

CEO Peter Nilsson's address to the AGM 2009

Mr. Chairman, valued shareholders.

The theme of today's address sounds dramatic. But since mid-2008, we have also been living in dramatic times. However, it is in dramatic times that opportunities arise that we have the ability to capitalize on.

A decline in the economic trend in 2008 was predicted by many. However, I do not believe that anyone could foresee how rapid and severe it would be. Following a favorable market trend during the first three quarters of 2008, the decline in the fourth quarter was dramatic. This was also the case for the beginning of 2009.

I will be commenting on this in today's presentation. And how it impacted our profits for 2008 and the first quarter of 2009. I will report on the work being done to continuously improve our positions. And about the operational improvements we have implemented. To conclude with how we intend to ride out this storm.

However, we will begin with the dramatic economic decline. You have all seen the headlines about the financial crisis which also hastened the decline of the real economy. Four factors contributed to this.

In addition to the financial crisis driven by bad housing loans and poor liquidity in the market energy and raw-material prices were also at very high levels. Which also rose. In the US, GDP growth is estimated at levels not seen since the 1940s. With a rapid decline that we have never seen before. And we witnessed corresponding declines in all our key geographic markets. We also saw how car production dropped by slightly more than 4 percent from a high level between 2007 and 2008. With a dramatic decline in the latter part of 2008. Naturally, this affects us.

Since 2004, we have consciously reduced our exposure in the automotive sector, from about half to less than one third today. We also see how volumes are expected to continue falling this year. The analysis company, J D Power, anticipates nearly 16 percent less volume in 2009. To then begin rising in 2010 and achieve 2007 levels in 2011. It must be said that the figures are somewhat unreliable and are not what we are planning for today. They also conceal the fact that the product mix was changed to benefit smaller cars. Although the pace in the mix change is slower than what is generally believed. There is also a geographic move from traditional markets in the US and Western Europe for the benefit of new markets in Eastern Europe, South America and Asia.

Naturally, the market trend had an impact on our profits for 2008 which was not satisfactory. Following the first six months of 2008, which was unprecedented both in terms of sales and profits sales as well as profits fell dramatically during the second half of the year.

Sales for the full year increased by 1 percent. Many of our operations within, for example, Offshore Oil and Gas, Agriculture and Aerospace performed well. We also strengthened our positions and increased our market shares within several sub-segments. However, it could not offset the dramatic decrease in demand from certain industrial segments and primarily the automotive industry. EBITDA, which prior to the items affecting comparability in 2008, amounted to SEK 2.9 billion was also charged with costs for capacity adaptations initiated in all business areas since we recognized the risks of a decline in the market already during the second quarter.

Nonrecurring costs of SEK 430 M were also charged against profits as a result of a decision by the European Commission in the competition investigation into certain types of marine products, which has been in progress for several years. And, at the beginning of the week, we also signed an agreement with the US authorities which is within the framework for what was previously announced. It was gratifying to receive a decision in this matter. And, to minimize the risk of a similar event strong internal measures have been implemented. Which I also reported about last year.

SEK 994 M was also charged against profits for 2008 for the long-term improvement of all business areas' positions and global structure. This work has been in progress for the past few years and will benefit us now that the markets are declining.

All in all, 2008 was a tough year. And the tough times continue in 2009. Accordingly, we also reported lower volumes and profits during the first quarter of 2009. Net sales decreased by approximately 15 percent, despite positive assistance from the weak Swedish krona. And volumes by 27 percent. The decline is primarily driven by continued low demand for vehicles and industrial capital goods, while segments such as Offshore Oil and Gas, Agriculture and Infrastructure again demonstrated more stable demand.

EBITDA dropped from SEK 871 M to SEK 349 M primarily driven by lower volumes which could not cover capacity costs during the first quarter. But also by costs for capacity adaptations primarily connected to lay-offs amounting to approximately SEK 50 M.

Our Group's financial targets remain. However, they are difficult to relate to in times like these.

To continue to aggressively strengthen our positions strengthen our balance sheet in an uncertain market situation create a financial and market-based scope of action and increase our value creation in the long term, the Board of Directors has put forward a proposal for the issue of new shares. Which we will revert to later today.

On March 30, indebtedness was within our target interval albeit at the upper level. Which is currently unsatisfactory. The high level of indebtedness is a conscious choice on our part to allow us to deliver favorable return on our equity. And with our traditionally healthy cash flow, we also have favorable prerequisites to manage this. I would also like to emphasize that we have excellent financing at favorable terms into 2012.

But we must have respect for the unstable times and at the moment, a somewhat low level of indebtedness is good. With the new rights issue, we will increase the distance to the ceiling of our targeted debt/equity ratio. Which will nevertheless remain relatively high. The rights issue will provide us with better opportunities to develop our business. But we will also strengthen our financial position by focusing on our cash flow and adapting our working capital to the demand. By, among other actions, reducing inventories and improving payment terms from our suppliers in various ways and monitoring payments from our customers.

Based on profits for 2008 and the company's balance sheet as well as the prevailing major unreliability pertaining to future market trends the Board also proposes that no dividend be paid for fiscal 2008. These efforts will generate the capacity to take correct operational measures within the framework for our long-term strategy that stands firm. And which we usually describe using our triangle model.

We are continuously improving our positions within a number of attractive market segments. This is our basic strategy. Consequently, we exit customers and market segments that we find less attractive. It may also involve profitable operations but which nevertheless do not fit our long-term strategy. In this manner, we will increase our presence within segments that we find attractive in the long-term. Segments that are strategically correct. Where we, in various ways, can create a unique customer offering that separates us from our competitors -so that customers choose us.

Allow me to demonstrate two examples. Firstly, Öhlins Racing, who chose us to supply seals for their shock absorbers.

[Film]

Another example is from Offshore Oil and Gas. Where global SBM from Monaco chose us to supply equipment for oil transportation between platform and tankers.

[Film]

In selected segments, we will also be able to create a leading position and healthy profitability. We currently have the largest portion of our sales within attractive segments where we are leading on a global or continental level. Positions that we achieved by focusing our operations and developing an attractive customer offering in many ways.

Through focused efforts, we have approximately 70 percent of our sales within Automotive for demanding applications where we are able to create customer value and are also leading. We will be able to capitalize on this in these turbulent times.

Another example is polymer solutions for extraction of oil and gas offshore. Where we created a world-leading position through organic growth, geographic expansion and, in particular, through the acquisition of CRP in 2006.

A further example is infrastructure applications. For example, we are building a new plant in China, which I will revert to later. We have also created a leading position within polymer-coated fabrics which has a number of interesting applications and where we have advanced manufacturing here in the district of Trelleborg.

Seals for demanding industrial applications and for Aerospace, where, following organic development and complementary acquisitions, we are global and the only manufacturer with a presence in Brazil and China. As well as within Tires for agriculture and industry where we successfully consolidated the production of high-grade agricultural tires to Tivoli, Italy. And, we are now finalizing the relocation of production of industrial tires to Sri Lanka.

These segments have a common need for solutions that seal, damp and protect and it is our core competency on which our business concept rests.

We create growth within selected segments with Global Growth Initiatives. Where we systematically invest in developing new markets, products and solutions. Some examples are shown on the slide. With our Shear plates solution, based on our know-how on damping of brakes we dampen vibrations in diesel engines, which is a growing market.

Infrastructure solutions illustrated in the slide with docking systems for harbors. Where we uniquely combine electronic monitoring with our fenders.

Acquisitions, which are part of our development, will probably be fewer in these times. However, during 2008, we acquired six operations, all of complementary nature. Acquisitions included MacDermid, which strengthens our global position and supplements our offering within the Printing Blankets segment. We are now market leader in Europe and a strong second place in the US. And, thus world-leading.

Another typical acquisition in 2008 is GNL, based in Italy, which completes our product range of slide-ring seals particularly for heavy agricultural applications, the construction and mining industry. These are customer groups that we already cultivate. With this complementary product range, we will become a better supplier that creates improved customer value while simultaneously creating value for Trelleborg by improving the use of our market and sales resources.

By segmenting markets and distinguishing ourselves from our competitors and creating a leading position we have successfully increased our presence in emerging markets that we find attractive. We are also increasingly focusing on two other areas with an attractive potential, mines and mineral extraction and life sciences. And in recent years, we have also grown at a more rapid rate than the underlying markets.

And we are currently ranked as the world's largest company in industrial rubber.

What makes us different is that, compared with our competitors, we generally have less exposure toward the automotive industry. This means that many of our competitors are in a tougher position than us, which we can take advantage of. Generally, we are also more global with proprietary operations in 44 countries.

In addition to reinforcing our positions, we are improving in our selected segments our operational structure. We create Excellence by continuously improving our operational, commercial and financial processes. Among our commercial improvements are more efficient customer contacts. An example that generates strong earnings and advances business is Trelleborg Sealing Solutions' global customer website, which has 45,000 unique members and is growing by 2,000 members a month. And has up to 600,000 page views a month.

Most of our sales are currently conducted in Europe and North America. This is too much considering that growth is higher in Eastern Europe, Latin America and Asia. But we are improving. Last year alone, our sales to markets outside Western Europe and North America increased by 10 percent. This is a result of focused actions in recent years. At a rapid pace to compensate for the fact that we were not sufficiently active in the past. To, in this manner, meet the demand of local markets in Eastern Europe, Latin America and Asia.

For example, in China in 2005, we had one unit in Wuxi outside Shanghai, in which we owned a 50-percent share. Since I assumed my position in 2005, we have acquired the other 50 percent and opened five new units to increase our presence in this attractive market. And in the current quarter, we are inaugurating one more. Trelleborg Engineered Systems' new infrastructure products plant in Qingdao.

During the past five years, we have improved our geographic balance by increasing the number of employees in growth countries by nearly 50 percent. We currently have 35 percent of our production employees in these countries. Since 2003, we have more than doubled our sales in the new attractive markets in Asia, Latin America and Eastern Europe. Which currently account for 20 percent of our sales.

The geographic balance our customers' demands for a global presence and cost efficiency are key aspects in continuously enhancing the efficiency of our structure. In recent times, Trelleborg Engineered Systems has consolidated most of its hose manufacturing in France. We are retaining the production of highly specialized hoses here in Trelleborg. Such as submarine hoses, which you can see an example of outside and hoses for the mining industry and wind turbines.

In sealing profiles, we have also initiated actions for the consolidation of production in the UK and Germany. And we have taken similar action in the US regarding polymer-coated fabrics and printing blankets. Trelleborg Wheel Systems is consolidating the production of industrial tires to Sri Lanka and we are currently closing one unit in the US. The production of rims in Denmark has been discontinued and relocated to Latvia.

At Trelleborg Automotive, the action programs that were initiated as early as 2006 are currently in their final phases. One unit in Peru in North America has been closed and production has been relocated to other units. To consolidate production, we also closed units in Dawson in the US, Trowbridge and West Thurrock in the UK and Fergom in Italy. We also divested one unit in Coventry in the UK. In addition, we are also coordinating the European administration. Furthermore, in 2008, we also decided to relocate substantial portions of the production from Nantes in France to Turkey.

Alongside this, we are constantly conducting a number of Group-wide, systematic and transparent programs to continuously improve our business. Our program for Manufacturing Excellence, which was fully launched in 2008 is currently being implemented in all major production units.

We have also commenced a sourcing program that involves optimizing our purchases of raw materials, components and indirect goods. We have upgraded our purchasing organization with worldwide specialists and located the function in the main office in Trelleborg. So the main office has also been “globalized”.

To summarize, we have a strong platform to stand on as we look to the future. We have improved our positions in attractive segments in lucrative markets. Geographically, the Group is currently better balanced than ever - in terms of customers and production. And we have an improved structure and programs for continuous improvements. But we currently find ourselves in the eye of the storm. Which we must also manage in the short term.

In addition to focusing on our segments and customers that create most value and our work in enhancing the efficiency of our structure we are adapting our capacity to current demand. We presently have more than 5,000 fewer employees than we did when the workforce was at its peak in mid-2008. This is unfortunately a necessary adjustment to survive the prevailing market situation and ensure our long-term development. These adjustments impact all business areas and all countries. The strongest reductions were made in Trelleborg Automotive, whose demand has declined the most.

Naturally, it is a regrettable and difficult process when this many employees are forced to leave the company. But our aim is to handle this with great respect and as responsibly as possible.

In a market climate such as the current one, a healthy balance sheet is particularly important working capital that is adapted to prevailing demand and a focus on cash flow. So that we can advance our long-term strategy. This is also the perspective from which we must view the proposed new rights issue.

In the short term, we are careful not to lose sight of long term objectives. We are therefore keeping to the beaten path in our strategic model. This also includes an innovative approach. Innovation is also one of our core values. It builds on an inquisitive culture that is open to change. It does not only concern our products, but also innovative

solutions in all respects from product development through manufacturing to marketing and administration.

Allow me to demonstrate some example of solutions that are the result of our innovative approach.

A completely new production process for our industrial tires developed in Sri Lanka, which reduces vulcanizing times by 30-40 percent provides enhanced efficiency and a higher level of quality at a lower cost.

Innovation may also involve changing an organization in an intelligent way. One example is Trelleborg Automotive's new purchasing plan which has, over a short period, been transformed into a global and specialized organization that saves time and money and generates better quality.

New application technologies that increase customer value such as Thermobond, a unique and patented method for splicing sealing membranes is another innovation. Which was developed in Värnamo. Another example is Trelleborg Sealing Solutions' web solution for better and more efficient customer relationships, which is just demonstrated. These are all examples of innovative approaches that make us different.

Innovations are always started by people. Our employees and our goal-oriented leadership are the link between strategy and action. Our culture of giving employees responsibility early on and encouraging performance and entrepreneurship creates courage and innovative thinking. Qualities that are particularly important in tough times. And I would like to take the opportunity to thank all employees for their committed efforts during this dramatic period.

Competent employees are the key to our success. Accordingly, we are investing substantial resources in Employer Branding and Talent Management. This comprises a number of activities to attract new and currently employed colleagues. Who we are developing and want to retain.

In these times, we evolve because of the intense market situation and we will be even better at handling change one of our strengths.

Shared values, the Code of Conduct and corporate governance provide the framework for how we manage our operations. This makes transparency and communication vital. Internally, but also externally.

Of course, we are also keen to provide shareholders open and clear information. We are thus pleased that our Annual Report was recognized as the best Large Cap report in 2008 by the Swedish Shareholders' Association and the NASDAQ OMX Stockholm stock exchange. And that our website was top ranked. Our Board of Directors was also awarded for the best corporate governance report by the NASDAQ OMX Stockholm large cap exchange.

Allow me to summarize today's message

We find ourselves in a dramatic market situation and there is substantial uncertainty ahead. But we have also strengthened our positions in attractive segments. Work that is continuously under way. And we have made significant improvements in our operational structure.

We are adjusting our capacity to the prevailing demand and focusing our efforts to ride out this storm. The dramatic trend creates challenges but also opportunities. Weaker demand puts commercial and financial pressure on many of our competitors, who are having a tougher time than us. We will now take advantage of the business opportunities that arise as the recession changes the balance of power in the market.

With our globally leading position, we have a strong base from which to advance our market positions. This is what our customers say, who receive solutions from us that they cannot find anywhere else. This makes us unique and well-equipped for the future.

In conclusion, allow me to thank all of the shareholders for their support in these challenging times.

And naturally, thank you for your time!