



President's speech at the AGM on April 23, 2014

The year 2013 reconfirmed that our long-term efforts to create leading positions by combining a number of small everyday improvements with continuous structural enhancements is yielding results. I would like to begin by discussing the work that we have carried out to transform Trelleborg into a focused polymer Group, as well as our efforts to continue strengthening our positions in carefully selected segments. I would also like to comment on the continued earnings improvement in 2013, our most profitable year to date, as well as addressing one of our greatest challenges – recruiting and retaining the right skills and employees. And in accordance with tradition, I will conclude my remarks by discussing our results for the first quarter of 2014, which were published earlier today. By all accounts, the report has been well received.

Let me begin with a few remarks on our journey – from a conglomerate as recently as the early 2000s to a focused polymer Group today. We are now a world leader in engineered polymer solutions that seal, damp and protect critical applications in demanding environments – solutions that accelerate performance for customers in a long-term, sustainable way.

Our success is the result of continuous, consistent work related to our strategy of creating leading positions in selected segments with the help of our strategic cornerstones. These cornerstones not only support our strategy, but also interrelate with one another.

We have seen that our transition into a focused polymer Group has improved our results. Earnings per share, excluding items affecting comparability, which is primarily used to measure our performance over the slightly longer term, increased sharply between 2009 and 2013 and amounted to SEK 7.40 in 2013. This was also reflected in our market value, which displayed a distinctly positive trend over the same period.

Our first cornerstone, which we will continue to focus on in the future, involves improving our geographic balance. Since 2005, we have sold, relocated or closed some 40 production units in Western Europe and North America. At the same time, we have established or made major upgrades to some 20 units outside these regions, thereby enabling us to follow our customers' globalization and develop local customer relationships with the potential to become global. We have also improved our cost structure and now have fewer, yet more efficient units. This is a prime example of the interrelation of our strategic cornerstones.

Today, we are a global company with operations in 45 countries outside Sweden, where 91 percent of our employees work. We are also global from other perspectives. For example, 92 percent of our senior operational managers work outside Sweden and only 6 percent of our sales are currently conducted in Sweden. Although the rest of the world is growing at a faster rate, Western Europe, which accounts for slightly more than 50 percent of our sales, remains a key market for us. However, there is no doubt that the focus of the global economy is increasingly shifting toward Asia, albeit at a slightly slower pace than in the past. After all, these countries, as well as others outside North America and Western Europe, are expected to continue to account for a dominant share of global growth in the future.

Accordingly, our goal is to continue expanding our presence in these markets and, without locking ourselves into a specific time frame, to ultimately conduct 40 percent of our sales in Western Europe, 20 percent in North America and 40 percent in the rest of the world. This is the overall aim on which we are building our business.

However, I would like to point out that the globalization of our operations is not only focused on relocating our manufacturing and sales operations. For us, globalization also involves developing our operations and functions, and selecting locations where we can grow, recruit the right skills and perform our tasks in an optimal manner. It was for this reason, for example, that we chose to establish our global design center for marine fenders in Ahmedabad, India, where all basic design work on our fender systems now takes place. We also looked to India – this time to Bengaluru – when choosing a location for our global digital development center. This is

where we develop our digital tools, including our apps – an important means of interacting with customers which I will discuss in more detail shortly.

We have gathered our development operations for the most commonly used marine oil hoses in Brazil in Santana de Parnaíba, located just outside São Paulo, since this is a key market for these products. An increasingly significant share of our global development of industrial antivibration systems now takes place in Wuxi, China. These systems have achieved such a high level of success that they were named *Best Innovation of the Year* – an internal recognition awarded each year to the best innovation within the Group – for offering a solution that not only eliminates vibrations in excavators, but also holds the cab in place in the event of an accident, which saves money and provides customers with improved function. We are also taking an increasingly global approach to several of our administrative processes. For example, we established a global legal support function for certain legal matters in India, where we can recruit competent, ambitious employees with a keen interest in global business.

Another one of our cornerstones focuses on optimizing our business portfolio. We have withdrawn from operations and segments that we no longer deem to be attractive or where we do not hold – and do not expect to achieve – a leading position. In the automotive sector in particular, we discontinued our involvement in a number of operations between 2007 and 2012, including brake hoses, fluid solutions hoses, air springs and gas springs.

The final step in our strategic development in the automotive sector took place in 2012, when we formed TrelleborgVibracoustic through the integration of our antivibration operation for light and heavy vehicles with Freudenberg's corresponding operations. The company is a 50/50 joint venture between Trelleborg and Freudenberg. With nearly 9,000 employees in 18 countries, TrelleborgVibracoustic is now a global, world-leading company offering the market's most comprehensive product range for a customer base that includes all of the world's major automotive manufacturers.

As a result of the transaction and the successful integration of the company, TrelleborgVibracoustic is now delivering significantly stronger margins than we delivered prior to the event. Our operating margin has increased from an average of 3.5 percent for the former Trelleborg Automotive AVS prior to the transaction to a margin of 7.3 percent for TrelleborgVibracoustic in 2013. And in the interim report we published a few hours ago, the margin had increased to 8.6 percent.

However, we have the potential to make further improvements by continuing to expand our global presence, develop new products, enhance the efficiency of our production operations and optimize our purchasing procedures. We have also developed our portfolio outside the automotive sector. For example, we have developed the *floatover bearings* segment, which is a solution that dampens the impact when an oil platform is placed on its legs in an offshore environment. It is a complex product designed to cope with thousands of tons and therefore commands a price of tens of millions of Swedish kronor per project.

Another segment that we have developed is life sciences, which in the slide is illustrated by medical seals. These are manufactured in entirely dust-free environments, or cleanrooms, far removed from the rubber factories of the past. We have also developed an application for polymer-coated fabrics for emergency rescue purposes, with some of the development taking place in the town of Trelleborg. The emergency slide that played a critical role in the evacuation of passengers from the aircraft that crash-landed in the Hudson River outside New York in 2009 was made from our fabrics.

These examples illustrate our thought process when we, within a technological area, identify an attractive segment in a defined geographic market. These are segments that we primarily develop organically and through focused daily work.

However, to more rapidly establish ourselves or to strengthen our positions in selected segments, we sometimes carry out bolt-on acquisitions. This is a central activity and we work continuously to identify attractive new acquisition candidates that can develop our business.

Between 2007 and 2012, we acquired a number of operations that complemented or strengthened our already solid positions. We are continuing to work according to this policy.

In 2013, we purchased four operations. We acquired Sea System Technology, which complements our position in marine docking and mooring solutions, and an industrial tire distributor in the Netherlands, Industriebanden Beheer. Another acquisition in 2013 was U.K.-based Ambler Technologies, a niche offshore oil and gas company. We also acquired an operation focused on cryotechnology for marine hose systems to enable us to enhance our LNG offloading range as a complement to our already favorable position in marine hoses.

This year, we have acquired a 51-percent stake in the U.S. company Max Seal, a supplier of pipe seals to the U.S. markets, and an industrial tire distributor in Italy called Pircher Alfred. Earlier today, we announced the acquisition of Superlas, based in Turkey but with a global presence that delivers mandrel-built industrial hoses for many different markets and applications and has annual sales of approximately SEK 400 M. These acquisitions have improved, and will continue to improve, our structure and product portfolio.

But even now, our operation has a better balance. Compared with 2010, when light vehicles accounted for a significant share of our sales, we have achieved a better balance in terms of our market exposure. Today, light vehicles represent a minor share of the Trelleborg Group's sales and it is furthermore concentrated to profitable global niches where we are more than happy to maintain a presence. We have also attained a better balance between more general industry and a more capital-intensive industry, the demand from which often balances each other. Within the framework of the more capital-intensive industry, we are currently active in five attractive market segments. Our total of seven focused market segments have different drivers that make them attractive to us.

Within general industry, for example, global growth is being increasingly concentrated to certain markets and customers. Here, it is important for us to make the right choice. The capacity as a global partner to satisfy local needs through customized comprehensive solutions is becoming increasingly important in the pursuit of long-term value creation for our customers. These are the drivers that make the segment attractive to us.

An expanding population is driving an increasing demand for energy. Offshore oil and gas exploration is taking place at ever greater depths and in more remote locations, thereby increasing the complexity of the extraction process. This requires more advanced solutions to ensure safe and efficient energy production in these demanding environments. We like these drivers, and adapt our operations according to them.

A growing number of global transactions and urban environments gives rise to greater movement of people, goods and services. The increasing transport needs and the demand to reduce the environmental impact requires new efficient technology and more advanced transport solutions. These are drivers that match our offering to our customers.

Urbanization and economic development are fueling the expansion of infrastructure, which involves the construction of new roads, railways, airports, harbors, bridges, tunnels and increasingly large buildings. This trend is being driven in particular by developments in high-growth countries, where populations are increasing. To satisfy these needs, companies that design and manage infrastructure projects require hoses, seals, bearings and solutions that seal, damp and protect. And this is precisely what we can supply them with.

A rising population demands more efficient agriculture. In some parts of the world, this requires a more rapid transition from manual to mechanical solutions. In other parts of the world, this requires the industrialization of agriculture to enhance productivity. These factors, combined with a greater need for alternative energy forms, such as biofuel, represent key drivers for the agricultural sector that are well suited to our advanced tires and hoses and other solutions for the segment.

A more globalized world is increasing the need for travel. With high-growth countries as the general catalyst, we can see how investments in new aircraft are increasing. In parallel, fuel-

efficient technology is becoming increasingly important as competition between airlines intensifies. Our innovations ensure air safety, improve passenger comfort and reduce operator costs.

Global growth in the light vehicles industry is becoming increasingly polarized, with high-growth countries and fluctuating development for different customers serving as the catalysts. The growing share of global manufacturing platforms requires a full global presence, which is driving the need for specialisation. These drivers are suited to our solutions and positions for the light vehicles industry.

In these areas, we identify segments on the basis of technical and geographical dimensions and focus on the segments we believe are attractive and where we can become the leader.

Through our strategic cornerstones, we have successfully established leading positions in a number of attractive segments at continental or global level. We are also working tirelessly to continuously improve our processes and increase our revenues, reduce our costs and lower our tied-up capital.

We have a decentralized organization with independent managers for all of our units. Decisions and development are to be pursued by those closest to the business. However, to ensure operational efficiency throughout the Group and capitalize on all good ideas and initiatives, we have advanced programs that systematically promote the exchange of ideas and inspire and train our various units, at the same time as they gain access to tools to implement improvements in their respective operations.

With the Sales Excellence program, we are developing a cohesive and mobilized sales program, not least with respect to selected geographic markets and segments. With the Purchasing Excellence program, we are building shared and better purchasing processes and rules. In our Working Capital Excellence program, we are working with capital efficiency to reduce our capital base. For the past number of years, we have also been working with Manufacturing Excellence to create world-class manufacturing. With our consistent strategic work, we have continuously improved our operating margin.

The increased profitability combined with the new share issue implemented in 2009 have also improved our financial base. Our debt/equity ratio, which amounted to 124 percent in 2008, had fallen to 38 percent at the end of last year. This provides us with greater scope to act and a solid platform to continue the improvements and investments. In parallel with financing our development and strengthening our financial base, we have also been able to pay an increasing dividend to shareholders. In 2013, we were able to report continued earnings improvements.

Despite the less-than-ideal market conditions in 2013, we were able to report a slight sales increase; from SEK 21.3 billion to SEK 21.5 billion. Our operating profit, excluding items affecting comparability, increased from SEK 2.3 billion to SEK 2.6 billion. We were therefore able to report an improved operating margin of 12.2 percent. If we add the share in profit from TrelleborgVibracoustic, operating profit rose to nearly SEK 3 billion. This corresponded to an increase of 21 percent. Excluding TrelleborgVibracoustic, the increase was 12 percent.

The fact is, 2013 was our most profitable year ever, leapfrogging 2012 and 2011, which prior to that were the best years. Largely all business areas contributed to the positive development in terms of operating margin and return. And for this, I would like to take this opportunity to thank all employees who, as in previous years, have done a fantastic job.

We are now continuing our work on creating leading positions in attractive segments from our position as a world leader in engineered polymer solutions, which we further developed during the year by improving our geographic balance, our business portfolio, our market positions and our margin and financial position. And we will continue to be perceived as a leading company, offering both existing and new customers unique and increasingly complete and advanced tailored solutions for demanding environments that do not permit any mistakes.

To show you what this is like in reality, I would like to show you a film about a project that we were involved in during the year. The Turkish Cypriot population has long suffered with the

problem of the supply of fresh water. But this problem has now been solved and a solution from Trelleborg plays a central role (film). A similar Trelleborg project is now also under way in Azerbaijan.

We are building our operation on five core competencies. Two of these are to be regarded as playing more of a supporting role.

Our Polymer engineering expertise. We are a pioneer in both applied polymer engineering and material technology in our chosen sectors. Our Local presence, global reach. Our local teams are leveraging our global strength and expertise wherever it is needed. This is an advantage we have over many of our competitors, who are more local or regional.

The three other competencies relate to how we interface with our customers and increase our revenues. Applications expertise means that we have in-depth understanding of the challenges our customers face. Business accelerator is another of our core competencies. We deliver solutions based on market foresight that improve business for our customers by reducing their costs and helping them to create new revenue streams.

Our fifth core competency involves customer integration. We work closely together with our customers in multiple channels where the overall aim is to make it easy for our customers to do business with us. An increasingly digitized world creates new opportunities to communicate with our customers. This is an area in which we are investing many resources so that we are at the forefront of development.

Allow me to show you an example of Trelleborg Wheel Systems' work with apps, which is an increasingly common form of customer integration (film).

We are also integrating digitally with our investors and we have had an innovative app for some time now that quickly and simply provides shareholders and all other investors with access to all relevant financial information about Trelleborg. If you haven't already done so, I recommend that you all download the app from the App store or Google Play.

Nowadays, apps are easy to produce and cost less and less, which makes them common yet powerful tools. We have apps for many different purposes. Sometimes they are developed for a very small customer group, such as our app for selecting seals for aircraft landing gear, for which our global target group is fewer than 1,500 people.

Other apps are more general, such as our converter app for all types of dimensions and units. It has been an enormous success for the company with more than 1 million downloads and is currently the most downloaded conversion app in the Apple store. It also appears on various lists of the most downloaded apps. And it is against the backdrop of this rapidly growing range of apps, among other aspects, that you should view our expanded center for digital solutions in India that I mentioned earlier.

One of the greatest challenges we currently face is recruiting, and also retaining, the right employees in the right position. This makes a difference now and perhaps even more so in the future. Competent and committed employees are thus central to our success. In Western Europe, we are facing a crisis in the supply of new engineers now that those born in the 1940s and 1950s are entering retirement while the number of graduate engineers is declining.

For this reason, we are also working intensively on internal education and training, and a general talent management program to develop and retain our highly skilled employees. In 2013, we continued our focus on training by making the highest investments in the company's history in this area. One example is the launch of the Trelleborg Group University, where we have a broad range of programs and courses in such fields as leadership, production, purchasing and sales.

Our aim is for the diversity of our operations to be as broad and representative as possible. And we are working on diversity issues in many different ways since it strengthens our business. We want to have employees with different backgrounds who can contribute their experience and knowledge of their respective markets and the conditions that apply there. As I mentioned

earlier, today, 92 percent of our operational managers are not Swedish, so from a geographic perspective, we have come a long way. However, I believe that further enhancing the international character of Trelleborg is one of our more important aims going forward.

We also want to have a higher percentage of women among senior managers. Today, 11 percent of our most senior managers are women, which is insufficient, but this percentage will rise. We are working continuously and consistently with a number of activities and ventures, such as planning talks, career planning and mentor programs that reflect our ambitions. And the percentage of women at the level below the most senior Group management is already 30 percent. If we view this issue from an age perspective, which is important for future recruitment, the percentage of women has risen to 33 percent.

Our ability to recruit talented employees is also very closely related to confidence in Trelleborg and our social responsibility. At present, this perhaps primarily applies to Western European countries that can afford this privilege, but I hope and believe that a larger part of the world will be able to do this in the not too distant future.

Accordingly, our corporate culture is characterized by respect for people's differences, safe working conditions, the various aspects of sustainability and efficient management of the resources that we use. We encourage involvement, responsibility and sound ethics in all relationships. Naturally, we have a zero tolerance policy on all forms of corruption, discrimination and poor working conditions.

We have a number of frameworks that support us in our ambitions and to help us to continuously improve. These include appropriate corporate governance that continuously balances the Group's opportunities with risk-taking while taking sustainability into consideration. We have a shared set of values, and our Code of Conduct that is well known internally is our most important ethical compass.

One of the greatest issues of our time is the change in the direction of society toward sustainable living. Improved processes that allow us to save energy and thus reduce our impact on the environment are, of course, a priority. But above all, I am proud that our solutions that protect people, the environment and infrastructure can contribute to the sustainable development of our world. These are sustainable solutions that we have grouped under the concept of Blue Dimension to clarify just what these solutions create.

An example of this is the tires that we are developing for increasing heavy tractors, which you would perhaps not normally associate with sustainability. In this case, Blue Dimension represents lower fuel consumption and reduced working time due to the unbeatable grip provided by the tires as the tractor moves across the field, increased crop yields owing to less soil compaction due to intelligent tire thread patterns, and greater driver comfort thanks to a softer ride.

To summarize, as a focused polymer group, we delivered a sustained improvement on our margins in 2013. Continuous improvements in small steps and strategic continuity are the foundation of our success. We are pursuing the same overall direction and strategy to create leading positions that we will continue to develop in attractive market segments, with the same strategic cornerstones as before, based on Trelleborg having the right employees.

We can report continued improvements even in the first quarter of this year. Our sales for the quarter increased 4 percent. Operating profit increased even more by a full 22 percent, which led to an increase in the operating margin to 13.9 percent. This is our highest operating profit and our highest margin in a single quarter to date. In addition to these earnings, we can add our participation in TrelleborgVibracoustic, which also performed very well during the first quarter of 2014, and reported record earnings for a single quarter. All in all, the first quarter was an excellent start to 2014.

On that note, I would like to thank you for your attention.