



# REPORT ON OPERATIONS

## 1999

### Whole year 1999

- Pre-tax earnings amounted to MSEK 179 (313)
- Invoiced sales fell to MSEK 4 667 (4 946)
- Extensive cost and workforce reductions have been implemented
- The Board of Directors proposes a dividend of SEK 5 per share (5)

### Fourth Quarter of 1999

- Pre-tax earnings amounted to MSEK 52 (74)
- Improved inflow of orders

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### The Fourth Quarter of 1999

The inflow of orders rose to MSEK 1 251 (1 243). Invoiced sales fell by 9 per cent compared with the same period for last year and amounted to MSEK 1 246 (1 374). The decline in invoiced sales is attributable in half to disinvestments of companies and in half to lower volumes. In a comparable group structure, the inflow of orders rose by 6 per cent and invoiced sales fell by 5 per cent during the fourth quarter of 1999 compared with the same quarter of the previous year. Earnings after financial items fell to MSEK 52 (74).

Demand has varied greatly for the different companies of the Hexagon Group. SwePart, Dacke and Norfoods show a higher inflow of orders than during the fourth quarter of 1998. Johnson Industries and Gislaved report unchanged inflow of orders, while AKA, Gustaf Fagerberg and Moteco report a lower level of inflow of orders during the period.

In total, lower invoiced sales in a comparable structure have negatively affected earnings by MSEK 37. Cost reductions, including a reduction in the total workforce, which were implemented during the year are giving positive earnings effects. In total, other items, including cost cuts, have favourably affected earnings by MSEK 18 during the fourth quarter.

Earnings, 4th quarter 1998	MSEK	+74
Decline in invoiced sales in comparable structure, affecting earnings	MSEK	-37
Net effect of synthetic options	MSEK	-3
Other items e.g. structural changes and cost reductions	MSEK	+18
Earnings, 4th quarter 1999	MSEK	52

Quarterly Figures	1998				1999			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Inflow of orders	1 210	1 210	1 247	1 243	1 222	1 237	1 056	1 251
Invoiced sales	1 124	1 242	1 206	1 374	1 207	1 195	1 019	1 246
Earnings after financial items	63	95	81	74	58	32	37	52

### Group earnings and invoiced sales

The Group's earnings after financial items in 1999 amounted to MSEK 179.0 (312.6) a decline of 43 per cent compared with the previous year. The decline in earnings is, to a substantial degree, attributable to lower invoiced sales caused by sluggish demand, but also to some extent by pressure on margins and restructuring costs.

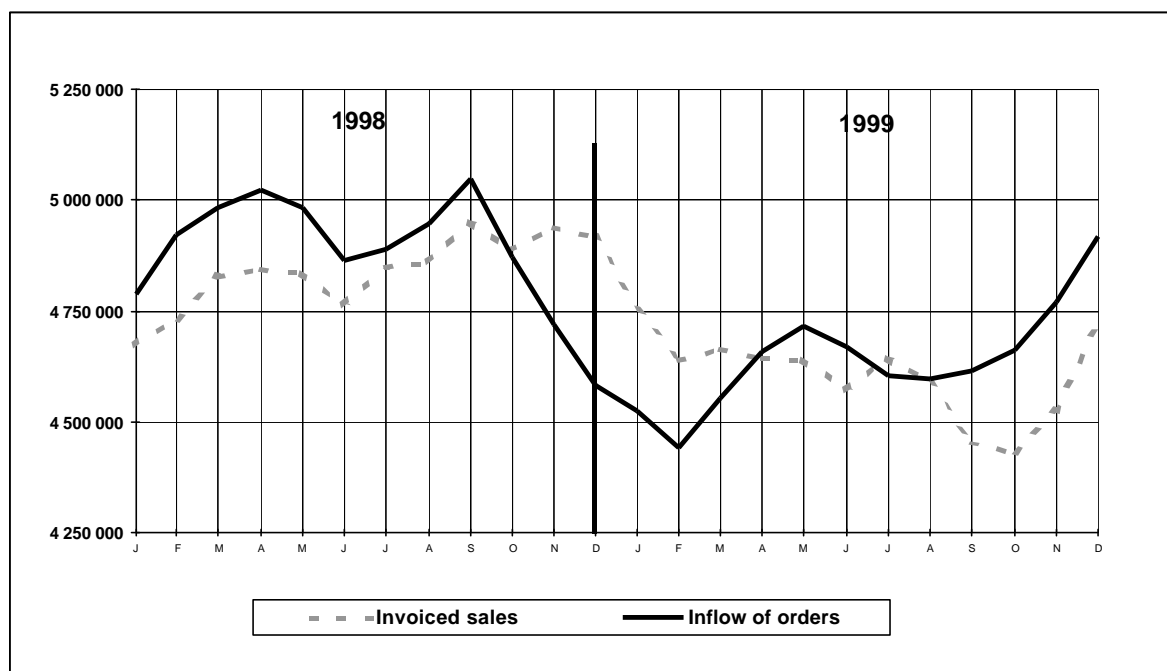
Invoiced sales in the Group amounted to MSEK 4 667 (4 946), a decline of 6 per cent. In a comparable corporate structure, invoiced sales declined by 6 per cent from MSEK 4 985 to MSEK 4 667. The operative cash flow rose to MSEK 168 (17).

### Inflow of orders

The inflow of orders fell by 3 per cent and amounted to MSEK 4 766 (4 910). In a comparable corporate structure, the inflow of orders fell by 4 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 deceleration of the industrial economic climate made itself felt and the inflow of orders turned steeply downwards. Invoiced sales turned down four months later in January 1999. The deterioration in the inflow of orders continued during the first quarter of 1999. During the second and third quarters, the inflow of order rate has improved somewhat, and rose considerably during the fourth quarter of 1999, which is apparent from the diagram below. The improvement in inflow of orders has now begun to affect invoiced sales positively, but is expected not to have a full impact until the end of the first quarter of 2000.

The order inflow rate on a whole year basis was MSEK 5 000 in December 1999 compared with MSEK 4 650 a year before, an increase by 8 per cent. All values are on a whole year basis and relate to a comparable corporate structure.



### Total workforce

The fall-off in the inflow of orders during the end of 1998 triggered an extensive rationalisation programme which, among other things, entailed a reduction in the total workforce. In a comparable structure, the reduction was largest in September 1999 when the total workforce fell in number by 336 (-9 per cent) compared with 31 December 1998 and by 368 (-9 per cent) compared with 30 September 1998. During the fourth quarter, the total workforce has increased somewhat in number as a result of an improved inflow of orders, and that the workforce in Moteco's factory in China has been doubled in strength. At the turn of the year, the total workforce was 226 fewer (6 per cent) than a year before. All companies have decruited, but the greater part of the reduction took place in Gislaved Gummi in Sri Lanka and in Moteco, Sweden. The reductions in the workforce have begun to have a cost-cutting effect. The full effect of the workforce adjustments will not be felt until the beginning of 2000.

### Acquisitions and disinvestments

During 1999, six minor supplementary acquisitions were carried out by Hexagon's subsidiaries and three 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 were disposed of. Turnover during 1998 amounted to MSEK 314. 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 24.4. The purchase price and repayment of loans released a total of MSEK 152.

In May, Hexagon sold Robust Ståldörrar RSD AB, as well as the property where the operations are 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, within 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.

In December, Bech & Kjeldahl's Polish operations were disposed of.

### Profitability

Return on average shareholders' equity was 9 per cent (16) after earnings were charged with full tax. The return on average capital employed amounted to 10 per cent (17).

### Financial position of the Group

At 31 December 1999, the equity ratio stood at 47% (42). The visible shareholders' equity amounted to MSEK 1 399 (1 358). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 479 (1 450).

Liquid assets, including unutilised overdraft facilities, amounted to MSEK 322 (452). Pledged credit is available in the form of syndicated loans of approx. MSEK 841 (663). Net debt in the Group was MSEK 670 (748) and net debt-equity ratio (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.48 times (0.55). Interest cover ratio was 4.5 times (6.6). The Group's investments in fixed assets amounted to MSEK 218 (210) and sales of fixed assets have been made at MSEK 43 (10). In addition, shares in subsidiaries were acquired at a value of MSEK 31 (247), as well as shares in affiliates at an amount of MSEK 7 (9). Depreciations amounted to MSEK 190 (181). At 31 December 1999, the Group had unutilised deficit deductions of approx. MSEK 983.

According to a notification received from SPP (The Swedish Staff Pensions Society), the society has allocated MSEK 90 of its surplus funds to the companies of the Hexagon Group. This allocation has not affected the year's earnings results.

### Cash flow

Cash flow from current operations before changes in operating capital amounted to MSEK 241 (364), which corresponds to SEK 16.29 per share (24.60). The decline is principally explained by the deterioration in earnings outcome. The operative cash flow improved to MSEK 168 (17), essentially by a reduction in operating capital.

(MSEK)	1999	1998
Cash flow from current operations prior to changes in operating capital	241	364
Changes in operating capital	102	- 147
Cash flow from current operations	343	217
Net investments in regular operations	- 175	- 200
<b>Operative cash flow</b>	<b>168</b>	<b>17</b>
Cash flow from other investment operations	- 76	- 143
Cash flow from financial operations	- 121	184
Dividend to shareholders	- 74	- 74
Change in liquid assets	- 103	- 16

### Invoiced sales and earnings after financial items by business area

(MSEK)	Invoiced sales		Earnings	
	1999	1998	1999	1998
Industrial Components and Systems	1 722	1 986	53.5	100.7
Niche Manufacturing	2 094	2 183	102.2	186.9
Norfoods	837	698	4.0	6.5
Other companies	38	97	24.0	20.4

Capital gains	-	-	16.8	17.6
Group adjustments and Parent company	- 24	- 18	- 21.5	- 19.5
<b>Group</b>	<b>4 667</b>	<b>4 946</b>	<b>179.0</b>	<b>312.6</b>

### Industrial Components and Systems

Invoiced sales in the Industrial Components and Systems Division amounted during 1999 to MSEK 1 722 (1 986), a fall of 13 per cent. Inflow of orders fell by the same percentage. A considerably part of this reduction is explained by the fact that AKA Kyla (refrigeration) was disposed of early in the year and has consequently not been included in the figures for the greater part of 1999. In a comparable structure, both the inflow of orders and invoiced sales fell by 7 per cent. Earnings after financial items fell, principally as a result of lower volumes, to MSEK 53.5 (100.7).

The inflow of orders during the fourth quarter of 1999 continued to be sluggish and fell in a comparable structure by 5 per cent compared with the previous year. Invoiced sales also fell by 5 per cent. Earnings improved by 8 per cent, principally as a result of the extensive cost cuts which were implemented in AKA and Gustaf Fagerberg now having a favourable effect on earnings.

AKA Industriprodukter's invoiced sales fell in 1999 to MSEK 662 (901). As good as the whole of this decline is attributable to the sale of the refrigeration operations early in the year. However, the market has been sluggish throughout the year and both inflow of orders and invoiced sales were a good 4 per cent lower in a comparable structure compared with 1998. Earnings have declined and amounted to MSEK 15.5 (34.4), the figures for the previous year including the refrigeration operations. In a comparable structure, earnings fell from MSEK 19.6 to MSEK 15.5.

Dacke Hydraulik's invoiced sales amounted to MSEK 533 (531). Dacke has also felt the effect of lower demand during the year, and invoiced sales in a comparable structure fell by 6 per cent compared with 1998. During January 1999, Östermo Mekaniska was acquired and the contribution from this company explains the fact that invoiced sales were on a par with the figures for the previous year. Earnings after financial items fell as a result of lower volumes and a deterioration in margins to MSEK 26.2 (47.2). During the fourth quarter of 1999, the inflow of orders has improved markedly in a comparable structure and exceeds the figure for the preceding year by 11 per cent.

Invoiced sales in Gustaf Fagerberg fell by 5 per cent to MSEK 527 (554), a decline which, however, is even greater (10 per cent) in a comparable structure. The last year of the old Millennium was one which was characterised by weak demand and few major investment projects, and this has negatively affected Fagerberg's inflow of orders. In a comparable structure, the inflow of orders fell by 14 per cent. Earnings fell to MSEK 20.4 (32.0).

### Niche Manufacturing

Invoiced sales in the Niche Manufacturing Division fell in 1999 by 4 per cent to MSEK 2 094 (2 183). The inflow of orders remained largely unchanged. In a comparable structure, invoiced sales fell by 8 per cent and the inflow of orders by 5 per cent. Earnings after financial items fell to MSEK 102.2 (186.9). This decline is explained partly by lower volumes but also by tighter margins and higher costs.

During the fourth quarter of 1999, the inflow of orders rose in a comparable structure by 9 per cent, an increase which is wholly explained by a very strong increase in one of the companies, SwePart. Invoiced sales fell by 7 per cent compared with the fourth quarter of 1998.

For Gislaved Gummi, 1999 was a year when not only the inflow of orders but also invoiced sales and earnings rose somewhat. This was despite weak demand during the year, which implies that inflow of orders fell by 3 per cent in a comparable structure and invoiced sales by 4 per cent. The increase in earnings is explained principally by the acquisition of EEC which was carried out in mid-1998. Invoiced sales amounted to MSEK 415 (403) and earnings after financial items amounted to MSEK 42.9 (41.0).

Moteco saw a decline in the inflow of orders by 20 per cent compared with 1998. Invoiced sales fell by 14 per cent and amounted to MSEK 216 (252). Earnings fell to MSEK 0.5 (40.0) as a result of lower volumes than planned, unfavourable product mix, pressure on prices and problems in automation investments which, among other things, have involved higher personnel costs than anticipated. However, at the last day of December, the total workforce has been cut by 21 per cent compared with the position at the beginning of 1999. In Sweden, the total workforce has been cut by 45 per cent, at the same time as the total workforce has greatly increased in China. A new CEO took up his post during the third quarter.

Operations in China, which today employ more than 100, are developing well and are displaying favourable results. During the year, key order of large volumes were taken at the company's major customer and two delivery agreements with considerable future potential were signed with new customers in China for the year 2000.

Johnson Industries (formerly Johnson Stål & Metall) is single operation which has been most hard hit by the weak economic climate. The inflow of orders progressively improved during the fourth quarter after having fallen for almost a year. In a comparable structure, the inflow of orders fell by 14 per cent and invoiced sales by 15 per cent. The acquisition of Nordic Brass in the spring of 1998 however entailed that invoiced sales, in reported figures, remained largely unchanged and amounted to MSEK 900 (919). Earnings deteriorated drastically compared with the same period of the previous year and amounted to MSEK 36.2 (74.0). The decline in earnings may be explained by the weak economic climate and consequential low volumes. Pressure on prices from OEM customers has negatively affected gross margins. Cost adaptations have been implemented in several companies.

SwePart's invoiced sales fell to MSEK 563 (609) which is attributable to the sale of SwePart Plast in 1998. In a comparable structure, invoiced sales rose by 3 per cent and the inflow of orders by 16 per cent. Earnings after financial items amounted to MSEK 33.4 (43.0). The decline in earnings may be explained by changes in the product mix, as well as production overheads which, to some degree, were taken in connection with expansion investments. The inflow of orders was very healthy during the fourth quarter and rose by 66 per cent during the quarter compared with the same period last year. SwePart Verktug has recently won several important orders to the white goods and automotive industries in Sweden, the United Kingdom and Germany and has as a result made a breakthrough on several key export markets.

#### **Norfoods**

Invoiced sales in Norfoods rose to MSEK 837 (698). This increase derives wholly from 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 1999. Earnings fell to MSEK 4.0 (6.5) which is explained by the negative earnings outcome in Bech & Kjeldahl's operations in Poland, which have now been disposed of. In addition, the earnings were charged with stock depreciations in Denmark.

#### **Other Companies**

The affiliated company VBG AB contributes to Hexagon's earnings in accordance with the capital share method at an amount of MSEK 25.6 (19.8).

#### **Per share data**

Earnings per share after full tax amounted to SEK 8.61 (13.83). Visible shareholders' equity per share stood at SEK 95 (92) at 31 December 1999, and the market trading price stood at SEK 134 (167). The number of shares at the end of the period was 14 793 182, representing no change compared with the number at 31 December 1998.

#### **Parent Company**

The Parent Company's earnings after financial items stood at MSEK 141.3 (318.8). Hexagon's programme with synthetic warrants (options) has had a favourable accounting effect on earnings by MSEK 3.0 (10.9) which in turn is linked to the market trading trend of the Hexagon share. The equity ratio in the Parent Company was 56 per cent (53). Visible shareholders' equity including capital proportion of untaxed reserves amounted to MSEK 1 226 (1 187). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 172 (220). During the period, the Parent Company has acquired shares for a total of MSEK 120 (75) of which MSEK 7 (9) relates to shares in affiliated companies.

#### **Dividend**

The Board of Directors will propose that the Annual General Meeting decide on a dividend of SEK 5.00 (5.00), which corresponds to MSEK 74.0 (74.0). The dividend constitutes 58 per cent (36) of the profit per share after full tax and 5.0 per cent (5.1) of the adjusted shareholders' equity of the Group.

#### **Reports published for 2000 and date of Annual General Meeting**

1st quarter 2000, AGM  
Half year 2000  
3rd quarter 2000

4 May 2000  
1 August 2000  
1 November 2000

### Annual Report and Annual General Meeting

The Annual Report is expected to be published and mailed to the shareholders during week 15 (9-15 April) and will be available as of 11 April 2000 at the company's Head Office.

The Annual General Meeting will be held on Thursday 4 May 2000 at Radisson SAS Hotel, Kungsporsavenyn 36-38, Gothenburg, at 5 PM.

Landskrona, Sweden, 14 February 2000

HEXAGON AB (publ)  
The Board of Directors

### Consolidated income statement in brief

(MSEK)	1999 Quarter 4	1998 Quarter 4	1999 Whole year	1998 Whole year
Net invoiced sales	1 246.5	1 374.0	4 667.2	4 946.4
<b>Gross earnings</b>	<b>259.2</b>	<b>309.2</b>	<b>954.0</b>	<b>1 116.6</b>
Selling expenses	- 118.1	- 132.6	- 456.4	- 468.5
Administration expenses	- 86.7	- 90.7	- 320.3	- 309.7
Research and development expenses	- 5.9	- 7.9	- 23.7	- 27.2
Other operating incomes and earnings	7.2	- 0.1	14.9	1.3
Share of earnings in affiliated companies	6.3	4.0	25.8	20.4
Capital gains earnings, sale Group company	- 4.5	0.2	14.9	- 0.4
<b>Operating earnings</b>	<b>57.5</b>	<b>82.1</b>	<b>209.2</b>	<b>332.5</b>
Financial incomes and expenses	- 5.5	- 7.5	- 30.2	- 19.9
<b>Earnings after financial items</b>	<b>52.0</b>	<b>74.6</b>	<b>179.0</b>	<b>312.6</b>
Tax	- 16.3	- 32.5	- 50.1	- 106.2
Minority interest	- 0.2	- 0.7	- 1.5	- 1.9
<b>Net income</b>	<b>35.5</b>	<b>41.4</b>	<b>127.4</b>	<b>204.5</b>
<i>This earnings include depreciations of</i>	<i>- 47.9</i>	<i>- 46.6</i>	<i>- 190.1</i>	<i>- 180.6</i>

### Key ratios

	1999 Whole year	1998 Whole year
Earnings per share after full tax (SEK)	8.61	13.83
Cash flow per share (SEK)	16.29	24.60
Return on shareholders' equity after full tax (%)	9	16
Return on capital employed (%)	10	17
Equity ratio (%)	47	42

Visible shareholders' equity per share (SEK)	95	92
Market price (SEK)	134	167
Average numbers of share (thousands)	14 793	14 793

**Consolidated balance sheet in brief**

<b>(MSEK)</b>	<b>1999.12.31</b>	<b>1998.12.31</b>
Goodwill	321.0	383.9
Other fixed assets	1 130.5	1 084.3
<b>Total fixed assets</b>	<b>1 451.5</b>	<b>1 468.2</b>
Other current assets	1 461.0	1 616.3
Cash and bank balances	107.0	209.9
<b>Total current assets</b>	<b>1 568.0</b>	<b>1 826.2</b>
<b>TOTAL ASSETS</b>	<b>3 019.5</b>	<b>3 294.4</b>
Shareholders' equity	1 271.5	1 153.1
Net income	127.4	204.5
<b>Total shareholders' equity</b>	<b>1 398.9</b>	<b>1 357.6</b>
<b>Minority interest</b>	<b>9.7</b>	<b>9.3</b>
Interest-bearing allocations and liabilities	776.8	957.9
Noninterest-bearing allocations and liabilities	834.1	969.6
<b>Total allocations and liabilities</b>	<b>1 610.9</b>	<b>1 927.5</b>
<b>TOTAL SHAREHOLDERS' EQUITY, ALLOCATIONS AND LIABILITIES</b>	<b>3 019.5</b>	<b>3 294.4</b>