

“We are investing at a historically high level, including in an ultramodern innovation center for sealing solutions in Germany.”



The Trelleborg Sealing Solutions business area has moved to new premises in Stuttgart, Germany, and has substantially upgraded its innovation center that specializes in sealing solutions. The facility forms the hub of a global R&D network for sealing solutions and houses laboratories with analysis and measuring equipment, premises for innovation and prototypes, and a large testing area with a fully equipped tool room and a materials laboratory.

The R&D capabilities range from standardized mechanical testing to material analysis, including thermal gravimetric analysis (TGA), differential scanning calorimetry (DSC), fourier-transform infrared spectroscopy (FTIR), and an extremely advanced high-resolution scanning electron microscope (SEM) with energy-dispersive X-ray spectroscopy. When these various types of technologies and capabilities are combined, complex problems can be assessed and solved faster.

OUR STRONGLY DECENTRALIZED ORGANIZATION PROVIDES BUSINESS SUCCESS

Trelleborg's work on small, everyday operational improvements has generated results. Both our EBIT and EBIT margin were the highest ever for the Group for a full year. The balance sheet is not restricting the Group's flexibility and cash flow remains healthy.

Peter Nilsson, President and CEO of Trelleborg, you would like to begin by mentioning your employees.

Yes, I would like to begin by paying tribute to all of my colleagues and employees in all areas of Trelleborg. I want to thank everyone for the work they do now and which they also did throughout 2018. They are Trelleborg and they are the ones who ensure that we continue to develop.

Our way of working – with a strongly decentralized organization, with local accountability and commitment – requires that everyone at Trelleborg assumes responsibility and wants to perform better. This is also the basis of our model for profitability and business success overall. My view is that decisions are best made when they are based on the local conditions of those closest to the business.

Naturally, managers decide on the major priorities and provide direction, but our employees are our foremost resource on all levels. We must enable them to grow and

develop with us. Those with most talent must be given the opportunity to change and gradually assume greater responsibility over time. It is a process that is constantly ongoing, which we must never stop if we are to remain successful.

Our employer branding motto is *Shaping industry from the inside*. And this is precisely what our strongly decentralized organization promotes. As an employee, you have a real opportunity to influence decisions that are closely related to the business and to be involved in the development of new markets, products, solutions and services.

How would you describe the past year and the near future?

The short version of the year is that we advanced our work to continuously improve our leading positions in selected segments and to make it easier to do business with us. We worked with small, everyday operational improvements, constantly raising the bar and wanting to achieve more. Over the year, we continued to implement our growth initiatives, but also supplemented them with acquisitions. Overall, this has further advanced our positions.

The bigger picture is that, 20 years ago, Trelleborg began its transformation from a conglomerate to a more specialized company focused on polymers. Over the past 10 years, this transformation has been constantly fine-tuned with many small steps, with exposure toward the light vehicles industry, in particular, being reduced and focused. We are now present in the segments and niches where we want to be and where we can make a difference. Our markets don't all develop in the same way and we regard this as a strength.

We are now seeing increasing turbulence and growing uncertainty in our environment. This means that we need to keep well-in-

formed and have the ability to act swiftly, which is what our organizational model supports. Turbulence and uncertainty obviously create challenges. But it also provides opportunities for those who know where they want to be in the future.

To what do you attribute Trelleborg's results for 2018?

We now have generally favorable positions and a well-composed portfolio. Naturally, everything can be improved, but our starting point is good. There is a reasonable balance between operations that are growing early and late in their business cycles. During 2018, we saw a gradual improvement in several segments and geographies in which we are active. This applies in particular to aerospace, agriculture and the slightly broader segment of general industry. Combined, they represent nearly 60 percent of our sales.

The situation has remained difficult for our operation that is involved in oil & gas. There was certainly an upturn in the level of activity at the end of 2018, but we expect that an earnings improvement will occur in the second half of 2019, when a higher activity level rolls over into increased sales. At the same time, this portion only comprises 4 percent of Trelleborg's sales and is of even less significance for profitability.

For more than 20 consecutive quarters now, we have increased our profit year-on-year. The balance sheet is not restricting the Group's flexibility and cash flow remains healthy. We are continuing to invest at a historically high level to better capitalize on the opportunities we see. We are increasing capacity in certain parts of Trelleborg, such as the tire facilities in the Czech Republic and Serbia. We are continuing to upgrade the technology in other parts of the opera-



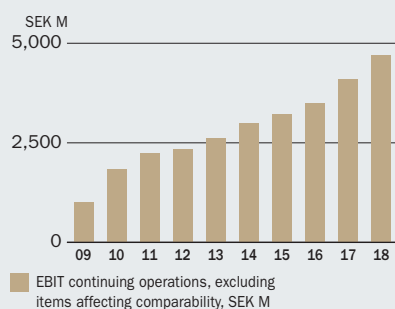
“I believe that our continuous improvement over the past ten years demonstrates that our strategy is working.”

Trelleborg's strategy is to secure leading positions in selected segments. The Group has, and will continue to have, a strong operational focus to improve and develop both existing and new operations, and to ensure continued efficiency and growth throughout Trelleborg.

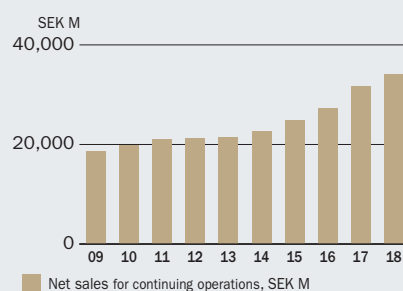
In 2009, a major strategic review of Trelleborg was initiated, especially the business dedicated to the light vehicles industry. Since then, Trelleborg has divested some 15 businesses and acquired approximately 40 companies.

In combination with other growth initiatives that support Trelleborg's strategy, net sales increased and the earnings trend was strong.

Strong earnings trend



Increased net sales



tions, for example, relating to the clean-room capacity in Switzerland and the U.S. But we are also increasingly investing in innovation, for example, through a new ultramodern innovation center for seals in Germany. Moreover, we are continuing to expand our presence in selected geographies and during the year we opened new production sites in China and India.

You are present in a large number of niches.

Yes, and that is both natural and deliberate. The need to seal, damp and protect the most critical applications in demanding environments exists in many different industries and niches. This might involve static and dynamic seals in various industrial applications or systems that damp vibrations in buildings, machines and vehicles. We can offer solutions for many different applications and markets.

At the same time, breadth and depth strengthen us through long-term stability. If a niche happens to be small, that is really of minor importance to Trelleborg. We want to be leading in the niches in which we operate in order to be the best partner for our customers. This means that we are their first choice when they continue to improve their operations.

When the economy is weak in some industries then it is strong in others. We can distribute resources, continue to grow at a Group level, remain long-term and, above all, achieve stable and healthy profitability. I believe that our continuous improvement over the past ten years demonstrates that our strategy is working.

What segments and niches are important for Trelleborg's continued growth?

Some of the largest and most important changes for us are, for example, the mech-



anization and automation of agriculture, which has significance for our agricultural tires. The electrification of cars, machines and tools is also important and is a central issue for our seals operation. We stand strong in both of these areas.

In addition, healthcare & medical is an attractive and growing area for us; sensors and electrical transistors are another. In these cases, for example, we can benefit from our cleanroom technology. The key to success is that we can always combine our polymer expertise with in-depth application know-how in the niche in question.

How do you view Trelleborg's responsibility regarding the climate issue?

This is an issue in which the perspective must obviously be more long-term than usual and where the signals come less from daily customer contact, at least until now, and more from other stakeholders in society.

In general, it's important to be ambitious: We must be at the forefront of our industry, which we definitely believe that we are. Supporting renewable energy is one way forward for us. We are going to take a closer look at how we can adjust in terms



of technology and find local projects that gradually improve us in all areas of the Group. For instance, we want to improve cooperation with our suppliers to reduce the emissions related to our purchasing and transport.

When it comes to legal requirements or government intervention, it is important that the rules are presented and clarified. In principle, we take a positive view as long as this is done with advance warning and entails a level playing field for all of those involved.

What does technical acceleration mean for Trelleborg?

Basically, it means focusing on finding new ways of doing things with new technical solutions and deliveries. This is often done with the help of digital tools for developing both products and services. Equally important as technology is having employees who understand the business and how the new solutions can best help our customers. The focus is always on making it easier for our customers to do business with us.

New methods of collecting and processing data give us new possibilities to adapt products and total solutions so that they can create even greater value. For example, we are working with cognitive seals that monitor various properties related to the seal. For instance, this could be a change in oil pressure that triggers a signal that it is time to change the seal. Technology development is constantly underway throughout the Group. And even if the results are not always spectacular, they are significant. It could be that our coated fabrics receive better coatings, vibration dampers are specially adapted to new applications, seals have even less friction, and so forth.

The work on intelligent – connected – production is under way, with robotics creating new opportunities and eliminating monotonous work tasks. Simplification is also at the core of this. We are developing new tools and conducting several pilot studies at a number of our production sites to enable us to also take the lead here.

How do you see the role of the Chinese market in your growth?

We have had healthy organic growth in Asia and, in particular, in China, and 2018 was no exception. Even if the pace declines somewhat moving forward, this is the part of the world in which the largest growth will continue to occur – in China's domestic market, but also in other countries in Southeast Asia and South Asia.

We want to primarily grow organically in these markets, but are naturally also open to relevant acquisitions in Asia. As recently as January 2019, we invested in a joint venture in Malaysia to increase our global production capacity and strengthen our offering in industrial hoses in the composite hoses niche.



How are you impacted by the global sequence of events in 2018–19?

As I mentioned earlier, The market outlooks contain greater uncertainty than previously and trade policy decisions can have consequences for global financial development. Trade restrictions of different kinds are never good for long-term business, even if they might create local benefits in the short term.

Trelleborg stands relatively well prepared, even for these partly new conditions. For us, it is a new parameter to consider in our daily work and in our long-term strategy. We have a large local presence, which means that we are less affected than many others, for example, by trade tariffs. At the same time, our decentralized model enables us to make rapid changes when necessary, such as relocating production.

Do you have any concluding remarks?

I would like to reconnect to the beginning of this interview and highlight the local driving force within the Group. Good leadership at all levels and in all geographies is a question of maintaining a high pace of activity built on trust and mandates, openness and humility. Naturally, the direction must be clear, but it is in the daily work that things happen. And last but not least, much is based on motivating our employees and we need to be confident enough to be personal and show our appreciation of everyone who does a good job for us.

This is how I try to work as a manager and when it is successful, you receive an enormous amount in return, while seeing continuous improvements emerge over time.

Trelleborg, February 2019