



## **Interim report**

### **1 January to 31 March 1999**

#### **The first quarter of 1999**

- Sluggish industrial climate, inflow of orders fell by 10% in a comparable structure
- Earnings after financial items amounted to MSEK 58 (63)
- Earnings per share amounted to SEK 2.89 (2.80)
- Forecast for the whole of 1999
  - Against the background of the weak inflow of orders and the prevailing economic climate of the first quarter, earnings for 1999 are assessed as amounting to a considerable shortfall in comparison with last year

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### Earnings and invoiced sales for the first quarter of 1999

The Group's earnings after financial items amounted to MSEK 57.9 (62.9). Operating income amounted to MSEK 70.9 (70.0). In a comparable corporate structure, invoiced sales fell by 4% in the first quarter of 1999 compared with the same quarter of the previous year. As a result of corporate acquisitions made during 1998, reported invoiced sales rose by 7% from MSEK 1,124 to MSEK 1,207.

	<b>Jan-March 1999</b>	<b>Jan-March 1998</b>	<b>Change</b>
Net turnover	1 207	1 124	+ 7 %
Operating income	71	70	+ 1 %
Margin	5.9 %	6.2 %	
Earnings after financial items	58	63	- 8 %
Post-tax earnings	43	42	+ 3 %
Earnings per share	2.89	2.80	+ 3 %

A capital gains item of MSEK 22 (2) is included in the operating income.

The deterioration in earnings is principally explained by the turndown in the economic climate, with lower volumes during the period. Demand was particularly weak in January and February. A certain improvement was noted during March, but both the inflow of orders and invoiced sales represented a shortfall for this month as well compared with the corresponding month last year.

<b>Quarterly figures</b>	<b>1998</b>				<b>1999</b>
	<b>Q 1</b>	<b>Q 2</b>	<b>Q 3</b>	<b>Q 4</b>	<b>Q 1</b>
Inflow of orders	1 210	1 210	1 247	1 243	<b>1 222</b>
Invoiced sales	1 124	1 242	1 206	1 374	<b>1 207</b>
Earnings after financial items	63	95	81	74	<b>58</b>

### Inflow of orders

Inflow of order fell by 10% in a comparable corporate structure during the first quarter. As a result of corporate acquisitions made during 1998, inflow of orders rose by 1% and amounted to MSEK 1,222 (1,210).

Hexagon monitors the order inflow trend in a comparable structure and in a seasonally adjusted whole year rate which is based on the outcome of the last six months. During the second half of 1998, the slowdown in the industrial climate made an impact and the inflow of orders turned down. The decline in the inflow of orders has continued during the first quarter of 1999. The order inflow rate on a whole year basis was MSEK 4,630 in March compared with MSEK 5,020 a year earlier, a decline of 8%. From the beginning of the year, the order inflow rate has fallen by 6%. All values are on a whole year basis and relate to a comparable corporate structure.

### **Acquisitions and disinvestments**

During the first quarter, two minor supplementary acquisitions were made by Hexagon's subsidiaries and one major operation has been disposed of.

In January, Dacke Hydraulik acquired Östermo Mekaniska AB in Vaggeryd. Operations, which turn over MSEK 40, will be coordinated with Dacke's other local company, Vaggeryds Hydraulik. Both companies manufacture hydraulic cylinders and the acquisition of Östermo involves coordination advantages within several areas.

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 and expansion in Eastern Europe. The capital gains amounted to MSEK 22.3 after tax. The purchase price and repayment of loans released a total of MSEK 152.

### **Profitability**

Return on average shareholders' equity was 12% (15) after earnings were charged with a 28% standard tax. The return on average capital employed amounted to 13% (15).

### **Financial position of the Group**

At 31 March, 1999 the equity ratio stood at 45% (43%). The visible shareholders' equity amounted to MSEK 1 392 (1 257). Including the excess value in listed shares, adjusted shareholders' equity amounted to MSEK 1 467 (1 358).

Liquid assets, including unutilised overdraft facilities, amounted to MSEK 377 (369). The corresponding figure at 31 December 1998 was MSEK 452. Credit pledges are available in the form of syndicated loans of approx. MSEK 780 (735). Net debt in the Group was MSEK 649 (564) and net indebtedness (interest-bearing liabilities minus liquid assets divided by shareholders' equity) was 0.47 times (0.45). Interest cover rate was 4.8 times (6.6). The Group's investments in fixed assets amounted to MSEK 42 (53). In addition, acquisition of shares in subsidiaries was made at an amount of MSEK 24 (-), as well as the acquisition of shares in affiliates at an amount of MSEK 1 (-). Depreciations were MSEK 49 (42) during the first quarter of 1999.

### **Cash flow**

Cash flow before changes in operating capital and investments amounted to MSEK 32 (45).

	1999	1998
Cash flow from current operations	- 6	- 2
Cash flow from investment operations	31	- 60
Cash flow from financial operations	- 62	47
Change in liquid funds	- 37	- 15
Liquid funds at the beginning of the period	210	226
Liquid funds at the end of the period	173	211

#### Invoiced sales and earnings after financial items by business area (1st quarter)

	Invoiced sales		Earnings	
	1999	1998	1999	1998
Industrial Components and Systems	440	460	5.4	18.0
Niche Manufacturing	555	516	30.6	47.2
Norfoods	194	130	- 3.4	0.9
Other companies	23	23	8.2	6.2
Capital gains	-	-	22.3	-
Group adjustments and Parent company	<u>- 5</u>	<u>- 5</u>	<u>- 5.2</u>	<u>- 9.4</u>
<b>Group</b>	<b>1 207</b>	<b>1 124</b>	<b>57.9</b>	<b>62.9</b>

#### Industrial Components and Systems

During the first quarter of 1999, invoiced sales in the Industrial Components and Systems Division amounted to MSEK 440 (460), a fall by 4%. The inflow of orders has fallen by 7% and amounted to MSEK 468 (506). Earnings after financial items fell to MSEK 5.4 (18.0). In a comparable structure, the inflow of orders fell by 9% and invoiced sales by 6%.

AKA Industriprodukter's invoiced sales fell by 12% to MSEK 186 (212). In halves, the decline in invoiced sales is the result of the disposal of the refrigeration operations, and lower volumes. Earnings have declined and amounted to MSEK 1.2 (7.5).

Dacke Hydraulik's invoiced sales fell by 4% to MSEK 128 (133). In a comparable structure, invoiced sales fell by 11% and the lower volumes have considerably affected earnings in a negative direction.

Invoiced sales in Gustaf Fagerberg rose by 11% to MSEK 127 (114), an increase which is wholly attributable to the acquisition of Teck Instrument AS which was carried through last year. Earnings remained largely unchanged compared with the same period last year.

### **Niche Manufacturing**

Invoiced sales in the Niche Manufacturing Division rose by 8% to MSEK 555 (516) and the inflow of orders fell by 4%. In May 1998, Nordic Brass AB was acquired and SwePart Plast AB was demerged, with the result that the figures are not wholly comparable. In a comparable structure, invoiced sales fell by 4% and the inflow of orders by 14%. Earnings after financial items fell to MSEK 30.6 (47.2).

Gislaved Gummi's invoiced sales remained largely unchanged compared with the first quarter of 1998. EEC in Sri Lanka is included in the invoiced sales figures for 1999 but was not included in the first quarter of 1998. In a comparable structure, invoiced sales fell by 10% and the lower volumes have considerably affected earnings in a negative direction. The inflow of orders in a comparable structure rose by 1%.

Moteco increased the inflow of orders by 28% compared with the same period in 1998. Invoiced sales rose dramatically. Earnings declined as the result of an unfavourable product mix and depressed prices, as well as delays in automation investments which, among other things, had invoiced higher workforce costs than planned. During the quarter, the company management has been reorganised. Operations in China, which came on stream in September 1998, are developing favourably.

Johnson Stål & Metall is the single operation which has been affected most negatively by the weak industrial climate. In a comparable structure, the inflow of orders fell by 22% and invoiced sales by 14%. Invoiced sales amounted to MSEK 243 (283) and earnings fell by 47% compared with the same period last year.

SwePart's invoiced sales remained largely unchanged during the first quarter in a comparable structure. However, the inflow of orders fell by 24%. Earnings doubled, which is wholly explained by the considerable improvement in earnings in the subsidiary EBP.

### **Norfoods**

Norfood's invoiced sales rose to MSEK 194 (130). The increase derives wholly from the acquisition of Bech & Kjeldahl in Denmark. In a comparable structure, the inflow of orders and invoiced sales remained largely unchanged during the first quarter. Earnings fell to MSEK -3.4 (0.9). The decline in earnings is largely explained by Bech & Kjeldahl's operations in Poland, which is being phased out.

### **Other companies**

Robust Ståldörrar's earnings amounted to MSEK -0.3 (-0.2). The affiliated company VBG AB contributes to Hexagon's earnings according to the capital share method at an amount of MSEK 8.5 (6.1).

### **Per share data**

Earnings per share after 28% standard tax amounted to SEK 2.79 (3.06). Earnings per share after full tax amounted to SEK 2.89 (2.80). Cash flow per share was SEK 2.16 (3.04).

Visible shareholders' equity per share stood at SEK 94 (85) at 31 March 1999, and the market price stood at SEK 146 (239). At the end of the period, the number of shares was 14 793 182, which represented no change compared with the previous year.

**Parent Company**

The Parent Company's earnings after financial items stood at MSEK 15.4 (-8.4). Hexagon's programme with synthetic options (warrants) has favourably affected earnings by MSEK 2.3 (-3.8) which is in turn linked to the trading price trend of the Hexagon share. The equity ratio in the Parent Company was 58% (56). Visible shareholders' equity including the capital proportion of untaxed reserves amounted to MSEK 1 204 (984). Liquid assets, including unutilised overdraft facilities, amounted to MSEK 192 (137). The corresponding figure at 31 December 1998 was MSEK 220. During the period, the Parent Company has acquired shares in affiliates for MSEK 1 (-).

**Reports published during 1999**

Half-year report 1999

6 August 1999 (NB date changed)

3rd Quarter 1999

1 November 1999

**Forecast for the whole of 1999**

Against the background of the weak inflow of orders and the prevailing economic climate of the first quarter, earnings for 1999 are assessed as amounting to a considerable shortfall in comparison with last year.

Landskrona, 3 May 1999

HEXAGON AB (publ)

Börje Andersson

President and CEO

## Consolidated income statement in brief

(MSEK)	1999 Jan-March	1998 Jan-March	Outcome last 12 month period	1998 Whole year	1997 Whole year
Net invoiced sales	1 206.8	1 124.2	5 029.0	4 946.4	4 218.0
<b>Gross earnings</b>	<b>244.7</b>	<b>255.4</b>	<b>1 105.9</b>	<b>1 116.6</b>	<b>999.4</b>
Selling expenses	- 113.5	- 104.3	- 468.7	- 459.5	- 400.8
Administration expenses	- 81.2	- 80.7	- 310.2	- 309.7	- 279.9
Research and development expenses	- 10.3	- 7.3	- 39.2	- 36.2	- 19.8
Other operating incomes and earnings	0.2	0.7	0.8	1.3	- 0.6
Share of earnings in affiliated companies	8.7	6.2	22.9	20.4	27.1
Capital gains earnings, sale Group company	22.3	-	21.9	- 0.4	13.5
<b>Operating earnings</b>	<b>70.9</b>	<b>70.0</b>	<b>333.4</b>	<b>332.5</b>	<b>338.9</b>
Financial incomes and expenses	- 13.0	- 7.1	- 25.8	- 19.9	- 34.8
Capital gains in connection with the OTC listing of Svedbergs	-	-	-	-	83.8
<b>Earnings after financial items</b>	<b>57.9</b>	<b>62.9</b>	<b>307.6</b>	<b>312.6</b>	<b>387.9</b>
Tax	- 14.5	- 21.5	- 99.2	- 106.2	- 105.0
Minority interest	- 0.7	0.1	- 2.7	- 1.9	- 0.5
<b>Net income</b>	<b>42.7</b>	<b>41.5</b>	<b>205.7</b>	<b>204.5</b>	<b>282.4</b>
<i>This earnings include depreciations of</i>	<i>- 48.6</i>	<i>- 42.5</i>	<i>- 186.7</i>	<i>- 180.6</i>	<i>- 162.0</i>

Key ratios	1999 Jan-March	1998 Jan-March	1998 Whole year	1997* Whole year
Earnings per share after standard tax (SEK)	2.79	3.06	15.12	14.80 (18.85)
Earnings per share after full tax (SEK)	2.89	2.80	13.83	13.80 (19.09)
Cash flow per share (SEK)	2.16	3.04	24.60	22.78
Return on shareholders' equity after standard tax (%)	12	15	17	20 (25)
Return on capital employed (%)	13	15	17	18 (23)
Equity ratio (%)	45	43	42	43
Visible shareholders' equity per share (SEK)	94	85	92	82
Market price (SEK)	146	239	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)	1999.03.31	1998.03.31	1998.12.31
Goodwill	351.9	315.7	383.9
Other fixed assets	1 087.7	1 001.4	1 084.3
<b>Total fixed assets</b>	<b>1 439.6</b>	<b>1 317.1</b>	<b>1 468.2</b>
Other current assets	1 468.7	1 407.0	1 616.3
Cash and bank balances	173.0	211.3	209.9
<b>Total current assets</b>	<b>1 641.7</b>	<b>1 618.3</b>	<b>1 826.2</b>
<b>TOTAL ASSETS</b>	<b>3 081.3</b>	<b>2 935.4</b>	<b>3 294.4</b>
Shareholders' equity	1 348.9	1 215.9	1 153.1
Net income	42.7	41.5	204.5
<b>Total shareholders' equity</b>	<b>1 391.6</b>	<b>1 257.4</b>	<b>1 357.6</b>
<b>Minority interest</b>	<b>9.3</b>	<b>13.7</b>	<b>9.3</b>
Interest-bearing liabilities	822.4	775.2	957.9
Noninterest-bearing liabilities	858.0	889.1	969.6
<b>Total liabilities</b>	<b>1 680.4</b>	<b>1 664.3</b>	<b>1 927.5</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3 081.3</b>	<b>2 935.4</b>	<b>3 294.4</b>

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