



Performance & Safety

Hal dex Half-Year Report 1999

- **Earnings before tax increased 8% to 149 MSEK**
- **Operating earnings increased 15% to 185 MSEK**
- **Order intake and invoicing increased 44% to 3,048 MSEK and 3,004 respectively**
- **Strong vehicle industry in the main markets**
- **Step towards break-through on the US AWD market**

Market

The vehicle industry continued strong in the main markets in North America and Western Europe during the period.

Heavy vehicles

In North America, sales of heavy vehicles increased by 20% compared to the first half of 1998. The production rose by 22%. The period's net order intake to the truck manufacturers, however, was significantly lower than for the corresponding period last year, and also lower than for the 2nd half of last year. For the full year, therefore, the production increase is estimated to be approximately 15%.

In Europe, registrations of heavy vehicles increased by 19%. The production is estimated have been augmented by 15%. The period's net order intake to the truck manufacturers was on the whole unchanged compared to last year. The strong development during the 2nd half of last year will successively make it harder to exceed last year. For the full year, the European production increase is estimated to be approximately 6%.

In South America and Asia, the production rate of heavy vehicles continued weak. In Brazil, production decreased by 20%.

The production of trailers for heavy vehicles showed lower growth rates. In North America, production rose by 14%, whereas the level was unchanged in Europe, partly due to weak exports to Eastern Europe.

The aftermarket for heavy vehicles has for a longer period showed a slightly negative trend, especially in North America. Partly as a consequence of the massive increase of new vehicles during the last few years, which substantially has reduced the fleet age, and partly due to improved quality of components and longer warranty period. In North America, the after-market declined by approximately 4% compared with the 1st half of last year.

The Group's invoicing of products pertaining to heavy vehicles amounted to 2,051 MSEK, an increase of 60% including the acquisition of Midland-Grau, which was consolidated as of the 2nd quarter of 1998.

Light Vehicles

In North America, the sales of passenger cars and light trucks increased by 6%. The production of vehicles rose by 10%, mainly an effect of the GM strike, which started in June of last year. As of May, North American production had increased by 2%. The GM strike will also affect the full year estimate, which point to a production increase of 5%.

In Europe, the sales increase was 8%, whereas production rose by 4%. During the 2nd half of the year, the European market is expected to slow down somewhat and the full year production is forecast to be slightly over last year's level.

In South America and Asia, the production rate continued weak, even though an increase now starts to show in South Korea.

The Group's invoicing of products pertaining to light vehicles amounted to 437 MSEK, an increase of 18%.

Industrial vehicles

In North America, the positive market development continued for construction equipment, showing an increase of 15% compared to the 1st half of last year. The demand for such equipment declined, however, within the agricultural sector. The market for forklifts weakened by some 2%.

In Europe, the market for construction equipment grew by approximately 5% due to stronger economies and more infrastructure projects. The market for forklifts also developed positively.

The Group's invoicing of products pertaining to industrial vehicles increased by 18%

Results

The Group's earnings before tax was 149 MSEK (138), an increase of 8% compared to the 1st half of last year.

Operating earnings amounted to 185 MSEK (162), an increase of 15%. The operating results increased mainly in the Brake Systems and Midland Services divisions, for the most part pertaining to the operations acquired last year. Operating profits also improved somewhat within Barnes Hydraulics, whereas Garphyttan Wire showed a lower result, mainly due to reduced margins as a consequence of price pressures. In the Traction Systems division, the operating loss leveled out on the same level as last year.

The Group's profit margin for the 1st half-year was 6.4%, with a marginal improvement in the 2nd quarter compared to the 1st quarter. The reduced profit margin compared to the 1st half-year of 1998 (8.1%) is, in addition to price pressures, explained by the lower margins of the acquired units, product mix changes, and the substantial negative currency and volume development in Brazil.

In spite of a mainly good market, the price pressure was strong within the majority of the divisions' product areas. Programs to reduce product costs are ongoing in all units. In the Wire division, a personnel reduction program has been initiated as well, aiming at a reduction of approximately 60 persons or 13% at the present business level. This rationalization has been made possible by a new work organization and changed production flows, which are successively being implemented.

The period's order intake was 3,048 MSEK (2,124), an increase of 44%. The invoicing amounted to 3,004 MSEK (2,086), also an increase of 44%. For the present structure, the invoicing increased by 9%.

Quarterly, the order intake, invoicing and results have developed as follows:

MSEK	1998				1999	
	I	II	III	IV	I	II
Order intake	768	1,356	1,265	1,467	1,613	1,435
Invoicing	699	1,388	1,320	1,424	1,495	1,509
<i>hereof:</i>						
Brake Systems	308	714	679	736	767	756
Midland Services	-	260	247	247	263	265
Barnes Hydraulics	214	228	230	243	256	266
Garphyttan Wire	177	182	149	187	188	178
Traction Systems	-	4	15	11	21	44
Earnings before tax	61	77	71	88	71	78
Profit margin, %	9.5	7.3	7.2	7.9	6.3	6.5
R&D, %	4.6	4.0	4.1	3.3	4.0	3.9

Business Development

During the 1st half-year, the following more significant business events have taken place:

- Commercial break-through for Haldex newly developed disc brake for heavy vehicles in The European market.
- Standard position was achieved for Haldex Automatic Brake Adjuster at additional vehicle manufacturers in the US, which has resulted in dominating market shares also in the US market.
- Important reference orders for Haldex Automatic Brake Adjuster were received in China from North Benz and Dandong Automotive Works.
- A contract was awarded from the American Administration involving retrofit of the brake systems on 32,000 trucks, including Haldex ABS systems, air dryers, valves and brake lining, with an order value of approximately 160 MSEK over a six year period.
- Nissan, Spain, decided to equip its trucks with Haldex newly developed ABS system for medium trucks.
- Haldex introduced a new ABS system for trailers and confirmed its position as the world's second largest supplier of ABS systems for trailers.

- Significant new delivery contracts for Haldex brake lining products were received from large distributors in North America.
- After comparative field tests, Haldex was awarded delivery contracts for brake lining products for disc brakes on medium Dodge and Ford trucks in the US.
- Start of pre-serial deliveries of the newly developed Haldex ECAM system (Electronic Control Air Management) to a European truck manufacturer.
- The newly developed hydraulic pump with reduced noise level, WQ, was introduced broadly and a large order was received from Mitsubishi Caterpillar Forklift.
- A substantial development and delivery contract regarding hydraulic fuel transfer pumps was concluded with one of the world's leading diesel engine manufacturers for a new fuel injection system.
- Deliveries of Haldex AWD system to the VW/Audi Group increased substantially according to plan.
- Two new letters of intent regarding Haldex AWD system were signed with European car manufacturers, and an order for a prototype installation was received from a European sports car manufacturer.
- In August, a first step to a break-through was taken on the large US market when an order for a prototype installation of Haldex AWD system was received from that market. If following field tests are positive, serial deliveries could start year 2002/2003 with an annual value of approximately 250 MSEK. A technical sales office will be opened in Detroit during the fall.

Investments, net indebtedness, personnel

Capital expenditures during the period amounted to 100 MSEK (70). The cash flow for the period was 43 MSEK (87) and the net indebtedness at the end of the period amounted to 1,103 MSEK (1,105). The number of employees at the end of the period was 4,369 (4,417).

Year 2000

Haldex carries on comprehensive activities to test and adapt systems in the Group for the change-over to year 2000. The work follows established plans and the assessment is that all reasonable measures should be implemented before the millennium change.

Outlook for the full year 1999

The vehicle industry is expected to remain on a good level in the main markets in North America and Europe during the 2nd half of the year, even though a certain slow-down is expected compared with the 1st half of the year. Since last year was especially strong during the 2nd half, the full year comparison will show lower growth rates than after the 1st half-year.

The Group's invoicing for the 2nd half-year is expected to be approximately on the same level as for the 1st half-year.

Profit & Loss, Group	January-June		July 1998	Total
Amounts in MSEK	1999	1998	-June 1999	1998
Net sales	3,004	2,087	5,748	4,831
Cost of goods sold	-2,208	-1,492	-4,207	-3,491
Gross profit	796	595	1,541	1,340
	26.5%	28.5%	26.8%	27.7%
Selling, G&A and R&D costs	-593	-429	-1,127	-960
Other revenues and costs	-18	-4	-33	-19
Operating profit	185	162	381	361
Financial net	-36	-24	-76	-64
Earnings before tax	149	138	305	297
Taxes	-55	-53	-113	-111
Net income	94	85	192	186
Balance Sheet, Group	June 30	June 30		Dec 31
Amounts in MSEK	1999	1998		1998
Intangible assets	493	438		498
Tangible assets	1,234	1,154		1,226
Financial assets	20	7		10
Inventories	783	771		854
Current receivables	994	958		840
Cash, bank and short-term investments	254	277		262
Total assets	3,778	3,605		3,690
Shareholders' equity	1,388	1,235		1,340
Provisions	263	251		263
Long-term liabilities	1,084	1,060		1,108
Short-term debt	102	171		43
Other current liabilities	941	888		936
Shareholders' equity and liabilities	3,778	3,605		3,690
Key ratios	January-June		July 1998	Total
	1999	1998	-June 1999	1998
Profit margin, %	6.4	8.1	7.0	7.8
Return on capital employed, %	14.3	19.7	15.1	18.1
Return on equity, %	13.7	17.2	14.7	16.6
Interest coverage ratio, times	4.6	5.5	4.4	4.7
Equity/assets ratio, %	37	34	37	36
Debt/equity ratio, %	80	90	80	79

Changes in Financial Position, Group	January-June		July 1998	Total
	1999	1998	-June 1999	1998
Operating profit	185	162	384	361
Depreciation on fixed assets	113	76	223	186
Financial net & taxes paid	-84	-79	-215	-210
Change in working capital	-71	- 2	4	73
Total cash from operations	143	157	396	410
Net investments	-100	-70	-205	-175
Total cash flow	43	87	191	235
Acquisition	- 3	-1,268	-100	-1,365
Rights issue	-	348	-	348
Dividend	-67	-51	-67	-51
Change in debt and pension liabilities	19	922	-50	853
Change in cash excl. translation difference	- 8	38	-26	20
Translation difference on liquid funds	-	-	3	3
Change in cash	- 8	38	-23	23

Share date (adjusted for rights issue)	January-June		July 1998	Total
	1999	1998	-June 1999	1998
Earnings after tax, SEK	4:23	4:31	8:84	8:92
Shareholders' equity, SEK	62:27	55:37	62:27	60:09
Average no. of shares, (000)	22,296	19,819	19,323	20,809
No. of shares at the end of period, (000)	22,296	22,296	22,296	22,296

Future reporting

Interim report January-September 20 October 1999
Report January-December

Stockholm, August 9, 1999

Claes Warnander
President and CEO

Auditors' Report

We have made a review of this Half-year Report in accordance with recommendations issued by the Swedish Institute of Authorized Public Accountants. A review is substantially limited in relation to an audit.

Nothing has come to our attention that indicates that the Half-year Report fails to comply with the requirements of the Swedish Stock Exchange Act and the Swedish Annual Accounts Act.

Stockholm, Sweden, August 9, 1999

Gunnar Widhagen
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