



## **INTERIM REPORT**

**1/1 - 30/9 1998**

### **The first nine months of 1998**

- Earnings after financial items rose by 9 per cent to MSEK 238 (219). The capital gains in connection with the listing of Svedbergs have been excluded from the previous year's earnings
- Invoiced sales rose to MSEK 3 572 (3 060)
- Seven corporate acquisitions have been completed with a total turnover on a whole year basis of MSEK 800. One company has been disposed of with an annual turnover of MSEK 180

### **The third quarter of 1998**

- Earnings after financial items amounted to MSEK 81 (74), an increase by 9 per cent compared with the third quarter of 1997
- Inflow of orders rose by 24 per cent and invoiced sales rose by 17 per cent compared with the same period for the previous year

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### The Third Quarter of 1998

The Group's earnings after financial items and excluding capital gains rose by 9 per cent and amounted to MSEK 81 (74). The earnings outcome has been favourably influenced as a result of the accounting effect of the programme involving synthetic options by MSEK 12.2 (-7.2). During the third quarter of 1998 no capital gains or losses arose in the Hexagon Group. On the other hand, there was a capital gains item of MSEK 84 during the third quarter of 1997 which arose in connection with the stock exchange listing of Svedbergs. Including this capital gains item, earnings after financial items amounted to MSEK 158 for the third quarter of 1997.

Inflow of order rose by 24 per cent and amounted to MSEK 1 247 (1 009). Invoiced sales rose by 17 per cent compared with the same period for last year and amounted to MSEK 1 206 (1 028). The increase is partly the result of company acquisitions and partly of organic growth in existing group structure. In a comparable group structure, the inflow of orders rose by 3 per cent and invoiced sales decreased by 6 per cent during the third quarter of 1998 compared with the same quarter of the previous year.

Quarterly Figures	1997				1998		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Inflow of orders	1 041	1 089	1 009	1 168	1 210	1 210	<b>1 247</b>
Invoiced sales	950	1 085	1 028	1 155	1 124	1 242	<b>1 206</b>
Earnings after financial items	62	82	74*	86	63	95	<b>81</b>

\*Excluding capital gains in respect of Svedbergs

### Interim Report 1/1 - 30/9 1998

#### Group earnings and invoiced sales

The Group's earnings after financial items for the first nine months of 1998 amounted to MSEK 238.0 (302.4). The earnings for 1998 include capital gains of a current nature amounting to MSEK 15.0. The corresponding item for 1997 was somewhat higher and amounted to MSEK 17.8. The earnings for 1997 also include a major one-off capital gains item of MSEK 83.8 which arose in connection with the stock exchange listing of Svedbergs. Excluding the above-mentioned capital gains, earnings after financial items rose by 11 per cent.

Invoiced sales in the Group amounted to MSEK 3 572 (3 060), an increase of 17 per cent. The figures are not entirely comparable because of changes in corporate structure. In a comparable corporate structure, invoiced sales rose from MSEK 3 441 to MSEK 3 572, an increase of 4 per cent.

#### Inflow of orders

Inflow of orders rose by 4 per cent in a comparable structure during the first nine months of the year. The inflow of orders has improved in all companies with the exception of Johnson Metall which reports a minor decline. In Moteco, SwePart Material and Robust, steeply rising inflows of orders are reported.

Hexagon monitors the order inflow trend at seasonally adjusted whole year rate which is based on the latest six months. As of January 1998, the inflow of orders has improved by 3 per cent. All values relate to a comparable structure.

### **Acquisitions**

During the first nine months of 1998, the Hexagon Group has acquired seven business operations with a total annual turnover of approx. MSEK 800. In all cases, these acquisitions are of a strategic nature and strengthen the subsidiaries' positions in markets, production and distribution. All acquisitions are expected to make positive earnings contributions already during this year.

- On 4 May, Gislaved Gummi acquired the sealant production operations from Axjo Plastic AB. These operations turn over approx. MSEK 10 and have been integrated in Gislaved Gummi's operations.
- On 5 May, Hexagon acquired Outokumpu Copper Brass Rod AB, which has subsequently changed name to Nordic Brass AB. Nordic Brass is one of two predominant manufacturers in the Nordic Region of brass rod profiles and ingots. Invoiced sales for 1997 amounted to MSEK 312.
- During May, Gustaf Fagerberg acquired Teck Instrument AS in Tranby, Norway. Teck Instrument manufactures and imports equipment and instruments for temperature and pressure measurement. During 1997, Teck Instrument reported a turnover of MSEK 52.
- Also in May, AKA Industriprodukter acquired Imporex Control Oy in Finland, an agency firm with a turnover of MSEK 17. Imporex Control will be coordinated with similar operations in AKA's subsidiary Tecalemit.
- In June, Norfoods signed an agreement on the acquisition of the Danish firm Bech & Kjeldahl A/S, with access on 1 July 1998. Bech & Kjeldahl have a turnover of MSEK 285. AB R Lundberg, a member of Norfoods, has acquired AB Pepe Bagerigrossisten, which supplies raw materials to the food industry, with an annual turnover of approx. MSEK 25.
- Gislaved Gummi has acquired 94 per cent of the shares in Elastomeric Engineering Company Ltd (EEC) in Sri Lanka. EEC has a turnover of approx. MSEK 60 and is actively engaged within the same product areas as Gislaved Gummi. The remaining outstanding shares will be acquired by compulsory purchase.

### **Disinvestments**

On 15 May, SwePart Plast AB was disposed of. The sale of this company was at book value and released liquid assets of MSEK 74.5.

### **Profitability**

Return on average shareholders' equity was 18 per cent (20) after earnings were charged with a 28 per cent standard tax. The return on average capital employed amounted to 17 per cent (18).

### Financial position of the Group

At 30 September 1998, the equity ratio stood at 41 per cent (41). The visible shareholders' equity amounted to MSEK 1 318 (1 153). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 394 (1 234). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 365 (197). The corresponding figure at 31 December 1997 was MSEK 331. There are credit pledges in the form of syndicated loans of approx. MSEK 611. Net debt in the Group was MSEK 838 (737) and net indebtedness (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.64 times (0.64). Interest cover rate was 7.0 times (8.9).

The Group's investments in fixed assets amounted to MSEK 144 (123). In addition, shares have been acquired in subsidiaries to an amount of MSEK 205 (77), as well as acquisitions of shares in affiliates to an amount of MSEK 4 (44). Depreciations were MSEK 134 (119) during the first nine months of 1998.

### Cash flow

Cash flow before changes in operating capital and investments amounted to MSEK 280 (230). After investments in fixed assets, the net cash flow was MSEK 136 (107).

### Invoiced sales and earnings after financial items by business area (January - September 1998)

	Invoiced sales		Earnings	
	1998	1997	1998	1997
Industrial Components and Systems	1 456	1 356	89.2	88.9
Niche Manufacturing	1 584	1 361	147.3	146.1
Industrial Food Technology	474	288	5.0	3.8
Other companies	72	66	17.2	21.1
Capital gains Svedbergs	-	-	-	83.8
Group adjustments and Parent company	-14	- 11	- 20.7	- 41.3
<b>Group</b>	<b>3 572</b>	<b>3 060</b>	<b>238.0</b>	<b>302.4</b>

### Industrial Components and Systems

During the nine months of 1998, invoiced sales in the Industrial Components and Systems Division amounted to MSEK 1 456 (1 356) an increase of 7 per cent. Earnings after financial items remained largely unchanged compared with the same period for the previous year - MSEK 89.2 (88.9). Inflow of orders has risen by 11 per cent compared with the same period for the previous year.

During the third quarter of 1998, the inflow of orders rose by 6 per cent and invoiced sales rose by 5 per cent compared with the third quarter of 1997. Earnings after financial items for the third quarter of 1998 amounted to MSEK 33 (36).

AKA Industriprodukter has increased invoiced sales by 5 per cent and earnings are slightly better compared with the first nine months of 1997. The third quarter has been weaker than last year, principally because the Swedish operations have seen a slightly declining inflow of orders, at the same time as margins have become tighter.

Dacke Hydraulik's inflow of orders and invoiced sales have risen somewhat during the first nine months of 1998 compared with the same period for the previous year. Earnings after financial items have risen by 3 per cent compared with 1997.

Gustaf Fagerberg, reporting a considerable decline in earnings after the first half of 1998, has enjoyed a very strong third quarter. A slightly improved inflow of orders and extensive cost-cutting have resulted in improved margins. Invoiced sales and inflow of orders are now higher and earnings are largely on a par with the figures reported during the corresponding period of the previous year.

### **Niche Manufacturing**

During the first nine months of 1998, invoiced sales in the Niche Manufacturing Division rose by 16 per cent to MSEK 1 584 (1 361) and inflow of orders rose by 14%. In May, Nordic Brass AB was acquired and SwePart Plast was disposed of, with the result that the figures are not entirely comparable. In a comparable structure, invoiced sales rose by 6 per cent and inflow of orders by 3 per cent. Earnings after financial items rose to MSEK 147.3 (146.1).

The inflow of orders during the third quarter of 1998 rose by 32 per cent and invoiced sales by 22 per cent compared with the third quarter of 1997. Earnings after financial items for the third quarter amounted to MSEK 42 (47).

Gislaved Gummi increased invoiced sales by 19 per cent. Earnings after financial items rose by 31 per cent to MSEK 33. The improvement in earnings is principally attributable to the considerable investments and restructuring measures that were implemented during 1997 now giving positive earnings effects. Growth has been particularly healthy within the product areas of heat exchanger gaskets and rubber compounds. The acquisition of the majority holding of shares in Elastomeric Engineering Company (EEC) in Sri Lanka strengthens Gislaved Gummi within the area of heat exchangers and wheels and is a key step in Gislaved's internationalisation.

Moteco increased the inflow of orders by 38 per cent during the first nine months compared with the same period in the previous year. Invoiced sales rose by 27 per cent. As a result of ongoing long-term market drives, above all in China and the United States, and also within R&D, earnings are down on the corresponding period in 1997. However, these measures are assessed in the long term as having positive earnings effects and are important from the market strategy point of view. Earnings have also been negatively influenced by tighter gross margins, principally as a result of powerful price pressure on the company's products.

Johnson Metall's inflow of orders and invoiced sales are down somewhat on the figures for the corresponding period of the previous year. Earnings after financial items have improved by 18 per cent and amounted to MSEK 41. The increase in earnings is explained by an improved earnings outcome in the bronze operations in the Nordic region, where above all the Swedish and Finnish companies have improved their margins. The brass operations which sell cage rings to the ball bearing industry, with

operations concentrated largely to Norway, were hit during August by industrial action in Norway which has negatively affected earnings.

Nordic Brass, which was acquired in May, has been consolidated for five months and has only marginally affected earnings in the Hexagon Group.

SwePart Material has increased invoiced sales by 7 per cent during the first nine months. Earnings after financial items rose by 19 per cent. The increase in earnings can principally be explained by an improvement in earnings in Nybro Stålprodukter.

In SwePart, the inflow of orders and invoiced sales have improved, in particular during the third quarter. Earnings after financial items remain largely unchanged. The two product divisions within SwePart, Tools and Transmission, display totally different outcomes during the first months of 1998.

Weaker demand for heavy duty press tools has negatively affected invoiced sales and earnings within the tool group, where Swepart Tools and Tjust show dramatically lower levels of invoicing and earnings. During the third quarter, earnings however improved compared with the first half of 1998. The transmission companies all show healthy growth in invoiced sales and all report extremely good improvements in earnings.

### **Industrial Food Technology**

Norfoods, comprising AB R Lundberg, LG Fredriksson International AB and Bech & Kjeldahl, increased invoiced sales to MSEK 474 (288). The increase is primarily the result of the acquisition of Bech & Kjeldahl, which is included in the Group as of 1 July 1998. Earnings improved to MSEK 5.0 (3.8).

### **Other Companies**

Robust Ståldörrar has improved earnings during the period and shows a slightly positive earnings outcome compared with the figure of MSEK -2.7 for the same period in the previous year. Both inflow of orders and invoiced sales have increased. The affiliate company VBG AB has improved earnings substantially.

### **Per share data**

Earnings per share after 28 per cent standard tax amounted to SEK 11.53 (10.64). Earnings per share after full tax amounted to SEK 11.02 (9.44). Cash flow per share was SEK 18.95 (15.57).

Visible shareholders' equity per share stood at SEK 89 (78) at 30 September 1998, and the market price stood at SEK 180 (243). The number of shares at the end of the period was 14 793 182, representing no change compared with the number at 30 September 1997.

### **Parent Company**

The Parent Company's earnings after financial items stood at MSEK 40.2 (154.4). Hexagon's programme with synthetic options has positively affected earnings by MSEK 7.9 (-16.3). The equity ratio in the Parent Company at 30 September 1998 was 50 per cent (64). Visible shareholders' equity including capital proportion and untaxed reserves amounted to MSEK 967 (849). Liquid assets, including

unutilised overdraft facilities, amounted to MSEK 161 (56). The corresponding amount at 31 December 1997 was MSEK 143. During the period, the Parent Company has acquired shares for a total of MSEK 53 (323).

**Forecast for the whole of 1998**

The previously submitted forecast for 1998 of an earnings outcome exceeding MSEK 304 remains in place.

Landskrona, Sweden, 5 November 1998

HEXAGON AB (publ)

Börje Andersson  
President and CEO

## Consolidated income statement in brief

(MSEK)	1998 Jan-Sep	1997 Jan-Sep	Outcome last 12 month period	1997 Whole year	1996 Whole year
Net invoiced sales	3 572.4	3 060.2	4 730.2	4 218.0	3 147.6
<b>Gross earnings</b>	<b>807.4</b>	<b>740.8</b>	<b>1 066.1</b>	<b>999.4</b>	<b>792.1</b>
Selling expenses	- 329.2	- 296.6	- 433.4	- 400.8	- 305.7
Administration expenses	- 217.6	- 222.5	- 275.5	- 280.5	- 236.5
Research and development expenses	- 26.0	- 14.5	- 31.3	- 19.8	- 8.4
Proportion of earnings in affiliated companies	16.4	22.3	21.3	27.1	31.8
<b>Operating earnings</b>	<b>251.0</b>	<b>229.5</b>	<b>347.2</b>	<b>325.4</b>	<b>273.3</b>
Financial incomes and expenses	- 13.0	- 10.9	- 23.7	- 21.3	- 18.5
Capital gains in connection with the OTC listing of Svedbergs	-	83.8	-	83.8	-
<b>Earnings after financial items</b>	<b>238.0</b>	<b>302.4</b>	<b>323.5</b>	<b>387.9</b>	<b>254.8</b>
Tax	- 73.7	- 78.0	- 100.7	- 105.0	- 80.6
Minority interest	- 1.2	- 1.0	- 0.7	- 0.5	- 0.2
<b>Net income</b>	<b>163.1</b>	<b>223.4</b>	<b>222.1</b>	<b>282.4</b>	<b>174.0</b>
<i>This earnings include depreciations of</i>	<i>- 134.0</i>	<i>- 119.0</i>	<i>- 177.0</i>	<i>- 162.0</i>	<i>- 100.9</i>

## Key ratios (\* The figures in brackets are calculated including capital gains Svedbergs)

	1998 Jan-Sep	1997 * Jan-Sep		1997 Whole year	1996 Whole year
Earnings per share after standard tax (SEK)	11.53	10.64	(14.72)	18.85	13.40
Earnings per share after full tax (SEK)	11.02	9.44	(15.10)	19.09	12.72
Cash flow per share (SEK)	18.95	15.57	(21.24)	22.78	19.40
Return on shareholders' equity after standard tax (%)	18	20	(27)	25	23
Return on capital employed (%)	17	18	(23)	23	25
Equity ratio (%)	41	41		43	38
Visible shareholders' equity per share (SEK)	89	78		82	67
Market price (SEK)	180	243		218	178
Average number of shares (thousands)	14 793	14 793		14 793	13 676

## Consolidated balance sheet in brief

(MSEK)	1998.09.30	1997.09.30	1997.12.31
Goodwill	392.9	315.5	317.0
Other fixed assets	1 029.2	944.6	982.8
<b>Total fixed assets</b>	<b>1 422.1</b>	<b>1 260.1</b>	<b>1 299.8</b>
Other current assets	1 679.6	1 486.8	1 351.6
Cash and bank balances	135.4	108.2	225.6
<b>Total current assets</b>	<b>1 815.0</b>	<b>1 595.0</b>	<b>1 577.2</b>
<b>TOTAL ASSETS</b>	<b>3 237.1</b>	<b>2 855.1</b>	<b>2 877.0</b>
Shareholders' equity	1 154.5	929.7	936.6
Net income	163.1	223.4	282.4
<b>Total shareholders' equity</b>	<b>1 317.6</b>	<b>1 153.1</b>	<b>1 219.0</b>
Minority interest	14.3	7.9	11.9
Interest-bearing liabilities	973.2	845.5	751.2
Noninterest-bearing liabilities	932.0	848.6	894.9
<b>Total liabilities</b>	<b>1 905.2</b>	<b>1 694.1</b>	<b>1 646.1</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3 237.1</b>	<b>2 855.1</b>	<b>2 877.0</b>

*This interim report has not been subjected to special examination by the Company's auditors.  
The 12-month report on operations will be published on 18 February 1999.*