

CARDO AB

Report on Operations 1999

- **Invoiced sales amounted to SEK 9,489 million (8,994), a rise of 1 percent after adjustment for the effects of exchange rate movements and company acquisitions.**
- **Operating earnings amounted to SEK 783 million (527).**
- **Earnings after financial items and minority share were SEK 674 million (676). Earnings for 1998 included net one-off income amounting to SEK 148 million.**
- **Earnings per share after full tax were SEK 17.36 (14.62).**
- **Cash flow from operations rose to SEK 30.00 (14.50) per share.**
- **The Board of Directors proposes a dividend of SEK 6.00 (5.00) per share.**

The Group's inflow of orders stood at SEK 9,605 million (8,942), which is a rise of approximately 1 percent for the current structure of the Group after adjustment for the effects of exchange rate movements.

Invoiced sales amounted to SEK 9,489 million (8,994). Adjusted for the effects of exchange rate movements, this was an increase of 6 percent. Company acquisitions accounted for 5 percentage points of this figure. Invoiced sales to customers outside Sweden accounted for 92 percent (92) of total Group invoicing.

Operating earnings rose to SEK 783 million (527), which is equivalent to an operating margin of 8.2 percent (5.9). The improvement in operating earnings is mainly attributable to the positive earnings trend at Cardo Rail. Cardo Door's earnings were somewhat higher than last year, while lower delivery volumes adversely affected the profitability of Cardo Pump. Cardo Rail's earnings include SEK 38 million that was reversed from the provision amounting to SEK 70 million established in the financial statements for 1997 for risks attributable to warranty matters relating to certain deliveries completed during previous years. The reversal was carried out since the final requirement has now been estimated at SEK 32 million. Operating earnings for 1998 included a write-down by SEK 85 million of assets attributable to Tebel.

Earnings after financial items were SEK 695 million (654), a profit margin of 7.3 percent (7.3), and earnings after financial items and minority share were SEK 674 million (676). Last year, financial items included a capital gain of SEK 233 million.

The Group's tax expense amounted to SEK 177 million (249), which is equivalent to a tax rate of 25 percent (38) on earnings after financial items. Certain one-off effects influenced tax expense for both 1999 and 1998. Excluding these one-off effects, the Group's tax rate is estimated at approximately 32 percent.

Exchange rate movements during the year had only a marginal impact on Group invoicing and earnings after financial items.

Earnings per share after full tax were SEK 17.36 (14.62).

Return on capital employed was 18.3 percent (18.9), and return on equity amounted to 21.6 percent (20.6).

Cash flow from operations after tax was SEK 30.00 (14.50) per share. Adjusted for the effects of exchange rate movements on the change in working capital, cash flow was SEK 27.43 (19.27) per share.

At the end of 1999, Cardo entered into an agreement with ThyssenKrupp on the acquisition of its 40-percent holding in Cardo BSI Rail AB. Under the previously applying option agreement of 1997, Cardo had the opportunity to acquire the shares as of January 2000. The agreement resulted in Cardo taking over the shares as of December 31 1999 at a price of DEM 100 million, and Cardo is now the owner of 100 percent of the shares in the company.

In accordance with the decision in December 1998 to refine operations in the rail sector to include only those product areas covered by Cardo BSI Rail AB, the shares in the Dutch train-door company Tebel were disposed of at the end of the year.

Invoiced sales and earnings by business area

SEK million	Invoiced sales		Earnings	
	1999	1998	1999	1998
Cardo Door	4,227	3,741	430	404
Cardo Pump	2,465	2,546	247	266
Cardo Rail	2,675	2,707	170	-12
Other items ¹⁾	122	-	-64	-131 ²⁾
	9,489	8,994	783	527
Financial items			-88	127 ³⁾
Earnings after financial items			695	654
Minority share in earnings after financial items to be added/deducted			-21	22
Earnings after financial items and minority share			674	676

1) Made up of the parent company, other central units and Group adjustments.

Invoiced sales during 1999 relate to Tebel and Group adjustments.

2) Including write-down by SEK 85 million of assets attributable to Tebel.

3) Including capital gain of SEK 233 million relating to sale of the shares in AAE.

Cardo Door

Cardo Door is one of the world's largest manufacturers of industrial doors and Europe's leading supplier of dock loading equipment. Cardo Door is also the market leader in the service of these products and one of Europe's largest manufacturers of residential garage doors. Its biggest brand names for industrial doors and dock loading equipment are Crawford, Clever and Hafa, and for industrial doors alone Faltec, Alsta and Allhabo. Residential garage doors are marketed under the brand names Normstahl, Crawford and Car-In.

December 1998 saw the acquisition of the German Hafa group, which is Europe's largest supplier of dock loading equipment. Hafa is consolidated in Cardo Door's balance sheet as of December 31 1998 and is included in invoicing and earnings as of 1999.

Cardo Door's inflow of orders for the current structure increased by approximately 1 percent after adjustment for the effects of exchange rate movements.

Invoiced sales rose to SEK 4,227 million (3,741), which after adjustment for the effects of exchange rate movements and company acquisitions is on a par with last year. Operating earnings amounted to SEK 430 million (404). Return on capital employed amounted to 24 percent (29). The decline is a result of company acquisitions.

In consequence of the acquisition of Hafa, invoiced sales of dock loading products rose sharply. A harmonization of dock loading products in Europe has been decided upon, and manufacturing is being

concentrated. Two production units, one in Sweden and one in France are therefore being phased out. In addition, a merger of sales companies has occurred in the UK and Switzerland.

Demand for industrial doors was good in southern and eastern Europe during the year. In Germany, demand was in decline during the first half of the year, while a stabilization could be noted towards the end of the year. The weak upturn in France continued, and the Swedish market showed signs of some recovery. The Norwegian construction market was in recession, although from a high level. For rapid action rolling doors, demand was good in all the major European markets.

As part of an ongoing concentration of manufacturing, a production line for industrial doors was phased out in France.

Service activities enjoyed a continued positive trend in all markets.

For residential garage doors, demand in Europe remained good.

Cardo Door's focus on the large Chinese market continued during the year, and November saw the establishment of a wholly owned subsidiary in Kunshan in the Shanghai area where extensive local and international investment is occurring. The company, with initially about 30 employees, will be responsible for both assembly and marketing of industrial doors, dock loading products and residential garage doors. Sales offices have been opened in Beijing and Shanghai and will be complemented by local and regional distributors. At the end of the year, Cardo acquired the remaining 40 percent of the shares in the Chinese joint-venture company in Shenyang.

On February 16 2000, Cardo acquired all shares in P C Henderson Ltd, the UK's leading manufacturer of residential garage doors. The company has about 325 employees, and turnover in 1999 amounted to approximately SEK 325 million and earnings after financial items to roughly SEK 32 million. This acquisition, which is part of Cardo Door's strategy for continued growth in the residential garage door segment, further strengthens Cardo Door's position as the third largest supplier of residential garage doors in the European market. Moreover, Cardo Door will be the leading manufacturer of residential garage doors in both the UK and the Republic of Ireland. The purchase price of the shares amounts to approximately SEK 136 million. Goodwill as a result of the transaction is preliminarily estimated at slightly more than SEK 83 million.

Cardo Pump

Cardo Pump is one of Europe's largest manufacturers of pumps, mixers and aerators and a global leader in the production of sophisticated measurement instruments for the pulp and paper industry. Cardo Pump's products are marketed under the brand names ABS, Pumpex and Lorentzen & Wetters.

Cardo Pump's inflow of orders fell for the current structure by approximately 3 percent after adjustment for the effects of exchange rate movements. The continued weak demand from the pulp and paper industry and lower demand in Brazil are the main reasons for the decline. In the water supply and wastewater area, the inflow of orders was more or less unchanged.

Invoiced sales amounted to SEK 2,465 million (2,546). After adjustment for the effects of exchange rate movements and company acquisitions, invoicing fell by approximately 3 percent. Operating earnings fell to SEK 247 million (266) as a result of the lower invoiced sales. Return on capital employed amounted to 26 percent (29).

Demand from Cardo Pump's key market segment, municipal water management, was roughly on a par with last year. Significant orders were received during the year from Thailand, China, Spain, Egypt, Estonia and Latvia. A municipal treatment plant in Ohio, USA, took delivery of 18 of Cardo Pump's unique "Hypomix" mixers, which provide effective mixing with particularly low energy consumption.

Demand for pumps and mixers from the pulp and paper industry fell during 1999. A positive exception from the general picture was Germany, where further investment was made in new paper machines.

Demand for Lorentzen & Wettre's measurement instruments was good, particularly from Canadian and German paper mills. Pumps, mixers and measurement instruments from ABS and Lorentzen & Wettre were delivered to Haindl Papier's new paper machine in Augsburg, Germany. At the end of the year, Lorentzen & Wettre received its biggest ever order when Autoline measurement instruments worth SEK 20 million were ordered by the Canadian group Abitibi-Consolidated.

The focus on sales of pumps and mixers to the pulp and paper industry in the USA, which was begun in 1998, has continued and the inflow of orders has developed well.

Demand for dewatering pumps for infrastructure projects was good in both Europe and the USA during the course of the year. In order to further develop the US market, an agreement was entered into at the end of 1999 with the owner of the American company CH&E to the effect that ABS Pumps Inc. should take over its operation as of the beginning of the year 2000. CH&E makes diesel-driven dewatering pumps that are a natural complement to Cardo Pump's electrically driven pumps. Diesel-driven pumps are often used in the USA, since construction sites there do not always enjoy access to electricity in the initial phase. CH&E operates out of Milwaukee in Wisconsin. The company has about 40 employees and a turnover of approximately SEK 60 million.

The development of Cardo Pump's service activities continued through acquisition of service companies in Sweden and Austria and expansion of existing service activities in the countries of certain subsidiaries.

Cardo Rail

Cardo Rail, which mainly markets its products under the SAB WABCO trademark, is one of the world's largest manufacturers of brake systems and brake components for rail vehicles.

On December 31 1999, Cardo acquired ThyssenKrupp's 40-percent holding in Cardo BSI Rail AB, thereby becoming the owner of 100 percent of the shares in the company.

Cardo Rail's inflow of orders in 1999 amounted to SEK 2,678 million (2,671), which is a rise of 5 percent for a comparable structure and adjusted for the effects of exchange rate movements.

Invoiced sales amounted to SEK 2,675 million (2,707). This was a rise of 6 percent after adjustment for exchange rate movements and Tebel, which was transferred to Cardo AB as of the turn of the year 1998/1999.

In the 1997 financial statements, a provision amounting to SEK 70 million was made in respect of risks for Cardo Rail attributable to warranty matters relating to certain deliveries completed during previous years. The final requirement is estimated at SEK 32 million. The remaining amount, SEK 38 million, has therefore been reversed in Cardo Rail's earnings for 1999.

Cardo Rail's operating earnings amounted to SEK 170 million (-12), a rise of SEK 182 million. The improvement is partly a result of the increase in sales, partly due to the effects of the restructuring measures on marketing and the intra-group cost structure, and partly a consequence of the reversed provision mentioned above. Return on capital employed amounted to 13 percent (neg.).

The restructuring program initiated during 1997 was in all essentials completed during 1999. The aim is to achieve an operating margin of 8-10 percent when the measures have taken full effect in the year 2000.

During the year, the close-down that was initiated in 1998 of a production plant in the UK was finalized. In addition, rationalization involving considerable staff reductions was carried through at production plants in Sweden, Brazil, India and France. The ongoing refinement of product structure has involved all production of rail-vehicle wheels being concentrated to the main plant for wheel production in Germany.

In addition, organizational changes were realized in production units with a view to increasing the taking of individual responsibility and to improving efficiency and cutting lead times.

In the marketing area, sales efforts are still being controlled selectively, and with the focus on profitability before volume and market share. The level of integration in production is also being gradually reduced with a view to such ends as making Cardo Rail less dependent on volume changes.

All the measures are covered by the restructuring provision of SEK 180 million established in connection with the formation of Cardo BSI Rail AB. This provision, of which SEK 60 million remained at the beginning of the year, was fully utilized by the end of 1999.

During the year, Cardo Rail completed development of a new generation brake system and developed a new compact actuator, which will improve the business area's technological competitiveness.

Cardo Rail maintained its position as one of the world's leading suppliers of brake systems. For example, an order worth SEK 200 million was received for complete brake systems for high-speed trains in South Korea. At the turn of the year 1999/2000, an order worth SEK 105 million was won in Australia relating to brake systems and a service agreement for the new Millennium suburban trains in Sydney. The service agreement accounts for SEK 60 million of the value of the order and is the biggest in Cardo Rail's history as regards extent and period. This is an example of how Cardo Rail can gradually take an increased share of the business associated with the life-cycle cost of the product and, as in this case, in combination with a maintenance contract.

At mid-year 2000, Alf Göransson will be leaving his post as head of the Cardo Rail business area for a higher position outside the Cardo group. The search for a new business area head is under way.

Liquidity and financing

At year-end, the Group's liquid assets amounted to SEK 325 million (517). In addition, there are unutilized credit facilities of approximately SEK 2.4 billion (2.3).

Net interest bearing debt fell to SEK 1,332 million (1,975).

Cash flow from operations amounted to SEK 900 million (435) after tax, or SEK 30.00 (14.50) per share. Adjusted for the effects of exchange rate movements on the change in working capital, cash flow was SEK 27.43 (19.27) per share. The Group's gross investments, exclusive of company acquisitions, stood at SEK 266 million (235).

Equity amounted to SEK 2,635 million (2,373), which is equivalent to SEK 87.83 (79.09) per share.

At year-end, the Group's equity ratio was 39.5 percent (32.2).

In 1999, the Group's policy on hedging the net assets of foreign subsidiaries changed. In consequence, as of mid-May net assets were no longer hedged.

During the year, the major life and pension insurance group in the Nordic area, SPP, announced that it had allocated SEK 73.6 million of its surplus funds to the Group, of which SEK 5.6 million relates to the parent company. In accordance with a statement from the Emergency Committee of the Swedish Financial Accounting Standards Council, the surplus funds are not reported as an asset on the balance sheet at December 31 1999.

Personnel

The average number of employees in the Group was 7,743 (7,855).

Parent company

The parent company's earnings after financial items amounted to SEK 176 million (178), gross investments to SEK 0 million (1) and liquid assets to SEK 3 million (152).

Advent of the new millennium

During the past two years, extensive work was done to prevent disruptions with the advent of the new millennium. All necessary measures were realized before the turn of the year, and the Group has not been affected by any disruptions in internal operations or in relation to products supplied.

Dividend

The Board of Directors has adopted a changed dividend policy, which involves an increased pay-out ratio.

The Board of Directors' objective is to propose dividend payments that correspond to 30-50 percent of the Group's net earnings for the year after taking into account the Group's earnings trend, financial position and future development potential. The previous policy involved a dividend equivalent to 25-30 percent of net earnings for the year.

The Board of Directors and President propose a dividend of SEK 6.00 (5.00) per share for the financial year 1999, which requires SEK 180 million (150). The dividend is equivalent to 35 percent of net earnings for the year per share.

Election committee

An election committee has been appointed consisting of representatives of the company's three largest owners at December 31 1999. The Chairman of the Board is the convener. The duties of the election committee are to submit proposals to the Annual General Meeting in respect of the election of the Board of Directors, the appointment of auditors and the determination of the relevant fees. The election committee that has been appointed ahead of the 2000 Annual General Meeting consists of:

Fredrik Lundberg (Chairman of Cardo)
L E Lundbergföretagen AB, Stockholm

Staffan Grefbäck
Nordbanken funds, Stockholm

Tomas Nicolin
National Swedish Pension Fund, 5th Fund Board, Stockholm

Annual General Meeting and financial reports

The Annual General Meeting will be held in Malmö on Monday, April 10 2000 at 5 pm at Storan, Malmö Musikteater.

- The Annual Report will be distributed in mid-March.
- The first quarter Interim Report will be published on May 16.
- The half year Interim Report will be published on August 16.
- The third quarter Interim Report will be published on November 7.

C15 - a program for profitable growth

In recent years, Cardo's growth has been increasingly achieved via acquisitions, and organic growth has come to account for an ever diminishing proportion.

With a view to generating greater organic growth for the Group in the future, an extensive program has therefore been launched under the designation C15. C15 stands for the Groupwide target "15 percent annual profitable growth in sales". The sharper focus on organic growth involves no change in the Group's acquisition strategy. Company acquisitions will continue to account for a significant part of growth.

The measures and investments involved in the C15 project are based on the results of extensive analysis and project work in each business area. The program consists of a number of subprojects and includes investment in new products, increased market shares, new markets and a considerable expansion in service and the aftermarket.

The effect of the measures and investments on earnings is expected to be limited during the course of this year and gradually increase as of 2001.

Market prospects

The business cycle for industrial construction in Europe shows signs of an upturn. An improved market situation and a rise in sales volume are therefore expected for Cardo Door during the year 2000. In the long term, a positive trend is expected for Cardo Pump's biggest segment, water supply and wastewater. The improved economic climate for the pulp and paper industry has yet to lead to increased demand for pump equipment. Even if the rail market is growing in the long term, sales volume is foreseen as declining to some extent during the year. However, the restructuring measures carried through will lead to further improvement in earnings and an improved operating margin for Cardo Rail.

Malmö, Sweden, February 17 2000
Cardo AB (publ)

Board of Directors

- Enclosures:
1. Consolidated income statement and balance sheet in brief
 2. Consolidated cash flow statement in brief
 3. Invoiced sales and earnings by business area
 4. Business area financial summary
Geographical distribution of invoiced sales
 5. Group financial summary
 6. Consolidated income statement and balance sheet in brief
translated into euros

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Cardo is an international engineering group with a turnover of SEK 9.5 billion in 1999. Cardo holds a strong position in the markets for doors, pumps and rail-vehicle brake systems. Cardo has subsidiaries in about 30 countries with the focal point resting in western Europe, and roughly 7,700 employees.