



Performance & Safety

Full Year Report 1998

- Invoicing increased 93% (15% excluding acquisitions) to 4.8 BSEK
- Operating earnings increased 58% to 361 MSEK
- Earnings before tax increased 37% to 297 MSEK
- Substantial profit contribution from the Midland-Grau acquisition
- Earnings per share increased to SEK 8:92 (7:38)
- Dividend proposal SEK 3:00 (2:63)
- Market introduction of disc brake and AWD systems in serial production

Market

During 1998, the vehicle business climate was strong in the main markets in North America and Europe. In contrast, the markets declined sharply in Asia and South America, which, however, account for a smaller portion of the Group's business.

Heavy vehicles

In both North America and Europe, the number of produced heavy vehicles increased by approximately 17%, whereas the development in most other markets was strongly negative. In Korea, production declined 90%; in Japan 40%; in Turkey 20% and in Brazil 5%. In total, world production of heavy vehicles rose 4%.

The Group's invoicing pertaining to heavy vehicles increased by 186%. Excluding Midland-Grau, consolidated from April, invoicing increased 10%.

Light vehicles

The production of light vehicles increased by 5% in Europe, whereas the production rate remained at the 1997 level in North America, despite the strike at GM. In Japan, production declined 10% and in Brazil 15%. In total, world production of light vehicles decreased by 3%.

The Group's invoicing pertaining to light vehicles increased by 24%. Excluding AWD systems (All Wheel Drive), a new product for 1998, invoicing increased 19%.

Industrial vehicles

In North America, the market development remained positive and production of forklifts and construction equipment increased by some 12%. In Europe, production is estimated to have increased about 10% for forklifts and 5% for construction equipment.

The Group's invoicing pertaining to industrial vehicles increased by 15%.

Results

The Group's earnings before tax amounted to 297 MSEK (217), an increase of 37%. Midland-Grau, that was acquired during the year and consolidated as from April, developed better than assumed in the acquisition calculation and contributed significantly to the Group's profits after goodwill depreciations and financing costs.

The operating earnings after goodwill depreciations amounted to 361 MSEK (228), an improvement with 58%. All divisions, except Traction Systems, improved the operating result compared to previous year and reached a return on capital employed that exceeded or were well in line with the Group's goal. The organization build-up within Traction Systems with start-up and accelerated serial production of AWD systems, as well as the broadening of marketing efforts towards several new potential customers, caused the division's operating loss to increase with 33 MSEK compared to previous year.

The Group's R&D expenses, including Midland-Grau, amounted to 189 MSEK (138) and amounted to 3.9% of invoicing.

The profit margin for the whole year was 7.8% (9.5). The decline is fully explained by Midland-Grau and the build-up of the Traction Systems division. The return on capital employed was 18.1% (20.7). Earnings per share, calculated on the stated P&L result and the average number of shares during the year, increased by 21% to SEK 8:92 (7:38).

The Group's order intake amounted to 4,856 MSEK (2,694), and increase of 80%. Hereof, the Midland-Grau acquisition accounted for 1,911 MSEK for the 9-month period April-December. Excluding the acquisition, order intake rose 9%.

Invoicing amounted to 4,831 MSEK (2,502), an increase of 93%. Excluding the acquisition, invoicing rose 15%.

The relatively low invoicing of the Traction Systems division during the last quarter is explained by an interruption of production at the end of the year, that was agreed with the customer in order to be able to implement a major layout change, aimed to make the production process more efficient, in anticipation of the successive volume increase planned for 1999.

Quarterly, order intake and results have developed as follows:

MSEK	1997				1998			
	I	II	III	IV	I	II	III	IV
Order intake	676	695	611	712	768	1,356	1,265	1,467
Net sales	564	644	615	680	699	1,388	1,320	1,424
<i>hereof:</i>								
Brake Systems	253	282	281	311	308	692	681	722
Midland Services	-	-	-	-	-	282	244	262
Barnes Hydraulics	176	208	203	207	214	228	231	245
Garphyttan Wire	138	155	133	167	180	186	151	190
Traction Systems	-	-	-	2	1	3	15	10
Earnings before tax	47	61	60	50	61	77	71	88
Profit margin, %	9.1	10.1	10.7	8.1	9.5	7.3	7.2	7.9
R&D, %	5.6	5.1	5.0	6.2	4.6	4.0	4.1	3.3

Business development

During 1998, important steps were taken to develop the Haldex Group towards a substantially larger and stronger company specializing in vehicle technology. The product range has been expanded and a significant enhancement of the technology level has taken place, through both own product development and acquisitions.

- The acquisition of Midland-Grau as per April 1998 doubled the size of the Group's yearly sales and developed the Brake Systems division into a complete systems supplier of brake equipment for heavy vehicles. The acquisition also brought a substantial aftermarket business, which is less sensitive to business cycles.
- After several years of development work, serial deliveries of Haldex adjustable AWD system for cars started during the year. In addition to a mechanical/hydraulic coupling unit, the system consists of an integrated micro processor for which an operating system as well as car-model specific application software have been developed. It is a significant success for the Haldex technology that the VW Group, Europe's largest car manufacturer, became our first customer. During the year, letters of intent were signed with two other European car manufacturers.
- After comprehensive and successful field tests of Haldex newly developed disc brake for heavy vehicles, a first smaller, but important, order was received from the important German vehicle industry. This first disc brake order of a few hundred units for use on trailer axles, is expected to be followed by regular business from the same customer. Projects with several other customers are also ongoing. The German truck manufacturer MAN decided to install Haldex disc brakes on all their racing trucks after successful truck racing experience during 1998.
- In spite of further penetration of disc brakes in the European market, a new sales record was set in 1998 for Haldex automatic brake adjusters for drum brakes. Over 3 million units were shipped globally, which is estimated to exceed the volume of all competitors combined.
- During the year new safety regulations were introduced in the U.S. making ABS (Anti-lock Braking Systems) systems compulsory on new trailers with air brake systems. Haldex achieved a market share of almost 35% for this technically advanced product. A new generation of Haldex Modular ABS system was also introduced in the European trailer market. In the beginning of 1999, a first, major order from Asia for some 4,000 units was received from the Korean trailer manufacturer Jindo.
- The Barnes Hydraulics division developed a hydraulic drive system of cooling fans in diesel engines, substituting mechanical designs in buses and construction vehicles. Also for turf care equipment, mechanical drives have been substituted by newly developed hydraulic drive systems of the rotor unit.

- The Garphyttan Wire division's new production unit in the U.S. has developed well and is now running close to capacity. The market share in North America improved and shipments of valve spring wire to the North American market has increased by 50%. The freed-up capacity in the Swedish production unit was utilized for other markets. Market potentials for qualified spring wire products are increasing, partly due to further penetration of multi-valve technology and partly due to the technology change in modern cars, where Dual Mass Fly Wheels with specialty springs reduce the transfer of engine vibrations to the transmission.

Capital expenditures, net debt, personnel

The year's capital expenditures, including Midland-Grau for the period April-December, amounted to 180 MSEK (117). The net debt at the end of the year amounted to 1,058 MSEK (135). The year's cash flow from operations after deduction of net capital expenditures amounted to 235 MSEK (123). The number of employees at the end of the year was 4,289 (1,944).

Outlook for 1999

Forecasts of vehicles production point to a decline in the main markets in North America and Europe. During 1999, Midland-Grau will be included the whole year (9 months in 1998), and, therefore, the Group's sales will increase in spite of the weaker market.

The integration work with Midland-Grau will continue with certain changes in production; divesting of a few smaller product lines, as well as internal rationalizations in order to improve margins.

The Traction Systems division is expected to improve the result going forward as volumes increase and actions to reduce product costs take effect.

Profit & Loss, Group

Amounts in MSEK	1998	1997	1996
Net sales	4,831	2,503	2,143
Cost of goods sold	-3,491	-1,736	-1,516
Gross profit	1,340	767	627
	27.7%	30.6%	29.3%
Selling, G&A and R&D costs	-960	-539	-463
Other revenues and costs	- 19	-	39
Operating profit	361	228	203
Financial net	- 64	- 11	- 12
Earnings before tax	297	217	191
Taxes	-111	- 73	- 59
Net income	186	144	132

Balance Sheet, Group

Amounts in MSEK	981231	971231	961231
Intangible assets	498	16	16
Tangible assets	1,227	753	635
Financial assets	9	6	6
Inventories	854	278	256
Current receivables	840	424	305
Cash, bank and short-term investments	262	239	168
Assets	3,690	1,716	1,386
Shareholders equity	1,340	852	718
Provisions	263	217	189
Long-term liabilities	1,108	256	212
Short-term debt	43	24	12
Other current liabilities	936	367	255
Shareholders' equity and liabilities	3,690	1,716	1,386

Changes in Financial Position, Group

Amounts in MSEK	1998	1997	1996
Operating profit	361	228	203
Depreciation on fixed assets	185	90	73
Financial net and taxes paid	- 210	- 69	- 55
Change in working capital	74	- 11	66
Cash flow from operations	410	238	287
Net investments	-175	-115	-207
Acquisition	-1,365	-	-
Cash flow	-1,130	123	80
Rights issue	348	-	-
Dividend	- 51	- 46	- 46
Change in debt and pension liabilities	853	- 9	19
Change in long-term receivables	0	- 1	19
Change in cash excl. translation difference	20	67	72
Translation difference on liquid funds	3	4	-
Change in cash	23	71	72

Key ratios

	1998	1997	1996
Profit margin, %	7.8	9.5	9.8
Return on capital employed, %	18.1	20.7	21.6
Return on equity, %	16.6	18.3	19.6
Interest coverage ratio, times	4.7	11.8	10.9
Equity/assets ratio, %	35	50	52
Debt/equity ratio, %	79	16	19

Share data ¹⁾	1998	1997	1996
Earnings after tax, SEK	8:92	7:38	6:78
Shareholders' equity, SEK	60:09	43:81	36:96
Average no. of shares, (000)	20,810	18,580	18,580
No. of share at year-end, (000)	22,296	18,580	18,580

1) Adjusted for rights issue 1:5/95

Future reporting

Annual Report	mid March 1999
Shareholders' Meeting	25 March 1999 in Stockholm
Interim report January-March	26 April 1999
Interim report January-June	9 August 1999
Interim report January-September	20 October 1999

Stockholm 18 February 1999
 Claes Warnander
 Group President and CEO