

Interim Report January - June 1998

Sales and Results

Group

Group net sales were MSEK 1753 (1817) in the first half of 1998. Excluding operations divested and currency effects net sales increased by 6 percent. Operating income excluding items affecting comparability increased to MSEK 96 (80) and income after financial items was MSEK 109 (191). Net income was MSEK 64 (116).

Business Groups

- **Spectra Precision:** Invoiced sales for the first half 1998 excluding currency effects increased by 3 percent in spite of price pressure. Invoiced sales in the USA increased, while sales decreased in Japan and the Far East and sales were flat in Europe. Sales of positioning and surveying instruments for primarily the construction industry declined, while invoiced sales of systems for machine control and software increased. Operating income for the first half was MSEK 34 (32). Operating income for the second quarter 33 (28) increased because of product mix and reduced costs. At the end of June the leasing assets in Spectra Precision Credit Corp. were sold to LINC Capital Inc.
- **Industrial Measurement:** Invoiced sales excluding currency effects decreased by 5 percent. Invoiced sales of products for industrial weighing and force measurement continued to increase which was particularly valid for BLH Electronics in the USA. Operating income was MSEK 13 (18), consisting of increased profit for BLH Electronics and declining profits for the other companies within the business group.
- **Spectra-Physics Lasers:** Invoiced sales increased by 14 percent in USD. Invoiced sales during the second quarter increased by 5 percent compared with the corresponding period previous year. The slow-down in sales was primarily attributed to the decline in sales to Japan as a result of

the continued decline in the valuation of the yen against the U.S. dollar, a slowing of orders in the commercial printing and graphics market and continued softness in the demand from manufacturers of disk media and semiconductors. In the first half of 1998 sales of high-power semiconductor-based lasers increased by 26 percent and accounted for 46 (41) percent of total sales. Invoiced sales increased in North America and Europe while sales in Japan declined. Operating income was MSEK 46 (46).

- **Pharos Marine:** Among the efforts to improve profitability the decision has been made to terminate assembly and R&D in the UK and concentrate these operations to Houston in the USA.
- **FLIR Systems:** Result from participation in FLIR Systems was MSEK 12. In the beginning of July FLIR completed a new share issue of 1.6 million shares in which Spectra-Physics had elected not to participate. As a consequence Spectra-Physics' participation in FLIR was reduced from 42 to 36 percent. Reported income from participation in FLIR for the first half 1998 was calculated based on a participation of 36 percent.

Items affecting comparability

In 1998 these items consist of a one-time gain of MSEK 9 from the completion of the new share issue for Spectra-Physics Lasers at the beginning of the year and a one-time gain of MSEK 5 from the sale of approximately half of Spectra-Physics stake in PSC Inc. in the USA. In previous year the one-time gain from settlement of a legal dispute of MSEK 112 was reported.

Financial Position

Group net debt excluding Spectra-Physics Lasers at the end of the quarter was MSEK 201 compared with MSEK 192 at year-end 1997. In July Spectra-Physics received MSEK 40 million from FLIR as repayment of loan to Agema.

Business Groups (MSEK)	Net sales			Operating income		
	Jan. - June		Full year	Jan. - June		Full year
	1998	1997	1997	1998	1997	1997
Spectra Precision	798	757	1499	34	32	44
Industrial Measurement	212	221	443	13	18	37
Spectra-Physics Lasers	667	550	1213	46	46	116
Pharos Marine	81	83	164	-5	-4	-11
Earnings in associated companies				12		24
Intra-Group sales	-5	-8	-15			
Joint Group activities				-4	-12	-28
Sub-total	1753	1603	3304	96	80	182
Non-recurring items						
Capital gain				5		302
Write-off in FLIR						-179
IPO Spectra-Physics						
Lasers, Inc.				9		71
Settlement of legal dispute					112	112
Repurchase of options Opto Power						-145
Subtotal non-recurring items				14	112	161
Operations divested						
Agema Infrared Systems		188	330		8	1
Continental Microwave		26	26		-5	-6
Total Group	1753	1817	3660	110	195	338

Consolidated Income Statement (MSEK)				
	January - June		July 1997	Full year
	1998	1997	- June 1998	1997
Net sales	1753	1817	3596	3660
Gross margin	750	797	1551	1598
Selling expenses	-404	-442	-848	-886
Administrative expenses	-123	-127	-246	-250
Research and development costs	-154	-157	-316	-319
Non-recurring items	14	112	63	161
Other operating income/expense	15	12	13	10
Earnings in associated companies	12	0	36	24
Operating income	110	195	253	338
Financial items	-1	-4	-2	-5
Income after financial items	109	191	251	333
Taxes	-39	-74	-61	-96
Minority share	-6	-1	-5	0
Net income	64	116	185	237

Key Figures	January - June		July 1997	Full year
	1998	1997	-June 1998	1997
Earnings per share after full tax, SEK	3.60	6.60	10.50	13.50
Return on capital employed, %			14.6	20.3
Return on equity, %			12.0	16.2
Turnover rate on capital employed, times			1.8	2.0
Net debt (excl. Spectra-Physics Lasers, Inc.), MSEK			201	192
Equity/assets ratio, %			60.3	59.4
Investments in plant and equipment, MSEK	77	56	142	121
Depreciation, MSEK	53	56	114	117
Number of employees, end of period	2840	2994	2840	2841

Consolidated Balance Sheet (MSEK)		June 30	Dec. 31
		1998	1997
Fixed assets			
Intangible	115	112	
Tangible	541	512	
Financial	439	466	
Current assets			
Inventories, etc.	625	567	
Current receivables	874	882	
Liquid funds incl. investments	343	355	
Total assets	2937	2894	
Shareholders' equity	1629	1601	
Minority interest	143	119	
Interest-bearing provisions, pensions	60	59	
Other provisions	203	208	
Long-term interest-bearing liabilities	12	14	
Other long-term liabilities	10	14	
Current interest-bearing liabilities	293	274	
Other current liabilities	587	605	
Shareholders' equity and total liabilities	2937	2894	

Sales and operating margin by quarter						
	1997				1998	
	Q I	Q II	Q III	Q IV	Q I	Q II
<u>Sales, MSEK</u>						
Spectra Precision	354	403	373	369	380	418
Industrial Measurement	101	120	104	118	104	108
Spectra-Physics Lasers	255	295	305	358	349	318
Group	857	960	897	946	869	884
<u>Operating margin, %</u>						
Spectra Precision	1.1	6.9	4.6	-1.4	0.3	7.9
Industrial Measurement	7.9	8.3	8.7	8.5	5.8	6.5
Spectra-Physics Lasers	4.7	11.5	5.6	14.8	7.2	6.6
Group*)	0.7	19.6	-12.2	26.7	3.8	8.7

*) including items affecting comparability

This Interim Report has not been reviewed by the auditors.

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Spectra-Physics AB (publ)

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President

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