



Innovative Vehicle Technology

Full Year Report 2001

- **Operating profit decreased 47% to 178 MSEK (338). Income before tax amounted to 112 MSEK (270), a decrease of 59%**
- **Severe downturn in vehicle production affected volumes and profits. Heavy truck production declined 45% in North America and 8% in Western Europe.**
- **Net sales increased 1% to 6.225 MSEK (6.194). Adjusted for changes in currency rates, net sales decreased 9%.**
- **Number of employees was reduced by 10% from half-year 2000. Reductions varied between 0-30% in different units.**
- **Market positions were strengthened. New delivery agreements add over 600 MSEK in annual sales after full effect in a few years.**
- **Businesses with yearly sales exceeding 500 MSEK were acquired in the beginning of 2002.**
- **Dividend proposal SEK 1:50 (3:00).**

Key business events

AWD systems

- In addition to ongoing deliveries to the VW group, serial deliveries to Volvo started at the end of the year. Annual value at full effect approximately 200 MSEK.
- Ford/USA signed delivery contract. Start 2003/04. Annual value at full effect approximately 200 MSEK.
- Saab Automobile signed delivery contract (announced in February 2002). Delivery start in a few years. Annual value at full effect approximately 150 MSEK.
- Agreement signed with European car manufacturer to develop an "intelligent" differential lock to be integrated in the AWD system.

Brake Systems

- Letter of Intent (announced in February 2002) signed with European truck manufacturer to introduce Haldex disc brakes. Start after 2005. Annual value at full effect approximately up to 100 MSEK.
- Freightliner standardized on Haldex brake actuators for certain models. Annual value about 50 MSEK.
- Paccar and Volvo Truck standardized on Haldex brake adjusters. Combined annual value about 50 MSEK.
- Serial deliveries started of Haldex newly developed EBS system (Electronic Brake System) to European trailer manufacturers. A new ABS system was introduced in North America.

- A development and marketing agreement was signed with Altra Technologies, USA, regarding electronic anti-collision systems for heavy vehicles.
- Two product lines with annual sales of 500 MSEK were acquired in January 2002. The products – brake actuators and control valves – are applied in brake and suspension systems on heavy vehicles. Manufacturing takes place in Mexico and USA.
- The Italian agent PAGG with annual sales of 60 MSEK was acquired.

Hydraulic Systems

- Cutting edge technology was acquired from the Canadian R&D company Micro Hydraulics. The acquisition includes a new, advanced concept for electronic control of hydraulic systems.
- Two diesel engine manufacturers specified Haldex fuel transfer pumps for their new fuel systems.
- Supply contract was signed with European forklift manufacturer regarding Haldex newly developed system for the driving of cooling fans in engines.

Spring wire products

- Market shares increased in North America. Shipments of valve spring wire products increased 7% in spite of light vehicle production decline of 10%.
- New supply agreements entered regarding spring wire products for GM and Toyota engines.

Market development

The cyclical swings in the vehicle industry are traditionally larger in *North America*. From the peak in 1999 to the yearly rate in the 4th quarter of 2001, the North American production of heavy trucks and trailers decreased by 70%. This represents the longest and heaviest downturn in 20 years. During 2001, the production in North America of heavy trucks and trailers decreased by 45%. During the 4th quarter the trailer production abruptly decreased by 35% compared to earlier quarters. The production of light vehicles decreased by 10%. The market for industrial vehicles also showed a severe downturn: construction equipment –15% and forklift trucks –30%.

In *Europe*, the vehicle business climate was still good at the beginning of the year, but weakened successively. During 2001, the production of heavy truck and trailers was 8% lower than the year before. The production of light vehicles increased by approximately 1%. The market for construction equipment decreased by some 10% while the demand for forklift trucks remained on the same level as in 2000.

In *Asia*, the market development was positive. The production of heavy vehicles increased by 25% in China, and was unchanged in Korea. In *South America*, the production of heavy vehicles is mainly concentrated to Brazil, where the production rate was on the same level as the year before.

Sales development

Expressed in SEK, the group's sales increased by 1% to 6,225 MSEK (6,194). The weakened Swedish Krona, however, assisted in keeping the sales figure up. Excluding currency changes, sales decreased by 9%.

The forecast (J D Power/January) for vehicle production during 2002 points to a further decrease compared to 2001. Whereas the production of heavy trucks in North America is expected to increase by 2%, the forecast for trailers is down 13%; which combined means a decrease by some 9%. In Western Europe, the production rate of heavy trucks and trailers is estimated to decrease by some 12%.

The production rate for light vehicles is estimated to remain unchanged in North America and to decrease by approximately 4% in Western Europe.

The fact that 30% of the group's turnover relates to the aftermarket, limited the volume decrease to 9% in the severe market downturn. New orders and increased market shares also contributed.

Per division and region, sales were distributed as follows:

	<i>Actual</i>		<i>Currency adjusted</i>	
	<i>MSEK</i>	<i>Change</i>	<i>MSEK</i>	<i>Change</i>
Group	6,225	+1%	5,637	-9%
Brake Systems	4,050	+1%	3,645	-9%
Hydraulic Systems	1,060	-4%	951	-14%
Garphyttan Wire	804	+6%	730	-3%
Traction Systems	311	0%	311	0%
North America	3,381	- 3%	2,970	-15%
Europe	2,560	+ 5%	2,391	- 2%
Asia	144	+ 7%	130	- 3%
South America	140	+14%	146	+19%

Profit development

4th quarter

The 4th quarter came out weaker than expected. Operating profit (EBIT) was 18 MSEK and income before tax (EBT) was 2 MSEK.

The weak quarterly result was mainly due to the following two reasons:

The North American production of trailers abruptly dropped by 35% compared to previous quarters. After September 11, substantial order cancellations led to a significant decrease in demand of Haldex products in the US during the 4th quarter. The negative profit impact on the 4th quarter can be estimated to 10-15 MSEK.

The 4th quarter was also charged with provisions and costs for warranty claims amounting to 35 MSEK, which is approximately 15 MSEK more than the average for the previous quarters. These warranties mainly related to some new products, for instance ECAM (Electronically Controlled Air Management). The main part of this extra cost can be regarded as non-recurring expenses.

The result for the Traction Systems division was much lower in the 4th quarter in spite of increased sales. This is mainly explained by extra costs in connection with production and delivery start to Volvo. The estimate that Traction Systems will reach a break-even rate at the end of 2002 remains unchanged.

Total year 2001

The group's income before tax amounted to 112 MSEK (270), a decrease of 59%. Operating profit was 178 MSEK (338), 47% lower than previous year. Operating profit before depreciations amounted to 458 MSEK (581), which means a decrease of 21%. The profit margin decreased further to 3.0% (5.6).

Currency changes have positively affected the operating profit with 25 MSEK compared to previous year.

In comparison with previous year, it can be noted that the profit for 2000 included a non-recurring item of 15 MSEK (refund from SPP).

While the group's gross margin, 26.0% (27.2) could almost be kept on last year's level, the volume decrease – in spite of cost reductions – resulted in a substantially lower operating profit.

The adaptation of the organization to lower delivery volumes has been implemented successively. From a peak level in delivery rates and number of employees at mid year 2000 and up to the end of 2001, the number of employees was reduced by 10%, varying between 0-30% in different units. A downsizing of this kind must be balanced against the resources and competences required when the business climate turns upward again. Ongoing product development projects have only marginally been affected by the cutdowns.

In some cases the introduction of new products can lead to unwanted profit effects. Even if a new product has winning advantages, it must often – in competition with existing solution – be priced as if it already was a volume product with a trimmed production. In an initial phase, the margin can thus be small or even negative. This is still the case with some of the group's new products, such as disc brakes, AWD systems and ECAM (Electronically Controlled Air Management). These products will in a not too distant future generate profits, but burden the result for the year with approximately 125 MSEK.

The group's cash flow for the total year was positive and amounted to 335 MSEK (292). Cash flow after capital expenditures was 78 MSEK (-3). Investments in fixed assets amounted to 257 MSEK (295). To this should be added 61 MSEK (8) in connection with acquisitions. Net debt at the end of the period amounted to 1,326 MSEK (1,221). The equity/assets ratio was 43% (41). Shareholders' equity amounted to 1,813 MSEK (1,645), an increase of 10%. The number of employees at the end of the period was to 3,888 (4,173).

Financial goals

The goal for the long-term is an average yearly growth rate of 6% and a return on capital employed of 15% as an average over a business cycle.

During the last 10 year period (1992-2001), sales have on the average increased by 18% per year and the average yearly return on capital employed has been 17%.

Buy-back of shares

At the Annual General Meeting in April 2001, a decision was taken to purchase not more than 10% of the total number of shares during the period up to the next Annual General Meeting. During 2001, 131,470 shares were purchased at an average market value of SEK 78:80. At the end of the year, the number of own shares amounted to 131,470, which is equivalent to 0.6% of the total number of shares.

The Board has decided to propose that the Annual General Meeting give the Board continued authorization to purchase shares in the company. Purchase shall be made at Stockholmsbörsen and the holding must not at any time exceed 10% of the total no. of the shares in the company.

Dividend

The board proposes that a dividend of SEK 1:50 (3:00) per share be paid to the shareholders for the business year 2001.

Outlook for 2002

In spite of a forecasted lower vehicle production, the group's sales and profits are estimated to increase compared to 2001. This is a result of new delivery contracts received in 2001 and the acquisition completed in January 2002. The first half of the year is expected to show continued weakness, while a successive improvement is expected towards the end of the year.

Accounting principles

As in previous year this report is prepared in accordance with recommendations issued by the Swedish Financial Accounting Standards Council and the Swedish Accounting Board. 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

Annual Report	March 2002
Shareholders' Meeting	9 April 2002 in Stockholm
Interim Report January-March	26 April 2002
Interim Report January-June	25 July 2002
Interim Report January-September	22 October 2002
Report January-December 2002	February 2003

Stockholm 14 February 2002
Claes Warnander
Group President and CEO

Profit & Loss, Group

Amounts in MSEK	<i>Oct-Dec</i>		<i>Total</i>	<i>Total</i>	<i>Total</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
Net sales	1,469	1,514	6,225	6,194	5,798
Cost of goods sold	-1,085	-1,148	-4,607	-4,509	-4,268
Gross profit	384	366	1,618	1,685	1,530
	26.1%	24.2%	26.0%	27.2%	26.4%
Selling, G&A and R&D costs	-362	-327	-1,422	-1,342	-1,157
Other revenues and costs	- 4	- 6	-18	- 5	- 4
Operating profit	18	33	178	338	369
Financial net	-16	-16	-66	-68	- 67
Earnings before tax	2	17	112	270	302
Taxes	3	- 4	-34	-93	-116
Net income	5	13	78	177	186

Balance Sheet, Group

Amounts in MSEK	31 Dec 2001	31 Dec 2000	31 Dec 1999
Intangible assets	432	408	427
Tangible assets	1,584	1,464	1,97
Financial assets	90	59	56
Inventories	905	893	783
Current receivables	1,036	1,029	880
Cash, bank and short-term investments	156	152	307
Assets	4,203	4,005	3,750
Shareholders' equity ¹⁾	1,813	1,645	1,490
Provisions	348	305	279
Long-term liabilities	1,227	1,131	1,087
Short-term debt	31	38	14
Other current liabilities	784	886	880
Shareholders' equity and liabilities	4,203	4,005	3,750
1) Change in shareholders' equity			
Shareholders' equity at year-start	1,645	1,490	1,340
Buy-back of shares	-10	-	-
Dividend	-67	-67	-67
Translation difference	167	45	31
Net income	78	177	186
Shareholders' equity at year-end	1,813	1,645	1,490

Cash Flow Statement, Group

Amounts in MSEK	2001	2000	1999
Operating profit	178	338	369
Depreciation on fixed assets	277	243	221
Financial net & taxes paid	-75	-122	-216
Change in working capital	-45	-167	-14
Cash flow from operations	335	292	360
Net investments	-257	-295	-211
Divestitures	-	-	39
Acquisitions	-24	-11	- 3
Investments in shares and participations	-37	- 8	-
Cash flow	17	-22	185
Buy-back of shares	-10	-	-
Dividend	-67	-67	-67
Change in debt and pension liabilities	52	-52	-69
Change in other long-term liabilities	5	-	-
Change in long-term receivables	5	-16	- 2
Change in cash excl. translation difference	2	-157	47
Translation difference on liquid funds	2	2	- 2
Change in cash	4	-155	45

Key ratios	2001	2000	1999
Profit margin, %	3.0	5.6	6.6
Return on capital employed, %	5.8	12.1	14.1
Return on equity, %	4.4	11.2	13.2
Interest coverage ratio, times	2.5	4.6	4.8
Equity/assets ratio, %	43	41	40
Debt/equity ratio, %	73	74	65

Aktiedata	2001	2000	1999
Earnings per share after tax, SEK	3:49	7:97	8:33
Shareholders' equity, SEK	81:78	73:79	66:82
Average no. of shares, (000)	22,273	22,296	22,296
No. of shares at end of period, (000)	22,165	22,296	22,296
Market value, SEK	87:00	69:50	99:00

