

## **CEO Peter Nilsson's address to Trelleborg's AGM 2007**

Honored Shareholders!

As in 2005, 2006 was an eventful year that encompassed a number of new challenges and acquisitions. I will return to this in a moment. Firstly, I would like to explain our transition from a rubber company that delivers products to a supplier of system solutions based on rubber and other polymers to, in this manner, create value for customers and Trelleborg. I would also like to continue the description we began last year of the Trelleborg Group that involved the concept "Solutions Securing Values", that is, our products and solutions that seal, damp and protect. This is our business concept.

This is what our business is based on:

Securing processes, investments and, in particular, people, with developed solutions that seal, damp and protect in demanding environments in selected segments and within seven major global markets where the functions we can supply are critical. And only in these markets!

The automotive industry is an example of a major market for many industrial equipment companies – as well as for us. For the automotive industry, damping is an important function to enable the production of comfortable and safe vehicles. To damp a vehicle, we can use such solutions as this engine bracket that is mounted on a Scania. One of these shims that dampen sound in cars under braking is fitted in half of the new cars in the world, irrespective of where they are produced.

Having seen the film, you all understand that the basis for damping is the absorption of energy. Accordingly, our damping solutions are equally as suitable for protecting harbors and other such infrastructure by damping natural movements. In the worst case, this may involve earthquakes. Outside, you have already seen a circular mounting that damps the movements of floating oil platforms. Over there, we have a fender that damps the forces that the pier and hull must absorb when large vessels are in port.

Within such industries as Aerospace, we are experts in field of seals. We seal the aircraft's airframes, hydraulics and fuel flow in the engines. For example, this flexible seal ensures cabin pressure. In essence, to seal entails hermetically sealing two components that may have uneven surfaces or surfaces in motion. The following film shows how.

As seen in the film, a range of applications in our environment require sealing, including numerous critical flows within the process industry. This hose can be found in vineyards, where it transports wine in a manner that protects it from harmful organisms, or indeed, tastes and smells. Processes that must be secured also exist within offshore oil and gas extraction. This is a PTFE seal that can be manufactured in sizes of more than two meters. In our range, we call it a Variseal. It is used between sections on floating production platforms in connection with the extraction of oil and gas in deep-sea areas,

among other applications. Each section can represent a sealing value of nearly SEK 1 M for Trelleborg. Within offshore, we also protect both equipment and people. This is an Elastopipe – a fire-resistant pipe made from special rubber and developed by one of our Norwegian units. It is used in sprinkler systems and eases installation because no welding is required, which is a positive feature in explosive environments.

Elastopipe is also completely anticorrosive, unlike other metal alternatives. Here are a few more examples. As you have seen, our functions, to seal, damp and protect, can be found in numerous different applications, and this is where our business areas enter the picture. The business areas contain the applications know-how, that is, what is necessary for a sealing, damping or protecting solution to function in the specific application. But they also contain knowledge of how customers function and how the market is structured. Accordingly, each business area also has clusters of applications or segments. We can illustrate this with Trelleborg Sealing Solutions, which is principally active within three of our key markets.

A number of application areas are defined within each key market. Within aerospace, these include fuel systems, rudder systems, airframes, flight controls, landing gear and engine systems. In turn, these can be divided into applications. Within the engine-systems area, these include gear seals, high-performance O-rings and flameproof seals, which incidentally, look like this.

With this method of structuring the operation present in all of our four business areas, we can also identify new applications and segments that are worth developing through a focused growth initiative – either by developing it ourselves or through acquisition – which we can also introduce globally in various geographic markets. All of our solutions for the four business areas are based on joint technologies, which are to seal, damp and protect. These, in addition to a number of complementary solutions, are principally based on the polymer properties we saw in the films and joint technical processes, which in certain instances, are areas in which we are world-leading.

For example, Engineered Fabrics, that is, smooth elastomer material reinforced with such materials as fabric, fibers or metal, which can be used in several products, ranging from inflatable fenders to emergency equipment within aerospace – or the shim that I showed earlier. The fabrics can be used in countless other applications that offer growth potential in terms of technology – in the same manner as the customer-based clusters I just mentioned.

Therefore, we have two perspectives on growth – through in-house development or through complementary or more strategic acquisitions. In this manner, our business model creates solutions that secure values for customers, and ultimately, the owners. Accordingly, Solutions Securing Values through sealing, damping and protecting is a well-defined business concept. This was my first message of the day. The second concerns how we shall continue to grow with even better profitability and this is the main focus of my presentation, which will also briefly address the outcome of 2006.

As usual, I will conclude my presentation with a comment on the first quarter. I would like to begin with our financial targets and a brief comment on the outcome of 2006. In 2006, sales increased by a full 13 percent and in the past five years, average growth has totaled 9 percent. Our sales increase in Asia and North America was particularly gratifying and we are gradually achieving a better geographic balance.

However, our operating profit did not demonstrate the same level of growth, 4 percent, which lowered our margin somewhat. This is a result of the historically high raw-material prices in 2006, particularly for polymers, which are unique for Trelleborg unlike the majority of other industrial equipment companies. We were not successful in our efforts to offset this increase in time. However, the lower operating profit was also due to a certain lack of efficiency within Trelleborg Automotive and, certainly within specific geographic areas, a difficult car market. Excluding Automotive, operating profit increased by 26 percent. It is also pleasing that fourth-quarter earnings for the Group in its entirety rose by a full 20 percent compared with the fourth quarter of 2005 – a result that can largely be attributed to active portfolio management. The lower operating margin within Trelleborg Automotive, combined with market valuation of a number of acquisitions that increased our capital employed, means that we have not yet been successful in our efforts to achieve our target with regard to return on capital employed.

We also have some way to go to achieve our target relating to return on equity. In 2006, we achieved our targets for operating cash flow. This means that despite our high pace of growth, we managed to limit the increase in working capital. Furthermore, our debt/equity ratio was within our target interval at December 31. Our favorable cash flow provides us with increased scope for acquisitions. This is part of our strategy. However, should a lack of attractive acquisition objects arise, I would not be opposed to other alternatives to maintain our debt/equity ratio within the target interval. Accordingly, we have achieved three of our financial targets to date, and we are confident that we will fulfill two more in the near future. Meanwhile, the third target, return on capital employed, will take some more time, since much of our assets are market-valued as a result of our acquisition strategy and interest rates are at a relatively low level. Nevertheless, our financial goals stand firm and to continue to grow with improved profitability, we work with our strategic targets, which ultimately aim to reach, maintain and develop our leading positions within selected segments and markets.

Leading positions provide us with the potential to increase value for our customers and result in a favorable financial trend for the Group. Consequently, leading positions in attractive segments is our most important strategic and operational target. For this, we have developed a number of strategies that I shall elaborate on individually. The basis is continuous assessment of the Group's prioritized markets, market segments and product portfolio.

At the end of 2005, Trelleborg Automotive represented nearly 40 percent of consolidated sales. Although general industry is a prioritized market, we began by divesting Goodall – an operation with sales of SEK 620 M and focused on the industry segment. Naturally, this impeded growth, but ownership of a local North American wholesale operation is not

part of our core operation. In addition, the operation did not possess the potential to achieve our financial targets. We have subsequently increased our presence within the industry through the acquisition of Reeves, which is a leading international supplier that develops and manufactures polymer-coated high-precision materials, and several other complementary acquisitions that provide us with access to new technology and new geographic markets.

This is also true for our acquisition of CRP and Mehren, with combined sales of SEK 1.1 billion at the date of acquisition. We also increased our presence in the prioritized oil and gas extraction market. Following these acquisitions, we have significantly increased the company's sales organically.

Sales in another prioritized market, infrastructure and construction, also increased, which means that Trelleborg Engineered Systems is currently our largest business area and represents about 36 percent of consolidated sales. We also increased presence in three prioritized markets – oil and gas, infrastructure and selected industries. These are large, expanding and global markets that contain, for us, a number of attractive segments within which we are capturing market share or strengthening our already leading positions. We might not have made any acquisitions within Aerospace, which is another prioritized market, but at the end of 2005, we acquired Chase Walton, in the US. This has developed so well that we invested in the expansion of production capacity in the plant outside Boston, which incidentally, will open in the next few days.

I hardly need to point out that we expect to further increase our presence within Aerospace and the other prioritized markets in the future. This expansion will take place in areas that have a significant demand for our solutions to seal, damp and protect and where we carefully select the market segment that is strategically correct, that is, segments that have an existing connection to our technologies or to our existing customer groups in accordance with our cluster concept that I have just explained. We must be able to present these segments with a differentiated offering and one that is unique from competitors. It must be possible for Trelleborg to maintain or strengthen a leading position within the segment, and accordingly, generate long-term profitable growth. Against these criteria, we continuously evaluate our market segments through a fundamental analysis that identifies what opportunities are available for each segment. The analysis can, and has, resulted in us leaving certain market segments that we did not find attractive, and discontinuing products, product areas or businesses.

In our continuous market analysis, we uncover new segments that are worth developing, like many of our existing segments, and are worth allocating additional resources to with the aim of developing further. We can formalize these two central processes. The process of assessing a segment to find ways of improving return or to develop those that we deem will not achieve our targets we call Up or Out. This should not only be interpreted as the divestment or closure of units in the segment we choose to leave, but it is more common for us to price ourselves out of the segment and gradually move resources to a more attractive segment, like Sealing Solutions has done in 2006 with certain parts of its range for the automotive industry. The securing of growth in prioritized segments is ensured

through what we call Global Growth Initiatives. These help us to emphasize that it is processes that are prioritized, systemized and reviewed.

We have a number of growth initiatives in place to create and strengthen our leading positions – both acquisition-driven and organic. The strong growth that I have already talked about today is largely acquisition-driven. We will continue to acquire operations that add value and are compatible with our business concept in the same way as we did in 2006 – with 11 acquisitions and combined sales of slightly more than SEK 3.2 billion. A number of these were complementary acquisitions, which can almost be viewed as organic growth and which increase our customer base or complement us technically. Other acquisitions were of a more strategic nature and these allowed us to enter new growth areas or complementary technologies – like Reeves or CRP.

We have several new pipeline acquisition processes. We continuously monitor some one hundred attractive acquisition objects. The resources and the determination are there. Only when attractive objects are available at the right price are the wheels put in motion. Our acquisitions and successful repositioning also drives our organic growth, and as the graph illustrates, our organic growth has exceeded the underlying market in recent years. This implies that in our focused markets, our market share is increasing at the expense of our competitors. This is a result of such factors as our global presence, which enables us to efficiently market and sell our solutions throughout the world. In conjunction with our acquisitions, we usually obtain a number of brands that are rapidly replaced with the Trelleborg name. In this manner, we can build our global brand and create the maximum value for our units. For major acquisitions, such as Pirelli's agricultural tires and Busak & Shamban's seals, this process has been allowed to take a longer time. However, in the future, all of our agricultural tires will be given the name Trelleborg, thereby strengthening the Trelleborg brand, and seals previously sold under the Busak & Shamban brand will be sold under the Trelleborg name.

However, our organic growth is also a result of our focus on the rapidly growing markets in Asia, Latin America and the former Eastern European block, where we are currently represented by some 15 proprietary manufacturing plants. We continue to increase our presence in selected rapidly expanding markets through a number of investments.

The fact is that we have tripled our sales in these markets in the past four years and sales will continue to grow as a result of investments made in recent years. We are also expanding organically by increasing the order value per customer. We develop complementary products or services to our solutions to enable us to deliver turnkey systems and increase the value for the customer and Trelleborg.

Innovation is one of our core values and innovations are an important means to ensure our growth. The main focus of our development operation is on adapting existing solutions to our customers, for example, the thousands of precision seals that we continuously develop and adapt to improve the customers' processes and products. However, we also develop entirely new products, materials and solutions, such as Turcon, an extremely special polymer-sealing material, and Trelline, a hose solution for

deep-sea transportation of oil – all developed with the aid of our shared polymer and applications know-how to solve an existing function in a better way.

It is also important to search for new application areas for our products, like Applied Damping Material, which started out in life as a brake shim, but is now used to damp in areas ranging from engine blocks to computers. Much of our development work is conducted in close cooperation with our customers and it is therefore important for us to be located close by to enable us to provide local support in a rapid and efficient manner. We have some 40 major development centers throughout the world. Some of these, known as technical centers, conduct basic research and develop new products and materials. The development of existing leading positions also requires cost efficiency in all areas of our processes. For example, we closely associate research and development with our Global Growth Initiatives.

Efficient processes also involve effective market and sales activities that, for example, categorize our customers so our resources are utilized in an optimal manner – ensuring that each customer receives the appropriate service level and price. It also entails enhancing efficiency in service and support in the after market and developing efficient logistics solutions, by ourselves or in cooperation with a third party, as Sealing Solutions did in 2006, for example. However, I intend to primarily talk about how we enhance efficiency in our sourcing, that is, production and other ways to obtain products for our customer solutions.

We work relentlessly to improve our production structure! We achieve this by enhancing capacity utilization and concentrating production to fewer, larger and more specialized plants in locations close to our customers. In 2006, we merged two Spanish plants, which both manufactured infrastructure products and laminated material. We consolidated production of industrial profiles in Värnamo and Rydaholm and transferred all activities to Värnamo. The production of protective products in Ystad will be discontinued and operations will be transferred to Lithuania. We are consolidating production of pipe seals to Poland, a growing market, and reducing operations in Sweden. Our production of fenders will be consolidated to Singapore. We discontinued production of special tires in Trelleborg to consolidate production to Italy and Sri Lanka. Furthermore, we will transfer all industrial tire production to Sri Lanka, which will entail the gradual discontinuation of production in Hartville, in the US, with full closure of the plant scheduled for the beginning of 2009. Moreover, this is a process that we intend to continue.

As you can see, we are increasing our presence in markets with a higher growth rate. In these markets, we benefit from, and will increasingly benefit from, a more competitive cost level. These are areas where we currently have nearly one quarter of our employees – with further increases on the horizon! Never in the history of Trelleborg have we invested more in high-growth markets than in the past 18 months.

An efficient production structure also entails rapid adaptation to fluctuations in demand. Accordingly, we regularly consider, in various ways, the purchase of components that are not strategically important for us, instead of producing them ourselves. This enables us to

make our fixed costs variable and to reduce our tied-up capital.

We are working to focus our purchasing with the establishment of a new purchasing organization anchored in Group management that aims to optimize, systemize and globalize the process. On a daily basis, we conduct a number of improvement programs as structured processes. This forms the basis for all efficient production. I now wish to comment on how we are addressing Automotive's profitability, which we do not view as satisfactory, with activities of this type that I have just mentioned. It is important to remember that Trelleborg Automotive's business can be split into two different operations – Antivibration Systems and Fluid and Acoustic Solutions – for light and heavy vehicles, respectively.

Within the antivibration operation, we have a first-rate, global strategic platform. It is the more local-based Fluid and Acoustic Solutions operation, which represents approximately 25 percent of Automotive's sales, that is the main reason for the weaker earnings trend.

Similar to a coin, Trelleborg Automotive has two sides. On one side, we have three major challenges to manage. The car industry, which despite strong growth in specific markets, is under pressure. This is particularly true for the US and Western Europe, where we still generate the bulk of our sales, despite the current increase in sales to Asia.

In 2006, we observed historical price increases in raw materials, particularly with regard to polymers, which are unique for us and which do not impact other industrial equipment companies. However, we also experienced operational disruptions, mainly within Fluid and Acoustic Solutions.

Conversely, there are considerable opportunities within the automotive industry for critical solutions that seal, damp and protect and we currently occupy several leading positions in a number of attractive sub-segments that have the potential to generate favorable long-term profitability.

Accordingly, a few months back, we initiated a strategic and operational review of Trelleborg Automotive based on our long-term strategic positioning and associated measures, and an operational perspective with short-term efficiency measures that have a positive impact on profitability and relatively short repayment periods. Naturally, operational improvement processes run continuously, but take on an extraordinary character as they are conducted under extraordinary conditions.

We are enhancing efficiency in a number of administrative functions, which will also be transferred to Eastern Europe, entailing personnel reductions in such facilities as Mannheim, in Germany. We have reduced capacity in Western Europe by closing a plant that manufactures antivibration components in Trowbridge, in the UK. Production will be transferred to existing plants, mainly to Trelleborg's newly constructed facility in Romania, and to Burgos, in Spain. We are also in the process of closing a plant in West Thurrock, in the UK, and one in Dawson in the US. Production from the latter plant will

be transferred to a sister plant in the US and to Mexico. We are introducing a new organization and establishing global processes. We are investing in a new information system to enable us to better allocate our resources appropriately. We are investing in new and existing plants in such rapidly growing markets as the Czech Republic, Poland, Romania, China, India and Mexico, and adapting production in Europe and the US to meet the long-term demand. Furthermore, we will continue our focus on innovative solutions that create added value for customers and Trelleborg.

Meanwhile, the operational strategic review continues as does the strategic assessment of the segments in which we are active and our positions. However, all measures will be conducted in a responsible manner to ensure that we do not sacrifice long-term values in the balance sheet for short-term gains. The impact on cash and bank balances for the program is estimated at about SEK 400 M before tax mainly during the period 2007-2008. On full implementation of the program, the earnings improvement is assessed at approximately SEK 175 M on an annual basis.

Target-oriented leadership is required to steer our business model and to create the leading positions that comprise our key strategic objective. In turn, this requires enterprising individuals that can and like to be steered with targets. We identify these individuals with a structured process called "Talent management," which I already talked about last year.

During the year, we clarified our core values that are currently being introduced globally throughout the Group. We developed programs to strengthen our managers' roles as coaches so that they can communicate with their coworkers as regards what is expected of them and how they should develop so that they can perform at the maximum level and be entrusted with larger tasks within the Group. These programs also comprise a remuneration system that rewards performance and supports our strategic and operational targets, so I am confident that we can attract, develop and retain competent employees and management in our operations.

In conclusion, I can say that the strong growth from 2006 has continued into the first quarter of this year. In continuing operations, we succeeded in increasing sales by 11 percent, of which 10 percent was organic, despite the discontinuation of operations in a number of segments that did not satisfy our criteria in the long term.

All business areas increased sales, with the exception of Wheel Systems, which has consciously discontinued a number of products with low margins. Nevertheless, in continuing operations, Wheel Systems grew by 5 percent. The largest increase of 41 percent was reported by Engineered Systems, which to a certain extent, was acquisition driven. However, the market for project-related products within infrastructure and offshore oil and gas was also favorable during the quarter. Operating profit increased by 30 percent. The increase was a result of the successful focusing of operations, the positive effect of completed acquisitions, efficiency enhancements in operations and the continued favorable market conditions in the majority of the prioritized segments.

We are also pleased to report a significant lift in earnings in three out of our four business areas. Particularly within Wheel Systems, we can see how the active portfolio management I just mentioned had an impact, and if we exclude Automotive, operating profit increased by 51 percent. It is primarily the nonrecurring amount of SEK 133 M that I just commented on, which is related to the review of Trelleborg Automotive, that has impacted on the reported profit after tax, which declined by 25 percent.

The favorable order intake for products to the oil and gas industry continued, especially for so-called Drill Riser Buoyancy modules – an example of which you can view outside. We are already taking orders for delivery as far in the future as 2010. Accordingly, we have decided to invest in our Houston plant to meet the increasing demand.

Today, at our Board meeting, we also decided to strengthen our presence in China to satisfy the increasing demand. This investment includes one plant for such infrastructure products as fenders and dredging hoses and one plant for polymer components intended for use in industrial technology. These plants will be established in collaboration with our existing customers, who are also expanding in China, to enable us to grow together.

The outlook for the first six months of 2007 remains unchanged. For general industry, demand is not expected to decline. We see certain signals that warn of a downturn in North America, but we expect to be able to offset this by increasing market share in our focused segments. The very strong demand within the Aerospace and Oil/Gas segments will continue. Cutbacks in production, mainly among North American customers, are expected to have adverse effects on automotive-related operations.

To summarize, we have a first-rate and well-defined business concept with solutions that secure values by sealing, damping and protecting in demanding environments. 2006 was a year of strong growth with improved earnings in three of our four business areas. The fourth business area, Automotive, is currently undergoing a strategic and operational review. We will continue to grow with increasingly improved profitability by strengthening our positions in attractive markets and segments. Through active portfolio management, we shall continue our acquisition-driven and organic growth initiative, and in particular, we shall pursue operational excellence in all processes with the support of target-oriented leadership. We are entering 2007 with strong sales growth, the ongoing review of Trelleborg Automotive and significantly improved operating profit in three of our four business areas.

Thank you for your attention.