Change in operating receivables		-143	-456
Change in operating liabilities		23	628
Change in items affecting comparability		-102	304
<b>Cash flow from operating activities</b>		<b>3,967</b>	<b>3,834</b>
<b>Investing activities</b>			
Acquired units	14	-440	-226
Divested/discontinuing operations		4	649
Gross capital expenditures for property, plant and equipment	15	-1,822	-1,343
Gross capital expenditures for intangible assets	16	-121	-94
Sale of non-current assets		44	37
<b>Cash flow from investing activities</b>		<b>-2,335</b>	<b>-977</b>
<b>Financing activities</b>			
Change in interest-bearing investments		770	1,135
Change in interest-bearing liabilities		-665	-269
New/utilized loans		2,737	501
Amortized loans		-2,949	-2,901
Dividend paid – shareholders of the Parent Company		-1,220	-1,152
<b>Cash flow from financing activities</b>	28	<b>-1,327</b>	<b>-2,686</b>
<b>Cash flow for the year</b>		<b>305</b>	<b>171</b>
<b>Cash and cash equivalents</b>			
Opening balance, January 1		1,994	1,879
Exchange rate differences		42	-56
<b>Cash and cash equivalents, December 31</b>	24	<b>2,341</b>	<b>1,994</b>

## Change in liabilities from financing activities

SEK M	2017	Cash changes	Transfer between long-term and short-term loans	Non-cash changes			2018
				Acquisitions	Translation differences	Fair value changes	
Long-term loans	7,980	2,161	-1,222	-	304	-	9,223
Current loans	3,687	-2,374	1,222	-	90	-	2,625
Other non-current financial liabilities	117	-6	-	-	33	-	144
Other current financial liabilities	650	-658	-	-	411	-	403
<b>Total liabilities from financing activities</b>	<b>12,434</b>	<b>-877</b>	<b>0</b>	<b>-</b>	<b>838</b>	<b>-</b>	<b>12,395</b>

## Notes – Group

### 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 19, 2019.

#### 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 and joint ventures/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 Swedish kronor (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 standards applied from January 1, 2018

**IFRS 9 Financial Instruments.** IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 replaced IAS 39 in its entirety and the main changes relate to classification and measurement of financial instruments, hedge accounting and provisions for credit losses. As of January 1, 2018, Trelleborg applies IFRS 9 in its entirety with the greatest impact relating to: classification and measurement, hedge accounting and recognition of expected credit losses according to the expected loss model. The transition to IFRS 9 did not have any material impact on the Trelleborg Group's reporting. Given the immaterial effects of the new standard, previous periods were not restated, meaning that the comparative year 2017 was reported according to IAS 39. In opening balance for 2018, the Group recognized a non-recurring item of SEK 7 m in equity on account of the modified calculation model for expected credit losses on accounts receivable and SEK 1 m for expected credit losses in cash and cash equivalents. See also Notes 18, 25, 29 and 30.

**IFRS 15 Revenue from Contracts with Customers.** IFRS 15 introduces a new model for revenue recognition (five-step model) that is based on when control of a good or service is transferred to the customer. IFRS 15 replaces all previous standards, statements and interpretations relating to revenue recognition. Trelleborg applies IFRS 15 as of January 1, 2018. Trelleborg has chosen to retroactively restate the 2017 fiscal year. The transition to IFRS 15 did not have any material impact on the Trelleborg Group's reporting. See also Notes 2 and 3.

Other amended and new IFRS that came into effect in 2018 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. The standards that could potentially impact the Group's and Parent Company's financial statements are described below. Other new or amended standards or interpretations are not expected to have any impact on the Group's or Parent Company's financial statements.

**IFRS 16 Leases** IFRS 16 Leases replaces IAS 17 Leases and will be applied as of January 1, 2019. The new standard entails that most leases will be recognized in the balance sheet, since the difference between operating leases and financial leases is being removed. According to the new standard, an asset pertaining to the right to use the leased asset and a financial liability pertaining to the obligation to pay the leases fees are recognized, with certain exceptions. The standard will impact the recognition of the Group's operating leases, particularly pertaining to office and production premises. For more information, see Note 15.

**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.
- 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.

## Sales and earnings

### 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. The division of operating segments corresponds to the Group's business areas. The Group is divided into five business areas: Trelleborg Coated Systems, Trelleborg Industrial Solutions, Trelleborg Offshore & Construction, Trelleborg Sealing Solutions and Trelleborg Wheel Systems. In addition, central staff functions and a Group-wide operation are included in Group items. The business, acquired in 2016 as

part of CGS – Rubena and Savatech – was recognized independently from Trelleborg's business areas during a transition period. As of January 1, 2018, this business was split and integrated into the Trelleborg Industrial Solutions and Trelleborg Coated Systems business areas. Total sales transferred to Trelleborg Industrial Solutions amounted to SEK 1,138 M for full-year 2017 and EBIT was SEK 57 M. Total sales transferred to Trelleborg Coated Systems amounted to SEK 901 M for full-year 2017 and EBIT was SEK 101 M. Key figures from earlier years were adjusted for this internal transfer. Furthermore, a minor operation previously recognized in the Trelleborg Offshore & Construction business area was transferred to the Trelleborg Industrial Solutions business area on March 1, 2018. Total sales transferred from Trelleborg Offshore & Construction amounted to SEK 173 M for full-year 2017 and EBIT was SEK 5 M. Key figures from earlier years were adjusted for this internal transfer.

#### Critical estimates and judgments

Segment reporting for the business areas comprises operating EBIT and expenses and capital employed. Capital employed encompasses all property, plant and equipment, intangible assets and participations in associated companies, plan assets, inventories

and operating receivables, less operating liabilities including pension liabilities. The business areas are charged with Group-wide expenses amounting to 0.4 percent of external sales, which does not affect recognized cash flows.

A description of the Group's operating segments is presented on pages 16–27.

#### Net sales and EBIT by operating segment

SEK M	2018						2017					
	Net sales			Profit/loss	Of which, items affecting comparability	Of which, profit/loss in associated companies	Net sales			Profit/loss	Of which, items affecting comparability	Of which, profit/loss in associated companies
	External	Internal	Total				External	Internal	Total			
Trelleborg Coated Systems	3,371	280	3,651	404	-19	-	3,118	259	3,377	338	-23	-
Trelleborg Industrial Solutions	7,531	134	7,665	722	-53	-	6,716	168	6,884	483	-210	8
Trelleborg Offshore & Construction	2,378	8	2,386	-176	-11	-	2,835	6	2,841	-672	-611	-
Trelleborg Sealing Solutions	11,038	11	11,049	2,544	-15	2	9,949	7	9,956	2,212	-19	2
Trelleborg Wheel Systems	9,678	10	9,688	1,188	-67	-1	8,870	8	8,878	936	-80	0
Group items, elimination	9	-443	-434	-164	-11	2	93	-448	-355	725	874	-
<b>Total</b>	<b>34,005</b>	<b>0</b>	<b>34,005</b>	<b>4,518</b>	<b>-176</b>	<b>3</b>	<b>31,581</b>	<b>0</b>	<b>31,581</b>	<b>4,022</b>	<b>-69</b>	<b>10</b>
Financial income				60						62		
Financial expenses				-342						-292		
Income tax				-1,046						-918		
<b>Net profit</b>				<b>3,190</b>						<b>2,874</b>		

#### Allocation of revenue, external sales

SEK M	2018						Revenue recognition:		
	Western Europe	Rest of Europe	North America	South and Central America	Asia & Other markets	Total external sales	Over time	Point in time	Total external sales
Trelleborg Coated Systems	879	347	1,301	127	717	3,371	0	3,371	3,371
Trelleborg Industrial Solutions	4,254	974	1,262	247	794	7,531	191	7,340	7,531
Trelleborg Offshore & Construction	803	83	364	357	771	2,378	742	1,636	2,378
Trelleborg Sealing Solutions	4,964	659	3,038	189	2,188	11,038	0	11,038	11,038
Trelleborg Wheel Systems	5,440	1,255	1,715	395	873	9,678	0	9,678	9,678
Group items	9	0	0	0	0	9	0	9	9
<b>Total</b>	<b>16,349</b>	<b>3,318</b>	<b>7,680</b>	<b>1,315</b>	<b>5,343</b>	<b>34,005</b>	<b>933</b>	<b>33,072</b>	<b>34,005</b>

SEK M	2017						Revenue recognition:		
	Western Europe	Rest of Europe	North America	South and Central America	Asia & Other markets	Total external sales	Over time	Point in time	Total external sales
Trelleborg Coated Systems	814	396	1,057	125	726	3,118	0	3,118	3,118
Trelleborg Industrial Solutions	3,676	888	1,171	245	736	6,716	127	6,589	6,716
Trelleborg Offshore & Construction	935	64	551	270	1,015	2,835	1,041	1,794	2,835
Trelleborg Sealing Solutions	4,600	594	2,761	134	1,860	9,949	0	9,949	9,949
Trelleborg Wheel Systems	4,849	1,330	1,575	343	773	8,870	0	8,870	8,870
Group items	22	71	-	1	-1	93	0	93	93
<b>Total</b>	<b>14,896</b>	<b>3,343</b>	<b>7,115</b>	<b>1,118</b>	<b>5,109</b>	<b>31,581</b>	<b>1,168</b>	<b>30,413</b>	<b>31,581</b>

Royalty revenue is presented in Note 6, since it is not included in normal operations but is instead classified as "Other operating income." For further information regarding the various business areas, refer to pages 16–27.



## Breakdown by operating segment

SEK M	2018						2017					
	Capital employed	Of which participations in associated companies	Capital expenditures <sup>1)</sup>	Depreciation/amortization	Impairment losses	Operating cash flow <sup>2)</sup>	Capital employed	Of which participations in associated companies	Capital expenditures <sup>1)</sup>	Depreciation/amortization	Impairment losses	Operating cash flow <sup>2)</sup>
Trelleborg Coated Systems	5,644	–	184	162	3	429	5,021	–	148	148	2	361
Trelleborg Industrial Solutions	6,283	0	564	291	–3	503	5,790	–	372	279	40	547
Trelleborg Offshore & Construction	2,467	–	161	101	18	–245	2,323	–	69	109	388	197
Trelleborg Sealing Solutions	11,350	8	510	373	–2	2,120	10,258	7	387	345	4	2,241
Trelleborg Wheel Systems	14,808	2	496	384	0	992	13,936	3	403	379	0	773
Group items	208	71	28	24	–53	–311	305	66	58	24	2	–431
Provisions for items affecting comparability	–163	–	–	–	–	–	–302	–	–	–	–	–
<b>Continuing operations</b>	<b>40,597</b>	<b>81</b>	<b>1,943</b>	<b>1,335</b>	<b>–37</b>	<b>3,488</b>	<b>37,331</b>	<b>76</b>	<b>1,437</b>	<b>1,284</b>	<b>436</b>	<b>3,688</b>
Discontinuing operations	–	–	–	–	–	–	–75	–	–	–	–	–
<b>Trelleborg Group</b>	<b>40,597</b>	<b>81</b>	<b>1,943</b>	<b>1,335</b>	<b>–37</b>	<b>3,488</b>	<b>37,256</b>	<b>76</b>	<b>1,437</b>	<b>1,284</b>	<b>436</b>	<b>3,688</b>

1) Relates to investments in property, plant and equipment and intangible assets.

2) Operating cash flow relates to the Group's operations excluding items affecting comparability.

In the presentation of the Group's geographical markets, the operations have been subdivided into Western Europe, Rest of Europe, North America, South and Central America, Asia and other markets. Net sales are recognized according to customer location, while capital employed and capital expenditures are recognized according to where the subsidiaries are physically located.

## Net sales

## By geographic market/country

SEK M	2018	2017
Germany	5,137	4,527
France	2,078	1,907
U.K.	1,689	1,549
Italy	1,662	1,568
Sweden	1,256	1,216
Netherlands	759	697
Spain	725	685
Switzerland	723	559
Belgium	516	504
Norway	461	441
Austria	429	384
Finland	365	330
Denmark	249	242
Other Western Europe	300	287
<b>Total Western Europe</b>	<b>16,349</b>	<b>14,896</b>
Czech Republic	744	799
Poland	670	645
Russia	458	434
Turkey	323	317
Hungary	164	145
Slovenia	161	190
Slovakia	155	140
Romania	154	163
Rest of Europe	489	510
<b>Total rest of Europe</b>	<b>3,318</b>	<b>3,343</b>
U.S.	7,136	6,603
Canada	544	512
<b>Total North America</b>	<b>7,680</b>	<b>7,115</b>
Brazil	628	597
Mexico	465	317
Other South and Central America	222	204
<b>Total South and Central America</b>	<b>1,315</b>	<b>1,118</b>
China	1,778	1,602
Australia	540	546
Japan	511	483
India	488	410
South Korea	398	483
Other markets	1,628	1,585
<b>Total Asia and other markets</b>	<b>5,343</b>	<b>5,109</b>
<b>Total</b>	<b>34,005</b>	<b>31,581</b>

## Trends in key currencies against the SEK were as follows:

	2018		2017	
	Average rate	Closing rate	Average rate	Closing rate
EUR	10.2787	10.2753	9.6366	9.8497
USD	9.0328	8.9710	8.5415	8.2322
GBP	11.4465	11.3482	10.9977	11.1045
CZK	0.3978	0.3981	0.3663	0.3849

## Distribution by geographic market

SEK M	Capital employed		Capital expenditures	
	2018	2017	2018	2017
Italy	3,005	2,557	160	140
Germany	2,032	1,748	192	131
U.K.	1,866	1,750	135	46
France	984	960	58	59
Sweden	920	829	95	85
Switzerland	658	594	25	15
Malta	443	431	23	35
Other Western Europe	5,613	5,053	85	83
<b>Total Western Europe</b>	<b>15,521</b>	<b>13,922</b>	<b>773</b>	<b>594</b>
Czech Republic	9,480	9,281	325	207
Slovenia	1,569	1,521	94	68
Serbia	354	230	134	106
Turkey	324	361	19	40
Poland	175	162	32	29
Rest of Europe	313	235	62	20
<b>Total Rest of Europe</b>	<b>12,215</b>	<b>11,790</b>	<b>666</b>	<b>470</b>
U.S.	9,014	7,924	316	203
Canada	51	54	–	0
<b>Total North America</b>	<b>9,065</b>	<b>7,978</b>	<b>316</b>	<b>203</b>
Brazil	790	825	16	14
Mexico	133	109	4	8
Other South and Central America	6	5	–	–
<b>Total South and Central America</b>	<b>929</b>	<b>939</b>	<b>20</b>	<b>22</b>
China	1,465	1,367	69	86
Australia	554	540	28	14
Japan	223	188	2	1
India	209	192	27	14
Sri Lanka	189	318	36	29
Other markets	227	97	6	4
<b>Total Asia and other markets</b>	<b>2,867</b>	<b>2,702</b>	<b>168</b>	<b>148</b>
<b>Total</b>	<b>40,597</b>	<b>37,331</b>	<b>1,943</b>	<b>1,437</b>

In the translation of foreign subsidiaries, changes in exchange rates compared with 2017 had an impact on sales of 4 percent (0).

### 3 Revenue recognition

#### Accounting policies

##### Revenue from contracts with customers

Trelleborg follows a five-step model for recognizing income that is based on when control of a good or service is passed to the customer. The core principle is that an entity is to recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The five-step model comprises the following steps:

##### *Step 1: Identify the contract with the customer*

A contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of IFRS 15 are to be applied to each individual customer contract that the parties agreed to and that meets the following criteria:

- The contract has been approved by the parties and the parties intend to fulfill their obligations
- Each party's rights can be identified
- The payment terms for the goods or services to be transferred can be identified
- The contract has commercial substance (the risk, timing and amount for the company's future cash flows are expected to change due to the contract)
- It is probable that the consideration to which the company is entitled in exchange for the goods or services to be transferred to the customer will be collected

Trelleborg's customer contracts meet the five criteria of step 1.

##### *Step 2: Identify the performance obligations in the contract*

A contract with a customer contains a promise to transfer a good or service to the customer. If a promise for a good or service meets the criteria for being "distinct," this then comprises a performance obligation that is to be recognized separately from other goods and services in the contract.

Distinct performance obligations are promises to transfer goods or services in a contract that meet both of the following criteria:

- The customer can benefit from the good or services on its own or in conjunction with other readily available resources (distinct in nature) and
- The company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (distinct in the contract).

The Trelleborg Group has customer contracts that include one or more performance obligations. Contracts may include only sales of products, only sales of services or a combination of both. The contracts may also include freight service.

The Trelleborg Group's obligations for warranties cover an assurance that the product meets the agreed specifications, meaning normal warranty rules. These are recognized as a provision.

##### *Step 3: Determine the transaction price*

The transaction price is the amount of consideration to which a company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding value-added tax. The transaction price may be a fixed amount or variable, for example, as a result of rebates, refunds, credits or other similar items. Contracts that involve variable consideration entails that estimates and assessments must be made that could affect both the size and the time of when revenue is recognized.

Variable consideration is only to be recognized if it is highly probable that it will not result in a significant revenue reversal in the future when the uncertainty relating to the variable consideration has been subsequently resolved.

The Trelleborg Group has set the transaction price in accordance with IFRS 15 and variable consideration is continuously recognized on an accruals basis.

##### *Step 4: Allocate the transaction price*

Once the transaction price has been determined, it is to be allocated to the distinct performance obligations that have been identified. Where a contract has multiple performance obligations, the company will allocate the transaction price to each distinct performance obligation by reference to their relative standalone selling prices. Standalone selling price means the amount at which the performance obligation could be separately priced.

The Trelleborg Group allocates the transaction price to the various performance obligations in proportion to their standalone selling prices.

##### *Step 5: Recognize revenue – over time or point in time*

Revenue is recognized when a company has satisfied a performance obligation, which is when control of the underlying goods or services has been passed to the customer.

The amount recognized as revenue correspond to the amount allocated to the satisfied performance obligations. A performance obligation can be satisfied over time or at a point in time. Revenue is recognized over time if the customer simultaneously receives and consumes all of the benefits provided by the company as the company performs; the company's performance creates or enhances an asset that the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date. If a performance obligation does not meet one of these criteria to be recognized over time, revenue is recognized at one specific point in time. This takes place when control of a good or service is passed to the customer. Factors that may indicate the point in time at which control passes include: the company has transferred physical possession of the asset; the company has a present right to payment for the asset; the customer has accepted the good or service; the customer has the significant risks and rewards related to the ownership of the asset; and the customer has legal title to the asset.

Trelleborg recognizes revenue from contracts with customers both over time and at a specific point in time. The Group has a variety of delivery terms and these impact when control of the products is passed to the customer. For revenue recognition over time, both the "input and output" methods are used to determine the degree of completion. Under the "input method," revenue is recognized based on resources utilized in relation to the total expected use of resources in order to satisfy the performance obligation. For the "output method," revenue is recognized in relation to the number of tested or manufactured units and milestones achieved.

##### Payment terms

The most common payment terms in the Trelleborg Group vary between 1 and 90 days.

##### Other operating income

Other operating income includes external rental revenue, capital gains from the sale and scrapping of property, plant, equipment and tools, positive exchange rate differences, derivatives, royalty revenue and gains or losses on divestments of associated companies and subsidiaries.

##### Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

##### Dividend income

Dividend income is recognized when the right to receive payment has been determined.

#### 4 Expenses and revenue by nature

SEK M	2018	2017
Costs for raw materials, components, goods for resale and packaging material as well as energy and transport costs	-16,412	-15,365
Remuneration to employees	-10,003	-9,280
Depreciation/amortization and impairment losses	-1,356	-1,720
Other external costs related to sales, administration and R&D	-2,252	-2,238
Other operating income/expenses	533	1,034
Share of profit or loss in associated companies	3	10
<b>Total</b>	<b>-29,487</b>	<b>-27,559</b>

The above amounts include items affecting comparability.

#### 5 Items affecting comparability

##### Accounting policies

Non-recurring expenses related to the action programs aimed at enhancing the Group's efficiency and structure are recognized as items affecting comparability. A project is classified as affecting comparability only when it amounts to an equivalent of at least SEK 20 M and it has been approved by the Board.

An additional non-recurring impairment of non-current assets was included in items affecting comparability. Impairment was conducted to the calculated value in use. In addition to the action programs, costs and income can, in exceptional cases, also be classified as items affecting comparability. Exceptional items refers to material income or expense items recognized separately due to the significance of their nature or amount.

##### Breakdown by business area

SEK M	2018	2017
Trelleborg Coated Systems	-19	-23
Trelleborg Industrial Solutions	-53	-210
Trelleborg Offshore & Construction	-11	-611
Trelleborg Sealing Solutions	-15	-19
Trelleborg Wheel Systems	-67	-80
Group items	-11	-65
<b>Total</b>	<b>-176</b>	<b>-1,008</b>
Earnings effect, receivable linked to divestment of Vibracoustic <sup>1)</sup>	-	467
Capital gain, divestment of compounding operation <sup>2)</sup>	-	472
<b>Net items affecting comparability</b>	<b>-176</b>	<b>-69</b>

<sup>1)</sup> A final part payment of SEK 689 M related to the divestment of Trelleborg's stake in the joint venture Vibracoustic in summer 2016 was received in 2018. This part payment was previously recognized as a receivable totaling SEK 222 M, which is why the excess amount generated a positive earnings effect of SEK 467 M.

<sup>2)</sup> During the first quarter of 2017, the divestment of the compounding operation in Lesina, the Czech Republic, was finalized with a capital gain of SEK 472 M.

##### Breakdown by function

SEK M	2018	2017
Cost of goods sold	-115	-289
Selling expenses	-15	-45
Administrative expenses	-84	-132
Research & development costs	-3	-2
Other operating income	40	964
Other operating expenses	1	-565
<b>Total</b>	<b>-176</b>	<b>-69</b>

##### Of which impairment losses/restructuring costs

SEK M	Impairment losses		Restructuring costs	
	2018	2017	2018	2017
Trelleborg Coated Systems	-	0	-19	-23
Trelleborg Industrial Solutions	3	-40	-56	-170
Trelleborg Offshore & Construction	-18	-388	7	-223
Trelleborg Sealing Solutions	-	-	-15	-19
Trelleborg Wheel Systems	-	-	-67	-80
Group items	-	-1	-11	-64
<b>Total</b>	<b>-15</b>	<b>-429</b>	<b>-161</b>	<b>-579</b>

#### 6 Other operating income and expenses

SEK M	2018	2017
Compensation from insurance company	1	4
Rental revenue	44	50
Exchange rate differences	275	207
Royalties	18	12
Government grants	12	13
Derivatives	70	114
Sale of non-current assets	22	12
Sale of tools, prototypes, etc.	14	12
Other	331	217
<b>Total other operating income</b>	<b>787</b>	<b>641</b>
Rental costs	-15	-13
Exchange rate differences	-96	-289
Derivatives	-109	-92
Depreciation/amortization	-142	-112
Sale/disposal of non-current assets	-12	-2
Other	-84	-54
<b>Total other operating expenses</b>	<b>-458</b>	<b>-562</b>
<b>Total</b>	<b>329</b>	<b>79</b>

#### 7 Auditor's remuneration

SEK M	2018	2017
<i>Deloitte</i>		
Audit assignment	24	24
Audit activities other than audit assignment	1	1
Tax consultancy services	0	1
Other services	0	1
<i>Other auditors</i>		
Audit assignment	3	3
Audit activities other than audit assignment	0	0
Tax consultancy services	0	0
Other services	0	0
<b>Total</b>	<b>28</b>	<b>30</b>

The audit assignment relates to audit of the financial statements and accounts. Audit activities other than the audit assignment refer, for example, to comfort letters and the limited assurance report on Trelleborg's sustainability report. Tax services include both tax consultancy services and tax compliance services. Other services primarily relate to consultancy services.

## 8 Financial income and expenses

### Financial income

SEK M	2018	2017
Interest income according to the effective interest method from interest-bearing receivables recognized at amortized cost	49	41
Net change in value of derivative instruments measured at fair value	0	3
Exchange rate fluctuations, net	11	18
<b>Total financial income</b>	<b>60</b>	<b>62</b>

### Financial expenses

Interest expenses according to the effective interest method from interest-bearing liabilities recognized at amortized cost	-194	-156
Interest expenses, derivative instruments measured at fair value	-142	-130
Exchange rate fluctuations, net	-6	-6
<b>Total financial expenses</b>	<b>-342</b>	<b>-292</b>

<b>Total financial income and expenses</b>	<b>-282</b>	<b>-230</b>
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## 9 Income tax

### Accounting policies

Income tax in the income statement includes both current tax and deferred tax. Income tax is recognized in profit and loss except when an underlying transaction is recognized directly against equity or comprehensive income, in which case the related tax effect is also recognized in equity or comprehensive income. Current tax is tax payable or recoverable for the current year. This also includes adjustment for current tax attributable to prior periods.

Deferred tax is recognized in its entirety and calculated using the balance sheet approach on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Temporary differences that arise on initial recognition of an asset or liability, and which are not attributable to a business combination and have not affected recognized or taxable earnings, do not entail a deferred tax asset or tax liability in the balance sheet. Temporary differences are not recognized for participations in subsidiaries and joint ventures/associated companies, as the Group can control the date when these temporary differences are reversed and when it is unlikely that they will be reversed in the foreseeable future. Temporary differences arise in business combinations on the differences between the consolidated value of assets and liabilities and their tax bases.

Deferred tax is measured at the nominal amount and calculated by applying the tax rates and tax rules enacted or announced at the closing date. Deferred tax assets are recognized insofar as it is probable that tax surpluses will be available in the future against which temporary differences can be utilized. Deferred tax assets and liabilities are offset when the deferred tax pertains to the same tax authority.

### Critical estimates and judgments

Assessments are made to determine current and deferred tax receivables and liabilities, particularly with regard to deferred tax assets. In this manner, an assessment is made of the probability that the deferred tax assets will be utilized for settlement against future taxable gains. The fair value of these future taxable gains may deviate, owing to the future business climate and earnings potential, or to changes in tax regulations.

### Income tax

SEK M	2018	2017
<b>Current tax expenses</b>		
Tax expenses for the period	-853	-847
Adjustment of tax attributable to prior years	71	-3
<b>Total</b>	<b>-782</b>	<b>-850</b>
<b>Deferred tax expenses</b>		
Utilization/revaluation of losses carried forward	155	-50
Deferred tax expenses/revenue on changes in temporary differences	-418	-34
Adjustment of deferred tax attributable to prior years	11	21
<b>Total</b>	<b>-252</b>	<b>-63</b>
Other tax	-12	-5
<b>Total recognized tax expenses for the Group</b>	<b>-1,046</b>	<b>-918</b>

### Reconciliation of tax in the Group

Profit before tax	4,236	3,792
Calculated Swedish income tax, 22% (22)	-932	-834
Impact of other tax rates on foreign subsidiaries	-85	-12
Non-deductible expenses/Non-taxable revenue <sup>1)</sup>	-20	98
Impact of changed tax rates and tax regulations <sup>2)</sup>	-92	-154
Reassessment of losses carried forward/temporary differences	12	-52
Tax attributable to prior years	82	18
Other	1	23
<b>Total</b>	<b>-1,034</b>	<b>-913</b>
Other tax	-12	-5
<b>Recognized tax in Group</b>	<b>-1,046</b>	<b>-918</b>

### Tax items recognized in other comprehensive income

Deferred tax on cash-flow hedges	-4	-16
Deferred tax on hedging of net investments	122	3
Deferred tax in translation differences	2	8
Deferred tax on pension obligations	-9	-15
<b>Total</b>	<b>111</b>	<b>-20</b>

<sup>1)</sup> 2017 includes the effects of the divestment of a compounding operation in Lesina, the Czech Republic, and an additional purchase payment related to the divestment of Vibracoustic.

<sup>2)</sup> Includes the effects linked to a new tax reform in the U.S.

At year-end 2018, the Group had losses carried forward of approximately SEK 3,748 M (2,923), of which SEK 2,815 M (1,952) was taken into account when calculating deferred tax. Losses carried forward not taken into account include cases where uncertainty exists regarding the tax value.

Of losses carried forward, SEK 0 M (0) falls due within the next 12-month period and SEK 51 M (5) falls due within the next five-year period.



## Deferred tax assets and liabilities

SEK M	2018			2017		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	46	1,031	-985	181	1,054	-873
Land and buildings	75	169	-94	83	171	-88
Machinery and equipment	22	233	-211	75	201	-126
Financial non-current assets	0	6	-6	0	7	-7
Inventories	135	15	120	161	28	133
Current receivables	12	2	10	37	4	33
Pension provisions	148	1	147	125	4	121
Other provisions	61	35	26	113	8	105
Non-current liabilities	11	0	11	100	0	100
Current liabilities	115	1	114	112	56	56
Losses carried forward	616	-	616	473	-	473
<b>Total</b>	<b>1,241</b>	<b>1,493</b>	<b>-252</b>	<b>1,460</b>	<b>1,533</b>	<b>-73</b>
Offsetting of assets/liabilities	-549	-549		-742	-742	
<b>Total</b>	<b>692</b>	<b>944</b>	<b>-252</b>	<b>718</b>	<b>791</b>	<b>-73</b>

Deferred tax assets and liabilities are offset when the deferred tax pertains to the same tax authority.

## Change in deferred tax on temporary differences and losses carried forward

SEK M	Balance, January 1		Recognized in profit and loss		Recognized in other comprehensive income/directly against equity		Acquired/divested tax assets/liabilities		Translation differences		Balance, December 31	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Intangible assets	-873	-989	-42	100	-	-	-28	-4	-42	20	-985
Land and buildings	-88	-83	1	-10	-	-	0	1	-7	4	-94	-88
Machinery and equipment	-126	-155	-79	22	-	-	0	5	-6	2	-211	-126
Financial non-current assets	-7	-10	-95	-115	97	117	-	-	-1	1	-6	-7
Inventories	133	157	-20	-21	-	-1	0	-1	7	-1	120	133
Current receivables	33	10	-24	24	-	-	0	-	1	-1	10	33
Pension provisions	121	155	32	-12	-9	-15	0	-	3	-7	147	121
Other provisions	105	72	-84	34	-	-	-	-	5	-1	26	105
Non-current liabilities	100	108	-145	-8	56	-	-	-	0	0	11	100
Current liabilities	56	97	49	-27	5	-11	0	-	4	-3	114	56
Losses carried forward	473	643	155	-50	-38	-110	6	-	20	-10	616	473
<b>Total</b>	<b>-73</b>	<b>5</b>	<b>-252</b>	<b>-63</b>	<b>111</b>	<b>-20</b>	<b>-22</b>	<b>1</b>	<b>-16</b>	<b>4</b>	<b>-252</b>	<b>-73</b>

## Employees

### 10 Employees and employee benefits

#### Accounting policies

#### Employee benefits

##### Variable salaries

Provisions for variable salaries are expensed on an ongoing basis in accordance with the financial implications of the agreement.

##### Remuneration on termination

Remuneration is normally payable if employment is terminated prior to normal retirement age, or when an employee accepts voluntary termination in exchange for remuneration. The Group recognizes severance pay when a detailed formal plan has been presented.

#### Average number of employees

	2018			2017		
	Number of Women	Number of Men	Total	Number of Women	Number of Men	Total
U.K.	311	1,189	1,500	289	1,175	1,464
Italy	185	1,046	1,231	187	972	1,159
Sweden	361	773	1,134	352	770	1,122
Germany	335	656	991	308	632	940
France	189	715	904	188	724	912
Malta	156	373	529	145	393	538
Denmark	93	306	399	103	279	382
Netherlands	27	227	254	26	225	251
Norway	43	179	222	47	186	233
Other Western Europe	145	381	526	146	383	529
<b>Total Western Europe</b>	<b>1,845</b>	<b>5,845</b>	<b>7,690</b>	<b>1,791</b>	<b>5,739</b>	<b>7,530</b>
Czech Republic	1,148	3,084	4,232	1,201	3,278	4,479
Slovenia	235	663	898	227	662	889
Serbia	62	523	585	56	501	557
Turkey	28	635	663	22	532	554
Poland	168	249	417	207	239	446
Rest of Europe	252	254	506	210	217	427
<b>Total Rest of Europe</b>	<b>1,893</b>	<b>5,408</b>	<b>7,301</b>	<b>1,923</b>	<b>5,429</b>	<b>7,352</b>
U.S.	824	2,106	2,930	802	2,101	2,903
Canada	6	24	30	6	22	28
<b>Total North America</b>	<b>830</b>	<b>2,130</b>	<b>2,960</b>	<b>808</b>	<b>2,123</b>	<b>2,931</b>
Brazil	64	294	358	66	327	393
Other South and Central America	122	314	436	128	263	391
<b>Total South and Central America</b>	<b>186</b>	<b>608</b>	<b>794</b>	<b>194</b>	<b>590</b>	<b>784</b>
China	474	1,200	1,674	432	1,186	1,618
Sri Lanka	28	646	674	24	657	681
India	89	569	658	81	482	563
Other markets	151	518	669	141	512	653
<b>Total Asia and other markets</b>	<b>742</b>	<b>2,933</b>	<b>3,675</b>	<b>678</b>	<b>2,837</b>	<b>3,515</b>
<b>Total</b>	<b>5,496</b>	<b>16,924</b>	<b>22,420</b>	<b>5,394</b>	<b>16,718</b>	<b>22,112</b>

The proportion of women is 10 percent (10) in Group Management and 38 percent (38) on the Board of Directors.

#### Employee benefits, other remuneration and payroll overheads

Salaries and other remuneration, SEK M	2018	2017
U.K.	626	601
Italy	611	599
Sweden	631	594
Germany	716	652
France	397	360
Malta	119	117
Denmark	300	260
Netherlands	154	137
Norway	159	182
Other Western Europe	311	292
<b>Total Western Europe</b>	<b>4,024</b>	<b>3,794</b>
Czech Republic	621	581
Slovenia	185	167
Serbia	43	35
Turkey	75	67
Poland	71	66
Rest of Europe	85	71
<b>Total Rest of Europe</b>	<b>1,080</b>	<b>987</b>

U.S.	1,795	1,786
Canada	22	21
<b>Total North America</b>	<b>1,817</b>	<b>1,807</b>
Brazil	94	116
Other South and Central America	52	44
<b>Total South and Central America</b>	<b>146</b>	<b>160</b>
China	232	203
Sri Lanka	45	45
India	67	58
Other markets	359	334
<b>Total Asia and other markets</b>	<b>703</b>	<b>640</b>
<b>Salaries and other remuneration</b>	<b>7,770</b>	<b>7,388</b>
Payroll overheads	1,633	1,434
Pension costs – defined-contribution plans	189	165
Pension costs – defined benefit plans	56	50
<b>Payroll overheads</b>	<b>1,878</b>	<b>1,649</b>
<b>Total</b>	<b>9,648</b>	<b>9,037</b>
Salaries and other remuneration include:		
to Board members and President of Trelleborg AB, including variable salaries	28	29
to other senior executive officers	51	56

#### Remuneration of the Board of Directors and senior executives

##### Principles

The following principles governing remuneration of senior executives in the Trelleborg Group were adopted by the 2018 Annual General Meeting. The Board's proposal to the 2019 Annual General Meeting regarding principles for remuneration does not deviate substantially from the principles adopted by the 2018 Annual General Meeting. Trelleborg's principles for remuneration of senior executives state that the company shall offer market-based terms of employment that enable the company to recruit, develop and retain senior executives. It should be possible for the remuneration principles to vary depending on local conditions and be based on such factors as position, expertise, experience and performance. The total remuneration package is to comprise fixed and variable salaries, pension and other remuneration. Trelleborg continuously performs evaluations to ensure that conditions are market-based as compared with relevant industries and markets. Refer also to [www.trelleborg.com](http://www.trelleborg.com), Corporate Governance, Remuneration: "Principles for remuneration and other conditions of employment for senior executives".

#### Remuneration of management 2018

##### President

During 2018, the President and CEO received a fixed salary and other remuneration as shown in the table overleaf. Pursuant to agreements, the President has the possibility of obtaining an annual variable salary. The annual variable salary has an established ceiling for full-year 2018, corresponding to a maximum of 65 percent of fixed salary. In 2018, the annual variable salary was based on financial targets. The annual variable salary does not constitute pensionable income and does not form the basis of calculation of vacation pay. For 2018, an annual variable salary of SEK 5,447,000 (6,038,000) was payable to the President.

Pensionable age for the President is 65; however, both the company and the President have the right, without special motivation, to request early retirement from the age of 60, with a mutual six-month notice of termination. If the President enters early retirement, the employment agreement and pension agreement are rendered invalid. The pension agreement is a defined-contribution scheme, and the premium comprises 45 percent of the fixed salary. Pension premiums were expensed in 2018 as shown in the table on the next page.

For the President, a period of notice of 24 months applies when termination of employment is initiated by the company. The period of notice when termination of employment is initiated by the President is six months.

##### Other senior executives

The principles for remuneration of other senior executives are based on both a fixed and annual variable salary and certain benefits. The annual variable part has an established ceiling and accounts for a maximum of 40–65 percent of fixed annual salary, but in practice in 2018 amounts to a maximum of 55 percent. In 2018, the annual variable salary was based on profit before tax and operating cash flow.

For other senior executives, the entire pension plan is a defined-contribution scheme, whereby the pension premium can vary between 10 and 40 percent of the fixed salary. This applies to other senior executives in all countries other than Italy, where the premium level is slightly higher. For other Swedish senior executives, the maximum level is set at 30 percent according to policy, which has been maintained for all except one senior

executive, for whom the premium in 2018 was 35 percent following a decision by the Remuneration Committee.

Certain senior executives have extended notice of termination periods when initiated by the company, normally 12, 18 or 24 months. The period of notice from the senior executive is six months. The President and other senior executives have the possibility of having other benefits, primarily a company car and medical expenses insurance.

#### Long-term incentive program

Since 2005, the Board of Directors has annually resolved on a long-term incentive program for the President and for senior executives considered to exercise a significant influence on the Trelleborg Group's earnings per share. These programs are ongoing, three-year programs. The Board determines annually whether to instigate new programs and, if so, the scope, objective and participants of such new programs. The incentive programs are a cash-based supplement to the annual variable salaries, provided that the executive has not terminated his employment as per December 31 in the year in which the program ends.

#### Purpose

The incentive programs are directional and have long-term content. The aim is to increase value for the Group's shareholders by promoting and retaining the commitment of senior executives to the Group's development.

#### Target figure

The target value for the incentive programs is an annual improvement of 10 percent in the Trelleborg Group's earnings per share. This target excludes the Group's items affecting comparability and the impact of any share buyback programs. For the 2016–2018 program, the basis for the target figure was set as the outcome of earnings per share for 2015 and this principle has remained unchanged for the rolling three-year programs that commenced thereafter. All programs have an outcome that is limited to 33.3 percent of the maximum annual variable salary.

#### Outcome and payment

The outcomes of the programs are calculated annually and accumulated over the three-year period and potential payments are made in the first quarter of the year after the program expires. A payment was made in the first quarter of 2018 for the program approved in 2015. For the program approved for 2016, payment will be made in the first quarter of 2019, for the program approved for 2017, payment will be made in the first quarter of 2020, and for the program approved for 2018, payment will be made in the first quarter of 2021. The payments do not constitute pensionable income and do not form the basis of calculation of vacation pay. In 2018, consolidated earnings were charged with sek 51,143,000 (53,584,000) including payroll overheads.

#### Other incentive programs

The Group has no ongoing convertible debenture or warrant programs at the present time.

#### Remuneration to the Board 2018

The fees paid to the members of the Board of Directors elected by the Annual General Meeting are approved by the Annual General Meeting based on the proposals of the Nomination Committee. For 2018, remuneration was paid as per the table below. No consulting fees were paid to the Board members. Remuneration is not paid to executive Board members.

Costs are recognized as remuneration of senior executives for the period during which the person in question held their position.

#### Specification of remuneration to Board members, salaries to the President and other senior executive officers

2018 SEK 000s	Board fee/fixed salary	Annual variable salary	Incentive program <sup>1)</sup>	Other benefits	Pension costs	Total
Hans Biörck, Chairman of the Board.	1,555					1,555
Gunilla Fransson, Board member	737					737
Johan Malmquist, Board member	700					700
Anne Mette Olesen, Board member	633					633
Susanne Pahlén Åklundh, Board member	653					653
Panu Routila, Board member	470					470
Jan Ståhlberg, Board member	430					430
President	10,867	5,447	6,489	203	4,771	27,777
Other senior executives, employees of Trelleborg AB, 2 persons	5,391	2,102	2,504	264	2,934	13,195
employees of other Group companies, 6 persons	19,743	9,397	9,749	1,461	6,544	46,894
<b>Total</b>	<b>41,179</b>	<b>16,946</b>	<b>18,742</b>	<b>1,928</b>	<b>14,249</b>	<b>93,044</b>

<sup>1)</sup> Expensed in 2018. Payment is to be made in the first quarter, 2019 to 2021, on condition that the individual is employed in the Group on December 31 of the preceding year.

2017 SEK 000s	Board fee/fixed salary	Annual variable salary	Incentive program <sup>1)</sup>	Other benefits	Pension costs	Total
Sören Mellstig, Chairman of the Board	1,765					1,765
Hans Biörck, Board member	715					715
Jan Carlson, Board member <sup>2)</sup>	230					230
Gunilla Fransson, Board member	613					613
Johan Malmquist, Board member	640					640
Anne Mette Olesen, Board member	600					600
Susanne Pahlén Åklundh, Board member	540					540
Bo Risberg, Board member	710					710
President	10,208	6,038	6,300	180	4,121	26,847
Other senior executives, employees of Trelleborg AB, 2 persons	5,197	2,353	2,466	234	1,624	11,874
employees of other Group companies, 7 persons	25,652	8,306	10,700	1,240	8,868	54,766
<b>Total</b>	<b>46,870</b>	<b>16,697</b>	<b>19,466</b>	<b>1,654</b>	<b>14,613</b>	<b>99,300</b>

<sup>1)</sup> Expensed in 2017. Payment is to be made in the first quarter, 2018 to 2020, on condition that the individual is employed in the Group on December 31 of the preceding year.

<sup>2)</sup> Board member up to and including the Annual General Meeting.

## 11 Provisions for pensions and similar items

### Accounting policies

#### Employee benefits

##### Pension obligations

Within the Group, there are a number of defined contribution pension plans and defined benefit pension plans, of which a small number have plan assets in foundations or similar. Pension plans are normally financed through contributions to a separate legal entity from each Group company and from the employees. Prepaid contributions are recognized as an asset insofar as cash repayments or reductions of future payments can benefit the Group. Costs for services rendered in previous years are recognized directly in profit and loss.

Some of the ITP plans in Sweden are financed through insurance premiums paid to Alecta. This is a defined benefit plan and encompasses several employers. As Trelleborg did not have access to information to enable it to recognize this plan as a defined benefit plan, it was, consequently, recognized as a defined contribution plan.

##### Defined contribution pension plans

A defined contribution pension plan is a plan in which the Group pays fixed fees to a separate legal entity. The Group does not have any legal or informal obligations to pay additional contributions if this legal entity has insufficient assets with which to make all pension payments to employees that are associated with the current or past service of employees.

The Group's pension payments for defined contribution plans are expensed in all functions in profit and loss in the period in which the employees carried out the service to which the contribution refers.

##### Defined benefit pension plans

In a defined benefit pension plan, the amount of the pension benefit an employee will receive after retirement is based on factors such as age, period of service and salary.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation on the closing date, less the fair value of plan assets. For defined benefit plans, the liability is calculated using the Projected Unit Credit Method, which allocates the cost over the employee's working life. The calculations are undertaken by actuaries, who also annually reassess the value of the pension obligations. These assumptions are based on the present value of future pension payments and are calculated using a discount rate corresponding to the interest on first-class corporate bonds or government bonds with a remaining maturity largely matching that of the current pension obligations. For funded pension plans, the fair value of plan assets reduces the calculated pension obligation. Funded plans with net assets, meaning where the assets exceed the obligations, are recognized as plan assets, adjusted for limitation of defined benefit asset and IFRIC 14.

Actuarial gains and losses as a result of experience-based adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

##### Other post-employment benefits

Certain Group companies, primarily in the U.S., provide post-retirement medical care benefits for their employees. Entitlement to these benefits normally requires that the employee remains in service until retirement and works for the company for a specific number of years. The anticipated cost of these benefits is recognized over the period of service through the application of an accounting method similar to that used for defined benefit pension plans. Actuarial gains and losses are recognized over the expected average remaining working life of the employees concerned. These obligations are assessed by qualified actuaries.

### Critical estimates and judgments

The value of pension obligations for defined benefit pension plans is derived from actuarial calculations based on assumptions concerning discount rates, expected yield from plan assets, future salary increases, inflation and the demographic conditions. At year-end, the Group's defined benefit obligations amounted to SEK 521 M (561).

The sensitivity analyses below are based on a change in one assumption, with all other assumptions remaining constant. In practice, it is unlikely that this will occur and some of the changes in the assumptions may be correlated. The calculation of sensitivity in the defined benefit obligation for key actuarial assumptions uses the same method (the present value of the defined benefit obligation applying the Projected Unit Credit Method at the end of the reporting period) as used in the calculation of pension liabilities recognized in the balance sheet.

### Specification of costs

SEK M	2018	2017
Costs for services during current year <sup>1)</sup>	42	42
Interest on the obligation	39	38
Anticipated return on plan assets <sup>2)</sup>	-26	-24
Actuarial gains and losses recognized for the year	-1	-2
Curtailement and settlement	0	-8
Past service cost	2	4
<b>Total cost of defined benefit plans</b>	<b>56</b>	<b>50</b>
Cost of defined contribution plans	189	165
<b>Total pension costs</b>	<b>245</b>	<b>215</b>

<sup>1)</sup> Includes administrative expenses, taxes and risk premiums.

<sup>2)</sup> Adjusted for limitation of defined benefit asset and IFRIC 14.

### Specification of pension liability in the balance sheet

SEK M	2018	2017
Present value of funded obligations	1,016	1,004
Fair value of plan assets	-1,005	-949
<b>Surplus/deficit in funded plans</b>	<b>11</b>	<b>55</b>
Present value of unfunded obligations	482	478
<b>Total defined benefit plans</b>	<b>493</b>	<b>533</b>
Effect of limit rule for net assets	28	28
<b>Total defined benefit plans</b>	<b>521</b>	<b>561</b>
<b>Defined contribution plans</b>	<b>1</b>	<b>1</b>
<b>Net pension liability</b>	<b>522</b>	<b>562</b>
of which, recognized as plan assets	8	8
<b>Closing balance, pension liability</b>	<b>530</b>	<b>570</b>

### Change in defined benefit obligations

SEK M	Present value of obligation	Fair value of plan assets	Effect of limit rule for net assets	Total
<b>On January 1, 2017</b>	<b>1,560</b>	<b>-901</b>	<b>0</b>	<b>659</b>
Costs for services during current year <sup>3)</sup>	38	4	-	42
Interest expenses/(income) <sup>4)</sup>	38	-24	-	14
Past service cost	4	0	-	4
Gains and losses from settlements	-8	0	-	-8
	<b>72</b>	<b>-20</b>	<b>0</b>	<b>52</b>
<i>Revaluations:</i>				
Return on plan assets excluding amounts included in interest expenses/(income)	0	-77	28	-49
(Gain)/loss due to changed demographic assumptions	-10	0	-	-10
(Gain)/loss due to changed financial assumptions	2	0	-	2
Experience-based (gains)/losses	16	0	-	16
	<b>8</b>	<b>-77</b>	<b>28</b>	<b>-41</b>
Exchange rate differences	-65	55	0	-10
<i>Contributions:</i>				
Employer	0	-103	-	-103
Employees encompassed by the plan	7	-7	-	0
<i>Payments:</i>				
Payments made from plans	-83	83	-	0
Payments made directly from companies	-27	27	-	0
Assumed through business combinations	1	0	-	1
Transfers or change in scope	9	-6	-	3
<b>At December 31, 2017</b>	<b>1,482</b>	<b>-949</b>	<b>28</b>	<b>561</b>
<b>On January 1, 2018</b>	<b>1,482</b>	<b>-949</b>	<b>28</b>	<b>561</b>
Costs for services during current year <sup>3)</sup>	37	5	-	42
Interest expenses/(income) <sup>4)</sup>	39	-27	1	13
Past service cost	2	0	-	2
Gains and losses from settlements	0	0	-	0
	<b>78</b>	<b>-22</b>	<b>1</b>	<b>57</b>
<i>Revaluations:</i>				
Return on plan assets excluding amounts included in interest expenses/(income)	0	22	-2	20
(Gain)/loss due to changed demographic assumptions	-2	0	-	-2
(Gain)/loss due to changed financial assumptions	-69	0	-	-69
Experience-based (gains)/losses	0	0	-	0
	<b>-71</b>	<b>22</b>	<b>-2</b>	<b>-51</b>



SEK M	Present value of obligation	Fair value of plan assets	Effect of limit rule for net assets	Total
Exchange rate differences	82	-65	1	18
Contributions:				
Employer	0	-64	-	-64
Employees encompassed by the plan	7	-7	-	0
Payments:				
Payments made from plans	-48	48	-	0
Payments made directly from companies	-32	32	-	0
Assumed through business combinations	0	0	-	0
Transfers or change in scope	0	0	-	0
<b>At December 31, 2018</b>	<b>1,498</b>	<b>-1,005</b>	<b>28</b>	<b>521</b>

3) Including administrative expenses.

4) Adjusted for limitation of defined benefit asset and IFRIC 14.

#### Defined benefit pension obligation and composition of plan assets per country

SEK M	2018					Total
	U.S.	Switzerland	France	U.K.	Other	
Present value of funded obligations	515	235	0	126	140	1,016
Fair value of plan assets	-516	-194	0	-154	-141	-1,005
<b>Total</b>	<b>-1</b>	<b>41</b>	<b>0</b>	<b>-28</b>	<b>-1</b>	<b>11</b>
Present value of unfunded obligations	15	1	175	0	291	482
Effect of limit rule for net assets	0	0	0	28	0	28
<b>Total defined benefit plans</b>	<b>14</b>	<b>42</b>	<b>175</b>	<b>0</b>	<b>290</b>	<b>521</b>

SEK M	2017					Total
	U.S.	Switzerland	France	U.K.	Other	
Present value of funded obligations	532	215	0	127	130	1,004
Fair value of plan assets	-487	-173	0	-155	-134	-949
<b>Total</b>	<b>45</b>	<b>42</b>	<b>0</b>	<b>-28</b>	<b>-4</b>	<b>55</b>
Present value of unfunded obligations	15	0	164	0	299	478
Effect of limit rule for net assets	-	-	-	28	0	28
<b>Total defined benefit plans</b>	<b>60</b>	<b>42</b>	<b>164</b>	<b>0</b>	<b>295</b>	<b>561</b>

Key actuarial assumptions, %	2018					Group average
	U.S.	Switzerland	France	U.K.	Other	
Discount rate	4.6	1.0	1.5	2.8	3.2	3.1
Inflation	2.5	1.0	1.8	2.5	3.0	2.2
Salary increases	0.3	1.0	2.4	0.0	4.2	2.7

Key actuarial assumptions, %	2017					Group average
	U.S.	Switzerland	France	U.K.	Other	
Discount rate	3.7	0.8	1.4	2.6	2.8	2.7
Inflation	2.5	1.0	1.8	2.4	2.0	2.1
Salary increases	0.3	1.0	2.4	0.0	2.6	2.6

Life expectancy	2018					Average
	U.S.	Switzerland	France	U.K.	Other	
Life expectancy for a 45-year-old man at the age of 65	21.8	23.8	18.9	23.8	20.5	21.5
Life expectancy for a 65-year-old man at the age of 65	20.2	22.0	18.9	20.9	19.6	20.2
Life expectancy for a 45-year-old woman at the age of 65	23.7	25.8	22.9	25.0	23.9	24.1
Life expectancy for a 65-year-old woman at the age of 65	22.2	23.9	22.9	23.1	23.0	22.9

Life expectancy	2017					Average
	U.S.	Switzerland	France	U.K.	Other	
Life expectancy for a 45-year-old man at the age of 65	22.7	23.8	18.8	22.6	20.3	21.5
Life expectancy for a 65-year-old man at the age of 65	20.7	21.9	18.8	20.9	19.5	20.1
Life expectancy for a 45-year-old woman at the age of 65	24.2	25.8	22.9	25.0	23.8	24.0
Life expectancy for a 65-year-old woman at the age of 65	22.3	23.9	22.9	23.1	23.0	22.7

#### Sensitivity in the defined benefit obligation to changes in the key weighted assumptions

Impact on the defined benefit obligation	Increase of +0.25% in assumptions <sup>5)</sup>					Total
	U.S.	Switzerland	France	U.K.	Other	
Discount rate	-13.7	-9.5	-5.1	-3.7	-13.7	-45.7
Inflation	0.0	0.1	5.2	4.0	4.4	13.7
Salary increases	0.5	0.7	5.2	0.0	2.6	9.0
Life expectancy	Increase of 1 year in assumption					Total
	15.2	6.1	1.0	6.4	6.9	

Impact on the defined benefit obligation	Decrease of -0.25% in assumptions <sup>5)</sup>					Total
	U.S.	Switzerland	France	U.K.	Other	
Discount rate	14.4	10.3	5.3	3.9	14.3	48.2
Inflation	0.0	-0.1	-5.0	-3.8	-4.2	-13.1
Salary increases	-0.4	-0.7	-5.0	0.0	-2.6	-8.7
Life expectancy	Decrease of 1 year in assumption <sup>6)</sup>					Total

<sup>5)</sup> The increase in the defined benefit obligation is shown as positive and the decrease as negative.

<sup>6)</sup> Not applicable.

#### Composition of plan assets

SEK M	2018			%
	Listed	Unlisted	Total	
Shares	392	0	392	39.0
Debt instruments (government bonds and corporate bonds)	288	0	288	28.6
Properties	24	0	24	2.4
Other (including cash and cash equivalents and insurance)	143	158	301	30.0
<b>Total</b>	<b>847</b>	<b>158</b>	<b>1,005</b>	<b>100.0</b>

SEK M	2017			%
	Listed	Unlisted	Total	
Shares	393	0	393	41.5
Debt instruments (government bonds and corporate bonds)	260	0	260	27.4
Properties	21	0	21	2.2
Other (including cash and cash equivalents and insurance)	132	143	275	28.9
<b>Total</b>	<b>806</b>	<b>143</b>	<b>949</b>	<b>100.0</b>

Contributions to plans for post-employment benefits for the 2019 fiscal year are expected to amount to SEK 56 M. The weighted average term of the pension obligation is 13 years.

**Pension insurance with Alecta**

Retirement pension and family pension obligations for salaried employees in Sweden are secured through pension insurance with Alecta. According to a statement issued by the Swedish Financial Reporting Board, UFR 10, this constitutes a multi-employer defined benefit plan. For the 2018 fiscal year, the Group did not have access to such information that would enable the Group to report its proportionate share of the plan's obligations, plan assets and costs, which meant that it was not possible to report the plan as a defined benefit plan. Consequently, the ITP pension plan secured through insurance with Alecta is recorded as a defined contribution plan. The premium for the defined benefit retirement pension is individual and is determined by such factors as the insured's age, salary and previously earned pension. Expected contributions for pension insurance in the next reporting period taken out with Alecta total SEK 11 M. The Group pays an insignificant amount of this plan.

The collective consolidation ratio reflects the market value of Alecta's assets as a percentage of insurance obligations, calculated in accordance

with Alecta's actuarial assumptions, which do not correspond with IAS 19. Collective consolidation, in the form of collective consolidation ratio, is normally permitted to vary between 125 percent and 155 percent. If Alecta's collective consolidation ratio falls below 125 percent or exceeds 155 percent, measures are taken to create conditions to return the collective consolidation ratio to the normal interval. Alecta's surplus can be distributed to the policyholders and/or the insured if the collective consolidation ratio exceeds 155 percent. However, Alecta applies premium reductions to avoid a surplus from arising. At December 31, 2018, Alecta's surplus corresponded to a collective consolidation ratio of 142 percent (154).

**Pension plan, U.S.**

Trelleborg Coated Systems US Inc's participation in the multi-employer pension plan with the National Retirement Fund (NRF) has been terminated by the signing of a settlement and a reciprocal agreement without any financial impact for 2018.

**Group structure****12 Participations in joint ventures/associated companies****Accounting policies****Associated companies**

Associated companies are companies in which the Parent Company directly or indirectly has a significant, but not controlling, influence, generally corresponding to between 20 and 50 percent of the voting rights. Investments in associated companies are recognized in accordance with the equity method and are initially recognized at cost. The Group's carrying amount of the holdings in associated companies includes the goodwill identified in conjunction with the acquisition, net after any recognition of impairment losses. The associated companies essentially carry out the same operations as the Group's other business activities and, accordingly, the share of profit in these companies is recognized in EBIT.

The Group's share in the post-acquisition results of an associated company is recognized in profit and loss in the item "Share of profit or loss in associated companies," and is included in EBIT. Accumulated post-acquisition changes are recognized as changes in the carrying amount of the investment. When the Group's share in the losses of an associated company amount to, or exceed, the Group's investment in the associated company, including any unsecured receivables, the Group does not recognize further losses unless obligations have been incurred or payments made on behalf of the associated company. Unrealized gains on transactions between the Group and its associated companies are eliminated in proportion to the Group's participation in the associated company. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

**Joint ventures**

An assessment must be made regarding whether any joint arrangements that exist within the Group are to be considered joint ventures. Joint ventures are recognized in accordance with the equity method. The equity method entails that holdings in joint ventures are to be initially recognized in the consolidated statement of financial position at cost. The carrying amount is subsequently increased or decreased to take into account the Group's share of profit and other comprehensive income from its joint ventures after the date of acquisition. The Group's share of profit is included in consolidated earnings, and the Group's share of other comprehensive income is included in other comprehensive income in the Group. When the Group's share of the losses in a joint venture is the same amount or exceeds the holdings in this joint venture (including all long-term receivables that in reality comprise part of the Group's net investment in the joint venture), the Group does not recognize any additional losses unless obligations have been incurred or payments made on behalf of the joint venture.

**Related-party transactions**

The Group's transactions with related parties pertain to purchases and sales to joint ventures/associated companies. All transactions are priced in accordance with market terms and prices. In addition, compensation is paid to the Board of Directors and senior executives; refer to Note 10 for further information.

The Trelleborg Group has no major associated companies; the most significant value is associated with Sico Rubena a.s.

SEK M	Profit before tax		Tax		Net profit		Dividend received	
	2018	2017	2018	2017	2018	2017	2018	2017
Associated companies	5	12	-2	-2	3	10	3	2
<b>Total</b>	<b>5</b>	<b>12</b>	<b>-2</b>	<b>-2</b>	<b>3</b>	<b>10</b>	<b>3</b>	<b>2</b>

SEK M	Receivables from companies		Liabilities to companies		Sales to companies		Operating income from companies	
	2018	2017	2018	2017	2018	2017	2018	2017
Associated companies	3	2	1	2	6	20	9	7
<b>Total</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>6</b>	<b>20</b>	<b>9</b>	<b>7</b>

**Change in carrying amounts of associated companies**

SEK M	2018	2017
Balance, January 1, associated companies	76	76
Share of profit for year from associated companies	6	-
Dividend	-1	-
<b>Carrying amount, December 31 <sup>1)</sup></b>	<b>81</b>	<b>76</b>

<sup>1)</sup> Of which Sico Rubena a.s accounts for SEK 70 M (64).

### 13 Parent Company and Group holdings of shares in Group companies <sup>1)</sup>

#### Accounting policies

##### Subsidiaries

The Group has a controlling influence over a company when it is exposed or entitled to a variable return from its holding in the company and can influence said return through its controlling influence in the company. This is normally achieved when the shareholding amounts to more than half of the voting rights. The occurrence and effect of potential voting rights that are currently available to utilize or convert are taken into account in the assessment of whether the Group exercises controlling influence over another company. The Group also determines that control exists despite not having a participation exceeding half of the voting rights but for which it nonetheless is able to govern financial and operating strategies in the company.

Subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group. They are excluded from the consolidated financial statements from the date on which the control ceases. When the Group no longer

holds a controlling influence, each remaining holding is measured at fair value at the date on which the Group ceased to hold the controlling influence. The change in the carrying amount is recognized in profit and loss. The fair value is used as the initial carrying amount and comprises the basis for the future recognition of the remaining holdings as an associated company, joint venture or financial asset. All amounts pertaining to the divested unit that were previously recognized in other comprehensive income are recognized as if the Group had directly divested the attributable assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit and loss.

Where necessary, the accounting policies for subsidiaries have been adjusted to guarantee consistent application of the Group's policies.

Company	Registration number	Domicile/country	Number of shares	Ownership percent	Carrying amount, SEK M
<b>Chemtrading Alpha Holding AG</b>	CH-170.3.018.603-0	Switzerland	100	100	3
<b>Dormviltolv AB</b>	556853-1619	Trelleborg	1,000	100	0
<b>Dormviltretton AB</b>	556853-1627	Trelleborg	1,000	100	0
<b>Dormvilforton AB</b>	556853-1486	Trelleborg	1,000	100	0
<b>Dormvilfemton AB</b>	556853-1635	Trelleborg	1,000	100	4
<b>LEBELA Förvaltnings AB</b>	556054-1533	Trelleborg	60,000	100	32
<b>MHT Takentreprenören i Malmö AB</b>	556170-2340	Malmö	1,000	100	0
<b>Trelleborg Automotive Shanghai Holdings AB</b>	556742-8742	Trelleborg	1,000	100	10
<b>Trelleborg Boots Mladá Boleslav s.r.o</b>	639 96 111	Czech Republic	0	100	19
<b>Trelleborg China Holding AB</b>	556030-7398	Trelleborg	200,000	100	43
Trelleborg Sealing Solutions (China) Co. Ltd	310000400437534	China	0	100	
<b>Trelleborg Coated Systems China Holding AB</b>	556728-8716	Trelleborg	1,000	100	1
<b>Trelleborg Corporation</b>	06-1253246	U.S.	2,592	100	3,950
Mitas Tires North America Inc	0100809270	U.S.	100	100	
Trelleborg Coated Systems US Inc	23-1470071	U.S.	1,000	100	
Trelleborg Coated Systems Italy SpA	10051150158	Italy	25,600,000	100	
Trelleborg Sealing Solutions US, Inc	95-1773005	U.S.	7,500	100	
Trelleborg Wheel Systems Americas Inc	06-1316073	U.S.	1,000	100	
Trelleborg Sealing Profiles US Inc	20-4090472	U.S.	1,000	100	
Trelleborg Sealing Solutions Detroit Inc	58-2037536	U.S.	100	100	
Trelleborg Sealing Solutions Tustin, Inc.	33-0577171	U.S.	0	100	
Trelleborg Sealing Solutions Japan KK	0106-01-011635	Japan	200	60	
<b>Trelleborg Croatia d.o.o.</b>	080638386	Croatia	0	100	0
<b>Trelleborg do Brasil Soluções em Vedação Ltda</b>	35218417780	Brazil	21,003,020	100	9
<b>Trelleborg Engineered Systems China Holding AB</b>	556223-5910	Trelleborg	1,000	100	3
<b>Trelleborg Engineered Systems Qingdao Holding AB</b>	556715-4991	Trelleborg	1,000	100	96
<b>Trelleborg Forsheda AB</b>	556052-2996	Värnamo	8,640,000	100	173
Trelleborg Ersmark AB	556039-7852	Skellefteå	1,270,000	100	
<b>Trelleborg Holding AB</b>	556212-8255	Trelleborg	3,000	100	5,461
Trelleborg Sealing Profiles Germany GmbH	HRB 11960	Germany	0	100	
Trelleborg Wheel Systems Czech Republic a.s.	000 12 190	Czech Republic	14,603,840	100	
Trelleborg Bohemia a.s	000 12 131	Czech Republic	174	100	
Trelleborg Slovenija d.o.o	1661205000	Slovenia	0	100	
Trelleborg Sealing Profiles Sweden AB	556026-2148	Trelleborg	12,000	100	
Trelleborg Wheel Systems Argentina S.A.	14362	Argentina	277,500	15	
Trelleborg Wheel Systems Germany GmbH	HRB 71478	Germany	0	100	
Trelleborg Sealing Solutions Germany GmbH	HRB 21275	Germany	0	100	
Trelleborg Wheel Systems Belgium NV	BE0402981847	Belgium	11,075,113	100	
Trelleborg Antivibration Solutions Germany GmbH	HRB 5137 NP	Germany	6	100	
Trelleborg Istanbul Endüstriyel Hortumlar Sanayi ve Ticaret Anonim Sirketi	905	Turkey	9,900,000	100	
<b>Trelleborg Holding Danmark A/S</b>	1627 9196	Denmark	21,000	100	631
<b>Trelleborg Holding France SAS</b>	353 742307	France	744,444	100	1,448
Trelleborg Industrie SAS	391933397	France	690,340	100	
Trelleborg Wheel Systems France SAS	410783492	France	9,060	100	
<b>Trelleborg Holding Norge AS</b>	943508186	Norway	10,000	100	
Trelleborg Offshore Norway AS	941730566	Norway	27,000	100	
<b>Trelleborg Holdings Switzerland AG</b>	CHE-101.230.069	Switzerland	100	100	201
Trelleborg Sealing Solutions Stein am Rhein AG	290.3.004.156-3	Switzerland	74	74	
<b>Trelleborg Holdings Italia S.r.l.</b>	LI-128316	Italy	0	100	671
Trelleborg Sealing Solutions Italia S.p.A.	LI-48490	Italy	1,112,140	100	
Trelleborg Wheel Systems Italia SpA	RM-907676	Italy	11,000	100	
<b>Trelleborg Holdings UK Ltd</b>	03304377	U.K.	253,472,474	100	2,087
Trelleborg Sealing Solutions UK Ltd	00446036	U.K.	10,050,000	100	
Trelleborg Industrial Products UK Limited	3847966	U.K.	75,000,001	100	

The table shows all directly owned subsidiaries and indirectly owned companies with annual external sales exceeding SEK 250 m.

Company	Registration number	Domicile/country	Number of shares	Ownership percent	Carrying amount, SEK M
<b>Trelleborg Industri AB</b>	556129-7267	Trelleborg	725,000	100	132
<b>Trelleborg Industrial Products Finland Oy</b>	0605887-9	Finland	100	100	137
<b>Trelleborg Insurance Ltd</b>	10412	Bermuda	50,000	100	119
<b>Trelleborg International B.V.</b>	02327837	Netherlands	41	100	3,150
Trelleborg Pipe Seals Lelystad BV	05026585	Netherlands	30,000	100	
<b>Trelleborg Marine Systems Japan KK</b>	0100-01-095821	Japan	20	100	0
<b>Trelleborg Moulded Components Wuxi Holding AB</b>	556715-4983	Trelleborg	1,000	100	29
<b>Trelleborg Offshore &amp; Construction AB</b>	556055-7711	Trelleborg	1,250	100	22
<b>Trelleborg Sealing Profiles Lithuanian, UAB</b>	302333896	Lithuania	2,021,040	100	8
<b>Trelleborg Sealing Solutions Belgium SA</b>	BE0440479473	Belgium	100	100	114
<b>Trelleborg Sealing Solutions Bulgaria EOOD</b>	1346/1998	Bulgaria	10,000	100	16
<b>Trelleborg Sealing Solutions Czech s.r.o.</b>	48948764	Czech Republic	0	100	48
<b>Trelleborg Sealing Solutions Finland Oy</b>	0721679-5	Finland	15	100	75
<b>Trelleborg Sealing Solutions Hong Kong Ltd</b>	730579	Hong Kong	484,674	100	1
<b>Trelleborg Sealing Solutions Hungary Kft</b>	13-09-119761	Hungary	0	100	1
<b>Trelleborg Sealing Solutions Japan KK</b>	0106-01-011635	Japan	133	40	99
<b>Trelleborg Sealing Solutions Kalmar AB</b>	556325-7442	Kalmar	60,000	100	245
<b>Trelleborg Sealing Solutions Korea Ltd</b>	123-81-81886	South Korea	77,000	100	17
<b>Trelleborg Sealing Solutions Russia OOO</b>	1087746852599	Russia	0	100	2
<b>Trelleborg Sealing Solutions Pernik EOOD</b>	175241703	Bulgaria	64,120	100	49
<b>Trelleborg Sealing Solutions Polska Sp.z o.o.</b>	0000100866	Poland	12,800	100	6
<b>Trelleborg Sealing Solutions Sızdırmazlık Ürünleri İthalat İhracat Üretim ve Ticaret Limited Sirketi</b>	816771	Turkey	42,200	100	7
<b>Trelleborg Sealing Solutions Sweden AB</b>	556204-8370	Jönköping	2,500	100	167
<b>Trelleborg Sealing Solutions Switzerland SA</b>	CH-550-0081017-2	Switzerland	1,000	100	47
<b>Trelleborg Tigveni SRL</b>	22964627	Romania	700	100	6
<b>Trelleborg Treasury AB (publ)</b>	556064-2646	Stockholm	5,000	100	15,001
<b>Trelleborg Tyres Lanka (Private) Limited</b>	4395	Sri Lanka	16,272,537	100	91
<b>Trelleborg Lanka (Pvt) Ltd</b>	6613	Sri Lanka	28,763,538	100	854
<b>Trelleborg Wheel Systems Lanka (Pvt) Ltd</b>	6772	Sri Lanka	5,692,335	100	291
<b>Trelleborg Wheel Systems Argentina S.A.</b>	14362	Argentina	1,572,500	85	0
<b>Trelleborg Wheel Systems China Holdings AB</b>	556739-6998	Trelleborg	1,000	100	64
<b>Trelleborg Wheel Systems Liepaja LSEZ SIA</b>	42103042763	Latvia	12,097,256	100	106
<b>Trelleborg Wheel Systems Nordic AB</b>	556056-2620	Trelleborg	40,000	100	10
<b>TSS Silcotech Hong Kong Holding AB</b>	556742-8775	Trelleborg	1,000	100	0
<b>Mitas d.o.o. Ruma</b>	08250600	Serbia	0	100	800
<b>Trelleborg Sealing Solutions Stein am Rhein AG</b>	290.3.004.156-3	Switzerland	26	26	85
<b>Total Parent Company</b>					<b>36,641</b>

The table shows all directly owned subsidiaries and indirectly owned companies with annual external sales exceeding SEK 250 m.



## 14 Acquisitions

### Accounting policies

The purchase method is used to recognize the Group's business combinations. The consideration for the acquisition of a subsidiary comprises the fair value of transferred assets, liabilities that the Group assumes from previous owners of the acquired company and the shares issued by the Group. The consideration also includes the fair value of all assets or liabilities that result from an agreement covering a contingent consideration. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition. For each acquisition, that is, on an acquisition-by-acquisition basis, the Group determines whether non-controlling interest in the acquired company is to be recognized at fair value or at the shareholding's proportional share in the carrying amount of the acquired company's identifiable net assets.

Acquisition-related costs are expensed as they arise.

If the business combination is completed in several steps, the previous equity interests in the acquired company are measured at fair value at the date of acquisition and up until a controlling influence is achieved. Any gain or loss arising is recognized in profit or loss.

Each contingent consideration to be transferred by the Group is recognized at fair value at the date of acquisition. Subsequent changes to the fair value of a contingent consideration classed as an asset or liability are recognized in line with IFRS 9 in profit and loss. Contingent considerations classed as equity are not remeasured and the subsequent settlement is recognized in equity.

Goodwill is initially measured as the amount by which the total purchase consideration and fair value of non-controlling interests exceeds the value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of the acquired company's net assets, the difference is recognized directly in profit and loss.

Transactions with non-controlling interests are treated as transactions with the Group's shareholders. This means that, in connection with an acquisition from a non-controlling interest, the difference between the purchase consideration paid and the actual share acquired of the carrying amount of the subsidiary's net assets is recognized in equity. Gains and losses on divestments to non-controlling interests are also recognized in equity.

### 2018

#### Acquisitions in the Trelleborg Coated Systems business area

Dartex Holdings Ltd. The company is specialized in the manufacture of coated fabrics primarily for the healthcare & medical industry and is a world leader in coated fabrics for preventing pressure ulcers.

Laminating Coating Technologies, Inc. (Lamcotec). Lamcotec develops and manufactures polyurethane-coated and laminated fabrics used primarily in the aerospace industry and the healthcare and medical industry.

#### Acquisitions in the Trelleborg Wheel Systems business area

Industrial Tire Service Inc. The company is specialized in solid industrial tires for material handling vehicles.

TRS Tyre & Wheel Ltd. TRS is a distributor of tires for agricultural, material handling and construction vehicles in New Zealand. The company specializes in tires and complete wheels for tire and tractor dealers.

All acquisitions in 2018 refer to 100 percent of the shares in the respective companies.

In addition, certain adjustments were made to the acquisitions analyses attributable to acquisitions carried out in 2017.

### Acquisitions 2018

SEK M	Acquired 2018 Adjustments of Acquisitions 2017 <sup>1)</sup>	Acquired 2017 Adjustments of Acquisitions 2016 <sup>1)</sup>
Developed technology <sup>2)</sup>	29	–
Trademarks <sup>3)</sup>	18	–158
Customer relationships <sup>4)</sup>	75	97
Other intangible assets	–	1
Property, plant and equipment	46	10
Deferred tax assets	6	–1
Share of profit or loss in associated companies	–	–23
Interest-bearing receivables	5	1
Inventories	106	57
Operating receivables	69	30
Current tax assets	2	2
Cash and cash equivalents	42	18
Deferred tax liabilities	–28	–5
Interest-bearing liabilities	–49	–12
Pension obligations	–	–2
Other provisions	–1	–
Current tax liabilities	–	–2
Operating liabilities	–48	–38
<b>Net assets</b>	<b>272</b>	<b>–25</b>
Goodwill	166	258
<b>Total purchase consideration</b>	<b>438</b>	<b>233</b>
Cash and cash equivalents and other net debt in acquired operations	2	–7
<b>Cash flow effect</b>	<b>440</b>	<b>226</b>

<sup>1)</sup> Adjustments of previous years' acquisitions are marginal, which is why separate disclosure is not considered to be significant.

<sup>2)</sup> Surplus value of developed technology is amortized over a period of ten years.

<sup>3)</sup> The trademarks have an indefinite useful life, and are thus not amortized.

<sup>4)</sup> The surplus value of customer relationships is amortized over a period of 10–12 years.

Business combinations for the year contributed SEK 308 M to net sales.

Goodwill of SEK 166 M that arose on the basis of acquisitions for the year was attributable to acquired non-separable customer relationships and synergy effects expected after the acquisition.

The fair value of acquired, identifiable, intangible assets is provisional pending final measurement of these assets.

For more information about these acquisitions, refer to page 31.

The acquisitions that took place after the end of the period, see page 92, are expected to have a marginal impact on the Group's key figures.

## Operating assets and liabilities

### 15 Property, plant and equipment (PPE)

#### Accounting policies

Non-current assets comprise amounts expected to be recovered or paid more than 12 months from the closing date. PPE primarily encompasses plants and buildings. PPE is measured at cost less accumulated depreciation and, where applicable, impairment losses. Cost includes expenses directly attributable to the acquisition of the asset. Cost may also include transfers from equity of gains and losses from cash-flow hedges relating to purchases in foreign currency, if these meet the requirements for hedge accounting.

Subsequent expenditure for a PPE is added to the carrying amount or recognized as a separate asset, depending on which is suitable, only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured in a reliable manner. The carrying amount of the replaced portion is derecognized from the balance sheet. All other forms of repairs and maintenance are expensed as incurred.

Depreciation is applied until the estimated residual value is reached. Depreciation is based on cost and is allocated on a straight-line basis over the asset's estimated useful life. The following depreciation rates apply:

Land	Not depreciated
Buildings	1.5–6 percent
Machinery	5–33 percent
Equipment and tools	33 percent
Office equipment	10–20 percent

The residual value and useful life of the assets are assessed on each closing date, and, if necessary, are adjusted. The carrying amount of an asset is immediately impaired to

the recoverable value if the carrying amount of an asset exceeds its estimated recoverable value.

Gains and losses on disposals are determined by comparing the sales proceeds and the carrying amount, and are recognized in profit and loss as other operating income and other operating expenses, respectively.

Lease contracts for non-current assets are classified as either finance leases or operating leases. Finance leases apply when the financial risks and rewards related to ownership are, for all practical purposes, transferred to the Group. At the inception of the lease period, finance leases are recognized on the basis of the leased asset's fair value, or at the present value of the lease payments, whichever is lower. The leased asset is recognized as a non-current asset. Each lease payment is divided into amortization of the liability and financial costs to achieve a fixed interest rate for the recognized liability. The equivalent payment undertaking, less financial expenses, is included as an interest-bearing liability. The interest portion of the financial expenses is recognized in profit and loss over the lease term, so that each reporting period is charged with an amount equivalent to a fixed interest rate for the liability recognized for each period. Non-current assets held under finance lease agreements are depreciated in accordance with the same principles applicable to other assets of the same type, according to plan, or over the leasing period if it is shorter and the right of ownership is not expected to be transferred at the end of the leasing period.

Lease agreements not classified as finance leases represent operating lease agreements. Lease payments for operating leases are expensed as operating costs straight-line over the term of the lease.

The effects that the transition to IFRS 16 are estimated to have for the Group from 2019 and onward are described separately in this note.

#### Property, plant and equipment

SEK M	2018	2017
Buildings	2,740	2,620
Land and land improvements	1,054	1,027
Plant and machinery	4,908	4,357
Equipment, tools, fixtures and fittings	709	560
New construction in progress and advance payments	1,201	880
<b>Total</b>	<b>10,612</b>	<b>9,444</b>

#### PPE by operating segment

SEK M	2018	2017
Trelleborg Coated Systems	1,330	1,210
Trelleborg Industrial Solutions	1,943	1,566
Trelleborg Offshore & Construction	894	821
Trelleborg Sealing Solutions	2,268	2,040
Trelleborg Wheel Systems	3,864	3,543
Group items	313	264
<b>Total</b>	<b>10,612</b>	<b>9,444</b>

#### Depreciation of PPE by function

SEK M	2018	2017
Cost of goods sold	-889	-871
Selling expenses	-25	-22
Administrative expenses	-78	-68
Research & development costs	-27	-21
Other operating expenses	-7	-8
<b>Total</b>	<b>-1,026</b>	<b>-990</b>

#### Impairment of PPE by function

SEK M	Impairment losses		Reversed impairment losses	
	2018	2017	2018	2017
Cost of goods sold	-3	-4	-	-
Administrative expenses	-5	-	-	-
Other operating expenses	-13	-53	58	-
<b>Total</b>	<b>-21</b>	<b>-57</b>	<b>58</b>	<b>-</b>

SEK M	Buildings		Land and land improvements		Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress and advance payments		Total property, plant and equipment	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Accumulated cost	5,779	5,573	1,119	1,091	16,045	15,075	2,811	2,467	1,232	900	26,986	25,106
Accumulated depreciation according to plan	-2,883	-2,702	-49	-44	-10,987	-10,514	-2,096	-1,899	-19	-10	-16,034	-15,169
Accumulated impairment losses	-156	-251	-16	-20	-150	-204	-6	-8	-12	-10	-340	-493
<b>Carrying amount</b>	<b>2,740</b>	<b>2,620</b>	<b>1,054</b>	<b>1,027</b>	<b>4,908</b>	<b>4,357</b>	<b>709</b>	<b>560</b>	<b>1,201</b>	<b>880</b>	<b>10,612</b>	<b>9,444</b>
Balance, January 1	2,620	2,779	1,027	996	4,357	4,238	560	569	880	853	9,444	9,435
Acquisitions	28	1	5	-	11	8	2	1	0	-	46	10
Divested operations	-	-36	-	-4	0	-64	-	-1	-	-4	-	-109
Capital expenditures	36	21	3	17	546	301	111	112	1,126	892	1,822	1,343
Capital expenditures, financial leasing	-	-	-	-	-	-	1	4	-	-	1	4
Divestments and disposals	-12	-7	-12	-	-14	-10	-4	-5	-	-	-42	-22
Depreciation according to plan for the year	-175	-166	-5	-3	-682	-673	-164	-148	-	-	-1,026	-990
Impairment losses for the year	-1	-15	-	-	-9	-37	-	-1	-11	-4	-21	-57
Reversed impairment losses	53	-	-	-	4	-	1	-	-	-	58	-
Reclassifications	71	122	2	-	528	658	187	34	-822	-834	-34	-20
Translation difference for the year	120	-79	34	21	167	-64	15	-5	28	-23	364	-150
<b>Carrying amount</b>	<b>2,740</b>	<b>2,620</b>	<b>1,054</b>	<b>1,027</b>	<b>4,908</b>	<b>4,357</b>	<b>709</b>	<b>560</b>	<b>1,201</b>	<b>880</b>	<b>10,612</b>	<b>9,444</b>

## Leasing agreements

The Group has entered into financial and operating lease agreements. Non-current assets held under financial lease agreements are recorded as property, plant and equipment and future payment obligations are recognized as a financial liability.

Leasing costs for assets held through financial lease agreements amounted to SEK 2 M (2). Future lease payments for financial lease agreements fall due as follows:

SEK M	2018	2017
Year 1	2	2
Year 2–5	4	5
Later than 5 years	0	0
<b>Total</b>	<b>6</b>	<b>7</b>

Leasing costs for assets held via operating lease agreements are recognized as operating costs and amounted to SEK 506 M (405). Future payment commitments for non-cancelable lease agreements amounted to SEK 2,023 M (1,895) and fall due as follows:

SEK M	2018	2017
Year 1	463	362
Year 2–5	911	907
Later than 5 years	649	626
<b>Total</b>	<b>2,023</b>	<b>1,895</b>

## IFRS 16 Leases – effects 2019

A project was carried out within the Group to review all of the Group's leases.

The Group's lease portfolio mainly comprises operating lease agreements for offices, production premises, warehouses, company cars and production and office equipment. The most important leases pertain to rent of offices and production premises. Certain valuation policies have been assumed for these leases, mainly regarding extension and termination options. For all other leases, the Group has assumed that no leases will be extended. A discount rate has been established for each country, starting from a base rate including a margin. Depending on the length of the lease, four time intervals have been used to set the rate: 1–3 years, 3–5 years, 5–10 years and more than 10 years. Leases with a term of less than 12 months or that expire within 12 months from the transition date are classified as short-term leases and are thus not included in the recognized assets and liabilities, except in cases where the company is reasonably certain that it will utilize an existing option to extend a lease. This possibility only exists for offices and production premises. Similarly, all leases with a

new acquisition value of less than USD 5,000 and most leases for personal computers, office furniture, printers and photocopiers have been excluded.

Trelleborg has decided to recognize the transition to the new standard by following the modified retrospective approach. The exemption rule of not preparing a comparative year was applied. The lease liability was valued at the present value of the remaining lease payments using current discount rates and the asset was valued after retrospective restatement from the start of the lease but with a discount rate based on the discount rate on the transition date. For existing finance leases, previously recognized according to IAS 17, closing balances for 2018 will be used as opening balances for 2019.

The table below describes the differences between the Group's operating lease agreements recognized according to IAS 17 and recognition of leases under IFRS 16:

SEK M	
<b>Commitment for operating lease agreements at December 31, 2018</b>	<b>2,023</b>
Commitment discounted by Group's weighted average incremental borrowing rate	1,741
Leases expensed straight line	–58
Adjustments for extension and termination options	672
Adjustment for future changes in lease payments	125
Other	–69
<b>Lease liability recognized on January 1, 2019</b>	<b>2,411</b>

The transition to IFRS 16 will impact certain key figures such as total assets, capital employed and net debt. Operating profit will also be impacted when a portion of the leasing costs are classified as interest expenses. Trelleborg's initial estimate is that IFRS 16 will have an annual positive effect on operating profit of approximately SEK 50–70 M and a corresponding negative effect on financial income and expenses compared with 2018. The effect on net profit is thus expected to be marginal. The estimated effects on opening balances for 2019 are presented in the table below:

SEK M, estimated values	January 1, 2019
<b>Impact on opening balances 2019</b>	
Lease assets	2,242
<i>of which relating to office and production premises</i>	2,049
Lease liabilities	2,411
Equity	–130
Deferred tax assets	39

## 16 Intangible assets

### Accounting policies

Intangible assets primarily comprise goodwill and patents, trademarks and licenses. These are recognized at cost less accumulated amortization and, where applicable, impairment losses. Subsequent expenditure for an intangible asset is added at carrying amount or recognized as a separate asset, depending on which is suitable, only when it is probable that future economic benefits associated with the asset will accrue to the Group and the cost of the asset can be reliably measured. Other expenditure is expensed as incurred.

### Goodwill

The amount by which the transferred consideration, any non-controlling interests and the fair value of previous shareholdings on the date of transfer exceeds the fair value of the Group's share of identifiable acquired net assets is recognized as goodwill. Goodwill on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill on acquisition of joint ventures/associated companies is included in the value of the investment in the associated company and is tested, taking into account possible impairment losses, as a portion of the value of the total investment. Goodwill that is recognized separately is tested annually to identify possible impairment losses and is measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of a unit include the remaining carrying amount of the goodwill attributable to the disposed unit. In the impairment tests, goodwill is allocated to cash-generating units. The allocation is made between the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination giving rise to the goodwill item. These cash-generating units comprise the Group's investments in each primary segment.

### Research and development

Expenditure for research and development is expensed when it arises. Expenditure for development and testing of new or significantly improved materials, products, processes or systems is capitalized once the following criteria have been fulfilled:

- it is technically feasible to complete the asset such that it can be utilized or sold,
- management intends to complete the asset and utilize or sell it,
- there are prerequisites in place to utilize or sell the asset,
- it can be demonstrated that the asset will generate probable, future economic benefits,

- adequate technical, economic and other resources are available to complete the development and to utilize or sell the asset, and
- the expenditure associated with the asset during its development can be calculated in a reliable manner.

Other development expenditure is expensed as incurred. Development expenditure previously expensed is not capitalized in subsequent periods. Capitalized development expenditure is recognized as intangible assets. Capitalized development expenditure has a finite useful life and is amortized straight-line from the point at which commercial production of the product commences. Amortization is based on the anticipated useful life, normally a period of five years.

### Other intangible assets

Other intangible assets include externally acquired assets, such as capitalized IT expenditure, patents, trademarks and licenses. Assets with a finite useful life are measured at cost less accumulated amortization and impairment losses. These intangible assets are amortized straight line over their useful life, normally five to 15 years.

### Trademarks

The trademarks that are considered to have an indefinite useful life originate from acquisitions. The assessment that the useful life of these trademarks is indefinite is based on the following circumstances:

- The trademarks are regarded as being well established in their respective areas, which the Group intends to retain and develop.
- The trademarks are considered to be of material economic significance as they comprise an integrated part of the product offering to the market by signaling product quality and innovation. Such trademarks are thus deemed to influence the pricing and competitiveness of the products.

Through their connection to ongoing business activities, they are therefore considered to have an indefinite useful life and are expected to be used as long as relevant business operations are being conducted. Because it has been assessed that the cash flows attributable to the trademarks cannot be separated from other cash flows within the respective cash-generating units, a joint impairment test of both goodwill and trademarks is conducted by estimating the recoverable amount for the cash-generating units to which the goodwill and trademarks are allocated.

### Impairment testing

Assets with an indefinite useful life, for example goodwill, are not amortized but are tested annually for impairment. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the highest of fair value less selling expenses and value in use. Value in use refers to the total present value of the estimated future cash flows and the calculated residual value at the end of the useful life. In calculating value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of

risk-free interest and risk related to the specific asset, known as WACC (Weighted Average Cost of Capital). The Group bases the calculation on achieved earnings, forecasts, business plans, financial forecasts and market data. For assets dependent on other assets generating cash flow, the recoverable amount is calculated for the smallest cash-generating unit to which the asset belongs. The cash-generating units comprise the Group's operating segments. Impairment losses are reversed if there is a change in the recoverable amount, with the exception of impairment losses on goodwill.

### Critical estimates and judgments

The impairment requirement for goodwill implies that goodwill is tested annually in conjunction with the year-end financial statements, or as soon as changes indicate that a risk of impairment exists, such as when the business climate changes or a decision is made on the divestment or closure of an operation.

The recoverable amount has been determined on the basis of calculations of value in use. These calculations are based on internal forecasts of the next five years. The most important assessments relate to sales growth during the forecast period and the operating margin trend. The assessments of management are based on both historical experience and current information relating to the market trend. Following the forecast period, the cash flows were extrapolated using an assumed sustainable rate of growth of 2 percent (2), which is in line with the assessed sustainable growth rate in the respective market. Changes in working capital and in capital expenditure requirements

have also been taken into account. Projected future cash flows according to these assessments thus form the basis for the calculation. When calculating the present value of future cash flows, a weighted average cost of capital (WACC) of 7.0 percent (7.2) after tax was applied to all business areas. Since all of the segments have a similar risk profile and operate in the same markets, the risk in the cash flows is similar, which justifies use of the same return requirement. Reconciliation was also conducted against an external assessment of a reasonable cost of capital.

The calculations indicated no need for impairment in any of the business areas, given their conditions. A sensitivity analysis shows that, with a rate of growth reduced by 50 percent beyond the next five years or an increase in the cost of capital of 1 percentage point to 8 percent after tax, there would still be no need for impairment for any of the business areas, except for Trelleborg Offshore & Construction.

### Intangible assets

SEK M	2018	2017
Capitalized expenditure for development work	362	360
Capitalized expenditure for IT	205	146
Concessions, patents, licenses, trademarks and similar rights	1,873	1,791
Goodwill	19,100	18,127
Market and customer-related intangible assets	2,385	2,409
Advance payments related to intangible assets	188	137
<b>Total</b>	<b>24,113</b>	<b>22,970</b>

### Impairment of intangible assets by function

SEK M	2018	2017
Items affecting comparability	0	-379
<b>Total</b>	<b>0</b>	<b>-379</b>

### Intangible assets with an indefinite useful life by operating segment

SEK M	Goodwill		Trademarks	
	2018	2017	2018	2017
Trelleborg Coated Systems	2,752	2,476	312	300
Trelleborg Industrial Solutions	2,579	2,509	83	77
Trelleborg Offshore & Construction	1,068	1,028	-	-
Trelleborg Sealing Solutions	6,954	6,577	-	-
Trelleborg Wheel Systems	5,760	5,551	1,412	1,364
Group items	-13	-14	-	-
<b>Total</b>	<b>19,100</b>	<b>18,127</b>	<b>1,807</b>	<b>1,741</b>

Trademarks with a indefinite useful life are included in "concessions, patents, licenses and trademarks."

SEK M	Capitalized expenditure for development work		Capitalized expenditure for IT		Concessions, patents, licenses and trademarks		Goodwill		Market and customer-related intangible assets		Advance payments related to intangible assets		Total intangible assets	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Accumulated cost	519	472	682	564	2,570	2,451	19,736	18,759	2,988	2,793	199	148	26,694	25,187
Accumulated amortization according to plan	-157	-112	-476	-417	-668	-631	-	-	-603	-384	-11	-11	-1,915	-1,555
Accumulated impairment losses	-	-	-1	-1	-29	-29	-636	-632	-	-	-	-	-666	-662
<b>Carrying amount</b>	<b>362</b>	<b>360</b>	<b>205</b>	<b>146</b>	<b>1,873</b>	<b>1,791</b>	<b>19,100</b>	<b>18,127</b>	<b>2,385</b>	<b>2,409</b>	<b>188</b>	<b>137</b>	<b>24,113</b>	<b>22,970</b>
Balance, January 1	360	383	146	162	1,791	1,879	18,127	18,185	2,409	2,510	137	84	22,970	23,203
Acquisitions	29	-	-	1	18	-158	166	258	75	97	-	-	288	198
Divested operations	-	-	-	0	-	-	3	2	-	-	-	-	3	2
Capital expenditures	1	7	31	10	4	6	-	-	-	-	85	71	121	94
Divestments and disposals	-	-1	0	-12	0	-2	-	-	-	-	-2	-	-2	-15
Amortization according to plan for the year	-42	-38	-45	-42	-16	-23	-	-	-206	-191	-	-	-309	-294
Impairment losses for the year	-	-	0	-1	0	-25	-	-353	-	-	-	-	0	-379
Reclassifications	-3	-	67	28	8	11	-	-	-	-	-38	-19	34	20
Translation difference for the year	17	9	6	0	68	103	804	35	107	-7	6	1	1,008	141
<b>Carrying amount</b>	<b>362</b>	<b>360</b>	<b>205</b>	<b>146</b>	<b>1,873</b>	<b>1,791</b>	<b>19,100</b>	<b>18,127</b>	<b>2,385</b>	<b>2,409</b>	<b>188</b>	<b>137</b>	<b>24,113</b>	<b>22,970</b>
<i>Allocation of amortization for the year according to plan, by function</i>														
Cost of goods sold	-26	-23	-8	-7	-5	-7	-	-	-68	-83	-	-	-107	-120
Selling expenses	-	-	-5	-4	-1	-2	-	-	-8	-8	-	-	-14	-14
Administrative expenses	-	0	-29	-29	-8	-9	-	-	-4	-3	-	-	-41	-41
Research & development costs	0	0	-3	-1	-1	-3	-	-	-	-	-	-	-4	-4
Other operating expenses	-16	-15	0	-1	-1	-2	-	-	-126	-97	-	-	-143	-115
<b>Total amortization</b>	<b>-42</b>	<b>-38</b>	<b>-45</b>	<b>-42</b>	<b>-16</b>	<b>-23</b>	<b>-</b>	<b>-</b>	<b>-206</b>	<b>-191</b>	<b>-</b>	<b>-</b>	<b>-309</b>	<b>-294</b>



## 17 Inventories

### Accounting policies

Inventories are measured at the lower of cost and net realizable value on the closing date. Cost is calculated according to the first-in/first-out (FIFO) principle. For finished products and work in progress, cost consists of raw materials, direct personnel costs, other direct costs and related indirect production costs. Normal capacity utilization is used in the measurement of inventories. Borrowing costs are not included.

### Critical estimates and judgments

The net realizable value is calculated as the estimated selling price less applicable variable selling expenses. Deductions are made for internal gains generated through intra-Group sales.

SEK M	2018	2017
Raw materials and consumables	1,551	1,415
Work in progress	616	560
Finished products and goods for resale	3,953	3,363
Contracted work in progress	12	35
Advances to suppliers	10	10
<b>Total</b>	<b>6,142</b>	<b>5,383</b>

Impairment of obsolete inventories amounted to SEK 434 M (435).

## 18 Current operating receivables

### Accounting policies

#### Accounts receivable

Accounts receivable are financial assets that are not derivatives with fixed or determinable payments, and which are not quoted in an active market. Accounts receivable are initially measured at fair value and, subsequently, at amortized cost by applying the effective interest method, less any reserve for expected and realized credit losses.

A reserve for expected credit losses is made in accordance with the simplified approach. This means that a reserve for expected credit losses is recognized for the lifetime of the receivable, which is expected to be less than one year for all receivables below. The size of the reserve comprises the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted by the receivable's effective interest rate. The carrying amount of the asset is reduced by using a value depletion account and the loss is recognized under the item "Selling expenses". When a receivable cannot be collected, it is eliminated against the value depletion account for receivables. The reversal of amounts that were previously eliminated is credited under the item "Selling expenses" in the income statement. The following factors are to be taken into consideration when a reserve is made for an expected credit loss:

- Status quo is expected to continue and comprises a good estimate of the future result, but combined with:
  - Important changes in the country in which the counterparty conducts its business (for example, reduction in GDP)
  - Important changes in the market (for example, major changes in prices of raw materials or lower sales volumes)
  - Important changes in the counterparty's business prospects (for example, changes in profitability)

Based on the above, the need for reserves and additional reserves for realized losses is assessed on a case-by-case basis. An assessment is to be made if the total reserve is reasonable in relation to the total outstanding accounts receivable, taking into account past credit losses.

#### Comparative year 2017

For 2017, the Group followed IAS 39. For more information about accounting principles, refer to the 2017 Annual Report.

SEK M	2018	2017
Accounts receivable	5,425	5,110
Loss allowance for expected credit losses	-87	-91
Bills receivable	123	116
Operating receivables, associated companies	3	2
Other current receivables	589	542
Derivative instruments (Note 30)	1	4
Prepaid expenses and accrued income (Note 19)	603	552
<b>Total</b>	<b>6,657</b>	<b>6,235</b>

### Age analysis of accounts receivable

SEK M	2018	2017
Receivable not yet due	4,639	4,424
Receivables fallen due:		
<30 days	477	438
31-60 days	129	103
61-90 days	54	45
>90 days	126	100
<b>Total</b>	<b>5,425</b>	<b>5,110</b>
Loss allowance for expected credit losses	-87	-91
<b>Total</b>	<b>5,338</b>	<b>5,019</b>

### Loss allowance for expected credit losses

SEK M	2018	2017
Opening balance	91	85
Reclassification between balance accounts	-1	-2
New provisions recognized in profit and loss	25	29
Utilization of reserve attributable to identified credit loss	-18	-11
Reversals recognized in profit and loss	-12	-9
Acquisitions/divestments	-1	0
Translation difference	3	-1
<b>Closing balance</b>	<b>87</b>	<b>91</b>

## 19 Prepaid expenses and accrued income

SEK M	2018	2017
Interest	0	3
Pension costs	6	8
Tools	25	20
Derivative instruments (Note 30)	19	52
Accrued but not invoiced income, projects in progress	242	156
Prepaid insurance	42	35
Rents	33	27
Other	234	251
<b>Total</b>	<b>603</b>	<b>552</b>

## 20 Accrued expenses and prepaid income

SEK M	2018	2017
Interest	27	21
Wages and salaries	960	854
Payroll overheads	134	127
Pension costs	11	11
Tools	31	21
Derivative instruments (Note 30)	34	29
Invoiced but not accrued income, projects in progress	120	77
Other overheads	128	85
Other	480	626
<b>Total</b>	<b>1,925</b>	<b>1,851</b>

## 21 Contract assets and contract liabilities

### Accounting policies

A contract asset is recognized when the Trelleborg Group has delivered products/services to a customer and recognized income but has not yet invoiced the customer. A contract liability is recognized when the Trelleborg Group has received or will receive payment but has not yet delivered the products/services to the customer. Income is recognized when control of the product/service has been transferred to the customer.

### Impairment of financial assets recognized at amortized cost

With respect to expected credit losses, the Group applies impairment according to IFRS 9 as of January 1, 2018. No provision for contract assets and liabilities was recognized during the year since the amount was not deemed to be material. The Group tests the need for impairment at the end of every reporting period.

### Contract assets <sup>1)</sup>

SEK M	2018	2017
Contracted work in progress	12	35
Accrued but not invoiced income, projects in progress	242	156
<b>Total</b>	<b>254</b>	<b>191</b>

<sup>1)</sup> Contract assets are included in the item Inventories, Note 17, and Prepaid expenses and accrued income, Note 19.

The variation of contract assets depends on the volume of projects during the year.

### Contract liabilities <sup>2)</sup>

SEK M	2018	2017
Advance payment from customers	112	106
Invoiced but not accrued income, projects in progress	120	77
<b>Total</b>	<b>232</b>	<b>183</b>

<sup>2)</sup> Contract liabilities are included in the item Accrued expenses and prepaid income, Note 20 and Non-interest-bearing liabilities, Note 22.

The variation of contract liabilities depends on the volume of projects during the year.

All contract assets and liabilities are recognized as current.

Amounts recognized as income during the reporting period and included in contract liabilities at the start of the period.

SEK M	2018
Advance payment from customers	106
Invoiced but not accrued income, projects in progress	77
<b>Total</b>	<b>183</b>

Remaining liability to be recognized as income in 2019 amounts to SEK 232 M.

## 22 Non-interest-bearing liabilities

### Accounting policies

Accounts payable are initially recognized at fair value and, thereafter, at amortized cost using the effective interest method.

### Other non-current liabilities

SEK M	2018	2017
Other non-interest-bearing liabilities	18	13
Derivative instruments (Note 30)	81	98
<b>Total</b>	<b>99</b>	<b>111</b>

### Other current liabilities

SEK M	2018	2017
Advance payment from customers	112	106
Accounts payable	3,399	3,176
Bills payable	3	6
Liabilities to associated companies	1	2
Other non-interest-bearing liabilities	559	516
Derivative instruments (Note 30)	42	42
Accrued expenses and prepaid income (Note 20)	1,925	1,851
<b>Total</b>	<b>6,041</b>	<b>5,699</b>
<b>Total non-interest-bearing liabilities</b>	<b>6,140</b>	<b>5,810</b>

## 23 Other provisions

### Accounting policies

Provisions are recognized when the Group has a legal or constructive obligation resulting from past events and it is probable that payment will be required to meet the obligation, and that the amount can be calculated in a reliable manner. No provisions are made for future operating losses. Provisions are made for environmental activities related to earlier operations when it is probable that a payment liability will arise and when the amount can be estimated with reasonable precision. Provisions are divided into non-current and current provisions.

The provision for restructuring primarily covers costs relating to severance pay and other costs affecting cash flow arising in conjunction with restructuring the Group's operations. Provisions are established when a detailed, formal plan for measures to be undertaken has been established and valid expectations have been raised by those who will be affected by such measures.

### Critical estimates and judgments

The amount of provisions for restructuring is based on assumptions and estimations regarding the point in time and cost for future activities, such as the amount of severance payments or other obligations in connection with termination of employment. Calculations of this type of cost are based on the particular situation in the negotiations with the parties concerned.

The Group is involved in a number of disputes and legal proceedings within the framework of its operating activities. Management engages both external and internal legal expertise in these matters. According to assessments made, the Group is not involved in any legal disputes that could entail any major negative effect on the operations or on the financial position.

SEK M	Restructuring programs		Other provisions		Total	
	2018	2017	2018	2017	2018	2017
Opening balance	302	66	355	489	657	555
Reclassification	1	17	-22	-35	-21	-18
Reversals	-51	-19	-56	-54	-107	-73
Provisions for the year	51	271	153	139	204	410
Acquisitions for the year	-	19	1	-	1	19
Divestments for the year	-	-	-	-1	0	-1
Utilized during the year	-147	-44	-91	-186	-238	-230
Translation difference	7	-8	13	3	20	-5
<b>Closing balance</b>	<b>163</b>	<b>302</b>	<b>353</b>	<b>355</b>	<b>516</b>	<b>657</b>
Of which, non-current provisions					227	228
Of which, current provisions					289	429
Of which, provisions for environmental commitments					62	60

Closing balances for restructuring programs relate to reorganizations and the focusing of operations in the business areas.

Closing balances for other provisions relate primarily to environmental commitments and guarantee provisions.

## Capital structure and financing

### 24 Cash and cash equivalents

#### Accounting policies

Cash and cash equivalents consist of cash balances and balances with banks and other institutes maturing within three months from the date of acquisition, as well as short-term liquid investments with a maturity, from the date of acquisition, of less than three months, and which are exposed to a minimal risk of fluctuations in value. From January 1, 2018, expected credit losses according to IFRS 9 are recognized on these items classified at amortized cost. The Group applies a rating-based method, refer to the Financial credit risk exposure section in Note 31. Expected credit losses are estimated at the total of the probability for payment cancellation, losses on payment cancellation and exposure on payment cancellation. Forward-looking information is also taken into consideration.

SEK M	2018	2017
Current bank investments	742	1,296
Cash and bank balances	1,599	698
<b>Total</b>	<b>2,341</b>	<b>1,994</b>

Cash and cash equivalents are recognized including deductions for expected credit losses that amount to SEK 1 M. The carrying amount is estimated to correspond to the fair value. For more information about credit exposure in cash and cash equivalents, see Note 31.

### 25 Financial non-current assets

#### Accounting policies

Financial non-current assets are classified at amortized cost, except for derivative instruments which are measured at fair value. Financial non-current assets classified at amortized cost are initially measured at fair value with additions for transaction costs, less expected credit losses, and are subsequently measured at amortized cost by applying the effective interest method, less any loss allowance. The gross amount reduced by the loss allowance is recognized in the financial statements. Changes in expected credit losses are recognized in profit and loss.

#### Impairment of financial assets is recognized at amortized cost

From January 1, 2018, the Group applies impairment of expected credit losses according to IFRS 9. No provision for financial non-current assets was recognized during the year since the amount was not deemed to be material. The Group tests for impairment at the end of every reporting period.

SEK M	2018	2017
Plan assets	8	8
Loan receivables	2	3
Derivative instruments (Note 30)	22	7
Non-current bank investments	1	–
Other non-current receivables	34	39
<b>Total</b>	<b>67</b>	<b>57</b>

Carrying amount corresponds to fair value.

### 26 Interest-bearing receivables

SEK M	2018	2017
Loan receivables	0	693
Derivative instruments (Note 30)	69	151
Current bank investments	5	0
<b>Total</b>	<b>74</b>	<b>844</b>

The majority (SEK 689 M) of the loan receivables in the preceding year were linked to Vibracoustic's realized sales development in 2017.

For reserves for expected credit losses on current bank investments, refer to the description of cash and cash equivalents in Note 24.

### 27 Equity

#### Accounting policies

Costs arising in connection with new share issues and the repurchase of equity instruments are recognized directly in equity. The redemption of convertibles and the exercise of share warrants entail new shares being issued while the exercise of call options may entail the utilization of treasury shares. The proceeds from the sale of treasury shares are recognized directly in equity. Holdings of treasury shares reduce profit brought forward. When treasury shares are canceled, the share capital is reduced by an amount corresponding to the par value of the shares and profit brought forward is increased by the corresponding amount. For accounting principles relating to other reserves, see the relevant parts of the description in Note 30.

#### Specification of other reserves

SEK M	Hedging reserve		Translation reserve		Total	
	2018	2017	2018	2017	2018	2017
Opening balance	-62	-121	1,286	1,008	1,224	887
<i>Cash-flow hedges, recognized in other comprehensive income</i>						
Fair value of interest rate swaps	32	18	–	–	32	18
Transfers to profit and loss, interest rate swaps	13	9	–	–	13	9
Fair value of foreign-exchange forwards	-8	22	–	–	-8	22
Transfers to profit and loss, foreign-exchange forwards	-22	26	–	–	-22	26
<b>Cash-flow hedges, result for the period</b>	<b>15</b>	<b>75</b>	<b>–</b>	<b>–</b>	<b>15</b>	<b>75</b>
<i>Tax, recognized in other comprehensive income</i>						
Tax on fair value	-6	-9	–	–	-6	-9
Tax on transfers to profit and loss	2	-7	–	–	2	-7
<i>Net investments in foreign currency, recognized in other comprehensive income</i>						
Changes for the period attributable to translation of companies after tax	–	–	1,395	290	1,395	290
<i>Hedging of net investments, recognized in other comprehensive income</i>						
Fair value of foreign-exchange forwards	–	–	-489	-6	-489	-6
Exchange rate effects, liabilities in foreign currencies	–	–	-131	-9	-131	-9
<b>Hedging of net investments, result for the period</b>	<b>–</b>	<b>–</b>	<b>-620</b>	<b>-15</b>	<b>-620</b>	<b>-15</b>
Tax on hedging of net investments	–	–	122	3	122	3
<b>Closing balance</b>	<b>-51</b>	<b>-62</b>	<b>2,183</b>	<b>1,286</b>	<b>2,132</b>	<b>1,224</b>

Accumulated translation differences are recognized from January 1, 2004.

Of transfers from the hedging reserve to profit and loss during 2018, SEK 13 M (9) caused a decline in the Group's financial interest expenses and SEK 22 M (caused a decline: 26) improved other operating income and operating expenses. These effects are offset by earnings effects from the hedged items. A transfer to profit and loss of the full amount took place due to the hedged item impacting profit or loss. All amounts in the hedging reserve pertain to ongoing hedges. Effects of hedging instruments that have matured remain in the translation reserve.

The Board of Directors proposes a cash dividend of SEK 4.75 per share (4.50), a total of SEK 1,288 M (1,220).

Trelleborg AB's share capital at December 31, 2018 amounted to SEK 2,620,360,569, represented by 271,071,783 shares with a par value of SEK 9.67 each.

Class of share	No. of shares	% of total	No of votes	% of total
Series A	28,500,000	10.51	285,000,000	54.02
Series B	242,571,783	89.49	242,571,783	45.98
<b>Total</b>	<b>271,071,783</b>	<b>100.00</b>	<b>527,571,783</b>	<b>100.00</b>

Change in total number of shares	2018	2017
January 1	271,071,783	271,071,783
Change during the year	–	–
<b>December 31</b>	<b>271,071,783</b>	<b>271,071,783</b>

No treasury shares are held.

## 28 Interest-bearing liabilities

### Accounting policies

Borrowings are initially measured at fair value, net, after transaction costs and, subsequently, at amortized cost. Any difference between the amount received and the amount to be repaid is recognized in profit and loss over the loan period by applying the effective interest method. Borrowings are classified as interest-bearing non-current or current liabilities in the balance sheet. For accounting policies relating to derivative instruments, refer to Note 30.

### Interest-bearing non-current liabilities

SEK M	2018	2017
Liabilities to credit institutions	9,223	7,989
Other interest-bearing liabilities	84	62
Derivative instruments (Note 30)	60	46
<b>Total</b>	<b>9,367</b>	<b>8,097</b>

### Interest-bearing current liabilities

SEK M	2018	2017
Liabilities to credit institutions	2,625	3,687
Bank overdraft facilities	275	514
Other interest-bearing liabilities	43	57
Derivative instruments (Note 30)	85	79
<b>Total</b>	<b>3,028</b>	<b>4,337</b>
<b>Total interest-bearing liabilities</b>	<b>12,395</b>	<b>12,434</b>

Financial interest-bearing liabilities, except financial derivatives that adjust the loans, are recognized at amortized cost. Changes in interest rates and credit margins create differences between fair value and amortized cost. A calculation at fair value would increase the Group's non-current loans by SEK 42 M. The Group's current loans were not remeasured because the carrying amount is considered to be a good estimation of the fair value due to their short maturity.

The Group's outstanding interest-bearing liabilities at December 31, 2018, adjusted for any derivative financial instruments, have the following currency distribution, effective interest rates and fixed-interest terms

	Amount		Effective interest rate, %		Fixed-interest term adjusted for any derivatives. No. of days	
	2018	2017	2018	2017	2018	2017
EUR	6,687	5,669	1.4	1.8	712	1,002
GBP	446	313	2.5	2.6	737	1,153
SEK	-1,612	535	-0.9	3.7	-538	2,849
USD	5,200	5,003	3.6	2.8	763	876
Other	1,674	914	1.2	-0.3	29	47
<b>Total</b>	<b>12,395</b>	<b>12,434</b>	<b>2.6</b>	<b>2.2</b>	<b>805</b>	<b>964</b>

### The Group's interest-bearing liabilities (utilized amounts at closing date)

	2018		2017	
	SEK M	Expiry, year	SEK M	Expiry, year
<b>Non-current</b>				
Syndicated loan, EUR tranche EUR 529 M	153	2020	372	2020
Syndicated loan, USD tranche USD 563 M	2,140	2020	1,608	2020
Syndicated loan, EUR tranche EUR 31 M	-	-	21	2019
Syndicated loan, USD tranche USD 62 M	-	-	179	2019
Medium Term Note SEK 550 M	549	2021	549	2021
Medium Term Note SEK 450 M	449	2021	449	2021
Medium Term Note SEK 300 M	300	2022	300	2022
Medium Term Note SEK 200 M	200	2022	200	2022
Medium Term Note SEK 300 M	300	2023	300	2023
Medium Term Note SEK 504 M	504	2020	-	-
Medium Term Note SEK 501 M	-	-	501	2019
Medium Term Note EUR 50 M	513	2021	492	2021
Medium Term Note EUR 45 M	462	2021	443	2021
Bilateral money market loan SEK 150 M	1,541	2026	-	-
Schuldscheindarlehen EUR 41 M + EUR 14 M	-	-	542	2019
Schuldscheindarlehen EUR 24.5 M + EUR 55 M	817	2021	783	2021
Schuldscheindarlehen EUR 77 M + EUR 20 M	997	2023	955	2023
Schuldscheindarlehen EUR 29 M	298	2026	286	2026
Capitalized borrowing costs	-12	2020-2026	-30	2019-2026
Other interest-bearing liabilities	96	2020	101	2019
Derivative instruments	60	2021	46	2019
<b>Total non-current</b>	<b>9,367</b>		<b>8,097</b>	
<b>Current</b>				
Commercial paper program	1,680	2019	2,456	2018
Syndicated loan, USD tranche USD 62 M	255	2019	-	-
Schuldscheindarlehen EUR 14 M	144	2019	-	-
Medium Term Note SEK 501 M	501	2019	-	-
Medium Term Note EUR 50 M	-	-	492	2018
Bank overdraft facilities	275	2019	514	2018
Other current loans	45	2019	739	2018
Other interest-bearing liabilities	43	2019	57	2018
Derivative instruments	85	2019	79	2018
<b>Total current</b>	<b>3,028</b>		<b>4,337</b>	
<b>Total</b>	<b>12,395</b>		<b>12,434</b>	

### Committed confirmed and uncommitted confirmed loan facilities <sup>1)</sup>

SEK M	2018			2017		
	Total	Utilized	Unutilized	Total	Utilized	Unutilized
<i>Committed confirmed credit facilities</i>						
Syndicated loan EUR 529 M + USD 563 M (expires 2020)	10,486	2,293	8,193	9,845	1,980	7,865
Syndicated loan EUR 31 M + USD 62 M (expires 2019)	875	255	620	816	200	616
Syndicated loan CZK 6,750 M (expires 2023)	2,687	-	2,687	2,598	-	2,598
Bilateral credit facilities	771	-	771	739	739	-
Overdraft facilities (expire 2019)	385	75	310	373	121	252
<b>Total</b>	<b>15,204</b>	<b>2,623</b>	<b>12,581</b>	<b>14,371</b>	<b>3,040</b>	<b>11,331</b>
<i>Uncommitted confirmed loan facilities</i>						
Bank overdraft facilities	1,507	200	1,307	1,540	394	1,146

The EUR 560 M and USD 625 M syndicated loan, most of which matures in 2020, and CZK 6,750 M syndicated loan maturing in 2023 are both subject to a financial covenant that stipulates a maximum debt/equity ratio. At year-end 2018, there was ample headroom in relation to these covenants.

<sup>1)</sup> Loan facilities are defined as committed confirmed if they are confirmed in writing and subject to a firm commitment to lend by the facility provider. Loan facilities are defined as uncommitted confirmed if they are confirmed in writing but not subject to a firm commitment to lend by the facility provider.



## 29 Financial instruments – classification and valuation

### Accounting policies

A financial asset or liability is initially recognized in the balance sheet when the company becomes a party to the contractual conditions of the instrument. A financial asset is derecognized from the balance sheet when all benefits and risks associated with ownership have been transferred. A financial liability is derecognized from the balance sheet when the obligations of the contract have been met, or otherwise extinguished.

Financial instruments are initially measured at fair value and, subsequently, at fair value or accumulated amortized cost, depending on their classification. All financial derivatives are measured at fair value. The purchase and sale of financial assets is recognized on the transaction date, which is the date the Group undertakes to purchase or sell the asset. From January 1, 2018, the Group applies the policy of recognizing a loss allowance for financial assets and receivables classified at amortized cost.

Some measurements are conducted according to the effective interest method. The effective interest rate is the rate that, on discounting of all future anticipated cash flows over the expected term, results in the initially recognized value of the financial asset or the financial liability.

### Classification of financial instruments – financial assets

**Debt instruments:** classification of financial assets that are debt instruments is based on the Group's business model for the management of the asset and the characteristics of the asset's contractual cash flows.

Instruments are classified at:

- amortized cost
- fair value through other comprehensive income, or
- fair value through profit and loss

Financial assets classified at *amortized cost* are initially measured at fair value plus transaction costs. Accounts receivable are initially recognized at the invoice amount. After initial recognition, the assets are measured according to the effective interest method. Assets classified at amortized cost are held under the business model of collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are covered by a reserve for expected credit losses (loss allowance).

The Group does not have any assets classified at *fair value through other comprehensive income*.

*Fair value through profit and loss* is all other debt instruments that are not measured at amortized cost or fair value through other comprehensive income. Financial instruments in this category are initially measured at fair value. Changes in the fair value are recognized in profit and loss. The Group's debt instruments are classified at amortized cost, except for debt instruments held for trading. No debt instruments were measured at fair value during the year.

**Equity instruments:** classified at fair value through profit and loss.

**Derivatives:** classified at fair value through profit and loss except if they are classified as hedging instruments in cash-flow hedges or hedges of net investments in foreign operations when the effective portion of the hedge is then recognized in "Other comprehensive income."

### Classification of financial instruments – financial liabilities

**Debt instruments:** classified at amortized cost except for derivatives. Financial liabilities recognized at amortized cost are initially measured at fair value including transaction costs. After initial recognition, they are measured at amortized cost according to the effective interest method.

**Derivatives:** classified at fair value through profit and loss except if they are classified as hedging instruments in cash-flow hedges or hedges of net investments in foreign operations when the effective portion of the hedge is then recognized in "Other comprehensive income."

### Loss allowance for expected credit losses

The Group's financial assets and receivables, except for those classified at fair value through profit and loss, are subject to impairment for expected credit losses. Impairment for credit losses under IFRS 9 includes forward-looking factors and a loss allowance is established when there is exposure to credit risk, already in connection with initial recognition.

Expected credit losses reflect the present value of all deficits in cash flows attributable to payment cancellations. Expected credit losses reflect an unbiased and probability-weighted amount that considers range of possible outcomes based on reasonable and supportable forward-looking information.

The modified retrospective approach is applied to accounts receivable. Under this approach, a loss allowance is recognized for the expected lifetime of the receivable or asset. Refer to Note 18.

For other items covered by expected credit losses, a three-stage impairment model is applied. Initially, and on each closing date, a loss allowance is recognized for the next 12 months, or for a shorter period of time depending on the lifetime (stage 1). If there has been a material increase in credit risk since initial recognition, a loss allowance is

recognized for the asset's lifetime (stage 2). For assets that are considered to be credit-impaired, lifetime expected credit losses continue to be recognized (stage 3), but interest income is based on the net of the loss allowance. The Group has defined a receivable as credit-impaired if the receivable is more than 90 days overdue for payment or if other factors indicate that the receivable is credit-impaired. A material increase in credit risk is defined as a payment delay of more than 30 days, or a significant reduction in credit rating that no longer entails an investment grade rating.

The measurement of expected credit losses is based on different methods for different types of credit exposure, refer to the description in the relevant note. In general, any significantly credit-impaired assets and receivables are assessed individually, taking into account past, current and forward-looking information. The measurement of expected credit losses also considered any collateral or other credit enhancement in the form of guarantees. Loss allowances were established for cash and cash equivalents and accounts receivable. The Group writes off assets and receivables when there is no longer any reasonable expectation of receiving any additional payment for the asset or receivable.

The financial assets are recognized in the balance sheet at amortized cost, meaning the net of the gross amount and the loss allowance. Changes in the loss allowance are recognized in profit or loss in EBIT for accounts receivable and as financial expenses or income for other provisions.

The Group's credit exposure is presented in Note 31 and in Note 18.

### Calculation of fair value

The fair value of listed financial instruments is based on the appropriate market quotation on the closing date. For unlisted financial instruments, or if the market of a certain financial asset is not active, the value is determined by applying recognized measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the closing date. Market rates form the basis for the calculation of fair value of long-term loans. For other financial instruments with no specified market value, the fair value is deemed to correspond to the carrying amount.

### Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are measured at the exchange rate prevailing on the closing date. Exchange rate differences on operating receivables and operating liabilities are included in EBIT, while exchange rate differences on financial receivables and liabilities are classified as financial items. See also Note 1 for translation of foreign currencies.

### Offsetting of financial instruments

Financial assets and liabilities are offset and recognized at net amount in the balance sheet only when a legal right exists to offset the recognized amount and there is an intention to settle the amount net, or simultaneously realize the asset and settle the liability. This legal right may not be dependent on future events and it must be legally binding for the company and the counterparty in the normal business operations and also in the event of payment cancellation, insolvency or bankruptcy.

To limit credit risks in receivables from banks related to derivative instruments, Trelleborg has entered into netting agreements, under ISDA agreements. Financial assets and liabilities

### Other financial instruments

Accounting policies for the financial instruments not addressed here can be found under the relevant note.

### Comparative year 2017 – Classification and measurement of financial instruments in accordance with IAS 39

Financial instruments for the 2017 comparative year are recognized by applying IAS 39.

A financial asset or liability is initially recognized in the balance sheet when the company becomes a party to the contractual conditions of the instrument. A financial asset is derecognized from the balance sheet when all benefits and risks associated with ownership have been transferred. A financial liability is derecognized from the balance sheet when the obligations of the contract have been met, or otherwise extinguished.

Financial instruments are initially measured at fair value and, subsequently, at fair value or accumulated amortized cost, depending on their classification. All financial derivatives are measured at fair value. The purchase and sale of financial assets is recognized on the transaction date, which is the date the Group undertakes to purchase or sell the asset. On each closing date, the Group tests whether any financial asset or group of financial assets has been impaired.

### Classification of financial instruments

The Group classifies its financial instruments into the following categories: financial assets or liabilities at fair value through profit and loss, loan receivables and accounts receivable and financial liabilities measured at amortized cost. The classification depends on the purpose for which the instrument was acquired. The classification is determined on the initial recognition of the instrument and is reassessed on each subsequent reporting occasion.

**Financial assets at fair value through profit and loss**

This category comprises both financial assets held for trading and assets designated in this category from the date of the investment that is to be measured at fair value through profit and loss. The Group's assets in this category comprise non-current and current securities investments and financial derivatives not identified as hedges. Assets in this category are classified as current assets if held for trading or expected to be realized within 12 months from the closing date. Financial assets at fair value through profit and loss are measured at fair value, both initially and subsequent to the date of acquisition, while associated transaction costs are recognized in profit and loss. Gains and losses attributable to changes in fair value are recognized in profit and loss as a financial item in the period in which they occur.

**Financial liabilities at fair value through profit and loss**

This category comprises derivatives with a negative fair value that are not used for hedge accounting and financial liabilities held for trading. The liabilities are measured continuously at fair value and the change in value is recognized in profit and loss as a financial item. Only derivatives were recognized in this category during the year.

**Classification of financial assets**

At December 31, 2018	Assets measured at amortized cost		Assets at fair value through profit and loss		Derivatives used for hedging purposes, measured at fair value		Total
	Carrying amount	Carrying amount	Measurement level	Carrying amount	Measurement level		
SEK M							
<i>Assets in the balance sheet</i>							
Derivative instruments	–	33	2	78	2		111
Financial non-current assets	45	–	–	–	–		45
Accounts receivable	5,338	–	–	–	–		5,338
Interest-bearing receivables	6	–	–	–	–		6
Cash and cash equivalents	2,341	–	–	–	–		2,341
<b>Total</b>	<b>7,730</b>	<b>33</b>		<b>78</b>			<b>7,841</b>

**Classification of financial assets**

At December 31, 2017	Loan receivables and accounts receivable	Assets at fair value in profit and loss		Derivatives used for hedging purposes, measured at fair value		Total
		Carrying amount	Measurement level	Carrying amount	Measurement level	
SEK M						
<i>Assets in the balance sheet</i>						
Derivative instruments	–	46	2	168	2	214
Financial non-current assets	3	–	–	–	–	3
Accounts receivable	5,019	–	–	–	–	5,019
Interest-bearing receivables	4	689 <sup>1)</sup>	3	–	–	693
Cash and cash equivalents	1,994	–	–	–	–	1,994
<b>Total</b>	<b>7,020</b>	<b>735</b>		<b>168</b>		<b>7,923</b>

**Classification of financial liabilities**

At December 31, 2018	Liabilities measured at amortized cost		Liabilities at fair value through profit and loss		Derivatives used for hedging purposes, measured at fair value		Total
	Carrying amount	Carrying amount	Measurement level	Carrying amount	Measurement level		
SEK M							
<i>Liabilities in the balance sheet</i>							
Derivative instruments	–	138	2	164	2		302
Interest-bearing non-current liabilities	9,307	–	–	–	–		9,307
Interest-bearing current liabilities	2,943	–	–	–	–		2,943
Accounts payable	3,399	–	–	–	–		3,399
<b>Total</b>	<b>15,649</b>	<b>138</b>		<b>164</b>			<b>15,951</b>

**Classification of financial liabilities**

At December 31, 2017	Other financial liabilities	Liabilities at fair value in profit and loss		Derivatives used for hedging purposes, measured at fair value		Total
		Carrying amount	Measurement level	Carrying amount	Measurement level	
SEK M						
<i>Liabilities in the balance sheet</i>						
Derivative instruments	–	111	2	183	2	294
Interest-bearing non-current liabilities	8,051	–	–	–	–	8,051
Interest-bearing current liabilities	4,258	–	–	–	–	4,258
Accounts payable	3,176	–	–	–	–	3,176
<b>Total</b>	<b>15,485</b>	<b>111</b>		<b>183</b>		<b>15,779</b>

The measurement of financial assets and liabilities at fair value on the closing date is based on observable data (Level 2 in accordance with the fair-value hierarchy).

**Measurement techniques used to measure fair values in Level 2**

Derivatives in Level 2 comprise foreign-exchange forwards and interest rate swaps, and are primarily used for hedging purposes, but also for trading. Fair-value measurement for foreign-exchange forwards is based on published forward rates in an active market. Measurement of interest rate swaps is based on forward interest rates based on observable Swedish yield curves.

**Disclosures on fair value of borrowing and other financial instruments**

Financial interest-bearing liabilities, except derivatives, are recognized at amortized cost. Changes in interest rates and credit margins create differences between fair value and amortized cost. A calculation at fair value would increase the Group's non-current loans by SEK 42 M. The Group's current loans were not remeasured because the carrying amount is considered to be a good estimation of the fair value due to their short maturity.

<sup>1)</sup> The receivable, totaling SEK 689 M, linked to Vibracoustic's realized sales development in 2017 was classified as Level 3 in the fair-value hierarchy due to the content of unobservable inputs, including the counterparty's credit risk.

**Offsetting of financial derivative instruments**

To limit credit risks in receivables from banks related to derivative instruments, Trelleborg has entered into netting agreements, under ISDA agreements.

The disclosures in the table below include financial assets and liabilities that are subject to legally binding framework agreements on netting or similar agreements that cover financial instruments.

SEK M	At December 31, 2018			At December 31, 2017		
	Financial assets	Financial liabilities	Total	Financial assets	Financial liabilities	Total
Gross amount	111	–302	–191	222	–303	–81
Amount offset	–	–	0	–	–	–
<b>Recognized in balance sheet</b>	<b>111</b>	<b>–302</b>	<b>–191</b>	<b>222</b>	<b>–303</b>	<b>–81</b>
Amounts encompassed by netting agreements	–102	102	0	–193	193	0
<b>Net amount after netting agreements</b>	<b>9</b>	<b>–200</b>	<b>–191</b>	<b>29</b>	<b>–110</b>	<b>–81</b>

## Transition to IFRS 9

The table presents the reclassification of assets and liabilities on the transition to IFRS 9.

SEK M	IAS 39	IFRS 9	IAS 39	IFRS 9	Effect on equity	Changes in carrying amounts	
	Classification	Classification	Carrying amount	Carrying amount		due to their measurement categories	that originate from new impairment policies
	December 31, 2017	January 1, 2018	December 31, 2017	January 1, 2018	January 1, 2018		
<i>Financial assets</i>							
Financial non-current assets	Loan receivables and accounts receivable	Amortized cost	3	3	–		
Derivative instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	168	168	–		
Derivative instruments	Financial assets measured at fair value through profit and loss	Fair value through profit and loss	46	46	–		
Accounts receivable	Loan receivables and accounts receivable	Amortized cost	5,019	5,012	–7		–7
Interest-bearing receivables	Loan receivables and accounts receivable	Amortized cost	4	4	–		
Interest-bearing receivables	Financial assets measured at fair value through profit and loss	Fair value through profit and loss	689	689	–		
Cash and cash equivalents	Loan receivables and accounts receivable	Amortized cost	1,994	1,993	–1		–1
<b>Total</b>			<b>7,923</b>	<b>7,915</b>	<b>–8</b>		<b>–8</b>
<i>Financial liabilities</i>							
Derivative instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	183	183	–		
Derivative instruments	Financial liabilities at fair value through profit and loss	Fair value through profit and loss	111	111	–		
Interest-bearing non-current liabilities	Other financial liabilities	Amortized cost	8,051	8,051	–		
Interest-bearing current liabilities	Other financial liabilities	Amortized cost	4,258	4,258	–		
Accounts payable	Other financial liabilities	Amortized cost	3,176	3,176	–		
<b>Total</b>			<b>15,779</b>	<b>15,779</b>	<b>–</b>		<b>–</b>
Profit brought forward					–8		–8
<b>Total equity</b>					<b>–8</b>		<b>–8</b>

## 30 Financial derivative instruments and hedging instruments

### Accounting policies

Derivatives are recognized in the balance sheet from the contract date and are measured at fair value, both initially and in subsequent remeasurement. The method for recognizing the gains or losses arising in connection with remeasurement depends on whether or not the derivatives have been identified as a hedging instrument and whether this is a hedge of fair value, cash flow or net investment.

Derivatives not identified as hedging instruments are classified in the balance sheet as financial assets and liabilities measured at fair value through profit and loss. Gains and losses resulting from changes in fair value are recognized as financial items in profit and loss in the period in which they occur.

### Hedge accounting

The Group applies hedge accounting according to IFRS 9 for financial instruments intended to hedge future commercial cash flows in foreign currency, cash flows in future interest payments on the Group's borrowing and net investments in foreign operations.

When entering into the transaction, the relationship between the hedging instrument and the hedged item or transaction is documented, as is the objective of risk management and the strategy according to which various hedging measures are implemented. Both at the inception of the hedging transaction and on an ongoing basis, the Group also documents its assessment as to whether or not the derivatives used for the hedging transaction are efficient in terms of offsetting changes in the fair value of the hedged items or in terms of the cash flows pertaining to them.

Hedges are designed so that they can be expected to be effective, meaning that an economic relationship is expected to exist by the hedging instrument offsetting changes in fair value or the cash flow of the hedged item. This economic relationship is established mainly through qualitative analysis of critical terms in the hedging relationship. If changes in circumstances affect the hedging relationship such that the critical terms no longer match, the Group uses quantitative methods (the dollar offset method) to evaluate effectiveness. Sources of hedge ineffectiveness are stated below under each type of hedge. The Group determines the hedge ratio between the hedging instrument and the hedge item, based on the hedge ratios existing for the actual hedges. The hedge quote is 1:1 for all of the Group's hedging relationships where hedge accounting is applied.

Changes in the fair value of hedging instruments not meeting the requirements for hedge accounting are recognized directly in profit and loss.

### Hedging of future commercial cash flows in foreign currencies

To hedge future forecast and contracted commercial cash flows, both within the Group and externally, the Group has secured foreign-exchange forward contracts. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. The gain or loss attributable to any ineffective portion is recognized directly in EBIT in profit and loss. Accumulated amounts in equity are transferred back to profit and loss in the periods in which the hedged item affects profit, such as when the forecast external sale takes place.

When a hedging instrument expires or is sold, or when the hedge no longer meets the requirements for hedge accounting, accumulated gains or losses remain in equity and are recognized as income/loss at the same time as the forecast transaction is finally recognized in profit and loss. If a forecast transaction is no longer expected to take place, the accumulated gain or loss recognized in equity is immediately transferred to profit and loss.

Source of hedge ineffectiveness include the impact of the parties' credit rating in the measurement of the hedging instrument and not perfectly matching cash flows between the hedging instrument and hedged commercial cash flows. The Group believes that the sources of hedge ineffectiveness are not material given Trelleborg's credit rating and that of its counterparties, and since procedures are in place for reporting and monitoring forecast flows compared with outcomes. The Group normally hedges only a portion of forecast cash flows.

### Hedging of cash flows in future interest payments on Group borrowing

The Group secures interest-rate derivatives to ensure the required interest rate on the Group's net debt. Amounts to be paid or received in relation to interest rate derivatives are recognized on an ongoing basis as interest income or interest expense. Changes in the fair value of hedging instruments are recognized in equity until the maturity date. Any ineffective portion is recognized directly in profit and loss. If the loan, and consequently, future interest payments, ceases to exist, the accumulated gain or loss recognized in equity is transferred immediately to profit and loss.

Sources of hedge ineffectiveness include the impact of the parties' credit rating in the measurement of the hedging instrument and not perfectly matching cash flows between the hedging instrument and hedged cash flows due to different points in time

for determining the reference rate or time of the interest payment. The Group believes that the sources of hedge ineffectiveness are not material given Trelleborg's credit rating and that of its counterparties, and since reference rates and payments are determined at a close point in time.

#### Hedging of net investments in foreign operations

The Group makes use of loans in foreign currency and forward contracts as hedging instruments for hedging net investments in foreign subsidiaries. These loans are valued at the exchange rate of the closing date and the forward contracts are measured at fair value. If effective hedging relationships exist, the changes in exchange rates on the loans and the change in the value of the forward contracts, excluding the forward premium, are recognized in other comprehensive income and accumulated in equity, translation reserve. Any inefficiency in the hedging instrument is recognized directly in profit and loss as a financial item. Accumulated gains and losses in equity are recognized in profit and loss when the foreign operations are disposed of.

Sources of hedge ineffectiveness include the risk that the hedged volume in the hedging instrument could exceed the net investment. The Group continuously reconciles the currency exposure in the net investments and hedge accounting is applied to a specific percentage of the total exposure, which is why the risk of ineffectiveness is deemed to be low.

Realized exchange rate differences on borrowings and forward contracts are recognized in the cash-flow statement in the section "Financing activities."

#### Loans defined as net investments

The Group has borrowings in foreign currency with certain subsidiaries where the loans represent a permanent part of the Parent Company's financing of the subsidiary. Loans are recognized at the closing rate, with exchange rate differences on these loans recognized in other comprehensive income and cumulated in equity, translation reserve.

#### Comparative year 2017 – hedge accounting according to IAS 39

The Group applied hedge accounting according to IAS 39 for the comparative year 2017. From January 1, 2018, the Group applies hedge accounting according to IFRS 9. All hedging relationships that existed at the transition to IFRS 9 qualified for continued hedge accounting, and the Group did not recognize any transition effects in equity.

#### Hedge accounting

The Group applies hedge accounting for financial instruments intended to hedge the following financial risks: future commercial cash flows – internal and external – in foreign currency, cash flows in future interest payments on the Group's borrowing and net investments in foreign operations.

When entering into the transaction, the relationship between the hedging instrument and the hedged item or transaction is documented, as is the objective of risk management and the strategy according to which various hedging measures are implemented. Both at the inception of the hedging transaction and on an ongoing basis, the Group also documents its assessment as to whether or not the derivatives used for the hedging transaction are efficient in terms of offsetting changes in the fair value of the hedged items or in terms of the cash flows pertaining to them.

Hedges are designed so that they can be expected to be effective. Changes in the fair value of such derivatives not meeting the requirements for hedge accounting are recognized directly in profit and loss.

#### Hedging of future commercial cash flows in foreign currencies

To hedge future forecast and contracted commercial cash flows, both within the Group and externally, the Group secures foreign-exchange forward contracts and currency option contracts. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. The gain or loss attributable to any ineffective portion is recognized directly in EBIT in profit and loss. Accumulated amounts in equity are transferred back to profit and loss in the periods in which the hedged item affects profit, such as when the forecast external sale takes place.

When a hedging instrument expires or is sold, or when the hedge no longer meets the requirements for hedge accounting, accumulated gains or losses remain in equity and are recognized as income/loss at the same time as the forecast transaction is finally recognized in profit and loss. If a forecast transaction is no longer expected to take place, the accumulated gain or loss recognized in equity is immediately transferred to profit and loss.

#### Hedging of cash flows in future interest payments on Group borrowing

The Group secures interest-rate derivatives to ensure the required interest rate on the Group's net debt. Amounts to be paid or received in relation to interest rate derivatives are recognized on an ongoing basis as interest income or interest expense. Changes in the fair value of hedging instruments are recognized in equity until the maturity date. Any ineffective portion is recognized directly in profit and loss. If the loan, and consequently, future interest payments, ceases to exist, the accumulated gain or loss recognized in equity is transferred immediately to profit and loss.

#### Hedging of net investments in foreign subsidiaries

The Group has borrowings or foreign-exchange forward contracts in foreign currencies to hedge investments in foreign subsidiaries. These borrowings and contracts are measured at the closing rate. In the consolidated balance sheet, the borrowings are measured at the closing rate and exchange rate differences are recognized directly against equity, after adjustment for the tax portion.

The Group has borrowings in foreign currency with certain subsidiaries where the loans represent a permanent part of the Parent Company's financing of the subsidiary. These loans are hedged for foreign-exchange risks in the same way as investments in foreign subsidiaries are hedged. Loans and hedges are recognized at the closing rate, with exchange rate differences on these loans and hedging instruments recognized directly in equity. Any ineffective portion of the exchange rate difference is recognized directly in profit and loss as a financial item. Accumulated gains and losses in equity are recognized in profit and loss when the foreign operations are disposed of.

Realized exchange rate differences on borrowings and forward contracts are recognized in the cash-flow statement in the section "Financing activities."

Derivative instruments are used mainly to hedge the Group's exposure to fluctuations in exchange rates and interest rates. The Group also uses derivative instruments for proprietary trading within the framework of mandates set by the Board. In cases where available forms of borrowing do not meet the desired structure of the loan portfolio with regard to interest rate and foreign-exchange considerations, various derivative instruments are used.

Currency and basis swaps are used to secure the desired financing adapted to the subsidiaries' currencies. Interest rate swaps and basis swaps are used to obtain the desired fixed-interest terms.

Foreign-exchange forwards are used to hedge currency exposure in both fixed commercial undertakings and calculated future commercial flows. However, the Group has decided to no longer hedge additional estimated future commercial flows from autumn 2018. Nevertheless, major currency exposures related to long-term contracts of a project nature will be hedged in their entirety.

Investments in foreign subsidiaries and joint ventures/associated companies may be hedged. Hedging is effected mainly through corresponding borrowing in the same currency, but may also be secured through forward contracts.

The table below shows where the Group's financial derivative instruments are recognized in the balance sheet.

Specification of derivatives in the balance sheet, SEK M	2018	2017
Financial non-current assets	22	7
Prepaid expenses and accrued income	19	52
Current operating receivables	1	4
Interest-bearing receivables	69	151
<b>Total receivables, financial derivatives</b>	<b>111</b>	<b>214</b>
Other non-current liabilities	81	98
Interest-bearing non-current liabilities	60	46
Accrued expenses and prepaid income	34	29
Other current operating liabilities	42	42
Interest-bearing current liabilities	85	79
<b>Total liabilities, financial derivatives</b>	<b>302</b>	<b>294</b>

For credit exposure in derivatives, see Note 31.



SEK M Type and purpose of Group's financial derivative instruments	2018		2017	
	Assets Fair value	Liabilities Fair value	Assets Fair value	Liabilities Fair value
Interest rate swaps				
– cash-flow hedging	22	120	5	137
Foreign-exchange forwards				
– cash-flow hedging	19	33	57	29
Foreign-exchange forwards				
– net investment hedging	36	10	106	17
Basis swap contracts				
– financing of subsidiaries	1	96	1	48
Foreign-exchange forwards				
– financing of subsidiaries	33	43	45	63
<b>Total</b>	<b>111</b>	<b>302</b>	<b>214</b>	<b>294</b>

The nominal amount of interest rate swaps outstanding totaled SEK 5,751 M (7,596).

### Derivatives with hedge accounting

#### Cash-flow hedging – Interest rate swaps

In the closing balance of the hedging reserve in equity, a negative SEK 59 M (neg: 104) before tax relates to the fair value of interest rate swaps.

At unchanged interest and exchange rates, this value will impact earnings by SEK 0 M in 2019, by SEK –8 M in 2020, by SEK –9 M in 2021, by SEK –21 M in 2022, by SEK –11 M in 2023, by SEK –3 M in 2024, by SEK 2 M in 2025, by SEK –9 M in 2026. These effects are offset by earnings effects from the hedged items.

#### Cash-flow hedges – foreign-exchange forwards

The fair-value closing balance of cash-flow hedges relating to foreign-exchange forwards attributable to transaction exposure and recognized in the hedging reserve amounted to a negative net of SEK 7 M (pos: 22).

At unchanged exchange rates, a transfer of SEK –7 M will be made in profit and loss in 2019 and SEK 0 in 2020, which will be offset by the earnings effects from the hedged transactions.

#### Sensitivity analysis – Financial instruments

Sensitivity analyses relating to interest-rate risks and translation risks are presented in Note 31.

If cash-flow hedges related to transaction exposure were valued using exchange rates applicable on December 31, 2017, the fair value would amount to SEK 13 M (51), of which SEK 13 M (38) would be included in the hedging reserve.

Taking into account implemented hedging measures, the Group has no currency risk in other financial receivables and liabilities in foreign currencies.

### Maturity analysis of hedging instruments

Hedging instrument identified in hedging relationships at December 31, 2018

SEK M	Maturity				Total nominal amount
	Within 3 months	3 months – 1 year	1–3 years	3–8 years	
<b>Hedging instruments – hedge accounting applied</b>					
<i>Interest rate swaps</i>					
<i>– cash-flow hedging</i>					
Nominal amount <sup>1)</sup>	–264	–	–2,015	–3,472	–5,751
(average fixed interest)	(2.11)	–	(2.39)	(1.85)	–
<i>Foreign-exchange forwards</i>					
<i>– net investment hedging</i>					
EUR/SEK Nominal amount <sup>1)</sup>	–7,172	–	–	–	–7,172
(average spot rate)	(10.32)	–	–	–	–
CZK/SEK Nominal amount <sup>1)</sup>	–2,588	–	–	–	–2,588
(average spot rate)	(0.40)	–	–	–	–
Other Nominal amount <sup>1)</sup>	–1,495	–	–	–	–1,495
<i>Liabilities – net investment hedging</i>					
EUR liability, nominal amount <sup>1)</sup>	–	–	–	–1,541	–1,541
(spot rate on closing date)	–	–	–	(10.23)	–
USD liability, nominal amount <sup>1)</sup>	–1,660	–	–	–	–1,660
(spot rate on closing date)	(9.07)	–	–	–	–
GBP liability, nominal amount <sup>1)</sup>	–170	–	–	–	–170
(spot rate on closing date)	(11.58)	–	–	–	–

<sup>1)</sup> Translated to SEK M at exchange rate on closing date.

### Hedge effectiveness

SEK M	Hedging instrument identified in hedging relationships at December 31, 2018			Period – change in fair value for measuring ineffectiveness	
	Nominal amount	Carrying amount	Item in balance sheet	Hedging instruments	Hedged item
<i>Interest rate swaps – cash-flow hedging</i>					
Interest rate swaps Nominal amount <sup>1)</sup>	–5,751	–59	Financial non-current assets, Other non-current liabilities and Other current operating liabilities	32	–32
<i>Foreign-exchange forwards – net investment hedging</i>					
EUR/SEK Nominal amount <sup>1)</sup>	–7,172	29	Interest-bearing receivables and Interest-bearing liabilities	–324	324
CZK/SEK Nominal amount <sup>1)</sup>	–2,588	–11	Interest-bearing receivables and Interest-bearing liabilities	–16	16
Other Nominal amount <sup>1)</sup>	–1,495	12	Interest-bearing receivables and Interest-bearing liabilities	–149	149
<i>Liabilities – net investment hedging</i>					
EUR liability, nominal amount <sup>1)</sup>	–1,541	–1,541	Interest-bearing non-current liabilities	–53	53
USD liability, nominal amount <sup>1)</sup>	–1,660	–1,660	Interest-bearing non-current liabilities	–72	72
GBP liability, nominal amount <sup>1)</sup>	–170	–170	Interest-bearing non-current liabilities	–6	6

<sup>1)</sup> Translated to SEK M at exchange rate on closing date.

The hedge quote is 1:1 for all of the Group's hedges. The Group did not recognize any ineffectiveness in profit or loss during the year.

The fair-value closing balance of cash-flow hedges relating to foreign-exchange forwards attributable to transaction exposure and recognized in the hedging reserve amounted to a negative net of SEK 7 M before tax. The Group has decided that from autumn 2018 it will no longer hedge estimated future commercial flows, which means that exchange rate fluctuations will immediately impact the Group's earnings instead of affecting the Group's earnings with a delay corresponding to the currency hedges as was previously the case. Major currency exposures related to long-term contracts of a project nature will continue to be hedged in their entirety.

## Financial risks

### 31 Financial risk management

#### Financial risks

Financial risks mainly include financing risks, liquidity risks, interest rate risks, foreign exchange risks and financial credit risks. A description of the Group's financial risks and the policy, which is adopted by the Board, applied to each risk area is presented below. Commentary is also provided on the outcome for the year for each risk area.

#### Financing risks and liquidity risks

Financing risk is the risk that the refinancing of maturing loans may become difficult or costly. Liquidity risks refer to the risk of not being able to fulfill payment obligations as they fall due.

#### Policy

Committed confirmed credit facilities with a term of at least 12 months must be in an amount equivalent to the Group's gross debt plus a liquidity reserve corresponding to at least 3 percent of consolidated net sales. Trelleborg's debt/equity ratio target interval is between 50 and 100 percent.

#### Commentary

Trelleborg commands a broad funding base with good access to the money and debt capital markets. The Group has mainly accessed the bank loan market via a syndicated multicurrency revolving credit facility comprising two tranches in EUR 560 M (SEK 5,754 m) and USD 625 M (SEK 5,607 m) and including a swingline facility denominated in SEK. On account of Trelleborg's significant presence in the Czech Republic, there is also a syndicated facility in CZK. Trelleborg is present in the money markets through its SEK 4,000 M Swedish Domestic Paper Program under which a pleasing level of issuance was maintained throughout 2018. Over the years, Trelleborg has successfully tapped the debt capital markets through issuance under its SEK 5,000 M Swedish Domestic Medium Term Note Program and a number of Schuldschein issues, thus building a broad investor base in Europe and Asia.

The Group monitors its liquidity reserve, debt maturity term structure and key capital structure ratios on an ongoing basis.

Throughout 2018, the volume of the Group's committed confirmed credit facilities exceeded the aggregate of gross debt plus liquidity reserve as stipulated in the policy. Credit facilities are defined as committed confirmed when they are not only confirmed in writing but also the subject of a firm commitment to lend by the facility provider. Trelleborg's committed confirmed credit facilities totaled SEK 15,204 M (14,371) per December 31, 2018 of which SEK 12,581 M (11,331) was unutilized. At year-end 2018, the Group's committed confirmed credit facilities included its primary EUR 560 M and USD 625 M syndicated multicurrency revolving credit facility. 95 percent of the loan's EUR tranche and 90 percent of the loan's USD tranche are scheduled to mature in December 2020, while the remainder of the loan will mature in December 2019. The facility is provided by a total of 16 financial institutions from Europe, Asia and the U.S. Based on the number of participating banks and their status, Trelleborg deems that the banking syndicate behind the facility is strong. The facility denominated in CZK amounts to CZK 6,750 M and will mature in May 2023. The facility can thereafter be extended by one more year subject to agreement with the lenders.

The remainder of the Group's committed confirmed credit facilities per end 2018 consisted principally of Medium Term Notes and Schuldscheindarlehen with tenors to maturity of up to eight years.

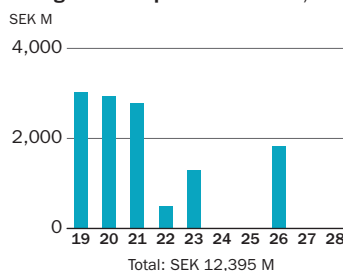
Trelleborg raised a new long-term loan of EUR 150 M with a tenor of eight years on March 12, 2018.

On October 2, 2018, Trelleborg issued a Medium Term Note with a two-year tenor for a nominal SEK 500 M.

An additional MTN was agreed at the end of 2018 with an issue date of January 2, 2019. This MTN has a tenor of ten years and a nominal value of EUR 50 M.

Per December 2018, the Group's interest-bearing liabilities totaled SEK 12,395 M (12,434) and comprised current liabilities (maturing in 2019) of SEK 3,028 M (4,337) and non-current liabilities (maturing after 2019) of SEK 9,367 M (8,097). Current liabilities consisted mainly of outstanding Commercial Paper of SEK 1,680 M (2,456), a loan facility EUR and USD tranche of SEK 255 M (–) and a Medium Term Note of SEK 501 M (492). The aggregate of these current liabilities was backstopped through the undrawn portion of the Group's EUR 560 M and USD 625 M syndicated multicurrency revolving credit facility. Non-current liabilities mainly comprised the utilized portion of the Group's EUR 560 M and USD 625 M syndicated multicurrency revolving credit facility, Medium Term Notes and Schuldscheindarlehen. The maturity term of the Group's interest-bearing liabilities per December 31, 2018 is shown in the diagram below:

#### Maturity term structure of the Group's interest-bearing liabilities per December 31, 2018



The Group's net debt/equity ratio amounted to 33 percent (35) at year-end.

#### Interest rate risk

##### Risk

Since most of Trelleborg's net debt bears variable interest, the Group focuses on interest-related cash-flow risk, meaning the risk that movements in market interest rates could have an impact on the financial cash flow and earnings. The scope of the impact depends on the fixed interest term of the borrowing and investment.

##### Policy

The average fixed-interest term on the Group's gross borrowing, including the impact of derivative instruments, may not exceed four years. The average fixed-interest term on interest-bearing investments, including the effects of derivative instruments, may not exceed two years on a maximum amount of SEK 2,000 M, or the equivalent amount in other currencies.

##### Commentary

The Group seeks a balance between a reasonable current cost of borrowing and the risk of having a significantly negative impact on earnings in the event of a sudden major movement in interest rates. Trelleborg employs interest rate hedging where appropriate.

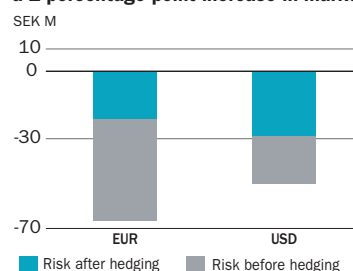
The Group's average interest-bearing net debt amounted to SEK 10,341 M (11,149) during the year. Net financial items corresponded to 2.7 percent (2.1) of the average interest-bearing net debt. Net interest income excluding borrowing costs corresponded to 2.3 percent (1.8).

At year-end, gross loans, including derivative instruments, had an average fixed-interest term of 27 months (32) and interest-bearing investments 1 month (1).

At December 31, 2018, interest-bearing net debt amounted to SEK 9,978 M (9,593), with an average remaining fixed-interest term of about 33 months (41). Based on the level of interest-bearing net debt on December 31, 2018, a 1 percentage point rise in market interest rates in all currencies in which the Group has loans or investments would have a negative impact on financial net of approximately SEK 47 M (neg: 24) for 2018. The currencies with the greatest impact are EUR and USD. Taking into account the interest-rate hedges in place at year-end 2018, and for which hedge accounting has been applied, an increase of 1 percentage point in the market interest rates in currencies that have been hedged would have a positive impact on comprehensive income of SEK 151 M (165) after tax effects.

For further analysis of the accounting of the Group's borrowing, see Note 28. Outstanding interest-bearing investments are recognized in Notes 24, 25 and 26.

#### Impact in 2019 on consolidated interest expenditure of a 1 percentage point increase in market interest rates



**Foreign exchange risks**

Foreign exchange risks relate to the risk of adverse impacts on the consolidated income statement, balance sheet and/or cash flow as a result of exchange rate fluctuations. Foreign exchange risks exist in the form of transaction and translation risks.

**Transaction risks****Risk**

Currency flows arising primarily in connection with the acquisition or sale of goods and services in currencies other than the local currency of the relevant Group company give rise to transaction exposure. Trelleborg's global operations generate substantial cash flows in foreign currencies.

**Policy**

The policy on management of the Group's transaction exposure was changed in 2018. Previously, most of this exposure was subject to forward cover but since the Group's net exposure and related currency risk are considered to have a limited effect on the Group's earnings over time, a change was made to this policy. Under the new policy, transaction exposure linked to the ongoing transaction is not normally hedged. Nevertheless, major currency exposures related to long-term contracts of a project nature will be hedged in their entirety. Group Treasury work actively on matching currency flows at Group level to minimize currency exposure and related transaction costs.

**Commentary**

The Group's net currency flows are estimated at an annual value corresponding to approximately SEK 7,409 M (5,513). The currency pairs with the highest net flows that are expected to exceed the equivalent of SEK 200 M over a period of 12 months, and the amounts hedged per currency pair at December 31, 2018 are shown in the table below.

For the stated period, the currencies with the highest forecast net flows are EUR (SEK 3,439 M equivalent), CZK (negative SEK 1,906 M equivalent) and USD (SEK 961 M equivalent).

**Forecast annual exposure per currency pair with the highest 12-month net flow and currency hedges as of December 31, 2018, (SEK M)**

Currency pair	Net flow	Currency hedging	Net flow after currency hedging
EUR/CZK	1,878	-766	1,112
EUR/LKR	646	0	646
EUR/DKK	608	-293	314
EUR/GBP	348	-138	210
EUR/ZAR	-337	0	-337
EUR/USD	-316	130	-185
USD/SEK	309	-146	164
USD/CZK	-299	90	-208
USD/CNY	297	-15	281
EUR/CNY	279	0	279

A 10-percentage-point strengthening of the value of all foreign currency flows that Trelleborg forecasts to occur during 2019 against USD would lead to a change in USD-denominated net flows of a negative USD 9 M (neg: 5). A 10-percentage-point strengthening of the value of all foreign currency flows that Trelleborg forecasts to occur during 2019 against EUR would lead to a change in EUR-denominated net flows of a negative EUR 22 M (neg: 6).

**Translation risks – Income statement****Risk**

Exchange rate fluctuations impact the Group's earnings in connection with the translation of foreign subsidiaries' income statements to SEK.

**Policy**

The Group does not normally hedge this risk.

**Commentary**

Trelleborg's earnings are largely generated outside Sweden. Accordingly, the impact of exchange rate fluctuations on the Group's sales and earnings can be significant. The translation of foreign subsidiaries' income statements for 2017 to the average exchange rates for 2018 would have impacted EBIT by SEK 167 M and net profit by SEK 59 M.

**Translation of income statement for 2017 to exchange rates applicable in 2018, SEK M**

Currency	Net sales	EBIT	Net profit
EUR	697	52	77
GBP	103	4	2
USD	116	-16	-32
CZK	264	108	5
LKR	0	-10	5
Other	11	29	2
<b>Total</b>	<b>1,191</b>	<b>167</b>	<b>59</b>

**Translation risks – Balance sheet****Risk**

When translating the Group's investments in foreign subsidiaries to SEK, there is a risk that the consolidated balance sheet will be impacted by changes in exchange rates.

**Policy**

Investments in foreign subsidiaries and joint venture/associated companies may be hedged by between 0 and 100 percent of the investment value (which, because of the tax effect, implies a maximum hedge of approximately 79 percent of the investment value). Decisions on any hedging are made following a comprehensive assessment of exchange rate levels, the effects of costs, liquidity and tax, and impact on the Group's debt/equity ratio.

**Commentary**

When translating the balance sheets of the Group's foreign subsidiaries to SEK, there is a risk that the consolidated balance sheet will be impacted by changes in exchange rates. The Group has significant net investments in foreign subsidiaries and associated companies. If SEK appreciates by 1 percentage point in relation to all currencies in which the Trelleborg Group has foreign net investments, there would be a negative change in shareholders' equity of SEK 302 M (neg: 286).

Currency distributions, degree of hedging and sensitivity analysis are presented on the next page.

**Currency distributions, degree of hedging and sensitivity analysis per December 31, 2018**

Currency	Net investment, SEK M	Currency hedging, %	Effect on equity, if SEK 1% stronger, SEK M
EUR	15,000	58	-81
GBP	2,228	28	-17
USD	4,532	37	-32
CZK	10,348	25	-83
Other	9,765	11	-89
<b>Total 2018</b>	<b>41,873</b>	<b>35</b>	<b>-302</b>
Total 2017	38,571	33	-286

The Group's positions regarding hedging of investments in foreign subsidiaries are regularly monitored and adjusted. Correlations between currencies are taken into consideration when appropriate.

**Financial credit risks****Risk**

Financial credit risk is the risk of losses if those counterparties with which the Group has invested in accounts receivable, cash and cash equivalents, short-term bank deposits or entered into financial instruments with positive market values, do not fulfill their obligations. Credit risk relating to accounts receivable is disclosed in Note 18.

**Policy**

Counterparties must possess a high creditworthiness and preferably participate in the Group's medium and long-term financing. The Group's Treasury Policy contains a specific counterparty regulation that stipulates the maximum level of credit risk exposure to various counterparties.

**Commentary**

A follow-up in relation to credit limits according to the Treasury Policy is conducted on an ongoing basis. Counterparties have been subdivided into three categories: A, B and C. The rating categories A, B and C are also used as the starting point for the reserve for expected credit losses according to

the rating method, by basing the probability of payment cancellation per rating category on the external rating institute's past studies of payment cancellation. Management's best estimate of losses on payment cancellation is also added, based on a 45 percent loss given default under the Basel rules for uncollateralized receivables.

Category A contains counterparties and their fully guaranteed subsidiaries that hold Issuer Ratings from two of the following three rating institutes with a minimum of the following ratings or better: Moody's (Aa3/stab/P-1), Standard & Poor's (AA-/stab/A-1), Fitch (AA-/stab/F1). Loans from the Trelleborg Group to institutions in category A may not exceed SEK 1,000 M or equivalent, including the value of unrealized gains in derivative instruments.

Category B comprises counterparties and their fully guaranteed subsidiaries that cannot be included in category A and that hold an Issuer Rating from two of the following three rating institutes with a minimum of the following rating or better: Moody's (A3/stab/P-1), Standard & Poor's (A-/stab/A-1), Fitch (A-/stab/F1). Counterparties in category B may borrow a maximum of SEK 500 M or equivalent, including the value of unrealized gains in derivative instruments, from the Trelleborg Group.

Category C encompasses counterparties outside categories A and B that Group companies require to fulfill their operational needs. Exposure to counterparties in category C may not exceed SEK 50 M per counterparty.

The table below presents the Group's credit risk exposure for interest-bearing receivables, cash and cash equivalents and derivative instruments at December 31, 2018 subdivided by category:

### Financial credit risk exposure

Category	Interest-bearing receivables		Cash and cash equivalents		Derivative instruments – unrealized gains, gross		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
SEK M								
A	–	–	902	427	44	49	938	476
B	6	0	1,178	1,219	67	141	1,251	1,360
C	–	–	261	348	–	32	261	380
<b>Total</b>	<b>6</b>	<b>0</b>	<b>2,341</b>	<b>1,994</b>	<b>111</b>	<b>222</b>	<b>2,452</b>	<b>2,216</b>

At year-end 2018, cash and cash equivalents in category B were allocated among 30 counterparties. Credit exposures in category B amounted to less than SEK 500 M per counterparty. The total credit exposure in category C at year-end 2018 was divided among more than 38 counterparties. Credit exposures in category C amounted to less than SEK 50 M per counterparty, with the exception of SEK 12 M in one of the Group's principal banks.

Credit risk exposure associated with derivative instruments is determined as the fair value on the closing date. On December 31, 2018, the total counterparty risk associated with derivative instruments amounted to SEK 111 M (222), gross. If ISDA contracts are taken into account and the net receivable in derivative instruments is calculated net per counterparty, the counterparty risk amounted to SEK 9 M (29).

Trelleborg applies a rating-based method according to categories A, B and C, combined with other known information and forward-looking factors for assessing expected credit losses for cash and cash equivalents and interest-bearing investments. The current reserve amounts to SEK 1 M. All cash and cash equivalents and bank balances are attributable to stage 1, meaning that no material credit impairment has taken place. The Group also makes reserves for expected credit losses on accounts receivable, refer to Note 18.

In addition to the amounts presented in the table above, the Group also has interest-bearing receivables of SEK 2 M (696) due from third parties.

With the exception of what was described above, no credit limits were exceeded in 2018 or 2017 and management does not anticipate any losses due to non-payment by these counterparties.

### Maturity analysis for financial instruments

The table below shows the Group's financial liabilities and the net settlement of derivative instruments comprising financial liabilities, subdivided into the periods remaining on the closing date until the agreed date of maturity.

The amounts stated in the table comprise contractual, undiscounted cash flows.

#### At December 31, 2018

SEK M	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Borrowing, incl. interest	–3,079	–8,025	–1,616	–12,721
Interest rate swaps with negative fair value	–48	–88	0	–136
Accounts payable	–3,399	–	–	–3,399
<b>Total</b>	<b>–6,526</b>	<b>–8,114</b>	<b>–1,616</b>	<b>–16,256</b>
Accounts receivable	5,338	–	–	5,338
Interest rate swaps with positive fair value	–	–	–	–
<b>Net flow</b>	<b>–1,188</b>	<b>–8,114</b>	<b>–1,616</b>	<b>–10,918</b>

A more detailed maturity structure is presented in Note 28.

#### At December 31, 2017

SEK M	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Borrowing, incl. interest	–4,408	–8,146	–299	–12,853
Interest rate swaps with negative fair value	–72	–75	6	–141
Accounts payable	–3,176	–	–	–3,176
<b>Total</b>	<b>–7,656</b>	<b>–8,221</b>	<b>–293</b>	<b>–16,170</b>
Accounts receivable	5,019	–	–	5,019
Interest rate swaps with positive fair value	–	–	–	–
<b>Net flow</b>	<b>–2,637</b>	<b>–8,221</b>	<b>–293</b>	<b>–11,151</b>

The table below shows the Group's financial derivative instruments that will be settled gross, subdivided into the periods remaining on the closing date until the agreed date of maturity. The amounts stated in the table comprise contractual, undiscounted cash flows.

#### At December 31, 2018

SEK M	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Foreign-exchange contracts				
– outflow	–26,103	–24	–	–26,127
– inflow	26,095	23	–	26,118
Basis swap contracts				
– outflow	–515	–589	–	–1,104
– inflow	504	553	–	1,057
<b>Total</b>	<b>–19</b>	<b>–37</b>	<b>–</b>	<b>–56</b>

#### At December 31, 2017

SEK M	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Foreign-exchange contracts				
– outflow	–28,934	–70	–	–29,004
– inflow	29,024	73	–	29,097
Basis swap contracts				
– outflow	–4	–1,104	–	–1,108
– inflow	4	1,057	–	1,061
<b>Total</b>	<b>90</b>	<b>–44</b>	<b>–</b>	<b>46</b>



## Other

### 32 Contingent liabilities and pledged assets

SEK M	2018	2017
<i>Contingent liabilities</i>		
Pension obligations	6	6
Guarantees and other contingent liabilities	14	19
<b>Total</b>	<b>20</b>	<b>25</b>
<i>Pledged assets</i>		
Plant and machinery	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

## Parent Company income and cash-flow statements

### Income statements

SEK M	Note	2018	2017
Administrative expenses	35,39,44	-348	-278
Other operating income	34	478	466
Other operating expenses	34	-325	-276
<b>EBIT</b>	<b>33</b>	<b>-195</b>	<b>-88</b>
Financial income and expenses	36	-711	-262
<b>Loss after financial items</b>		<b>-906</b>	<b>-350</b>
Appropriations	53	1,822	835
Income tax	37	-84	-62
<b>Net profit</b>		<b>832</b>	<b>423</b>

### Statements of comprehensive income

SEK M	2018	2017
<b>Net profit</b>	<b>832</b>	<b>423</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>832</b>	<b>423</b>

### Cash-flow statements

SEK M	2018	2017
<b>Operating activities</b>		
EBIT	-195	-88
Adjustment for items not included in cash flow:		
Depreciation of property, plant and equipment	2	2
Amortization of intangible assets	3	1
Divestments and disposals	0	0
Other items not included in cash flow	33	29
Cash dividend received	1,545	770
Interest received and other financial items	0	0
Interest paid and other financial items	-475	-421
Tax paid/received	-12	1
<b>Cash flow from operating activities before changes in working capital</b>	<b>901</b>	<b>294</b>
<b>Cash flow from changes in working capital</b>		
Change in operating receivables	-41	62
Change in operating liabilities	25	2
<b>Cash flow from operating activities</b>	<b>885</b>	<b>358</b>
<b>Investing activities</b>		
Acquisition of subsidiaries/capital contribution	-2,919	-802
Divestment of subsidiaries	-	498
Gross capital expenditures for property, plant and equipment	-1	-1
Gross capital expenditures for intangible assets	0	-8
<b>Cash flow from investing activities</b>	<b>-2,920</b>	<b>-313</b>
<b>Financing activities</b>		
Change in interest-bearing investments	837	888
Change in interest-bearing liabilities	2,418	219
Dividend paid – shareholders of the Parent Company	-1,220	-1,152
<b>Cash flow from financing activities</b>	<b>2,035</b>	<b>-45</b>
<b>Cash flow for the year</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents</b>		
Opening balance, January 1	-	-
<b>Cash and cash equivalents, December 31</b>	<b>-</b>	<b>-</b>

## Parent Company balance sheets

December 31, SEK M	Note	2018	2017
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	42	15	15
Intangible assets	43	6	9
Financial non-current assets	41.49	36,641	34,772
Deferred tax assets	38	38	108
<b>Total non-current assets</b>		<b>36,700</b>	<b>34,904</b>
<i>Current assets</i>			
Current operating receivables	45	109	68
Interest-bearing receivables	50	1,822	837
Cash and cash equivalents		-	-
<b>Total current assets</b>		<b>1,931</b>	<b>905</b>
<b>TOTAL ASSETS</b>		<b>38,631</b>	<b>35,809</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
<i>Restricted equity</i>			
Share capital		2,620	2,620
Statutory reserve		1,130	1,130
<b>Total restricted equity</b>		<b>3,750</b>	<b>3,750</b>
<i>Non-restricted equity</i>			
Profit brought forward		4,612	5,409
Net profit for the year		832	423
<b>Total non-restricted equity</b>		<b>5,444</b>	<b>5,832</b>
<b>Total equity</b>	52	<b>9,194</b>	<b>9,582</b>
<i>Non-current liabilities</i>			
Interest-bearing non-current liabilities	51	85	4,430
Pension obligations	40	1	1
Other provisions	48	55	23
<b>Total non-current liabilities</b>		<b>141</b>	<b>4,454</b>
<i>Current liabilities</i>			
Interest-bearing current liabilities	51	29,084	21,588
Current tax liabilities		2	-
Other current liabilities	46.47	210	185
<b>Total current liabilities</b>		<b>29,296</b>	<b>21,773</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>38,631</b>	<b>35,809</b>

### Change in equity

Equity SEK M	Restricted equity		Non-restricted equity		Total equity	
	2018	2017	2018	2017	2018	2017
Opening balance, January 1	3,750	3,750	5,832	6,561	9,582	10,311
<i>Changes for the year:</i>						
Dividend			-1,220	-1,152	-1,220	-1,152
Net profit for the year			832	423	832	423
<b>Closing balance, December 31</b>	<b>3,750</b>	<b>3,750</b>	<b>5,444</b>	<b>5,832</b>	<b>9,194</b>	<b>9,582</b>

See also Note 52.

## Earnings

### 33 Expenses by nature

SEK M	2018	2017
Employee benefits	-198	-151
Depreciation/amortization	-5	-4
Other external costs	-145	-123
Other operating income/expenses (Note 34)	153	190
<b>EBIT</b>	<b>-195</b>	<b>-88</b>

### 34 Other operating income and expenses

SEK M	2018	2017
Sales of services to other Group companies	475	452
Sales of external services	1	1
Exchange rate differences	2	2
Guarantee remuneration	0	11
<b>Total other operating income</b>	<b>478</b>	<b>466</b>
Purchase of services from other Group companies	-209	-169
Exchange rate differences	-3	-3
Other	-113	-104
<b>Total other operating expenses</b>	<b>-325</b>	<b>-276</b>
<b>Total</b>	<b>153</b>	<b>190</b>

### 35 Auditor's remuneration

SEK M	2018	2017
<i>Deloitte</i>		
Audit assignment	3	3
Audit activities other than audit assignment	1	1
Tax consultancy services	-	-
Other services	-	0
<b>Total</b>	<b>4</b>	<b>4</b>

### 36 Financial income and expenses

SEK M	2018	2017
<i>Income from participations in Group companies</i>		
Dividend	1,545	770
Impairment losses on shares in subsidiaries	-1,046	-1,046
Gain/loss from divestment/winding-up of subsidiary	-4	486
<b>Total</b>	<b>495</b>	<b>210</b>
<i>Other interest income and similar profit items</i>		
Distribution, other non-current securities holdings	6	-
Interest income, Group companies	0	-
Interest income, other	0	0
Exchange rate differences	-	0
<b>Total</b>	<b>6</b>	<b>0</b>
<i>Interest expenses and similar loss items</i>		
Interest expenses, Group companies	-476	-472
Interest expenses, other	0	0
Exchange rate differences <sup>1)</sup>	-736	0
<b>Total</b>	<b>-1,212</b>	<b>-472</b>
<b>Total financial income and expenses</b>	<b>-711</b>	<b>-262</b>

<sup>1)</sup> Relates to the exchange rate difference upon termination of hedging contract.

### 37 Income tax

SEK M	2018	2017
<i>Current tax expenses</i>		
Tax expenses/revenue for the period	-	-
Adjustment of tax attributable to prior years	26	0
Other tax	-14	1
<b>Total</b>	<b>12</b>	<b>1</b>
<i>Deferred tax expenses (-)/revenue (+)</i>		
Change in losses carried forward	-96	-63
<b>Total</b>	<b>-96</b>	<b>-63</b>
<b>Total recognized tax expenses/revenue</b>	<b>-84</b>	<b>-62</b>
<i>Reconciliation of tax</i>		
Loss after financial items	-906	-350
Calculated Swedish income tax, 22%	199	77
Non-taxable dividends/income from shares in subsidiaries	339	276
Non-deductible impairment losses	-230	-230
Other non-deductible expenses/non-taxable revenue	2	1
Group contributions received	-401	-184
Group contributions paid	-	0
Tax attributable to prior years	26	0
Tax effect as share in foreign tax-transparent legal entity	-4	-3
Impact of changed tax rates and tax regulations	-1	-
Other tax	-14	1
<b>Total recognized tax expenses/revenue</b>	<b>-84</b>	<b>-62</b>

The applicable tax rate is 22 percent (22).

### 38 Change in deferred tax

SEK M	Losses carried forward		Provisions		Non-current assets		Total deferred tax asset	
	2018	2017	2018	2017	2018	2017	2018	2017
Balance, January 1	110	173	-	-	-2	-2	108	171
<i>Recognized in profit and loss:</i>								
Change in losses carried forward	-95	-63	-	-	-	-	-95	-63
Tax attributable to prior years	4	-	24	-	-	-	28	-
Impact of changed tax rates and tax regulations	-1	-	-2	-	-	-	-3	-
Temporary differences	-8	-	8	-	0	0	-	0
<b>Balance, December 31</b>	<b>10</b>	<b>110</b>	<b>30</b>	<b>-</b>	<b>-2</b>	<b>-2</b>	<b>38</b>	<b>108</b>

See also Note 37.



## Employees

### 39 Employees and employee benefits

#### Average number of employees

	2018			2017		
	Women	Men	Total	Women	Men	Total
Sweden	38	42	80	34	47	81

#### Gender distribution in executive management positions, %

	2018	2017
Percentage of women		
in executive positions <sup>1)</sup>	0	0
on Board of Directors	38	38

#### Employee benefits, other remuneration and payroll overheads

2018	Board and President	Other members of Group Management	Other employees	Total salaries	Payroll overheads	Of which, pension costs
SEK M						
Sweden	29	10	63	102	88	19

See also Note 10.

2017	Board and President	Other members of Group Management	Other employees	Total salaries	Payroll overheads	Of which, pension costs
SEK M						
Sweden	27	10	61	98	56	18

<sup>1)</sup> Parts of the Group Management are employed by another company.

See also Note 10.

## Operating assets and liabilities

### 41 Participations in Group companies

SEK M	2018	2017
Opening balance	34,768	35,024
Add:		
Acquisitions	1,146	–
Capital contributions	1,773	802
Less:		
Divestment/winding-up	–	–12
Impairment losses	–1,046	–1,046
<b>Carrying amount</b>	<b>36,641</b>	<b>34,768</b>

See also Note 13.

### 42 Property, plant and equipment

SEK M	2018	2017
Improvement expenses on buildings owned by others	11	12
Equipment, tools, fixtures and fittings	4	3
<b>Total</b>	<b>15</b>	<b>15</b>

SEK M	Improvement expenses on buildings owned by others		Equipment, tools, fixtures and fittings		Total PPE	
	2018	2017	2018	2017	2018	2017
Accumulated cost						
Balance, January 1	25	25	15	13	40	38
Capital expenditures	–	–	1	2	1	2
Investments and disposals	–	–	–	0	–	0
<b>Accumulated cost, December 31</b>	<b>25</b>	<b>25</b>	<b>16</b>	<b>15</b>	<b>41</b>	<b>40</b>
Accumulated depreciation according to plan						
Balance, January 1	–13	–12	–12	–10	–25	–22
Investments and disposals	–	–	–	0	–	0
Amortization according to plan for the year	–1	–1	–1	–2	–2	–3
<b>Accumulated depreciation, December 31</b>	<b>–14</b>	<b>–13</b>	<b>–13</b>	<b>–12</b>	<b>–27</b>	<b>–25</b>
<b>Carrying amount</b>	<b>11</b>	<b>12</b>	<b>4</b>	<b>3</b>	<b>15</b>	<b>15</b>

### 40 Pension obligations

SEK M	2018	2017
Provisions for pensions	1	1
<b>Total</b>	<b>1</b>	<b>1</b>

Pensions and similar costs amounted to SEK 19 M (18).

Trelleborg AB has entered into operating lease agreements. Leasing costs for assets held via operating lease agreements are recognized as operating costs and amounted to SEK 2 M (3). Future payments for non-cancellable lease commitments amount to SEK 2 M (2) and fall due as follows:

SEK M	2018	2017
Year 1	1	1
Years 2–5	1	1
<b>Total</b>	<b>2</b>	<b>2</b>

### 43 Intangible assets

SEK M	2018	2017
Capitalized expenditure for IT	6	9
<b>Total</b>	<b>6</b>	<b>9</b>

SEK M	2018	2017
Accumulated cost		
Balance, January 1	28	20
Capital expenditures	0	8
<b>Accumulated cost, December 31</b>	<b>28</b>	<b>28</b>
Accumulated amortization according to plan		
Balance, January 1	–19	–18
Amortization according to plan for the year	–3	–1
<b>Accumulated amortization, December 31</b>	<b>–22</b>	<b>–19</b>
<b>Carrying amount</b>	<b>6</b>	<b>9</b>

### 44 Depreciation of PPE and amortization of intangible assets

SEK M	2018	2017
Improvement expenses on buildings owned by others	–1	–1
Equipment, tools, fixtures and fittings	–1	–2
Capitalized expenditure for IT	–3	–1
<b>Total</b>	<b>–5</b>	<b>–4</b>

**45 Current operating receivables**

SEK M	2018	2017
Operating receivables, Group companies	60	8
Other current receivables	12	29
Prepaid expenses and accrued income	37	31
<b>Total</b>	<b>109</b>	<b>68</b>

**46 Other current liabilities**

SEK M	2018	2017
Accounts payable	48	41
Operating liabilities, Group companies	88	78
Other non-interest-bearing liabilities	6	5
Accrued expenses and prepaid income (Note 47)	68	61
<b>Total</b>	<b>210</b>	<b>185</b>

**47 Accrued expenses and prepaid income**

SEK M	2018	2017
Wages and salaries	44	39
Payroll overheads	12	12
Other	12	10
<b>Total</b>	<b>68</b>	<b>61</b>

**48 Other provisions**

SEK M	2018	2017
Provision for long-term incentive program	14	14
Other provisions	41	9
<b>Total</b>	<b>55</b>	<b>23</b>

**Capital structure and financing****49 Financial non-current assets**

SEK M	2018	2017
Participations in Group companies (Note 13 and Note 41)	36,641	34,768
Receivables, Group companies	–	0
Other non-current securities holdings	0	0
Other non-current receivables	–	4
<b>Total</b>	<b>36,641</b>	<b>34,772</b>

**50 Interest-bearing receivables**

SEK M	2018	2017
Financial receivables, Group companies	1,822	836
Other interest-bearing receivables	0	1
<b>Total interest-bearing receivables</b>	<b>1,822</b>	<b>837</b>

**51 Interest-bearing liabilities**

SEK M	2018	2017
Other non-current interest-bearing liabilities, Group companies	85	4,430
Other current interest-bearing liabilities, Group companies	29,084	21,588
<b>Total interest-bearing liabilities</b>	<b>29,169</b>	<b>26,018</b>

**Other****53 Appropriations**

SEK M	2018	2017
<i>Appropriations</i>		
Group contributions received	1,822	836
Group contributions paid	–	–1
<b>Total appropriations</b>	<b>1,822</b>	<b>835</b>

**54 Contingent liabilities and pledged assets**

SEK M	2018	2017
<i>Contingent liabilities</i>		
Pension obligations	0	0
Guarantees and other contingent liabilities	12,765	12,820
<b>Total</b>	<b>12,765</b>	<b>12,820</b>
Of which, on behalf of Trelleborg Treasury AB	12,473	12,554
Of which, on behalf of other subsidiaries	292	266
<i>Pledged assets</i>	–	–

The Parent Company has issued guarantees for the subsidiary Trelleborg Treasury AB's operation. Of the obligations under these guarantees, direct loans accounted for SEK 12,147 m (12,200), the fair value of derivative instruments for SEK 294 m (303) and other contingent liabilities for SEK 0 m (51) on the closing date.

# PROPOSED TREATMENT OF UNAPPROPRIATED EARNINGS

The Board of Directors proposes that the profit brought forward from the preceding year, SEK 000s	4,612,166
and net profit for the year, SEK 000s	831,926
<b>Total, SEK 000s</b>	<b>5,444,092</b>

be distributed in the following manner:

<b>Dividend to shareholders of SEK 4.75 per share, SEK 000s</b>	<b>1,287,591</b>
balance to be carried forward, SEK 000s	4,156,501
<b>Total, SEK 000s</b>	<b>5,444,092</b>

The proposed record date for the right to a dividend is March 29, 2019.

The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on the Group's equity imposed by the type, scope and risks of the business and with regard to the Group's consolidation requirements, liquidity and overall position. The proposed dividend reduces the Group's equity/assets ratio from 58.2 percent to 57.1 percent and the Parent Company's equity/assets ratio from 23.8 percent to 20.5 percent, calculated on December 31, 2018.

The Board of Directors and President affirm that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and provide a true and fair view of the Group's profit and financial position. The Annual Report has been prepared in accordance with the generally accepted accounting policies and provides a true and fair view of the Parent Company's profit and financial position.

The statutory Board of Directors' Report for the Group and the Parent Company provides a true and fair overview of the development of the Group's and Parent Company's operations, profit and financial position and describes significant risks and uncertainty factors faced by the Parent Company and the companies included in the Group.

## Trelleborg, February 19, 2019

*Signature on Swedish*

Hans Biörck  
Chairman

*Signature on Swedish*

Gunilla Fransson  
Board member

*Signature on Swedish*

Johan Malmquist  
Board Member

*Signature on Swedish*

Peter Nilsson  
Board member and  
President

*Signature on Swedish*

Anne Mette Olesen  
Board member

*Signature on Swedish*

Susanne Pahlén Åklundh  
Board member

*Signature on Swedish*

Panu Routila  
Board member

*Signature on Swedish*

Jan Ståhlberg  
Board member

*Signature on Swedish*

Jimmy Faltin  
Employee representative

*Signature on Swedish*

Peter Larsson  
Employee representative

*Signature on Swedish*

Lars Pettersson  
Employee representative

Audit report submitted February 19, 2019  
Deloitte AB

*Signature on Swedish*

Hans Warén  
Authorized Public Accountant  
Auditor in Charge

*Signature on Swedish*

Maria Ekelund  
Authorized Public Accountant

# FINANCIAL DEFINITIONS

Trelleborg uses the following 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. The Group defines its key figures as follows.

For further descriptions and calculations of performance measures, visit [www.trelleborg.com/en/investors/financial-definitions](http://www.trelleborg.com/en/investors/financial-definitions).

**Average number of employees** Average number of employees during the year based on hours worked. Excluding insourced staff.

**Capital employed** Total assets less interest-bearing receivables and non-interest-bearing operating liabilities (including pension liabilities) and excluding tax assets and tax liabilities.

**Cash conversion ratio** Operating cash flow as a percentage of EBIT.

**Debt/equity ratio**, % Net debt divided by total equity.

**Discontinuing operations** Profit from discontinuing operations is recognized net in the consolidated income statement in the item "Net profit in discontinuing operations".

**EBIT** Operating profit including items affecting comparability.

**EBIT excluding items affecting comparability** Operating profit excluding items affecting comparability.

**EBIT margin excluding items affecting comparability**, % EBIT excluding items affecting comparability as a percentage of net sales.

**EBITA** Operating profit excluding amortization and impairment of intangible assets and excluding items affecting comparability.

**EBITA margin**, % EBITA as a percentage of net sales.

**EBITDA** Operating profit excluding depreciation/amortization and impairment of PPE and intangible assets and excluding items affecting comparability.

**EBITDA margin**, % EBITDA excluding participations in the profit/loss of joint ventures/associated companies as a percentage of net sales.

**EBITDA/Net interest income/expense** EBITDA divided by net interest income/expense (interest income less interest expenses).

**Earnings per share** Profit for the period, attributable to shareholders of the Parent Company, divided by the average number of shares outstanding.

**Equity/assets ratio**, % Total equity divided by total assets.

**Equity method** Associated companies and joint ventures in the Group are recognized in line with the equity method, implying that the initial participation is changed to reflect the Group's share in the company's profit or loss and for any dividends.

**Free cash flow** Operating cash flow reduced by cash flow from financial items, taxes and the effect of restructuring measures on cash flow.

**Free cash flow per share** Free cash flow divided by the average number of shares outstanding.

**Items affecting comparability** The total of the restructuring costs approved by the Board of Directors and major non-recurring items.

**Net debt** Interest-bearing liabilities less interest-bearing assets and cash and cash equivalents.

**Net debt/EBITDA** Net debt divided by EBITDA, calculated on a 12-month rolling basis.

**Number of employees at year-end** Including insourced staff and temporary employees.

**Operating cash flow** EBITDA excluding non-cash items, capital expenditures, divested PPE and changes in working capital. The key figure excludes cash flow from items affecting comparability.

**Operating cash flow per share** Operating cash flow divided by the average number of shares outstanding.

**Organic growth** The sales growth in comparable exchange rates that is generated by the Group itself on its own merits and in the existing structure. An acquisition is only recognized as organic growth when it is included for the same number of months in the current period as in the year-earlier period. Otherwise it is reported as structural growth.

**P/E ratio** Market price divided by earnings per share.

**Pro forma** Pro forma calculations include total Group consolidation from the most recent 12-month period plus acquisitions and divestments in order to reflect current continuing operations.

**Rate of capital turnover** Net sales as a percentage of average capital employed.

**Return on capital employed**, % EBIT divided by the average capital employed, calculated on a rolling 12-month basis.

**Return on shareholders' equity**, % Profit for the period calculated on a rolling 12-month basis, attributable to shareholders of the Parent Company, divided by average equity, excluding non-controlling interests.

**Western Europe** Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Sweden, Switzerland, Spain, the U.K.

**Yield** Dividend as a percentage of the market price.

# GLOSSARY

**CDP** (Carbon Disclosure Project), an independent organization with the world's largest database of climate information. On behalf of global investors, the CDP gathers information regarding emissions of greenhouse gases by companies and organizations as well as the measures being taken by them to prevent a negative climate impact.

**CGS** The industrial group CGS Holding, with leading positions in agricultural and specialty tires, and engineered polymer solutions, was acquired by Trelleborg in May 2016. The company had approximately 6,300 employees with its headquarters in the Czech Republic and 13 production sites, of which 11 in Central and Eastern Europe, one in the U.S. and one in Mexico.

**Excellence** Trelleborg's various programs for the continuous improvement of core processes, refer to page 33.

**GRI** (Global Reporting Initiative), a global network in which community representatives, industries, investors and others cooperate to create and improve the approaches to sustainability reporting, on a consensus basis.

**Integrated reporting** A method that, more clearly than conventional financial reporting, captures the overall extent of an operation's competitiveness by also reflecting non-financial strategic key figures or indicators, including sustainability-related factors.

**ISO** (International Organization for Standardization), an international standardization body that works with

industrial and commercial standards. The following standards are applied at Trelleborg; ISO 9000 which provides guidelines for quality assurance systems, ISO 14001 that sets requirements and provides guidance regarding environmental management systems and ISO 26000 which forms a practical set of guidelines and standards for increasing responsibility in the process of achieving sustainability.

**OEM** (Original Equipment Manufacturer) A company that manufactures an end-product that can be sold on the open market. The product often consists of a combination of proprietarily manufactured and purchased components from suppliers that are assembled by the OEM company to make the final product.

**Plastics** can be divided into two main groups. **Thermoplastics** are non-cross-linked plastics that are solid at room temperature but become soft and moldable when heated, and **hard plastics** are cross-linked plastics that disintegrate upon heating and do not regain their properties.

**Polymer** The word is derived from the Greek "poly," meaning "many" and "meros" meaning "parts." Polymers are made up of many small molecules – monomers – that are linked in long chains. Examples of polymers are plastics and rubber.

**Polymer technology** The technology relating to manufacturing processes for polymers in combination with their unique properties.

**REACH** (Registration, Evaluation and Authorization of Chemicals) The aim of the EU's REACH chemicals ordinance is to only permit the use of substances in the EU and EEA that are registered with the European Chemicals Agency.

**Safety@Work** A program of preventative measures to forestall injuries and illness at all of Trelleborg's workplaces. The program supports an organizational change to create a culture of safety and strengthens the Group's ability to attract, develop and retain employees in all its operations.

**Sustainability** Wide-ranging concept that encompasses a situation for society in which living conditions and the use of resources meet human needs without jeopardizing the ecosystem and environment, which relates to the responsibilities of companies toward their key stakeholders, such as employees, shareholders, customers, suppliers, the local community and the environment. Often relates in a corporate context to the same areas encompassed by the term Corporate Responsibility (CR) or Corporate Social Responsibility (CSR).

**UN Global Compact** UN initiative that unites companies and social institutions around ten universally applicable principles for environment and society. The aim is for companies to become members of society that are involved in developing solutions for challenges arising from increasing globalization.



# 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 financial year 1 January 2018 – 31 December 2018 except for the corporate governance report on pages 77–87 and the sustainability report on pages 10–11 and 47–69. The annual accounts and consolidated accounts of the company are included on pages 7–27 and 47–136 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 the parent company as of 31 December 2018 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 2018 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. Our opinions do not comprise the corporate governance report on pages 77–87 and the sustainability report on pages 10–11 and 47–69.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### 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.

### Valuation of goodwill

#### Risk description

As of 31 December 2018, Trelleborg AB accounts for goodwill amounting to SEK 19,100 M. The value of the goodwill is dependent on future income and profitability in the cash-generating entities, to which the goodwill refers, and is assessed for impairment at least once a year. Management bases its impairment test on several judgments and estimates, such as estimated future cash flow, growth, EBIT margin and capital cost (WACC) as well as other complex circumstances. Incorrect judgments and estimates may have a significant impact on the group's result and financial position. Management has not identified any need for impairment in 2018.

The Trelleborg Offshore & Construction business area reports goodwill amounting to SEK 1,068 M. In 2018, the business was affected by negative sales and earnings development. If management's assumptions about increased growth and profitability are not achieved, an impairment requirement may arise.

For further information, please see note 16 – Intangible assets where it is shown how management have performed their impairment test.

### Our audit procedures

Our audit included the following procedures, but was not limited to these:

- » Review and assessment of Trelleborg AB's procedures for impairment tests of goodwill and evaluation of the reasonability of assumptions made, that the procedures are consistently applied and that there is integrity in computations
- » Test of head room for each cash generating entity by performing sensitivity analyses
- » Review of the completeness in relevant disclosures to the financial reports

When performing the audit procedures our valuation experts have been involved.

## 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 1–6 and 29–46. 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- » Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- » Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- » Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- » Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- » Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- » Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## 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 financial year 1 January 2018 – 31 December 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the annual 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### **The auditor's examination of the corporate governance statement**

The Board of Directors is responsible for that the corporate governance statement on pages 77–87 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

### **The auditor's opinion regarding the statutory sustainability report**

The Board of Directors is responsible for the statutory sustainability report on pages 10–11 and 47–69, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Deloitte AB was appointed auditor of Trelleborg AB by the annual general meeting of shareholders on the 25 April 2018, and has been the auditor of the company since 27 April 2017.

Malmö 19 February 2019  
Deloitte AB

*Signature on Swedish*

Hans Warén  
Authorized public accountant  
Auditor in charge

*Signature on Swedish*

Maria Ekelund  
Authorized public accountant



# ASSURANCE REPORT – SUSTAINABILITY

## Auditor's Limited Assurance Report on Trelleborg AB's Sustainability Report

This is the translation of the auditor's report in Swedish.

### TO TRELLEBORG AB (PUBL)

#### Introduction

We have been engaged by the Board of Directors and the President of Trelleborg AB to undertake a limited assurance engagement of the Trelleborg AB Sustainability Report for the year 2018. The Company has defined the scope of the Sustainability Report in the table of contents of the Annual Report.

#### Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 47 in the Annual Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

#### Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Trelleborg AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Accordingly, the conclusion of the procedures performed do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

#### Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm 19 February 2019  
Deloitte AB

*Signature on Swedish*

Hans Warén  
Authorized Public Accountant

*Signature on Swedish*

Lennart Nordqvist  
Expert Member of FAR

# TEN-YEAR OVERVIEW

Trelleborg Group (SEK M unless otherwise stated)	2018	2017	2016	2015	2014	2013	2012 <sup>1)</sup>	2011	2010	2009
Net sales	34,005	31,581	27,145	24,803	22,533	21,473	21,262	21,043	19,735	18,605
EBIT	4,518	4,022	3,105	2,962	2,775	2,203	2,353	2,093	1,667	704
Profit before tax	4,236	3,792	2,896	2,809	2,641	2,006	2,199	1,929	1,501	393
Net profit, continuing operations	3,190	2,874	2,216	2,096	1,938	1,419	1,711	1,333	1,089	409
Net profit, discontinuing operations	–	–	4,369	509	289	198	346	505	94	10
Total net profit	3,190	2,874	6,585	2,605	2,227	1,617	2,057	1,838	1,183	419
– shareholders of the Parent Company	3,190	2,874	6,585	2,603	2,221	1,609	2,042	1,819	1,162	409
– non-controlling interests	–	–	–	2	6	8	15	19	21	10
Equity	30,126	27,216	25,137	18,622	17,776	14,877	14,012	13,504	12,196	12,361
Capital employed	40,597	37,256	37,588	24,937	24,575	20,263	19,233	19,574	18,091	19,755
Net debt	9,978	9,593	12,125	6,282	7,195	5,637	5,360	6,425	6,409	8,369
Total assets	51,749	48,612	48,354	34,390	33,067	27,288	27,224	28,691	27,314	29,539
Equity/assets ratio, %	58	56	52	54	54	55	51	47	45	42
Debt/equity ratio, %	33	35	48	34	40	38	38	48	53	68
Capital turnover rate, multiples	0.8	0.8	0.8	0.9	1.0	1.1	1.3	1.5	1.5	1.3
Investments in property, plant and equipment	1,822	1,343	1,074	1,241	962	852	967	1,075	792	754
Investments in intangible assets	121	94	74	73	63	70	76	61	47	72
Cash flow attributable to acquisitions	–440	–226	–13,380	–681	–1,912	–234	–744	–746	–165	–63
Cash flow attributable to discontinuing operations	4	649	6,165	1,390	152	–19	448	478	445	377
Free cash flow	2,068	2,434	2,368	1,452	1,751	965	1,714	675	806	1,366
Free cash flow per share, SEK <sup>2)</sup>	7.63	8.98	8.74	5.36	6.46	3.56	6.32	2.49	2.97	5.68
Return on shareholders' equity, %	11.1	11.0	30.1	14.3	13.6	11.2	15.0	14.3	9.5	3.6
Earnings per share, SEK <sup>2)</sup>	11.77	10.60	24.30	9.60	8.20	5.93	7.53	6.71	4.29	1.70
Dividend to shareholders in the Parent Company <sup>3)</sup>	1,288	1,220	1,152	1,084	1,017	881	813	678	474	136
Dividend per share, SEK <sup>3)</sup>	4.75	4.50	4.25	4.00	3.75	3.25	3.00	2.50	1.75	0.50
Shareholders' equity per share, SEK <sup>2)</sup>	111.14	100.40	92.73	68.70	65.54	54.72	51.56	49.20	44.56	45.25
Average number of employees	22,420	22,112	19,423	15,713	15,425	14,827	16,702	20,274	20,042	20,073
– of whom, outside Sweden	21,286	20,990	18,312	14,533	14,196	13,563	15,220	18,502	18,230	18,342
<b>Continuing operations excluding items affecting comparability <sup>4)</sup></b>										
EBITA	5,003	4,385	3,700	3,325	3,064	2,685	2,390	2,280	1,897	1,078
EBIT	4,694	4,091	3,496	3,219	3,001	2,613	2,342	2,231	1,840	1,021
Profit before tax	4,412	3,861	3,287	3,066	2,867	2,416	2,188	2,067	1,675	710
Net profit	3,345	2,934	2,503	2,277	2,116	1,777	1,643	1,436	1,225	632
EBITA margin, %	14.7	13.9	13.6	13.4	13.6	12.5	11.2	10.8	9.6	5.8
EBIT margin, %	13.8	13.0	12.9	13.0	13.3	12.2	11.0	10.6	9.3	5.5
Return on capital employed, %	11.6	10.8	11.3	14.3	15.9	15.2	13.9	13.6	11.5	5.8
Return on shareholders' equity, %	11.7	11.2	11.4	12.5	12.9	12.3	12.0	11.2	10.0	5.6
Earnings per share, SEK	12.34	10.82	9.23	8.39	7.79	6.52	6.03	5.26	4.49	2.62
Operating cash flow	3,488	3,688	3,460	2,282	2,705	2,162	2,248	1,539	1,647	2,526
Operating cash flow per share, SEK	12.87	13.61	12.76	8.42	9.98	7.97	8.29	5.68	6.08	10.50
Cash conversion ratio, %	74	90	99	71	90	83	96	69	90	247
Average number of employees	22,420	22,112	19,423	15,713	15,425	14,827	13,905	14,306	13,327	13,136
<b>Continuing operations including items affecting comparability <sup>4)</sup></b>										
Return on shareholders' equity, %	11.1	11.0	10.1	11.5	11.9	9.8	12.5	10.4	8.9	3.6
Earnings per share, SEK	11.77	10.60	8.18	7.73	7.13	5.20	6.27	4.88	3.99	1.69

<sup>1)</sup> Figures for 2012 have been adjusted for the transition effects of the amendment to IAS 19.

<sup>2)</sup> The average number of shares was adjusted in accordance with IAS 33. This calculation was applied to all key figures that include the number of shares. No dilutive effects occurred.

<sup>3)</sup> Dividend in accordance with the proposed treatment of unappropriated earnings.

<sup>4)</sup> For comparability, historical values have been adjusted for discontinuing operations.

# SUSTAINABILITY TEN-YEAR OVERVIEW

Focus area	Key figures	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Compliance</b>											
Compliance (general)	Number of material breaches of laws and permits during the year	0	0	0	0	0	0	0			
Compliance (environmental)	Number of breaches of laws and permits resulting in fines or sanctions	2	5	3	4	3	0	2	4	2	2
Discrimination	Number of reported cases	7	5	5	8	1	1	8	4	6	3
Freedom of association	Number of employees that are represented by a trade union through collective agreements	54	53	54.7	52.2	48.1	51.5	43.5	49	53	50
Child and forced labor	Number of reported cases	0	0	0	0	0	0	0	0	0	0
Supplier reviews	Reviewed suppliers' share of the relevant purchasing spend	85.5	84	80.6	84	84	81.4	79.5	75	25	
	Number of audits of at-risk suppliers during the year (started 2015)	22	15	14	12						
<b>Resources</b>											
Employees	Number of employees at year-end	24,045	23,152	23,245	16,450	16,552	15,825	15,280	21,307	20,393	21,119
Health and safety	LWC (Lost Work Cases – cases resulting in at least one day's absence)	422	438	402	238	223	209	255	384	416	553
Energy	Total energy consumption, GWh	1,486	1,493	1,248	942	903	873	859	1,232	1,198	1,288
	Energy consumption, GWh per SEK M	0,044	0,047	0,047	0,038	0,040	0,041	0,040	0,042	0,044	0,048
Climate	Total CO <sub>2</sub> emissions, metric tons	401,900	487,200	385,000	280,000	276,900	260,800	244,600	385,000	347,000	377,000
	CO <sub>2</sub> emissions, metric tons per SEK M	11.8	15.4	14.2	11.3	12.3	12.1	11.5	13.2	12.8	13.9
Water	Water usage, million m <sup>3</sup>	2.32	2.36	2.18	1.85	1.98	2.0	1.9	2.7	2.5	2.5
	Water usage, m <sup>3</sup> per SEK M	68.1	74.7	80.4	74.6	87.7	88.5	90.9	92	91.9	92.4
Emissions	VOC emissions, metric tons	655	952	1,005	903	1,195	1,049	854	1,816	1,737	1,256
	VOC emissions, metric tons per SEK M	0,019	0,030	0,037	0,036	0,053	0,049	0,040	0,062	0,064	0,046
	SO <sub>x</sub> emissions, metric tons	181	187	184	204	216	189	263	391	358	257
	NO <sub>x</sub> emissions, metric tons	62	65	54	45	41	38	42	60	57	55
Waste	Waste, metric tons	54,600	53,500	50,600	44,500	44,700	45,350	43,400	62,100	59,300	59,400
	Waste, metric tons per SEK M	1.6	1.7	1.9	1.8	2.0	2.1	2.0	2.1	2.2	2.2
<b>Diversity</b>											
Gender	Percentage of women on the Board	38	38	33	33	29	29	29	29	29	14
	Percentage of women at levels 4–5, %	26	27	24							
Ethnicity	Number of nationalities at levels 1–3, %	15	13	13	10						
<b>Community involvement</b>											
Financial key figures	Sales, SEK M	34,005	31,581	27,145	24,803	22,515	21,473	21,262	29,106	27,196	27,059
	Economic value distributed among stakeholders, SEK M	31,148	29,127	25,053	22,797	20,808	20,211	19,850	27,010	24,795	23,812
	Taxes paid, SEK M	919	732	593	472	627	587	460	480	294	258

All data in this overview was reported in the respective years.



Trelleborg Series B share has been reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe as of March 19, 2018. The ESI index comprises companies that are included in the Russell Global Index and that display the best results in the area of Corporate Social Responsibility.

# TRELLEBORG ON THE INTERNET, IN YOUR MOBILE AND ON YOUR TABLET

## ANNUAL REPORT

Trelleborg distributes a paper version of the Annual Report only to those who have specifically requested a copy. If you wish to receive a paper copy of the Annual Report, it can be ordered on the company's website.

## FINANCIAL CALENDAR 2019

Annual General Meeting (Trelleborg)	March 27, 2:00 p.m.
Interim report January–March	April 26
Interim report April–June	July 18
Interim report July–September	October 24
Year-end report 2019	February 12, 2020

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 **See our films on YouTube:** [www.youtube.com/trelleborg](http://www.youtube.com/trelleborg)

## INFORMATION ABOUT THE 2019 ANNUAL GENERAL MEETING

The Annual General Meeting of Trelleborg AB (publ) will be held on Wednesday, March 27, 2019, at 2:00 p.m. in Söderslätts hallen in Trelleborg, Sweden.

### Program

- 11:45 a.m. Registration and refreshments
- 12:30 p.m. Meeting hall opens
- 2:00 p.m. Annual General Meeting commences

**Notification.** Shareholders who wish to participate and vote in the Meeting must be entered in the share register maintained by Euroclear Sweden AB by Thursday, March 21, 2019 and notify the company of their intention to participate – with any advisors – not later than on the same date.

Shareholders whose shares have been registered in the name of a trustee, must have temporarily re-registered the shares in their own name by Thursday, March 21, 2019. Such registration should be requested of the trustee a couple of working days in advance of this date.

### Notification of attendance via:

- » the Group's website: [www.trelleborg.com](http://www.trelleborg.com)
- » post to Trelleborg AB, "Årstämman", c/o Euroclear Sweden AB, PO Box 191, SE-101 23 Stockholm, Sweden
- » telephone to: +46 410 670 04



The notification should state the shareholder's full name, personal identity number and telephone number. If participation is supported by power of attorney, the power of attorney – assuming the issuer of the power of attorney is a legal entity – and documents proving the signatory's authorization must be sent to the company prior to the Meeting. The details provided will only be used in connection with the Meeting and for preparing the voting list.

**Proposals to the 2019 Annual General Meeting.** *Proposed dividend:* The Board of Directors propose a cash dividend of

SEK 4.75 (4.50) per share to be paid to the shareholders. Friday, March 29, 2019 is proposed as the date of record. If the Meeting approves the proposal, the dividend is expected to be distributed by Euroclear Sweden AB on Wednesday, April 3, 2019.

The complete notification of the Annual General Meeting will be available at [www.trelleborg.com](http://www.trelleborg.com).



Trelleborg AB is a public limited liability company. Corporate Registration Number: 556006-3421. The Group's headquarters are in Trelleborg, Sweden.

The Annual Report is published in Swedish and English.

This is a translation of the company's definitive Annual Report for 2018 in Swedish. The Swedish-language version is the original and has been audited by Trelleborg's auditor. The 2017 Annual Report was published in March 2018.

All values are expressed in Swedish kronor. Kronor is abbreviated to SEK and millions of kronor to SEK M. Unless otherwise stated, figures in parentheses relate to the preceding fiscal year, 2017. All figures in the section "The Group in brief" and "Business areas" relate to continuing operations, unless otherwise stated.

This report contains forward-looking statements that are based on the current expectations of

the management of Trelleborg. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors.

This Annual Report was produced in collaboration with RHR/CC in Malmö, Sweden. It carries the Nordic Ecolabel and was printed by Bording InStore in Helsingborg using printing blankets from the Trelleborg Group and vegetable-based inks. Translation by The Bugli Company.

**Page reference to Global Reporting Initiative (GRI):** The references at the foot of the pages refer to the individual sections in GRI Standards. (Details can be found in the GRI Index in the Trelleborg Sustainability Report 2018).

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Trelleborg is a world leader in engineered polymer solutions that seal, damp and protect critical applications in demanding environments. Its innovative solutions accelerate performance for customers in a sustainable way.

The Trelleborg Group has annual sales of about SEK 34 billion and operations in about 50 countries. The Group comprises five business areas: Trelleborg Coated Systems, Trelleborg Industrial Solutions, Trelleborg Offshore & Construction, Trelleborg Sealing Solutions and Trelleborg Wheel Systems.

The Trelleborg share has been listed on the Stock Exchange since 1964 and is listed on Nasdaq Stockholm, Large Cap.

[WWW.TRELLEBORG.COM](http://WWW.TRELLEBORG.COM)

