



# WE ARE CONTINUING TO BUILD ON OUR LEADING POSITIONS WITH A HIGH LEVEL OF ACTIVITY AND RATE OF INVESTMENT

Trelleborg is reporting yet another strong year. Organic sales increased 4 percent and EBIT, operating profit excluding items affecting comparability, rose 17 percent year-on-year. The Group has remained loyal to its strategy of continuously strengthening its positions in selected segments and applications. The year was marked by a continued high rate of investment and activity.

## **Peter Nilsson, President and CEO of Trelleborg – how would you summarize 2017?**

In 2017, Trelleborg continued to improve its positions by focusing on selected segments and applications. Several organic growth initiatives were conducted and the rate of investment has never been higher than it is now; we are investing in new facilities and improving existing ones.

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We are continuing to make it easier for our customers to do business with us: digitalization gives us new possibilities for interacting with them. A great deal of time and energy has also been put into ensuring that our acquisitions over the past few years are being integrated in a forward-looking and structurally correct manner.

Gradual improvement was seen in our markets during 2017. Organic sales increased and we are continuing to improve our EBIT – we now have 19 quarters of continually increasing rolling EBIT behind us.

I would also like to mention efforts to ensure that we are an attractive employer. We conduct global employee surveys on a regular basis and our Trelleborg Group University continues to evolve to be even better at offering internal development opportunities to our employees. During the year, we have invested in projects such as our own new training center. It is also a

source of satisfaction to have appointed a number of business area presidents this year, all of whom were recruited internally.

## **What messages would you like to give shareholders and investors?**

We are continuing to build a stronger Trelleborg, with a basis in steadily improved leading positions. Our ambition is to do this in continuous small steps, supplemented with investments and acquisitions that accelerate the process.

With an eventful 2016, which included the divestment of our stake in Vibracoustic – and, above all, the SEK 11 billion acquisition of CGS Holding – we strengthened our leading positions in agricultural, industrial, and specialty tires as well as in engineered polymer solutions. With this, Trelleborg's profile has changed somewhat and based on these conditions we are building a platform for the future that is new in some parts.

But we are also continuing to work in accordance with our fundamental principles of belief in individuals and a decentralized leadership, of always making decisions close to the commercial reality and with a high level of activity. As noted, we have a high rate of investment, but our overall pace of development for new products and solutions has increased during the year, not least related to the opportunities created by increased digitalization.

## **How would you comment on Trelleborg's financial earnings?**

The Group is developing in the right direction, but we can always do more. We are always striving for something better, and we still have some way to go to achieve our financial targets, but we have a solid plat-

form; we are where we want to be and will now build further, grow and improve further from this basis. Our markets generally improved during the year, and we can look back on 12 months in which demand developed well, from a larger perspective.

The year naturally also held many challenges, including a sharp upward trend in the price of raw materials early on that turned downward later during the year – albeit with a clear increase in raw material prices seen over the entire year. And market conditions remained challenging for some of our businesses, including the oil & gas segment.

Our level of indebtedness is now below the level it was before the major acquisition of CGS in 2016. We have succeeded in doing this more rapidly than we expected when the acquisition was made, driven by continued healthy cash generation and occasional divestments. This creates favorable scope for action for us moving forward.

#### **But there weren't so many, or major, acquisitions in 2017?**

From a historical perspective, that's correct. At the same time, we are very satisfied with the acquisitions we actually made.

Take, for example, the acquisition of Automated Dynamics that was concluded in December 2017. The company is specialized in manufacturing advanced components in composite materials for particularly demanding applications. These composites represent a closely related and strategically interesting technology for Trelleborg, with major potential in several industries. The acquisition supports our organic growth by improving our offering and our positions, and that makes us a more complete partner for our customers.

#### **How is the integration of CGS's tire business progressing?**

This is a relatively complex integration that we are working on in several dimensions. In general, we have worked with it in two stages. The first one, which has started, was to secure and develop continued customer relations and sales channels. Without daily sales activities, there is no

business. In this regard, I believe we have been successful.

What we're focusing more on now is continuing to improve the cost and revenue aspects. We have identified where and how we can create synergies. For example, it's a question of how we can reduce the complexity in our manufacturing and make more efficient use of our manufacturing facilities. We also created a new sales organization during the year to better leverage the synergies we see in the sales stage. Most of the synergies will occur in 2018 and going forward.

The market for agricultural tires had a relatively good year as regards sales in several geographies, primarily to OE manufacturers, after several years of a weak market. In agriculture in particular, we at Trelleborg have had strong margin discipline, where we focus on growing organically while maintaining margins.

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But I would like to point out that the acquisition of CGS contained not only the tire business but also operations focused on engineered polymer solutions for general industry and the automotive industry. During the year, we prepared these operations for the integration with existing business areas, which occurred around the new year.

#### **What are the areas of growth for Trelleborg, over a five-year perspective?**

Growth can occur in several dimensions, for example, in segments, geographies or product categories. We are also increasingly focusing on broadening our offering and further integrating with our customers, which creates organic opportunities for growth, not least connected to new digitalized business models.

But if we take segments as examples, then agriculture – as noted – is moving in the right direction. We have a positive long-term view of the aerospace industry as

well. A more niche area is healthcare & medical, where Trelleborg is in a relatively early stage. But the field ought to have a promising future, especially in light of an aging population.

We are also looking at new applications – new types of solutions. One major change we're focused on, which is sometimes overlooked, is electrification – not only of cars, something that everyone is talking about, but also machines and tools in general. When this takes place, new demands are imposed on machinery construction and then newly developed sealing and anti-vibration solutions are required – which favors those of us who really know these applications.

Geographically, there are growth opportunities in the very large domestic market in China, as well as in other countries in Southeast and Southern Asia. This does not mean that we are not capitalizing on business opportunities in Germany, for example, or any other country for that matter.

#### **How difficult is the situation in Oil & gas for you?**

The oil & gas segment experienced a continued weak and challenging market during the year, and we really cannot see any improvement in the near future. The market situation has hampered the Group's earnings performance; in November, we chose to recognize impairment losses related to the Trelleborg Offshore & Construction business area and commence a consolidation of the business. At the same time, we should be aware that the operations are a relatively small part of Trelleborg, as far as sales are concerned, and even smaller if you look at the share of earnings.

#### **Are you continuing to maintain margins ahead of volume growth?**

We work with both. In general, we're focusing more on volume growth now than previously, but we really see no reason to sacrifice margins because of it. If we take Trelleborg Sealing Solutions as an example, it gives us more profits in hard cash to increase sales in that business than pushing the margins up a bit further. At the



same time, there are other parts of the Group where we are making more of an effort to lift the margins higher. It's a question of finding a balance between margins and absolute EBIT. Absolute EBIT is the important thing.

#### **Is sustainability important for Trelleborg?**

Yes. We will never quibble over a fundamental responsibility that involves compliance with rules and laws, as well as international agreements. And as part of our Excellence programs, we are working steadily on always being more cost and resource-effective, regardless of whether it concerns energy, the climate, or raw materials. For society at large, our solutions for sustainability – what we call Blue Dimen-

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sion – are perhaps of greatest interest. Our products that seal, damp and protect are good for the environment, for people, and for infrastructure. I can provide numerous examples, but the bottom line is that we are incredibly well positioned for future challenges – the ones that the UN has defined, for example – and we have an important role to play when society needs to transition in the future.

#### **What does digitalization mean for Trelleborg?**

Our primary focus is on making it easier for customers to do business with us. To ensure success in this regard, we have to be at the cutting edge of our industry in the application of new technology and new possibilities for interacting with our customers. In combination with Trelleborg's strong niche focus, high levels of product quality and smart comprehensive solutions, I believe we have an exciting future before us.

But specifically, digitalization for us means working on both external offerings

and internal processes. From our perspective, sometimes it's wrong to be focused on just the word itself. Of course, our products and solutions should be on the technological cutting edge, but at heart it's an issue more of finding new ways to work that include these new digital tools as support. Just as important as the technology is that we have people who understand the business and how we can best help our customers. With the customers in focus, we are developing our methods of communicating and working with them, and are striving to make it even easier to do business with us, thereby also helping our customers to be more commercially successful.

#### **Are you able to find the right people for your operations from around the world?**

Our starting point is recruiting locally. Decisions are best taken in local conditions, and our employees should grow under their responsibilities. We want to keep our employees a long time in Trelleborg, and that is why we have to think in terms of a global talent base where people can move on to new tasks over time. We strive to always employ local managers where we operate and nationality should be of minimal importance when appointing new managers.

I would also like to take mention our own university – Trelleborg Group University – which broke records in 2017 for the number of course participants. The university has internal courses for leadership, but also for specialists and for our Excellence programs.

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#### **You've changed a number of business area presidents this year?**

We work continuously with succession planning to ensure a stable supply of managers

and I view the fact that we were able to fill these positions as part of an internal recruitment process as a sign of strength.

There have always been internal 'inheritors' ready to take over. Some of our employees have gone on to other good jobs outside the company, which shows that Trelleborg is a good development base. Some individuals also return to Trelleborg later in their careers. New members in Group management mean new factors will come into play, but this is nothing that will dramatically alter our principles or our direction.

#### **And your own role for the company's future development?**

My task is to continue ensuring we have the right executives in the right place, and that major strategic decisions are realized properly and correctly. We will also continue to develop sustainable solutions that benefit both customers and society. Furthermore, I have to be open to, and provide coaching for, the technological shifts we talked about. But by and large, it's a question of maintaining a high pace of activity built on trust and mandates, openness and humility. Things can go wrong sometimes, but then we just fix it.

*Trelleborg, February 2018*