



## **President's address to the Annual General Meeting, March 27, 2019<sup>1</sup>**

Trelleborg is a world leader in engineered polymer solutions for critical applications in a number of markets and segments. In 2018, we continued our work to improve our positions in selected segments. We continued our efforts to identify operational improvements in all areas of our business. And we continued to drive organic initiatives that are bolstered by acquisitions to further advance our positions.

Today, we have generally favorable positions and a business portfolio that is well-balanced between operations that grow early and late in the business cycle. In 2018, we saw a continued improvement in several of our segments and geographies. This applies in particular to aerospace, large parts of the agricultural market and general industry, which combine to represent nearly 60 percent of our sales.

Other markets, such as oil & gas, continued to present challenges. Although the activity level in oil & gas increased at the end of 2018, we are not anticipating any real earnings improvements before the latter part of the second half of 2019, when the higher activity level rolls over into increased sales.

Despite the mixed scenario during 2018, we delivered our highest operating profit to date, which amounted to SEK 4.7 billion, aided by a significant increase in sales of 8 percent. As a result of the constant work on our business portfolio, we have been able to increase our sales by an average of 7 percent per year over the past ten years. In addition – and this is significant for us as shareholders – we have succeeded over the same period in increasing earnings per share even more, by an average of 19 percent per year. Accordingly, we can be pleased with the strong performance by the Trelleborg Group over the past ten-year period.

Despite the positive trend and record result last year, we shareholders are entitled to a certain sense of disappointment regarding the performance of our share in the past year. However, share prices are not only affected by improved results, which is the main way in which we can exercise influence. Similar to the shares of many other industrial companies, Trelleborg's share is also impacted by a turbulent business environment.

A world that is concerned by Donald Trump's unpredictability and, not least, what his declarations of trade wars with partners will mean for the economy moving forward. Equally unpredictable are some of the world's leaders, who often assume increasing authority to make decisions that are not always anchored in their political systems in the manner we are accustomed to. These include Russia's Putin, Turkey's Erdogan and Hungary's Orbán, whose agendas and hasty decisions create uncertainty in our markets and inhibit fully functioning global trade. We are also seeing increasingly protectionist tendencies in historically more stable Western economies, such as France and Italy, and we mustn't forget the Brexit discussion, which is highly topical at this moment.

The uncertainty that is created means that many investors move into assets that could be perceived as less sensitive to the business cycle, leading to a volatile trend on the world's stock exchanges. This has an effect on the price of the shares of all listed companies, not least those of industrial companies, and thus also our share.

Of course, we are unable to influence the political game, but we can try to adapt to what is happening and do our best on the basis of the conditions created. And we believe that we stand well-equipped to continue developing our operations, as well as even better products and solutions for our customers.

Such as the seals on the landing gear that ensure that an aircraft can land safely. Or our proprietary safety-class specialist hoses for offshore transfer of oil and gas that, for example, need to be able to withstand liquid natural gas with a temperature of below minus 165 degrees.

---

<sup>1</sup> This is a translation of the Swedish original version.

Or our polyurethane-coated fabrics that, through their intelligent design, help patients in hospital beds to avoid bedsores. And the seals that are used in all manner of medical devices to ensure their safe function.

To us, new market conditions are only another parameter to weigh in, in our daily work and in our strategy work.

So, we are continuing with our long-term strategy, which has been successful to date: To create leading positions in selected segments. A strategy that we adapt to the world around us in order, as far as possible, to avoid every dead end and to take advantage of opportunities on offer. Our decentralized model, by which we work locally with global resources, enables us to rapidly implement changes as required, while at the same time, ensuring that decisions are made close to the business. For example, when new trade tariffs create new conditions.

---

Our strategy is supported operationally by four interlocking cornerstones, which we have been implementing for several years. One of our cornerstones is to balance our sales between different areas of the world and thus particularly strengthen our presence in selected markets outside Western Europe and North America. This will bring us closer to our customers in growing geographies and enable us to participate in their globalization, while developing local customer relationships that can rapidly develop into global ones when Chinese and Indian companies expand in Europe and North America, for example.

In the long term, we are endeavoring to have 40 percent of our sales in Asia, Latin America and the European countries outside Western Europe. The same percentage in Western Europe and the remaining 20 percent in North America. This requires investments in both personnel and new facilities. In 2018 and 2019, we have continued to invest substantially in Asia. For example, we have entered a joint venture in Malaysia for the local manufacture of special hoses in composite materials and have also built a number of new facilities in China and India.

We continuously improve our business portfolio by actively evaluating how markets, customers and applications are expected to develop in the future. So that we can make an early decision as to which areas we want to operate in and what we need to do to remain successful. In recent years, we have developed and grown in the healthcare and medical devices segment through a combination of proprietary innovations, geographic expansion and bolt-on acquisitions. Our product range within healthcare & medical extends from the smallest seal in, for example, hearing aids to polyurethane-coated fabrics for medical beds. We are systematically driving a number of such initiatives in several areas. Initially, this involves organic initiatives when we become established or develop a segment or a geography. Such as, for example, targeted product development or the start-up of new sales offices. But sometimes we also use bolt-on acquisitions to advance our positions even faster. In many cases, these are minor acquisitions that to us, can be regarded as organic initiatives.

We work continuously with our structure by focusing our resources on attractive segments or geographies based on market performance and the trends we see. One example of this is the development of healthcare and medical devices. Another example is how we discontinued the manufacture of subsea buoys in the US in 2018 and relocated it to England. Another is our continued building of engineering and development resources in Ahmedabad and Bengaluru in India. Accordingly, in future, we will have more flexible and more efficient production and better possibilities to support our global business through rapid and effective product development and project management. This is the way in which we continuously refine our business from various dimensions such as segments, customers, applications and geographies.

We are also working systematically and actively, within the framework of our Trelleborg Excellence Group-wide program, to continuously improve our core processes of purchasing, production and sales. Through our systematic work on training, organized sharing of experience and other improvement activities, we can further increase value generation for us and for our customers. In all areas of the Group, the strategic cornerstones are the basis for our ambition to

always become better. Or as we say internally, “Raise the Bar”. This is a process that is always ongoing, always continuing.

---

To develop our leading positions, we are continuing to invest for the future. In 2018, the investments amounted to nearly SEK 2 billion, which is a record level from an historical perspective. Among other things, we invested in an ultramodern innovation center for sealing solutions in Germany. In Serbia and the Czech Republic, we expanded our sites to broaden our offering to new segments and increase our capacity as we sell increasingly more. In the US, we are consolidating three sites for extruded seals into a completely new, state-of-the-art and efficient plant in Ohio. And in Bengaluru, in India, as a result of the positive trend in one of our sealing segments, we built a completely new plant to facilitate continued growth.

We also invest in our employees. Credit where credit is due to strategies and tools, but it is our employees and their performance that determine the success with which we implement and perform our plans. Our way of working – with a strongly decentralized organization – requires that everyone at Trelleborg assumes responsibility and wants to perform better. I am personally convinced that decisions are best made when they are based on the local conditions of those closest to the business. This is why we are continuing to develop our processes to optimally recruit, train and retain our excellent employees and to continue working proactively to achieve a balanced mix of ethnicity, nationality, age and gender to take advantage of the benefits it creates.

In 2018, we continued to increase our investments in our employees and their development. A trend that will continue. We invested in modern premises of our own for training and instruction. Trelleborg Campus, as we call it, was inaugurated here in Trelleborg at the beginning of 2018. It is a part of our own university, Trelleborg Group University, which is aimed at all our employees. During 2018, more than 22,000 of our employees participated in some way in our training programs that comprise both specialized training and general management training.

---

I have spoken many times previously about our social responsibility and our focus areas that are also described in detail in our Annual Report. The development of our employees is one part of our social responsibility that has long been integrated in our operations. The Group also has recurring programs for the employees’ health and safety. One of these is Safety@Work, which is aimed at creating a shared safety culture to prevent accident and injuries in the most effective way in all parts of the Group. Trelleborg has an important role to play within the framework of our social responsibility.

We are ambitious within this area and are definitely at the forefront of our industry. What we refer to as Blue Dimension is our way of showing how our products contribute to a more sustainable society. Our advanced agricultural tires contribute to better harvests and less fuel consumption. Our seals are optimized to provide maximum sealing with minimal friction and therefore consume less energy than a poorer seal. This is what we call Blue Dimension, which you can read more about in our annual report and on our website. All in accordance with the UN Sustainable Development Goals. Our products and solutions protect people and infrastructure in a number of ways. They save energy, cut emissions and protect the soil. They contribute to health and quality of care. The products reduce noise and vibrations, creating a quieter and more comfortable work environment. They extend the service life of community infrastructure, such as bridges, tunnels and skyscrapers. Through the relationship between Trelleborg, the customers and society, all parties benefit from innovative solutions for improved sustainability.

The way to a more sustainable society contains many challenges, but also many business opportunities for us with our innovative engineered polymer solutions. It is also so that our production uses resources and impacts the environment, for which we assume responsibility and want to minimize in every way possible. We work actively on our water consumption, our emissions, our waste management and thus, in particular, our climate impact. The most important factor for us in the short term is to meet our own “20 by 20” target, which aims to

reduce our climate impact by 20 percent. We are changing our electricity supply as far as possible to renewable energy sources. One example is that all Italian facilities in the Group have been using green electricity since the beginning of 2016. Another energy initiative applies to the tire facilities in the Czech Republic, which used renewable electricity for the first time in 2018. This is a significant change at Group level because tires are the most energy-intensive products that we produce. We see continued possibilities to increase the proportion of renewable energy in our facilities, but are also examining how we can improve our processes, for example, by using nitrogen instead of steam in our vulcanization processes, giving increased stability and at the same time consuming less energy.

We are also improving the cooperation with our suppliers to reduce the emissions related to our purchasing and transportation. The same principle of minimizing all waste applies to all of the processes in our value chain.

We also receive external recognition for our sustainability efforts. For example, we came in third place in the "Capital Goods" class that is relevant to our business, in the sustainability ranking published last November by Aktuell Hållbarhet and Dagens Industri. We regard this as recognition of our long-term and continuous work to also improve in this area. Also when it comes to our sustainability work, we have a clear vision, partly within the framework of our Excellence program: No waste, no refunds and no accidents. With these long-term goals, we raise the bar every year to become better in all ways.

---

In 2018, we once again achieved a record result. Accordingly, we were able to add another year to our successful journey of the past ten years, with sales during these ten years increasing 7 percent and earnings per share even more, by an average of 19 percent per year, from about SEK 2.60 to nearly SEK 12.50.

This is a result of our continuous work to create leading positions in selected segments and never stop continuing to improve. The uncertainty of global development makes the world's stock exchanges volatile. This affects all listed companies' valuations, not least that of industrial companies, thus also Trelleborg's. The global financial development and uncertain market outlook are factors we can't influence. But we are continuing to adapt and do our best on the basis of the conditions provided and are continuing our strategic journey through our long-term focus on global leading positions.

With that, I thank you for your attention.