



President's address to the Annual General Meeting, April 25, 2018

2017 was another strong year for Trelleborg. The Group's organic sales increased 4 percent. EBIT– operating profit excluding items affecting comparability – increased 17 percent in relation to the preceding year. This is a result of our strategy of continuously strengthening our position in selected segments and applications. The Group's operations were also marked in 2017 by a continued high rate of activity and investment.

We continued strengthening our positions as a leading supplier of engineered polymer solutions that seal, damp and protect critical applications in demanding environments, all around the world. These are solutions that protect people, the environment and investments, and resist the effects of external forces regardless of whether they are mechanical, chemical or caused by extreme temperatures. We have made progress, we are where we want to be, and we are developing in the right direction. But there is always more to be done. We are comfortable with our strategy and our strong positions when we continue improving and growing the Group.

Our strategic orientation stands firm: creating leading positions in selected segments that we carefully and deliberately choose, and continuously develop based on the preconditions of our various operations, both today and over the long term. Since the Group's operating environment is always changing, this is an ongoing process. Our overall strategy is supported by the four strategic cornerstones on which we continually focus. For us, the priority is to improve the geographical balance by continuing to expand our presence in selected markets, primarily outside Western Europe and North America.

We constantly work to improve our structure so that we are always in the right place with the right resources. We are also working actively and systematically to steadily improve our core processes of purchasing, production, sales and distribution. In particular, we regularly assess how markets, customers and applications are expected to develop so that we can progressively improve our portfolio. Sometimes, this means divesting operations we believe can be better developed by another owner, and allocating resources to the segments where we have, or have the potential to attain, a leading position so that we can continue to maintain a rapid pace in developing new geographies, products, solutions and business models.

We are also continuing with bolt-on acquisitions to more rapidly establish ourselves or strengthen our position in selected segments or prioritized geographies. For us, this is almost in the same category as organic growth. These cornerstones form the basis in all our business units for the ambition of always improving ourselves – or, as we like to say, “raising the bar.” This is a process that is always ongoing, always continuing.

In 2017, for example, we decided to expand our production site for agricultural and industrial tires in Serbia, thus creating a more effective production platform while improving our geographical balance and reducing our dependency on Western Europe.

Automotive boots protect the driveshafts of cars from gravel and dirt. This is a focused segment in which we gradually built up a position as world leader over several years. For these products, we rather recently inaugurated a new facility in Queretaro, Mexico. Our other facility in China is located in Xiaogan, just outside the city of Wuhan. With our efficient production and a presence in France, the U.S., Mexico, the Czech Republic and China, we are already a global player. We are now working further on globalizing, with a focus on Brazil and India – and perhaps Japan as well over the longer term.

Another example of how our cornerstones interact is our investments in materials technology, which is of use in products such as our new hose for extremely low temperatures in which we combine our knowledge of rubber, composites, seals and metals to create a solution for transportation of liquid natural gas. This is not easy when the liquid gas is at a temperature of minus 200 degrees Celsius.

In antivibration solutions, we have improved our position for rail vehicles by broadening our offering with smarter solutions that include new materials and new technology that can automatically compensate for the slope of the road bed, thereby dampening sound and vibrations more efficiently.

We also see that electric motors will be replacing combustion engines to an ever greater extent. It is not a question – as people are sometimes led to believe – of cars alone but also other applications – for example, all the tools and machinery today that run on combustion engines or hydraulics. In other words, it is a potentially strong developing market. Electric motors function partly differently than combustion engines, creating more direct power or increased torque, which places completely new demands on vibration dampers and seals. This is one exciting development that benefits us, as we really know these applications well. We conduct extensive development work on creating a new seals specially customized for electric motors.

We are also developing new concepts for smart harbor solutions. Starting from our position as a world leader in marine fenders – a position we have long enjoyed – we have steadily broadened our offering, with docking solutions such as Quick Release Hooks and Load Monitoring. We are now continuing that journey by broadening our offering to include smart solutions that not only protect harbors and vessels but also create conditions for more efficient harbor work while they promote increased safety using new solutions that improve communication among port staff, ships and everyone else involved, in which all the data our various solutions offer is coordinated efficiently and intelligently.

In the aerospace industry, we have also expanded our capacity and presence for advanced aerodynamic seals found in a number of places in a modern aircraft to ensure a safe, efficient, and sustainable flight. Over the last few years, we have also continued developing unique testing opportunities. Today, we are the only global player in the segment with resources in the U.S., the U.K., France and China that can support the largest manufacturers in the aerospace industry with modern facilities around the world where they are in demand.

We have also recently strengthened our positions in Healthcare & Medical, partly by broadening our offering with more products and solutions based on liquid silicone, which provides new opportunities for us to operate in the segment. We have increased our capacity for technology, and continue to do so, in Bulgaria and Switzerland and the U.S., where we also expanded our capacity in silicone and cleanroom manufacturing. This gives us access to attractive niches where demands for extra cleanliness are key. As a next step in the segment, we will also be strengthening our presence in China. Over the last few years, we have built a solid platform for global growth, and for continued success in Healthcare & Medical.

In early 2018, we acquired Dartex, the world leader in coated fabrics for sore prevention. This is an operation we will now be globalizing through our more global structure. The acquisition broadens our offering and strengthens our position as a premium supplier of engineered coated fabrics in Healthcare & Medical. In a similar way, we are developing sub-markets and niches in all the segments where we operate. This is an ongoing process for improving our operations by routinely optimizing our business portfolio and structure, and improving our geographical balance.

New technology that is rapidly being developed offers new possibilities, especially in digitalization, sensors, database management, global networks and new positioning services. In order to manage all the possibilities the new technologies offer, we have created a structure to make better and more efficient use of them. Our starting point is making use of the new technologies to make it easier for our customers to do business with us. This is work we are carrying out as part of the “Ease of Doing Business” framework. That is what this is ultimately about – making it easier and more secure for our customers to do business with us.

New business models can be created that mean new ways of doing business. This way, we can sometimes shorten the value chains and get closer to the end customer, with all the advantages that gives. We are developing various services and smart tools – often Internet-based – that

enable our customers to design products, search for product data, order products and monitor deliveries, for example, and make it generally easy for us to communicate with our customers.

Marketing & Communication deals with different ways of interacting with various target groups and adapting our communications to customers to ensure they receive only information that is relevant to them. It also means strengthening our brand and cultivating new and existing customers through digital marketing and communications that spark interest. The new technologies enable us to do this in a much clearer, much more efficient way now that we are receiving more information and knowledge about our customers.

By smart and intelligent products, I mean products that create entirely new solutions using sensors, data, new technology and positioning services. For example, the VIP system I spoke about last year, with sensors that measure several parameters and automatically adjust the pressure in an agricultural tire according to prevailing conditions. Let me illustrate this with a few new examples of how we make it easy for our customers to do business with us.

Our smart industrial hoses alert users about wear and tear, enabling planned maintenance and reducing the risk of costly disruptions to operations.

We are continuing to develop our Interfit and I-Rent concepts, which allows us through data collection and planned maintenance to also offer customers the opportunity to rent tires instead of purchasing them. So far, the concept has been particularly successful in the North American market, but we are seeing increased global interest in the solution.

Another example of a value-creating service is the technological solution that enables our customers to choose type of packaging, time and place of delivery. This is a process that begins with the customer's order and is part of what we call Service Plus.

Credit where credit is due to strategies, activities and tools, but our employees and their performance is what determines the success with which we implement and perform these services. So it is the people that make a difference. That is why we continue to improve our processes for recruiting, training and retaining our employees.

As a global operation, we recruit employees globally. We work actively to achieve a balanced mix as regards nationalities, ethnicities, ages and genders. We see diversity as a strength for the Group, which creates conditions for pursuing development and improving our earnings. A fundamental element of our management philosophy is that as many decisions as possible are to be taken close to our operations and our customers. That is why we value competence wherever it is found, and why we recruit both managers and employees locally where we operate. We believe in our decentralized organization where our local units, which are located close to customers, make the central operational business decisions. We are convinced that our organization is best when it reflects our markets and customers. Our diversity initiatives also include a gender perspective. We have made improvements, with a basis in our systematic efforts. But we want to have more women in senior positions and we are continuously working to make this so.

In 2017, we invested more in training than ever before. We invested in suitable modern premises of our own for training and instruction. Trelleborg Campus, as we call it, was inaugurated here in Trelleborg in March this year. It is a part of our own university, Trelleborg Group University, which is aimed at all our employees. In 2017, over 14,000 of our employees took part in one of our training programs, which include everything from specialist training to general management training. Trelleborg Group University is a central part of our active efforts to attract, develop, and retain our employees. It ensures that at every level, we have someone who is prepared to step in if someone chooses to leave us. That happens – despite everything, some employees do in fact leave us. Sometimes because of retirement. Sometimes our employees also accept an attractive offer outside the Group. But it is not uncommon for them to come back at a later stage, with new experiences.

One result of our work on developing our employees is illustrated by the changes in the management group that we, over the past year, have succeeded in staffing with three new business area presidents from three different countries, all from our own ranks. They have all worked in the Group for a long time, in various positions. This also shows how we create both career opportunities for our employees and ensure succession for our operations.

We are also keen on making a positive contribution to, and leaving a good impression on, the locations in which we operate. Our strongest value to society from a longer perspective is our products and solutions that protect the environment, people, infrastructure and assets. This is what we call Blue Dimension; seen as a totality, this is our broadest and clearest opportunity to promote improvements to society's sustainability in accordance with the UN's Sustainable Development Goals.

As part of our social responsibility, we also work – as I have mentioned on other occasions – in four focus areas. One of them – diversity – I have already commented on.

Another area deals with always following the “rules of the game” in society. Correct is correct. Our Code of Conduct covers laws and rules, human rights, the environment, occupational health and safety and ethics in general, and applies to all employees, without exception. Together with our whistleblower policy, the Code is important for regulatory compliance in our operations.

Safe and efficient resource management is another area that is important to us. Our program – Manufacturing Excellence, which develops our production processes, and Safety@Work, relating to health and safety – are the pillars of the Group's work on creating safe workplaces and efficient resource management.

We have been working systematically for some time on the Group's energy consumption. Part of our efforts include Manufacturing Excellence, in which we work with Energy Excellence, an initiative for systematic energy optimization at all units. What this means is that all production sites must present an activity plan to reduce energy consumption, with the target of improving our global energy efficiency by at least 3 percent per year. In addition to process-related measures, many units are focusing on systems for improving their monitoring of energy consumption and increasing general energy awareness among employees.

Our other goal, which we call “20 by 20,” aims to achieve a 20 percent reduction of CO₂ emissions in relation to sales in the 2015–2020 period. As part of that effort, we procure green electricity at our sites in Sweden and Italy, as well as at several of our sites in the Czech Republic. This is how we expect to reduce the Group's carbon emissions by more than 10 percent.

Allow me to present a specific example of how we enhance our energy efficiency. The vulcanization of rubber is a central process in our industry and is built on a combination of high pressure and high temperature. These temperatures are traditionally achieved by using steam. We have now begun replacing the steam process in vulcanization with nitrogen to achieve a stabler – and more energy-efficient – process. This benefits not only our earnings but the environment as well, since the new technology significantly lowers the total energy consumption of the vulcanization process.

The fourth area is our local community involvement. We work to promote an inclusive society, and therefore we have intensified our involvement through selected projects for the development of all people. Last year, I spoke about the LA School of Sports in Skåne. This is a sports-oriented school we support, located in a challenging area of Landskrona. We are continuing our work in partnership with Star for Life at two schools in Sri Lanka.

As mentioned, our strategy of establishing leading positions in selected segments and niches has served us well and continues to do so. We continue to do what we've been doing, though

adapted to current conditions since the world around us is constantly changing. We delivered earnings per share excluding items affecting comparability that once again increased markedly in 2017. Since the financial crisis, we have actually increased our earnings per share by an average of almost 19 percent per year.

According to tradition, I would like to end with a few words about the first quarter 2017, which we presented only a few hours ago.

We started the year with a strong improvement in earnings. Sales rose 3 percent. Organic sales rose 4 percent. Both EBIT and the corresponding margin excluding items affecting comparability reached the highest levels ever in a single quarter for the Group.

Sales increased from SEK 8.3 billion to almost SEK 8.6 billion. And as mentioned, the Group's organic sales increased 4 percent. Adjusted for project-related transactions, the increase amounted to 5 percent. Our organic sales continued to trend well in several market segments. But they were dampened by market conditions that remained tough for some of our projects, as well as by unusually harsh winter conditions that impacted parts of our operations.

EBIT excluding items affecting comparability rose 12 percent to SEK 1,291 m, equivalent to a margin of 15.1 percent. This can be compared to the corresponding period in 2017, when it amounted to 13.9 percent.

In summary, we are continuing to work in line with our strategy, which has turned out to be a successful one – creating leading positions in selected segments. We have come far, but we have more to do. I have presented a few examples of how we are working with our strategic cornerstones to pursue efficiency and growth. This year, I took the opportunity to speak about the importance of our employees. They are the people who implement and execute our strategies, and they are therefore crucial for our success. And about diversity, especially with regard to nationality, which is central in light of our management philosophy – taking decisions in close proximity to our customers. Diversity is also important to us in our work in driving responsible operations, because we are also keen on making a positive contribution to, and leaving a good impression on, the locations in which we operate.

With that, I thank you for your attention.