

Interim Report January - June 1999

The First Half of 1999

- Earnings after financial items amounted to MSEK 90 (158)
- Reduced invoiced sales during the period
- Extensive staff cutbacks completed
- Rising inflow of orders at the end of the period

The Second Quarter of 1999

- Earnings after financial items amounted to MSEK 32 (95)
- Two minor business operations acquired, one subsidiary disposed of
- Markedly improved inflow of orders

For further information, please contact:

Börje Andersson, President, telephone int + 46 418 44 92 00

Interim report 1 January - 30 June 1999

The Second Quarter of 1999

The Group's earnings after financial items amounted to MSEK 32 (95). This decline in earnings is largely attributable (57 per cent) to lower volumes in a comparable structure. Demand has been sluggish for the companies in Industrial Components and Systems and Niche Manufacturing, with the exception of SwePart which largely delivers to the heavy duty vehicle industry where demand has been healthy. The difference in capital gains between the periods explains a further 26 per cent of the decline in earnings and the remainder, approximately 17 per cent, is attributable to lower gross margins, etc.

Earnings, 2nd quarter 1998	MSEK 95
Decline in invoiced sales in comparable structure, affecting earnings	MSEK -36
Difference in capital gains	MSEK -16
Other items including lower gross margins	<u>MSEK -11</u>
Earnings, 2nd quarter 1999	MSEK 32

Invoiced sales amounted to MSEK 1 195 (1 242). In a comparable structure, invoiced sales fell, however, by 7 per cent from MSEK 1 279 to MSEK 1 195.

The inflow of orders rose to MSEK 1 237 (1 210). In a comparable group structure, the inflow of orders fell by 5 per cent during the second quarter of 1999 compared with the same quarter of the previous year. During the last three months, the inflow of orders has however gradually improved, please see further the Table on the following page.

Quarterly figures	1998				1999	
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2
Inflow of orders	1 210	1 210	1 247	1 243	1 222	1 237
Invoiced sales	1 124	1 242	1 206	1 374	1 207	1 195
Earnings after financial items	63	95	81	74	58	32

Half Year 1999

Group Earnings and Invoiced Sales

The Group's earnings after financial items for the first half year of 1999 amounted to MSEK 90.0 (157.5). The earnings for 1999 include capital gains at an amount of MSEK 19.4. The corresponding item in 1998 was slightly lower and amounted to MSEK 15.0. The decline in earnings is substantially because of lower levels of invoicing caused by sluggish demand, but also to some degree by a pressure on margins and restructuring work in certain companies.

Group invoiced sales amounted to MSEK 2 402 (2 366). The figures are not strictly comparable because of changes in the group structure. In a comparable group structure, invoiced sales fell from MSEK 2 541 to MSEK 2 402, a decline of 5 per cent.

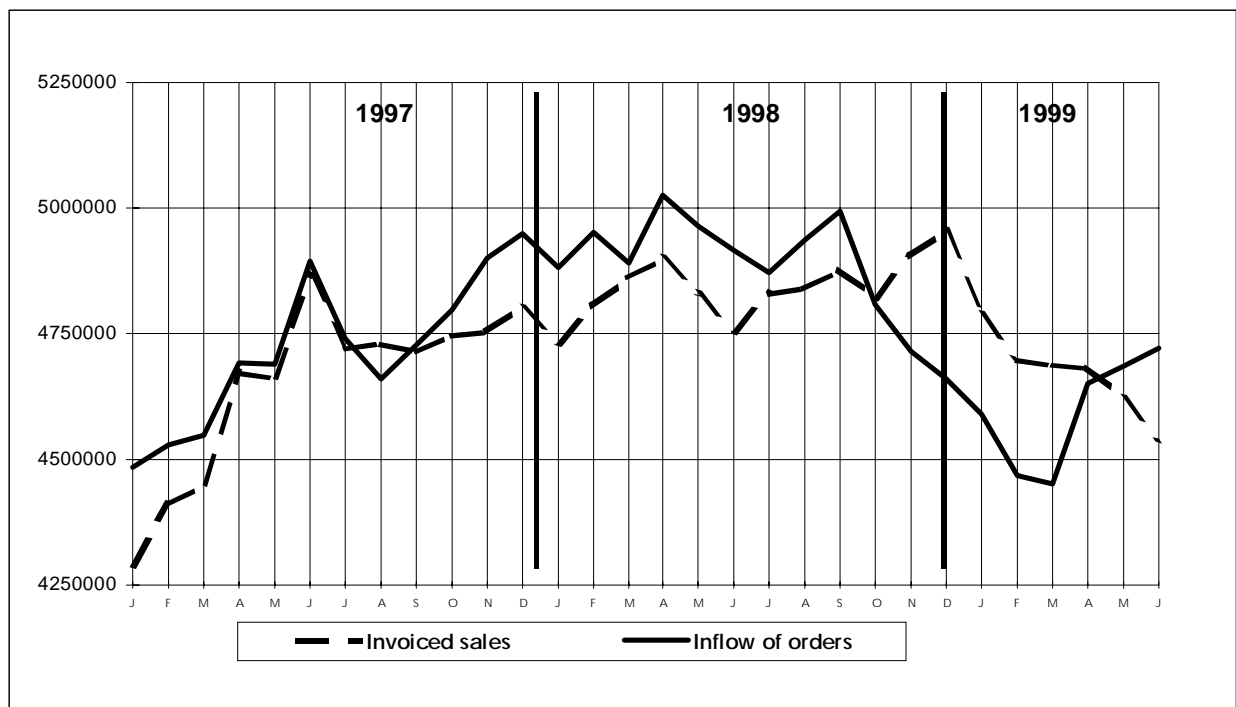
Trends during the first half of 1999

Inflow of Orders

In a comparable group structure, the inflow of orders fell by 8 per cent. Because of corporate acquisitions made during 1998 and 1999, the inflow of orders rose by 2 per cent and amounted to MSEK 2 459 (2 420).

Hexagon monitors the order inflow trend in a comparable structure and at seasonally adjusted whole year rate which is based on the outcome of the latest three months. During the second half of 1998, the slowdown in the industrial climate had an impact and the inflow of orders underwent a dramatic downturn. Invoiced sales turned down four months later, in January 1999. The decline in the inflow of orders continued during the first quarter of 1999. During the second quarter, the inflow of orders has improved as will be apparent from the diagram below. The improvement in inflow of orders has not yet favourably affected invoicing.

The inflow rate on a whole year basis was MSEK 4 730 in June 1999, compared with MSEK 4 900 a year earlier, a decline of 3 per cent. From the beginning of the year, the order inflow rate has risen by one per cent. All values are on a whole year basis and relate to a comparable corporate structure.



Total workforce

The decline in the inflow of orders towards the end of 1998 triggered an extensive rationalisation programme which, among other things, entailed a cutback in the workforce. In a comparable structure, the total workforce has declined in number by 324 (-8%), at 30 June 1999 compared with 31 December 1998, and by 95 (-3%) compared with 30 June 1998. All companies have reduced staff, but the greater part of this reduction took place in Gislaved Gummi in Sri Lanka and in Moteco Sweden. The reduction in staff took place during the spring, and as a result the average total workforce remained largely unchanged during the first half of 1999, compared with the first half of 1998. The full effect of the staff cutbacks will therefore not be tangible until during the autumn of 1999.

Further staff cutbacks have been decided on, comprising roughly 50 members of the workforce. In total, this entails that the workforce in a comparable corporate structure will have been reduced by approximately 375 staff members, or 9 per cent at the end of the year, compared with the position at the beginning of the year.

Acquisitions and disinvestments

During the first half of the year, four minor complementary acquisitions were carried out by Hexagon's subsidiaries and two major operations have been disposed of.

In January, Dacke Hydraulik acquired Östermo Mekaniska AB in Vaggeryd. Operations, which turn over MSEK 40, have been coordinated with Dacke's other local company, Vaggeryds Hydraulik. Both companies manufacture hydraulic cylinders and the acquisition of Östermo involves coordination advantages within several areas.

In February, EIE Maskin, which is a subsidiary of AKA Industriprodukter, acquired Precisions-Produkter AB, whose turnover amounts to just under MSEK 15. The acquisition strengthens EIE's positions in linear transmissions.

In March, AKA Industriprodukter's refrigeration operations - with a turnover amounting to MSEK 314 during 1998 - were disposed of. The reason for this disinvestment was to streamline AKA's operations, with greater focus on efforts within AKA's top priority product areas. The capital gains amounted to MSEK 22.3 after tax. The purchase price and settlement of loans released a total of MSEK 152.

In May, Hexagon sold Robust Ståldörrar RSD AB, as well as the property where operations are conducted. This disinvestment entailed a minor capital loss. Turnover in Robust amounted to MSEK 97 in 1998 and pretax earnings amounted to MSEK 0.2.

In June, two operations were acquired.

Gustaf Fagerberg acquired the operations in the Danish control and instrument company Mobro Instrumentering, whose turnover amounts to approx. MSEK 25.

Nybro Stålprodukter, a subsidiary of Johnson Stål & Metall AB, acquired C-B Agenturer AB in Karlskoga. Turnover amounts to approx. MSEK 25.

Profitability

Return on average shareholders' equity was 10% (18) after earnings were charged with a 28% standard tax. The return on average capital employed amounted to 11% (18).

Financial position of the Group

At 30 June 1999, the equity ratio stood at 45% (42%). The visible shareholders' equity amounted to MSEK 1 344 (1 253). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 417 (1 359).

Liquid assets, including unutilised overdraft facilities, amounted to MSEK 359 (374). The corresponding figure at 31 December 1998 was MSEK 452. Pledged credit is available in the form of syndicated loans of approx. MSEK 826 (744). Net debt in the Group was MSEK 649 (630) and net indebtedness (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.48 times (0.50). Interest cover rate was 4.3 times (7.7).

The Group's investments in fixed assets amounted to MSEK 79 (110). In addition, business operations were acquired at a value of MSEK 36 (81) as well as the acquisition of shares in affiliates at an amount of MSEK 3 (-). Depreciations amounted to MSEK 96 (88) during the first half of 1999.

Cash flow

Cash flow before changes in operating capital and investments amounted to MSEK 86 (160).

	1999	1998
Cash flow from current operations	75	40
Cash flow from investment operations	- 7	- 88
Cash flow from financial operations	- 68	78
Dividend to shareholders	- 74	- 74
Change in liquid assets	- 74	- 44
Liquid assets at beginning of period	210	226
Liquid assets at end of period	136	182

Invoiced sales and earnings after financial items by business area (January-June)

	Invoiced sales		Earnings	
	1999	1998	1999	1998
Industrial Components and Systems	878	973	19.7	50.0
Niche manufacturing	1 090	1 076	51.4	97.8
Norfoods	406	275	- 2.3	2.2
Other companies	39	51	13.2	11.4
Capital gains outcome sale group companies	-	-	19.4	- 0.6
Capital gains outcome other	-	-	-	15.6
Group adjustments and Parent company	- 11	- 9	- 11.4	- 18.9
Group	2 402	2 366	90.0	157.5

Industrial Components and Systems

During the first half of the year, invoiced sales in the Industrial Components and Systems Division amounted to MSEK 878 (973), a fall of 10 per cent. The inflow of orders fell by 13 per cent and was MSEK 908 (1 043). Earnings after financial items fell to MSEK 19.7 (50.0). In a comparable structure, the inflow of orders fell by 10 per cent and invoicing by 7 per cent.

AKA Industriprodukter's invoiced sales fell by 21 per cent to MSEK 354 (450). The greater part of this decline in invoiced sales relates to the disposal of the refrigeration operations but also to lower volumes. In a comparable structure, invoiced sales fell by 7 per cent. Earnings have declined and amounted to MSEK 4.8 (19.8). Lower margins in AKA's largest company Tecalemit and the sale of the refrigeration operations have negatively affected earnings. A considerable proportion of the decline in earnings because of the sale of the refrigeration operations has benefited Hexagon in the form of interest and a reduction in goodwill depreciations. A programme of action in Tecalemit, together with reductions in AKA's cardinal costs have been initiated and are expected to cut costs by approximately MSEK 10 during the year 2000.

Dacke Hydraulik's invoiced sales fell somewhat to MSEK 265 (267). In a comparable structure, invoiced sales fell by 8 per cent and the lower volumes have negatively affected earnings to a considerable degree. Earnings amounted to MSEK 12.1 compared with MSEK 24.1 for the same period of the previous year. Over the last four months, Dacke's inflow of orders has improved, which has only slightly affected invoiced sales and earnings during the period.

Invoiced sales in Gustaf Fagerberg rose slightly to MSEK 260 (255). The increase derives from acquisitions carried out during the last year. In a comparable structure, invoiced sales fell by 4 per cent. The inflow of orders has been very sluggish during the first half of the year, and fell by 19 per cent compared with the first half of 1998. Earnings amounted to MSEK 7.8 (12.5) because of the lower volumes in a comparable structure. An extensive programme of action has been implemented in several areas and further cost cuts are to be put into effect during the autumn.

Niche Manufacturing

Invoiced sales within the Niche Manufacturing Division rose slightly to MSEK 1 090 (1 076) and the inflow of orders rose by 2 per cent. In May 1998, Nordic Brass AB was acquired and SwePart Plast AB was disposed of, with the result that the figures are not strictly comparable. In a comparable structure, the invoiced sales fell by 6 per cent and the inflow of orders fell by 10 per cent. Earnings after financial items fell to MSEK 51.4 (97.8).

Gislaved Gummi's invoiced sales remained largely unchanged compared with the first half of 1998. EEC in Sri Lanka is included in the invoicing statistics for 1999 but was not included in the first half of 1998. In a comparable structure, invoiced sales fell by 8 per cent and the lower volumes have negatively affected earnings to a considerable extent. The earnings outcome, which has also been affected by depressed prices and consequential lower gross margins, amounted to MSEK 19.8 (27.3). The inflow of orders in a comparable structure fell by 2 per cent, but the company has enjoyed a favourable inflow of orders in recent months.

Moteco increased its inflow of orders by 1 per cent compared with the same period in 1998. Invoiced sales rose by 22 per cent. The earnings outcome deteriorated as a result of lower volumes than planned, an unfavourable product mix, depressed prices and delays in automation investments which, among other things, involved higher staff costs than envisaged. As of the last of June, the total workforce has been reduced however by 21 per cent compared with the position at the beginning of 1999. Earnings after financial items amounted to MSEK 1.0 (16.3). Trends during the rest of the year are largely dependent upon the main customers' sales volumes of newly launched telephones. A new CEO has been employed effective as of August 1999. Operations in China which came on stream in September 1998 are developing well and display a favourable earnings outcome.

Johnson Stål & Metall is the individual operational unit which has been hardest hit by the weak economic climate. The inflow of orders has fallen steeply over a year's time, and despite a slight upturn in June, it is still too early to note a turnaround in the economic climate for the company. In a comparable structure, the inflow of orders fell by 22 per cent and invoiced sales by 16 per cent. The acquisition of Nordic Brass in the spring of 1998 however entailed that invoiced sales rose to MSEK 473 (439). Earnings declined by 67 per cent compared with the same period in the previous year and amounted to MSEK 15.7 (48.0). The decline in earnings may be explained by the weak economic climate and consequential lower volumes. The sluggish demand has also negatively affected gross margins as a result of lower prices to customers. Johnson Metall, which provides the Nordic industry with bronze products, has principally been hit by sluggish demand in Sweden. Johnson Metal Bearing Components, which supplies cage rings of brass for the ball bearing industry, has cut back the workforce by 20 staff members in the United States, and issued redundancy notices to a further 20 staff members in Norway. The cost effect of these cutbacks is expected to be felt during the autumn of 1999. Nordic Brass has reduced its turnover by 27 per cent. The demand for the company's products has been sluggish and lower metal prices have negatively affected turnover and earnings.

SwePart's invoiced sales fell to MSEK 289 (336), which is largely because of the sale of SwePart Plast in 1998. In a comparable structure, invoiced sales rose by 5 per cent and the inflow of orders by 2 per cent. The inflow of orders has improved considerably during the second quarter. Earnings after financial items rose to MSEK 20.3 (13.7) which may principally be explained by the earnings improvement in the subsidiary EBP. EBP manufactures and delivers original parts for the automotive industry. The Tools Group also reports an improved earnings outcome compared with the same period in the preceding year.

Norfoods

Norfoods' invoiced sales rose to MSEK 406 (275). The increase is wholly attributable to the acquisition of Bech & Kjeldahl in Denmark. In a comparable structure, invoiced sales remained largely unchanged, while the inflow of orders rose by 7 per cent during the first half of the year. Earnings deteriorated to MSEK -2.3 (2.2). The decline in earnings is explained largely by Bech & Kjeldahl's operations in Poland during the first quarter of 1999. These operations in Poland now report a zero outcome and are in the process of being phased-out.

Other Companies

The affiliated company VBG AB contributes to Hexagon's earnings in accordance with the capital share method by MSEK 14.9 (10.1). Robust Ståldörrar, disposed of in May, reported an earnings outcome of MSEK -0.9 (0.6) during the first five months of the year.

Per share data

Earnings per share after 28% standard tax amounted to SEK 4.33 (7.63). Earnings per share after full tax amounted to SEK 4.38 (7.30). Cash flow per share was SEK 5.84 (10.82).

Visible shareholders' equity per share stood at SEK 91 (85) at 30 June 1999, and the market price stood at SEK 155 (244). The number of shares at the end of the period was 14 793 182, which is the same figure as compared with the previous year.

Parent Company

The Parent Company's earnings after financial items stood at MSEK 105.3 (39.9). Hexagon's programme with synthetic options (warrants) has favourably influenced earnings by MSEK 1.4 (-4.3) which in turn is linked to the price trend of the Hexagon share. The equity ratio in the Parent Company was 61% (53). Visible shareholders' equity including capital proportion of untaxed reserves amounted to MSEK 1 225 (962). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 172 (160). The corresponding figure at 31 December 1998 was MSEK 220. During the period, the Parent Company has acquired shares in affiliates for MSEK 3 (-)

Reports published for 1999

3rd quarter 1999	1 November 1999
Report on Operations 1999	14 February 2000

Forecast for the Whole of 1999

Against the background of an expected improvement in operating earnings during the second half-year, it is assessed that the earnings for the whole of 1999 will be about MSEK 170.

Landskrona, Sweden, 6 August 1999

HEXAGON (publ)

Börje Andersson
President and CEO

Consolidated income statement in brief

(MSEK)	1999 Jan-Jun	1998 Jan-Jun	Outcome last 12 month period	1998 Whole year	1997 Whole year
Net invoiced sales	2 401.9	2 365.7	4 982.6	4 946.4	4 218.0
Gross earnings	486.6	540.0	1 063.2	1 116.6	999.4
Selling expenses	- 225.6	- 217.8	- 467.3	- 459.5	- 400.8
Administration expenses	- 164.8	- 156.7	- 317.8	- 309.7	- 279.9
Research and development expenses	- 22.4	- 17.6	- 41.0	- 36.2	- 19.8
Other operating incomes and earnings	1.9	1.3	1.9	1.3	- 0.6
Share of earnings in affiliated companies	15.0	10.4	25.0	20.4	27.1
Capital gains earnings, sale Group company	19.4	- 0.6	19.6	- 0.4	13.5
Operating earnings	110.1	159.0	283.6	332.5	338.9
Financial incomes and expenses	- 20.1	- 1.5	- 38.5	- 19.9	- 34.8
Capital gains in connection with the OTC listing of Svedbergs	-	-	-	-	83.8
Earnings after financial items	90.0	157.5	245.1	312.6	387.9
Tax	- 24.2	- 48.8	- 81.6	- 106.2	- 105.0
Minority interest	- 1.1	- 0.7	- 2.3	- 1.9	- 0.5
Net income	64.7	108.0	161.2	204.5	282.4
<i>This earnings include depreciations of</i>	<i>- 96.0</i>	<i>- 87.6</i>	<i>- 189.0</i>	<i>- 180.6</i>	<i>- 162.0</i>

Key ratios

	1999 Jan-Jun	1998 Jan-Jun	1998 Whole year	1997* Whole year	
Earnings per share after standard tax (SEK)	4.33	7.63	15.12	14.80	(18.85)
Earnings per share after full tax (SEK)	4.38	7.30	13.83	13.80	(19.09)
Cash flow per share (SEK)	5.84	10.82	24.60	22.78	
Return on shareholders' equity after standard tax (%)	10	18	17	20	(25)
Return on capital employed (%)	11	18	17	18	(23)
Equity ratio (%)	45	42	42	43	
Visible shareholders' equity per share (SEK)	91	85	92	82	
Market price (SEK)	155	244	167	218	
Average number of share (thousands)	14 793	14 793	14 793	14 793	

* The figures in brackets are calculated including capital gains Svedbergs

Consolidated balance sheet in brief

(MSEK)	1999.06.30	1998.06.30	1998.12.31
Goodwill	347.8	356.9	383.9
Other fixed assets	1 083.4	955.8	1 084.3
Total fixed assets	1 431.2	1 312.7	1 468.2
Other current assets	1 442.6	1 534.4	1 616.3
Cash and bank balances	135.8	181.7	209.9
Total current assets	1 578.4	1 716.1	1 826.2
TOTAL ASSETS	3 009.6	3 028.8	3 294.4
Shareholders' equity	1 279.5	1 145.3	1 153.1
Net income	64.7	108.0	204.5
Total shareholders' equity	1 344.2	1 253.3	1 357.6
Minority interest	9.2	13.9	9.3
Interest-bearing liabilities	784.7	811.3	957.9
Noninterest-bearing liabilities	871.5	950.3	969.6
Total liabilities	1 656.2	1 761.6	1 927.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3 009.6	3 028.8	3 294.4

This interim report has not been subjected to special examination by the Company's auditors