Innovative Vehicle Technology

Year-End Report 2002

- **Earnings before tax 112 MSEK (112), excluding non-recurring items 153 MSEK (112).**
- **Earnings per share SEK 3:51 (3:49), excluding non-recurring items SEK 4:82 (3:49).**
- **Cash flow from operations after capital expenditures 338 MSEK (78), an increase of 260 MSEK.**
- **Order intake 6,482 MSEK (6,033), an increase of 7%. Currency adjusted, an increase of 12%.**
- **Sales 6,414 MSEK (6,225), an increase of 3%. Currency adjusted, an increase of 7%.**
- **Traction Systems division showed a profit of 3 MSEK in 4th quarter.**
- **Planned restructuring of the German Heidelberg factory leads to annual savings of 5 M€. One-time implementation costs of 6M€ charged to 1st quarter 2003.**
- **Dividend proposal SEK 1:50 (1:50).**

Business events during the year

In January, the acquisition was finalized of the Neway/Anchorlok businesses, consisting of air suspension valves and air brake actuators for heavy vehicles. Together, the two product lines have annual sales of some 450 MSEK with manufacturing in Monterrey, Mexico and Grand Haven, MI, USA. The integration into the Haldex organization went according to plan and the acquisition contributed to the group's earnings.

A new air disc brake design – ModulX – was introduced. Prototypes were supplied to truck manufacturers, of which one customer so far entered into a letter of intent agreement regarding future serial deliveries. Serial deliveries to the trailer segment increased by more than 10%. Decision was taken to invest in increased manufacturing capacity.

The market position of the ABA (Automatic Brake Adjuster) product was strengthened through agreements with Volvo Global Truck (Volvo, Renault and Mack) and Paccar (Kenworth, Peterbilt and Daf) to standardize on Haldex. Freightliner awarded Haldex their "Master of Quality Award". Local manufacture was started up in Brazil and China.

Serial deliveries of AWD systems for all four-wheel drive models within Volvo Car were initiated, resulting in the doubling of the production rate during the later part of the year. This was also the production start of the 2nd generation's AWD system, for which a new production line was installed.

Saab Automobile nominated Haldex to deliver AWD systems to future car models. The customer specific development work was initiated, but changes in Saab's planning that was announced in the beginning of 2003, might lead to delays of the project.

VW nominated Haldex to deliver AWD systems for another volume platform, starting 2005 – an important repeat business confirming our ability to supply customer value.

In cooperation with Alfa Laval a new system was launched, based on centrifugal separation technology, to clean crank case ventilation gases in diesel engines. Future environmental regulations in Europe and North America will require such cleaning which generates a new billion SEK market.

The vehicle market

With few exceptions, the vehicle production rate remained at low levels on our main markets in North America and Europe. Taken together, the number of heavy trucks and trailers manufactured in these two regions decreased by 2% from an already low level. The number of forklift trucks and construction vehicles produced declined by 10%. The manufacturing of cars increased by 1%.

In the U.S., however, a partly artificial surge in the production of heavy trucks occurred in the 2nd and 3rd quarters as a consequence of the pre-buy actions in advance of the new diesel engine emission regulations in force from October 1, which expected to lead to higher costs. As a correction, the truck production thereafter contracted sharply in the 4th quarter and is expected to further decline significantly in the 1st quarter of 2003, but to start climbing again thereafter.

The production of heavy trailers in the U.S. was only indirectly affected by the new emission regulations. When fleet owners bought trucks in advance, the financing of renewal of the trailer fleet was restricted. This resulted in a significant reduction in the production of trailers.

In Asia (especially China), the number of heavy trucks manufactured increased quite significantly. In Brazil, the truck production dropped as a consequence of the economic problems in South America.

For the full year 2003, the present forecasts point to an aggregated increase of the number of heavy trucks and trailers produced in North America and in Europe with 8% and 1% respectively. For the two regions together, the forecast is a 4% increase. The number of forklift trucks and construction vehicles produced is expected to increase by 2%, whereas the number of cars is judged to decline 2%.

Sales

The group's order intake increased by 7% to 6,482 MSEK (6,033). Adjusted for changes in currency exchange rates, the increase was 12%. Currency adjusted and excluding the acquired units, the increase was 5%.

The group's sales increased by 3% to 6,414 MSEK (6,225). Currency adjusted, the increase was 7%. Currency adjusted and excluding the acquired units the increase was 1%.

In relation to the shrinking number of vehicles produced, the sales development indicated increased market shares.

The sales per business area and region developed as follows:

	Actual		*Currency adjusted*
	MSEK	***Change***	***change***
Group	6,414	+3%	+7%
Commercial Vehicle Systems	4,260	+5%	+10%
Hydraulic Systems	973	-8%	-4%
Garphyttan Wire	814	+1%	+4%
Traction Systems	367	+18%	+18%
North America	3,464	+2%	+9%
Europe	2,586	+1%	+2%
Asia	242	+68%	+78%
South America	122	-13%	0%

Results

4th quarter

The group's earnings before tax in the 4th quarter amounted to 5 MSEK (2). Operating earnings amounted to 19 MSEK (18). Both earnings measures have in the 4th quarter been charged with a one-time amortization of the shareholding in Altra Technologies with 23 MSEK . The Traction Systems division achieved a profit of 3 MSEK (-19) in the 4th quarter. The Hydraulic Systems division showed a loss of 5 MSEK (-1) in the 4th quarter due to low volumes and certain additional costs related to the cooperation with Alfa Laval.

Full year 2002

The results for 2002 include one-time items of net -41 MSEK, consisting of: capital gain from land sale, +4 MSEK, and write-down of the total value of minority investments in the companies Drive-IT Systems AB and Altra Technologies Corp., -45 MSEK. At year-end, CybIT Holding Plc. acquired all shares in Drive-IT Systems AB.

Earnings per share amounted to SEK 3:51 (3:49), excluding non-recurring items SEK 4:82 (3:49).

The group's earnings before tax amounted to 112 MSEK (112), excluding non-recurring items 153 MSEK (112). The financial net of -65 MSEK was on the same level as previous year thanks to the good cash flow and in spite of the acquisition cost of 236 MSEK in January.

Operating earnings amounted to 177 MSEK (178), excluding non-recurring items 218 MSEK (178). The profit margin declined from 3.0% to 2.9%, excluding non-recurring items 3.6% (3.0). All business areas with the exception of Hydraulic Systems achieved better operating results and margins than previous year.

The operating results per business area developed as follows:

	MSEK	***Change***
Commercial Vehicle Systems	159	+21%
Hydraulic Systems	14	-61%
Garphyttan Wire	81	+13%
Traction Systems	-35	(+42%)

The acquired businesses contributed to the positive result development within Commercial Vehicle Systems, whereas the increasing losses of the Heidelberg unit affected the result negatively. The result of the Hydraulic Systems division was affected by lower volumes due to a weaker market. Further efforts were made to reduce costs, but the result decreased sharply. An advantageous product mix and a certain volume increase contributed to an improved result of the Garphyttan Wire division. The Traction Systems division improved the result by 25 MSEK as a consequence of the introduction of the cost-reduced 2nd generation AWD system and significantly increased volumes.

In 2002, the new accounting recommendation (RR15), regarding the balancing of certain product development costs, has been applied. Thus, 31 MSEK (0), representing 10.5% of total product development costs, was balanced and affected the result positively.

The group's cash flow increased sharply. The cash flow from operations, but before capital expenditures, amounted to 572 MSEK (335), an increase of 71%. After capital expenditures, but before acquisitions, the cash flow amounted to 338 MSEK (78), an increase of 333% or 260 MSEK. The improved cash flow was a net effect of better working capital utilization, larger profits and reduced capital expenditures.

Financing

In December 2002, Haldex signed a 5-year, syndicated multi-currency loan of 225 million USD. The loan was partly used to pay back previous loans, but also serves as a financial base for future expansions. At year-end, approximately 30% of the facility was utilized.

Financial goals

The long-term goals – calculated as an average over a business cycle – are a yearly growth of at least 6% and a return on capital employed of at least 15%.

During the past 10-year period (1993-2002), the average yearly sales increase was 15% and the average return on capital employed was 17%.

Restructuring

The production unit in Heidelberg, Germany, manufactures regulating valves for air brake and air suspension systems as well as the newly developed ECAM system (Electronically Controlled Air Management) for applications on heavy vehicles.

A weaker market and a more severe price competition resulted in erosion of volumes and prices. At the same time, the introduction costs of the ECAM system soared.

During the year an action program was initiated to reduce costs by cutting personnel and by introducing design alterations of the ECAM product. Towards the end of the year, however, these actions were deemed insufficient and a study was initiated to evaluate alternative actions to halt the increasing and substantial losses.

In the beginning of 2003, a plan for a major restructuring of the Heidelberg unit was worked out. The plan includes the discontinuation of all machining operations and to source these operations from other Haldex factories or sub-suppliers in low-cost countries. Final assembly, testing and product development will remain.

The Heidelberg unit remains a center for developing air treatment products for air brake and air suspension systems. The ongoing sizeable development project will continue as planned. This project regards a completely new and modular range of air treatment systems with varying degree of sophistication.

The restructuring will affect some 120 employees or almost 50% of the personnel in Heidelberg. Fully implemented, the yearly fixed costs are estimated to be 7 M€ lower and the yearly savings to be approximately 5 M€. The one-time implementation cost is estimated at 6 M€, of which 2/3 will be paid out in 2003 and 1/3 in 2004. The whole one-time cost will be charged to the 1st quarter 2003.

The implementation must be carried out without any delivery or quality disturbances and will therefore take place successively during 2003 and 2004.

Buy-back of shares

At the shareholders' general assembly in April 2002 a buy-back mandate was given to a maximum of 10% of total number of shares during the period up to the next ordinary assembly. In 2002, 100,000 shares were bought at an average price of SEK 81:25. At year-end, the total number of own shares was 231,470, acquired at an average price of SEK 79:79. The holding represents 1.0% of the total number of shares.

The board has decided to propose to the ordinary general assembly to prolong the buy-back mandate. Buy-backs must be made on the Stockholm Stock Exchange and the total number of own shares may not at any time exceed 10% of the total number of shares.

Dividend

The board's policy for distributing free funds to the shareholders includes both dividend and shares buy-back. As a guidance, 1/3 of the yearly net profits shall be distributed to the owners. Hereby, consideration shall be paid to the expected financial position.

For the business year 2002, the board proposes that a dividend of SEK 1:50 (1:50) is paid out to the shareholders.

Outlook 2003

The present forecasts of vehicle production on our main markets in North America and Europe do not show any meaningful growth for 2003. With the exception of the Traction Systems division therefore, the 2003 sales are estimated to be on a similar level as in 2002 – at unchanged currency rates.

The expected improvement of the Traction Systems division, from a negative to a small positive operating result, as well as margin improvements of the remaining part of the group through continued cost reductions, ought to result in an improvement of the group's profit margin.

Accounting principles

This report is prepared in accordance with recommendations issued by the Swedish Financial Accounting Standards Council. The accounting principles used in this report are the same that were used in the latest Annual Report with the following additions: In 2002 new recommendations regarding consolidated financial statements (RR1:00); intangible assets (RR15); provisions (RR16); write-downs (RR17); loan costs (RR21); and information regarding affiliated (RR23) came into force. At the switchover to RR1:00 no retroactive translations of earlier acquisitions have been made. In the comparison figures, the revenues from the activity of core exchange have been re-classified and are accounted as other revenues and costs instead of as previously reducing cost of goods sold.

Future reporting

Annual Report	March 2003
Shareholders' Meeting	9 April in Stockholm
Interim Report January-March	24 April 2003
Interim Report January-June	24 July 2003
Interim Report January-September	27 October 2003
Year-End Report	February 2004

Stockholm February 18, 2003

Claes Warnander
President & CEO

Profit & Loss, Group	Oct-Dec		Total	Total	Total
Amounts in MSEK	2002	2001	2002	2001	2000
Net sales	**1,500**	**1,469**	**6,414**	**6,225**	**6,194**
Cost of goods sold	-1,131	-1,105	-4,790	-4,653	-4,556
Gross profit	**369**	**364**	**1,624**	**1,572**	**1,638**
	24.6%	**24.8%**	**25.3%**	**25.3%**	**26.4%**
Sales, G&A and R&D costs	-340	-361	-1.420	-1.420	-1.328
Other revenues and costs	13	15	14	26	28
Non-recurring items, net	-23	-	-41	-	-
Operating profit	**19**	**18**	**177**	**178**	**338**
Financial net	-14	-16	-65	-66	-68
Earnings before tax	**5**	**2**	**112**	**112**	**270**
Taxes	3	3	-34	-34	-93
Net income	**8**	**5**	**78**	**78**	**177**
Earnings per share, SEK			3:51	3:49	7:97

Balance Sheet, Group			
Amounts in MSEK	021231	011231	001231
Intangible assets	539	432	408
Tangible assets	1,405	1,584	1,464
Financial assets	71	90	59
Inventories	721	905	893
Current receivables	1,016	1,036	1,029
Cash	107	156	152
Assets	***3,859***	***4,203***	***4,005***
Shareholders' equity [1)]	1,563	1,813	1,645
Provisions	300	348	305
Long-term liabilities	1,124	1,227	1,131
Short-term debt	20	31	38
Other current liabilities	852	784	886
Shareholders' equity and liabilities	**3,859**	**4,203**	**4,005**

1) Change in shareholders' equity			
Shareholders equity beginning of period	1,813	1,645	1,490
Buy-back of shares	- 8	-10	-
Dividend	-33	-67	-67
Translation difference	-287	167	45
Net income	78	78	177
Shareholders' equity end of period	1,563	1,813	1,645

Cash Flow Statement, Group Amounts in MSEK	Total 2002	Total 2001	Total 2000
Operating profit	177	178	338
Depreciation on fixed assets	309	277	243
Financial net & taxes paid	-122	-84	-122
Change in working capital	208	-36	-167
Cash flow from operations	***572***	***335***	***292***
Net investments	-234	-257	-295
Acquisitions	-237	-24	-11
Investment in shares and participations	- 3	-37	- 8
Cash flow from expenditures	***-474***	***-318***	***-314***
Cash flow	**98**	**17**	**-22**
Buy-back of shares	- 8	-10	-
Dividend	-33	-67	-67
Change in debt and pension liabilities	-101	52	-52
Change in other long-term liabilities	4	5	-
Change in long-term receivables	- 4	5	-16
Cash flow from financing activities	***-142***	***-15***	***-135***
Change in cash excl. translation difference	**-44**	**2**	**-157**
Translation difference on cash	- 5	2	2
Change in cash	**-49**	**4**	**-155**

Key ratios	Total 2002	Total 2001	Total 2000
Profit margin, %	2.9	3.0	5.6
Return on capital employed, %	6.0	5.8	12.1
Return on equity, %	4,6	4.4	11.2
Interest coverage ratio, times	2.5	2.5	4.6
Equity/assets ratio, %	41	43	41
Debt/equity ratio, %	77	73	74

Share data	Total 2002	Total 2001	Total 2000
Earnings per share, SEK	3:51	3:49	7:97
Shareholders’ equity, SEK	70:83	81:78	73:79
Average no. of shares, (000)	22,145	22,273	22,296
No. of shares end of period, (000)	22,065	22,165	22,296
Market value, SEK	78:00	87:00	69:50

Quarterly development:

MSEK	I	II	III	IV	Total 2001	I	II	III	IV	Total 2002
Group										
Order intake	1,699	1,510	1,481	1,348	6,038	1,777	1,705	1,535	1,465	6,482
Net sales	1,648	1,627	1,481	1,469	6,225	1,639	1,738	1,537	1,500	6,414
Operating profit	76	52	32	18	178	57	68	33	19	177
Earnings before tax	60	33	17	2	112	39	49	19	5	112
Net income	40	22	11	5	78	26	32	12	8	78
R&D, %	4.7	4.8	4.9	4.9	4.8	4.5	4.3	4.3	5.1	4.5
Profit margin, %	4.7	3.4	2.4	1.3	3.0	3.7	3.9	2.3	1.6	2.9
Commercial Vehicle Systems										
Net sales	1,047	1,051	984	968	4,050	1,115	1,179	1,021	945	4,260
Operating profit	50	35	21	26	132	55	73	7	23	158
Profit margin, %	4.8	3.3	2.2	2.5	3.2	4.9	6.1	0.8	2.6	3.7
Hydraulic Systems										
Net sales	290	285	250	235	1.060	251	264	237	221	973
Operating profit	18	12	5	- 1	34	5	8	6	-5	14
Profit margin, %	6.3	4.1	2.9	neg	3.2	2.0	2.8	2.8	neg	1.4
Garphyttan Wire										
Net sales	217	214	187	186	804	201	220	191	202	814
Operating profit	25	19	16	12	72	14	24	22	21	81
Profit margin, %	11.4	8.7	8.5	6.6	8.9	7.2	10.6	11.2	10.5	9.9
Traction Systems										
Net sales	94	77	60	80	311	72	75	88	132	367
Operating profit	-17	-14	-10	-19	-60	-17	-19	- 2	3	-35
Profit margin, %	neg	neg	neg	neg	neg	neg	neg	neg	2.4	neg