



*Innovative Vehicle Technology*

## Full Year Report 2000

### Financial summary

MSEK	2000	1999	Change
Order intake	6,284	5,904	+ 6%
Net invoicing	6,194	5,798	+7%
Operating earnings before depr.	581	590	-2%
Operating earnings	338	369	-8%
Profit margin, %	5.6	6.6	-
Earnings before tax	270	302	-10%
Net income	177	186	-4%
Earnings per share, SEK	7:97	8:33	-4%
Dividend proposal, SEK	3:00	3:00	-

### Key business events

- Order for AWD systems received from a European car manufacturer with order value 1-1.5 billion SEK over a 5-year period and delivery start 2001/2002.
- Nomination Letter regarding AWD systems received from a European car manufacturer with potential order value 600-800 MSEK over a 5-year period and delivery start 2002/2003.
- Serial deliveries of disc brakes started to the leading trailer axle manufacturers SAF in Germany and SMB in France.
- Alliance with Brazilian brake component company Ader Ltda. with yearly sales of approximately 50 MSEK, gives Haldex a broadened product program and a production base in Brazil.
- Market introduction of newly developed subsystems for brake systems on heavy vehicles: ECAM (Electronically Controlled Air Management), an intelligent compact system for drying and distribution of compressed air, and EBS<sup>+</sup> (Electronic Brake System) for trailers.
- Development and production cooperation with world-leading diesel engine manufacturer regarding fuel transfer pumps for diesel engines with high-pressure systems for fuel injection. Production start 2001.
- Capacity expansion in the North American factories for valve spring wire and brake lining products.
- Part ownership in Drive-IT Systems AB, that develops telematics (wireless communication) for vehicles.

## **Market development**

The expected turning point in the North American production of heavy vehicles came about with full force in the 2nd half of the year. The number of heavy trucks produced was about 40% less in the 2nd half of the year compared to the 1st half. In the 4th quarter, the production was 50% lower than in the 1st quarter of the year. The corresponding decrease for trailers was 25%. This very substantial drop was a necessary adjustment of an overproduction that had been going on for a long time, at the same time as the demand softened.

In the year 2000, about 260,000 heavy vehicles were produced in North America, compared to more than 300,000 in 1999, a decrease of more than 20%. In 2001, the production rate is expected to remain on the same lower level as in the 2nd half of 2000, which would mean about 190,000 units, a decrease of some 25%.

In a similar way, a substantial drop also occurred at year-end in the production of light vehicles in North America. In the full year 2000, the production increased only marginally compared to 1999, but still led to excessive inventories of new and second-hand vehicles. The significant reductions now being made by the manufacturers in North America, might lead to a 20-25% lower production in the 1st quarter of 2001 compared to previous 4 quarters. For the full year 2001, the production of light vehicles is estimated to decrease some 7-8%.

The development in the North American market for construction vehicles and forklift trucks was also rather weak and production decreased 6-7 %. A continued weakening of around 5% is expected in 2001.

The market development in Europe as well as in Asia and South America was, however, positive in 2000. The production of heavy vehicles increased in Europe with nearly 10% to 300,000 units. However, 2000 is expected to be the peak year in the European heavy vehicle cycle, and production is estimated to decrease around 7-10%.

In the light vehicle segment, the production in Europe increased around 2%, but is expected to decrease at the same rate in 2001. The European market for construction vehicles and forklift trucks was strengthened by 5% and 9% respectively, and is expected to remain at the same level in 2001.

## **Profit development**

### ***4th quarter***

In accordance with a previous press release, a substantial decline in profit occurred in the 4th quarter of 2000. Up to the 3rd quarter the group's sales and profits developed positively compared to the same period the previous year. In the 4th quarter, however, the sharp decline in the North American market began to take effect. The group's delivery volumes to the North American market decreased by nearly 20% compared to the average rate in the previous 9-months period. The lower delivery rate in North America explains about half of the profit downfall in the 4th quarter compared to the average quarterly result during the previous 9-months period.

At the same time, the 4th quarter was charged with significant cost increases – partly of one-time nature – in connection with the development and introduction of new products, mainly in the Brake Systems division. The 4th quarter had a larger share of new products, which initially have lower margins. This unfavorable product mix thus affected the quarter's result.

### ***Full year 2000***

The group's order intake and invoicing increased by 6% and 7% respectively. The two units in the Brake Systems division that were divested in December 1999 had together a business volume of 100 MSEK. Adjusted for that, order intake and invoicing for continuing businesses increased by 7% and 8% respectively. Hereof, currency effects accounted for 5%.

The group's invoicing in North America (56% of the total) increased by 4%, which adjusted for currency effect was a decrease by some 7%. Sales in Europe (40% of the total) increased by 8%, or after currency effects 10%. The group's sales in Asia (2% of the total) increased by 23%, and in South America (2% of the total), the increase was 74%.

Per division, Brake increased by 3% to 4,023 MSEK, Hydraulics by 8% to 1,104 MSEK, Wire by 12% to 756 MSEK and Traction by 59% to 311 MSEK.

In spite of price pressures and unfavorable change in the product mix, the gross margin was kept on last year's level (26.5%), due to continued cost reductions.

The group's operating earnings before depreciations decreased by 2% to 581 MSEK (590). The operating margin before depreciations decreased from 10.2% to 9.4%.

Operating earnings after depreciations decreased by 8% to 338 MSEK (369). The profit margin was 5.6% compared to last year's 6.6%. The earnings include non-recurring items of net 15 MSEK (refund from SPP of 21 MSEK and costs for personnel reductions 6 MSEK), which was reported in the 3rd quarter 2000. In 1999, a capital gain of 10 MSEK was included and reported in the 4th quarter. Excluding the Traction Systems division, the profit margin was 7.1% compared to last year's 8.5%. Approximately half of the profit margin decline pertained to increased costs for product development.

Operating earnings developed positively in all divisions, except Brake Systems whose earnings were negatively affected – especially in the 4th quarter – by a weaker market in North America and increased costs for the development and introduction of new products. The Brake Systems division's profit was also negatively affected by weaker aftermarket sales. The development of operating earnings by division is shown on page 7.

The group's cost for product development increased by 56 MSEK, or 25%, to 282 MSEK (226), from 3.9% of net sales to 4.6%. The increase is totally related to the Brake Systems division, which increased R&D costs with 39%, from 3.5% of sales to 4.9%.

The group's earnings before tax amounted to 270 MSEK (302), a decrease of 10%. Favorable income mix reduced the effective tax rate to 34% (38). Net income decreased by 4% to 177 MSEK (196).

The group's goal for return on capital employed is at least an average of 15% over a business cycle. A marginally improved capital turnover rate could not compensate for the lower profit margin, and the group's return on capital employed decreased in 2000 to 12.1% compared to 14.1% in 1999. The return on capital employed per division was for Brake Systems 12.4% (17.7), Barnes Hydraulics 16.3% (16.4), Garphyttan Wire 22.4% (17.1) and negative (neg.) for Traction Systems. In 1999, all division except Traction Systems exceeded the group's goal. The development in the 4th quarter meant that Brake Systems did not achieve the goal in 2000 either.

### **Capital expenditure, net debt and personnel**

Capital expenditures amounted to 309 MSEK (215). Net debt was at year-end 1,221 MSEK (971). The equity/assets ratio was 41% (40). Cash flow after deduction of net investments was -11 MSEK (188). The average no. of employees was 4,210 (4,290).

### **Proposal for purchase and sales of own shares**

The Board has decided to put forward a proposal to the Annual General Meeting to authorize the Board of Directors to purchase and sell shares in the company during the period to the next annual general meeting. The aim of this proposal is to give the Board means to use purchasing as a tool in their work to achieve added value for the company's shareholders. Purchase shall be made through the OM Stockholmsbörsen and be limited to that the company's holding does not at any time exceed 10% of the total number of shares in the company. Sales of the company's shares may be made in other ways than through OM/Stockholmsbörsen in order to finance acquisitions of companies or operations.

### **Outlook for the full year 2001**

The vehicle business climate in the main markets in North America and Europe will soften. A turn upward can be expected in 2002.

By the introduction of new products, and with a strong position in certain product areas, where our market shares can be further improved, Haldex sales are not expected to decrease at the same rate as the market. Further actions to reduce costs will be carried out. Ongoing product development projects will, however, be continued in order to strengthen our position in the long run. The development of the AWD system's generation II, which involves further cost reductions, is expected to take about 6 months longer than originally planned. This later introduction of the new generation means that the break-even profit rate, that was expected to be achieved at the end of 2001, will be equally delayed in time.

In summary, sales and profits are expected to be lower than previous year, and are expected to increase first in 2002.

**Profit & Loss, Group**

Amounts in MSEK	2000	1999	1998
<b>Net sales</b>	<b>6,194</b>	<b>5,798</b>	<b>4,831</b>
Cost of goods sold	-4,555	-4,261	-3,491
<b>Gross profit</b>	<b>1,639</b>	<b>1,537</b>	<b>1,340</b>
	<b>26.5%</b>	<b>26.5%</b>	<b>27.7%</b>
Selling, G&A and R&D costs	-1,309	-1,157	-960
Other revenues and costs	8	- 11	- 19
<b>Operating profit</b>	<b>338</b>	<b>369</b>	<b>361</b>
Financial net	-68	- 67	- 64
<b>Earnings before tax</b>	<b>270</b>	<b>302</b>	<b>297</b>
Taxes	-93	-116	-111
<b>Net income</b>	<b>177</b>	<b>186</b>	<b>186</b>

**Balance Sheet, Group**

Amounts in MSEK	001231	991231	981231
Intangible assets	408	427	498
Tangible assets	1,464	1,297	1,227
Financial assets	59	56	9
Inventories	893	783	854
Current receivables	1,029	880	840
Cash, bank and short-term investments	152	307	262
<b>Assets</b>	<b>4,005</b>	<b>3,750</b>	<b>3,690</b>
Shareholders' equity <sup>1)</sup>	1,645	1,490	1,340
Provisions	305	279	263
Long-term liabilities	1,106	1,087	1,108
Short-term debt	38	14	43
Other current liabilities	911	880	936
<b>Shareholders' equity and liabilities</b>	<b>4,005</b>	<b>3,750</b>	<b>3,690</b>
1) Change in shareholders' equity			
Shareholders' equity at year-start	1,490	1,340	852
New rights issue	-	-	348
Dividend	-67	-67	-51
Translation difference	45	31	5
Net income	177	186	186
Shareholders' equity at year-end	1,645	1,490	1,340

**Cash Flow Statement, Group**

Amounts in MSEK	2000	1999	1998
Operating profit	338	369	361
Depreciations on fixed assets	243	221	185
Financial net and taxes paid	-122	-216	- 210
Change in working capital	-167	-14	74
<b>Cash flow from operations</b>	<b>292</b>	<b>360</b>	<b>410</b>
Net investments	-303	-211	-175
Divestitures	-	39	-
Acquisitions	-11	- 3	-1,365
<b>Cash flow</b>	<b>-22</b>	<b>185</b>	<b>-1,130</b>
Rights issue	-	-	348
Dividend	-67	-67	-51
Change in debt and pension liabilities	-52	-69	853
Change in long-term receivables	-16	- 2	0
<b>Change in cash excl. translation difference</b>	<b>-157</b>	<b>47</b>	<b>20</b>
Translation difference on liquid funds	2	- 2	3
<b>Change in cash</b>	<b>-155</b>	<b>45</b>	<b>23</b>

**Key Ratios**

	2000	1999	1998
Profit margin, %	5.6	6.6	7.8
Return on capital employed, %	12.1	14.1	18.1
Return on equity, %	11.2	13.2	16.6
Interest coverage rate, times	4.6	4.8	4.7
Equity/assets ratio, %	41	40	35
Debt/equity ratio, %	74	65	79

**Share Data**<sup>1)</sup>

	2000	1999	1998
Earnings after tax, SEK	7:97	8:33	8:92
Shareholders' equity, SEK	73:79	66:82	60:09
Average no. of shares, (000)	22,296	22,296	20,810
No. of shares at end of period, (000)	22,296	22,296	22,296
Market value, SEK	69:50	99:00	82:00

1) Adjusted for rights issue 1:5/95

**Quarterly development:**

MSEK	I	II	III	IV	Total 1999	I	II	III	IV	Total 2000
<i>Group</i>										
Order intake	1,613	1,435	1,372	1,484	5,904	1,701	1,524	1,533	1,526	6,284
Net invoicing	1,495	1,509	1,385	1,409	5,798	1,618	1,566	1,496	1,514	6,194
Operating earnings	90	95	76	108	369	107	104	94	33	338
Earnings before tax	71	78	63	90	302	92	88	73	17	270
Earnings after tax	45	49	40	52	186	58	59	47	13	177
R&D, %	4.0	3.9	3.7	3.9	3.9	4.2	4.4	4.8	5.0	4.6
Profit margin, %	6.3	6.5	5.6	7.9	6.6	6.7	6.8	6.3	2.4	5.6
<i>Brake Systems</i>										
Net invoicing	1.030	1.021	930	922	3.903	1.054	1.014	984	971	4.023
Operating earnings	88	90	65	97	340	90	77	67	17	251
Operating margin, %	8.6	8.8	6.9	10.5	8.7	8.5	7.7	6.7	1.8	6.2
<i>Barnes Hydraulics</i>										
Net invoicing	256	266	260	240	1.022	284	283	279	258	1.104
Operating earnings	14	15	15	8	52	19	17	15	8	59
Operating margin, %	5.5	5.6	5.9	3.3	5.1	6.6	6.2	5.4	3.0	5.3
<i>Garphyttan Wire</i>										
Net invoicing	188	178	139	173	678	200	197	161	198	756
Operating earnings	13	13	17	18	61	25	27	14	21	87
Operating margin, %	6.9	7.4	11.2	10.7	8.9	12.2	13.5	8.7	10.6	11.4
<i>Traction Systems</i>										
Net invoicing	21	44	56	74	195	80	72	72	87	311
Operating earnings	-25	-23	-21	-25	-94	-27	-17	-17	-13	-74
Operating margin, %	neg	neg	neg	neg	neg	neg	neg	neg	neg	neg

**Future reporting**

Annual Report	mid March 2001
Shareholders' Meeting	28 March 2001 in Stockholm
Interim Report January-March	26 April 2001
Interim Report January-June	07 August 2001
Interim Report January-September	25 October 2001
Report January-December 2001	February 2002

Stockholm 20 February 2001  
 Claes Warnander  
 Group President and CEO