



Haldex Group January-September 2002

Weak European vehicle market. Temporary upturn over in North America.

- **3rd quarter's earnings before taxes amounted to 19 MSEK (17), an increase of 18%**
- **The 9 months earnings before taxes amounted to 107 MSEK (110), a decrease of 2%**
- **Order intake amounted to 5,017 MSEK (4,600) and net sales to 4,914 MSEK (4,756), an increase of 7% and 3% respectively**
- **Cash flow amounted to 170 MSEK (-45)**
- **Temporary upturn over in North America and continued weak market in Europe point to lower business volumes in the 4th quarter**

Market

The economic development in Europe and North America has been weaker than earlier estimated. This has, with a temporary exception in the US, resulted in a continued weak vehicle market and our expectations of a near term recovery have been postponed to the later part of 2003.

Heavy vehicles

The new emission regulations (EPA 02) that came into force in North America as per October, led to a substantial, short-term upturn in production rates in the 2nd and 3rd quarters, as fleet owners "pre-purchased" trucks to avoid the extra costs for the new engines. In those two quarters, the North American production rate was 35% higher than in the 2nd half of previous year and in this year's 1st quarter. With a timing of one to two months in advance, this temporary upturn also resulted in increased deliveries from Haldex.

For the 9-months period the pre-buying led to an increase in heavy truck production in North America of 25% compared to the same period previous year.

In order to compensate for the pre-production, the manufacturing rate is estimated (J.D. Power/ACT) to decrease by 35% in the 4th quarter and by a further 23% in the 1st quarter 2003, and thereafter increase again.

For total 2002, the production of heavy trucks in North America is estimated at 176,000 units, an increase of 21% compared to previous year.

The forecast (J.D. Power/ACT) for 2003 points to 163,000 units, a decrease of some 7%. A weak 1st half of 2003 with a yearly rate of 134,000 units is estimated to improve in the 2nd half year to a yearly rate of 190,000 units.

Within the heavy trailer segment, which is even more important to Haldex in North America, the production in the 9-months period decreased by 26% compared to the same period last year.

For total 2002, the production is estimated at 155,000 units, a decrease of 15%. The improved relation on year on year compared to the situation after 9 months is not due to increased production in the 4th quarter, but to the very weak 4th quarter last year. The forecast (J.D. Power/ACT) for 2003 points to a slight decrease of 2%.

The West European market for heavy vehicles weakened, but not as much as earlier forecasted. In the 9-months period the production of heavy trucks and trailers decreased by some 8% compared to the same period previous year.

For the total year 2002, the number of produced trucks in Western Europe is expected to reach 255,000 units, a decrease of 7%. The forecast (J.D. Power) for 2003 points to an unchanged production rate.

In Asia, especially China, the production of heavy trucks continues to increase rapidly. On the large Chinese market, however, the brake systems are still of older design and Haldex sales are limited but increasing. Newer technology – such as automatic brake adjustment and ABS systems – is expected to grow gradually. Haldex has therefore started local production of certain brake components in China. We estimate that our production in China will broaden and increase in coming years.

In Brazil, the weaker economic development led to lower production of heavy trucks, a decrease which on total year basis is estimated to 10%. Also in Brazil, Haldex has increased the local production in order to meet customers' demand for local content.

Light vehicles

In North America, sales of light vehicles (cars and light trucks) in the 9-months period were 2% higher than the production. Inventory days have thus decreased from 70 in January to 60 at the end of September. In comparison with the same period last year, the production increased by 6%. This increase is estimated to remain also on total year basis. The forecast (J.D. Power) for 2003 points to an unchanged level.

In Europe, the production of light vehicles decreased by 2.5% during the period. For the total year, a decrease of 3% is estimated. The forecast (J.D. Power) for 2003 points to a slight increase of 1%.

Industrial vehicles

The weaker economic activity in North America and Europe was also reflected in the production of construction vehicles and forklift trucks.

In North America, the deliveries of construction vehicles and forklift trucks were 10-15% lower in the 9-months period compared to previous year. The development in Europe was similar, a decrease of 5-10%.

Order intake and sales

The group's order intake in the 9-months period amounted to 5,017 MSEK (4,690), an increase of 7%. Currency adjusted, the increase was 9%. More than the total increase is related to the acquisition of Neway/Anchorlok in January. Excluding the acquisition, order intake decreased 1%.

Sales amounted to 4,914 MSEK (4,756), an increase of 3%. Currency adjusted, the increase was 6%. Excluding the acquisition, sales decreased by 4%.

Distributed per division, the development was as follows (MSEK):

<i>Division</i>	<i>Order intake</i>		<i>Sales</i>	
	<i>Amount</i>	<i>Change</i>	<i>Amount</i>	<i>Change</i>
Brake	3,310	+ 8%	3,315	+ 8%
Hydraulics	742	- 4%	752	- 9%
Wire	669	+10%	612	- 1%
Traction	296	+25%	235	+ 2%

In Brake, more than the total increase is explained by the acquisition of Neway/Anchorlok. Excluding the acquisition, sales were 3% lower than previous year.

The lower sales in Hydraulics reflect the weakened market for construction vehicles and forklift trucks.

The increase in order intake for Wire can partly be explained by an increase in the supply chain after previous cut-downs, and partly by an element of capacity booking for safety.

Within Traction, the order intake was positively affected by the successively increasing deliveries to Volvo Car. At the same time, order intake was negatively affected by lower car sales in the VW/Audi group.

The group's sales per region were as follows (MSEK):

<i>Region</i>	<i>MSEK</i>	<i>Change</i>
North America	2,704	+4%
Europe	1,930	0%
Asia	185	+64%
South America	95	-7%

Results

The group's earnings before taxes for the 9-months period amounted to 107 MSEK (110). The new accounting recommendations (RR15) regarding the balancing of certain product development costs which came into force at year-start, has improved the reported result with 24 MSEK, which represents 11% of the period's total product development costs.

The reported result was in the 2nd quarter charged with costs of non-recurring character. The net amount of 18 MSEK includes a write-down of 22 MSEK of shares in minority owned companies and a capital gain of 4 MSEK from sale of land.

The gross profit margin during the period was kept on an unchanged level compared to previous year, in spite of reduced sales prices. Thus, the increased sales (acquisition) resulted in higher gross profit.

The increased expenses are related to the acquired units and to increased warranty costs of 3 MSEK.

Divisions

The *Brake division* increased its sales in the 9-months period with 8%. Operating profit increased by 26%, from 106 MSEK to 134 MSEK. The profit margin improved.

The acquired Neway/Anchorlok operations contributed substantially to the profit and margin improvements.

The Brake division's gross profit margin decreased slightly compared to last year as a result of price reductions and product mix changes. Gross profit increased, however, as a result of increased sales.

The *Hydraulics division* has in a weak market situation seen sales drop by 9%, which led to a slightly reduced gross profit margin and lower gross profit. Costs were slightly lower than previous year. Lower sales affected the profit, which decreased from 35 MSEK to 19 MSEK.

The *Wire division's* sales decreased only marginally compared to previous year, but gross profit margin increased. Costs increased only marginally. Thus, profit remained unchanged, 60 MSEK.

Traction division's sales increased (in the 3rd quarter) as a result of increasing volumes to Volvo Car. The operating loss decreased by 3 MSEK.

3rd quarter

The *group's* net sales in the 3rd quarter amounted to 1,537 MSEK (1,481), an increase of 4%. Earnings before taxes improved compared to last year, from 17 MSEK to 19 MSEK, an increase of 18%.

Gross profit margin decreased marginally compared to last year's 3rd quarter, but gross profit increased slightly as a result of higher sales.

Costs increased as a result of including the acquired units. Warranty costs also increased.

The *Brake division's* profit in the 3rd quarter amounted to 7 MSEK, which was 14 MSEK lower than last year.

The division's profit in the 3rd quarter compared to the 2nd quarter shows a substantial decrease. This is related to 13% lower sales, which also affected the gross profit margin negatively. The costs, however, showed a meaningful decline.

The *Hydraulic division's* profit in the 3rd quarter amounted to 6 MSEK, which was 1 MSEK better than last year, in spite of lower sales. Gross profit margin was on the same level and costs were lower than last year.

The *Wire division's* result in the 3rd quarter amounted to 22 MSEK, which was 6 MSEK better than last year as a consequence of increased sales, improved gross profit margins and unchanged costs.

The *Traction division's* profit in the 3rd quarter amounted to -2 MSEK, which was 8 MSEK better than last year as a result of increased sales and improved gross profit margin.

Cash flow

The group's cash flow from operations in the 9-months period amounted to 323 MSEK (161). Cash flow after deducting net investments, but before acquisition, amounted to 170 MSEK (-45).

The 215 MSEK improvement came about as a combined effect of improved earnings before depreciation (23), improved working capital development (139) and lower investments (77).

The period's investments in machinery and equipment amounted to 129 MSEK (206).

Net debt at the end of the period was 1,389 MSEK (1,299), and the interest coverage ratio was 2.9 (2.8). The equity/assets ratio amounted to 40% (42).

Buy-back of shares

At the annual general meeting 2002, a decision was taken on buy-back of maximum 10% of the company's total number of shares. In the 3rd quarter 2002 50,000 shares were purchased at an average market price of SEK 88:50. The company's holding of own shares at the end of the period amounted to 181,470, which equals 0.8% of the total number of shares.

Organization

As per October 2002 some adjustments have been made in the organization. Group Management has been strengthened, the operative organization has been made flatter, and staff functions have been centralized.

The Brake Systems division has been organized into four divisions, each with its Division Management: Braking Controls, Air Management, Foundation Brakes and Friction Products.

Chuck Kleinhagen, former president of the Brake Systems division, is now included in the Group Management as COO, Chief Operating Officer, with coordinating responsibility for marketing and product development in the group as well as coordinating responsibility for the operations in the former Brake Systems division.

Staff functions on group level and in former Brake Systems division are being merged into one group staff.

Hereafter, the group's management team consists of four persons in the Group Management and nine persons responsible seven product divisions and two regional sales areas.

The external reporting, however, will continue to show the consolidated operation of the four divisions in the Brake business area as the internal deliveries are substantial and the sales organization is common.

Outlook for the full year

The production of heavy trucks in North America is estimated to decrease sharply in the 4th quarter (pre-buying effect). The trailer production in North America is, however, estimated to remain on present level in the next quarters. The same applies to the European production of heavy trucks and trailers.

The car production rate is estimated to decrease in the 4th quarter, especially in Europe.

With this market outlook, Haldex net sales are estimated to be lower in the 4th quarter compared to the quarterly average of the 9-months period.

The wording in earlier reports – “With a successively improved market, in combination with acquired units and a number of new delivery contracts won during the previous year, the group's turnover and profits are estimated to increase compared to 2002” – remains, even though the recovery in vehicle production has been postponed. The degree of improvement against last year, however, is estimated to be lower than earlier expected. The profit for the total year is expected to be slightly better than in 2001.

Accounting principles

This interim 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.

Future reporting

Year-end report	February 2003
Annual General Meeting	April 9, 2003

Stockholm 22 October 2002

Claes Warnander
President and CEO

The company auditors have not reviewed this report.

Profit & Loss, Group

Amounts in MSEK	<i>July-Sept</i>		<i>Jan-Sept</i>		<i>Oct 2001</i>	<i>Total</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>	<i>-Sept 2002</i>	<i>2001</i>
Net sales	1,537	1,481	4,914	4,756	6,383	6,225
Cost of goods sold	-1,147	-1,103	-3,633	-3,522	-4,718	-4,607
Gross profit	390	378	1,281	1,234	1,665	1,618
	25.4%	25.5%	26.1%	25.9%	26.1%	26.0%
Selling, G&A and R&D costs	-356	-342	-1,104	-1,060	-1,468	-1,422
Other revenues and costs	-1	-4	-1	-14	-3	-18
Non-recurring items, net	0	-	-18	-	-18	-
Operating profit	33	32	158	160	176	178
Financial net	-14	-15	-51	-50	-67	-66
Earnings before tax	19	17	107	110	109	112
Taxes	-7	-6	-37	-37	-34	-34
Net income	12	11	70	73	75	78
Earnings per share, SEK	0:56	0:49	3:16	3:25	3:40	3:49

Balance Sheet, Group

Amounts in MSEK	<i>30 Sept</i>	<i>30 Sept</i>	<i>31 Dec</i>
	<i>2002</i>	<i>2001</i>	<i>2001</i>
Intangible assets	545	427	432
Tangible assets	1,444	1,592	1,584
Financial assets	67	98	90
Inventories	772	924	905
Current receivables	1,189	1,155	1,036
Cash	87	119	156
Assets	4,104	4,315	4,203
Shareholders' equity ¹⁾	1,635	1,821	1,813
Provisions	288	327	348
Long-term liabilities	1,267	1,169	1,227
Short-term debt	33	189	31
Other current liabilities	881	809	784
Shareholders' equity and liabilities	4,104	4,315	4,203

1) Change in shareholders' equity

Shareholders equity beginning of period	1,813	1,645	1,645
Buy-back of shares	-4	-	-10
Dividend	-33	-67	-67
Translation difference	-211	170	167
Net income	70	73	78
Shareholders' equity end of period	1,635	1,821	1,813

Cash Flow Statement, Group

Amounts in MSEK	<i>Jan-Sept 2002</i>	<i>2001</i>	<i>Oct 2001 -Sept 2002</i>	<i>Total 2001</i>
Operating profit	158	160	176	178
Depreciation on fixed assets	235	211	301	277
Financial net & taxes paid	-86	-87	-83	-84
Change in working capital	16	-123	103	-36
<i>Cash flow from operations</i>	323	161	497	335
Net investments	-153	-206	-204	-257
Acquisitions	-236	-11	-249	-24
Investments in shares and participations	- 3	-35	- 5	-37
<i>Cash flow from expenditures</i>	-392	-252	-458	-318
Cash flow	-69	-91	39	17
Buy-back of shares	- 4	-	-14	-10
Dividend	-33	-67	-33	-67
Change in debt and pension liabilities	49	120	-19	52
Change in other long-term liabilities	4	-	9	5
Change in long-term receivables	- 9	3	- 7	5
<i>Cash flow from financing activities</i>	7	56	-64	-15
Change in cash excl. translation difference	-62	-35	-25	2
Translation difference on cash	- 7	2	- 7	2
Change in cash	-69	-33	-32	4

Key ratios

	<i>Jan-Sept 2002</i>	<i>2001</i>	<i>Oct 2001 -Sept 2002</i>	<i>Total 2001</i>
Profit margin, %	3.3	3.6	2.9	3.0
Return on capital employed, %	6.8	6.9	5.6	5.8
Return on equity, %	5.5	5.5	4.4	4.4
Interest coverage ratio, times	2.9	2.8	2.5	2.5
Equity/assets ratio, %	40	42	40	43
Debt/equity ratio, %	85	80	85	73

Share data

	<i>Jan-Sept 2002</i>	<i>2001</i>	<i>Oct 2001 -Sept 2002</i>	<i>Total 2001</i>
Earnings per share, SEK	3:16	3:25	3:40	3:49
Shareholders' equity, SEK	73:95	82:03	73:95	81:78
Average no. of shares, (000)	22,163	22,296	22,173	22,273
No. of shares end of period (000)	22,115	22,291	22,115	22,165
Market value, SEK	83:50	79:50	83:50	87:00

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