Haldex Group January-June 2001

Further downturn on vehicle markets affect volumes and results

Summary

MSEK	*Jan-Sept 2001*	*Jan-Sept 2000*	*Change*
Net sales	4,756	4,680	+1.5%
Operating profit before depr. (EBITDA)	371	489	-24%
Operating profit (EBIT)	160	305	-53%
Income before tax (EBT)	110	253	-63%

The group's net sales increased by 1.5%. Currency adjusted, however, net sales decreased by 9%. Vehicle production on the main markets continued downwards also during the 3rd quarter. The group's net sales (currency adjusted) declined during the 3rd quarter by 11%. The market shares have been maintained or improved in most product areas.

In the half year report, a weak result was forecasted for the 3rd quarter. The actual outcome was weaker than expected, mainly due to lower sales.

Cost reductions are ongoing. From last year's peak level, the number of employees has been reduced by 7%, varying from 0-25% between different units.

Recent world events have resulted in a downward adjustment of the future economic development. New forecasts delay the recovery of the North American vehicle industry to the 2nd half of 2002. The forecasts for the European vehicle industry show a further decline for next year. Considering the further weakened vehicle market, especially in North America, the previous forecast must be adjusted downwards: Thus, there is a risk that the group's invoicing and result for the 2nd half year of 2001 will be considerably lower than during the 1st half. During 2002, sales and profits are expected to improve.

Key business events

AWD system

Volvo and Ford/USA choose Haldex AWD system. Order value about 1 BSEK each over a 5-year period. Delivery start 2001/02 and 2003/04 respectively.

Brake systems

Freightliner decided to introduce Haldex long stroke brake chambers as standard. Yearly order value around 50 MSEK.

Haldex automatic brake adjusters were introduced as standard at yet another North American truck manufacturer. Yearly order value about 30 MSEK.

In an agreement with STRANA, Haldex became official and exclusive supplier of brake systems (disc brakes and other products) to the American truck racing over the next 3 years.

Haldex and Altra Technologies established a cooperation regarding development and marketing of anti-collision systems for commercial vehicles. Haldex acquired a minority ownership in Altra Technologies.

In a preliminary agreement, Haldex acquired (October 2001) PAGG srl, the Italian agent for Haldex brake products. Hereby, Haldex has established its own sales organization for the Italian vehicle industry.

Hydraulic systems

Haldex acquired all patents and assets in the Canadian development company Micro Hydraulics Inc. The acquisition puts Haldex in the forefront of electronically controlled hydraulic systems which, in the long view, offers considerable new business opportunities at present customers.

Haldex newly developed hydraulic drive system for cooling fans was chosen by a leading European forklift manufacturer. Yearly order value around 50 MSEK.

Engine components

Haldex received two important US orders for valve spring wire products for engines within GM and Toyota. Yearly order value around 50 MSEK.

Market development

During the 9 months period the vehicle business climate turned sharply downwards on the main markets in North America and Western Europe.

In the 3rd quarter, the vehicle production declined further, due to continued receding sales. Inventories of new vehicles are still considered too high.

Heavy vehicles – North America

From mid 2000, the *sales* of heavy vehicles in North America have declined by some 45%, from a yearly rate of 295,000 units in the first half of 2000 to a yearly rate of 160,000 in the 3rd quarter 2001. The 3rd quarter's sales rate was some 11% lower compared to the first half of the year.

In order to reduce the large inventories of new and second-hand vehicles, *production* has since the middle of last year been lower than sales. Thus, the production has decreased by some 60%, from a yearly rate of 315,000 units in the first half of 2000 to a yearly rate of 130,000 in the 3rd quarter 0f 2001. The 3rd quarter's production rate was some 15% lower compared to the first half of the year.

Hereby the inventories of new vehicles have decreased by around 55% since mid 2000, from 62,000 units in June 2000 to 28,000 units in September 2001. Current inventory level represents slightly more than 2 months sales, a relatively normal level.

Recent world events have resulted in a weaker future development than earlier expected as regards sales of heavy vehicles. In the latest forecast (J.D. Power) from October 2001, sales are expected to continue to fall for the next two quarters, and bottom out in the 1st quarter 2002 at a yearly rate of 150,000 units, a decrease of some 6% compared to this year's 3rd quarter. The forecast also indicates an expectation of further decreased inventory levels of new vehicles. Thus, the production of heavy vehicles is estimated to decline somewhat further in the 4th quarter, to give room for a certain production increase only in the 1st quarter of 2002 (previous forecast predicted a production low in the 3rd quarter of 2001).

For the total year 2002, the recovery of vehicle production is therefore adjusted downwards, from 20% in previous forecast to 4% in the latest forecast.

Heavy vehicles – Western Europe

From the peak year 2000, sales and production of heavy vehicles in Western Europe have so far declined some 6% and 8% respectively. The 4th quarter is expected to be around 15% lower than last year and for the total year, the production of heavy vehicles in Western Europe is likely to be more than 10% lower than last year. The forecasts for next year point to a further decrease of some 10%.

Light vehicles – North America

During the later part of last year, the inventories of new vehicles were built up to too high levels. Receding sales in the current year forced a heavy decline of production in order to reduce inventories.

During the 9 months period, car sales dropped by 6% compared to the same period last year. In the same period, production of light vehicles decreased by 13%. This has reduced the inventories of new cars from 83 days sales to 58 days.

The forecasted sales and production for next year indicate same levels as in current year.

Light vehicles – Western Europe

During the 9 months period, sales dropped 0.5% while production rose by 2%, owing to exports. For the total year, the market is expected to decline, and sales and production to decrease by 1.5% and 1% respectively.

The forecasts for the next year point to a decline of 1-2%.

Industrial vehicles – North America

The North American market for industrial vehicles began to drop already last year. In current year, the market for construction vehicles has decreased by 10%. The last months’ data indicate that the turndown might have bottomed out.

The market for forklifts declined sharply during the 9 months period, a development that started during the later part of last year. The volumes in this segment has in the current year declined by some 25%. Also here, the last months’ market data indicate that the downturn might have bottomed out.

A third segment, which is important for Haldex hydraulics business, is mobile work platforms (aerial lifts). This segment has in the 2nd and 3rd quarter of this year shown a sharp decline of more than 35%. Five of eight manufacturers have nearly gone out of business.

Industrial vehicles – Western Europe

From the peak year 2000, the market for industrial vehicles in Europe has declined by some 8%. The forecasts indicate a further decrease by 8% next year.

The European market for forklift trucks has continued to grow, especially in the electric warehouse truck segment. In current year, the increase has been some 10%.

A third segment, which is of importance for Haldex hydraulics business, is distribution vehicles equipped with tailgate lifts. New production of such vehicles has in current year decreased substantially – in the magnitude of 10% - due to rental companies' build-up of large fleets, which now show lower utilization due to reduced transport activities.

Sales Development

As stated in the section above regarding market development, the business conditions were dramatically worsened during the period compared to the same period last year.

In a sharply decreased vehicle market, market shares were, however, maintained or increased in most product areas.

The orders stated in the section "key business events" represent, at full yearly effect (which is a few years off), an increased yearly business volume – everything else equal – of more than 600 MSEK, or 10%.

The significant depreciation of the Swedish Krona against US dollar and Euro makes the development in nominal terms sometimes misguiding. Both sales and costs developments are "overstated" expressed in SEK. As regards sales, even a sign change takes place: nominal sales increase somewhat, but the currency adjusted sales show a considerable decline in volume.

The group's order intake amounted to 4,690 MSEK (4,758), a decrease of 1,5%. Currency adjusted, the order intake decreased by 12%, hereof 18% in North America and 4% in Europe and rest of the world.

The group's net sales amounted to 4,756 MSEK (4,680), an increase by 1.5%. Currency adjusted, net sales decreased by 9%.

Per region and division, net sales developed as follows:

	Jan-Sept 2001 vs. Jan-Sept 2000		
Per region	nominal	curency adjusted	share
North America	- 2%	-16%	55%
Europe	+ 6%	- 2%	41%
Asia	+ 8%	0%	2%
South America	+12%	+ 8%	2%
Group	*+1.5%*	*- 9%*	*100%*
Per division			
Brake	+ 1%	-10%	65%
Hydraulics	- 3%	-14%	17%
Wire	+11%	+ 1%	13%
Traction	+ 3%	+ 3%	5%
Group	*+1.5%*	*- 9%*	*100%*

The volume decline took place in the two largest divisions – Brake and Hydraulics – which both have a larger part of their business in North America. Despite a nearly 50% market downturn for heavy truck and trailers in North America, the decrease within Brake was limited by the considerable aftermarket business.

Profit Development

The period's profit before tax was 110 MSEK (253). Currency changes have positively affected the reported result with 22 MSEK. The currency adjusted result of 88 MSEK was thus 165 MSEK lower than last year.

The main reason for the lower profit was declining sales due to the heavily weakened vehicle market.

The currency adjusted net sales decreased by 420 MSEK compared to last year. However, the contribution margin (after direct material and personnel costs in the production as well as other variable manufacturing and selling costs – but before other "fixed" manufacturing overhead costs) was kept on last year's level. Lower net sales resulted in a contribution drop of 135 MSEK. This, together with last year's one-time revenues (SPP) of net 15 MSEK, nearly explains the whole profit deviation against previous year.

Among other more important deviations against previous year, the following can be mentioned:

Unfavorable product mix
The Brake division's share of new products have increased. Sales of disc brakes have more than doubled compared to previous year, and ECAM (electronic air management) has increased by 50%. Initially, these new products have negative contributions and – in combination with ongoing development costs – affected the period's result with 20 MSEK more than last year. These new products are expected to give positive contributions next year.

Increased health care costs in USA
In USA, the insurance rates for health care have been substantially increased. During the year it has also been ascertained that the insurance company had understated the health care costs. Thus, the period has been charged with higher health care costs, partly of retroactive nature. The additional costs compared to last year was 10 MSEK, mainly in the Brake division.

Capacity expansion
Increased market shares and introduction of new products led to expanded production capacity 2000-2001 for air disc brakes and AWD systems in Sweden as well as for valve spring wire and brake friction products in the U.S. In comparison with last year, depreciations therefore increased with 10 MSEK and rental expenses with 7 MSEK.

As volumes decreased – which started already during the later part of last year – actions have been taken to reduce personnel and other costs.

Personnel costs were initially reduced by elimination of overtime and weekend shifts. In addition, voluntary time reductions and periodic factory shut-downs were implememted. Finally, personnel were reduced (still ongoing) through retirement schemes and layoffs.

The extent of personnel reductions have been adjusted to the business situation of the different units. From the peak level mid 2000, the group's employees have been reduced by 7%, whereof Brake 7%, Hydraulics 14%, Wire 2.5% and Traction 0%. In certain units the personnel reductions have been considerably higher: Brake/Blue Springs 25%, Hydraulics/Rockford and Statesville 20%, Brake/Iola and Redditch 15%, Brake/Landskrona 10%, Brake/sales organization in North America and Europe 10%.

These actions have, as mentioned above, resulted in a maintained contribution margin (after direct material and personnel costs as well as other variable manufacturing and selling costs) on last year's level. However, other capacity and competence costs have not been reduced at the same rate as volumes.

Divisions

The considerably worsened market conditions led to lower sales (currency adjusted) in the Brake and Hydraulics division, 10% and 14% respectively. Despite cost reductions this led to sharply decreased margins and operating results for these units. In addition, Brake's profit was affected by unfavorable product mix, increased health care costs and capacity expansion.

The Wire division's sales were unchanged (currency adjusted), but was affected by increased rental costs and depreciations and as a result of the increased production capacity in USA. The margin and operating result were thus somewhat decreased.

The Traction division's sales increased marginally by 3%. In addition to current deliveries to the VW Group, the deliveries to Volvo have started in small numbers. Through continued reductions of product costs, the operating result (however, still negative) was improved by some 20 MSEK.

3rd quarter

In the half year report, a weak result for the 3rd quarter was forecasted. The outcome was worse than expected, mainly due to lower sales. This, in turn, was a consequence of a worser market development than expected as well as later and slower start of deliveries regarding the recently announced new orders.

As regards the common market development of the vehicle industry in North America, earlier forecasts assumed that the 3rd quarter would be the bottom in the business cycle. Recent world events, however, have led to a review that pushes the bottom level a couple of quarters into the future. As a consequence, the outlook for the vehicle markets in both North America and Europe for year 2002 have been adjusted downwards.

Capex, net debt, equity, personnel

Capital expenditures during the period (excluding acquisitions) amounted to 206 MSEK (202). Acquisitions and minority investments (Micro Hydraulics, Altra Technologies, Drive-IT) amounted to 46 MSEK (8).

Operating cash flow was 161 MSEK (146), Cash flow, after investments but before acquisitions, amounted to –45 MSEK (-56).

Net debt at the end of the period amounted to
1,299 MSEK (1,225). Equity capital amounted to 1,790 MSEK (1,645).

The number of employees at the end of the period was 4,020 (4,257).

Purchase of own shares

September 21, 2001 the Board of Directors activated the Annual Shareholders' decision regarding purchase of own shares. So far, 5,000 shares have been purchased at an average market price of SEK 73:20.

Full year outlook

After recent world events, the future outlook for the economic development in the world has deteriorated. The forecasted vehicle production for 2001 and 2002 has also been lowered. The recovery of the production of heavy vehicles in North America has been delayed to 2nd half of 2002. Also the European production of heavy vehicles is estimated to decrease more in 2002 than earlier assumed. Similar downwards adjustments are valid for other vehicles types.

The half year report gave the following forecast: " An expected weak result in the 3rd Q is forecast to be counter-balanced 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".

Due to the further weakened market, the previous forecast must be adjusted downwards:
Thus, there is a risk that the group's invoicing and result for the 2nd half year of 2001 will be considerably lower than during the 1st half. During 2002 invoicing and result could be expected to increase.

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. 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

Report January-December	February 14, 2002
Annual shareholder’s meeting	April 9, 2002

Stockholm 25 October 2001
Claes Warnander
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The company auditors have not reviewed this report.

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Profit & Loss, Group

Amounts in MSEK	*July-Sept* *2001*	*2000*	*Jan-Sept* *2001*	*2000*	*Oct 2000 -Sept 2001*	*Total* *2000*
Net sales	1,481	1,496	4,756	4,680	6,270	6,194
Cost of goods sold	-1,103	-1,068	-3,522	-3,365	-4,670	-4,509
Gross profit	**378**	**428**	**1,234**	**1,315**	**1,600**	**1,685**
	25.5%	**28.6%**	**25.9%**	**28.1%**	**25.5%**	**27.2%**
Selling, G&A and R&D costs	-342	-348	-1,060	-1,015	-1,387	-1,342
Other revenues and costs	- 4	14	-14	5	-20	- 5
Operating profit	**32**	**94**	**160**	**305**	**193**	**338**
Financial net	-15	-21	-50	-52	-66	-68
Earnigns before tax	**17**	**73**	**110**	**253**	**127**	**270**
Taxes	- 6	-26	-37	-89	-41	-93
Net income [1)]	**11**	**47**	**73**	**164**	**86**	**177**
1) Earnings per share, SEK	0:49	2:13	3:25	7:38	3:84	7:97

Balance Sheet, Group Amounts in MSEK	*30 Sep* *2001*	*30 Sep* *2000*	*31 Dec* *2000*
Intangible assets	427	417	408
Tangible assets	1,592	1,412	1,464
Financial assets	98	77	59
Inventories	924	898	893
Current receivables	1,155	1,139	1,029
Cash, bank and short-term investments	119	105	152
Assets	**4,315**	**4,048**	**4,005**
Shareholders' equity [2)]	1,821	1,675	1,645
Provisions	327	299	305
Long-term liabilities	1,169	1,070	1,131
Short-term debt	189	65	38
Other current liabilities	809	939	886
Shareholders' equity and liabilities	**4,315**	**4,048**	**4,005**

2) Change in shareholders' equity			
Shareholders' equity at year-start	1,645	1,490	1,490
Dividend	-67	-67	-67
Translation difference	170	88	45
Buy-back of shares	0	-	-
Net income	73	164	177
Shareholders' equity at year-end	1,821	1,675	1,645

Cash Flow Statement, Group	***Jan-Sept***		***Oct 2000***	***Total***
Amounts in MSEK	***2001***	***2000***	***-Sept 2001***	***2000***
Operating profit	160	305	193	338
Depreciation on fixed assets	211	183	271	243
Financial net & taxes paid	-87	-133	-76	-122
Change in working capital	-123	-209	-81	-167
Cash flow from operations	***161***	***146***	***307***	***292***
Net investments	-206	-202	-299	-295
Acquisitions	-11	-11	-11	-11
Cash flow from investments	***-217***	***-213***	***-310***	***-306***
Cash flow	**-56**	**-67**	**- 3**	**-14**
Dividend	-67	-67	-67	-67
Change in debt and pension liabilities	120	-49	117	-52
Change in shares and participations	-35	- 8	-35	- 8
Change in long-term receivables	3	-12	- 1	-16
Cash flow from financing	***21***	***-136***	***14***	***-143***
Change in cash excl. translation diffrence	**-35**	**-203**	**11**	**-157**
Translation difference on liquid funds	2	1	3	2
Change in cash	**-33**	**-202**	**14**	**-155**

Key ratios	***Jan-Sept***		***Oct 2000***	***Total***
	2001	***2000***	***-Sept 2001***	***2000***
Profit margin, %	3.6	6.6	3.3	5.6
Return on capital employed, %	6.9	14.6	6.4	12.1
Return on equity, %	5.5	14.0	4.9	11.2
Interest coverage ratio, times	2,8	5,5	2,6	4,6
Equity/assets ratio, %	42	41		41
Debt/equity ratio, %	80	73		74

Share data	***Jan-Sept***		***Oct 2000***	***Total***
	2001	***2000***	***-Sept 2001***	***2000***
Earnings per share, SEK	3:25	7:38	3:84	7:97
Shareholders' equity, SEK	81:70	75:11		73:79
Average no. of shares, (000)	22,296	22,296	22,296	22,296
No. of shares at end of period, (000)	22,291	22,296		22,296
Market value, SEK	79:50	101:00		69:50

Quarterly development:

Group

MSEK	*2000* I	*II*	*III*	*IV*	***Total* 2000**	***2001* I**	***II***	***III***
Order intake	1,701	1,524	1,533	1,526	6,284	1,699	1,510	1,481
Net sales	1,618	1,566	1,496	1,514	6,194	1,648	1,627	1,481
Cost of goods sold	-1,179	-1,118	-1,068	-1,148	-4,509	-1,209	-1,210	-1,103
Gross profit	439	448	428	366	1,685	439	417	378
%	27.3	28.6	28.6	24.2	27.2	26.6	25.6	25.5
Selling, G&A and R&D costs	-328	-339	-348	-327	-1.342	-357	-361	-342
Other revenues & costs	- 4	- 5	14	- 6	- 5	- 6	- 4	- 4
Operating profit	107	104	94	33	338	76	52	32
Financial net	-15	-16	-21	-16	-68	-16	-19	-15
Earnings before tax	92	88	73	17	270	60	33	17
Taxes	-34	-29	-26	- 4	-93	-20	-11	- 6
Net income	58	59	47	13	177	40	22	11
R&D, %	4.2	4.4	4.8	5.0	4.6	4.7	4.8	4.9
Profit margin, %	6.7	6.8	6.3	2.4	5.6	4.7	3.4	2.4
Earnings per share, SEK	2:62	2:62	2:14	0:59	7:97	1:77	0:99	0:49

Divisions

MSEK	***I***	***II***	***III***	***IV***	***Total* 2000**	***2001* I**	***II***	***III***
Brake Systems								
Net sales	1,054	1,014	984	971	4,023	1,047	1,051	984
Operating profit	90	77	67	17	251	50	35	21
Profit margin, %	8.5	7.7	6.7	1.8	6.2	4.8	3.3	2.2
Barnes Hydraulics								
Net sales	284	283	279	258	1,104	290	285	250
Operating profit	19	17	15	8	59	18	12	5
Profit margin, %	6.6	6.2	5.4	3.0	5.3	6.3	4.1	2.9
Garphyttan Wire								
Net sales	200	197	161	198	756	217	214	187
Operating profit	25	27	14	21	87	25	19	16
Profit margin, %	12.2	13.5	8.7	10.6	11.4	11.4	8.7	12.4
Traction Systems								
Net sales	80	72	72	87	311	94	77	60
Operating profit	-27	-17	-17	-13	-74	-17	-14	-10
Profit margin, %	neg	neg	neg	neg	neg	neg	neg	neg