



Interim Report January - September 1999

The first nine months of 1999

- Earnings after financial items amounted to MSEK 127 (238)
- Invoiced sales fell by 7 per cent in a comparable structure and amounted to MSEK 3 421
- Sweeping rationalisation measures implemented
- The previously submitted earnings forecast for the whole of 1999 of approximately MSEK 170 remains in place

For further information, please contact:

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

Subscription to Hexagon's financial information available at www.hexagon.se
Click on Reports or alternatively Press releases

Interim report 1/1-30/9 1999

The third quarter of 1999

Earnings after financial items amounted to MSEK 37 (81). The decline in earnings is largely attributable to lower invoicing volume. Demand continued to be sluggish for the companies in Industrial Components and Systems Division and in Niche Manufacturing, with the exception of SwePart which largely supplies to customers in the heavy duty vehicle industry where demand has been healthy. In total, the lower invoicing volumes have negatively affected earnings by MSEK 65. The difference in net effect of the synthetic options between the periods explains a further MSEK 11 of the decline in earnings. Cost cutting measures, including a reduction in the total workforce, which were implemented during the year are now gradually having positive effects. In total, other items including cost reduction items have favourably affected earnings by MSEK 32 during the third quarter.

Earnings, 3rd quarter 1998	MSEK +81
Decline in invoiced sales in comparable structure, affecting earnings	MSEK -65
Net effect of synthetic options	MSEK -11
Other items including cost reductions	<u>MSEK +32</u>
Earnings, 3rd quarter 1999	MSEK 37

Invoiced sales amounted to MSEK 1 019 (1 206) a decline of 16 per cent. In a comparable structure, invoiced sales fell by 12 per cent from MSEK 1 153 to MSEK 1 019.

The inflow of orders fell to MSEK 1 056 (1 247) a decline of 15 per cent. In a comparable group structure, the inflow of orders fell by 8 per cent during the third quarter of 1999 compared with the same quarter of the previous year.

Quarterly Figures	1998				1999		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Inflow of orders	1 210	1 210	1 247	1 243	1 222	1 237	1 056
Invoiced sales	1 124	1 242	1 206	1 374	1 207	1 195	1 019
Earnings after financial items	63	95	81	74	58	32	37

Nine months 1999

Group earnings and invoiced sales

Earnings after financial items for the first nine months of 1999 amounted to MSEK 127.0 (238.0). The earnings for 1999 include capital gains of MSEK 19.4. The corresponding item for 1998 was somewhat lower and amounted to MSEK 15.0. The decline in earnings is largely attributable to lower invoicing caused by weak demand, but also to some degree by a pressure on margins and restructuring costs in certain companies.

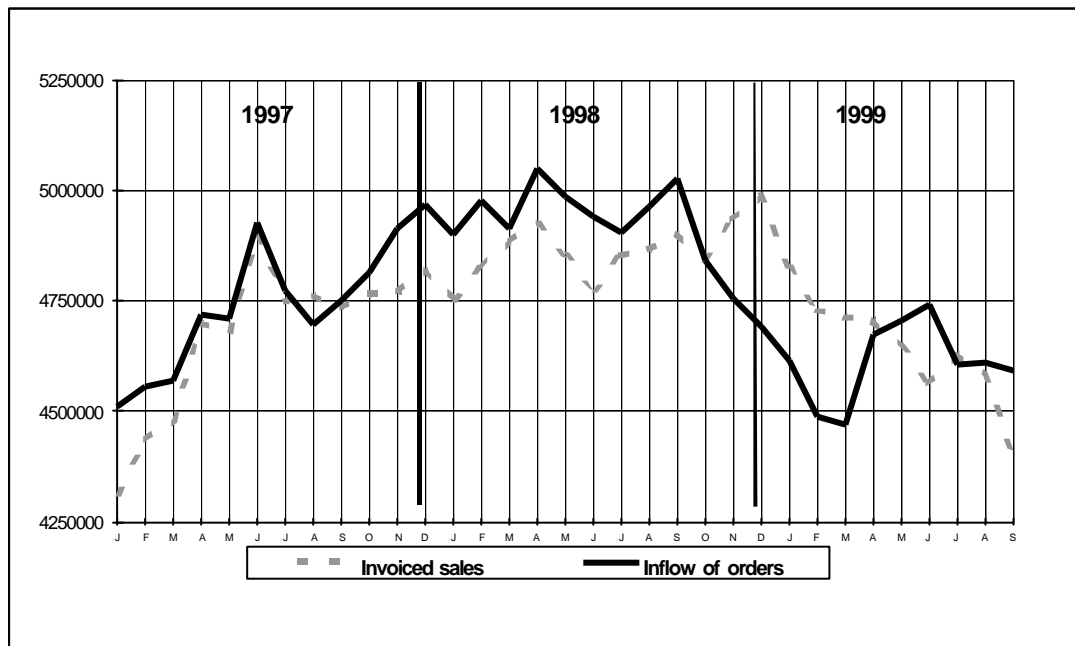
Invoiced sales in the Group amounted to MSEK 3 421 (3 572). The figures are not entirely comparable because of changes in corporate structure. In a comparable corporate structure, invoiced sales fell from MSEK 3 676 to MSEK 3 421, a decline of 7 per cent. Cash flow from current operations rose to MSEK 113 (61).

Inflow of orders

Inflow of orders fell by 4 per cent and amounted to MSEK 3 515 (3 667). In a comparable corporate structure the inflow of orders fell by 7 per cent.

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 economy made an impact and the inflow of orders turned down steeply. Invoiced sales turned downwards four months later, in January 1999. The decline in the inflow of orders continued during the first quarter of 1999. During the second and third quarters, the inflow of order rate improved somewhat, as is apparent from the diagram below. The improvement in the inflow of orders has not yet favourably affected invoiced sales.

The order inflow rate on a whole year basis was MSEK 4 600 in September 1999, compared with MSEK 5 020 a year earlier, a decline of 8 per cent. From the beginning of the year, the order inflow rate has fallen by 2 per cent. All values are on a whole year basis and relate to a comparable structure.



Total workforce

The failing inflow of orders during the end of 1998 occasioned a sweeping rationalisation programme, among other things involving a reduction in the total workforce. In a comparable structure, the total workforce has shrunk by 336 (-9 per cent) as of 30 September 1999, compared with 31 December 1998, and by 368 (-9 per cent) compared with 30 September 1998. All companies have reduced their workforce, but the greater part of the reduction took place in Gislaved Gummi in Sri Lanka and in Moteco in Sweden. The workforce reductions have begun to have a cost-cutting effect. The full effect of these reductions will not be felt until the beginning of the year 2000.

Further cutbacks in the workforce have been decided on, encompassing roughly 25 members of the staff. In total, this entails that the workforce in a comparable structure will have been reduced by approximately 360 employees 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 nine months, six minor supplementary acquisitions were carried out by Hexagon's subsidiaries and two 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.

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. 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 were conducted. This disinvestment entailed a minor capital loss. Turnover in Robust amounted to MSEK 97 in 1998 and pre-tax earnings amounted to MSEK 0.2

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

In the same month, Nybro Stålprodukter, a subsidiary of Johnson Industries AB, acquired C-B Agenturer AB in Karlskoga. Turnover amounts to approx. MSEK 25.

In August, IP-Industriprodukter, within the AKA Group, acquired two minor trading companies in Finland, Filtercon and O-Teckno, with a total turnover of MSEK 15.

Profitability

Return on average shareholders' equity was 9 per cent (18) after earnings were charged with a 28 per cent standard tax. The return on average capital employed amounted to 10 per cent (17).

Financial position of the Group

At 30 September 1999, the equity ratio stood at 46% (41). The visible shareholders' equity amounted to MSEK 1 365 (1 318). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 447 (1 394).

Liquid assets, including unutilised overdraft facilities, amounted to MSEK 320 (365). The corresponding figure at 31 December 1998 was MSEK 452. Pledged credit is available in the form of syndicated loans of approx. MSEK 789 (611). Net debt in the Group was MSEK 631 (838) and net indebtedness (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.46 times (0.64). Interest cover rate was 4.2 times (7.0).

The Group's investments in fixed assets amounted to MSEK 130 (144). In addition, operations were acquired at a value of MSEK 41 (205) as well as the acquisition of shares in affiliates at an amount of MSEK 6 (4). Depreciations amounted to MSEK 142 (134) during the first nine months of 1999. After

the end of the report period, certain changes to the structure of the Group were implemented which may substantially reduce the Group's future tax cost. According to information received, the Swedish Staff Pension Society has allocated MSEK 90 of its surplus funds to the companies of the Hexagon Group.

Cash flow

Cash flow before changes in operating capital and investments amounted to MSEK 149 (264).

January - September (MSEK)	1999	1998
Cash flow from current operations	113	61
Cash flow from investment operations	- 43	- 240
Cash flow from financial operations	- 87	163
Dividend to shareholders	- 74	- 74
Change in liquid assets	- 91	- 90
Liquid assets at beginning of period	210	226
Liquid assets at end of period	119	136

Invoiced sales and earnings after financial items by business area

January - September (MSEK)	Invoiced sales		Earnings	
	1999	1998	1999	1998
Industrial Components and Systems	1 257	1 456	35.7	79.5
Niche Manufacturing	1 533	1 584	68.9	135.6
Norfoods	608	474	- 0.8	3.7
Other companies	39	72	17.8	16.9
Capital gains, sales Group companies	-	-	19.4	- 0.6
Capital gains, other	-	-	-	15.6
Group adjustments and Parent company	- 16	- 14	- 14.0	- 12.7
Group	3 421	3 572	127.0	238.0

Industrial Components and Systems

During the first nine months of 1999, invoiced sales in the Industrial Components and Systems Division amounted to MSEK 1 257 (1 456) a fall of 14 per cent. The inflow of orders fell by 14 per cent, principally as a consequence of the disposal of companies, and amounted to MSEK 1 274 (1 482). Earnings after financial items fell to MSEK 35.7 (79.5). In a comparable structure, the inflow of orders and invoiced sales fell by 7 per cent.

AKA Industriprodukter's invoiced sales fell by 27 per cent to MSEK 490 (669). The decline in invoiced sales is largely the result of the disposal of the refrigeration operations, but also the result of smaller volumes. In a comparable structure, invoiced sales have fallen by 5 per cent. Pre-tax earnings have been halved compared with the same period for the previous year. An action programme in Tecalemit and reductions in AKA's central costs have been initiated and are expected to cut costs by more than MSEK 13 during the year 2000.

Dacke Hydraulik's invoiced sales remained unchanged in absolute terms. In a comparable structure, invoiced sales fell by 7 per cent and the smaller volumes have had a negative effect on earnings to a substantial degree. During recent months, Dacke's inflow of orders has improved, which has hitherto had only a limited effect on invoiced sales and earnings.

Invoiced sales in Gustaf Fagerberg fell to MSEK 382 (402). In a comparable structure, invoiced sales fell by 10 per cent and the inflow of orders, which has been very sluggish during the first nine months of 1999, fell by 13 per cent compared with the same period in 1998. Earnings were halved, principally because of smaller volumes in a comparable structure. A sweeping action programme has been completed by several of the companies, which has resulted in cost savings which are now beginning to bear fruit.

Niche Manufacturing

Invoiced sales in the Niche Manufacturing Division fell somewhat to MSEK 1 533 (1 584) and the inflow of orders fell by 4 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 entirely comparable. In a comparable structure, invoiced sales fell by 9 per cent and the inflow of orders by 10 per cent. Earnings after financial items fell to MSEK 68.9 (135.6).

Gislaved Gummi's invoiced sales remained largely unchanged compared with the first nine months of 1998. EEC in Sri Lanka is included in the invoiced sales figures 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 smaller volumes have negatively affected earnings. Earnings have progressively improved during the year and the third quarter performed better than the third quarter of 1998. The inflow of orders in a comparable structure fell by 4 per cent.

Moteco saw a decline in the inflow of orders by 15 per cent compared with the same period in 1998. Invoiced sales fell by 4 per cent. Earnings declines as a result of smaller volumes than planned, an unfavourable product mix, pressure on prices and problems in automation investments which have, among other things, involved higher human resources costs than planned. As of the last day of September, the total workforce has, however, been reduced by 31 per cent compared with the position at the beginning of 1999. A new CEO was appointed during the third quarter. Operations in China, which came on stream in September 1998, are developing well and are displaying a positive result. During the third quarter, key order volumes were taken with the company's main customer and two delivery contracts with considerable potential have been signed with new customers in China for the year 2000.

Johnson Industries (formerly Johnson Stål & Metall) is the single area of operations which has been hardest hit by the economic downturn. After having fallen steeply for a year, the inflow of orders improved somewhat in the last quarter. In a comparable structure, the inflow of orders fell by 18 per cent and invoiced sales by 16 per cent. However, the acquisition of Nordic Brass in the spring of 1998 entailed that invoiced sales in reported figures remained unchanged. Earnings declined steeply compared with the same period last year. The decline in earnings may be explained by the sluggish economic climate and consequential small volumes. Pressure on prices from OEM customers has negatively affected gross margins. Cost-adaptation moves have been carried out in several companies.

SwePart's invoiced fell to MSEK 405 (456) which is because of the sale of SwePart Plast in 1998. In a comparable structure, invoiced sales rose by 3 per cent and the inflow of orders by 5 per cent.

The inflow of orders has continued to improve during the third quarter. Pre-tax earnings have improved. SwePart Verktyg has recently been awarded several major orders to the white goods and automotive industries in Germany, Sweden and the UK, and as a result has made a breakthrough on several key export markets.

Norfoods

Norfoods' invoiced sales rose to MSEK 608 (474). This increase derives entirely from the acquisition of Bech & Kjeldahl in Denmark. In a comparable structure, invoiced sales remained largely unchanged, while the inflow of orders rose by 2 per cent during the first nine months of 1999. Earnings declined, which is largely explained by negative earnings outcome in Bech & Kjeldahl's operations in Poland. The Polish operations are now showing a zero earnings outcome and are in the process of being phased out.

Other Companies

The affiliate company VBG AB contributes to Hexagons' earnings in accordance with the capital share method of MSEK 19.4 (15.9).

Per share data

Earnings per share after 28 per cent standard tax amounted to SEK 6.12 (11.53). Earnings per share after full tax amounted to SEK 6.21 (11.02). Cash flow per share was SEK 10.08 (17.84).

Visible shareholders' equity per share stood at SEK 92 (89) at 30 September 1999, and the market price stood at SEK 135 (180). The number of shares at the end of the period was 14 793 182, representing no change compared with the number of the previous year.

Parent Company

The Parent Company's earnings after financial items stood at MSEK 43.9 (40.2). Hexagon's programme with synthetic options has positively affected earnings by MSEK 2.8 (7.9), which in turn is linked to the market trends of the Hexagon share. The equity ratio in the Parent Company at was 59 per cent (50). Visible shareholders' equity including capital proportion of untaxed reserves amounted to MSEK 1 167 (967). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 155 (161). The corresponding figure at 31 December 1998 was MSEK 220. During the period, the Parent Company has acquired shares in affiliates for a total of MSEK 6 (4).

Reports during the year

Report on Operations 1999	14 February 2000
1st quarter 2000, AGM	4 May 2000
2nd quarter 2000	1 August 2000
3rd quarter 2000	1 November 2000

Forecast for the whole of 1999

The previously submitted earnings forecast for the whole of 1999 of approximately MSEK 170 remains in place.

Landskrona, Sweden, 1 November 1999

HEXAGON AB (publ)

Börje Andersson
President and CEO

Consolidated income statement in brief

(MSEK)	1999 Jan-Sep	1998 Jan-Sep	Outcome last 12 month period	1998 Whole year	1997 Whole year
Net invoiced sales	3 420.7	3 572.4	4 794.7	4 946.4	4 218.0
Gross earnings	694.8	807.4	1 004.0	1 116.6	999.4
Selling expenses	- 324.2	- 329.2	- 454.5	- 459.5	- 400.8
Administration expenses	- 233.6	- 219.0	- 324.3	- 309.7	- 279.9
Research and development expenses	- 31.9	- 26.0	- 42.1	- 36.2	- 19.8
Other operating incomes and earnings	7.7	1.4	7.6	1.3	- 0.6
Share of earnings in affiliated companies	19.5	16.4	23.5	20.4	27.1
Capital gains earnings, sale Group company	19.4	- 0.6	19.6	- 0.4	13.5
Operating earnings	151.7	205.4	233.8	332.5	338.9
Financial incomes and expenses	- 24.7	- 12.4	- 32.2	- 19.9	- 34.8
Capital gains in connection with the OTC listing of Svedbergs	-	-	-	-	83.8
Earnings after financial items	127.0	238.0	201.6	312.6	387.9
Tax	- 33.8	- 73.7	- 66.3	- 106.2	- 105.0
Minority interest	- 1.3	- 1.2	- 2.0	- 1.9	- 0.5
Net income	91.9	163.1	133.3	204.5	282.4
<i>This earnings include depreciations of</i>	<i>- 142.2</i>	<i>- 134.0</i>	<i>- 188.8</i>	<i>- 180.6</i>	<i>- 162.0</i>

Key ratios

	1999 Jan-Sep	1998 Jan-Sep	1998 Whole year	1997* Whole year
Earnings per share after standard tax (SEK)	6.12	11.53	15.12	14.80 (18.85)
Earnings per share after full tax (SEK)	6.21	11.02	13.83	13.80 (19.09)
Cash flow per share (SEK)	10.08	17.84	24.60	22.78
Return on shareholders' equity after standard tax (%)	9	18	17	20 (25)
Return on capital employed (%)	10	17	17	18 (23)
Equity ratio (%)	46	41	42	43
Visible shareholders' equity per share (SEK)	92	89	92	82
Market price (SEK)	135	180	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)	1999.09.30	1998.09.30	1998.12.31
Goodwill	339.5	392.9	383.9
Other fixed assets	1 080.9	1 029.2	1 084.3
Total fixed assets	1 420.4	1 422.1	1 468.2
Other current assets	1 419.3	1 679.6	1 616.3
Cash and bank balances	118.6	135.4	209.9
Total current assets	1 537.9	1 815.0	1 826.2
TOTAL ASSETS	2 958.3	3 237.1	3 294.4
Shareholders' equity	1 272.9	1 154.5	1 153.1
Net income	91.9	163.1	204.5
Total shareholders' equity	1 364.8	1 317.6	1 357.6
Minority interest	9.5	14.3	9.3
Interest-bearing liabilities	750.0	973.2	957.9
Noninterest-bearing liabilities	834.0	932.0	969.6
Total liabilities	1 584.0	1 905.2	1 927.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2 958.3	3 237.1	3 294.4

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