Innovative vehicle technology

Haldex - 1st half year 2000

Key figures	2000	1999	Change
Net invoicing, MSEK	3,184	3,004	+ 6%
Operating earnings, MSEK	211	185	+14%
Earnings before tax, MSEK	180	149	+21%
Earnings after tax, MSEK	117	94	+24%
Earnings per share, SEK	5:24	4:23	+24%
Profit margin	6.8%	6.4%	

Key business events

- Another 1 billion SEK order for AWD systems was received from a European car manufacturer with delivery start 2001/02.
- Serial deliveries of the newly developed air disc brakes for heavy vehicles were initiated to the leading manufacturers SAF in Germany and SMB in France.
- The newly developed system for treating compressed air in brake systems (ECAM, Electronically Controlled Air Management) was launched on the new truck generation from German MAN.
- An alliance with the Brazilian brake component company Ader Ltda. gives Haldex a broadened program and a manufacturing base in Brazil.
- A first investment in mobile Internet in vehicles by acquiring a 13% share in Drive-IT Systems AB, which develops systems for mobile Internet services in vehicles, for example Carsharing and Fleet Management.

The vehicle market

The development on the vehicle markets during the first half year varied between different geographical regions and different vehicle types.

Heavy vehicles

In North America, the demand for new powered vehicles declined sharply, continuing a downturn that started already last year. During the previous year, however, production of new trucks continued at a higher rate than sales, leading to increased inventories. In order to reduce inventories and adjust to the demand, a limited down-scaling of the production rate has started. During the first half year, the production of heavy powered trucks (Class 8) was about 5% lower than the same period last year, and for medium heavy trucks (Class 7) the downturn was around 8%. During the second half of the year, a sharper downward adjustment is expected, probably starting with a longer than normal shutdown during the summer. For the full year, the production of heavy powered trucks in North America is expected to be 15-20% lower than 1999. In spite of this reduction, this year’s production will remain at a high level in a historical perspective.

The North American production of trailers for heavy powered trucks was during the first half of the year somewhat higher than last year but is for the full year expected to be approximately 4% lower than the previous year.

Whereas the American economy continues to generate increased demand for transports, the trucking business is negatively affected by the shortage of drivers and increased interest and fuel costs. This will result in increased utilization of existing fleets before demand for new trucks rise again, probably in the second half of 2001.

In North America, Haldex sales to the trailer segment and to the aftermarket for heavy vehicles are relatively high. The Haldex Group's exposure to production of new powered heavy vehicles in North America is therefore limited to about 15%, which with a decline of 20% in the production of powered vehicles has a 3% impact on Group sales.

In Europe, the improved economy with lowered interest levels and pent-up substitution demand, has only now started to generate transport demands in excess of normal trend growth. The favorable transportation demand is expected to remain well into 2001.

During the 1st half year the production of heavy powered vehicles in Western Europe increased by approximately 10% compared to the same period last year. For the full year, forecasts point to an increase of around 5%.

Production of heavy vehicles also increased in South America (+20%) and in Asia (+30%), however from low levels. For the full year, production in these regions are expected to show rates of increase that are higher than for the 1st half year.

As a whole, estimates for the full year 2000 point to an increase of the world's total production of heavy vehicles of around 3%.

Haldex invoicing pertaining to products for heavy vehicles amounted to 2,068 MSEK (2,051) during the first half of the year, an increase of 1%. After adjusting for divested units, the increase was almost 4%.

Light vehicles

In contrast to heavy vehicles, light vehicles show an increased demand in all geographical regions.

In North America, sales of light vehicles were stronger than expected and increased by 7%. The production rose with 5%. This rate of increase is not expected to last for the rest of the year, and for the full year the production increase is estimated to 3%.

In Europe, demand increased by 3% during the first half year compared to the same period last year. This increase took place in spite of the decline in demand on the large German market with 9%.

With increased export, the European production of light vehicles rose with almost 5%. For the full year, the rate of increase is expected to be somewhat lower.

The South American and Asian markets showed a recovery and for the full year the production of light vehicles in these regions are estimated to show strong growth.

In total, the world's production of light vehicles is expected to increase by 4% for the full year 2000 compared to 1999.

Haldex invoicing pertaining to products for light vehicles amounted to 549 MSEK (431), an increase of 27%. Hereof, AWD systems increased with 134% and wire products with 8%.

Industrial vehicles

On the main markets in North America and Europe, the demand and production of forklift trucks increased by 10% compared to the first half year 1999.

The demand for compact construction vehicles rose some 20% in both North America and Europe. The development for heavy construction vehicles was weak in North America with a decline of 10%, whereas the demand in Europe was up about 15%.

Haldex invoicing pertaining to products to industrial vehicles amounted to 567 MSEK (522) for the first half year, an increase of 9%.

Sales and results 1st half year 2000

The Haldex Group's net invoicing increased with 6% to 3,184 MSEK (3,004). After adjusting for divested units, net invoicing rose over 7%. All four divisions increased their net invoicing. The Group's order intake amounted to 3,225 MSEK (3,048), an increase of 6%, or over 7% for comparable units.

The Group's earnings after tax increased by 24% to 117 MSEK (94). Earnings before tax amounted to 180 MSEK (149), an increase of 21%. Operating earnings increased by 14% to 211 MSEK (185).

The half year result does not include the excess pension funds of approximately 20 MSEK that SPP has allocated to Haldex. This will be booked in the third quarter.

Operating earnings improved in all divisions with the exception of Brake Systems, which showed an unchanged result compared to last year.

As a result of cost reductions, the Brake Systems division was able to show better gross margins than last year in spite of an increased element of newly introduced products (ECAM and air disc brakes), that initially have lower contributions due to low volumes and start-up costs.

The Brake Systems division's large development projects (ABS/EBS; ECAM; Air Disc Brake), have resulted in higher R&D expenses during the period, which is a main explanation for the unchanged result for the division.

The improved operating results in the remaining divisions have been achieved mainly through cost reductions and productivity gains, which have resulted in better gross margins (Traction Systems and Garphyttan Wire), and through increased volumes (Barnes Hydraulics).

The Group's profit margin increased to 6.8% compared to 6.4% during the corresponding period last year.

The Haldex Group's significant endeavor to establish and develop a new business within the fast growing market of AWD systems - as well as development and introduction of new brake products (ECAM, Air Disc Brakes, EBS) – is expensive in the initial phase and affect the Group's profit margins negatively.

The Group's profit margins excluding the Traction Systems division (AWD), amounted to 8.5% during the first half year compared to 8.1% for the corresponding period last year. Traction Systems is expected to successively improve its operating result and achieve a break-even rate at the end of 2001, whereafter the profitability is expected to continue to improve to the Group's goal levels.

The annualized return on capital employed for the period was 15.5% compared to 14.3% for the same period last year. Excluding the Traction Systems division, the return was 18.9% compared to 18.1% previous year.

Quarterly, sales and results have developed as follows:

	1999				2000	
MSEK	I	II	III	IV	I	II
Order intake	1,613	1,435	1,372	1,484	1,701	1,524
Net sales	1,495	1,509	1,385	1,409	1,618	1,566
hereof:						
Brake Systems	1,030	1,021	930	922	1,054	1,014
Barnes Hydraulics	256	266	260	240	284	283
Garphyttan Wire	188	178	139	173	200	197
Traction Systems	21	44	56	74	80	72
Earnings before tax	71	78	63	90	92	88
Profit margin, %	6.3	6.5	5.6	7.9	6.7	6.8
R&D, %	4.0	3.9	3.7	3.9	4.2	4.4

Net sales per region developed as follows::

MSEK	1 H 2000	1 H 1999	Change
North America	1,796	1,734	+ 4%
Europe	1,271	1,181	+ 8%
Asia	64	53	+22%
South America	53	36	+49%

Capital expenditures, net debt, personnel

The Group's capital expenditures during the first half year amounted to 141 MSEK (100). The cash flow for the period was –65 MSEK (43) and the net debt at the end of the period amounted to 1,129 MSEK (1,103). The number of employees at the end of the period was 4,291 (4,369).

Mobile Internet in vehicles

As with the case of mobile Internet in general, mobile Internet in vehicles is an area in strong expansion. Within the relatively near future, all newly produced vehicles can be expected to have their own Internet address with equipment and software for mobile Internet already installed.

However, the equipment, installation and services for mobile Internet in vehicles require special engineering and know-how.

In order to gain increased insight to and to participate in the development of mobile Internet in vehicles, Haldex has made a first investment by acquiring a 13% ownership share for 8 MSEK in the relatively newly started company Drive-IT Systems AB.

Drive-It has developed and launched a completely computerized system for Carsharing, including car terminals, wireless communication and business system. A first order has been awarded from Statoil with Scandinavia’s largest car rental fleet.

Drive-IT is now developing the next generation’s Internet system for vehicles with applications for Fleet Management for truck and trailer fleets and construction vehicle fleets.

Outlook for the full year 2000

The Group’s net invoicing for the full year is estimated to be somewhat higher than last year’s. A certain slowdown on some vehicle markets is expected during the second half of the year as compared to the first half.

Profit & Loss, Group	Jan-June		July 1999	Total
Amounts in MSEK	2000	1999	-June 2000	1999
Net sales	3,184	3,004	5,978	5,798
Cost of goods sold	-2,323	-2,208	-4,376	-4,261
Gross profit	**861**	**796**	**1,602**	**1,537**
	27.1%	**26.5%**	**26.8%**	**25.5%**
Selling, G&A and R&D costs	-650	-593	-1.214	-1.157
Other revenues and costs	0	-18	7	-11
Operating profit	**211**	**185**	**395**	**369**
Financial net	-31	-36	-62	-67
Earnings before tax	**180**	**149**	**333**	**302**
Taxes	-63	-55	-124	-116
Net income	**117**	**94**	**209**	**186**

Balance Sheet, Group	30 June	30 June	31 Dec
Amounts in MSEK	2000	1999	1999
Intangible assets	407	493	427
Tangible assets	1,331	1,234	1,297
Financial assets	63	20	56
Inventories	826	783	783
Current receivables	1,110	994	880
Cash, bank and short-term investments	89	254	307
Assets	**3,826**	**3,778**	**3,750**
Shareholders' equity	1,545	1,388	1,490
Provisions	288	263	279
Long-term liabilities	920	1,084	1,087
Short-term debt	112	102	14
Other current liabilities	961	941	880
Shareholders' equity and liabilities	**3,826**	**3,778**	**3,750**

Cash Flow Statement, Group	Jan-June		July 1999	Total
Amounts in MSEK	2000	1999	-June 2000	1999
Operating profit	211	185	395	369
Depreciation on fixed assets	121	113	229	221
Financial net and taxes paid	-95	-84	-227	-216
Change in working capital	-161	-71	-104	-14
Cash flow from operations	**76**	**143**	**293**	**360**
Net investments	-141	-100	-252	-211
Divestitures	-	-	39	39
Acquisitions	-11	- 3	-11	-3
Cash flow	**-76**	**40**	**69**	**185**
Dividend	-67	-67	-67	-67
Change in debt and pension liabilities	-74	19	-162	-69
Change in long-term receivables	-	-	- 2	- 2
Change in cash excl. translation difference	**-217**	**- 8**	**-162**	**47**
Translation difference on liquid funds	-	-	- 2	- 2
Change in cash	**-217**	**- 8**	**-164**	**45**

Key Ratios	Jan-June 2000	1999	July 1999 -June 2000	Total 1999
Profit margin, %	6.8	6.4	6.8	6.6
Return on capital employed, %	15.5	14.3	14.7	14.1
Return on equity, %	15.3	13.7	14.1	13.2
Interest coverage ratio, times	6.1	4.6	5.6	4.8
Equity/asets ratio, %	40	37	40	40
Debt/equity ratio, %	73	80	73	65

Share Data (adjusted for rights issue)	Jan-June 2000	1999	July 1999 -June 2000	Total 1999
Earnings after tax, SEK	5:24	4:23	9:34	8:33
Shareholders' equity, SEK	69:29	62:27	69:29	66:82
Average no. of shares, (000)	22,296	22,296	22,296	22,296
No. of shares at end of period, (000)	22,296	22,296	22,296	22,296

Future reporting

Interim report January-September 25 October 2000
Report January-December 20 February 2001

Stockholm 10 August 2000
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 10 August 2000

Gunnar Widhagen
CPA

Björn Fernström
CPA