



REPORT ON OPERATIONS 1998

Whole year 1998

- Earnings after financial items rose by 3 per cent to MSEK 313 (304 excluding capital gains arising in 1997 in connection with the Stock Exchange listing of Svedbergs)
- Invoiced sales rose by 17 per cent to MSEK 4 946 (4 218)
- Eight acquisitions have been completed in Hexagon's subsidiaries with a total turnover on a whole year basis of MSEK 825. One company with an annual turnover of MSEK 180 has been disposed of
- A dividend of 5 kronor (5) is proposed

Fourth Quarter of 1998

- Earnings after financial items amounted to MSEK 74 (86)
- Inflow of orders rose by 6 per cent and invoiced sales rose by 19 per cent compared with the same period in the previous year. A considerable proportion of the increase derives from acquisitions made during the year

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The Fourth Quarter of 1998

The Group's earnings after financial items fell by 14 per cent, amounting to MSEK 74 (86). The earnings outcome has been favourably influenced as a result of the accounting effects of the programme involving synthetic options of MSEK 3.0 (7.4)

Inflow of order rose by 6 per cent and amounted to MSEK 1 243 (1 168). Invoiced sales rose by 19 per cent compared with the same period for last year and amounted to MSEK 1 374 (1 155). The increase in invoiced sales is partly the result of company acquisitions and partly the result of organic growth in existing group structure. In a comparable group structure, the inflow of orders fell by 6 per cent and invoiced sales rose by 6 per cent during the fourth quarter of 1998 compared with the same quarter of the previous year.

Quarterly Figures	1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Inflow of orders	1 041	1 089	1 009	1 168	1 210*	1 210	1 247	1 243
Invoiced sales	950	1 085	1 028	1 155	1 124	1 242	1 206	1 374
Earnings after financial items	62	82	74*	86	63	95	81	74

*Excluding capital gains in respect of Svedbergs

Group earnings and invoiced sales

The Group's earnings after financial items in 1998 amounted to MSEK 312.6 (387.9). The earnings for 1997 include a major one-off item of capital gains of MSEK 83.8 which arose in connection with the Stock Exchange listing of Svedbergs. Excluding this capital gains item, earnings after financial items rose by 3 per cent from MSEK 304.1 to MSEK 312.6.

Invoiced sales in the Group amounted to MSEK 4 946 (4 218), 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 4 740 to MSEK 4 946, an increase of 4 per cent.

Inflow of orders

Inflow of orders during 1998 rose by 14 per cent from MSEK 4 307 to MSEK 4 910. The increase is principally the result of corporate acquisitions. In a comparable structure, the inflow of orders rose by 1 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 six months. During the first half of 1998, the order inflow rate rose. During the second half-year, the deceleration of the industrial economic climate made itself felt and the inflow of orders curve turned downwards. The order inflow rate on a whole year basis was MSEK 4 960 in December 1998 compared with MSEK 5 060 a year before, a decline of two per cent. All values relate to a comparable structure.

Acquisitions

During 1998, the Hexagon Group has acquired eight operations with a total annual turnover of approx. MSEK 825. In all cases, these acquisitions are of a strategic nature and strengthen the subsidiaries' positions in markets, production and distribution.

- In May, Gislaved Gummi acquired the sealant production operations from Axjo Plastic AB. These operations turn over approx. MSEK 10 and have been integrated into Gislaved Gummi's operations.
- In May, Outokumpu Copper Brass Rod AB was acquired, 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 1998 amounted to MSEK 329.
- In May, Gustaf Fagerberg acquired Teck Instrument AS in Norway. Teck Instrument manufactures and imports equipment and instruments for temperature and pressure measurement. During 1998, Teck Instrument reported a turnover of approx. MSEK 50.
- Similarly 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 approx. MSEK 285. AB R Lundberg, a member of Norfoods, has acquired an operation which supplies raw materials to the food industry with an annual turnover of approx. MSEK 20.
- Gislaved Gummi has acquired 96 per cent of the shares in Elastomeric Engineering Company Ltd (EEC) in Sri Lanka. The company has a turnover of approx. MSEK 60 and is actively engaged within the same product areas as Gislaved Gummi. The remaining outstanding shares are subject to redemption.
- In November, AKA Industriprodukter's subsidiary IP Produkter acquired the Finnish company JW-Trading which supplements IP Produkter's operations within the area of water, heating and sanitation. JW-Trading has a turnover of a good MSEK 50 on a whole year basis.

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 17 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). The previous year's figures are calculated excluding the capital gains which arose in connection with the Stock Exchange listing of Svedbergs.

Financial position of the Group

At 31 December 1998, the equity ratio stood at 42 per cent (43). The visible shareholders' equity amounted to MSEK 1 358 (1 219). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 450 (1 339).

Liquid assets, including unutilised overdraft facilities, amounted to MSEK 452 (331). There are credit pledges in the form of syndicated loans of approx. MSEK 663. Net debt in the Group was MSEK 748 (525) and net indebtedness (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.55 times (0.43). Interest cover rate was 6.6 times (8.7). The Group's investments in fixed assets amounted to MSEK 223 (191). In addition, shares have been acquired in subsidiaries to an amount of MSEK 216 (271), as well as acquisitions of shares in affiliates to an amount of MSEK 9 (45). Depreciations were MSEK 181 (162) during 1998.

Cash flow

The cash flow before changes in operating capital and investments amounted to MSEK 376 (337).

	1998	1997
Cash flow from the periods business	217	239
Cash flow from investments	-343	-172
Cash flow from financing	184	-77
Dividend	-74	-59
Change in cash and bank balances	-16	-69

Invoiced sales and earnings after financial items by business area*

	Invoiced sales		Earnings	
	1998	1997	1998	1997
Industrial Components and Systems	1 986	1 837	100.7	105.9
Niche Manufacturing	2 183	1 877	186.9	195.1
Norfoods	698	430	6.5	5.9
Other companies	97	89	20.4	23.7
Capital gains Svedbergs	-	-	-	83.8
Group adjustments and Parent company	-18	-15	-1.9	-26.5
Group	4 946	4 218	312.6	387.9

*The table has been re-computed as regards earnings compared with the previously presented compilation. Depreciation of goodwill at group level has now been distributed over business areas: with MSEK 12.9 (12.9) for Industrial Components and Systems, MSEK 15.6 (13.8) for Niche Manufacturing, MSEK 1.8 (3.0) for Norfoods and MSEK 0.3 (0.3) for other companies. For the greater part, the earnings difference between the years in respect of Group adjustments and the Parent Company relates to the effect of the outcome for synthetic options.

Industrial Components and Systems

During 1998, invoiced sales in the Industrial Components and Systems Division amounted to MSEK 1 986 (1 837), an increase of 8 per cent. Inflow of orders rose by 6 per cent. Earnings after financial items fell to MSEK 100.7 (105.9).

The inflow of orders during the fourth quarter of 1998 fell by 7 per cent and invoiced sales rose by 10 per cent compared with the fourth quarter of 1997. Earnings after financial items for the fourth quarter of 1998 amounted to MSEK 21.2 (26.7).

AKA Industriprodukter has increased invoiced sales by four per cent to MSEK 901 (867). The increase in invoiced sales derives entirely from acquired companies. However, earnings have declined and amounted to MSEK 34.4 (37.4). The third and fourth quarters were weaker than last year, principally because of a fall in demand from the engineering, forestry and machine assembly industries.

Dacke Hydraulik's invoiced sales rose by 10 per cent to MSEK 531 (483). This increase is explained partly by the acquisition which was put into effect in the middle of 1997 and partly by a substantial increase in invoiced sales in Norway. Earnings after financial items amounted to MSEK 47.2 (47.1).

Invoiced sales in Gustaf Fagerberg rose by 14 per cent to MSEK 554 (487), an increase which may principally be explained by the higher turnover in the specialist companies operating with in-house products, as well as by acquisitions. Invoiced sales for commercial operations remained largely unchanged. Earnings fell slightly to MSEK 32.0 (34.4), which may be explained by tighter margins within the Swedish unit Gustaf Fagerberg AB.

Niche Manufacturing

Invoiced sales in the Niche Manufacturing Division rose in 1998 by 16 per cent to MSEK 2 183 (1 877), and the inflow of orders rose by 12 per cent. In May, Nordic Brass AB was acquired and SwePart Plast was disposed of, with the result that the figures are not entirely comparable. Moreover, the earlier affiliate EBP i Olofström AB was consolidated from the beginning of the year. In a comparable structure, invoiced sales rose by 5 per cent and the inflow of orders was the same for both 1997 and 1998. Earnings after financial items fell somewhat to MSEK 186.9 (195.1).

The inflow of orders during the fourth quarter of 1998 rose by 5 per cent and invoiced sales by 16 per cent compared with the fourth quarter of 1997. Earnings after financial items for the fourth quarter amounted to MSEK 51.4 (56.4).

Gislaved Gummi increased invoiced sales by 17 per cent. Earnings after financial items rose by 10 per cent to MSEK 41.0 (37.2). The improvement in earnings is principally attributable to the considerable investments and restructuring measures that were implemented during 1997 and are now giving positive earnings effects. Growth has been particularly healthy within the product areas of heat exchanger gaskets and rubber compounds. The acquisition of Elastomeric Engineering Company Ltd (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 39 per cent compared with the whole of 1997. Invoiced sales rose by 33 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 and amounted to MSEK 40.0 (58.2). 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 and costs in connection with the switching of production. Operations in China came on stream during the third quarter of 1998 and are expected to produce some 5 million antennas during 1999.

Johnson Stål & Metall has acquired SwePart Material AB from Hexagon AB, effective as of 1 January 1998 and Nordic Brass AB, effective as of 1 May 1998. Operations in bronze components and cage rings for ball bearings constitutes that part within Hexagon which has suffered most from the worsening business climate during the autumn. The inflow of orders fell by 11 per cent compared with the previous year for this unit. In total, the inflow of orders for the entire group fell by 7 per cent in a comparable structure. Invoiced sales amounted to MSEK 919 (717).

Earnings amounted to MSEK 78.6 (67.6). 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 case rings to the ball bearing industry, with the major proportion of operations in Norway, were afflicted during August by industrial action in Norway which has had a negative effect on earnings. SwePart Material's earnings improved both within Nybro Stål and Centrostål.

SwePart's invoiced sales fell to MSEK 609 (627) primarily because of the sale of SwePart Plast in May 1998. During the year, the earlier affiliate EBP i Olofström AB was consolidated. Earnings amounted to MSEK 43.0 (46.0).

The two product divisions within Tools and Transmission, show totally different outcomes for 1998. Weaker demand for heavy duty press tools has negatively affected invoiced sales and earnings within the Tools Group, where Swepart Tools and Tjust show poorer outgoing invoicing and earnings. The transmission companies all show healthy growth in invoiced sales and all report improvements in earnings.

Norfoods

Norfoods, comprising AB R Lundberg, LG Fredriksson International AB and Bech & Kjeldahl A/S, increased invoiced sales to MSEK 698 (430). The increase is principally the result of the acquisition of Bech & Kjeldahl which is included in the Group as of 1 July 1998. Earnings improved to MSEK 6.5 (5.9). During 1998 Norfoods' organisation has been progressively built up. Consequently, a crucial step has been taken on the way to creating a Nordic supplier group geared to the food and pharmaceuticals industries.

Other Companies

Robust Ståldörrar improved earnings to MSEK 0.2 (-3.0) last year. Both the inflow of orders and invoiced sales have increased. The affiliated company VBG AB contributes to Hexagon's earnings in accordance with the capital share method at an amount of MSEK 19.8 (15.8).

Per share data

Earnings per share after 28 per cent standard tax amounted to SEK 15.12 (14.80). Earnings per share after full tax amounted to SEK 13.83 (13.80). Cash flow per share was SEK 25.42 (22.78). The figures for 1997, given in brackets, are calculated excluding the capital gains which arose in connection with the Stock Exchange listing of Svedbergs. Visible shareholders' equity per share stood at SEK 92 (82) at 31 December 1998, and the market price stood at SEK 167 (218). The number of shares at the end of the period was 14 793 182, representing no change compared with the number at 31 December 1997.

Parent Company

The Parent Company's earnings after financial items stood at MSEK 318,8 (351.1). Hexagon's programme with synthetic options has favourably affected earnings by MSEK 10.9 (-8.9). The equity ratio in the Parent Company was 53 per cent (61). Visible shareholders' equity including capital proportion of untaxed reserves amounted to MSEK 1 187 (991). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 220 (143). During the period, the Parent Company has acquired shares for a total of MSEK 75 (332) of which MSEK 17 (68) relates to shares acquired from subsidiaries and MSEK 9 (45) relates to shares in affiliates.

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 36 per cent (26) of the profit per share after full tax and 5.1 per cent (5.5) of the adjusted shareholders' equity of the Group.

Reports published for 1999 and date of Annual General Meeting

1st quarter 1999, AGM	3 May 1999
Half year 1999	3 August 1999
3rd quarter 1999	1 November 1999
Report on operations 1999	February 2000

Forecast

A forecast for the financial year 1999 will be made in connection with the Annual General Meeting on 3 May 1999.

Annual Report and Annual General Meeting

The Annual Report is expected to be published and mailed to the shareholders during week 15 (11- 17 April) and will be available as of 12 April 1999 at the company's Head Office.

The Annual General Meeting will be held at Norra Latin in Stockholm on Monday 3 May 1999, at 5 pm.

Landskrona, Sweden, 18 February 1999

HEXAGON AB (publ)
The Board of Directors

Consolidated income statement in brief

(MSEK)	1998	1997	1996
	Whole year	Whole year	Whole year
Net invoiced sales	4 946.4	4 218.0	3 147.6
Gross earnings	1 116.6	999.4	792.1
Selling expenses	- 459.5	- 400.8	- 305.7
Administration expenses	- 309.7	- 279.9	- 239.8
Research and development expenses	- 36.2	- 19.8	- 8.4
Other operating incomes and earnings	1.3	- 0.6	3.3
Share of earnings in affiliated companies	20.4	27.1	31.8
Operating earnings	332.9	325.4	273.3
Financial incomes and expenses	- 20.3	- 21.3	- 18.5
Capital gains in connection with the OTC listing of Svedbergs	-	83.8	-
Earnings after financial items	312.6	387.9	254.8
Tax	- 106.2	- 105.0	- 80.6
Minority interest	- 1.9	- 0.5	- 0.2
Net income	204.5	282.4	174.0
<i>This earnings include depreciations of</i>	<i>- 180.6</i>	<i>- 162.0</i>	<i>- 100.9</i>

Key ratios	1998	1997*	1996
	Whole year	Whole year	Whole year
Earnings per share after standard tax (SEK)	15.12	14.80	(18.85) 13.40
Earnings per share after full tax (SEK)	13.83	13.80	(19.09) 12.72
Cash flow per share (SEK)	25.42	22.78	19.40
Return on shareholders' equity after standard tax (%)	17	20	(25) 23
Return on capital employed (%)	17	18	(23) 25
Equity ratio (%)	42	43	38
Visible shareholders' equity per share (SEK)	92	82	67
Market price (SEK)	167	218	178
Average number of share (thousands)	14 793	14 793	13 676

* The figures in brackets are calculated including capital gains Svedbergs

Consolidated balance sheet in brief

(MSEK)	1998.12.31	1997.12.31	1996.12.31
Goodwill	383.9	317.0	307.8
Other fixed assets	1 084.3	982.8	907.3
Total fixed assets	1 468.2	1 299.8	1 215.1
Other current assets	1 616.3	1 351.6	1 145.9
Cash and bank balances	209.9	225.6	294.7
Total current assets	1 826.2	1 577.2	1 440.6
TOTAL ASSETS	3 294.4	2 877.0	2 655.7
Shareholders' equity	1 153.1	936.6	821.5
Net income	204.5	282.4	174.0
Total shareholders' equity	1 357.6	1 219.0	995.5
Minority interest	9.3	11.9	7.0
Interest-bearing liabilities	957.9	751.2	861.1
Noninterest-bearing liabilities	969.6	894.9	792.1
Total liabilities	1 927.5	1 646.1	1 653.2
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3 294.4	2 877.0	2 655.7