

## SATISFACTORY YEAR IN A CHALLENGING BUSINESS CLIMATE

Trelleborg's net sales increased during the year by 8 percent compared with 2018 due to acquisitions finalized and the positive impact from exchange rates. The Group's EBIT, excluding items affecting comparability, was in line with the preceding year, and was the second best result so far for Trelleborg.

### **Peter Nilsson, President and CEO of Trelleborg, how would you summarize 2019?**

We experienced a more challenging business climate in 2019. The agricultural and automotive industries, together with general industry, faced a more difficult economic situation during the year. We adapted to these downturns: in terms of costs and through inventory adjustments, and we initiated measures, for example, that will reduce the workforce by more than a thousand employees.

However, and this is important, we also maintained our focus on advancing our positions in the long term.

Sales to various infrastructure construction projects and the aerospace industry were favorable in 2019. Healthcare & medical continued to perform well. Acquisitions completed in recent years made a positive contribution to this. With our reorganization that will take effect in 2020, we are continuing to focus the Group to further improve and develop our leading positions in the segments and niches we serve.

Our net profit for the year was therefore satisfactory overall and one of our very best in several respects. We have strong, global positions and broad exposure to several different segments and markets.

### **Are you satisfied with this result and performance?**

We are never fully satisfied. We can always become better and operate more effectively. I always come back to the fact that there are improvement opportunities in all areas and on all levels of the Group, irrespective of where we are, and encourage a sense of responsibility and commitment among all employees.

### **In concrete terms, how do work on improvements?**

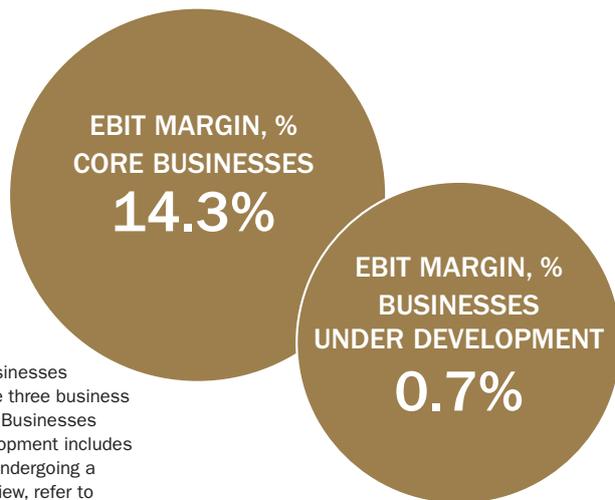
We work, for example, systematically with improvement activities through our Excellence programs in purchasing, production, sales, logistics and leadership. A shared feature of the programs is a continuous exchange of experience, which enables us to raise the bar for what can be achieved in our core processes. This is important in our decentralized organization.

An area that is equally important is our continuous portfolio management, which ensures that Trelleborg is represented in attractive niche positions and works toward the right customers and the right geographies. We evaluate our position on a continual basis and assess how it can be improved.

### **The reorganization, was it part of the same philosophy?**

Yes, our clear ambition is to continue to develop and strengthen already high-performing and well-positioned business areas that have significant global operations, while at the same time highlighting areas where positions and profitability must be improved.





The core businesses comprise the three business areas, while Businesses Under Development includes operations undergoing a strategic review, refer to Annual Report 2019, page 28.

A number of businesses are now undergoing a strategic review. These have been transferred to a new reporting segment that we call Businesses Under Development. They are required to improve their positions and profitability considerably within 12 to 24 months if they are to remain part of the Group. We will also continuously evaluate various structural alternatives in parallel with operational improvement activities.

In fact, this is not particularly that exceptional. It is *business as usual* in our decentralized organization, but we have chosen to highlight the operations in which we want to see an improvement in a way that we haven't done previously. It is our hope that this will also be simpler and clearer for external target groups that want to understand Trelleborg and where we are headed.

**How has Trelleborg been impacted by various trade barriers and the uncertainty surrounding Brexit?**

In total, we are not affected to any great extent by direct trade barriers. We have a major local presence in our markets and thus have no significant export flows. Furthermore, with our decentralized organization, we can adapt quickly and make changes – for example, in choosing where to locate our production.



**With our decentralized organization, we can adapt quickly and make changes.”**

But we are not immune to the political uncertainty during the year, which affected customers' investment decisions and future ventures.

For instance, a change of behavior has been seen with farmers that are currently buying far fewer tires than expected and not to the level that is required for the long-term growth of the market. It is abundantly clear that to manage both future population growth and environmental challenges, we need larger harvests per cultivated area, and accordingly, significant investments

in more efficient agricultural machinery. The same applies to demand for efficient, smart transport solutions, which inevitably must be created if the world's increasingly connected markets are to function.

It is therefore important for us to focus on our long-term positions and offerings, and not become caught in short-term economic fluctuations. We cannot influence the overall trend, but naturally, we adjust our operations and adapt to short-term demand levels.

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

China is in the process of becoming the world's largest economy, which makes it a country in focus for Trelleborg. It is investing heavily in innovation and the country will soon be the global leader in several different segments.

We have never regarded China primarily as an export country, not even back when it could be considered a low-cost country. Instead, we accompanied our customers from Europe to China and became global with them. But now, more Chinese companies are becoming our customers. In their turn, they develop products for their very large domestic market, which could then become global.

In 2019, we continued to improve our positions in China and our ambition is no different moving forward.

**And what about Africa?**

Yes, definitely. Africa is expected to follow Asia as a growth region, but it still has a strong focus on raw materials and less focus on the domestic processing industry. We have some business operations in Africa and our first manufacturing facility is being established there. But our strategy is still to build initial positions to be prepared when domestic processing increases.

**And your more traditional markets in Europe and North America?**

It is easy to overlook these well-established areas with all of the media focus on the development of high-growth countries. But they are and will remain very important to us. It is there that we have the absolute majority of our

operations. We are continuing to acquire and invest in Europe and North America whenever it strengthens us as a Group. We can see many opportunities to continue this journey.

In mature markets such as these, the challenge is more in innovations that create attractive and effective customer offerings, which ultimately make us a more attractive partner, rather than finding new customers. This is our primary focus in these regions and to date we have succeeded well.

#### **Can you explain the continued high level of investment in the Group?**

We have had a high rate of investment for a few years, driven by a number of major individual investments. The level will remain relatively high during 2020, before it begins to decrease. We see that these investments are generating a healthy return for us in the form of reduced costs and higher sales, and it is therefore money well spent.

We work steadily and continuously to develop the Group, adjust our portfolio and improve our structure. Sometimes investments are directly connected with positive synergies following acquisitions, but in recent years, they have also been made to better leverage the opportunities of digitalization.

#### **How are you working with digitalization?**

Our ambition with digitalization is to use the new technology to simplify both internal processes and external offerings, which ultimately gives the customer a simpler and better solution.

It is incredibly important that there is an openness to think in a new and different way, and not merely take an old process and digitalize it. It is challenging to think afresh and to realize that an entirely new logic may apply, such as a different behavior with customers. In order to utilize the opportunities offered by digitalization, we need to constantly think innovatively.

At the end of the year, we had listed nearly 400 focused ongoing digitalization projects in various parts of the Group. They involve the development of smart and intelligent products, communication with our customers, as well as new business models or methods to sales.

Robots have been part of our production for some time, but naturally, we are also looking at increasing general automation of our manufacturing and various ways of enhancing the efficiency of our administrative processes through robotization, Artificial Intelligence (AI) and other tools.

#### **Can you describe Trelleborg's sustainability ambitions?**

We continue to have high ambitions in the area of sustainability. To us, it is a success factor that our

customers and other stakeholders regard Trelleborg as a company that has extensive knowledge of innovative solutions for a sustainable society. Having our customers use the right products, be it seals, tires or tunnel seals, is perhaps where we can impact the world's sustainability most.

At the same time, we obviously assume responsibility for our own operations in terms of the impact on people, the environment and the surrounding communities. We want to create an internal culture, in which sustainability is a natural part of our daily jobs. We are continuing to work systematically in Manufacturing Excellence so that all of our employees can be inspired to save further on resources and become even more safety conscious.

An important action in 2019, was renewing the knowledge of our Code of Conduct. For our employees, the Code of Conduct represents the most important regulatory and sustainability document. For this reason, we also offer training in 15 languages. Our Code of Conduct is central to our relationships with our suppliers and has long been a recurring feature of our assessments of those suppliers. A new activity awaits in 2020: sustainability training for all employees, which will make it easier to apply the UN's Sustainable Development Goals and to take a circular approach on a daily basis.

#### **What about the climate issue?**

The climate is naturally also high on the agenda and in this regard, we have spent time identifying effective ways forward. We are switching over our local energy supply at the pace that is possible, and we select renewable electricity where available. For example, during the year, we installed a biomass boiler that is powered by the remains of rubber trees in Sri Lanka. This has significantly improved our climate footprint in that country. In 2020, we will announce our new climate targets which address the 1.5-degree target for society and improved climate cooperation with our suppliers.

#### **You have relatively high climate emissions in relation to other Swedish industrial companies?**

Both in total and relative to sales, CO<sub>2</sub> emissions decreased in 2019.

However, tire manufacturing is relatively energy-intensive and is difficult to influence. In addition, we have operations in a number of countries with poorer climate footprints, where there are no alternatives to fossil energy sources. In this respect, it is fairer to compare Trelleborg with other tire manufacturers, where our goal is to demonstrate clearly lower climate emissions than our competitors. It is a fact that without tire manufacturing, we would more than halve our emissions in relation to sales.

**Can you name some product categories with major potential?**

We have leading positions in all of our main segments and we are investing in various ways to develop the Group further: expanding to new geographies, introducing new technologies, products and solutions, increasing or redistributing production capacity, and so forth.

Our largest and most profitable product category is our precision seals. Continuing the development of this part of the Group is high on our agenda.

Healthcare & medical is another exciting area in which we have both developed our own and acquired knowledge in polymer components, such as those used in the manufacture of pharmaceuticals, in direct patient contact or in medical devices. There is major potential for us in medical devices from a broad perspective, not least considering the trend of an aging, but also growing population.

In the entirely different area of rail transport, new and improved solutions are being developed, for example, axel bush technology, which reduces noise for passengers and the need for railway maintenance.



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And then we have our complete offering in agricultural tires. With a growing population and a greater sustainability focus, we believe strongly in this market in the long term. Agricultural equipment, and thus also tires, must become smarter, more efficient and more environmentally friendly, to be able to meet needs in the long term.

**You are placing greater importance on offering complete solutions?**

Yes, we are working actively to offer integrated solutions, that is, a complete solution and not only a product solution. Value generation exists in the customer relationship itself; being able to give them the best service in combination with the best product.

Today, we have an increasing share of such solutions in several areas of the Group, such as industrial tires, seals and harbor infrastructure. I am convinced that it is with our complete solutions that we will identify and be

able to create the most value for the customer, and thus also for ourselves. It is in the close relationships with our customers that we can generate the greatest value for them, and for us, when we can offer our capabilities in the best way.

**Are you tired of questions about dependence on the automotive industry?**

We have gone from being a major supplier to the automotive industry, with about a third of our sales ten years ago going to the industry, to about one tenth of our sales today. The reduction has been a highly deliberate strategy in this exciting, but demanding industry.

We are satisfied with the level of exposure to the automotive industry that we have now. We are world-leading and have found profitable niches, for example, in brake shims, selected seal segments and boots for drive shafts. We see opportunities in the ongoing electrification of vehicles and during the year we launched, for example, a new range of seals for electric and hybrid cars, which was very favorably received.

**You are continuing to acquire companies?**

Trelleborg certainly has a long history of acquisitions, but I want to emphasize that the Group is driven by an interaction between organic and acquired growth. Acquisitions are part of our portfolio management activities and we work continuously with potential acquisitions that could strengthen the Group, but it is organic development that primarily drives the growth of the Group.

That said, the acquisitions we work with are nearly exclusively smaller bolt-on acquisitions that complement us in our existing segments and niches, and strengthen our positions. These could be acquisitions that enable us to access new solutions, new customer categories or new geographies, and then strengthen an already existing position.

**Are the required talents available?**

You could say that it is an eternal talent hunt. There are now clear recruitment challenges in several areas of the Group, and in certain geographies there is also a shortage of qualified labor. Even though we are well-respected, established and have a good reputation in most of the locations that we are in, there is also competition for talent. When establishing new operations and making investments, we must increasingly consider whether the right capabilities and qualified labor are available. Companies are built on individuals, their ideas, capabilities and commitment.

Over time, we also need to keep our current talents motivated. They are Trelleborg and they are the ones who ensure that we continue to develop. We want them to stay at the company for a long time and therefore work with internal training in such areas as leadership, specialist courses and training within the scope of our Excellence program, and we let people develop with new responsibilities.

**What benefits do internal diversity and inclusion offer the company at large?**

You need to find the talent where it actually exists. In this respect, gender, age and religion, for example, play no part at all. We want to recruit locally where we are, because our employees must understand local developments to best be able to do business there. So, it is quite simply a matter of giving ourselves the best possibilities.

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 be assigned greater responsibility over time. It is a process that is constantly ongoing, which we must never stop if we are to remain successful. In this, diversity and inclusion represent a strength for us.

**What is your own role in the company's continued development?**

Good leadership at all levels and in all geographies is a question of maintaining a high pace of activity built on recognition, trust, openness and humility.

We ensure that we have the right managers in the right places and that major strategic decisions are implemented in an effective and correct manner. This includes keeping everyone motivated, getting us to constantly challenge ourselves and to seek new ways. We also need to be one step ahead, dare to make decisions and drive change, and have a helicopter view that challenges our decentralized organization so that necessary changes actually occur and that they occur quickly when decisions are made.

A successful Trelleborg requires motivated employees. I want us all to stand with our feet firmly on the ground, see reality as it is, act accordingly and do so both methodically and swiftly.

*Trelleborg, February 2020*

**3,600**

employees have completed the course on diversity and inclusion.

**95%**

of employees work outside Sweden.

**KEY EVENTS IN 2019**

