Autoplastics

Sapa Autoplastics business area

Sapa Autoplastics develops and manufactures surface-coated injection-molded plastic components and systems for the automotive industry, primarily passenger cars and trucks in the European market. The main focus is on exterior products, such as bumper systems and components and interior design features. The business area also produces interior panels and other trim parts. Sapa's customers are mainly manufacturers of premium automobiles with strong brand names. The products are delivered in short or medium-long runs.

Net sales in 2000 amounted to MSEK 3,376, up 21 percent compared with 1999. Operating profit totaled MSEK 75, compared with MSEK 45 a year earlier. During the year, the business area's earnings were charged with the cost of start-ups at the new plants in Belgium and Poland and restructuring and closure costs at the plants in Olofström and Kristinehamn, in Sweden.

The operating margin improved but remained at an unsatisfactory level.

Expanding market

Demand for Autoplastic's products is correlated to its customers' sales of new passenger cars. In addition, the proportion of plastic and plastic-based components increases in parallel with customers' design and feature requirements.

Injection-molded plastic is also used increasingly in heavy vehicles to reduce overall weight and as part of ongoing investments in design and special features.

There are a number of clearly discernible trends in the automotive sector that could significantly affect the market for Autoplastics. These include consolidation, globalization and outsourcing. In recent years, a large number of mergers and alliances have occurred within the passenger car sector, which places demands on suppliers with regard to size, delivery capability and geographical coverage. Underlying the restructuring that is taking place in the automotive sector, there is a desire to reduce manufacturing costs by utilizing common platforms for different models, meaning engines, drivelines, gearboxes and other components that are not linked to design, comfort and individual ride satisfaction. Among other factors, this means that suppliers must be financially sound, possess the development capacity to support their customers from concept to finished product and be prepared to invest in production capacity that is connected to the plants where customers assemble their vehicles.

Sapa Autoplastics is classified as a first-tier supplier. This means that goods and products are delivered directly to customer production plants and full responsibility is assumed for the systems. This means in turn that Sapa purchases parts and components used in the finished product from other subcontractors and must meet the accompanying demands for logistics, quality control and follow-up.

Global competitors

A few large suppliers with global coverage dominate the sector. There are also several small and midsize producers who hold relatively strong positions in local and regional markets. Among the larger are the American companies Delphi and Lear, both with annual sales of more than SEK 100 billion.

Autoplastics's strategy is to work against a clearly defined market segment, namely premium cars.

Main competitors in the exterior products area include Plastic Omnium (France), Peguform (US) and Dynamit Nobel (Germany). Within this area, Sapa Autoplastics is one of the leading companies in Europe.

On the interior components side, Sapa is a much smaller player. The leading suppliers in this area are Delphi, Lear, Johnson Controls and Visteon.

Christer Palm
Business Area
President

Key data	2000[1]	1999
Net sales, MSEK	3,376	2,793
Operating profit, MSEK	75	45
Operating margin, %	2.2	1.6
Investments, MSEK	230	337
Average no. of employees	2,180	1,844

1 Excluding surplus funds from SPP of about MSEK 5.

Few customers

Sapa Autoplastics has approximately ten customers, all of them European automotive producers. In 2000, Volvo Car, Saab and Iveco jointly accounted for more than half of the business area's net sales. Other major customers include Opel/GM, Volvo Trucks and Scania.

In order to meet its deliveries to major customers, Sapa's production is integrated to varying degrees with the customers' own production lines. Sapa has its own plants connected to the Volvo factories in Gothenburg (Sweden) and Gent (Belgium). In 1999, a new plant was put in operation in Gliwice (Poland), a facility that specializes in system deliveries to Opel's new small car, the Aguila. In all, Sapa Autoplastics has 12 production plants in seven countries throughout Europe.

Restructuring

Sapa Autoplastics has undergone substantial restructuring in recent years, partly to aggressively develop its operations through investment and partly to concentrate production to fewer but more efficient units. In 1999, a major step in this process was taken through the merger of Norsk Hydro's bumper systems operations with Sapa.

During the most recent three-year period, Sapa Autoplastics has invested about MSEK 750 in new plants. The largest projects were a new plant in Belgium and another in Poland, plus the expansion of the existing plant in Arendal, Gothenburg. In addition, the

Sapa Autoplastics supplies original bumpers to high-quality auto manufacturers. The plants are specially constructed to produce bumpers of the highest quality. Custom-designed interior trim in the form of coated panels and other interior-design features are another Autoplastics specialty. All to increase ride comfort and pleasure.

business area has two other units that will exclusively supply Iveco in Italy and Spain.

Stable customer relations

The business area's operations are intrinsically based on stable, long-term relations with customers.

Generally, a new car platform is used as a base for several models and makes and survives for about five to seven years. During this period, car manufacturers normally secure their first-tier suppliers through far-reaching agreements. The necessary investments are made in mutual agreements reached between the customers and suppliers.

Trends in 2000

Restructuring work continued during 2000 through the incorporation of the operations acquired from Norsk Hydro. In addition, the plants in Olofström and Kristinehamn were closed down. Certain operations formerly conducted by the Kristinehamn plant were transferred to Gothenburg. This concentration will generate cost savings in the future.

Originally, the Gothenburg production plant focused exclusively on deliveries to the Volvo S80. The changes in the Volvo program during the year resulted in new demands being placed on Sapa in regard to systems and products for the Volvo V70 and Volvo V70XC within the framework of an existing agreement. Despite a significant increase in volumes, an unfavorable product mix did not generate a corresponding rise in earnings for the production plant.

In Gent, the entire product range was replaced during the year with the installation of a completely new painting plant. Substantial nonrecurring costs incurred in connection with the commencement of production for the new V70 and S60 at Volvo Car had an adverse effect on earnings.

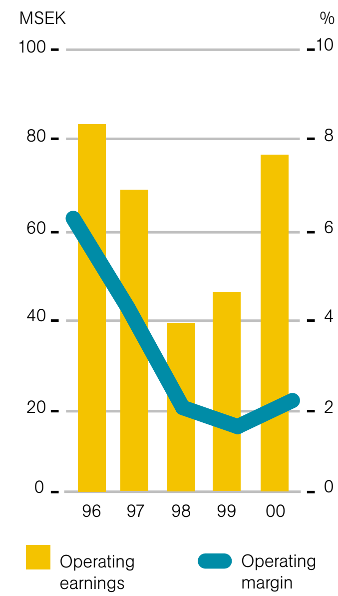
Outlook for 2001

To date, Sapa Autoplastics products have mainly been used in the production of new cars. In a long-term perspective, Sapa wants to increase the volume of purchasing conducted by its existing customers. This will be achieved by providing design solutions with a greater plastic content, plus completely new products and services, in the potentially attractive after-market. These efforts are exemplified by the fact that Sapa Autoplastics is now producing finished, painted, bumper systems for the Volvo range in response to customer orders. Volvo formerly held unpainted bumper parts in stock, which its local engineering department requisitioned and painted as repairs became necessary. This process was time-consuming and the results seldom reached the desired level of quality. The new approach guarantees the customer a satisfactory level of quality and more rapid response.

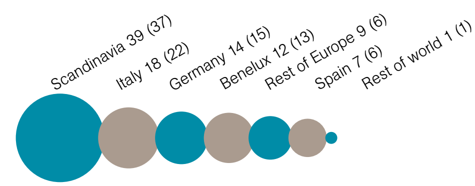
The success achieved by both parties as a result of the dedicated production units inside in the Iveco manufacturing plant has aroused the interest of other producers of commercial vehicles. However, the results of additional efforts in this direction will be achieved later than in 2001.

Sapa anticipates significantly lower investment requirements in the immediate future, compared with recent years. A high level of technology is maintained in the Group's plants, with consolidation, productivity and efficiency high on the agenda following a prolonged period of plant and new product start-ups.

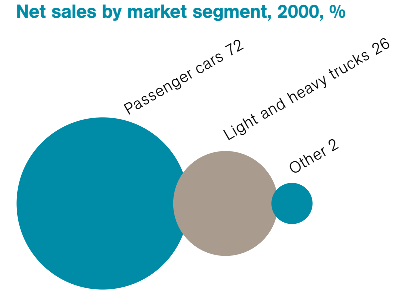
Operating earnings and operating margin Autoplastics



Net sales by country, 2000, %



Net sales by market segment, 2000, %

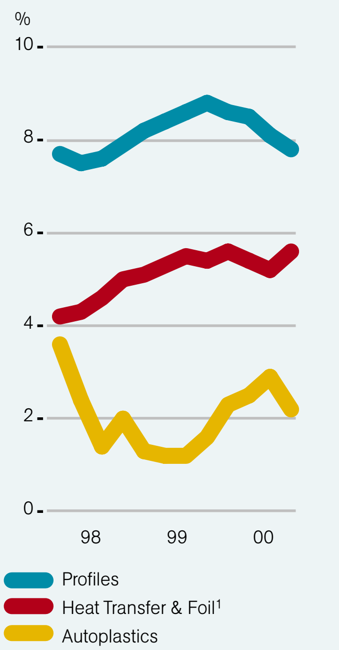


Quarterly data during most recent three years

	4/00	3/00	2/00[1]	1/00[1]	4/99	3/99	2/99	1/99	4/98	3/98	2/98	1/98
Net sales, MSEK												
Profiles	2,371	1,895	1,967	2,047	1,696	1,534	1,629	1,583	1,307	1,282	1,463	1,425
Heat Transfer & Foil	996	854	875	844	724	704	711	690	652	668	726	757
Autoplastics	961	732	826	856	891	714	677	511	544	445	444	430
Group	4,381	3,522	3,705	3,787	3,347	2,981	3,058	2,835	2,547	2,435	2,648	2,619
Operating profit, MSEK												
Profiles	189	143	158	182	162	142	136	127	116	107	115	95
Heat Transfer & Foil[2]	65	40	49	47	85	39	47	33	34	31	42	32
Autoplastics	10	13	23	30	29	2	11	3	13	0	10	15
Group[3]	258	179	222	234	275	172	186	157	153	134	163	139
Operating margin, %												
Profiles	8.0	7.5	8.1	8.9	9.5	9.2	8.2	8.0	8.8	8.4	7.8	6.7
Heat Transfer & Foil[2]	6.6	4.7	5.6	5.6	11.7	5.5	6.6	4.8	5.2	4.6	5.9	4.1
Autoplastics	1.0	1.8	2.7	3.5	3.3	0.3	1.7	0.5	2.3	n.a.	2.2	3.4
Group[3]	5.9	5.1	6.0	6.2	8.2	5.8	6.1	5.5	6.0	5.5	6.1	5.3
Deliveries, tonnes												
Profiles	59,300	51,300	56,200	54,800	44,600	41,900	45,900	44,800	33,500	34,300	38,200	36,700
Heat Transfer & Foil	30,300	27,900	29,500	30,000	26,900	27,000	28,100	26,300	25,300	25,500	27,400	28,300
Group	89,600	79,200	85,700	84,800	71,500	68,900	74,000	71,100	58,800	59,800	65,600	65,000

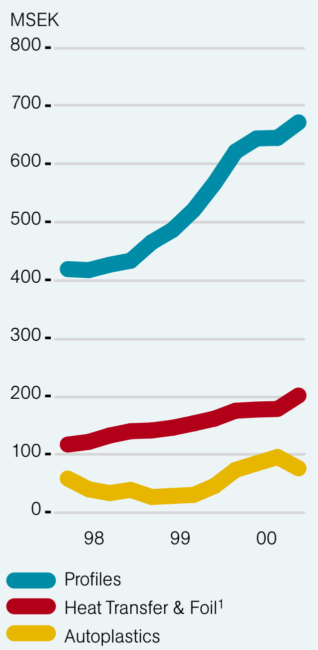
1 Excluding capital gain of GBP 16.6 M (about MSEK 230) during Q 1 and surplus funds from SPP of around MSEK 100 during Q2.
2 Including insurance revenue of MSEK 49.8 in Q4 of 1999.
3 Before nonrecurring gain of MSEK 69 from sale of Gränges Metall during 1998.

Operating margins (rolling 12 months)



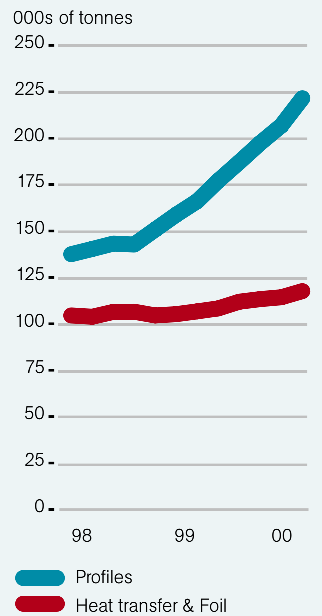
1 Excl. insurance revenue

Operating profit (rolling 12 months)



1 Excl. insurance revenue

Tonnes delivered, (rolling 12 months)



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