



## **NINE MONTH REPORT JANUARY–SEPTEMBER 1999**

Operating profit amounted to SEK 670 M (560)



Profit after financial items totaled SEK 643 M (474)



Operating cash flow was SEK 564 M (19)

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### **Group**

#### **Net sales, earnings and profitability**

The Group's net sales for the first nine months of 1999 totaled SEK 18,320 M (18,576). The decrease was due to the sale of the operations within the Other Activities Sector. The Industrial Sector posted a 12-percent increase in net sales, compared with the year-earlier period, primarily as a result of acquisitions.

Group operating profit for the period totaled SEK 670 M (560). The return on capital employed in operations was 8.2 percent (6.1). In regard to the restructuring program for the Industrial Sector totaling SEK 250 M named in earlier reports, SEK 72 M was charged against noncomparable items during the period. The rest of the program is expected to be expensed during the final quarter of the current year.

Profit after financial items amounted to SEK 643 M (474). Net profit rose to SEK 447 M (306) and earnings per share amounted to SEK 4.30 (2.45), after full conversion and excluding noncomparable items.

During October, the Swedish Staff Pension Society (SPP) announced that SEK 242 M of its consolidation surplus had been allocated to companies within the Trelleborg Group. To date, SPP has not stated how or when these funds will be made available.

#### **Balance sheet, cash flow and investments**

As at September 30, 1999, the Group's net debt amounted SEK 2,625 M, compared with SEK 3,287 M at the beginning of the year. The equity/assets ratio was 48.8 percent (53.9). Cash flow improved during the third quarter, primarily as a result of operations within the Industrial Sector. The operating cash flow for the period was SEK 564 M (19).

At the end of the period, the Group had liquid funds of SEK 1,312 M (790). This includes the holding of preference shares in Boliden Ltd in an amount of SEK 524 M. On September 30, 1999, the market value of these shares exceeded their book value by slightly more than SEK 350 M.

Gross investments during the period amounted to SEK 607 M (575).

## **INDUSTRIAL SECTOR**

Net sales within the Industrial Sector rose 12 percent to SEK 6,512 M (5,797) during the first three quarters of 1999, primarily as a result of acquisitions. During the same period, operating profit totaled SEK 457 M (430).

The trend noted in the first half is being maintained, with strong sales trends for operations focusing on the North American automotive industry, but continued weak demand from general industry and the infrastructure sector.

A number of important orders were obtained from DaimlerChrysler, among other companies, which will lead to a breakthrough for Trelleborg Automotive's Mexican units, where an expansion of capacity is safeguarding quality and access to advanced compounds.

The Industrial Sector's increased focus on agricultural tires has been well received by the market and the new TM800 radial tire range is continuing to strengthen Trelleborg Wheel System's market position.

Trelleborg Building Systems is continuing to apply its expansion strategy in Europe. During the third quarter, the German profiles company DiPro Dichtungssysteme GmbH was acquired. This company develops, produces and markets primarily extruded sealing profiles for the German building market and has annual sales of SEK 125 M. Combined with a positive trend in the Swedish building market, the launch of new products for the construction industry is offsetting the continued weak conditions in the European market.

Work on the restructuring program described in earlier reports, which mainly affects the sector's European units, was started during the third quarter. Of the total costs of approximately SEK 250 M, SEK 72 M was charged against the Group's earnings (noncomparable items) through September 1999. It is expected that the program will have a positive effect of approximately SEK 75 M on annual earnings commencing in year 2001. The projects decided to date relate primarily to a restructuring of the hose operations within Trelleborg Engineered Systems and of a UK profiles manufacturing unit within Trelleborg Building Systems.

### **Trelleborg Automotive**

The positive market trend in North America remained unchanged during the period. During October, a new multi-year contract was signed between the automotive workers' union and the automotive industry, thereby eliminating the greatest risk for any short-term downturn in demand.

Trelleborg Automotive's operations in Europe are currently in a restructuring phase, the aim of which is to secure fewer but larger production units and improved profitability. The business area's Technical Center in Trelleborg and sales office in Frankfurt are now in full operation.

### **Trelleborg Wheel Systems**

The market for agricultural tires was weak during the period, principally as a result of the low level of new sales of agricultural machines in both the US and Europe. However, as a result of marketing activities and the new product range introduced during 1998, the business area continued to capture market share within the radial tractor tires product area.

Very favorable demand was shown for industrial tires in North America, while European demand was sluggish. Certain new niches developed positively, however, such as the market for aerial lifts.

### **Trelleborg Engineered Systems**

Demand from project-related sectors, such as the oil, infrastructure and mining industries, remained weak, although some positive signs could be noted towards the end of the period.

An extensive restructuring program for the Swedish unit producing industrial hose is currently in progress to boost cost efficiency. Some of the positive results gained from earlier cost-saving measures are being offset by low capacity utilization and pressure on prices. The business area's Spanish operations continue to show favorable development, while South American operations are currently in an investment phase, which is expected to be completed at the end of the year.

## **Trelleborg Building Systems**

Demand within the Swedish building market increased, while the trend in the business area's other European markets remained weak. Bitumen-based roof-sealing products showed favorable growth, which combined with contributions from acquired units, compensated for a somewhat weaker trend of earnings within the Consumer and Materials units. The weak demand in the Russian market led to lower sales within the Consumer sector.

In September 1999 DiPro Dichtungssysteme GmbH, Germany's leading manufacturer of extruded sealing strips made from TPE material, was acquired. The acquisition supplements the product range within an expanding materials area and further strengthens the business area's position as the leading supplier to the European building-related industry. The acquisition of DiPro, and the units acquired in 1998, contributed to the increase in sales.

## **DISTRIBUTION SECTOR**

Excluding the divestment of Starckjohann Auto, the Distribution Sector increased its net sales by approximately 2 percent for comparable units. Including the divestment of Starckjohann Auto, net sales for the sector totaled SEK 10,846 M (10,888).

The positive effects of improved conditions within the building segment and slightly increasing steel prices are clearly discernable. Cooperation between the Swedish and Finnish heating and plumbing supplies units and steel units is progressing rapidly and is expected to make a positive contribution to earnings commencing in the fourth quarter. The building materials trade in Finland experienced a weak summer season, which had an adverse effect on the sales trend for the Starkki building materials chain.

Operating profit for the sector during the first nine months of the year amounted to SEK 322 M (394). Negotiations are under way regarding a divestment of the Distribution Sector.

## **Ahlsell**

The improved climate for building operation in Sweden made a distinct impression on Ahlsell's heating and plumbing and electrical operations. The Electrical supplies division intensified the integration of Skoogs, which it is estimated will be completed by the end of 1999. The establishment of operations in Denmark is proceeding according to plan. The termination of the unprofitable heating and plumbing supplies operations in Poland will be completed during the year. To date during the current year, the costs for these measures have been charged against earnings in a nonrecurring total of approximately SEK 35 M. It is expected that these measures will lead to an increased earnings capability for Ahlsell as of year 2000.

The industrial retail operations of JW Andersson were sold during the third quarter and a contract has been signed to acquire the Norwegian heating and plumbing supplies wholesaler, Sjölie & Birch.

## **Bröderna Edstrand**

During the third quarter, the trend turned towards increasing prices within the Bröderna Edstrand product areas. This trend is expected to strengthen during the fourth quarter and during next year in particular. Although the above factors resulted in a slight rise in inventory values during the third quarter, Bröderna Edstrand showed an accumulated decline for the nine-month period as a whole. Cooperation between Bröderna Edstrand and Starckjohann Steel is proceeding according to plan, as exemplified by the coordinated storage of low-frequency materials.

## **Reynolds**

The French market improved, while the UK market remained weak. This, in combination with slightly increasing steel prices, led to an improvement in operating earnings during the third quarter.

The acquired company Testas has now been fully integrated and is making a positive contribution to earnings. A cost-savings program will be implemented during the coming year to improve the weak profitability of Reynolds' UK operations.

## **Starckjohann**

Heating and plumbing and steel operations have now been integrated operationally within Ahlsell and Bröderna Edstrand, respectively. For the sake of historic continuity, Starckjohann will continue to be reported externally, as previously.

Heating and plumbing operations increased in an otherwise weak market. It was thus possible to increase market shares with retained profitability. The Starckjohann Steel service center in Lahtis was completed during the third quarter and will be placed in operation on a gradual basis during the final quarter.

## **OTHER ACTIVITIES SECTOR**

Net sales declined sharply as a result of the divestment of operations and amounted to SEK 1,014 M (1,951) for the period. Apart from a real estate portfolio, virtually all that now remains of this sector is the US metals recovery company, Metech. The number of employees was reduced from slightly more than 1,400 a year ago to around 150 persons at the end of the period.

## **YEAR 2000**

In recent years, the Trelleborg Group has conducted an extensive action program to ensure that all computers in technical and administrative systems, including so-called embedded systems, will function in connection with the shift to year 2000. An audit of the measures already implemented has been conducted with the help of Arthur Andersen. In all significant respects, the project is proceeding according to plan and it is estimated that all reasonable measures will have been taken prior to the end of the year.

## **Trelleborg share price trend**

The price of the Trelleborg Series B share at the end of the period was SEK 78. This reflected an 18.2 percent (SEK 12) increase since the beginning of the year, compared with an increase of 18.4 percent for Affärsvärlden's General Index. During the year, Trelleborg's shareholders received a dividend of 0.3908 common shares in Boliden (in the form of a depository receipts) for each Trelleborg share held, equal to SEK 6.45 at the time of the dividend. This corresponds to an additional approximately 10-percent increase in shareholder value during the current year. In addition to the SEK 2 cash dividend, Trelleborg's shareholders have thus received an approximately 28-percent value increment during the first nine months of 1999.

## **Outlook for 1999**

On the whole, the outlook is the same as that given in the six-month interim report. The American market has developed favorably during the year and still shows no sign of weakening. European markets, which to date have been weak, especially in Central Europe, are showing some signs of improvement.

During the final quarter, noncomparable items will be charged with the remainder of the restructuring program for the Industrial Sector totaling approximately SEK 250 M, of which SEK 72 M was charged in the third quarter.

In line with the new strategic direction, extensive efforts are in progress to implement the necessary structural changes to concentrate the Group's operations in future.

Trelleborg, November 10, 1999

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*President and CEO*

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This report and other information about the Trelleborg Group, including the magazine T-TIME,  
are also available on the Internet at the following address: [www.trelleborg.com](http://www.trelleborg.com).

This report has not been subject to specific examination by Trelleborg AB's auditors.  
The year-end report for 1999 will be published on February 8, 2000.

## Income statements

<b>Group</b>	July–September		Jan–Sept		Oct 1998–	Full year
SEK M	1999	1998	1999	1998	Sept 1999	1998
Net sales	5,880	6,196	18,320	18,576	24,785	25,041
Cost of goods sold	–4,674	–5,054	–14,563	–14,910	–19,817	–20,164
<b>Gross profit</b>	<b>1,206</b>	<b>1,142</b>	<b>3,757</b>	<b>3,666</b>	<b>4,968</b>	<b>4,877</b>
Selling, administration and R&D expenses	–958	–920	–3,119	–3,046	–4,241	–4,168
Noncomparable items	–72	0	–73	17	–73	17
Other operating revenues and expenses	39	40	62	73	182	193
Pretax profit/loss from participations in associated companies	6	–57	43	–150	10	–183
<b>Operating profit</b>	<b>221</b>	<b>205</b>	<b>670</b>	<b>560</b>	<b>846</b>	<b>736</b>
Financial income and expense	–16	–64	–27	–86	–61	–120
<b>Profit after financial items</b>	<b>205</b>	<b>141</b>	<b>643</b>	<b>474</b>	<b>785</b>	<b>616</b>
Taxes	–66	–17	–194	–125	–150	–81
Minority shares	0	–22	–2	–43	–2	–43
<b>Net profit for the period</b>	<b>139</b>	<b>102</b>	<b>447</b>	<b>306</b>	<b>633</b>	<b>492</b>

## Balance sheets

<b>Group</b>	September 30	September 30	December 31
SEK M	1999	1998	1998
Intangible fixed assets	2,466	2,202	2,483
Tangible fixed assets	4,284	4,317	4,718
Financial fixed assets	1,477	4,062	4,167
Inventories	3,356	3,922	4,042
Receivables	4,969	4,840	4,233
Liquid funds	1,312	790	855
<b>Total assets</b>	<b>17,864</b>	<b>20,133</b>	<b>20,498</b>
Shareholders' equity	8,698	10,706	10,975
Minority shares	19	155	156
Provisions	497	1,172	1,050
Long-term liabilities	4,081	3,310	3,758
Current liabilities	4,569	4,790	4,559
<b>Total shareholders' equity, provision and liabilities</b>	<b>17,864</b>	<b>20,133</b>	<b>20,498</b>

## Cash flow analysis

SEK M	January–September 1999	1998
<b>Ongoing operations</b>		
Operating profit excluding share in results of associated companies and noncomparable items	700	710
Depreciations	486	446
<i>Cash surplus from operations</i>	1,186	1,156
Change in working capital	–15	–562
Gross investments	–607	–575
<b>Operating cash flow</b>	<b>564</b>	<b>19</b>
Divestments	1,060	247
Acquisitions	–387	–924
Financial items	–27	–86
Taxes paid	–44	–35
Change in other receivables and liabilities	–269	–695
Dividend to shareholders	–235	–587
<i>Change in financial net assets/liabilities</i>	662	–2,061
<b>Financing operations</b>		
Loans raised/Amortized loans	–208	–809
Increase/decrease in financial investments	3	87
<i>Cash flow from financing operations</i>	–205	–722
<b>Change in liquid funds</b>	<b>457</b>	<b>–2,783</b>

## Key figures, Group

	January–September 1999	1998	Oct 1998– Sept 1999	Full year 1998
Return on shareholders' equity, after full tax, %	6.1	3.8	6.5	4.5
Equity/assets ratio, %	48.8	53.9	—	54.3
Earnings per share, after full tax, SEK	3.80	2.60	5.40	4.20
Earnings per share, after full tax and full conversion, SEK	3.70	—	5.30	4.20
Earnings per share, after full tax, excluding noncomparable items, SEK	4.40	2.45	6.00	4.05
Earnings per share, after full tax and full conversion, excluding noncomparable items, SEK	4.30	—	5.90	4.05
Shareholders' equity per share, SEK	74.10	91.25	—	93.55
Financial assets, minus liabilities at end of period, SEK M	–2,625	–2,929	—	–3,287
Investments in plants, SEK M	607	575	838	806
Average number of shares after full conversion	122,552,442			117,341,524

## Group review

SEK M	July–Sept		Net sales Jan–Sept		Oct 1998– Sept 1999	Full year 1998
	1999	1998	1999	1998		
Trelleborg Automotive	567	530	1,805	1,633	2,391	2,219
Trelleborg Wheel Systems	655	534	2,144	1,656	2,656	2,168
Trelleborg Engineered Systems	549	601	1,834	1,986	2,475	2,627
Trelleborg Building Systems	391	350	1,010	861	1,327	1,178
Other	–81	–104	–281	–339	–389	–447
<b>Industrial Sector</b>	<b>2,081</b>	<b>1,911</b>	<b>6,512</b>	<b>5,797</b>	<b>8,460</b>	<b>7,745</b>
Ahlsell	1,381	1,330	4,054	3,828	5,568	5,342
Bröderna Edstrand	501	524	1,671	1,747	2,252	2,328
Reynolds	268	271	807	796	1,065	1,054
Starckjohann	1,496	1,652	4,314	4,517	5,865	6,068
Other	1	—	—	—	—	—
<b>Distribution Sector</b>	<b>3,647</b>	<b>3,777</b>	<b>10,846</b>	<b>10,888</b>	<b>14,750</b>	<b>14,792</b>
Other companies	165	527	1,014	1,951	1,659	2,596
Group items	—	—	—	—	—	—
Eliminations	–13	–19	–52	–60	–84	–92
<b>Group total, excluding Boliden</b>	<b>5,880</b>	<b>6,196</b>	<b>18,320</b>	<b>18,576</b>	<b>24,785</b>	<b>25,041</b>
Boliden	—	—	—	—	—	—
<b>Group total</b>	<b>5,880</b>	<b>6,196</b>	<b>18,320</b>	<b>18,576</b>	<b>24,785</b>	<b>25,041</b>

## Group review, continued

MSEK	July–September		Operating profit January–Sept		Oct 1998– Sept 1999	Full year 1998
	1999	1998	1999	1998		
Trelleborg Automotive	55	47	180	162	240	222
Trelleborg Wheel Systems	36	34	130	106	151	127
Trelleborg Engineered Systems	5	26	55	93	77	115
Trelleborg Building Systems	60	54	105	104	136	135
Other	–1	–16	–13	–35	–23	–45
<b>Industrial Sector</b>	<b>155</b>	<b>145</b>	<b>457</b>	<b>430</b>	<b>581</b>	<b>554</b>
Ahlsell	51	60	141	164	237	260
Bröderna Edstrand	25	22	61	69	77	85
Reynolds	9	8	11	15	5	9
Starckjohann	65	84	110	154	138	182
Other	0	–2	–1	–8	–1	–8
<b>Distribution Sector</b>	<b>150</b>	<b>172</b>	<b>322</b>	<b>394</b>	<b>456</b>	<b>528</b>
Other companies	–1	–1	29	44	31	46
Group items	–11	–45	–65	–129	–101	–165
Noncomparable items	–72	—	–73	17	–73	17
<b>Group total, excluding Boliden</b>	<b>221</b>	<b>271</b>	<b>670</b>	<b>756</b>	<b>894</b>	<b>980</b>
Boliden	—	–66	—	–196	–48	–244
<b>Group total</b>	<b>221</b>	<b>205</b>	<b>670</b>	<b>560</b>	<b>846</b>	<b>736</b>

## Key operating ratios

	Operating margin				Return on capital employed in operations			
	Jan–Sept 1999	Jan–Sept 1998	Oct 1998–Sept 1999	Full year 1998	Jan–Sept 1999	Jan–Sept 1998	Oct 1998–Sept 1999	Full year 1998
%								
Trelleborg Automotive	8.6	9.0	9.1	9.4	16.9	16.4	17.1	16.7
Trelleborg Wheel Systems	6.1	6.4	5.7	5.9	11.1	12.0	10.3	10.8
Trelleborg Engineered Systems	3.0	4.7	3.1	4.4	5.9	10.6	6.2	9.8
Trelleborg Building Systems	10.4	12.1	10.2	11.4	18.8	24.4	18.1	22.0
<b>Industrial Sector</b>	<b>6.6</b>	<b>7.2</b>	<b>6.6</b>	<b>7.0</b>	<b>12.1</b>	<b>13.4</b>	<b>11.8</b>	<b>12.7</b>
Ahlsell	3.5	4.3	4.3	4.9	12.8	16.5	16.2	19.1
Bröderna Edstrand	3.7	3.9	3.4	3.7	23.3	22.8	21.8	21.8
Reynolds	1.4	1.9	0.5	0.9	6.8	8.9	2.5	4.1
Starckjohann	2.6	3.4	2.3	3.0	6.7	10.6	6.2	9.0
<b>Distribution Sector</b>	<b>3.0</b>	<b>3.6</b>	<b>3.1</b>	<b>3.6</b>	<b>10.1</b>	<b>13.4</b>	<b>10.7</b>	<b>13.2</b>
Other companies	1.1	0.7	—	—	2.4	3.3	1.8	2.4
<b>Group total, excluding Boliden</b>	<b>3.4</b>	<b>3.8</b>	<b>3.4</b>	<b>3.7</b>	<b>8.2</b>	<b>10.2</b>	<b>8.2</b>	<b>9.6</b>
Boliden	—	—	—	—	—	–10.7	–5.1	–10.2
<b>Group total</b>	<b>3.4</b>	<b>3.8</b>	<b>3.4</b>	<b>3.7</b>	<b>8.2</b>	<b>6.1</b>	<b>7.1</b>	<b>5.9</b>

## Key operating ratios, continued

SEK M	Average capital employed in operations			
	January–September 1999	January–September 1998	Oct 1998–Sept 1999	Full year 1998
Trelleborg Automotive	1,423	1,317	1,401	1,325
Trelleborg Wheel Systems	1,566	1,175	1,473	1,182
Trelleborg Engineered Systems	1,248	1,169	1,240	1,178
Trelleborg Building Systems	744	567	746	611
Other	59	44	65	53
<b>Industrial Sector</b>	<b>5,040</b>	<b>4,272</b>	<b>4,925</b>	<b>4,349</b>
Ahlsell	1,467	1,324	1,472	1,361
Bröderna Edstrand	349	403	354	390
Reynolds	218	224	223	227
Starckjohann	2,202	1,945	2,209	2,026
Other	7	17	7	15
<b>Distribution Sector</b>	<b>4,243</b>	<b>3,913</b>	<b>4,265</b>	<b>4,019</b>
Other companies	1,624	1,795	1,727	1,891
Group items	32	–121	6	–103
<b>Group total, excluding Boliden</b>	<b>10,939</b>	<b>9,859</b>	<b>10,923</b>	<b>10,156</b>
Boliden	—	2,448	945	2,394
<b>Group total</b>	<b>10,939</b>	<b>12,307</b>	<b>11,868</b>	<b>12,550</b>



## Cash flow report

January-September	Profit/loss excl associated companies and noncomparable items	Depre- ciation	Gross invest- ments	Other changes in capital employed	Total operating cash flow	Acqui- sitions	Divest- ments
SEK M							
Trelleborg Automotive	156	75	-81	-14	136	-42	
Trelleborg Wheel Systems	130	91	-77	2	146	-40	
Trelleborg Engineered Systems	55	66	-111	-33	-23		
Trelleborg Building Systems	105	45	-20	-25	105	-62	
Other	-14	7	-7	41	27		
<b>Industrial Sector</b>	<b>432</b>	<b>284</b>	<b>-296</b>	<b>-29</b>	<b>391</b>	<b>-144</b>	<b>—</b>
Ahlsell	141	51	-52	-90	50	-29	41
Bröderna Edstrand	61	15	-16	-48	12		
Reynolds	11	6	-2	5	20		
Starckjohann	110	78	-139	108	157	-214	100
Other	-1	0	0	-1	-2		
<b>Distribution Sector</b>	<b>322</b>	<b>150</b>	<b>-209</b>	<b>-26</b>	<b>237</b>	<b>-243</b>	<b>141</b>
Other companies	11	48	-97	77	39		919
Group items	-65	4	-5	-37	-103		
<b>Operating cash flow</b>	<b>700</b>	<b>486</b>	<b>-607</b>	<b>-15</b>	<b>564</b>	<b>-387</b>	<b>1,060</b>
Acquisitions					-387		
Divestments					1,060		
Dividend to shareholders					-235		
Other (financial items, taxes paid etc)					-340		
<b>Change in financial net assets/liabilities</b>					<b>662</b>		