Haldex Group January-June 2001

Increased market shares on a very weak vehicle market

Key Figures, MSEK	2001	2000	Change
Order intake	3,209	3,225	-0.5%
Net invoicing	3,275	3,184	+ 3%
Oper. earnings before depr. (EBITDA)	267	333	-20%
Operating earnings (EBIT)	128	211	-40%
Earnings before tax	93	180	-48%
Net income	62	117	-47%
Earnings per share, SEK	2:76	5:24	-47%
Profit margin	4.1%	6.8%	-
Cash flow	5	-68	-

Key business events

Break-through in USA for Haldex AWD system*. *Ford chooses Haldex.
The 1-1,5 billion SEK order over a 5-year period, announced in April 2001 came from Ford. Serial deliveries end 2003.

Volvo chooses Haldex AWD system
The 1 billion SEK order over a 5-year period, announced in March 2000, came from Volvo. Serial deliveries 2001/2002.

Freightliner introduces Haldex brake chambers as standard
Freightliner Corporation, the largest truck maker in USA, decided introduce Haldex long stroke brake chambers as standard. Yearly order value 50 MSEK.

US truck maker introduces Haldex automatic brake adjuster as standard.
Haldex won a multi-year contract adding 200 MSEK sales over the contract period. Hereby, Haldex brake adjuster market share grows to 50%.

USA success for Haldex valve spring wire products
Two important contracts were received – ovate formed products for GM engines and first deliveries of engine wire products to Japanese transplants (Toyota) in USA. Combined yearly order value 50 MSEK.

Leading European forklift maker orders Haldex hydraulic drive system for engine cooling fans.
Haldex newly developed hydraulic system for cooling fans to be introduced by leading European forklift manufacturer. Order value 250 MSEK over a 5-year period.

Strategic alliance in anti-collision systems for commercial vehicles.
Haldex and Altra Technologies, USA, established cooperation regarding development and marketing of Altra's electronic anti-collision system based on radar and ultrasonic sensor with distributed intelligence. Haldex acquired a minority ownership for 3 MUSD. Anti-collision systems are expected to be a fast growing market.

Market development

The vehicle business climate showed a sharp downturn during the period on the main markets in North American and Europe. The development was positive in South America and in Asia.

Heavy vehicles

In *North America* truck inventories continues to be trimmed to adjust to a lower demand. Whereas Class 8 truck sales declined 36% compared to 1st H 2000, production fell 51%. Sales and production of heavy trailers were down 49% and 51% respectively.

Inventories of new Class 8 trucks have now declined 45% since year-start to 34,000 units. With an expected low production rate also during the 3rd Q, the inventories thereafter (just over 2 months' sales) are expected to be in line with current sales levels. This might give room for a certain production increase in the 4th Q and beyond in 2002, assuming sales do not drop further.

In *Europe*, the market for heavy vehicles softened. During the 1st H sales and production declined some 10%. The general economic development in Europe is expected to soften further during the year and for the full year production of heavy vehicles are forecast to decline with at least 15% compared to last year's record.

Light vehicles

In *North America*, the development for light vehicles was similar to the one in the heavy segment. The downturn was, however, not quite as dramatic. The North American sales of light vehicles declined approximately 5% compared to 1st H 2000. The production fell 13%, indicating a continued trimming of the large inventories of vehicles. The inventory reduction was significant: from 83 days' sales in January to 56 days in June, and inventories are now approaching a normal level.

In *Europe*, the period showed a weak market development, especially in Germany. Car sales declined 3.5%, whereas production, helped by exports, was unchanged form last year.

Industrial vehicles

The market for *construction vehicles* showed a significant downturn during the period. Compared to 1st H 2000, sales and production of heavy construction equipment declined some 17% in North America and 5% in Europe. In the light construction equipment the downturn was more moderate: 6% in North America and 4% in Europe.

Sales and production of *forklift trucks* fell some 11% in North America but showed an improvement of 5% in Europe.

Sales development

As evident from the above description of the market development, the preconditions for our business activities during the period were dramatically deteriorated compared to 1st H 2000. The significantly depreciated Swedish Krona makes comparisons with last year difficult.

On the sharply declining vehicle market we were, however, able to maintain or increase our market shares in most product areas. The group's order intake declined (currency adjusted) 11%, of which North America -–6% and Europe and other markets together –5%. In nominal terms, order intake was 3,209 MSEK (3,225), a reduction of 0.5%. Net invoicing declined (currency adjusted) 8%. In nominal terms, net invoicing amounted to 3,275 MSEK (3,184), an increase of 3%. The invoicing per region devloped as follows:

	Net invoicing 1H 01 vs. 1H 00		
	nominal	***currency adjusted***	***share of group invoicing***
North America	-1%	-16%	54%
Europe	+6%	-1%	41%
Asia	+20%	+11%	3%
South America	+40%	+46%	2%
Group	*+ 3%*	*- 8%*	*100%*

The sharpest volume drops happened in the two largest divisions, Brake and Hydraulics, which both have a dominating share of their business in North America. However, the Brake division's aftermarket sales in North America showed an increase of 6%.

	Net invoicing 1H 01 vs. 1H 00		
	nominal	***currency adjusted***	***share of group invoicing***
Brake	+ 1%	-10%	64%
Hydraulics	+ 1%	-11%	18%
Wire	+ 8%	- 1%	13%
Traction	+12%	+12%	5%
Group	*+ 3%*	*- 8%*	*100%*

Profit development

Operating earnings before depreciations (EBITDA) declined (currency adjusted) 29%. In nominal terms the reduction was 20% to 267 MSEK (333). Operating earnings (EBIT) fell (currency adjusted) 48%. Nominally, the decline was 40% to 128 MSEK (211).

Variations in currency exchange rates had a 13 MSEK positive effect on EBIT compared with the same period last year. Hereof, 11 MSEK pertained to the translation of non-Swedish subsidiaries' results and 2 MSEK to the currency flows. The group's currency hedging policy of currency flows means that variations in exchange rates affect the result after a certain time delay.

The *volume drop* of 8% had a significant impact on the group's result. In currency adjusted terms, the reduced invoicing meant an gross profit downfall of 90 MSEK.

The *variable costs*, such as direct labor and materials, as well as other variable expenses, were reduced almost to the same degree as volumes dropped. Personnel costs pertaining to direct and indirect production labor were reduced by eliminating overtime and weekend shifts, periodical shutdown of factories, and reduction of the number of employees.

In addition to adjusting variable costs to lower volumes, actions were implemented to also reduce "fixed" costs. This was done selectively, taking into consideration the need for keeping competence and resources when the cyclical vehicle industry turns upwards again.

The *manufacturing overhead* expenses were not reduced at the same rate as volumes. In addition, the relatively high capital expenditures (extension of the valve spring wire factory and the brake friction factory in the U.S., and production equipment for air disc brakes in Sweden) during prior and current years meant that *depreciations* in production increased by 5 MSEK. In combination with *mix changes* between divisions and between products, these factors resulted in a 1.7%-points lower gross margin or 55 MSEK lower gross profit.

The product mix changes that affected gross profit pertained mainly to an increased share of *newly introduced products*, e.g. air disc brakes and ECAM (electronic air management). In an introductory phase these new products have a negative contribution and the sales increase during the period reduced gross profits with 12 MSEK compared to 1st H 2000. These products are expected to achieve positive margins during next year.

Sales and administration expenses declined (currency adjusted) by 4% (nominally an increase by 8%). Here, a significant increase in the U.S. health care costs of 6 MSEK is included. Considering average salary increases of 3% and other price increases on purchased services, sales & admin expenses declined some 6% in real terms.

Further actions have been initiated to reduce fixed costs and are expected to take effect during the 2nd H.

In spite of the worsening vehicle industry markets, the group's product development projects continued according to plan. Total *R&D expenses* increased (currency adjusted) 7%, or 9 MSEK. Nominally, the increase was 15% or 20 MSEK. As % of sales, R&D expenses rose from 4.3% during the 1st H 2000 to 4.8% in the current year.

Divisions

Under the present market conditions only the Traction division was able to improve its result.

The Brake division's result was mainly affected by volume drop (10%), product mix (new products), higher R&D expenses and increased depreciations. The Brake division accounted for the group's total increases in R&D expenses and depreciations.

The Hydraulics division's result was mainly affected by lower volumes (11%). In the Wire division, the result decline was mainly attributable to increased raw materials prices which could not be passed on to customers.

2nd quarter

The successively weakening vehicle business climate resulted in lower order intake and invoicing during the 2nd Q as compared to the 1st Q,. In currency adjusted terms, invoicing declined 3%. The Traction division showed a relatively large invoicing decline, which, however, is fully explained by the planned inventory build-up at the customer during the 1st Q in order to safeguard a move of their axle production to another factory.

The group’s gross margin was somewhat lower than in the 1st Q due to product mix and higher manufacturing overheads in relative terms as volumes declined.

Capex, net debt, equity, personnel

Capital expenditures during the period (excluding acquisitions) amounted to 138 MSEK (133). Cash flow was 5 MSEK (-68). Net debt at the end of the period amounted to 1,384 MSEK (1,129). Equity capital amounted to 1,829 MSEK (1,545). The number of employees at the end of the period was 4,065 (4,291).

Full year outlook

The vehicle business climate on the main markets in North America and Europe will continue weak for the rest of the year, especially as regards heavy vehicles and industrial vehicles.

An expected weak result in the 3rd Q is forecast to be counterbalanced by a somewhat better 4th Q. Under current market and currency conditions, the group’s invoicing and result in the 2nd H is estimated to be on the same level as in the 1st H. During 2002, invoicing and result could be expected to increase.

The above full year outlook is in agreement with the one given after the 1st Q, i.e. sales and profits are expected to be lower than previous year.

Accounting principles

This interim report is prepared in accordance with recommendations issued by the Swedish Financial Accounting Standards Council and the Swedish Accounting Board. The accounting principles used in this report are the same that was used in the latest Annual Report . In the comparative figures for year 2000, a re-classification has been made of costs from Cost of goods sold to Selling, G&A and R&D costs with 33 MSEK on a yearly basis. In previous periods currency exchange rate differences relating to operations have been re-classified from Other revenues & costs to Costs of goods sold.

Future reporting

Interim report January-September	25 October 2001
Report January-December	February 2002

Stockholm 17 August 2001
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 17 August 2000

Gunnar Widhagen	Björn Fernström
CPA	CPA

Profit & Loss, Group	*Jan-June*		*July 2000*	*Total*
Amounts in MSEK	***2001***	***2000***	***-June 2001***	***2000***
Net sales	3,275	3,184	6,285	6,194
Cost of goods sold	-2,419	-2,297	-4,631	-4,509
Gross profit	**856**	**887**	**1,654**	**1,685**
	26.1%	**27.8%**	**26.3%**	**27.2%**
Selling, G&A and R&D costs	-718	-667	-1,393	-1,342
Other revenues and costs	-10	- 9	- 6	- 5
Operating profit	**128**	**211**	**255**	**338**
Financial net	-35	-31	-72	-68
Earnings before tax	***93***	***180***	***183***	***270***
Taxes	-31	-63	-61	-93
Net income [1)]	**62**	**117**	**122**	**177**
1) Earnings per share, SEK	2:76	5:24	5:49	7:97

Balance Sheet, Group	*30 June*	*30 June*	*31 Dec*
Amounts in MSEK	***2001***	***2000***	***2000***
Intangible assets	416	407	408
Tangible assets	1,599	1.331	1,464
Financial assets	100	63	59
Inventories	951	826	893
Current receivables	1,177	1,110	1,029
Cash, bank and short-term investments	158	89	152
Assets	**4,401**	**3,826**	**4,005**
Shareholders’ equity [2)]	1,829	1,545	1,645
Provisions	323	288	305
Long-term liabilities	1,153	920	1,131
Short-term debt	169	112	38
Other current liabilities	927	961	886
Shareholders’ equity and liabilities	**4,401**	**3,826**	**4,005**

2) Change in shareholders’ equity			
Shareholders’ equity at year-start	1,645	1,490	1,490
Dividend	-67	-67	-67
Translation difference	189	5	45
Net incomet	62	117	177
Eget kapital vid årets slut	1,829	1,545	1,645

Cash Flow Statement, Group	***Jan-June***		***July 2000***	***Total***
Amounts in MSEK	***2001***	***2000***	***-June 2001***	***2000***
Operating profit	128	211	255	338
Depreciation on fixed assets	139	121	261	243
Financial net and taxes paid	-67	-95	-94	-122
Change in working capital	-57	-161	-63	-167
Cash flow from operations	***143***	***76***	***359***	***292***
Net investments	-138	-133	-300	-295
Acquisitions	-	-11	-	-11
Cash flow from investments	***-138***	***-144***	***-300***	***-306***
Cash flow	**5**	**-68**	**59**	**-14**
Dividend	-67	-67	-67	-67
Change in debt and pension liabilities	97	-74	119	-52
Change in shares and participations	-35	- 8	-35	- 8
Change in long-term receivables	3	-	-13	-16
Cash flow from financing	***- 2***	***-149***	***4***	***-143***
Change in cash excl. translation difference	**3**	**-217**	**63**	**-157**
Translation difference on liquid funds	3	-	5	2
Change in cash	**6**	**-217**	**68**	**-155**

Key ratios	***Jan-June***		***July 2000***	***Total***
	2001	***2000***	***-June 2001***	***2000***
Profit margin, %	4.1	6.8	4.2	5.6
Return on capital employed, %	8.3	15.5	8.6	12.1
Return on equity, %	7.0	15.3	7.2	11.2
Interest coverage ratio, times	3.3	6.1	3.2	4.6
Equity/assets ratio, %	42	40		41
Debt/equity ratio, %	76	73		74

Share data	***Jan-June***		***July 2000***	***Total***
	2001	***2000***	***-June 2001***	***2000***
Earnings per share, SEK	2:76	5:24	5:49	7:97
Shareholders equity, SEK	82:03	69:29		73:79
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
Market value, SEK	86:00	85:50		69:50

Quarterly development:

Group

MSEK	2000 I	II	III	IV	Total 2000	2001 I	II
Order intake	1,701	1,524	1,533	1,526	6,284	1,699	1,510
Net sales	1,618	1,566	1,496	1,514	6,194	1,648	1,627
Cost of goods sold	-1,179	-1,118	-1,079	-1,133	-4,509	-1,209	-1,210
Gross profit	439	448	417	381	1.685	439	417
%	27.3	28.6	27.9	25.2	27.2	26.6	25.6
Selling, G&S and R&D costs	-328	-339	-332	-343	-1.342	-357	-361
Other revenues & costs	- 4	- 5	9	- 5	- 5	- 6	- 4
Operating profit	107	104	94	33	338	76	52
Financial net	-15	-16	-21	-16	-68	-16	-19
Earnings before tax	92	88	73	17	270	60	33
Taxes	-34	-29	-26	- 4	-93	-20	-11
Net income	58	59	47	13	177	40	22
R&D, %	4.2	4.4	4.8	5.0	4.6	4.7	4.8
Profit margin, %	6.7	6.8	6.3	2.4	5.6	4.7	3.4
Earnings per share, SEK	2:62	2:62	2:14	0:59	7:97	1:77	0:99

Divisions

MSEK	***I***	***II***	***III***	***IV***	***Total 2000***	***2001 I***	***II***
Brake Systems							
Net sales	1,054	1,014	984	971	4,023	1,047	1,051
Operating profit	90	77	67	17	251	50	35
Profit margin, %	8.5	7.7	6.7	1.8	6.2	4.8	3.3
Barnes Hydraulics							
Net sales	284	283	279	258	1,104	290	285
Operating profit	19	17	15	8	59	18	12
Profit margin, %	6.6	6.2	5.4	3.0	5.3	6.3	4.1
Garphyttan Wire							
Net sales	200	197	161	198	756	217	214
Operating profit	25	27	14	21	87	25	19
Profit margin, %	12.2	13.5	8.7	10.6	11.4	11.4	8.7
Traction Systems							
Net sales	80	72	72	87	311	94	77
Operating profit	-27	-17	-17	-13	-74	-17	-14
Profit margin, %	neg	neg	neg	neg	neg	neg	neg