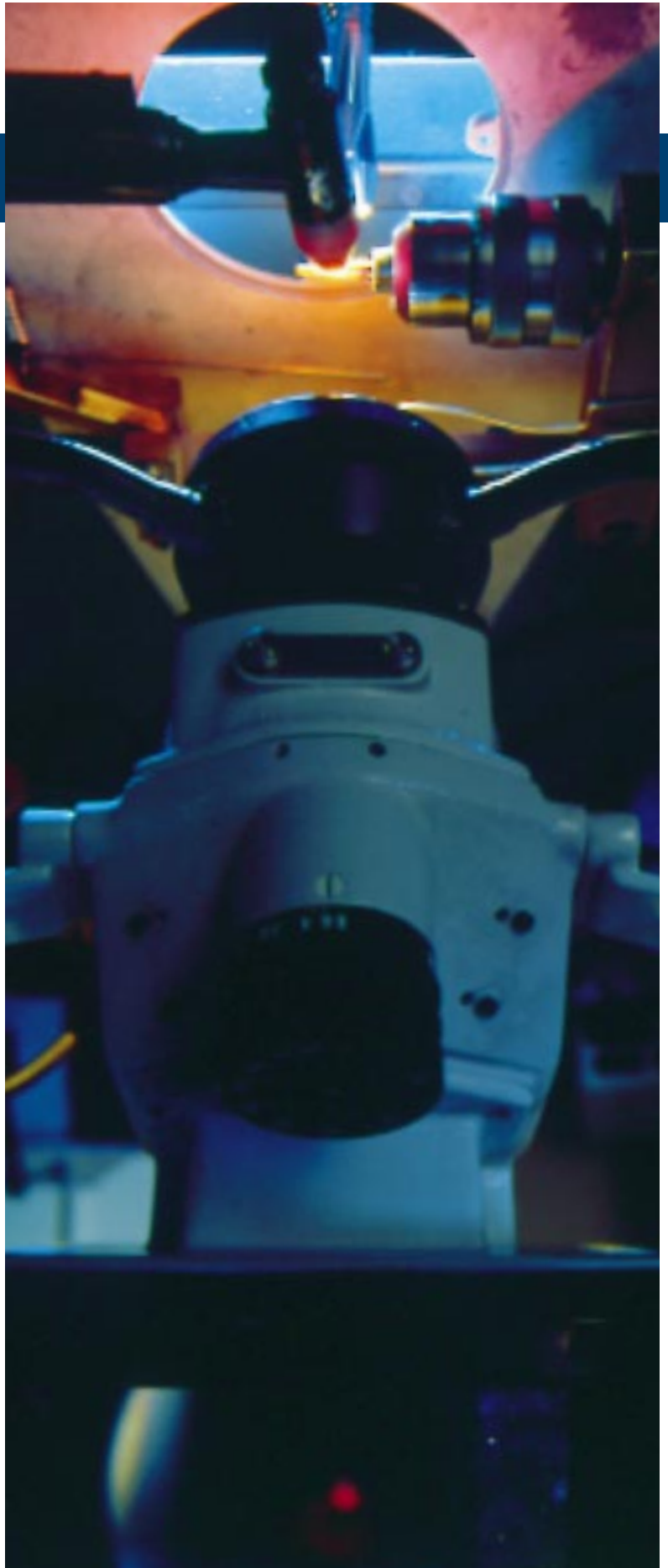


HEXAGON



ANNUAL REPORT 1997

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Annual General Meeting The Annual General Meeting will be held on Thursday, May 7, 1998, at 5 PM at Elmia Kongress och Konserthus in Jönköping, Rydbergssalen.

Right of attendance To be entitled to participate and vote in the Annual General Meeting, shareholders must:

- be entered in the register of shareholders,
- have given prior notification of their intention to attend.

Entry of the shareholder names in the register maintained by Värdepapperscentralen VPC AB (VPC) must have taken place no later than April 27, 1998. Shareholders who have permitted their shares to be registered with a nominee must temporarily register the shares in their own name. Such registration must be in effect by April, 27 1998 at the latest.

Notification Notification of intention to participate in the Annual General Meeting must be submitted to the company, addressed to Hexagon AB (publ), Kronobryggan, SE-261 31 LANDSKRONA, Sweden, no later than 12 noon on Monday, May 4, 1998. Notification may also be made by telephone, on tel. +46 (0)418 44 92 00.

Dividend For the fiscal year 1997, the Board proposes a dividend of SEK 5.00 per share (previous year SEK 4.00). Tuesday, May 12, 1998 is proposed as the day on which the dividend will be recorded. If the Annual General Meeting decides to adopt the Board's proposal, it is anticipated that dividend will be distributed on May 19, 1998.

Change of address Private individuals who are registered as domiciled in Sweden do not need to notify VPC of change of address. Other shareholders who have changed their address, name or account number should notify the financial intermediary handling their account as soon as possible. Each shareholder who has registered his/her shares with a nominee should notify the nominee of any changes of name, address, or account number without delay. A special notification form can be obtained at banks.

Opportunities for obtaining information During the coming year, Hexagon will be issuing the following financial information:

Interim Report Jan-Mar 1998: On May 7, 1998

Half-year Report Jan-June 1998: On August 14, 1998

Interim Report Jan-Sep 1998: On November 5, 1998

Report on 1998 Operations: On February 18, 1999
Annual Report for 1998: In April 1999

The annual report, report on operations and interim reports are sent directly to shareholders who have placed an order. These reports can be requisitioned by other parties from:

Hexagon AB, Kronobryggan, S-261 31 LANDSKRONA, Sweden, Telephone +46 (0)418-44 92 00.

Information is also available on the Internet:

www.hexagonab.com www.huginonline.com
www.fti.se www.bolagsfakta.se

External analyses The securities brokers listed below regularly monitor Hexagon and have recently published analyses:

Alfred Berg, London, +44 (0)171 256 49 00

Carnegie Fondkommission AB, tel. +46 (0)8-676 88 00

Nordiska Fondkommission AB, tel. +46 (0)8-791 48 00

Swedbank Fondkommission AB, tel. +46 (0)8-585 918 48

Hexagon in brief 1997

- Earnings after financial items rose to MSEK 388 (255). The earnings include capital gains of MSEK 84 which arose in connection with the listing of Svedbergs
- Earnings excluding this capital gains item rose to MSEK 304 (255) which represents an increase of 19 per cent.
- Invoiced sales rose to MSEK 4,218 (3,148), which represents an increase of 34 per cent.
- High level of investment, several complementary acquisitions and extensive commitments to product and organisational development.
- Hexagon has obtained a credit ceiling of SEK 1.2 billion which, combined with a strong balance sheet, and a healthy cash flow, ensures the future expansion of the Group.



	1997	1996
Invoiced sales (MSEK)	4.218	3.148
Earnings after financial items (MSEK)	388	255
Net income after tax (MSEK)	282	174
Earnings per share after standard tax (SEK)	18,85	13,40
Earnings per share after full tax (SEK)	19,09	12,72
Return on shareholders' equity (%)	25	23
Return on capital employed (%)	23	25
Cash flow per share (SEK)	22,78	19,38
Visible equity-total assets ratio (%)	43	38
Share price at date of closing (SEK)	218	178
Dividend per share (SEK)*	5,00	4,00

*Assuming approval by shareholders at the Annual General Meeting.



Letter from the Group President

Earnings and invoiced sales

During the latter part of 1996, the Swedish engineering industry suffered from a declining inflow of orders. This also applied to the Hexagon Group and resulted in a weak first quarter of 1997 in respect of both invoiced sales and earnings. Fortunately, the inflow of orders turned dramatically upwards from the end of the year and in May 1997, the Hexagon Group was in a position to note its highest ever inflow of orders. Invoiced sales and earnings improved progressively as of the second quarter, and taken as a whole, 1997 turned out to be a good year. The inflow of orders remained at a high and stable level during the second to fourth quarters.

Earnings after financial items rose to MSEK 387.9. This result includes capital gains of MSEK 83.8 which arose in connection with the listing of Svedbergs (formerly an affiliated company) on the OTC list.

Excluding these capital gains, earnings amounted to MSEK 304.1 (254.8) which corresponded to an increase of 19 per cent. As a result, the Group reached its long-term target of an average annual earnings increase of 15 per cent with something to spare.

Invoiced sales amounted to MSEK 4,218 (3,148) which corresponded to an increase of 34 per cent. The greater part of the increase in invoiced sales derives from corporate acquisitions made during 1997 and the latter part of 1996.

Key events during 1997 In January 1997, Bruces Shipyard was disposed of. Shortly thereafter, a major shareholding in Trustor which had come into Hexagon's ownership as a result of the acquisition of SwePart in December 1996 was disposed of.

Early in the year, four minor engineering companies were integrated into Hexagon's ordinary structure by the acquisition of SwePart and AKA during 1996.

As of June 30, LG Fredriksson was acquired and, together with AB R Lundberg, was coordinated into Nordic Food and Drink Suppliers.

At the same time, Hexagon participated as a guarantor in a new issue of VBG (publ) and its holding to 45 per cent of the share capital. As a result, Hexagon became the largest owner in VBG.

Shortly after, the Group sold 70 per cent of its shareholding in Svedbergs, reducing its ownership to 15 per cent.

During the year, Dacke Hydraulik, Gustaf Fagerberg and Johnson Metall expanded

their respective fields of operation by the acquisition of companies with a total annual turnover of MSEK 85.

All divestitures, acquisitions and restructurings were implemented in compliance with our strategy relating to corporate structure.

The measures implemented have further streamlined the Group structure which now encompasses eight directly accountable medium-sized industrial companies, grouped in three business areas.

In addition to the eight companies which are apparent from the illustration on the following page, Hexagon owns, as previously mentioned, 45 per cent of the shares in VBG (publ) and a minor engineering company - Robust Ståldörrar RSD AB.

Planning for the future was a key feature of 1997, which is also reflected in numerous places in the text of the Report. Below, I would merely like to mention some of the most important guidelines for our Group.

Group structure Ever since 1993, when work began on building up today's Hexagon Group, we have striven for a group structure which is characterised by:

- Wholly owned, medium-sized subsidiaries with manifest commercial similarities.
- A structure which is adapted to our decentralised steering and management system, with the focus on growth and profitability.
- A composition of business areas ensuring a healthy cash flow, being relatively insensitive to exchange rate fluctuations.

Subsidiaries Hexagon's subsidiaries enjoy similar commercial preconditions and are characterised by the following:

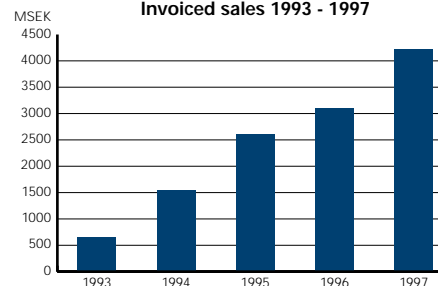
- Medium-sized niche manufacturing companies operating exclusively in markets with industrial customers.
- Hold, or are about to hold, leading positions in their respective market niches.
- Conduct development within product- and production engineering in the framework of known technology.
- Share a high degree of internationalisation.

As a result, the Hexagon Group has a homogeneous commercial structure which has the preconditions to generate a high level of growth, profitability and earnings development.

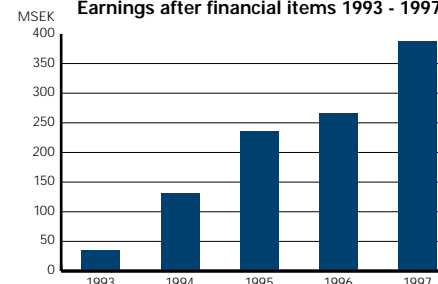


PRESIDENT BÖRJE ANDERSSON

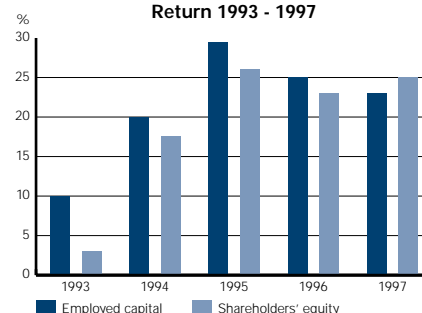
Invoiced sales 1993 - 1997



Earnings after financial items 1993 - 1997



Return 1993 - 1997



Hexagon AB

INDUSTRIAL COMPONENTS AND SYSTEMS

*AKA Industriprodukter AB
Dacke Hydraulik AB
Gustaf Fagerberg Holding AB*

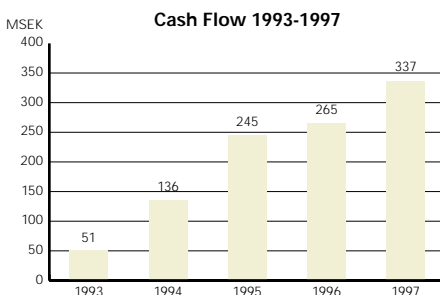
Cash flow and currency exposure
The business area of *Industrial Components and Systems* encompasses numerous imported components which are either assembled into systems or sold on direct. The investment requirements in fixed assets within this business area are relatively modest and the market consists of the Nordic countries and the Baltic region.

The second business area, *Niche Manufacturing* exports the greater part of its production to world markets. The companies in this business area are relatively investment intensive.

These two business areas complement one another in respect of cash flow and currency exposure.

Industrial Components and Systems has a high level of imports, while *Niche Manufacturing* has a high level of exports. This balance has, to a large extent, been a contributory factor in keeping the Hexagon Group little affected in recent years by the effects of exchange rate fluctuations on earnings.

In recent years, the business area *Niche Manufacturing* has seen a high level of investments, a trend viewed with some satisfaction. Largely thanks to the healthy cash flow in the business area of *Industrial Components and Systems*, the Group as a whole has enjoyed positive and increasing cash flow despite the high level of investments in the manufacturing companies and a generally strong expansion trend.



The Control and Management System Above, we set out a number of characterising features of Hexagon's subsidiaries. In addition, it might be mentioned that each company is sufficiently large and well-developed to be able to handle development matters under their own

NICHE MANUFACTURING

*Gislaved Gummi AB
Moteco AB
Johnson Metall AB
SwePart AB*

steam. Thus, the subsidiaries need not be reliant either on a parent or sister company to be able to mobilise the necessary strength and competence for its own growth and profitability development. All directly accountable subsidiaries within the Group are niche manufacturing companies enjoying solid market positions, well-developed production techniques and sales capacities, and they also possess a considerable wealth of know-how in their respective product areas. This, taken together with the size of the Group, constitutes the foundation enabling the Group to attract, retain and further develop management personnel in the subsidiaries of high professional standards.

It is against this background that the subsidiaries' operative independence should be viewed and which has made it possible to operate effectively with highly decentralised decision-making. The structure and homogeneity of the Group also make up a prerequisite for the overriding decision-making of the Group management. In addition, today's Group structure is transparent and easy to grasp for external assessors.

Growth Since 1993, the Hexagon Group has increased invoiced sales from MSEK 388 to MSEK 4,218 and earnings have increased from MSEK 4.1 to MSEK 387.9, which means that earnings in 1997 were equal to turnover in 1992.

In this context, it should be noted that the growth of the Group has not only taken place by acquisitions by the parent company.

In 1994, Hexagon's directly accountable subsidiaries had total invoiced sales of MSEK 3,205 and earnings of MSEK 237.8. By 1997, invoiced sales in these subsidiaries had reached MSEK 4,234 and earnings MSEK 337.7. As a result of organic growth and complementary acquisitions, our subsidiaries have thus increased their invoiced sales by 32 per cent and earnings by 42 per cent over the last three years.

Against this background, Hexagon, at both Group and subsidiary level, can be justifiably described as a growth company.

Motives for growth The increasing tempo of internationalisation, the all-embracing technological changes and the

INDUSTRIAL FOOD TECHNOLOGY

Norfods

faster rate of transition are all factors which mean it is extremely risky to rest on one's laurels. The old truth that standing still is the same as going backwards will be even more tangible in the next century.

The ability to develop and grow is the innermost essence of successful business. This insight will become even more emphatic in our actions in the future. We wish to benefit from the vital impulses from the wider world, maintain the vigour of the Group, create competitive advantages and develop the workforce. However, growth is not simply a matter of volume but applies in general terms. In Hexagon, growth of earnings, profitability, competence, and organisational skills are equally important.

Continued growth The Hexagon Group will continue to grow. All subsidiaries are at present working on a number of acquisition opportunities as a natural facet of the companies' growth plans. Together with this, the companies in *Industrial Components and Systems* have begun to penetrate the market of the Baltic region. This market will progressively increase in importance. Within *Niche Manufacturing*, two corporate establishments have been made internationally and all operations are at present undergoing a phase of international expansion.

In the business area of *Industrial Food Technology*, work is in progress on building up a qualified supplier group on a Nordic basis.

During 1997, the subsidiaries throughout have implemented measures for future expansion. The level of investments has been high, extensive inputs in developing skills and organisation have taken place and all subsidiaries have raised their level of skills in respect of computerisation and IT. These measures have, naturally, incurred costs and have negatively affected earnings for 1997. This said, I am convinced that we will reap the rewards in the future.

Taken as a whole, these activities in the subsidiaries are of major importance to the Group's growth. They will, in due course, also be supplemented by major acquisitions in the parent company.

In order to increase financial preparedness for future acquisitions in the parent company, a so-called syndicated loan of

MUSD 150, corresponding to around SEK 1.2 billion was signed in December 1997. The loan is available in optional currency and, once existing loans of approximately MSEK 500 have been rescheduled, a credit ceiling of approximately MSEK 700 remains. This credit ceiling, together with the strong balance sheet and healthy cash flow of the Group creates a solid financial basis for future expansion.

Profitability In the eyes of an industrialist, profitability is the sum total of how a large number of working duties and functions are managed in a company. Consequently, profitability is to a large extent a reflection of the will and abilities of the management and the workforce. Granted, external preconditions, like various quality aspects in a company, lay down the framework for profitability. But it is the workforce and the management who are decisive, all things considered, of whether a company struggles in the relegation zone of "the table" or is fighting for promotion at the top.

The profitability level is determined in every day operations and is influenced by the efforts of every single member of the workforce. If the goal is to develop operations in terms of profitability, the initiative for and intensity of such development must come from every part of the company, not least from the shop floor and out in the field.

The Principle of Continuous Improvement Hexagon's management philosophy is straightforward and simple. I believe that everyone, each according to his or her abilities, wishes to develop their inherent talents and all wish to contribute to the success and development of the company.

The principle of continuous improvement is the organisational concept which builds on our management philosophy, and also on the awareness that competition means that the company must continuously improve and develop in order to meet our customers' needs and requirements.

This organisational concept is very like the way in which sporting activities function. When we engage in some form of sporting activity, we compete and those

who compete are constantly striving to be better. The sprinter competes against his own time in the 100 metres. He trains according to a set plan and timetable in order to achieve a pre-set target. On every occasion he/she leaves the starting blocks, the time is measured. The sprinter has become organised in accordance with the principle of continuous improvement.

Three steps can be distinguished in this process. Primarily, an awareness of the initial position. Thereafter, a programme is drafted to reach a predetermined target. In the third phase, the measures are implemented and the results are measured regularly.

Within the Hexagon Group, we are on the way to organising all work in accordance with the principle of continuous improvement. The objective is that all members of the workforce are to be aware of the initial position within their field of responsibility, be active in producing improvement measures, and have regular access to measurement values on pedagogically prepared target cards showing how implementation is progressing in relation to the established targets.

During 1997, I have, together with colleagues in the parent company and the Group subsidiary managers, drafted a manual entitled "Modes of Thinking and Modes of Working in the Hexagon Group" which presents our thoughts focusing on profitability and growth. This manual has been distributed to all members of the workforce and sets out the guidelines for operations for the coming years.

The principle of continuous improve-

ment, in combination with the target card technique, can become our primary competitive instrument in the future. Those who fully succeed in releasing the potential inherent in affirming the willingness and ability of all members of the workforce in simple and efficient organisational forms have created an extraordinarily powerful competitive instrument.

Our overriding objective The Group's overriding objective is to contribute to a favourable and stable development of the Hexagon share by growth and improvements to profitability. Our objective is to increase earnings by an average of 15 per cent per year up to the turn of the century. This objective is firmly anchored in the Group. Organic growth in the subsidiaries, complementary acquisitions, internal efficiency drives and acquisitions in the parent company are our four major instruments.

With the knowledge I have of the Group workforce, and not least the willingness and ability of our subsidiary management, I am convinced that we will attain our objective.

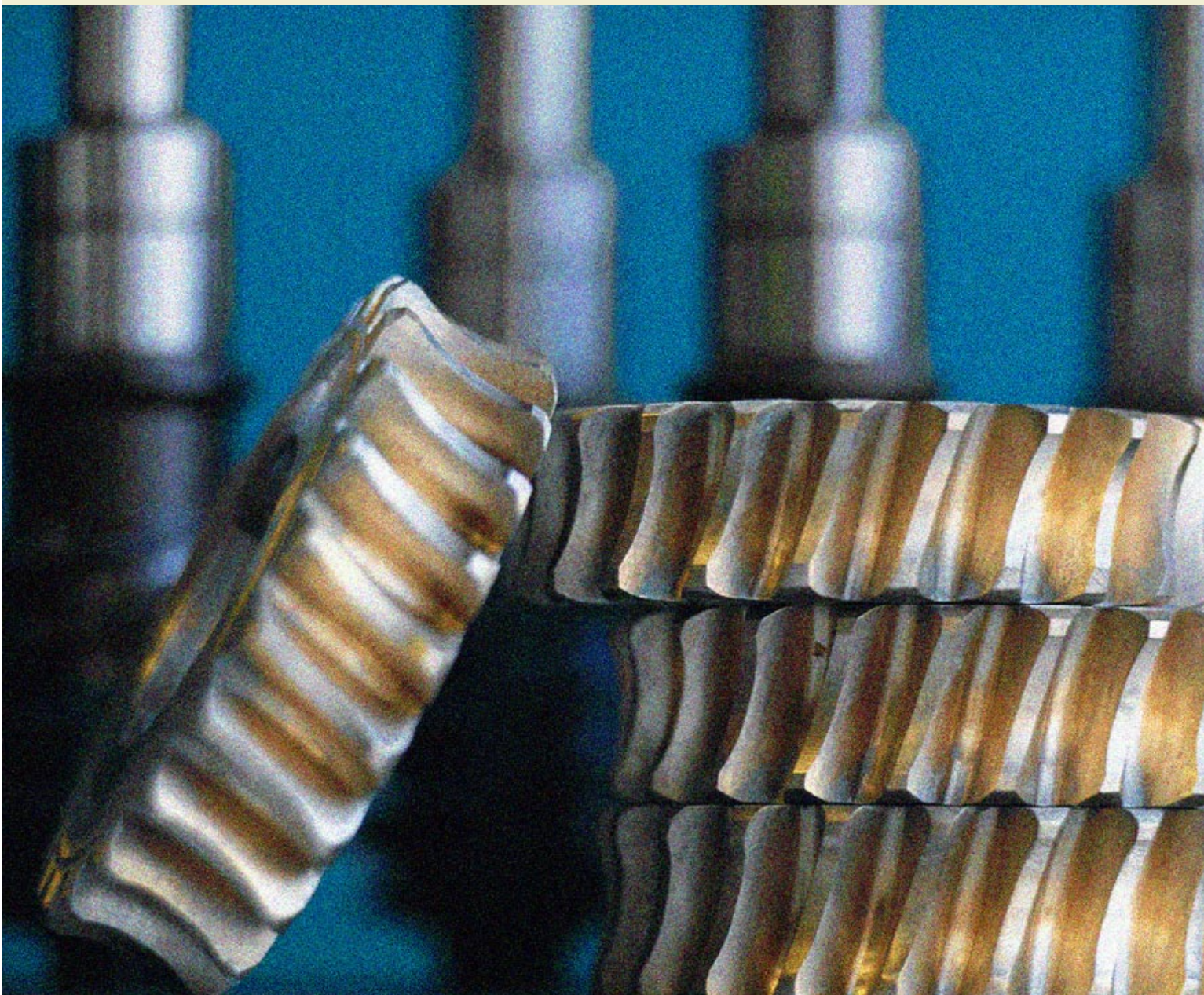
Prospects for 1998 A forecast of earnings for 1998 will be issued in connection with the Annual General Meeting on 7 May 1998.

Landskrona, Sweden, March 1998



Börje Andersson
President and CEO





Hexagon AB

INDUSTRIAL COMPONENTS AND SYSTEMS

NICHE MANUFACTURING

INDUSTRIAL FOOD TECHNOLOGY

Group overview

THE GROUP'S BUSINESS CONCEPT AND STRUCTURE

Hexagon is an industrial and commercial group whose business concept revolves around the acquisition and long-term development of medium-sized industrial companies and firms trading in technology.

The Group has a clear structure composed of three business divisions: Industrial Components and Systems, Niche Manufacturing, and Industrial Food Technology.

Industrial Components and Systems encompasses essentially technology trade in three product areas: refrigeration (AKA Industriprodukter), hydraulics (Dacke Hydraulik) and flow technology (Gustaf Fagerberg Holding). Operations in the companies involved share close similarities with regard to their orientation towards customised systems solutions and technical OEM sales to industrial companies. The Nordic and Baltic countries are the primary markets. The companies are well-reputed and operate with large market shares in their respective areas. Customised systems solutions constitute a significant share of invoiced sales. Roughly 80 per cent of total invoiced sales consists of licensed products and roughly 20 per cent of products manufactured in-house.

Organisationally, the companies are similarly structured, with incorporated profit centres that are geographically or functionally distinct.

Niche Manufacturing comprises the companies Gislaved Gummi, Moteco, Johnson Metall, SwePart Material and SwePart. The companies are all markedly niche-oriented, with large market shares in their respective segments.

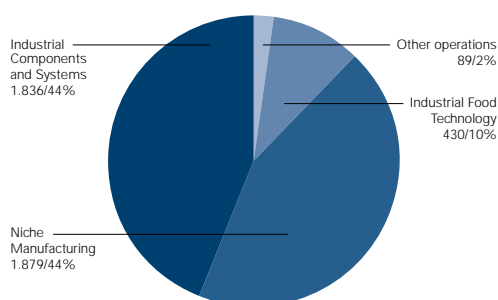
Industrial products are developed and manufactured in close cooperation with their customers. Gislaved's gaskets for plate heat exchangers, Moteco's antennas for mobile telephones, Johnson Metall's bronze and brass products, SwePart Material's steel products and SwePart's tools and transmission products are examples of this. Sales are made primarily to the Nordic countries, Germany and the United States.

Industrial Food Technology embraces R Lundberg and LG Fredriksson International, which are grouped together as Norfods. This business area is, like the others, formed around customer structure, market and company culture as common denominators. The business area is oriented towards markets which are insensitive to business cycles and in which the food and pharmaceuticals industries make up the customer base.

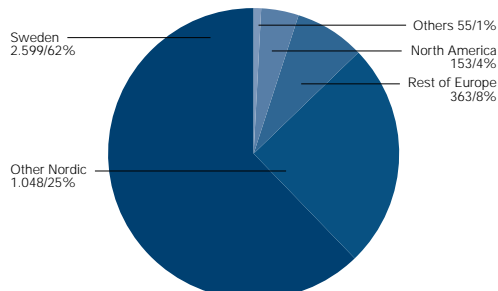
Other companies in the Group are Robust Ståldörrar RSD, and also the affiliated VBG Produkter (45 per cent).

As regards size and ownership proportion, these companies differ from the companies in Hexagon's ordinary fields of operation. In the long term, changes will take place, either through divestitures or incorporation into one of Hexagon's ordinary business areas. During the period 1993 - 1997, some ten businesses and companies have been disposed of and four companies have been integrated into Hexagon's ordinary business areas.

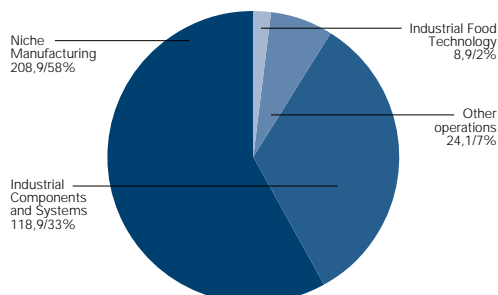
Sales by business division, MSEK



Sales by geographic market excluding indirect exports, MSEK



Earnings after financial items by business division, MSEK





Overall objective Hexagon's overall objective for operations is to create positive and stable value growth for the Hexagon share by growth and improvements in profitability.

Growth target: Earnings increase by 15 per cent per year. Over the last three years, the average growth in earnings after financial items has been 37 per cent. In 1995, earnings rose by 84 per cent, in 1996 by 7 per cent and in 1997, earnings after financial items rose by 19 per cent, excluding capital gains arising out of the listing of Svedbergs.

Profitability target: at least 15 per cent return on average shareholders' equity throughout one business cycle.

Over the last three years, the average return on shareholders' equity has been 23 per cent. In 1997, return amounted to 20 per cent excluding capital gains in Svedbergs and 25 per cent including these capital gains.

Equity-total assets ratio: at least 35 per cent.

Equity-total assets ratio in the Group is not to fall below 35 per cent. As of December 31, 1997, equity-total assets ratio in the group was 43 per cent. Over the last three years, the average equity-total assets ratio has been 43 per cent.

Dividend policy: 25 - 35 per cent of the year's post-tax profits.

The proposed dividend for 1997 constitutes 26 per cent of the year's post-tax profits. Over the last three years, dividend on average has constituted 29 per cent of post-tax profits.

The growth target, in earnings, is the overriding and most significant target, since the value of the share is essentially set in response to this factor.

The profitability and equity-total assets ratio targets set out the framework for how growth is to be viewed in terms of both risk level and quality demands on operations from the point of view of profitability.

With an earnings growth of an average of 15 per cent per year during 1998 - 2000, the return on shareholders' equity will be 20 per cent with the current dividend policy and on condition that the number of shares remains unchanged.

Strategy Growth and profitability are to be achieved by organic growth and complementary acquisitions in the subsidiary companies, acquisitions in the parent company of larger companies which are structurally compatible with the Group, and by internal efficiency measures. Among other things, growth requires a business concept possessing good preconditions and an organisation whose management and workforce have the skills and above all the will and motivation to move developments forward.

Experiences within the Hexagon Group have resulted in the policy being oriented towards operations having the following characteristics:

1. Market Niche. Operations are to be conducted in a clearly defined market niche which is characterised by the fact that the niche is too small for the really large players, but too large for the small players.

2. Market position. Operations are to have the potential to reach a market leading position within its niche in an international perspective. Depending on the nature and size of the niche, the level of internationalisation varies.

3. Customer structure. If the niche consists of a small number of customers, their stability and international expansion

capability should be carefully evaluated. If the niche consists of many customers, the emphasis is to be placed on stable branches of business.

4. Products. The products, regardless of whether they are manufactured in-house or are purchased, should be strategic OEM products of decisive importance for the function and/or quality of the end product. If the cost of the supplied product or component system is low in relation to the whole unit, this is generally taken as an advantage. A high level of in-house know-how regarding product development is an active target.

5. Production technology. Production, regardless of whether it takes place in-house or consists of a logistics system, should be knowledge-intensive. Skills and production equipment should be possible to combine and develop in a manner which gives advantages over competitors.

6. Distribution. Distribution systems and logistics should be uncomplicated and the distribution cost to customers should be slight or cost-neutral.

Growth and Profitability

Organic growth in the subsidiaries Hexagon's eight directly accountable companies have drafted plans for their organic growth with defined objectives for market and product development. The companies' positions are strong and the companies command the necessary competence and financial resources for their expansion.

The subsidiaries' acquisition activities The majority of Hexagon's subsidiaries have business development plans which include the acquisition of complementary businesses. This is seen as an integrated component of the companies' strategies as far as market, product and technological development are concerned.

In instances of acquisition by subsidiaries, the requirement always holds that an acquisition must generate coordinative and synergy effects. During 1996/1997, a number of such acquisitions have taken place. Dacke Hydraulik acquired Sweden Hydro Tools and INAB, Gustaf Fagerberg acquired Roto-Sieve Filter, Johnson Metall acquired the Finnish Prova Tötte's bronze operations, etc. This type of acquisition by subsidiaries will grow in significance up to the turn of the century.

Acquisition policy of the parent company

Hexagon AB (the parent company) will direct its acquisition activities at companies that meet our acquisition criteria and are structurally compatible with the Group.

The acquisition policy is governed by Hexagon's business concept, Group structure and management system. The directly accountable subsidiaries included in the Hexagon Group must, among other things, be characterised by the following:

- are medium-sized and engineering-oriented, engaged in industrial and technology trade,
- have industrial customers and large market shares in their respective market segments,
- have a significant share of their sales related to foreign markets,
- conduct development work within product and production technology within the framework of known technology.

Parent company's acquisition activities

The acquisition of companies in the turnover range of MSEK 300 - 1,000 will be prioritised. Long-term industrial development requires stability and methodical work. This also applies to our acquisition policy and implies that a large number of potential acquisitions must be continuously cultivated in order that the final transactions may be concluded on appropriate terms.

Acquiring companies at the right moment has proved to be of greatest importance in the long-term establishment of a profitable industrial group. Acquisitions must be based on an assessment of profitability over an entire business cycle. Depending on the complexity of the acquisition process and Hexagon's stringent requirements, the intensity of completed acquisitions will vary over time. During 1995, no major acquisitions were carried out, while, in 1996, Hexagon completed two acquisitions in accordance with the above intentions: AKA Industriprodukter AB and SwePart AB. During 1997, the price level of major companies has been at a historically high level. The price levels which were relevant during 1997 have been so high that, in most cases, they would have entailed that the profit per share would have fallen if the acquisition had been carried through. Faced with risk levels requiring growth of earnings in order for the equation to balance, we have adopted a cautious approach.

In addition, the management and business culture of the acquired company must be such that the company can be

incorporated into Hexagon quickly and smoothly so that its growth and profit potential can be developed in a satisfactory manner.

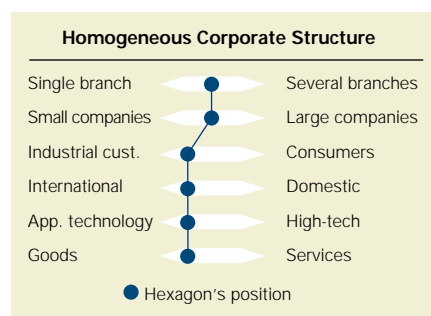
Internal development In addition to the quality of growth and acquisition activities, profitability is also determined by the operations of the subsidiaries. The subsidiaries systematically and continuously pursue development efforts aimed - as far as is possible - at providing all members of the workforce with the responsibility and authority needed to affect efficiency and profitability. Within the Group, we call this the principle of continuous improvement. The principle is simple. Issues such as pricing, purchasing, expenses, productivity, service efficiency, and financial flows (such as outstanding accounts receivable, capital tied up in inventories, etc.) are assigned a measurable initial value. Affected members of the workforce design improvement programmes with clearly stated targets. As the improvement work proceeds, change is measured continuously until the targets are achieved.

Structure and management system

Hexagon strives for a homogeneous and transparent Group structure. In the Swedish industrial world, from time to time, too much importance has been attached to industry definitions in traditional statistical terms. We feel that the nature, customer structure, technological level, corporate culture, size etc., of a business are fundamental to the cultivation of a Group structure that fits a particular management philosophy.

At first glance, a company is not always most easily categorised by placing it within a line of business. Attention is devoted in such instance to the product and in certain cases the production technology. The other dimensions which characterise the company's culture and the substance of its business are often forgotten. From a group standpoint, Hexagon's homogeneous company structure simplifies matters of control and management, which in turn create the possibility to reduce risks and focus on strategic development.

Hexagon's companies possess business qualifications which are very similar. A concentration is emerging upon markets made up of exclusively industrial customers. The companies are medium-sized and their daily business bears striking similarities. The adjacent diagram shows Hexagon's homogeneous structure.





The structure provides the Group management with the overview and ability to make general assessments, which is necessary if they are to fulfil an active and professional ownership role. From this position, the management must see to it that the subsidiaries are assigned Boards of Directors and Managers who are suited to the individual company's needs and strategies. The systems assume that specific market and product competence exists on the level of the subsidiaries and that the subsidiaries have competent managements who, within the strategic guidelines provided, can develop their companies independently towards set objectives.

The subsidiaries are grouped into three business areas in which the constituent companies share major similarities. This has been accomplished in order to facilitate the correct provision of managerial and financial resources and also to form a basis for cultivation of the Group's corporate culture.

The Group's structure may eventually be changed, although always within the framework of the current business concept and the structural guidelines that have been laid down. Companies which, under our auspices, cannot achieve set objectives, or for which another owner can better realise their potential, may come to be disposed of. It will generally hold that all three business divisions, as well as their individual component companies, will be developed in order to fulfil the requirements which are placed on stock exchange listing. This is not to say that stock exchange listing will occur. This development objective should be seen as a general focus on quality with regard to the subsidiaries and the three business areas, but which naturally gives Hexagon long-term freedom of action and the opportunity to change its structure at some point in the future.

COMMITMENTS FOR THE FUTURE

During 1997, commitments to increase growth have intensified. The Group management together with subsidiary managers has conducted an overriding project to increase growth and profitability which has resulted in Group overall guidelines documented in the manual "Modes of Thinking and Modes of Working in the Hexagon Group". During 1998, these guidelines will be implemented in all of Hexagon's subsidiaries. Two specific projects have begun during the autumn of 1997 to in-

crease profitability in the Group. On the one hand, a purchase project with the intention of rendering purchasing work more efficient and thereby reduce purchasing costs, and on the other hand a project to increase the level of skills in the controller area, with a view to improving economic control and focus on growth and profitability.

In the Group, commitments for the future have been made in the form of investments to increase capacity, corporate establishments and expansions on new markets, intensified efforts in R&D, and acquisition of companies. These measures have incurred costs and negatively affected the earnings outcome for 1997, but are assessed as having favourable effects in the future.

Investments to increase capacity
AKA Industriprodukter has invested in a new all-encompassing Group IT system for administration of all the routines of the company. The IT system coordinates warehousing, logistics and administration and renders them all more efficient.

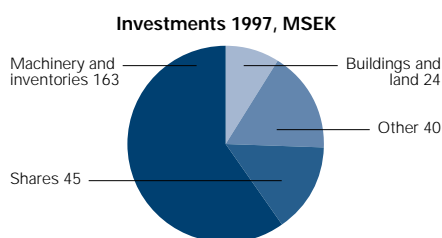
Gislaved Gummi has invested MSEK 30 in a new production line for wheels for electric trucks. Production capacity has thereby been doubled and provides the basis for Gislaved's drive on new markets. Production capacity of rubber semi-manufactures has also been doubled by an investment of MSEK 22 in a new rubber mixing plant.

In Moteco, extensive investments in both buildings and automation equipment were made during 1997. In total, implemented investments amount to MSEK 35. Capacity has thereby been progressively increased from approximately 10 million to 25 million antennas per year during 1997. When these investments give full effect in the middle of 1998, production capacity will amount to more than 40 million antennas per year.

In Johnson Metall, investments to increase capacity have been implemented principally in the brass division, in order to meet increasing demand and new customers.

AB R Lundberg has invested in a new central warehouse in Malmö Free Port. Previously, products were warehoused at three different sites. The new warehouse installation improves logistics and makes stock handling more efficient.

New markets During the year, AKA Industriprodukter AB established a new sales company in Riga, Latvia. A sales of-



office is already in operation in St Petersburg in Russia, and during 1997 a new sales office was opened in Moscow. In Poland, sales capacity has been increased and drives have also been put into effect in new product areas.

Gislaved Gummi has strengthened its own sales office in Germany in order to cultivate the German truck industry. The company has also made considerable inroads into the Japanese market and, in a short time, become established as supplier to the major truck manufacturers in the country.

Johnson Metall has long held a considerable share of the market for cage rings of brass for ball bearings in Europe and the United States. Within the bronze division, Johnson Metall is the market leader in the Nordic countries. During 1997, selective sections of the German bronze market began to be cultivated.

Moteco has established its own wholly-owned subsidiary in China and obtained a "business licence" to manufacture and sell antennas for mobile telephones. The production plant is expected to be ready to come on stream in the autumn of 1998. Moteco has also formed a subsidiary in the United States for manufacturing and selling antennas on the North American market.

Research and Development Gustaf Fagerberg's subsidiary GEFA Processtechnik has, through a joint project with Asian manufacturers, produced a new competitive product programme for the German and Eastern European markets. Preparations are in hand for establishing sales channels in the Baltic region and Eastern Europe.

During the year, Gislaved Gummi has strengthened its R&D drives in order to develop new polymer material types within different areas. Cooperation takes place with a number of the company's major customers.

Moteco has developed a new R&D department in Lund and will be moving some of the personnel from Kalmar and Ruda to achieve concerted capacity within the area. As a result, resources in R&D have more than doubled over the last year.

Acquisition of companies In June 1997, Gustaf Fagerberg acquired all shares in Roto-Sieve Filter AB (formerly INTOP AB). Roto-Sieve form the basis of Fagerberg's efforts within liquid filtration and provide both products and customers within the area. In June 1997, Dacke

Hydraulik acquired INAB in Örnsköldsvik. INAB complements operations in Dacke Hydraulik by providing a geographic market and specialist skills in the field of hydraulics.

In July 1997, LG Fredriksson International AB was also acquired. Fredriksson's complement ABR Lundberg's range of products within industrial food technology.

In June, Johnson Metall acquired the Finnish Prova Troupe's bronze operations. Operations are integrated in the other activities of Johnson Metall in Finland.

During the fourth quarter, AKA Industriprodukter acquired the essentials of a minor Finnish technology trading company and thereby took over the Chesterton agency for the Finnish market.

Other commitments for the future AKA Industriprodukter has founded a new company for the production of refrigerator frames for the Nordic market. The concentration on finished refrigerator frames implies that AKA will, to a greater extent, be a systems supplier and thereby can offer its customers their skills and technical competence.

Gustaf Fagerberg has increased its product range with several new Nordic agencies in the industrial valves area. In Sweden, the agency for Siemens instrument automation was obtained.

SwePart has increased its ownership holding to 57 per cent of the capital in EBP in Olofström AB. EBP was formed together with, among others, Volvo and operations comprise the manufacture of original spare parts in sheet metal, principally for car models which are no longer in series production (for example Volvo 240, 740, etc.) Volvo is the largest customer, but other

European automobile manufacturers are numbered among the customers. Operations have developed well and turnover was MSEK 103 during 1997. SwePart Material has supplemented its product range in Norway which now, in addition to steel products, also includes aluminium from the Swiss firm Alusuisse.

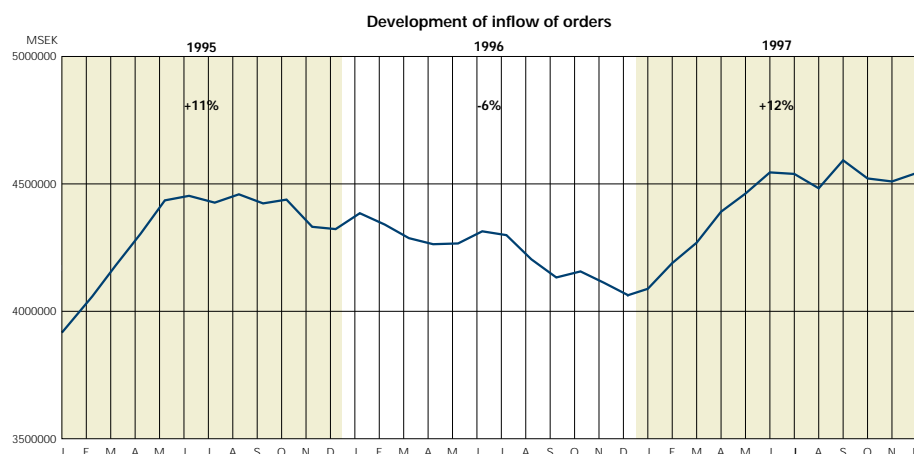
ECONOMIC OVERVIEW 1997

Order inflow and market The inflow of orders has increased by 9 per cent in a comparable structure in 1997 compared with 1996. Hexagon follows the order inflow trend in seasonally adjusted whole year rate which is based on the last six months.

During the first half of 1997, the order inflow rate increased dramatically and in April, the inflow of orders was on a level which exceeded the highest level during 1996. The increase continued up to and including June and thereafter levelled out at a historically high level in a comparable structure.

The order inflow rate on a whole year basis was MSEK 4,570 in December 1997 compared with MSEK 4,080 in December 1996. All values are based on the last six months, revalued to full year with an adjustment for seasonal variations. In total, the order inflow rate in a comparable structure has risen by 12 per cent compared with 1996. The increase of the order inflow rate, 12 per cent, shows, compared with the absolute increase rate of 9 per cent, that the inflow of orders improved during the second half of 1997 in relation to the second half of 1996.

The Group's customers are to be found principally within the export indus-



The diagram shows the inflow of orders. The values are seasonally adjusted and revalued to whole year rate and are based at each point in time on the outcome of the last six months. The inflow of orders is shown in a comparable structure for all companies now included in the Group during the entire period

tries in Sweden, in the Nordic countries, in Germany and the United States. The Swedish export industries make up the largest individual customer category.

Sales and production take place for the greater part with Sweden as a base, which means that the Group is affected by the competitiveness of the Swedish export industries. Of the Group's total invoicing, 38 per cent (40) is invoiced on overseas markets via direct exports and in the Group's overseas subsidiaries. Indirect exports may be added to the Group's invoicing on overseas markets. A large proportion of sales to Swedish companies is re-exported immediately. In total, the indirect exports from Sweden are calculated as amounting to 20 per cent (26) of total Group turnover. The total overseas-related invoicing thus amounts to roughly 58 per cent (66).

Invoiced sales and earnings
Group invoicing for 1997 amounted to MSEK 4,218 (MSEK 3,148), an increase of 34 per cent. The figures are not entirely comparable due to changes in the Group structure. In a comparable structure, invoicing rose from MSEK 4,085 to MSEK 4,316, an increase of 6 per cent.

Earnings after financial items rose by 52 per cent to MSEK 387.9 (254.8) including capital gains on the disposal of shares in Svedbergs. Excluding this capital gains item, earnings rose by 19 per cent to MSEK 304.1. The profit margin thus amounted to 7.2 per cent excluding capital gains and 9.2 per cent (8.1 per cent) including these capital gains. Earnings have progressively improved during the year and, compared with 1996, the earnings per quarter in 1997, excluding capital gains, were as follows: 1st quarter MSEK 62 (68), -9 per cent, 2nd quarter MSEK 82 (70) +17 per cent, 3rd quarter MSEK 74 (57), +30 per cent, 4th quarter MSEK 86 (60), +43 per cent. The earnings for 1997 have been charged with MSEK 8.9 (24.1) in costs for the Group's synthetic warrants programme. These costs are placed in reserve monthly during the current year and are based on the latest price paid for Hexagon shares on the Stockholm Stock Exchange. Despite a slightly stronger demand during 1997 compared with 1996, price increases were marginal.

OPERATIONS 1997

Invoiced sales within the Industrial Components and Systems business area amounted to MSEK 1,836 (1,500) during 1997. Earnings after financial items rose

Invoiced sales and earnings after financial items by business division				
MSEK	Invoiced sales		Earnings	
	1997	1996	1997	1996
Industrial Components and Systems	1.836	1.500	118,9	104,0
Niche Manufacturing	1.879	1.012	208,9	151,2
Industrial Food Technology	430	331	8,9	10,4
Other operations	89	309	24,1	33,9
Group adjustments, Parent Company	-16	-4	-56,7	-44,7
Capital gains, Svedbergs	-	-	83,8	-
The Group	4.218	3.148	387,9	254,8

Invoiced sales and earnings after financial items by company and business division, relates to whole year.				
MSEK	Invoiced sales		Earnings	
	1997	1996	1997	1996
Industrial Components and Systems				
AKA	866	828	37,4	34,0
Dacke Hydraulik	483	450	47,1	47,9
Gustaf Fagerberg	487	459	34,4	35,4
	1.836	1.737	118,9	117,3
Niche Manufacturing				
Gislaved Gummi	344	305	37,2	41,3
Moteco	189	128	58,2	49,3
Johnson Metall	452	422	48,7	50,1
SwePart Material	266	280	18,8	21,3
SwePart	628	584	46,0	40,8
	1.879	1.719	208,9	202,8
Industrial Food Technology				
Norfods	528	529	9,9	15,0

to MSEK 118.9 (104.0). The greater part of this increase is explained by the acquisition of AKA Industriprodukter which is a member of Hexagon as of May 1996. In a comparable structure, invoicing rose by 6 per cent, from MSEK 1,737 to MSEK 1,836 and earnings rose to MSEK 118.9 (117.3). A sluggish market in Sweden for investment goods, above all within the forestry and process industries, has negatively affected earnings. The other Nordic countries, where investments were at a higher level, have compensated to some degree for the sluggish Swedish trend. The inflow of orders in a comparable structure rose by 6 per cent.

AKA Industriprodukter has, by an internal assignment, acquired EIE Maskin AB from SwePart AB, and EIE Maskin AB will be reported within AKA as of 1997. Invoicing in AKA Industriprodukter amounted to MSEK 866 (828). Earnings rose to MSEK 37.4 (34.0). During the year, AKA has continued expansion in Poland, the Baltic states and Russia, and these markets now constitute 10 per cent (9) of the total invoicing. The Swedish, Danish and Norwegian markets for refrigeration products and process components has been sluggish, while the market in Finland for hydraulics, pneumatics and flow technology has developed well.

Dacke Hydraulik's invoicing rose to MSEK 483 (450) earnings were largely unchanged and amounted to MSEK 47.1 (47.9). During the year, INAB was acquired and the increase in invoiced sales is largely explained by this acquisition. In a comparable structure, invoicing increased somewhat. On the Swedish and Norwegian markets, which constitute more than 90 per cent of turnover, invoicing remained unchanged compared with the previous year. Exports to the United States and the United Kingdom increased dramatically from a low level.

Gustaf Fagerberg increased invoicing to MSEK 487 (459). This increase is explained partly by the acquisition of Roto-Sieve and partly by an increase in sales on markets outside Sweden. The Swedish market, where 45 per cent of invoicing takes place, was sluggish, particularly within the customer group paper and cellulose and in total invoicing remained unchanged. In Norway and Denmark, invoicing rose by 8 per cent. Exports outside the Nordic countries rose from a low level.

Earnings after financial items declined to MSEK 34.4 (35.4) primarily because of one-off costs in connection with the re-

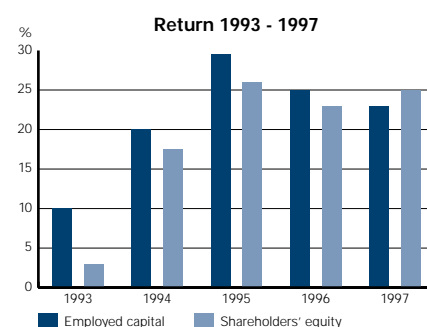
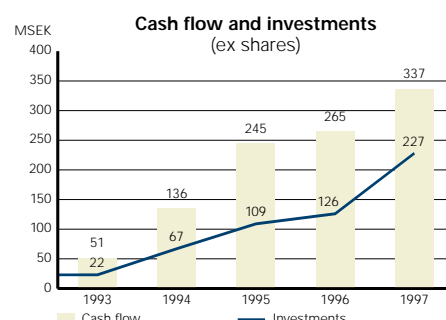
structuring of operations in Denmark, and the generally sluggish trend in Sweden.

Invoicing within Niche Manufacturing rose to MSEK 1,879 (1,012) and earnings after financial items rose by 38 per cent to MSEK 208.9 (151.2). SwePart and SwePart Material were acquired in December 1996, for which reason invoicing and earnings are not comparable. In a comparable structure, invoicing rose by 9 per cent, from MSEK 1,719 to MSEK 1,879 and earnings rose somewhat and amounted to MSEK 208.9 (202.8). During the year, extensive investments to meet future requirements were implemented, among other things investments in machinery and production premises to increase capacity, and also the establishment of new subsidiaries. This, together with restructuring costs for phasing-out parts of Johnson Metall's operations in the United States, negatively affected earnings during 1997. In the business area, order inflow rose by 19 per cent in a comparable structure.

Gislaved Gummi saw an increase of invoiced sales by 13 per cent to MSEK 344 (305). Earnings after financial items fell to MSEK 37.2 (41.3), primarily owing to production disruptions during the second and third quarters in connection with the start-up of a new production plant for manufacturing wheels. These disruptions have now largely been remedied. During the fourth quarter, earnings rose by 13 per cent compared with the previous year. The inflow of orders is at present on a high level and rose during 1997 by 31 per cent compared with 1996.

Moteco increased invoiced sales by 48 per cent to MSEK 189 (128). The increase in invoiced sales is one result of the fact that several new major customers have been added the books, as well as the generally healthy growth in this branch of industry. The market share has increased during the year and now amounts to approximately 20 per cent of the global market. Production capacity during the year was doubled and, at the end of the year, investments were made to double capacity once again. Earnings after financial items rose by 18 per cent to MSEK 58.2 (49.3). At the end of the year, subsidiaries were established in China and the United States.

Johnson Metall's invoicing rose by 7 per cent to MSEK 452 (422). All geographic markets have developed well and the increase principally took place within the brass activities. The unprofitable bronze activities in the United States have now been wholly phased-out and the compa-



Return on capital employed by business division in percent (pro-forma)

	1997	1996
Industrial Components and Systems	24,0	25,8
Niche Manufacturing	24,2	25,4
Industrial Food Technology	13,5	25,2



ny is concentrating on cage rings in brass for ball bearings. Earnings after financial items amounted to MSEK 48.7 (50.1) and were negatively affected by the restructuring costs in the United States.

SwePart Material's invoicing fell by 5 per cent to MSEK 266 (280) because of lower volumes and falling prices. After a very weak start to 1997, volumes progressively improved towards the end of the year. Earnings after financial items fell to MSEK 18.8 (21.3).

SwePart (excluding *SwePart Material*) increased invoiced sales somewhat to MSEK 628 (584). Earnings rose to MSEK 46.0 (40.8). Demand for heavy duty industrial tools has been better than for the previous year and it is primarily within this area that the earnings improvement is to be traced.

Norfods, with the companies AB R Lundberg and LG Fredriksson International AB are included in the Industrial Food Technology business area. Invoicing amounted to MSEK 430 (331). Fredriksson was acquired in July 1997, and for this reason the figures are not comparable. In a comparable structure, invoicing remained largely unchanged at MSEK 528 (529).

Earnings declined somewhat from MSEK 10.4 to MSEK 8.9, principally because of changes to the product mix and commitments within computers, marketing and logistics. As of 1998, the companies are coordinated within the newly formed company Nordic Food and Drink Suppliers.

Other companies in Hexagon are Robust Ståldörrar RSD AB and the affiliated company VBG Produkter AB (45 per cent). For 1997, Robust report a loss of MSEK - 3.0 (-1.6), and VBG contributes to Hexagon's earnings in accordance with the capital share method, with MSEK 15.8 (15.2). As of October 1, 1997, Svedbergs are no longer reported as an affiliate and contribute with MSEK 11.0 (16.6) for 1997.

Profitability Return on average shareholders' equity was 25 per cent (23) after earnings were charged with a standard tax (28 per cent). If the capital gains in Svedbergs are excluded, return on shareholders' equity was 28 per cent and 18 per cent on capital employed. The profit margin before standard tax amounted to 9.2 per cent (8.1) (7.2 per cent excluding capital gains), and after the standard tax charge, to 6.6 per cent (5.8) (5.2 per cent excluding capital gains). Capital turnover rate was 3.8 (3.9).

Return on average capital employed amounted to 23 per cent (25) and to 18 per cent if the capital gains in Svedbergs are excluded. The profit margin for calculating return on capital employed has improved to 10.4 per cent (9.2) (8.4 per cent excluding capital gains). The capital turnover rate was 2.2 (2.6).

During the last five years, profit margin and capital turnover rate of capital employed have developed as follows:

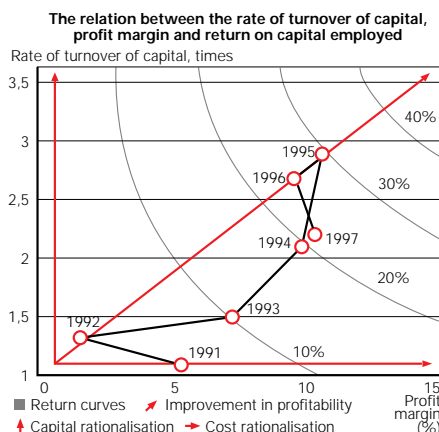
Year	Profit margin rate	Capital turnover
1993	6.7%	1.5
1994	9.7%	2.1
1995	10.1%	2.9
1996	9.2%	2.6
1997	10.4%	2.2

The profitability calculations have been based on an average capital amount that takes into consideration the time during which the new share issue and company acquisitions affected turnover, earnings and the balance sheet.

The capital gains which arose in connection with the listing of Svedbergs on the Stock Exchange favourably influenced the profit margin by 2 percentage points. Excluding the capital gains, the profit margin thus fell by 1 percentage point compared with 1996. This decline may be wholly explained by the acquisition of AKA Industriprodukter and SwePart which took place in the middle and end of 1996. In the short term, company acquisitions have lead to profit margin declines when the whole invoicing is consolidated, but only the net earnings after acquisition costs (interest costs on purchase price and goodwill) are posted to the earnings. However, the acquisition is advantageous since the profit per share increases and thereby the value of Hexagon increases. The new issue which was implemented in connection with the acquisition of SwePart moreover increased the substantive value both per share and in total in the Group.

Investments Group investments in fixed assets amounted to MSEK 272 (126). In total MSEK 326 was invested (748). The difference of MSEK 54 (622) was supplied to fixed assets by company acquisitions.

The majority of investments were in production machinery and computer systems to increase capacity. Major investment projects are to be found among



others in Gislaved Gummi (new mixing plant, etc.) and Johnson Metall (heavy duty lathe equipment etc.) and also in Moteco (production equipment).

Cash flow Cash flow before changes in operating capital and investments amounted to MSEK 337 (265). After investments in fixed assets, net cash flow amounted to MSEK 65 (139).

The Group's statement of changes in financial position shows the changes in operating capital and funds supplied and funds applied from the consolidation perspective, where the assets of companies acquired are treated as investments. The cash flow before investments but after changes in operating capital was MSEK 197 (149).

The sale of fixed assets has supplied MSEK 188 (8) to the Group.

Cash flow after investments and after investments in the fixed assets of companies acquired amounted to MSEK 60 (-591). The Parent Company's net investment in shares in subsidiaries (purchases minus sales) amounted to MSEK 233 (570). Depreciations amounted to MSEK 162 (101) during 1997.

Liquidity and financial position On December 31, 1997, the equity-total assets ratio stood at 43 per cent (38). The established objective is that the equity-total assets ratio in the Group should not fall below 35%. The Group's earnings performance, positive cash flow and reassuring equity-total assets ratio provide considerable scope for borrowing.

Liquid assets including unutilized overdraft facilities amounted to MSEK 331 (426).

During 1997, a credit undertaking of approximately SEK 1.2 billion through a so-called syndicated loan was obtained. Roughly MSEK 500 will be employed to lift out existing loans. The remaining amount is a five-year credit undertaking which ensures a considerable proportion of the Group's long-term capital requirements for future expansion.

Balance sheet structure and shareholders' equity The Group's balance sheet total stood at MSEK 2,877 (2,656). Visible shareholders' equity was MSEK 1,219 (995). Adjusted shareholders' equity, including the surplus value in listed shares, amounted to MSEK 1,339 (1,036). Interest-bearing liabilities stood at MSEK 751 (861) thus accounting for 26 per cent (32) of the balance sheet total. The

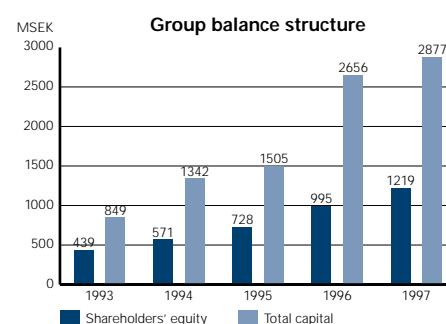
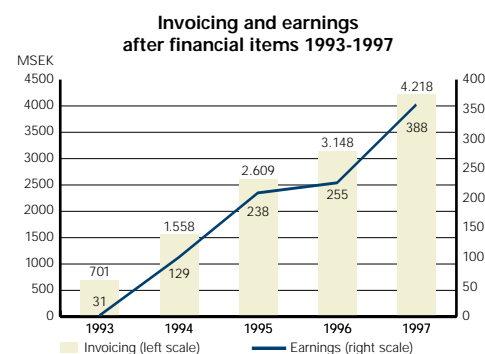
Group's goodwill on December 31, 1997 stood at MSEK 317 (308), which is the equivalent of 11 per cent (12) of the balance sheet total. Group goodwill relates to the following companies:

AKA Industriprodukter	MSEK	142
Dacke Hydraulik	MSEK	19
Gustaf Fagerberg	MSEK	14
Gislaved Gummi	MSEK	9
Johnson Metall	MSEK	2
SwePart Material	MSEK	31
SwePart	MSEK	62
R Lundberg	MSEK	24
LG Fredriksson	MSEK	13
Others	MSEK	1

RISK ANALYSIS

Financial risks Essentially, the financial risks are those attached to exchange rate movements that affect payment flows in foreign currencies (transaction exposure); the valuation of earnings, assets and liabilities in foreign currency (translation exposure); borrowing and interest risks as well as credit risks. The following description outlines Hexagon's exposure.

Transaction exposure, Swedish companies Total purchases of goods in foreign currencies amounted to roughly MSEK 700. Virtually all imports are denominated in foreign currency. The German D-mark is predominant and accounts for 39 per cent, the U.S. dollar for 15 per cent Sterling for 15 per cent. The remaining 31 per cent is divided among roughly 10 other currencies. More than 80 per cent of purchases are hedged or are regulated vis à vis customers under provisions in contracts or in price lists.



Sales of goods in foreign currencies amount to MSEK 133, which represents around 4 per cent of total invoicing in Swedish companies. These sales are transacted primarily in Nordic currencies. In all, goods are exported from Sweden to a value of MSEK 486. The net exposure that cannot be hedged or regulated under contracts or price lists is virtually non-existent.

Translation exposure Net assets in foreign currencies, i.e. equity in overseas subsidiaries, is normally hedged to some extent. Such net assets amount to MSEK 259. Acquisition of foreign subsidiaries is normally undertaken by raising loans in the foreign currency. Currently, the Group's Swedish companies carry loans in foreign currency that, as of the date of closing, amount to MSEK 233. Of this amount, MSEK 146 has been borrowed in order to counterbalance the foreign currency position occupied by the Group's foreign net assets, this is called "equity hedging".

Sales by subsidiaries abroad amount to MSEK 1,185 (1,012), or 28 per cent (32) of total turnover. Earnings after financial items amount to MSEK 68 (54), which represents 22 per cent (21) of the Hexagon Group's earnings. Earnings generated by country are: Finland M SEK 35, Norway MSEK 16, Denmark MSEK 6, Germany MSEK 8, Poland MSEK 7 and USA MSEK -5.

Borrowing and interest risks The Group's equity-total assets ratio, of 43 per cent, and increasing cash flow, together with the credit undertaking obtained in connection with the execution of the

syndicated loan of SEK 1.2 billion provides good opportunities for borrowing significant sums in the short term. The Group's interest-bearing debt amounted to MSEK 751 (861) at 31 December 1997. The average interest rate on borrowings in December 1997 was 5.87 per cent. Approximately 45 per cent of the debt has a fixed interest term maturing during 1998.

Credit risks Credit risks are related to the credit rating of the counterparty and require an assessment of the extent to which such a party can fulfil the undertaking. Credit risks arise in connection with the sale of goods and services on credit (customer credit) and with deposits of liquid assets.

The authorisation of credit is as a rule separate from marketing and is preceded by a careful credit screening. The Group's accounts receivable on December 31, 1997 amounted to MSEK 641 (508). The average duration of these receivables was 39 days (40).

Investment of liquid assets is made after a credit assessment in banks deposits or in interest-bearing securities with a low credit risk and high liquidity (government treasury discount notes or their equivalent).

Seasonality and volume fluctuations Hexagon's safety margin was 27 per cent (23.5). The safety margin describes how much invoiced sales can fall before pre-tax earnings reach zero. This concept is based on the reasoning that direct, variable costs follow developments in volume, that the price level remains constant and also that indirect capacity costs are fixed. When volume falls substantially, obviously the indirect costs are also adjusted to volume

change. The safety margin is a relatively rough measure, but nevertheless provides an indication of how susceptible the company is to volume fluctuation. From the Group perspective, volume fluctuation is normal for the operations conducted.

The companies' invoiced sales are based on recurrent and regular commercial transactions, generally following the business cycle prevailing in the Swedish engineering industry.

Assessment of the economic climate for 1998 In general, it can be said that the majority of assessments of the economic climate made during the spring of 1998 are favourable for those markets and product segments within which the Hexagon Group operates. However, it might be noted that the general assessment of growth in the Swedish economy is somewhat lower during the spring of 1998 than the corresponding assessments were in the autumn of 1997.

For the business areas of Industrial Components and Systems, it appears that the economic climate will be able to improve somewhat compared with 1997, principally because of an expected higher level of investment within the Swedish process industry. The situation in the other Nordic countries is assessed as continuing to be favourable.

For the companies within the business area of Niche Manufacturing, it is expected that the inflow of orders will remain at a high level. Exports from Sweden are assessed as increasing at a slightly slower rate than during 1997, but starting from a high level. This should create favourable external conditions for all companies in this field of operations. The telecommunications industry is expected to increase more powerfully than the rest of Swedish export industry, which will favour Moteco.

No major changes in the economic climate for Industrial Food Technology are expected. However, a positive feature is the prevailing trend with increased, above all interNordic, trade in food products.

The financial crisis in the Asian Tiger economies is assessed as only marginally affecting demand for the Hexagon Group during 1998. In the longer term, depreciated currencies in Asia may possibly weaken the preconditions for sections of the Swedish export industry.

Taken as a whole, it is assessed that the economic climate for 1998 will remain unchanged or be slightly better than during 1997.



Five-year review

Definitions

Growth in income per year. The change in total income compared with the previous year.

Capital employed. Balance sheet total less non-interest-bearing liabilities.

Return on capital employed. Earnings after financial items plus financial expenses as a percentage of average capital employed.

Return on shareholders' equity. Earnings after financial items less 28% standard tax as a percentage of average shareholders' equity.

Visible equity-total assets ratio. Shareholders' equity including minority interest as a percentage of the balance sheet total.

Percentage risk-bearing capital. The total of Shareholders' equity, deferred taxes and minority interest as a percentage of the balance sheet total.

Times interest earned. Earnings after financial items plus financial expenses divided by financial expenses.

Net indebtedness. Interest-bearing liabilities minus liquid assets divided by shareholders' equity.

Cash flow. Cash flow before changes in operating capital and investments.

Investments. Investments in fixed assets excluding what has been added through corporate acquisitions.

Earnings per share after standard tax. Reported earnings before tax with a deduction of 28 per cent for standard tax divided by the average number of shares.

Earnings per share after full tax. The year's earnings divided by the average number of shares.

Cash flow per share. Cash flow divided by the average number of shares.

Visible shareholders' equity per share. Reported shareholders' equity divided by the number of shares at year's end.

Share price. The last closing price of the year.

Capital turnover rate. Invoiced sales for the year divided by average shareholder's equity or average capital employed.

Safety margin. Earnings after financial items divided by contribution margin ratio as a percentage of invoiced sales for the year. Contribution margins earned in 1997 amounted to 34.1 per cent (34.5).

Profit margin. Earnings after financial items as a percentage of annual invoiced sales.

Profit margin employed in calculating return on capital employed. Earnings after financial items plus interest expenses as a percentage of annual invoiced sales.

Dividend yield. Dividend as a percentage of the share price.

Dividend share. Dividend divided by earnings per share after full tax.

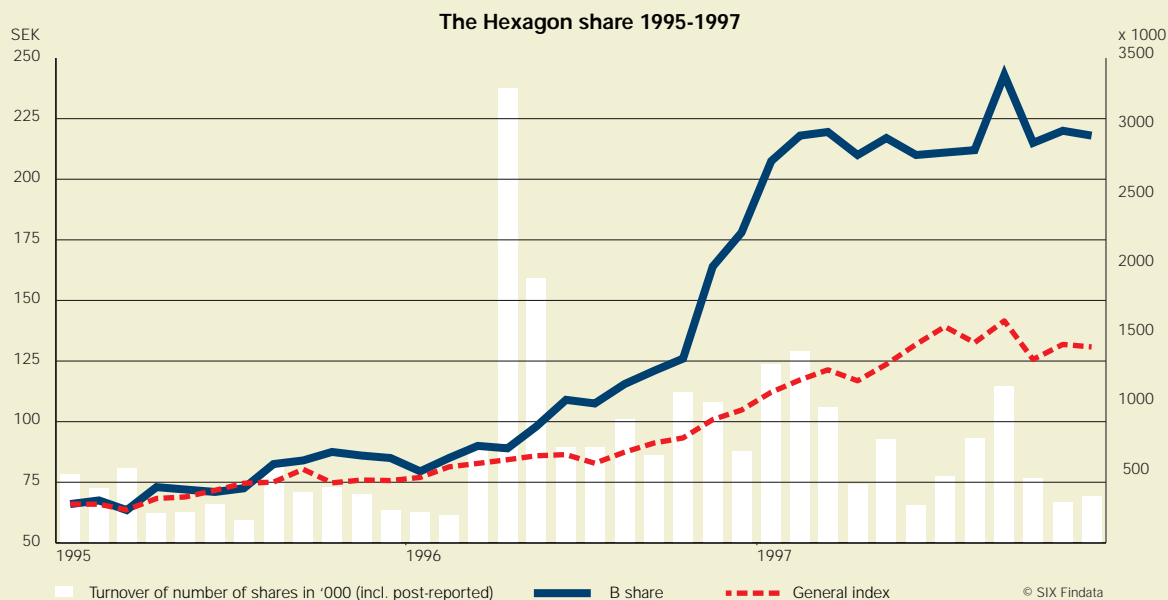
P/E ratio. The share price at year's end divided by earnings per share after full tax.

Group adjusted shareholders' equity. Visible shareholders' equity including surplus value of listed shares as of the date of closing.

MSEK	1993	1994	1995	1996	1997
Income statements					
Total income	701	1,558	2,609	3,148	4,218
Earnings before depreciation	34	131	241	273	325
Earnings after financial items	31	129	238	255	388
Of which non-recurring items	-4	-11	12	-	84
Earnings after tax	32	94	175	174	282
Balance sheets					
Current assets	560	853	951	1,441	1,577
Fixed assets	289	489	554	1,215	1,300
Non-interest-bearing liabilities	232	492	541	792	895
Interest-bearing liabilities	177	277	236	861	751
Minority interest	1	2	0	7	12
Shareholders' equity	439	571	728	996	1,219
Balance sheet total	849	1,342	1,505	2,656	2,877

Key figures	1993	1994	1995	1996	1997
Growth in income per year (%)	81	122	67	21	34
Return on capital employed (%)	10	20	29	25	23
Return on shareholders' equity (%)	7	17	26	23	25
Visible equity-total assets ratio (%)	52	43	48	38	43
Percentage risk-bearing capital (%)	57	47	54	43	49
Times interest earned	4,1	7,3	10,7	8,6	8,7
Net indebtedness (%)	-0,07	0,11	0,05	0,57	0,43
Cash flow (MSEK)	51	136	245	265	337
Investments (MSEK)	22	67	109	126	272
Earnings per share after standard tax (SEK)	3,33	6,81	12,69	13,40	18,85
Earnings per share after full tax (SEK)	4,85	6,96	12,86	12,72	19,09
Cash flow per share (SEK)	7,70	10,00	18,05	19,40	22,78
Visible shareholders' equity per share (SEK)	36	42	54	67	82
Share price on day of closing (SEK)	40	56	84	178	218
Average number of shares ('000)	6.590	13.575	13.575	13.676	14.793
Average workforce	515	1.304	1.983	2.315	3.001

Cash flow concepts are defined as prescribed by the Swedish Society of Financial Analysts.



OWNER RELATIONSHIPS

According to information from VPC, the number of shareholders on December 31, 1997 was 8,856. The ten major owners are:

	A	B	Percentage of share	Percentage of votes
Konverta	840.000	135.542	6,6%	38,2%
Maths O Sundqvist	–	1.505.000	10,2%	6,7%
Robur Aktiefonder	–	1.155.000	7,8%	5,2%
S-E Banken Aktiefonder	–	734.200	5,0%	3,3%
6:e AP-fonden	–	532.000	3,6%	2,4%
Nordico AB	–	497.100	3,4%	2,2%
Swedish Construction Workers' Union and Pension Fund	–	400.800	2,7%	1,8%
Simon Bonnier	–	371.000	2,5%	1,7%
Handelsbanken Fonder	–	342.188	2,3%	1,5%
Skandia and Skandia Fonder	–	287.057	1,9%	1,3%
	840.000	5.959.887	46,0%	64,3%

DEVELOPMENT OF SHARE CAPITAL

Year	Issues	Changes in number of shares	Number of shares	Capital Stock SEK thousand
1985			840.000	42.000
1986	Selective issue	6.800	846.800	42.340
1987	Selective issue	250.000	1.096.800	54.840
1988	Split 5:1	4.387.200	5.484.000	54.840
1988	New issue convertibles, new subscription to warrants	25.885	5.509.885	55.099
1989	New issue convertibles, new subscription to warrants	41.598	5.551.483	55.515
1990	New issue convertibles, new subscription to warrants	325.127	5.876.610	58.766
1991	New issue convertibles	206.666	6.083.276	60.833
1993	New issue with preferential rights	6.083.276	12.166.552	121.666
1994	Selective issue	1.408.448	13.575.000	135.750
1996	Selective issue	1.218.182	14.793.182	147.932

The Hexagon share

SEK/share	1993	1994	1995	1996	1997
Share price	40	56	84	178	218
Visible shareholders' equity	36	42	54	67	82
Earnings per share					
After standard tax	3,33	6,81	12,69	13,40	18,85 *(14,80)
After full tax	4,85	6,96	12,86	12,72	19,09 *(13,80)
Dividend	1,00	2,00	3,50	4,00	5,00**
Dividend yield per cent	2,5	3,6	4,2	2,2	2,3
Dividend pay out ratio per cent	21	29	27	32	26
P/E ratio	8,2	8,0	6,5	14,0	15,8

* The figures in brackets are excluding capital gains on sale of shares in Svedbergs

** Provided that the Annual General Meeting approves the Board's proposal.

SHAREHOLDER STRUCTURE

Shares held	Number of owners	Number of shares	Share percentage
1-500	7.067	1.047.130	7,1%
501-1.000	990	836.983	5,7%
1.001-2.000	402	635.920	4,3%
2.001-5.000	204	678.272	4,6%
5.001-10.000	72	553.919	3,7%
10.001-20.000	48	694.437	4,7%
20.001-50.000	40	1.277.858	8,6%
50.001-100.000	13	943.107	6,4%
100.001-	20	8.125.556	54,9%
	8.856	14.793.182	100,0%

Shareholders' equity and number of shares Hexagon's shareholders' equity totals MSEK 147.9 distributed between 840,000 series A shares and 13,953,182 series B shares. In total, there are 14,793,182 shares in the company.

The series A share carries ten votes and the series B share one vote.

Market valuation The Hexagon share price rose by 22.5 per cent during 1997. This can be compared with the general index which rose by 23.8 per cent during the same period. The market valuation at the end of the year increased to MSEK 3,225 (2,633).

Liquidity in the share A total of 8,538,815 shares changed hands at the Stockholm Stock Exchange (11,944,200) including post-reported transactions to a total value of MSEK 1,856 (1,263). Per day, an average of 34,300 (47,500) shares changed hands.

One trading unit is 100 shares.

Shareholder structure After the strong increase of the number of shareholders during 1996 (+146 per cent), the number has stabilised at this level. On January 1, 1997, the number of shareholders was 8,856, compared with 8,910 on January 1, 1996. The proportion of foreign holding amounted at the turn of the year to 10 per cent (11). Institutional ownership has continued to increase and amounts to 40 per cent (38) of the total number of shares and 26 per cent (25) of the votes.

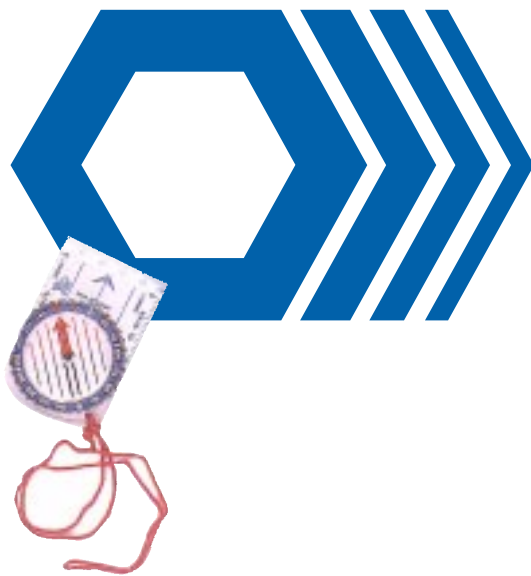
Dividend policy The Group's earnings growth and equity ratio are critical for future dividends. The general basis of Board recommendations regarding dividend is that 25-35 per cent of the year's post-tax profits is to be allocated for dividend to the shareholders. The Board will recommend at the Annual General Meeting that a dividend of SEK 5.00 (4.00) per share be approved, which corresponds to MSEK 74.0 (59.2). The dividend constitutes 26 per cent (32) of the profit per share after full tax and 5.5 per cent (5.7) of the Group's adjusted shareholders' equity.

The dividend approved at the Annual General Meeting will be paid out via VPC to those shareholders who, on the day of record, are entered in the company's stock register.

The dividend is expected to be paid out by VPC on May 19, 1998, provided that the Board's proposal is accepted at the Annual General Meeting that May 12, 1998 is to be the record day.



”The will and ability of the management and workforce are our strength and potential”



The willingness and ability to improve, develop and grow is the innermost essence of business enterprise and is given the highest priority within the Hexagon Group. It is this striving that gives us the vital impulses from the wider world, maintains the vigour of the Group, gives competitive advantages and develops our workforce.

Without highly-aimed and earnings-gearred growth ambitions, the self-confidence, work satisfaction and skills of our workforce would not be developed to the extent required for a successful business enterprise.

Growth is thus not only a matter of volume but also applies generally. It may be earnings, profitability, skills, organisational ability etc. that must grow. When we talk of growth, we adopt a holistic approach, i.e. how earnings, profitability and skills may be made to grow together in harmony with one another.

Overriding strategic decisions, financial strength, organisational ability and business acumen provide the basic preconditions for favourable earnings development. But we are fully aware that growth and the level of profitability are ultimately determined by every member of the workforce in their daily jobs. If our earnings are to continue to grow like everything else, they must start from the ground up. This strength is to come from every member of the workforce throughout the Group.

In the manual "Mode of Thinking and Mode of Working", written during 1997, six orientation points which, we have formulated, form the foundations of our corporate culture. We have made some progress along this path, but much remains to be done before all work bears the hallmark of our intentions. Here is a major challenge requiring skilful leadership at all levels and participation from all members of the workforce.

Hexagon's orientation points

- **Growth** Growth and renewal are natural and self-evident. The striving to improve existing customer relations, to find new customers and markets, new products and agencies, to make corporate acquisitions and develop growth-promoting organisational forms, all this is something continuously kept alive. A company, just like a successful sportsman, must constantly train in order to develop.
- **Business plan** All transactions are planned and developed within a framework where realistic and competent assessments of our customers' needs and the abilities of our competitors are fundamental when deciding on the direction of activities, business plan and objectives.
- **Profitability** Profitability is created in that all members of the workforce on all levels are constantly engaged in work to make the company more cost effective and to increase the company's incomes. Within all areas, we are working towards achieving a branch-leading position. Within the Hexagon Group, this is called the principle of continuous improvement.
- **Decentralisation** In the formulation of how work is to be organised in the individual subsidiaries, decentralisation and diversity take precedence over streamlined uniformity, but genuine accord prevails as regards Hexagon's objectives, orientation points and fundamental value judgements.
- **Economic control** Economic follow-up and analysis take place continually in order to be able to adapt rapidly to changing conditions and thereby ensure that established and promised objectives can be attained.
- **Communication** Communication within the Group must be open, frank and mutual and be conducted in straightforward and simple language that can be understood by everyone.



Towards environmental certification

During 1996, a Group decision was adopted that all operations within the Hexagon Group are to be environmentally certified in compliance with ISO 14001 and/or EMAS-registered at the latest at the end of the year 2000. This decision was the starting signal for highly intensive work relating to environmental issues in the subsidiaries.

However, environmental certification in itself is no guarantee for a truly healthy environment. On the other hand, it is a clear marking for the Hexagon Group of a vigorous start to a concerted environmental contribution. We intend to clarify the Group's present environmental status and pursue target-related work in continuous environmental improvements in accordance with an established environmental policy.

At the Group level, the environmental work is conducted within the framework of the Group's decentralised management system, i.e. through the Boards of Directors of the subsidiaries and by coordination of inputs for building up skills aimed at the management and those responsible for the environment in the subsidiaries.

During 1997, the subsidiaries have organised and commenced their environmental work in order to pursue this certification process to meet the established time objective.

Thorough knowledge of our environmental status During 1997, the greater part of our companies carried out extensive environmental studies with a view to encircling all environmental aspects relating to their operations.

Results from the environmental studies The studies mapped out that environmental problems in the Hexagon Group are of a limited nature and that the problems which exist are neither difficult to solve nor exceptionally costly.

Activities in the subsidiaries The status of the certification work in our subsidiaries at the beginning of 1998 may be briefly described as follows:

AKA Industriprodukter

- The certification process was started during the spring of 1998. Planned final audit is set for the middle of 1999.
- The world's first advanced recycling plant for refrigerants has been put into operation at the AKA Kylas Norrköping plant. The unique installation is to serve the whole of Sweden and can handle 1,450 tonnes of refrigerant per year.

Dacke Hydraulik

- Environmental studies have been completed or are in progress in all companies.
- Certification is planned to take place during 1999.

Gustaf Fagerberg

- All companies in the Fagerberg Group are to be certificated in accordance with ISO 14001 at the latest by the end of 1999.
- Two of the Swedish companies will already be certificated during 1998.
- An environmental review and consequential redeployment of the company's transports took place during 1997.
- Extensive information was sent to the company's suppliers setting out the environmental requirements.
- Measures to reduce energy consumption by 10 per cent will be implemented during 1998.

Gislaved Gummi

- The company is to be environmentally certificated during 1998.
- During 1997, environmental declarations were produced corresponding to 80 per cent of the total material volume.
- Halogen-containing flameproof agents have been replaced by environmentally friendlier chemicals.
- Nitrosamine-free vulcanisation systems have been produced for continuously vulcanised profiles.
- Stellana's new plant has been provided with carbon filters for purifying isocyanates and catalytic combustion for cleaning solvents.
- During 1998 all vulcanisation salt will be recycled and re-used and HA oils be replaced by a more environmentally friendly plasticizer.

Moteco

- The environmental study was completed during 1997 and the company intends to have its certification completed during the spring of 1999.

Johnson Metall

- The environmental study work was begun in 1997 in the Swedish company. Certification is planned for the end of 1998.
- Remaining companies in the Group will commence this work during 1998.
- Discussions are being held with major customers for a replacement of alloys with a view to reducing the pressure on the environment.

Our environmental work is to be characterised by:

- an honest ambition to conduct our business activities with a minimum negative effect on the environment,
- a striving to produce products using renewable substances as far as possible and to husband the consumption of raw materials,
- that laws and regulations in the area of the environment are to be complied with, but in general terms our ambition should be set higher as regards environmental work than that required by present legislation,
- to train the workforce continually in environmental issues, with the aim that as many members of the workforce as possible become engaged in the day-to-day environmental work,
- to present, continuously and with great frankness, our environmental status and our constant efforts to improve the environment in a manner that creates confidence in our customers, the workforce, owners, the authorities and the general public.

HEXAGON'S ENVIRONMENTAL POLICY

SwePart

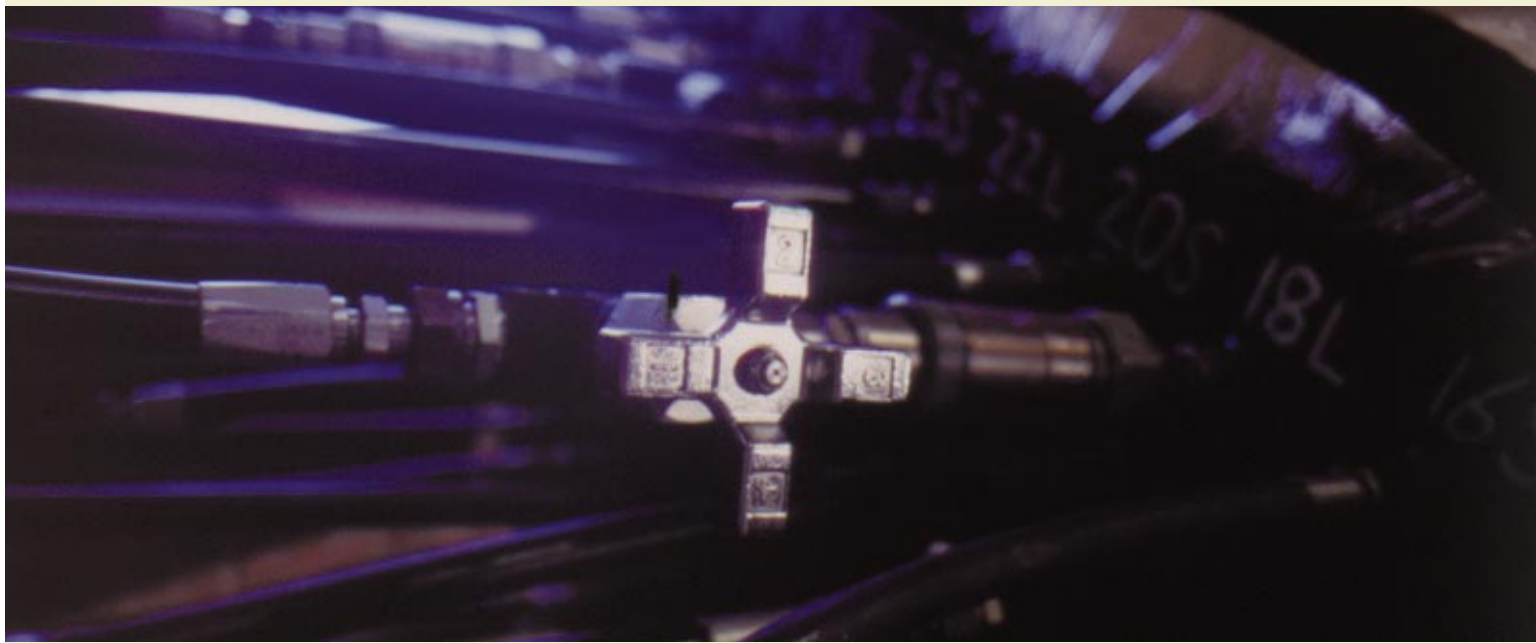
- A number of the companies in the Group will complete a final audit during 1998. Other companies to obtain certification during 1999.

Norfods

Operations within Norfods have no in-house production and, as a result, the environmental effects of operations are limited.

- AB R Lundberg plan a certification during 1998.
- L G Fredriksson's environmental certification work is to commence during 1998.

To sum up, it may be ascertained that work on meeting the objective established during 1996 of obtaining certification by the end of the year 2000 has vigorously commenced in our subsidiaries. All pointers indicate that most operations will have already completed this work during 1999.



INDUSTRIAL COMPONENTS AND SYSTEMS

The business area Industrial Components and Systems comprises three similar companies which provide Swedish and Nordic industry with components and systems within refrigeration, industrial hydraulics and flow technology. The companies have high market shares within their product segments. Invoiced sales in this business area amounted in 1997 to MSEK 1,836 (1,500) and earnings after financial items to MSEK 118.9 (104.0).

NICHE MANUFACTURING

The business area Niche Manufacturing comprises four engineering companies whose products are often developed in close cooperation with customers and are manufactured in-house. Operations are niche-oriented and are characterised by high market shares within each respective market segment. In 1997, invoiced sales amounted to MSEK 1,879 (1,012) and earnings after financial items amounted to MSEK 208.9 (151.2).

INDUSTRIAL FOOD TECHNOLOGY

Customers to the business area Industrial Food Technology are characteristically found within the food and pharmaceuticals industries. The companies included are organised in Norfods, which constitutes the basis for building up a Nordic supplier group. Today, Norfods is one of Sweden's leading suppliers of additives and packages to the food and pharmaceuticals industries. In 1997, invoiced sales amounted to MSEK 430 (331) and earnings after financial items to MSEK 8.9 (10.4).

Hexagon AB



Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	1.836	1.737	1.764	1.429
Earnings after financial items	118,9	117,3	121,0	83,1
Balance sheet total	932,3	837,6	837,0	779,5
Return on capital employed %	24,0	25,8	29,0	24,2
Total workforce	1.052	955	925	837

The above table is pro-forma.

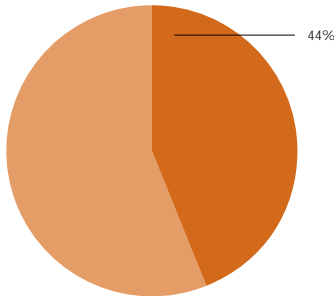
AKA INDUSTRIPRODUKTER AB

DACKE HYDRAULIK AB

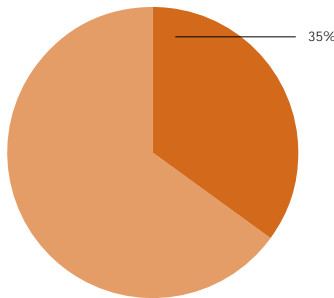
GUSTAF FAGERBERG HOLDING AB

Industrial Components and Systems

Share of Group invoicing



Share of subsidiaries' total earnings



This business area comprises engineering-oriented companies trading in technology, with the Nordic countries, Germany and Poland as the primary markets. In recent years, the Baltic states and Russia have also emerged as growth markets. The business area includes the companies AKA Industriprodukter AB, Dacke Hydraulik AB and Gustaf Fagerberg Holding AB.

These companies are essentially active within three product areas: refrigeration, hydraulics and flow technology. Sales are exclusively to industrial customers. Roughly 80 per cent of components are imported, principally from Germany, Japan, the United States, the United Kingdom and Italy. The remaining proportion is manufactured in-house. Both imported and in-house produced components are often included in the final product. The companies' operations are very similar, with customised system solutions and technical OEM sales to industry or direct to industrial end customers. A considerable proportion of sales goes to the investments of customer companies, for which reason the level of investment is of importance to the development of these companies.

The companies are similar in terms of how they cover their markets, market structure and component supply. Another common feature is their approach to management and control of their operations, as well as marketing and application skills with high technical competence within their product areas.

The companies have high market shares in their product segments. Around 65 per cent (66) of invoicing is foreign-related.

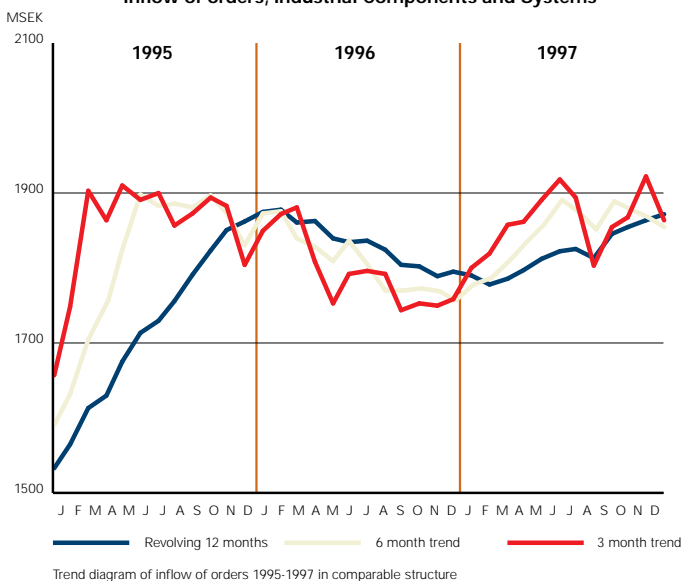
Invoiced sales rose to MSEK 1,836 (1,500). This increase is principally referable to the acquisition of AKA Industriprodukter which was acquired in May 1996. In a comparable structure, on a whole year basis, invoiced sales rose somewhat to MSEK 1,836 (1,737). Invoiced sales and earnings have been negatively affected by exchange rate fluctuations.

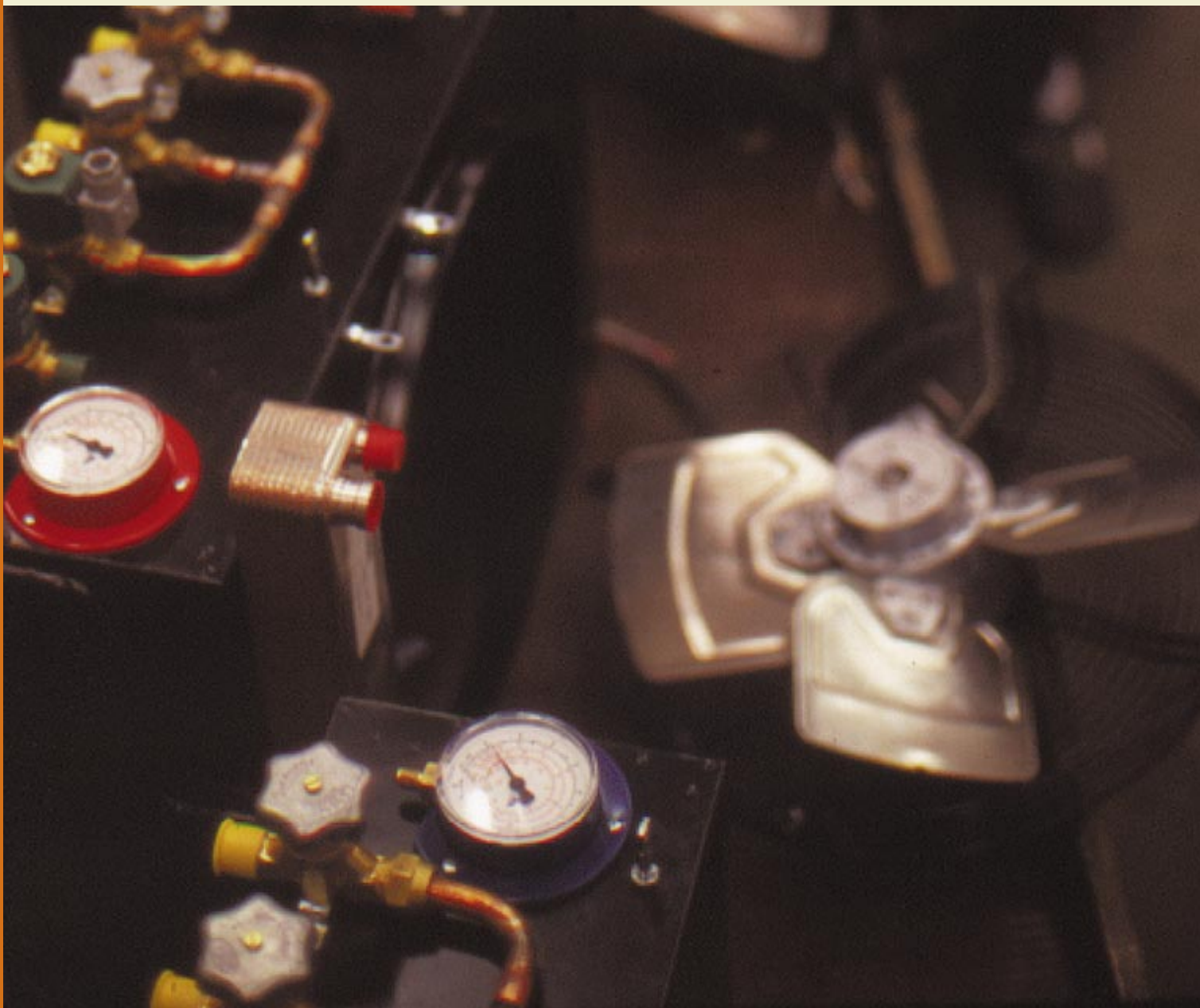
Earnings rose to MSEK 118.9 (104.0). In a comparable structure, earnings rose somewhat to MSEK 118.9 (117.3). A sluggish market in Sweden for investment products has negatively affected earnings. The other Nordic countries, where investments were at a slightly higher level, have not been able to compensate fully. A considerable proportion of sales goes to the forestry and process industries, where demand was weak during the year.

The companies' sales are, to 90 per cent (90), effected to the Nordic countries, of which Sweden accounts for 46 per cent (46), Finland 25 per cent (24), Denmark 10 per cent (12) and Norway 9 per cent (8). The remainder of sales goes above all to Germany, Poland and the Baltic states.

Trends during 1997 in the Nordic countries have largely been good, with the exception of Sweden. The low level of investments in Sweden, where the increase can be estimated at only 0.5 per cent, has limited growth in this business area. In the other Nordic countries, industrial production and investments rose by an average of 5 per cent and 8 per cent, respectively, according to those estimates made by Swedish banks in December 1997. For 1998, it is calculated that investments will increase dramatically in Sweden and continue at a high level in the rest of the Nordic countries. Industrial production is expected to decline slightly. Taken as a whole, this implies that the prospects for 1998 are good.

Inflow of orders, Industrial Components and Systems





Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	866	828	860	724
Earnings after financial items	37,4	34,0	52,7	41,7
Balance sheet total	414,0	378,3	391,3	372,8
Total workforce	421	383	362	339

The above table is pro-forma.

AKA Industriprodukter AB markets technical components and services, with operations in the Nordic countries, the Baltic States, Poland and Russia. The business concept is to import, warehouse and distribute high quality technical components within the market areas of refrigeration, HEVAC, hydraulics, flow technology, vehicle service equipment, and also washing and the environment. The products which AKA represents are imported principally from Europe and the United States and there is generally very little competition from domestic manufacturers.

During 1997 EIE Maskin is reported as a member of the AKA Group (previously a member of SwePart AB).

AKA Industriprodukter AB

Invoiced sales and earnings Invoiced sales rose to MSEK 866 (828) and earnings rose to MSEK 37.4 (34.0). During the year, the company has incurred extra costs in connection with the fine-tuning of a new administrative system in the majority of the member companies.

Products The product area *Refrigeration* is the largest within AKA and is represented in all operational countries. Within this product area, compressors, coolants, heat exchangers and thermostats are marketed. During the year, a new company was founded for the assembly and marketing of part-cooler systems (cooler frames). The range of products is also supplemented by service in the form of stations for replenishment of refrigerants and the handling of spent refrigerants.

Within the *HEVAC* product area, AKA markets, among other products, pumps, pressure tanks and water meters to wholesalers in Denmark, Finland and Sweden.

The *Flow technology* product area markets principally filters, pumps and valves to the processing and pharmaceuticals industries. The product areas *Hydraulics*, *Vehicle Service Equipment* and *Washing and the Environment* only operate in Finland and the product range comprises components for hydraulic systems, high pressure supply systems, automobile lifts, vehicle testing systems and high pressure cleaning units.

Organisation AKA has subsidiaries and sales offices in all of the Nordic countries, the Baltic States, Poland and Russia (St Petersburg).

Sales Sales are effected through the Group's own sales technicians to a large number of customers.

Distribution The refrigeration components are distributed direct to installers. HEVAC products are principally sold to wholesalers. The remaining product areas sell the greater part of their products to industrial end-customers.

Customers The AKA Group's five largest customers accounted in 1997 for roughly 10 per cent of sales.

The refrigeration products' customers consist of installers and the refrigeration industry in the Nordic countries, the Baltic States and Poland.

The customers in the product area of Hydraulics principally consist of manufacturing exporters in Finland.

HEVAC customers essentially comprise wholesalers operative in all of the Nordic countries, the Baltic States and Russia, while the Flow Technology product area finds its customers principally in the processing industry. Customers within the product area of Vehicle Service Equipment are located, apart from in Finland, also in the Baltic States and Russia. The Washing and the Environment product area sells its products on the Finnish market.

Competitors AKA's major competitors within the product area of Refrigeration are Kylma, Ahlsell Kyl and Danfoss. On the market for HEVAC products in the Nordic countries, AKA's competitors are mainly small players with a range of niche manufacturing products. AKA is one of the major players in the product areas which are established in Finland.

Growth AKA's growth will, to a large extent, take place within the present product areas by:

- the launching of new supplementary products
- the acquisition of companies with manifest synergy effects within the market and product area
- new markets for the existing product range

From as good as nothing in 1993/94, AKA has, during 1997, achieved a level of invoiced sales of MSEK 60 on the Eastern European state markets. The company has taken considerable market shares in the Product area of equipment for vehicle service in Estonia, Latvia and in the St. Petersburg region. In Estonia, AKA is the dominant player within the market sector of water metering and has established a firm bridgehead in Poland in the product area of refrigeration. Despite a number of initial problems, AKA has, in four years worked itself up to a position which opens further avenues for the future. This drive continues. During 1998, the emphasis will be placed on Russia, in particular on Moscow. The key product group on this market is Vehicle Service Equipment.

New products will be launched in the area of Flow Technology, for example mechanical seals.

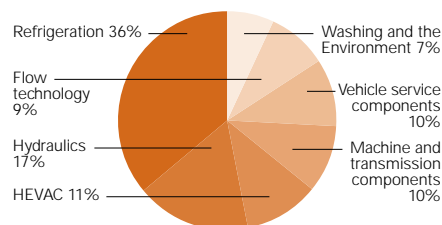
Increased efforts on system sales will also be implemented within the product area of refrigeration.

During 1997, a new, state-of-the-art IT system was installed. The system provides a solid platform for further development of business operations during 1998.

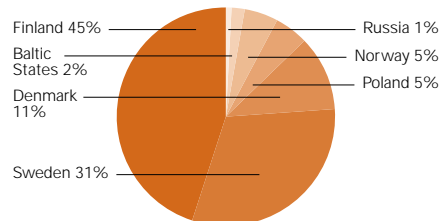


PRESIDENT PER SÖDERMAN

Distribution of sales



Geographic markets



Prospects for 1998 All pointers indicate that AKA's investments in Russia, Poland and the Baltic States will result in increased sales on these markets. The IT system installed during 1997 will provide further opportunities for more efficient sales work. Since, in addition, the economic climate is deemed as moving positively, earnings will most likely be up on 1997.



Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	483	450	419	268
Earnings after financial items	47,1	47,9	46,0	24,0
Balance sheet total	268,1	229,3	206,9	175,7
Total workforce	322	288	279	220

Dacke Hydraulik is one of the leading Nordic companies within the hydraulics industry. The company develops, manufactures and markets products within hydraulics and central lubrication for marine, industrial and mobile applications. The range of products manufactured by the company itself accounts for 50 per cent of sales. In addition, the company is licensed to sell branded products and the maintenance of equipment. As a result, the company has an extensive product range which makes for optimum system design and construction. INAB Ingeniörsbyrå AB in Örnsköldsvik, with a local office in Skellefteå, was acquired on July 1, 1997. The company manufactures systems, carries out service and distributes, among other products, Vickers' and VOAC's products in Norrland, Northern Sweden. As a result of this acquisition, Dacke Hydraulik has established a very firm anchorage in this geographic region.

Invoiced sales and earnings Invoiced sales rose in 1997 to MSEK 483 (450). This increase is principally a result of the acquisition of INAB Ingeniörsbyrå. Earnings amounted to MSEK 47.1 (47.9).

Products Dacke Hydraulik's own products consist of customized hydraulic cylinders and hydraulic systems.

Dacke Hydraulik's subsidiaries represent several well-known European and North American manufacturers: Hawe, Danfoss, Vickers, VOAC, Lincoln, Bosch and Enerpac to name a few.

Organisation Operations are conducted in nine operative subsidiaries which are located in 19 towns in Sweden and 3 in Norway.

Hydraulic cylinders are manufactured by CA-Verken, Vaggeryds Hydraulik and Hälleryds Hydraulik. These companies cooperate in both product development and optimisation of each other's production resources.

The remaining companies: Terling, Hydraul Syd, Hydraulik Leverantören, Sweden Hydro Tools, INAB and Hydronic in Norway are engineering companies with a high level of competence in their field of operations. A large proportion of licensed products are refined by integration into system designs.

Market The customer base is wide and encompasses more than 3 000 customers with volumes ranging from approx. 3 per cent of turnover and downwards. Direct exports and invoicing in overseas subsidiaries make up approx. 17 per cent, while Swedish sales intended for export amount to approx. 55 per cent.

Customers are to be found among almost all types of operations. The major

proportion of deliveries goes to OEM manufacturers. The market share within the company's niches is roughly 30 per cent.

Competitors consist of a few medium-sized companies and a number of small companies with niche-oriented production, licences and maintenance operations.

Growth The hydraulics sector is characterised by a low level of growth. As a result, the company's growth will continue to take place through a geographic expansion of the market, and continuous build-up of competence and skills, in order to provide our customers with the best possible package solutions, by continued acquisitions and by evolving new products.

Dacke Hydraulik's manufacturing companies are concentrating on a geographic expansion of their markets. Vaggeryds Hydraulik has achieved considerable export successes in Japan and, in 1997, was the only European company to receive Mitsubishi Heavy Industries' award – The Superior Performance Award. With niche manufactured products, CA-Verken has gained a foothold on the US market, and, during 1997, Hälleryds Hydraulik has won a number of major contracts from the Kvaerner Group.

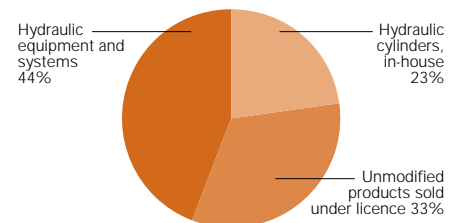
The engineering and trading companies of Dacke Hydraulik are increasingly concentrating on system package solutions in order to increase their market shares.

Prospects for 1998 Volumes for 1998 are assessed as remaining roughly the same as for 1997. The acquisition of INAB, and continued export drives, will probably result in an increase in both invoiced sales and earnings.

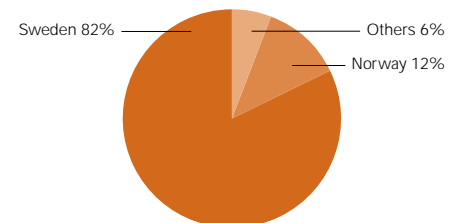


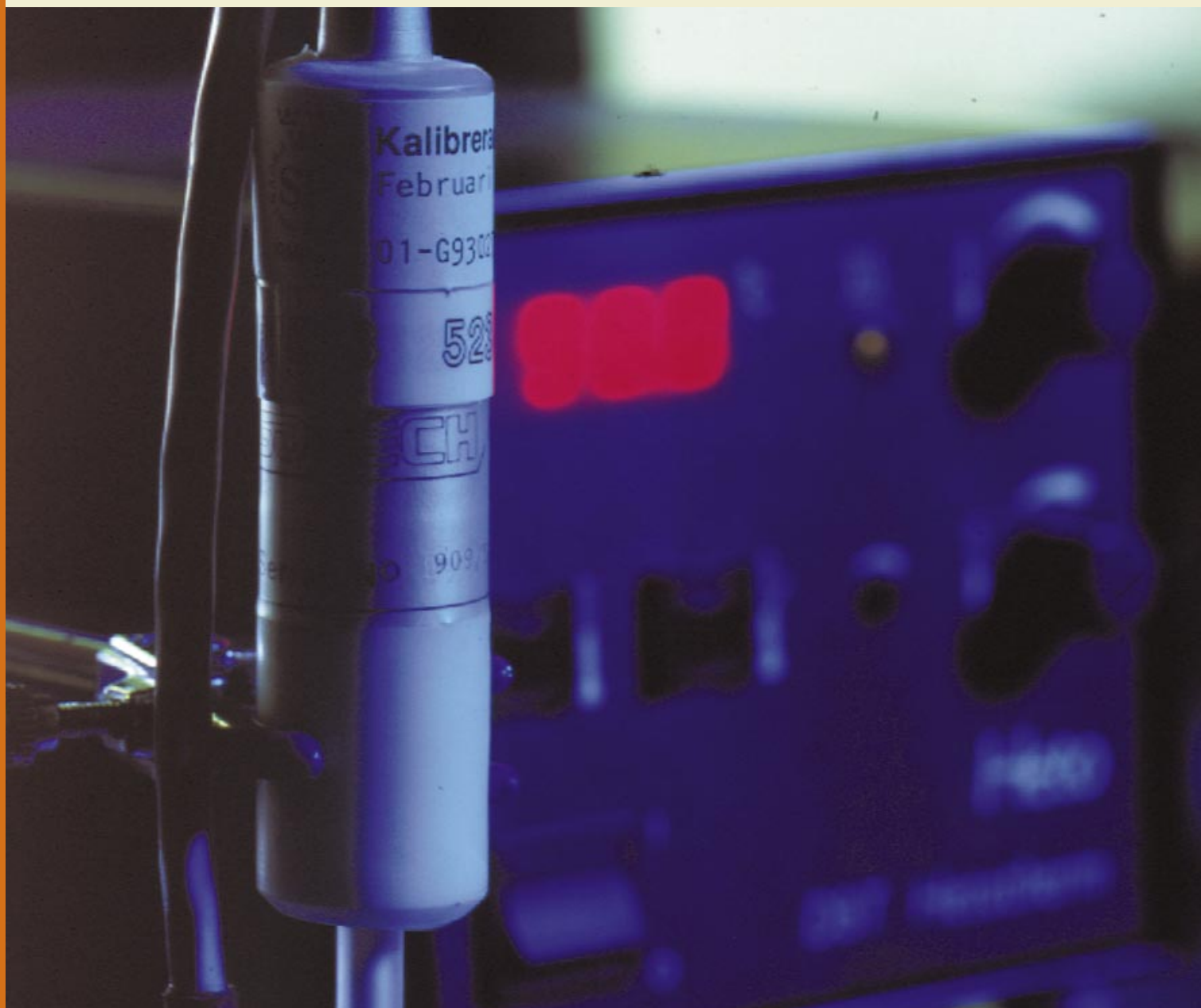
PRESIDENT ROLAND STEN

Distribution of sales



Geographic markets





Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	487	459	484	435
Earnings after financial items	34,4	35,4	22,3	17,3
Balance sheet total	250,2	230,0	238,8	231,1
Total workforce	297	284	284	278

Gustaf Fagerberg is one of northern Europe's leading companies in automatic control engineering, in respect of components and systems for flow control, primarily within the processing industry.

The company develops, manufactures and markets products for control, filtration and flow metering, as well as for industrial weighing and temperature measurement.

Agency licences and distribution operations account for 70 per cent of the business and Fagerberg represents many world-leading companies within their major business areas. The remaining fraction of operations consists of in-house manufactured products and systems which supplement the product range.

The acquisition of Roto-Sieve Filter AB during the year has given the Group a new platform for continued expansion in the area of liquid filtration.

Gustaf Fagerberg Holding AB

Invoiced sales and earnings 1997 was characterised by continued expansion in the neighbouring Nordic countries, while sales to the Swedish processing industry and Germany remained at the level of 1996.

Invoiced sales rose to MSEK 487 (459), as a result of the increased level of sales in the Nordic countries and the acquisition of Roto-Sieve Filter AB.

Earnings after financial items amounted to MSEK 34.4 (35.4). The reduction is largely because of extraordinary rationalisation costs.

Products Fagerberg is active within four product areas:

- Industrial fittings such as valves, actuators, rupture disks and pressure valves.
- Measurement equipment for flow metering, pressure and temperature.
- Filters for liquid filtration, such as bag filters, magnetic filters, cartridge filters and basket filters. In addition, a unique self-cleaning filter is also marketed.
- Weighing and metering systems.

Organisation Operations are conducted in seven wholly-owned subsidiaries and are divided into two business areas.

The business area of *Trade/Flow engineering* includes the companies Gustaf Fagerberg AB in Gothenburg, Gustaf Fagerberg A/S in Copenhagen, Fagerberg a.s. in Moss, Norway, and Oy Fagerberg Processarmatur AB in Helsinki.

These companies are geared to licence selling and distribution operations of components and systems for monitoring and control of flows within the processing industry.

Specialist companies conduct their own development, manufacture and marketing of components and systems which, for the greater part, are employed within the processing industry and, as a result, supplement the product range of the agency companies.

- Pentronic in Gunnebo is a precision engineering company which develops and markets temperature measurement equipment in close cooperation with its customers. The company is a market leader in Sweden, with every potential for expansion on the northern European market.
- Roto-Sieve Filter AB in Kungälv develops and manufactures filters and sieves for both the processing industry

and municipal wastewater treatment plants. The company is actively engaged on the entire European market.

- GEFA-Processtechnik GmbH in Dortmund, Germany, markets in-house manufactured valves and auxiliary components, primarily to the German processing industry.

Sales Each subsidiary has its own sales organisation and a staff of qualified product specialists who provide customers with support. For example they might help customers solve the problems related to the project planning of new installations and plants, or in modifying existing set-ups.

Distribution Sales mainly take place to end-customers within the processing industry and to OEM manufacturers.

Customers End-customers principally consist of Nordic and German companies within the paper and cellulose industries, the chemicals, petrochemicals, power and heating industries, steel mills and also the food and pharmaceuticals industries.

The Swedish market constitutes approximately 50 per cent of Fagerberg's turnover.

Competitors Competitors are generally local distributors of competing makes. To some degree, the subsidiaries of major manufacturing corporations, principally within the area of measurement instruments, are also competitors.

In industrial fittings and process instruments, Fagerberg is one of the major players in the Nordic countries, with market shares which, in certain product segments, exceed 20 per cent.

Growth The objective is to grow by an average of 15 per cent over the next few years.

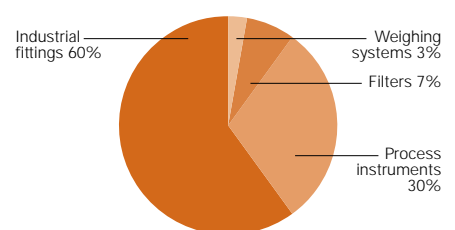
Gustaf Fagerberg is actively engaged in product areas which, in the Nordic countries, experience limited market growth. To achieve the established objective, forward thinking acquisition policy is conducted in order to supplement the present product range and to grow geographically. One feature over the next few years will be a concentration on the Baltic States.

Prospects for 1998 The healthy economic climate which prevails in the neighbouring Nordic countries is expected to continue during 1998, and an im-

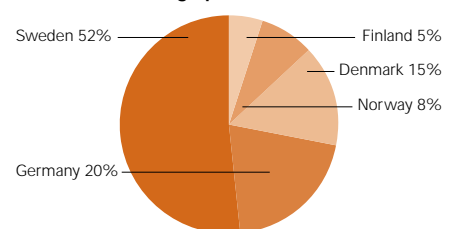


PRESIDENT STAFFAN ENGLUND

Distribution of sales



Geographic markets



provement is also perceived in Germany.

Industrial investments, which remained on a modest level in Sweden during 1997, appear to be on the increase during 1998.

These preconditions, in combination with increasing activities on the market and product side, indicate that 1998 will be a relatively good year for the Fagerberg Group.



Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	1.879	1.719	1.730	1.322
Earnings after financial items	208,9	202,8	231,8	141,7
Balance sheet total	1.367,9	1.235,4	1.254,6	1.062,4
Return on capital employed %	24,2	25,4	32,6	24,2
Total workforce	1.839	1.733	1.713	1.536

The above table is pro-forma.

GISLAVED GUMMI AB

MOTECO AB

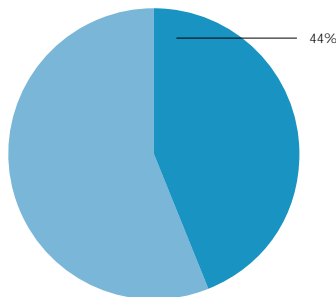
JOHNSON METALL AB

SWEPART MATERIAL AB

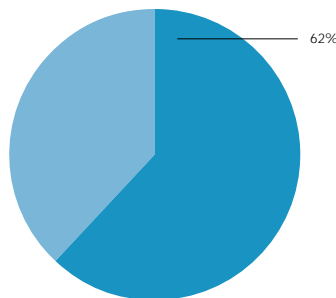
SWEPART AB

Niche Manufacturing

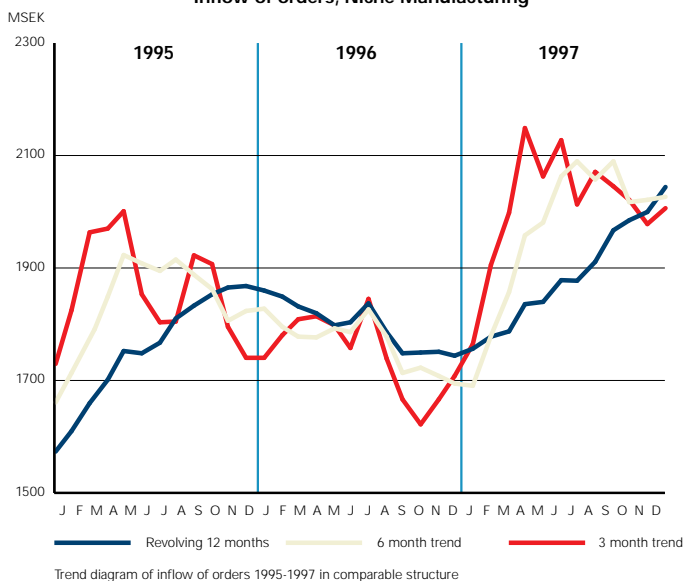
Share of Group invoicing



Share of subsidiaries' total earnings



Inflow of orders, Niche Manufacturing



Swedish manufacturing industry has strengthened its international competitiveness during recent years. The explanations are partly to be found in the depreciation of the Swedish krona during the years 1992 to 1996. But this is not the only explanation. It is without doubt that Swedish industry has been successful in productivity and efficiency improvements. The development of modern organisational forms with a high degree of delegation of responsibility and authority has released considerable potential. This particular applies to the companies which make up Hexagon's Niche Manufacturing business area.

The constituent companies are Gislaved Gummi AB, Moteco AB, Johnson Metall AB, SwePart Material AB and SwePart AB. The companies work only with industrial customers and possess a relatively high degree of internationalisation. The companies have high market shares (niche companies) within their respective market segments and are specialised with regard to both materials and processing.

As in an increasing number of modern engineering companies, development and manufacturing take place in close cooperation with customers, most of whom are exporters. The trend in industry is for companies to contract out both development and manufacturing increasingly to specialised companies of the type which make up this business area. This type of outsourcing is expected to continue to increase in the future, with a growing level of value-added (more finished products and systems).

Invoiced sales rose to MSEK 1,879 (1,012), and earnings after financial items rose by 44 per cent to MSEK 208.9 (151.2). SwePart and SwePart Material were acquired in December 1996, for which reason invoiced sales and earnings are not comparable. In a comparable structure, invoiced sales rose by 9 per cent, from MSEK 1,719 to MSEK 1,879 in 1997 and earnings by 3 per cent from MSEK 202.9 to MSEK 208.9 in 1997.

The sales of the companies go mainly to Swedish exporting industries. Some 68 per cent (69) of invoiced sales goes to Swedish customers, 12 (14) per cent to the other Nordic countries, 11 (9) per cent to the rest of Europe and 9 (8) per cent to North America. A considerable proportion of sales in Sweden are re-exported. In total, approximately 61 per cent (75) of invoiced sales consists of direct or indirect exports and of operations in overseas subsidiaries. A substantial portion of this 61 per cent goes to end customers in Central Europe, the United States and the Far East.

In 1997, Swedish exports increased up to and including October by a total of 10 per cent compared with the same period for the previous year. For the most important countries, exports increased most to the United States and France. Exports to Germany, the Nordic countries and the United Kingdom rose by roughly 9 per cent. Within those areas where Hexagon is operational, processed products in rubber, steel and metal, as well as machines, exports rose according to the Central Bureau of Statistics by 11 per cent, which corresponds to the increase in the business area of Niche Manufacturing. The telecommunications industry, which is included in the above statistics, increased by 34 per cent and thereby boosted the increase in exports.



Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	344	305	293	201
Earnings after financial items	37,2	41,3	49,3	24,1
Balance sheet total	231,0	199,9	180,3	116,4
Total workforce	337	318	320	240

Gislaved Gummi develops, manufactures and markets *gaskets for plate heat exchangers* where the company is market leader. In the product areas of *profiles and rubber compounds*, where the company has a very strong position above all in the Nordic region, and also *wheels for internal materials handling*, where the company is, via the subsidiary Stellana AB, steadily strengthening its position on the world market.

During the 90s, Gislaved Gummi has developed into a leading player in all four product areas. The most decisive factor underlying this success is the unambiguous niche concentration on a few selected and clearly defined products areas, together with systematic steering and development of the company towards product specialisation. This has involved a manifest deepening rather than broadening of each product area.

Gislaved Gummi AB

Invoiced sales and earnings Invoiced sales rose to MSEK 344 (305). Earnings fell to MSEK 37.2 (41.3). The decline in earnings compared with the previous year is wholly attributable to running-in costs of a one-off nature in connection with two major investment projects: a new production line for truck wheels at Stellana and a new mixing line at Gislaved.

Products In the *heat exchanger gaskets* product area, demand has steadily increased during the year, because, among other things, acceptance of plate heat exchangers is steadily increasing at the expense of conventional exchangers, thanks to better performance and new applications. This increase is particularly noticeable on the US market and the eastern states. The market leading position is assessed as having been strengthened during the year.

In the *profiles* product area where the dominant product is seals for windows and doors, demand has increased dramatically during the year. In particular, this is noticeable on the American and Central European markets.

Rubber compounds, which to a large degree goes to the Nordic cable industry, has experienced a clear decline in demand during the year. This has been compensated for with a generous margin by the introduction of a number of new customers.

The single largest product area *wheels for internal materials handling* has, in terms of volume, developed favourably during the year. A considerable proportion of turnover relates to electrically powered trucks (wheels of polyurethane rubber on cast iron hubs) and to fork-lift trucks (wheels of polyamide). Both the North American and, during the autumn, the European markets have developed favourably. Stellana has strengthened its leading position as supplier of wheels to fork lift trucks. On the basis of a strong market position in the Nordic region for wheels to electrically powered trucks, the export drive outside this region has been launched.

Organisation During the year, manufacture of truck wheels of polyurethane has been transferred from Gislaved to the newly installed production line at Stellana in Laxå. A decision has also been adopted that Stellana, Denmark (formerly Termonova A/S), which was acquired during 1996, is to be integrated into the Laxå plant during the first half of 1998. Both production and marketing of wheels will, as a result of this move, be concentrated to Stellana AB, Laxå.

The majority of heat exchanger gas-

kets is manufactured in Gislaved but, to strengthen competitiveness with a specific gasket product range, production has also come on stream over the last couple of years at a closely linked company in the low cost country Sri Lanka. This co-operation has developed extremely well both technically and commercially.

Development operations, often in co-operation with customers, have assumed an increasingly central role. In order to further stimulate this development, a number of development teams with interdisciplinary skills within, for example, design, materials and innovation have been organised with internal specialists and specialists from customers and other business partners.

Sales/distribution The major proportion of sales takes place in each respective company's sales organisation in Sweden. An exception to this is the German market, where Stellana has its own sales office for operations in the German truck industry. On the US market, Stellana cooperates with SKF, USA.

The customer structure consists primarily of OEM manufacturers. The increasingly attractive after-sales market, principally in heat exchanger gaskets and wheels, is handled through OEM customers.

The Group's 20 largest customers account for approx. 80 per cent of turnover. The direct export proportion amounts to 37 per cent. If indirect exports are included, the proportion amounts to a good 70 per cent.

Competitors Competitors in all four product areas predominantly consist of major, well-established international corporations. This is because extreme demands are placed on flexibility as regards volume development and on resources for product development, which also requires solid financial strength.

Growth and improvement measures In the established corporate vision/goal, it is laid down that Gislaved, during the current three-year period, is to have greatly strengthened its market leading position in the product area of heat exchanger gaskets. Examples of measures are:

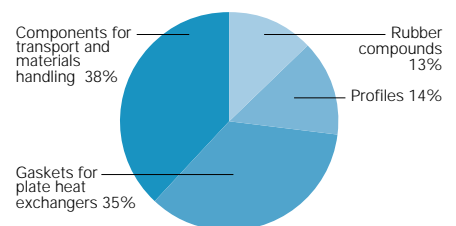
- cost efficiency drives by further systemisation of "constant improvements"
- an increased ability to absorb demand fluctuations on the market and thereby intensify supply reliability
- continued investments in capacity expansion
- further intensification of product development operations

For Stellana, the vision/goal is, during the same period, to have reached a world

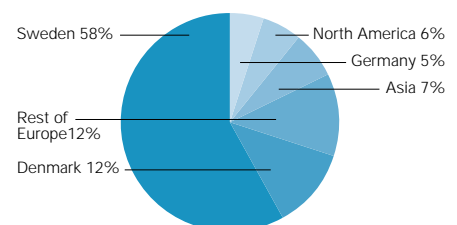


PRESIDENT ROLAND FOLKESSON

Distribution of sales



Geographic markets



leading position within the product area of wheels for internal materials handling. The company is well equipped for this, not least as a result of the new production line for truck wheels, but the acquisition of a wheel company outside the Nordic region is seen as a means of achieving the goal inside the operative time frame.

Prospects for 1998 During the greater part of the year, production capacity has been utilised to the full, while the running-in of the new production line has taken a clearly longer time than planned. This has entailed troublesome costs and supply disruptions in certain areas. Today, these problems are on the verge of being solved, which implies that there is every potential, with retained demand, for continued powerful expansion and a markedly improved earnings outcome.



Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	189	128	105	80
Earnings after financial items	58,2	49,3	43,2	22,2
Balance sheet total	123,4	101,9	77,3	48,1
Total workforce	197	97	68	56

Moteco AB develops, manufactures and markets antennas and antenna systems for mobile telephones. The company is one of the world leaders in its field.

Customers consist of leading mobile telephone manufacturers. For 1997, the ambition was to establish Moteco as main supplier to a number of major mobile telephone manufacturers. This work was successful and resulted in further contracts being awarded to Moteco as suppliers.

Among other items of note during the year, Moteco has developed antennas intended for telephones which support several systems, so called dual band telephones. Orders have also been won for such solutions. Within the SAR field (Specific Absorption Rate), considerable development efforts have been implemented and further expertise in this area was recruited during the year.

Invoiced sales and earnings As a result of a further year of doubled production volume, invoiced sales rose to MSEK 189 (128). Earnings after financial items increased to MSEK 58.2 (49.3).

Products Moteco has a blanket product programme of antennas for all types of mobile telephones.

Organisation Moteco has its head office in Kalmar, which is also the centre of its market operations. At present, manufacturing is concentrated on the production unit in Ruda. During 1997, the company has reinforced and concentrated all development activities to the R&D centre at IDEON in Lund, and also established subsidiaries in the United States and China. The company management in the United States and China have been recruited and are in place, and operations have begun to come on stream.

Sales Moteco's ten major customers accounted for almost all sales during 1997. Operations are strongly linked to exports and more than 95 per cent of production ultimately finds an outlet on overseas markets.

Sales are almost exclusively to manufacturers of mobile telephones.

Customers The products are sold to major manufacturers of mobile telephones such as Ericsson Mobile, Motorola, Philips and Siemens. As a result of Moteco's blanket product range, the company can provide its customers with antennas for all types of mobile telephone systems on the basis of varying market requirements. Antennas for digital mobile telephones are predominant.

Competitors The number of manufacturers is limited. The primary competi-

tors are Galtronics, M/A-Com, Centurion, Allgon and Sigma. Powerfully growing volumes and increasingly consumer-gearred products accentuate the price squeeze, which results in simpler and cheaper products.

Growth The major market regions in mobile telephony are, at present, Europe, North America and East Asia. Today, Moteco's major market share is to be found in Europe, but the objective is to reach equally large market shares in all major market regions. A further internationalisation of the company is in progress and the potential for growth is good, not least in the newly established subsidiaries.

In 1997, extensive capacity-increasing investments were put into machinery in the production plant at Ruda, which has also been expanded by more than 60 per cent in floor space.

Taken as a whole, this creates the springboard for further envisaged expansion.

Prospects for 1998 The future will see even higher demands being placed on technical development of both products and production techniques. The concentration on product development and marketing continues in order to further increase our customer and product base.

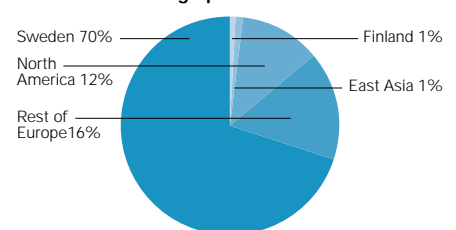
Mass production places high demands on cost efficiency. As a result, Moteco continues the drive in highly automated assembly production, with full control over cost trends in every product.

The fact that the most recent years' doubling of volume, like the expected volume doubling during 1998 has not been met by an equally great increase in turnover is because of a transition to more cost-effective products, a high degree of automation and the prevailing price squeeze.



PRESIDENT GÖRAN FAHLBERG

Geographic markets





Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	452	422	437	354
Earnings after financial items	48,7	50,1	55,0	36,1
Balance sheet total	270,8	256,3	255,9	233,9
Total workforce	502	520	503	475

Johnson Metall is the largest Nordic producer of plain bearings, blanks, tubing and machine parts made of bronze, and is also a leading supplier of fabricated brass parts for the ball bearing industry in western Europe and the United States.

More than 90 per cent of sales consist of products produced in-house, while the remainder is sold under licence.

During 1997, the bronze operations in the United States were disposed of. This disinvestment is a stage in the company's ambition to increase capacity for cage rings of brass to the ball bearing industry in the United States.

Invoiced sales and earnings
Sales of both cage rings and machined parts increased during the year, the latter despite the disposal of the bronze operations in the United States.

Invoiced sales rose to MSEK 452 (422) while earnings fell to MSEK 48.7 (50.1) as a consequence of restructuring costs for bronze in the United States and Finland.

Products Cast and machined bronze products constitute approx. two thirds of turnover. Examples of products are specialised plain bearings for construction machinery, continuous and centrifugally cast tubing, and bolt blanks of various bronze alloys, as well as standard plain bearings. The market share in the Nordic countries exceeds 50 per cent.

Brass products are sold either finished or as blanks. The product consists of cage rings for quality bearings used by the ball bearing industry in Europe and the United States.

Organisation During 1997, a decision was adopted to modify the organisation both operationally and juridically in order to hasten the company's continued development and expansion. In the new organisation, the brass and bronze operations will be streamlined into two new business areas.

The *Bronze* business area includes the manufacturing subsidiaries in Sweden (Örebro), Finland, and the sales company in Denmark, as well as a newly formed sales company for bronze in Norway.

The *Brass* business area encompasses the manufacturing subsidiaries in Norway and the United States.

The company's production takes place in complete production plants with a capacity for the entire production chain from melting, casting and coarse machining to final production using CNC controlled machinery and robots.

Sales Johnson Metall's five major customers accounted in 1997 for roughly 25 per cent of sales. During 1997, turnover (including internal sales) amounted in Sweden to MSEK 208, in Norway to MSEK 150, in Denmark to MSEK 30, in Finland to MSEK 64 and in the United States to MSEK 79. Invoiced sales outside Sweden accounted for 64 per cent.

Distribution Customised products are generally delivered direct to the end-

customer from the manufacturing unit in question.

A small proportion of sales is to others than end-customers.

The company also has a large range of standard products in bronze sold from its own distribution warehouses in the Nordic countries.

Customers The customer base for bronze products consists primarily of machine construction firms, workshops, shipyards and offshore technology. There are more than 5000 customers.

For brass products, the customers consist of the major ball bearing manufacturers in Europe and the United States.

Competitors Johnson Metall is the largest supplier of bronze products in the Nordic countries. Competition comes from a few local small-scale foundries, imports (principally from Germany) of standard blanks of bronze, and the customers' own finishing operations.

The most important competitors in the area of cage rings are the ball bearing manufacturers' own production departments. A growing trend towards outsourcing now opens up avenues for Johnson Metall's cost effective production methods.

Another sharp competitive edge is the effective re-use of the swarf formed in the production of both bronze and brass products. This may constitute up to half of total material consumption.

Growth As a result of the new business area-oriented organisation, the focus increases on new markets, new customers and new products in each respective business area.

This is expected to give both volume and earnings effects in the coming years.

In mid-1997, the essentials of a minor bronze company in Finland, Prova Tötte Oy, were acquired.

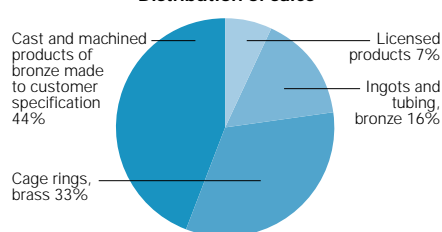
Operations during the second half of 1997 were incorporated into the other Finnish operations.

Prospects for 1998 The economic climate for bronze products is assessed for 1998 as continuing to be healthy, with volumes on the same level as during 1997. The volumes of cage rings are expected to increase as a result of a restructuring of customers' operations. The facts indicate that earnings could be improved somewhat in 1998.

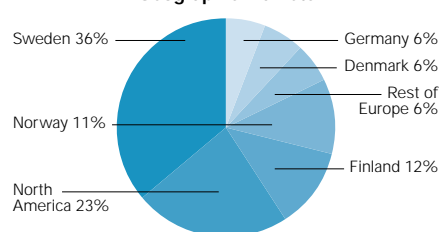


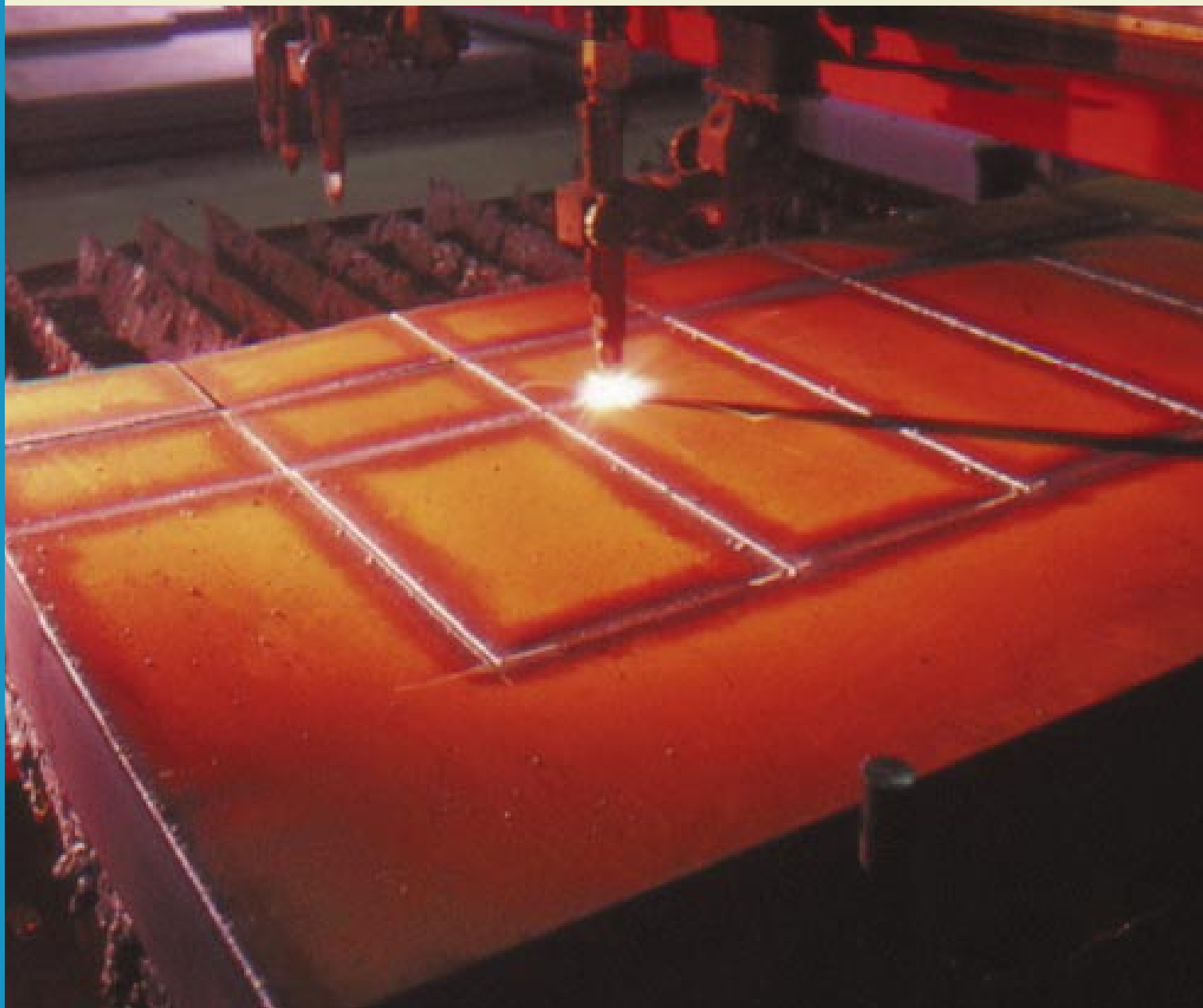
PRESIDENT ROLF ANDERSSON

Distribution of sales



Geographic markets





Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	266	280	283	192
Earnings after financial items	18,8	21,3	37,0	25,5
Balance sheet total	178,7	162,6	178,4	141,0
Total workforce	143	138	136	103

The above table is pro-forma.

SwePart Material AB consists of two business areas:

■ *Operations for customized processing* with sales of raw materials to the Scandinavian engineering industry.

■ *Trading operations*, involving the import of steel ingots, cast products, forgings, sheet metal and metal ribbon, primarily to steel wholesalers.

Operations involving customized processing constitute an important player in Sweden and Norway.

Trading operations are based on licence agreements principally from central European manufacturers. The policy is to act as an agent for or partner with companies that manufacture products of specialised quality and with a certain degree of value added. This secures a different business profile compared with bulk or standard goods.

During the year, Linköpings Stål AB (turnover MSEK 14) was disposed of. The company will continue to market SwePart Material's product range.



PRESIDENT ANDERS ANDERSON

Invoiced sales and earnings Invoiced sales fell to MSEK 266 (280), as a result of a generally faltering economic climate. Earnings after financial items amounted to MSEK 18.8 (21.3), due to a combination of lower volumes and falling prices.

Products Machining of raw ingots encompasses such products as polished plates for tools, fixtures and machinery, gas-cut steel ingots and gearing racks. Included in the relatively capital-intensive part of the business are processes such as pattern cutting, heat treatment, level milling, edge work and bevelling, cross cutting and level polishing.

Organisation The companies within the business area of *Customised processing* are Nybro Stålprodukter AB, with three sales companies, in Malmö, Värnamo and Moss, in Norway.

The *Trading operations* encompass AB Centrostål in Malmö, with two sales companies, in Borås and Kungsör. Precisionstål AB in Stockholm forms part of the product group as an affiliated company (25 per cent).

Sales The five major customers of the Materials Group accounted for approx. 20 per cent of sales in 1997.

Operations are concentrated in southern Sweden and this market constitutes roughly 90 per cent of the turnover of the Materials Group. Direct exports amount to 3 per cent, while indirect

exports can be estimated at 50 per cent.

Distribution Within the trading operations, sales generally take place without warehousing, i.e. directly to the customer, while in the processing operations of raw materials, sales are either direct or pass via subsidiaries/affiliated companies to their local customers.

Competitors In the machining of raw ingots, competitors in Sweden consist of a handful of players, such as Uddeholm.

Customers The Group sells primarily to a large number of small and medium-sized engineering companies in Sweden.

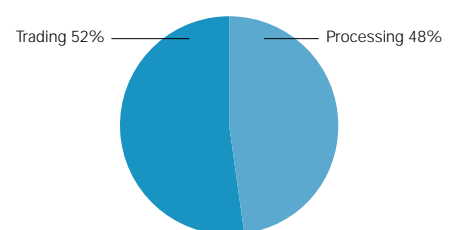
Tool manufacturers are large users of machined steel.

Growth During 1997, operations in Norway were greatly expanded by the takeover of a considerable licence agency in aluminium, a measure which is expected to have a solid impact during 1998.

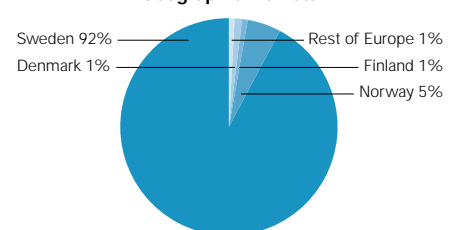
In pre-processing, capacity for so-called polished plates has been increased with two new peripheral polishing machines.

Prospects for 1998 The market for 1998 is expected to be similar to that of 1997. Invoicing and earnings will probably remain on a level with the previous year. However, there is at present considerable anxiety about the price trends for steel because of the current crisis in the Asian Tiger economies.

Distribution of sales



Geographic markets



The above table is pro-forma.

During the year *Plastics* successfully began delivering to the new product area - vacuum cleaner bodies.

Invoiced sales and earnings Invoiced sales rose to MSEK 628 (584) and earnings after financial items rose to MSEK 46.0 (40.8).

Product groups and products The product group *Transmission* encompasses Swedrive, SwePart Transmission AB and Tidamek AB, making the product group one of the largest players in Sweden in the transmission sector.

The products are standardised and customised. Manufactures include rotating and linear transmission components for the machine industry, worm gears, screw jacks, drive shafts, differential gears and steering systems for trucks.

The product group *Tools* comprises Tjust Mekaniska Verkstads AB, Högmans Industri Verktug AB and SwePart Verktug AB, which makes this product group Sweden's largest player in the tools arena.

The products consist of pressing, forming and punching tools, as well as jigs and fixtures.

The product group *Plastics* comprises one company, SwePart Plast AB, and the products consist of components for vehicles such as accelerator pedals and oil traps, chassis for chain saws and vacuum cleaners, and components for refrigerators and freezers.

Sales In 1997 SwePart's five major customers accounted for roughly 50 per cent of sales.

Approximately 15 per cent of sales consists of exports to Scandinavia, Belgium and Germany. Indirect exports are roughly 75 per cent.

Distribution All sales are made to industrial customers.

Customers In the Transmission business area, the major customers are truck and fork-lift truck manufacturers, as well as numerous engineering companies.

The largest customers in the Tools business area are a number of Swedish engineering companies, for example in the automotive, rubber and plastics industries, and also die casting companies and German automobile companies.

For Plastics, customers consist of the automotive, defence and forestry industries, and the household appliance industry.

Competitors In the markets of Transmission, the foremost competitors are Benzler (Sweden), SEW (Germany), Flender (Germany), Bonfiglioli and Hurth (Italy).

The most significant competitors in Tools are Volvo Olofström, and a number of German, Spanish and Portuguese manufacturers.

The competition in the Plastics area stems mainly from a number of Swedish companies such as Plastal, KB and Makroplast.

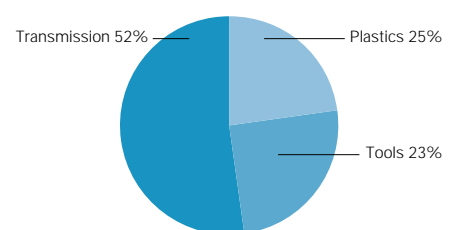
Growth On December 31, 1997, the majority (57 per cent) was acquired in EBP i Olofström AB. The company has specialised in the manufacture of original spare parts for vehicles and has an annual turnover of approx. MSEK 100. During 1998, a further increase in the holding is planned, at the same time as EBP will invest in a paint spraying plant so that they can deliver completely finished products during 1999.

Prospects for 1998 The economic climate for SwePart's product area is difficult to assess at the present time. Trends in both volume and earnings are assessed as being on a par with 1997.

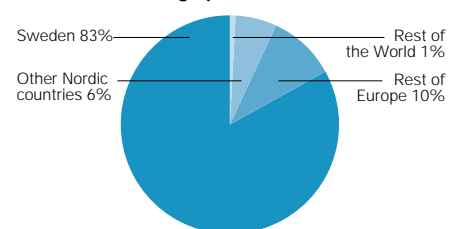


PRESIDENT ANDERS ANDERSON

Distribution of sales



Geographic markets





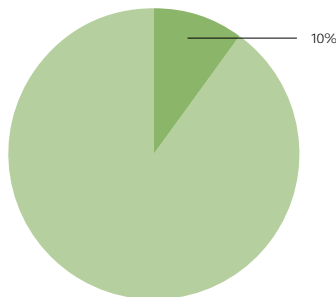
Amounts in MSEK	1997	1996	1995	1994
Invoiced sales	528	529	558	467
Earnings after financial items	9,9	15,0	15,1	13,0
Balance sheet total	180,9	146,7	153,5	155,1
Return on capital employed %	13,5	25,2	28,4	27,6
Total workforce	66	65	57	44

The above table is pro-forma.

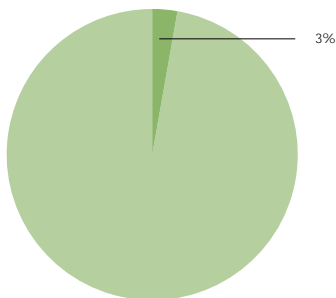
NORFODS

Industrial Food Technology

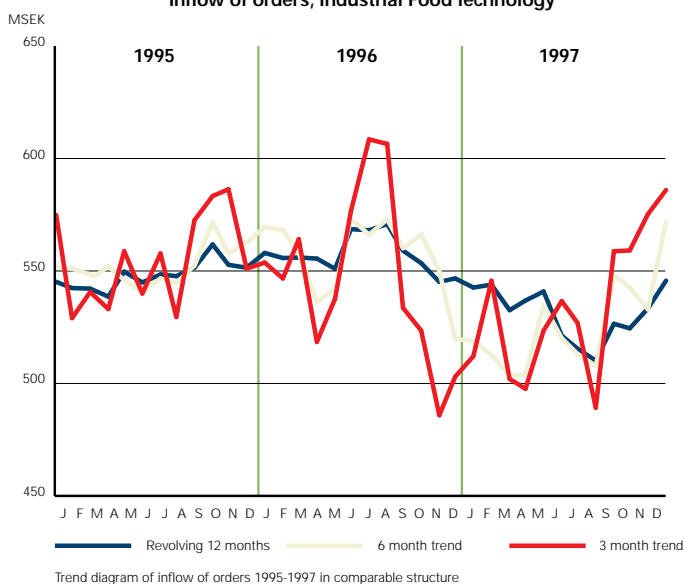
Share of Group invoicing



Share of subsidiaries' total earnings



Inflow of orders, Industrial Food Technology



The business area Industrial Food Technology is oriented towards markets that are insensitive to business cycles and in which the food and pharmaceuticals industries make up the customer base. The general criteria for companies within this business area are the same as those for Hexagon's other business areas.

However, what is specific to this business area is that customers must operate within the food and pharmaceuticals industries.

During 1997, the companies within this business area were coordinated within Norfods. Norfods includes AB R Lundberg and LG Fredriksson International AB. The companies provide the Nordic food and pharmaceuticals industries with ingredients and raw materials, and packages of glass, plastic and aluminium, respectively. The purpose with the formation of Norfods is to build up a supplier group on a Nordic basis. This is an adaptation to the structural changes which are in progress principally within the food industry where an increasing number of companies operate with the entire Nordic region as a market.

Invoiced sales rose to MSEK 430 (331) and earnings after financial items amounted to MSEK 8.9 (10.4).

The Swedish food industry increased its exports by 25 per cent during the period from January up to and including October 1997, according to the Central Bureau of Statistics. For the coming years, the Swedish and Nordic food industries are expected to increase their exports, and prospects for the future for Norfods are therefore assessed as good.

During 1997, a number of basic inputs were made to lay the foundation for Norfods future operations:

- Within logistics, a new warehouse terminal has been built in Malmö Free Port. An efficient logistics system is a crucial component in Norfods' strategy.
- Within the area of computers and IT, a considerable contribution has been made in the form of a modern EDI system (electronic data interchange). To be hooked up to the customer's computer system will be a necessity in the future in order to be able to meet customer requirements.
- Intensive environmental certification work for ISO 14001 has been in progress. Norfods customers are to be found in the food and pharmaceuticals industries and ISO 14001 certification is a key competitive instrument. For this reason, certification work has been pursued with the objective that certification will be finalised in 1998 in respect of Lundbergs and in 1999 in respect of Fredrikssons.
- The branch structure in the Nordic region has been mapped out with a view to identifying suitable acquisition objects in Denmark, Norway and Finland. Norfods' ambition is to be established in all Nordic countries by the year 2000.

Nordic Food and Drink Suppliers

LG Fredriksson International AB

LG Fredriksson International AB imports, sells and distributes packages, raw materials and chemicals essentially to the brewery and food industries.

The company represents a number of Europe's key packaging manufacturers.

Fredriksson's network and in-house development resources can meet customer's needs for standard or specially designed packages, packages which reduce material consumption or lower transport costs. Fredriksson's customers are to be found on the Nordic markets and in the Baltic region.

Invoiced sales and earnings Invoiced sales amounted during 1997 to MSEK 205 (198) and earnings to MSEK 1.6 (4.6).

Earnings were lower than expected because of increased purchase costs (negatively affected by currency fluctuations) and a decline in volume.

Products The product portfolio of the company contains, among other items, glass packages (bottles and jars), plastic packages, closure devices (caps and lids), raw materials and chemicals.

Organisation Company operations are conducted in Malmö, with its own resources to satisfy customer requirements

on such factors as logistics, quality and market awareness.

Market The customers principally consist of Nordic breweries, food producers and wines and spirits producers. Sales of certain special products take place to waterworks, the paper industry and a number of chemical/technical and pharmaceuticals industries. More than 90 per cent of sales are in Sweden.

The major proportion of the company's deliveries are effected in full lorry shipments or containers direct from the company's manufacturing cooperation partners to customers. Fredriksson's organise and are responsible for the entire transport chain. Warehousing operations are conducted on a large scale at strategically selected places close to customers.

Competitors principally consist of Nordic oligopolies with their own production, and also importers.

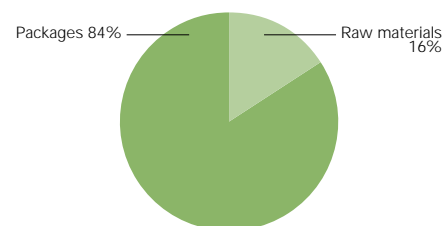
Growth Fredriksson's growth over the next few years will take place both organically and by acquisitions.

Prospects for 1998 A further adaptation of the product portfolio will be put into effect during the year, with a view to improving earnings for 1998.



PRESIDENT LARS FREDRIKSSON

Distribution of sales



Nordic Food and Drink Suppliers

With the formation of Nordic Food and Drink Suppliers AB, the Group has taken a decisive step towards the goal of creating a Nordic basis for the sale of raw materials, ingredients and packages to the food and pharmaceuticals industries.

The creation of Nordic Food and Drink Suppliers should be seen against the background of the way the food industry – above all on the Nordic market – has become aligned in recent years. Both customers and suppliers have combined to form larger units, often with the entire Nordic region as one single market.

The basis in the new holding company consists of AB R Lundberg and L G Fredriksson International AB.

Nordic Food and Drink Suppliers

AB R Lundberg

AB R Lundberg – located in Malmö – imports, warehouses and markets ingredients and raw materials mainly for the food and pharmaceuticals industries, principally in Sweden. The company has a number of suppliers, above all in Europe and North America. Some 49 per cent of the company's invoiced sales consist of functional ingredients. The remainder consists of a grocery-oriented product assortment with varying degrees of processing, and also of deep-frozen products.

Invoiced sales and earnings Invoiced sales declined to MSEK 323 (331). Earnings fell to MSEK 8.3 (10.4). The earnings outcome for 1997 includes costs for extensive future inputs in markets, competence and IT. Factors which have negatively influenced earnings are abnormally high customer losses and a continued keen competitive situation which, despite a larger volume, has resulted in an average fall in prices.

Products Lundbergs conduct operations within three product areas. The product area *Ingredients* sells refined products primarily to the food industry. They consist of starch and starch derivatives, thickeners, proteins, organic acids, preservatives, emulsifying agents and stabilising agents. Certain specialised products for the pharmaceuticals, chemicals and paper industries are also imported.

The *Imported foods* product area primarily sells almonds, cocoa powder, rice, hazel nuts, seeds, tomato paste and dried fruit to customers within the Swedish food industry.

AWP-Importen is operative in the three goods groups of juice and cordial concentrates, deep-frozen meat and deep-frozen berries to customers in the Swedish food industry.

Organisation During the year, warehousing and distribution have taken place from premises in Malmö. At the turn of 1997/98, new, modern premises were ready for use, totalling 6500 m² floorspace. The premises consist of standard warehouses, cold storage and a packaging unit.

The sales organisation has been modified to some degree towards a customer category-orientation instead of the previous product-oriented organisation.

Sales Lundberg's purchase and sale of goods is handled by its own staff of businessmen in close cooperation with principals, suppliers and customers.

Some 98.5 per cent of the company's products are sold on the Swedish market. Direct exports amount to approx. MSEK 5 (1.5 per cent). However, certain customers re-export their products. With this indirect export, total export share will be approx. MSEK 54 (16.5 per cent) of sales in 1997.

During 1997, the company handled an increasing goods quantity of approx. 13 000 tonnes.

Customers Lundberg's five major customers account for approx. 20 per cent of sales in 1997.

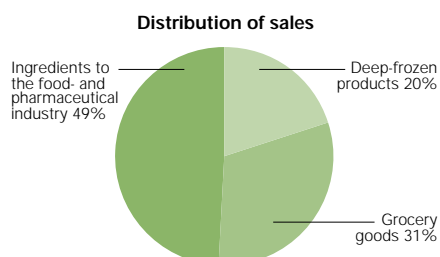
The food industry in Sweden is the largest customer group, but a limited number of special products are also sold to pharmaceuticals, health food and daily commodities wholesalers.

Competitors In key product areas, Lundbergs continues to be the market leader. A certain concentration among our major competitors may be discerned. In addition, there are a few minor agents acting on the market.

Growth Supplementary acquisitions may come into consideration if the product range is compatible with the present range offered by the company.

Prospects for 1998 Lundberg is one of the few companies in this branch of industry that can demonstrate an overall concept with systems knowledge of raw materials, Swedish and international market skills, imports, warehousing and a high level of service ambition.

The company is expecting that investments in the workforce, warehouse projects and IT during 1997 will result in increased volumes. Synergy effects on the materials handling area are expected, within the framework of Norfods, to give certain results.



PRESIDENT ANDERS BRANTBERG



VICE PRESIDENT TORBJÖRN MALMSJÖ



In addition to the wholly-owned companies in the Hexagon Group's three fields of operation, VBG Produkter AB (publ) and a minor wholly-owned engineering company - Robust Ståldörrar RSD AB are also included.

During 1997, Hexagon increased its ownership in VBG Produkter AB. Its holding at the turn of the year amounted to 45 per cent of the capital and 39.9 per cent of the votes.

Other Ownership Holdings

VBG Produkter AB

VBG Produkter AB develops, manufactures and markets trailer couplings for heavy-duty vehicles and also machine parts for industry. The product range also includes the Onspot automatic anti-skid system and Armaton dropside pillars.

Invoiced sales and earnings Invoiced sales rose to MSEK 540 (283) as a result of the acquisition of Ringfeder. Earnings after financial items amounted to MSEK 42.3 (40.8). The acquisition of Ringfeder has favourably influenced the Group's earnings.

Products During the year, VBG acquired the German company Ringfeder, formally one of the main competitors within the product range of trailer couplings. After the acquisition, VBG is the world's leading manufacturer of couplings for heavy duty vehicles. In addition to trailer couplings, Ringfeder's product range also includes machine parts and ring springs intended for railway buffers. The latter railway-related product range was disposed of at the end of the year.

Organisation The VBG Group consists today of three factory units, located in Vänersborg in Sweden, Krefeld in Germany and Lowton in the United Kingdom. In Vänersborg, VBG's trailer couplings with peripheral equipment, slip protection and load platform posts are manufactured. Manufacturing in Krefeld consists of Ringfeder's trailer couplings and machine parts, while the plant in Lowton develops and manufactures curb

rings with accessories for semi-trailers. The Group also includes three wholly-owned sales companies, located in the United States, Norway and Denmark.

Market Products are sold globally under the trademarks VBG (coupling equipment), Onspot, Armatron and Ringfeder (coupling equipment and machine parts). The key markets for trailer couplings are the Nordic countries, Germany, the Netherlands and Australia. Slip protection and load platform posts are sold principally in the Nordic countries, Germany, France and Japan. The major markets for curb rings are the United Kingdom and France. For machine parts, the United States, Japan and Germany are the foremost markets.

Competitors Within the product range of trailer couplings and curb rings, the most important competitors are to be found in Germany and the United States. Reliability and user-friendliness are key competitive edges.

In the product range of machine parts, the major competitors are in Germany, Italy and the United States.

Prospects for 1998 As a result of the acquisition of Ringfeder, VBG is well-equipped for further development.

The coordination of development and manufacturing activities continues during 1998 in order to achieve the best possible cost-efficiency.

Further expansion of VBG's proportion of a vehicle delivery is expected to increase.

Robust Ståldörrar RSD AB

The company develops, manufactures and markets fire, safety and elevator doors.

Invoiced sales amounted to MSEK 89 (104) and earnings to MSEK -3.0 (-1.6). The continued low level of construction activity in Sweden has negatively affected invoiced sales and earnings.

Restructuring of the company continues and is expected to give a positive result during 1998.

Board of Directors



Torbjörn Ek



Maths O Sundqvist



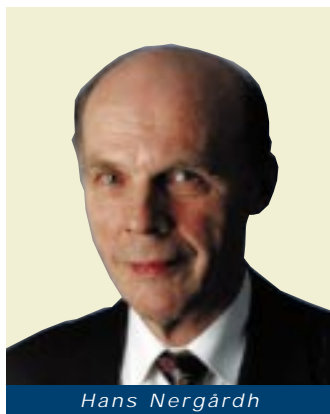
Börje Andersson



Simon Bonnier



Christer R Christensson



Hans Nergårdh



Sven Ohlsson



Erik Paulsson

Torbjörn Ek, Chairman.
Born 1934, Board Member since 1993.
Commissions include: President of Konverta AB (publ), Chairman of Arriba Intressenter AB, Bilmetro AB, Bim Kemi AB, Digital Equipment AB, Nära Kroppen AB, Terrum B.V., Ung Företagsamhet, and Upec AB, Board Member of Innovationsmarknaden AB, Oriflame Ltd, Prevas AB, Svedbergs i Dalstorp AB (publ), Swedish-American Foundation, Telge Företagsinvest AB, and also member of IVA.
Shareholding in Hexagon: 100,270 series B shares.
Shareholding in Konverta: 126,200.

Maths O Sundqvist, Vice-Chairman.
Born 1950, Board Member since 1991.
Commissions include: President of Jämtlamell AB, Board Member of AB Trav & Galopp, Fischer Partners Fondkommission AB and Wasa Livförsäkring.
Shareholding in Hexagon: 1,505,000 series B shares.
Shareholding in Konverta: 33,010.

Börje Andersson, President and CEO.
Born 1950, Board Member since 1993.
Commissions include: Chairman of Wihlborg Fastighets AB (publ), Moteco AB, Vice-Chairman of VBG Produkter AB (publ), Board Member of AKA Industriprodukter AB, Dacke Hydraulik AB, Gustaf Fagerberg Holding AB, Gislaved Gummi AB, Johnson Metall AB, AB R Lundberg, SwePart AB and Svedbergs i Dalstorp AB (publ).
Shareholding in Hexagon: 110,000 series B shares. Synthetic warrants: 40,000.
Shareholding in Konverta: 105,000.

Simon Bonnier
Born 1929, Board Member since 1990.
Commissions include: Board Member of AB Bonnierföretagen, Måldata AB Frili, and AB R Lundberg.
Shareholding in Hexagon: 371,000 series B shares.
Shareholding in Konverta: 3,010.

Christer R Christensson
Born 1941, Board Member since 1993.
Commissions include: President of AXERA Förvaltning AB, Board Member of Essen International AB, Gustaf Fagerberg Holding AB, Hinc Asset Management AB and Fastighets AB Storheden (publ).
Shareholding in Hexagon: 73,760 series B shares nominee-registered.
Shareholding in Konverta: 169,600 nominee-registered.

Hans Nergårdh
Born 1934, Board Member since 1993.
Commissions include: Chairman of Gislaved Gummi AB, Johnson Metall AB, Persona Consulting AB, Schneider-Företagen AB, Board Member of ABECE Industrier AB, Anders Diös AB, FPG AMFK Kreditdelegationen, Fylkinvest AB, Kami Forskningsstiftelse, and Nordbanken Stockholm region.
Shareholding in Hexagon: 10,800 series B shares.
Shareholding in Konverta: 8,000.

Sven Ohlsson
Born 1944, Board Member since 1993.
Commissions include: President and CEO of Scancem AB (publ), Chairman of Dacke Hydraulik AB, Board Member of Esselte AB (publ), Handelsbanken Södra Sverige and Munters AB (publ).
Shareholding in Hexagon: 25,000 series B shares.
Shareholding in Konverta: 44,000.

Erik Paulsson
Born 1942, Board Member since 1993.
Commissions include: President of Fastighets AB Storheden (publ), Chairman of BPA, Board Member of Sälen-Stjärnan AB (publ), PEAB AB (publ) and Folkebolagen AB (publ).
Shareholding in Hexagon: 2,000 series B shares.
Shareholding in Konverta: 85,000.

Group Management and Auditors



Back, left to right: Kai Nilsson, Per-Olof Borggren, Torbjörn Wistrand, Mats Nilsson.
Front, left to right: Marianne Johansson, Börje Andersson, Inga Jönsson, Claes Lindkvist.

Börje Andersson

Employed in Hexagon since 1993. Born 1950. President and CEO.
Shareholding in Hexagon as above.
Synthetic warrants as above.
Shareholding in Konverta as above.

Per-Olof Borggren

Employed in Hexagon since 1993. Born 1950. Head of Corporate Finance.
Shareholding in Hexagon: 18,400 series B shares. Synthetic warrants: 20,000.
Shareholding in Konverta: 8,400.

Marianne Johansson

Employed in Hexagon since 1997. Born 1956. Secretary/Receptionist.
Shareholding in Hexagon: 100 series B shares.

Inga Jönsson

Employed in Hexagon since 1993. Born 1942, Secretary.
Shareholding in Hexagon: 9,517 series B shares.
Shareholding in Konverta: 6,000.

Claes Lindkvist

Employed in Hexagon since 1994. Born 1958, Head of Corporate Development & Investor Relations.
Shareholding in Hexagon: 1,500 series B shares. Synthetic warrants: 20,000.

Kai Nilsson

Employed in Hexagon since 1995. Born 1950, Head of Administration and Human Resources.
Shareholding in Hexagon: 1,300 series B shares. Synthetic warrants: 20,000.

Mats Nilsson

Employed in Hexagon since 1997. Born 1960. Head of Group Accounting.
Shareholding in Hexagon: 0

Torbjörn Wistrand

Employed in Hexagon since 1997. Born 1948. Head of Commercial Development.
Shareholding in Hexagon: 1,500 series B shares. Synthetic warrants: 5,000.

AUDITORS

Gunnar Widhagen

Born 1938, Authorized Public Accountant, Ernst & Young AB
Auditor since 1989.

Peter Pankko

Born 1954, Authorized Public Accountant, SET Revisionsbyrå AB
Auditor since 1994

DEPUTY AUDITORS

Peter Lander

Born 1949, Authorized Public Accountant, Ernst & Young AB
Deputy Auditor since 1992.

Gilbert Larsson

Born 1943, Authorized Public Accountant, SET Revisionsbyrå AB
Deputy Auditor since 1994.

Report of the Directors

The Board of Directors and the President of Hexagon AB (publ) hereby submit the Annual Report and Consolidated Financial Statements for fiscal year 1997.

Report of the Directors The Hexagon Group's turnover increased by 34 per cent during 1997. In a comparable structure, invoiced sales rose by 6 per cent. Earnings after financial items rose by 52 per cent, including capital gains on the disposal of shares in Svedbergs. Excluding this capital gains item, earnings rose by 19 per cent.

The Group possesses a structure with three business areas; Industrial Components and Systems, Niche Manufacturing and Industrial Food Technology. The subsidiaries in the Group's business areas are medium-sized industrial companies with good market positions in their respective niches and a high share of invoiced sales abroad. In total, roughly 58 per cent of Group turnover is foreign-related.

The Group also includes a small engineering company and an affiliate. These companies differ from the companies in the business areas in respect of size and ownership proportion.

Corporate acquisitions and divestitures During the first quarter of 1997, Bruces Shipyard was disposed of and also the shareholding in Trustor. In July, Dacke Hydraulik acquired the company INAB, Gustaf Fagerberg acquired the filter specialists Roto-Sieve, and Johnson Metall the bronze operations in ProvaToute Oy. Hexagon AB acquired L G Fredriksson International AB and further shares in VBG Produkter AB, where the ownership share now amounts to 45.0 per cent.

During the third quarter, Johnson Metall streamlined its operations in the United States so as only to encompass brass products. Hexagon AB has disposed of 70 per cent of its holding in Svedbergs i Dalstorp in connection with the listing of that company on the OTC list.

Towards the end of the year, the shareholding in Linköpings Stål AB was disposed of. The ownership share in EBP i Olofström AB was increased to 57 per cent.

Operations 1997 Invoiced sales within the business area of Industrial Components and Systems amounted to MSEK 1,836 (1,500) during 1997. Earnings after financial items rose to MSEK 118.9 (104.1). The major proportion of this in-

crease is explained by the acquisition of AKA Industriprodukter which is a member of Hexagon as of May 1996. In a comparable structure, invoiced sales rose by 6 per cent, from MSEK 1,737 to MSEK 1,836 and earnings rose to MSEK 118.9 (117.3). A sluggish market in Sweden for investment products, principally within the forestry and process industries, negatively affected earnings. The other Nordic countries, where investments were at a slightly higher level, have partly compensated for the sluggish Swedish trend. Inflow of orders in a comparable structure rose by 6 per cent.

AKA Industriprodukter has, by an internal assignment, acquired EIE Maskin AB from SwePart AB, and EIE Maskin is reported within AKA as of 1997. Invoiced sales in AKA Industriprodukter amounted to MSEK 866 (828). Earnings rose to MSEK 37.4 (34.0). During the year, AKA has continued to expand in Poland, the Baltic states and Russia, and these markets now constitute 10 per cent (9) of total invoiced sales. The Swedish, Danish and Norwegian markets for refrigeration products and process components has been sluggish, while the market in Finland for hydraulics, pneumatics and flow technology has developed well.

Dacke Hydraulik's invoiced sales rose to MSEK 483 (450). Earnings remained largely unchanged and amounted to MSEK 47.1 (47.9). During the year, INAB was acquired and the increase invoiced sales is largely explained by this acquisition. In a comparable structure, invoiced sales rose somewhat. On the Swedish and Norwegian markets, which constitute more than 90 per cent of turnover, invoiced sales remained unchanged compared with the previous year. Exports to the United States and the United Kingdom increased dramatically from a low level.

Gustaf Fagerberg increased invoiced sales to MSEK 487 (459). This increase is partly explained by the acquisition of Roto-Sieve and partly by the increase in sales on markets outside Sweden. The Swedish market, where 45 per cent of invoiced sales take place, was weak, particularly within the customer group paper and cellulose, and in total invoiced sales remained unchanged. In Norway and Denmark, invoiced sales rose by 8 per cent. Exports outside the Nordic countries rose from a low level.

Earnings after financial items fell to MSEK 34.4 (35.4), principally because of

non-recurring costs in connection with restructuring operations in Denmark and the generally weak demand in Sweden.

Invoiced sales within Niche Manufacturing rose to MSEK 1,879 (1,012) and earnings after financial items rose by 38 per cent to MSEK 208.9 (151.2). SwePart and SwePart Material were acquired in December 1996, for which reason invoiced sales and earnings are not comparable. In a comparable structure, invoiced sales rose by 9 per cent, from MSEK 1,719 to MSEK 1,879 and earnings rose somewhat and amounted to MSEK 208.9 (202.8). During the year, extensive inputs for the future were implemented, including investments in machinery and production premises to increase capacity, as well as the establishment of new subsidiaries. This, together with restructuring costs for phasing-out parts of Johnson Metall's operations in the United States, negatively affected earnings during 1997. The order inflow rose in this business area by 19 per cent in a comparable structure.

Gislaved Gummi increased invoiced sales by 13 per cent to MSEK 344 (305). Earnings after financial items fell to MSEK 37.2 (41.3), primarily because of production disruptions during the second and third quarters in connection with the start-up of a new production plant for manufacturing wheels. These disruptions have now largely been remedied. During the fourth quarter, earnings increased by 13 per cent compared with the previous year. At present, the inflow of orders is at a high level and rose during 1997 by 31 per cent compared with 1996.

Moteco increased invoiced sales by 48 per cent to MSEK 189 (128). The increase in invoiced sales is a result of the fact that several important customers have joined the customer books, as well as the generally healthy growth in this branch of industry. The market share has increased during the year and now amounts to roughly 20 per cent of the world market. During the year, production capacity was doubled, and towards the end of the year investments were made to double capacity once again. Earnings after financial items rose by 18 per cent to MSEK 58.2 (49.3). During the end of the year, subsidiaries in China and the United States were established.

Johnson Metall's invoiced sales rose by 7 per cent to MSEK 452 (422). All geographic markets have developed well, and the increase has primarily taken place with-

in the brass operations. The unprofitable bronze operations in the United States have been wholly phased-out and the company now concentrates on cage rings for ball bearings of brass. Earnings after financial items amounted to MSEK 48.7 (50.1) and were negatively affected by restructuring costs in the United States.

SwePart Material's invoiced sales fell by 5 per cent to MSEK 266 (280) because of lower volumes and falling prices. After a very sluggish start to 1997, volumes progressively improved towards the end of the year. Earnings after financial items fell to MSEK 18.8 (21.3).

SwePart (excluding *SwePart Material*) increased invoiced sales somewhat to MSEK 628 (584). Earnings rose to MSEK 46.0 (40.8). Demand for heavy-duty industrial tools has been better than in the previous year, and it is principally within this area that the earnings improvement took place.

The business area of Industrial Food Technology includes Norfods, with the companies AB R Lundberg and LG Fredriksson International AB. Invoiced sales amounted to MSEK 430 (331). Fredrikssons was acquired in July 1997, and therefore the figures are not comparable. In a comparable structure, invoiced sales remained largely unchanged at MSEK 528 (529).

Earnings declined somewhat, from MSEK 10.4 to MSEK 8.9, principally because of changes to the product mix and also inputs within computers, marketing and logistics. The companies were coordinated within the newly formed Nordic Food and Drink Suppliers.

Other companies in Hexagon are Robust Ståldörrar RSD AB and the affiliate VBG Produkter AB (45 per cent). For 1997, Robust report a loss of MSEK -3.0 (-1.6) and VBG contribute to Hexagon's earnings in accordance with the equity method with MSEK 15.8 (15.2). As of October 1, 1997, Svedbergs is no longer reported as an affiliate and contributes with MSEK 11.0 (16.6) for 1997.

Revenues The revenues of the Group amounted to MSEK 4,218 (3,148), an increase of 34 per cent. In a comparable structure, invoiced sales rose by 6 per cent.

Earnings The Group's earnings after financial items amounted to MSEK 387.9 (254.8), including capital gains on the disposal of shares in Svedbergs. Excluding this capital gains item, earnings rose to MSEK 304.1.

Profitability Return on average shareholders' equity was 25 per cent (23) after the earnings had been charged with standard tax (28 per cent). The return on average visible shareholders' equity amounted to 23 per cent (25).

Corresponding figures excluding capital gains on the sale of shares in Svedbergs were 20 per cent shareholders' equity and 18 per cent on capital employed.

Exchange rate fluctuations have affected comparability only marginally over the years for both inflow of orders, invoiced sales and earnings.

The Group's financial position

The equity-total assets ratio amounted on December 31, 1997 to 43 per cent (38). Visible shareholders' equity was MSEK 1,219 (995). Including surplus value in market listed shares, adjusted shareholders' equity amounted to MSEK 1,339 (1,036). Liquid assets, including unutilised overdraft facilities amounted to MSEK 331 (426). Net debt in the Group was MSEK 525 (566) and net indebtedness degree amounted to 0.43 times (0.57). Times interest earned was 8.7 times (8.6). In December 1997, Hexagon signed an agreement on a syndicated loan of approx. SEK 1.2 billion which will partly be employed to lift out existing loans, and partly for financing some of the Group's future expansion.

The Group's investments in fixed assets amounted to MSEK 272 (126) of which MSEK 45 relates to investments in shares. Depreciations were MSEK 162 (101) during 1997.

Cash flow Before changes in operating capital and investments, cash flow amounted to MSEK 337 (265). After investments in fixed assets, net cash flow amounted to MSEK 65 (139).

The Parent Company The earnings before allocations of the Parent Company were MSEK 148.1 (-26.9). Equity-total assets ratio in the Parent Company was 61 per cent (60) on December 31, 1997. Visible shareholders' equity, including capital proportion in untaxed reserves, amounted to MSEK 991 (747).

Events after the end of the fiscal year An agreement has been signed on the sales of Swepart Plast AB. Since the buyers are employees within the Hexagon Group, approval is required from the Hexagon Annual General Meeting.



Expected future developments

The Hexagon Group's long term objective is to increase earnings by an average of 15 per cent per year up to the year 2000. Organic growth and complementary acquisitions in the subsidiaries, internal efficiency drives and acquisitions in the Parent Company are the major instruments for achieving this objective. An earnings forecast for 1998 will be issued at the Annual General Meeting.

Proposed allocation of profits

The unrestricted shareholders' equity of the Group amounts to TSEK 572,592. The Parent Company's unrestricted shareholders' equity amounts to TSEK 421,244. No allocations to restricted reserves are required in the Group.

The following profits are at the disposal of the Annual General Meeting

- profits brought forward	
from previous year	140,687 TSEK
- net earnings for the year	280,557 TSEK
	421,244 TSEK

The Board of Directors and the President propose that these profits be allocated such

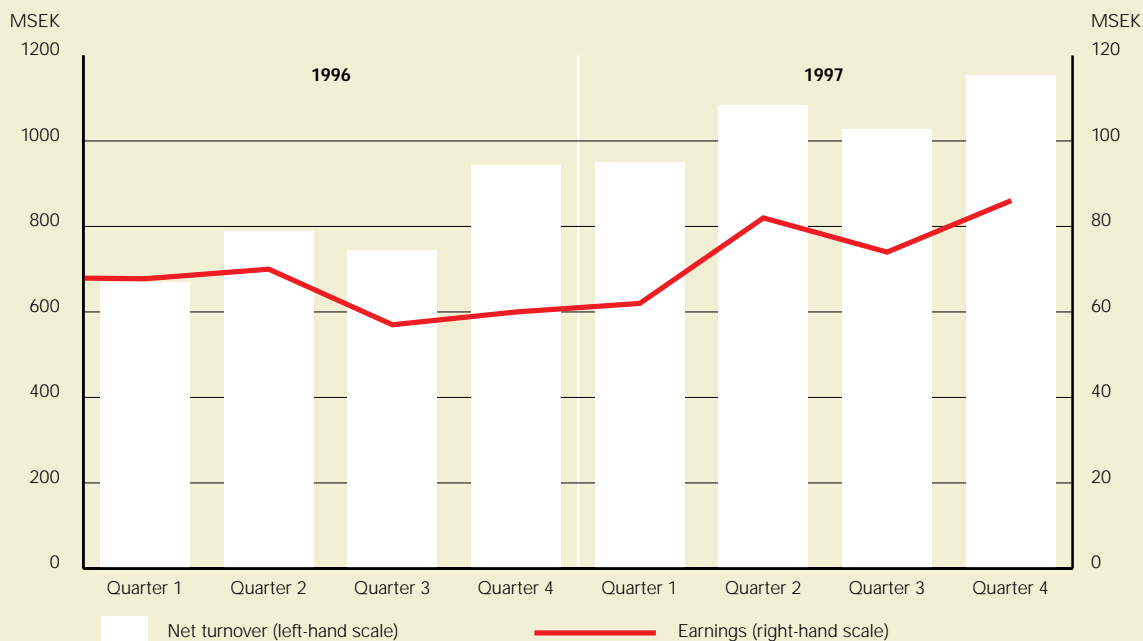
- that a dividend of	
5 SEK per share be paid	
to the shareholders	73,966 TSEK
- that the remaining profits	
be carried forward in	
a new Balance Sheet	347,278 TSEK
	421,244 TSEK

Hexagon in figures

CONSOLIDATED INCOME STATEMENT

(TSEK)	Note	1997	1996
Net turnover	1	4 218 039	3 147 565
Expenses for products sold	4,5	-3 218 569	-2 355 473
Gross earnings		999 470	792 092
Sales expenses	4,5	-400 833	-305 653
Administration costs	4,5	-279 871	-239 741
R & D costs	4,5	-19 841	-8 449
Other operating incomes		10 740	7 661
Other operating expense	5	-11 339	-4 380
Share of earnings in affiliates	10	27 063	31 784
Operating earnings		325 389	273 314
Earnings from financial investments			
Capital gains, Svedbergs shares	6	83 850	-
Earnings from share in Group companies	6	13 454	1 104
Earnings from other securities	6	2 211	-23
Interest incomes	6	11 114	12 421
Other financial incomes	6	2 294	1 650
Interest expense	6	-48 587	-31 223
Other financial costs	6	-1 865	-2 422
Pre-tax earnings		387 860	254 821
Tax on earnings for the year	7	-105 014	-80 562
Minority shares in year's earnings		-507	-258
Net income		282 339	174 001

Net turnover and earnings after financial items per quarter 1996 and 1997.



CONSOLIDATED BALANCE SHEET

(TSEK)		Note	1997	1996
ASSETS				
Fixed assets				
Intangible assets	Balanced expenses for R & D work		1 203	-
	Patents and Trademarks	8	4 627	6 883
	Goodwill	8	317 007	307 782
Material fixed assets	Buildings	8	314 295	257 622
	Land and other real estate	8	28 555	34 124
	Machines and other technical installations	8	341 792	360 574
	Equipment, tools and installations	8	97 402	73 853
	Ongoing new installations and advances to suppliers	8	49 349	33 790
Financial fixed assets	Shares in affiliated companies	11	120 800	130 075
	Other long-term securities holdings	12	19 699	3 001
	Other long-term receivables		5 052	7 391
Total fixed assets			1 299 781	1 215 095
Current assets			2 877 009	2 655 668
Inventories	Raw materials and requisites		122 757	104 522
	Goods under production		75 052	80 144
	Finished goods and commodities		455 758	406 763
Short-term receivables	Accounts receivable		640 842	507 549
	Receivables from affiliates		544	292
	Other receivables		24 433	19 275
	Prepaid expenses and accrued incomes	13	32 218	27 091
Short-term investments			6 028	86 003
Cash and bank balances			219 596	208 934
Total current assets			1 577 228	1 440 573
Total assets			2 877 009	2 655 668
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity		14		
Restricted shareholders' equity	Share capital		147 932	147 932
	Restricted reserves		498 423	470 237
Total restricted shareholders' equity			646 355	618 169
Unrestricted shareholders' equity	Profit/loss carried forward		290 253	203 310
	Net income		282 339	174 001
Total unrestricted shareholders' equity			572 592	377 311
Total shareholders' equity			1 218 947	995 480
Allocations				
	Allocations for pensions		68 298	64 074
	Allocations for taxes		167 599	136 101
	Other allocations	16	5 331	4 737
Total allocations			241 228	204 912
Minority interest			11 896	6 970
Long-term liabilities				
	Loans	17	508 174	636 167
	Overdraft facility	17	53 624	38 321
	Other long-term liabilities		18 319	14 881
Total long-term liabilities			580 117	689 369
Short-term liabilities				
	Loans	17	108 813	117 923
	Advances from customers		5 055	8 450
	Accounts payable		363 615	283 706
	Tax liability		31 084	32 586
	Other liabilities		93 025	117 971
	Accrued costs and prepaid incomes	13	223 229	198 301
Total short-term liabilities			824 821	758 937
Total shareholders' equity and liabilities			2 877 009	2 655 668
MEMORANDUM ITEMS		19		
Securities pledged			890 651	960 112
Contingent liabilities			15 428	10 051

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(TSEK)		1997	1996
Funds provided	Net invoiced sales	4 218 039	3 147 565
	Operating expenses excl. depreciations	-3 757 192	-2 805 140
		460 847	342 425
	Financial items	-32 135	-15 688
	Minority interest	-507	-258
	Tax excl. affiliates	-90 654	-61 495
Funds provided by operations for the year		337 551	264 984
Change in working capital	Change in inventories and ongoing work	-62 138	-234 529
	Change in current receivables	-143 830	-160 570
	Change in current liabilities	65 884	278 799
		-140 084	-116 300
	Sale of machines, equipment and real estate	48 471	8 169
	Sale of shares and participations	139 944	237
	Change in minority interests	4 419	6 868
	New issue	-	139 725
	Reduction of long-term liabilities	2 339	-
	Increase of long-term liabilities	-	588 542
	Translation difference	301	987
		195 474	744 528
Total funds provided		392 941	893 212
Funds applies	Investments in machinery, equipment, buildings and land improvements	230 869	442 695
	Investments in shares and participations	44 667	28 146
	Investments in goodwill	49 688	271 066
	Investments in intangible assets	818	6 479
	Increase of long-term liabilities	-	3 151
	Reduction of long-term liabilities	77 039	-
	Dividend to shareholders	59 173	47 512
Total funds applies		462 254	799 049
Change in liquid assets		-69 313	94 163

PARENT COMPANY INCOME STATEMENT

(TSEK)		Note	1997	1996
Net Turnover		2	9 840	18 724
Operating expense	Administration expenses	4,5	-27 415	-21 729
	Cost of synthetic warrants	4	-8 940	-24 083
	Total operating expense		-36 355	-45 812
Operating income			-26 515	-27 088
Earnings from financial investments	Earnings from share in Group companies	6	42 443	5 104
	Earnings from share in affiliates	6	151 977	2 825
	Earnings from other securities	6	18	-23
	Interest incomes	6	7 841	10 372
	Other financial incomes	6	377	-
	Interest expenses	6	-28 042	-13 524
	Other financial costs	6	-	-4 612
Earnings before allocations and taxes			148 099	-26 946
Allocations	Change in capital-based reserve		2 789	2 789
	Transfer to period based reserve		-33 313	-36 450
	Difference between book depreciation and scheduled depreciation		294	-442
	Group contribution received		203 038	173 466
	Group contribution rendered		-2 533	-11 563
	Shareholders' contribution rendered		-500	-1 693
	Total allocations		169 775	126 107
Pre-tax earnings			317 874	99 161
Tax on earnings		7	-37 317	-30 387
Net income			280 557	68 774

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION

(TSEK)		1997	1996
Funds provided	Net turnover	9 840	18 724
	Operating expense excl. depreciations	-34 152	-43 681
		-24 312	-24 957
	Financial items	3 019	174
	Tax paid	-37 317	-30 387
Funds provided by operations for the year		-58 610	-55 170
Change in working capital	Change in current receivables	-108 683	-29 272
	Change in current liabilities	164 856	84 556
		56 173	55 284
	Sale of shares and participations	254 382	71
	New issue	-	139 725
	Change in long-term liabilities and allocations	-46 223	338 298
	Group contributions received	203 038	173 466
		411 197	651 560
Total funds provided		408 760	651 674
Funds applies	Investments in machinery and equipment	357	154
	Investments in shares and participations	331 196	586 309
	Investments in intangible assets	-	6 500
	Dividend to shareholders	59 173	47 512
	Group contributions rendered	2 533	11 563
	Shareholders' contribution rendered	500	1 693
Total funds applied		393 759	653 731
Change in liquid assets		15 001	-2 057

PARENT COMPANY BALANCE SHEET

(TSEK)		Not	1997	1996
ASSETS				
Fixed assets				
Intangible fixed assets	Patents and Trademarks	8	3 900	5 600
Material fixed assets	Equipment	8	934	1 080
Financial fixed assets	Shares in Group companies	9	1 147 055	913 983
	Receivables from Group companies		2 265	2 265
	Shares in affiliates	11	79 269	63 934
	Other long-term securities holdings	12	18	18
Total fixed assets			1 233 441	986 880
Current assets				
Receivables	Accounts receivable		49	131
	Receivables from Group companies		282 801	172 918
	Other receivables		4	650
	Prepaid expenses and accrued incomes	13	406	878
Cash and bank balances			108 072	93 071
Total current assets			391 332	267 648
Total assets			1 624 773	1 254 528
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity	Share capital		147 932	147 932
	Premium reserve		127 543	127 543
	Statutory reserve		220 381	220 381
Total restricted shareholders' equity			495 856	495 856
Unrestricted shareholders' equity	Profit/Loss carried forward		140 687	131 086
	Net income		280 557	68 774
Total unrestricted shareholders' equity			421 244	199 860
Total shareholders' equity			917 100	695 716
Untaxed reserves				
	Depreciation in excess of plan		339	634
	Capital-based reserve		8 368	11 158
	Period-based reserve	16	93 363	60 050
Total untaxed reserves			102 070	71 842
Allocations				
	Allocations for pensions		1 120	-
Long-term liabilities	Loans		283 519	337 389
	Other long-term liabilities		15 371	8 844
Total long-term liabilities			298 890	346 233
Current liabilities				
	Loans		53 493	53 493
	Liabilities to suppliers		990	1 286
	Liabilities to Group companies		213 956	45 048
	Tax liability		24 339	22 771
	Other liabilities		1 511	12 115
	Accrued expenses and prepaid incomes	13	11 304	6 024
Total current liabilities			305 593	140 737
Total shareholders' equity and liabilities			1 624 773	1 254 528
MEMORANDUM ITEMS				
Securities pledged			577 674	570 491
Contingent liabilities			80 029	162 603

Comments and Notes

All amounts are shown in SEK thousands unless otherwise indicated. The amounts shown in brackets are the comparable figures for 1996.

Accounting principles The financial statements of all Group companies were prepared using the same accounting concepts. The Group's principles for classification and categorisation into items has been modified in connection with the entry into force of the new Annual Reports Act on January 1, 1996, applicable as of January 1, 1997. In this event, the figures for the previous year have been re-computed. Hexagon complies with the recommendations issued by the Swedish Financial Accounting Standards Council.

The Hexagon Group preferably applies operational leasing. Financial leasing occurs only on a modest scale and relates primarily to motor cars.

Consolidated financial statements The consolidated financial statements comprise the Parent Company and those companies in which the Parent Company's direct or indirect shareholding represents more than 50 per cent of the votes.

The purchase method is employed in preparing the consolidated financial statements. This method implies that the Parent Company's acquisition value for shares in subsidiaries is eliminated against the shareholders' equity existing in the subsidiaries at the time of acquisition. Shareholders' equity in acquired subsidiaries is calculated by assigning a market value to the assets and liabilities existing at the time of acquisition. Deferred tax is accounted for at 28 per cent in the case of acquisitions made after January 1, 1993. In cases where the acquisition value of shares in subsidiaries exceeds the value of shareholders' equity arrived at as shown above, the difference is entered as a goodwill item in the consolidated balance sheet. Goodwill is written off in the Group over ten to twenty years on the basis of expected

earnings capability. A writing-off period of twenty years is applied as of 1997 to new acquisitions in the Norfods Group.

Acquired companies are included in earnings from the date of acquisition. Divested companies are included up until the time of sale. Provision is made for deferred taxes concerning items of income and expenditure that are included in the financial statements and also computed for income tax purposes, but at different times (timing differences).

Accordingly, in the consolidated financial statements there are no allocations in the income statement or untaxed reserves in the balance sheet. The tax component of the allocations made in individual subsidiaries is entered in the consolidated income statement as a tax expense calculated at 28 per cent. Consequently, in the consolidated balance sheet, 28 per cent of the subsidiaries' untaxed reserves is entered as deferred taxes while the remainder is recorded in shareholders' equity.

In converting the financial statements of foreign subsidiaries, the current method is employed. This means that their balance sheets are recalculated according to the exchange rates as of the day of closing, and that their income statements are recalculated using average exchange rates. Conversion differences that arise are applied to shareholders' equity in the Group.

Affiliated companies As of 1991, Hexagon has employed the equity method to account for affiliated companies. The term Affiliated companies signifies those companies in which Hexagon does not exercise majority control but where its long-term operating interest represents between 20 per cent and 50 per cent of the shareholding. The share of net income in affiliates is included in the consolidated income statement among financial items. The affiliates' taxes are reported among other tax expenses in the Group. In the consolidated balance sheet, the holdings in affiliates are entered at acquisition value after adjust-

ment for dividends and share in net profit or loss after the date of acquisition. Undistributed share in earnings is reported as restricted reserves in the Group's shareholders' equity.

Receivables and liabilities Provision for loss risks is assessed on a case-to-case basis.

Receivables and liabilities in foreign currencies are converted at the year-end exchange rate. The difference between acquisition value and year-end value is taken up as income. In cases where transactions are secured under forward cover, the forward rate is used.

Inventories Inventories are valued as follows using the first in, first out (FIFO) method. Market terms and conditions are employed in trade between Group companies. Necessary write-downs are made for obsolescence and intercompany profits.

Raw materials and purchased manufactures, finished and semi-finished, are valued at the lower of acquisition or market value.

Manufactured goods, finished and semi-finished, are valued at the lower of production cost (including a reasonable part of production overheads) and market value.

Scheduled depreciation Scheduled depreciation is based on the acquisition value and estimated economic life of the fixed assets. Group goodwill amounting to MSEK 17.6 was written off in 1989-1990 directly against unrestricted shareholders' equity. Annual depreciation on goodwill that was previously written off directly is estimated at MSEK 1.7. From 1991 onwards, goodwill is depreciated according to schedule. Depreciation times for various asset categories are:

Intangible assets	5 years
Goodwill	10-20 years
Machinery and equipment	3-10 years
Buildings	20-33 years
Land improvements	20 years

Note 1 Net turnover and earnings after financial items by business branch and geographic market

In the Group are divided net turnover and earnings after financial items by business branch as follows:

	Net turnover		Earnings after financial items	
	1997	1996	1997	1996
Industrial Components and Systems	1 835 952	1 499 758	118 911	104 069
Niche Manufacturing	1 878 762	1 012 451	208 904	151 185
Industrial Food Technology	429 786	331 060	8 947	10 400
Other companies	88 816	309 111	24 058	33 925
Capital gains Svedbergs	-	-	83 850	-
Group adjustments				
and Parent Company	-15 277	-4 815	-56 810	-44 758
Total	4 218 039	3 147 565	387 860	254 821

In the Group, the subsidiaries' net turnover and earnings after financial items are distributed as follows:

	Net turnover		Earnings after financial items	
	1997	1996	1997	1996
Northern Europe	4 039 505	2 963 048	384 029	252 329
Germany	99 265	100 757	8 338	8 347
United States	79 269	83 760	-4 507	-5 854
Total	4 218 039	3 147 565	387 860	254 822

Note 2 Purchase and sales between Group companies
Of the Parent Company's net turnover 98% (99) is internal.

Note 3 Average Workforce

	1997			1996		
	Men	Women	Total	Men	Women	Total
Parent Company	6	2	8	5	2	7
Subsidiaries	2 289	704	2 993	1 819	489	2 308
Total	2 295	706	3 001	1 824	491	2 315
Average workforce distributed by workplace						
Arboga	10	1	11	9	1	10
Eksjö	7	2	9	7	2	9
Filipstad	76	9	85	91	9	100
Gislaved	109	143	252	129	131	260
Göteborg	88	31	119	85	29	114
Götene	92	50	142	8	5	13
Halmstad	9	3	12	3	1	4
Hässleholm	142	10	152	10	1	11
Högsby	72	116	188	43	47	90
Kalmar	7	-	7	7	-	7
Kungälv	9	2	11	-	-	-
Landskrona	6	2	8	220	8	228
Laxå	53	15	68	31	11	42
Ljungby	41	7	48	40	7	47
Luleå	7	-	7	8	-	8
Malmö	52	23	75	33	13	46
Nybro	90	5	95	7	-	7
Stockholm	101	25	126	87	22	109
Sävsjö	57	11	68	54	9	63
Tidaholm	82	14	96	7	2	9
Trollhättan	35	2	37	34	2	36
Vaggeryd	51	4	55	52	4	56
Vetlanda	17	-	17	11	1	12
Värnamo	18	2	20	2	-	2
Västervik	86	25	111	85	24	109
Ystad	36	8	44	36	7	43
Älmhult	119	19	138	11	2	13
Örebro	184	25	209	186	21	207
Örnsköldsvik	12	-	12	2	-	2
Other municipalities	31	7	38	14	1	15
Denmark	72	23	95	64	24	88
Estonia	3	2	5	4	2	6
Finland	213	57	270	149	42	191
Latvia	2	1	3	-	-	-
Norway	152	27	179	127	20	147
Poland	22	4	26	13	3	16
Germany	46	24	70	49	26	75
USA	86	7	93	106	14	120
Total	2 295	706	3 001	1 824	491	2 315

Note 4 Personnel costs, pensions and other emoluments

Wages and emoluments (of which premium and bonus)	Board and CEO		Other workforce	
	1997	1996	1997	1996
Parent Company	3 050	2 260	4 527	3 524
Subsidiaries in Sweden	28 498	16 011	496 734	363 288
Total	31 548	18 271	501 261	366 812
Denmark	5 588	4 125	32 550	28 701
Estonia	-	-	712	203
Finland	5 174	3 022	67 652	45 310
Latvia	-	-	147	-
Norway	5 424	3 833	50 135	43 334
Poland	-	-	3 320	1 882
Germany	1 177	1 588	22 427	22 845
USA	1 283	499	23 007	24 100
Total	50 194 (6 066)	31 338 (5 000)	701 211 (10 258)	533 187 (9 136)

The above figures do not include synthetic warrants (see below)

Payroll charges	Total workforce (of which pension costs)	
	1997	1996
Parent Company	5 665 (2 693)	3 216 (1 019)
Subsidiaries	263 352 (41 880)	167 444 (24 714)
Total	269 017 (44 573)	170 660 (25 733)

Emoluments to executives	Kronor
Total Board fee decided by the Annual General Meeting	620 000
- of which to the Chairman	120 000
- of which to the Deputy Chairman	100 000
- of which to each one of the five remaining Members	80 000
(The President of Hexagon AB receives no Director's emoluments)	

The Chairman of the Board works under contract for Hexagon AB. Reimbursement for this is TSEK 250 per year including social security charges. This amount is invoiced from Företagsförmedlaren i Stockholm AB. Four Directors in Hexagon AB received fees for Board assignments in subsidiaries and fees for working in the election and emoluments committee. A total of 295 TSEK (245) was paid.

The President, Mr Börje Andersson, has received a salary plus bonus of a total of 2 420 TSEK (1 530). In addition, he enjoys the benefit of a company car.

The President and other executives are covered by a general pension scheme (ITP) or other pension schemes at the same cost. Also, the President has an additional premium corresponding to one basic amount. Total pension cost for the President is 761 TSEK (535).

If the company gives notice of termination, the President is entitled to severance pay corresponding to two years' salary. Other executives are subject to periods of notice of 12 to 18 months on the company's part.

Katja Elväng, Simon Bonnier and Christer R Christensson serve on the Company's election and emoluments committee.

Synthetic warrants

Since 1994, Hexagon has had a programme of synthetic warrants. The first programme expired on 1 September 1997.

On 7 November 1996 Hexagon's Board decided to issue a further scheme for synthetic warrants. The scheme comprises 292 000 warrants of which 257 000 have been allocated to the managing directors of directly reporting subsidiaries and Group management in blocks of 5 000 - 40 000. The price for warrants was originally set at 12 crowns after an evaluation by D Carnegie AB and Swedbank. The maturity is four years counting from 7 November 1996 and the redemption price is SEK 178.

During this period, the value of the warrants is computed using a given formula. The difference between the premium paid for the securities is reported as a liability in the Balance Sheet of 11 240 TSEK (15 774). Changes in the market value, including costs for redemption are reported as expenses in the income statement at 8 940 TSEK (24 083).

The arrangement of the scheme and its principles are fully in line with the pronouncement issued by the Swedish Securities Council of 1 July 1994 dealing with synthetic warrants

Note 5 Scheduled depreciation

Depreciations of intangible and material fixed assets are included in the items of the Income Statement as follows

Year's scheduled depreciations	Group		Parent Company	
	1997	1996	1997	1996
Cost for goods sold	102 349	56 690	-	-
Sales costs	41 249	27 843	-	-
Administration costs	16 981	15 128	2 203	2 131
R & D costs	1 056	896	-	-
Other operating costs	320	317	-	-
Total	161 955	100 874	2 203	2 131

Note 6 Earnings from financial investments

Earnings from participations in Group companies:	Group		Parent Company	
	1997	1996	1997	1996
Dividend	-	-	17 040	4 000
Capital gains	16 291	1 104	25 404	1 104
Capital loss	-2 837	-	-1	-
Total	13 454	1 104	42 443	5 104

Earnings from participations in affiliates

Dividend	-	-	4 909	2 825
Capital gains Svedbergs shares	83 850	-	147 068	-
Total	83 850	-	151 977	2 825

Earnings from other securities:

Dividend	34	9	18	9
Capital gains	2 439	-	-	-
Capital loss	-262	-32	-	-32
Total	2 211	-23	18	-23

Interest incomes:

Interest incomes Group companies	-	-	4 706	6 344
Other interest incomes	11 114	12 421	3 135	4 028
Total	11 114	12 421	7 841	10 372

Other financial incomes:

Exchange rate gains	2 081	1 075	377	-
Others	213	575	-	-
Total	2 294	1 650	377	-

Interest expense:

Interest expenses Group companies	-	-	4 497	4 104
Other interest expense	48 587	31 223	23 545	9 420
Total	48 587	31 223	28 042	13 524

Other financial expenses:

Exchange rate losses	1 389	1 751	-	981
Issue costs	-	-	-	3 631
Others	476	671	-	-
Total	1 865	2 422	-	4 612

Note 7 Taxes

	Group		Parent Company	
	1997	1996	1997	1996
Paid tax	90 654	61 494	37 317	30 387
Deferred tax	4 103	9 034	-	-
Share of affiliate's tax	10 257	10 034	-	-
Total	105 014	80 562	37 317	30 387

There is an unutilised loss deduction of 98 041 TSEK, which may be set off against capital gains in the sale of shares. Deferred tax liability relating to this is booked at 5 249 TSEK and is referable to Hexagon Förvaltning AB acquired during the year.

Note 8 Intangible and tangible fixed assets

	Brought forward costs for research and development work	Patents and Trade- marks	Goodwill	Buildings	Land and other real estate	Machinery and other technical	Equipment, tools and	Ongoing new inst- allations and advances
Initial acquisitions value	-	12 362	346 076	375 708	36 572	770 084	274 772	33 790
Exchange rate change	-	- 17	47	580	55	461	-453	-
Purchase	818	28	41 215	26 086	5 097	126 004	59 211	26 836
Sale/obsolescence	-	-	-3 054	-35 286	-13 449	-37 895	-20 603	-
Reclassification	481	-	8 961	73 700	2 825	-46 476	21	-11 277
Outgoing acquisition value	1 299	12 373	393 245	440 788	31 100	812 178	312 948	49 349
Initial depreciations	-	5 479	38 294	118 086	2 448	423 983	186 446	-
Exchange rate change	-	- 8	-	-322	-	-179	-1 018	-
Purchase	-	-	1 078	3 242	58	5 359	7 589	-
Sale/obsolescence	-	-	-1 013	-11 029	-208	-29 115	-12 075	-
Year's depreciations	96	2 275	37 879	16 516	247	70 338	34 604	-
Outgoing depreciations	96	7 746	76 238	126 493	2 545	470 386	215 546	-
Book value	1 203	4 627	317 007	314 295	28 555	341 792	97 402	49 349

Taxation value for Swedish properties is 137 786 TSEK (168 610) relating to buildings and 24 873 TSEK (33 942) relating to land.

Note 8 Cont.

	Parent Company	
	Patents and Trademarks	Equipment
Initial acquisition value	8 500	2 268
Purchase	-	357
Outgoing acquisition value	8 500	2 625
Initial depreciations	2 900	1 188
Year's depreciations	1 700	503
Outgoing depreciations	4 600	1 691
Book value	3 900	934

Note 9 Participations in Parent Company

	Group companies	
	1997	1996
Initial acquisition value	913 983	343 590
Additional capital	100	-
Year's purchases	218 869	570 393
Year's internal purchases	67 558	-
Year's sales	-6 900	-
Year's internal sales	-46 555	-
Book value shares in Group companies	1 147 055	913 983

Note 9 Cont.

Subsidiaries of Hexagon AB	Org No.	Reg.	Participations	Book value 1997	Book value 1996
All of the following companies are owned to 100 % apart from those specifically noted.	Office				
AKA Industriprodukter Holding AB <i>with the following group companies</i>	556255-3585	Stockholm	10 000	216 583	216 583
AKA Industriprodukter AB	556068-1602	Stockholm			
Tempcold A/S (Denmark)	66915	Bröndby			
Tempcold Ltd (Poland)	118-00-18-900	Warsaw			
Oy AKA Industriprodukter AB (Finland)	86 521	Helsinki			
IP-Produkter Oy (Finland)	527 659	Vantaa			
Oy Tecalimit Ab (Finland)	527 631	Helsinki			
AKA Balti AS (Estonia)	01309231	Tallinn			
A/S Frigoterm (Norway)	959476098	Oslo			
AKA Industriprodukter Kyla AB	556432-6790	Stockholm			
AKA Industriprodukter VVS AB	556432-6758	Stockholm			
AKA Industriprodukter Pump AB	556432-6741	Stockholm			
AKA Industriprodukter Filter AB	556065-0409	Göteborg			
AKA Industriprodukter Separation AB	556121-5376	Stockholm			
AKA Industriprodukter Nordic Ref AB	556044-0769	Stockholm			
EIE Maskin	556029-6336	Stockholm		-	15 205
Technos AB	556213-2232	Stockholm			
Elmeko A/S (Norway)	959207925	Oslo			
Dacke Hydraulik AB <i>with the following group companies</i>	556207-5357	Sävsjö	2 000	45 000	45 000
Pneumatik AB, CA-Verken	556136-4141	Sävsjö			
Hydraul Syd AB	556144-2418	Ystad			
Vaggeryds Hydraulik AB	556041-2735	Vaggeryd			
Hällaryds Hydraulik AB	556264-6660	Vetlanda			
AB Gustaf Terling	556036-8168	Göteborg			
Hydronic AS (Norway)	822910742	Oslo			
Hydraulik Leverantören AB	556193-0685	Stockholm			
Sweden Hydro Tools AB	556261-7034	Halmstad			
INAB Ingeniörsbyrå i Örnsköldsvik AB	556157-5381	Örnsköldsvik			
Gustaf Fagerberg Holding AB <i>with the following group companies</i>	556040-9087	Göteborg	100 000	39 936	39 936
Gustaf Fagerberg AB	556023-6407	Göteborg			
Pentronic AB	556042-5141	Västervik			
Fagerberg Norge a.s (Norway)	856326942	Moss			
Gustaf Fagerberg Danmark A/S (Denmark)	67186419	Bröndby			
Oy Fagerberg Processarmatur AB (Finland)	08719327	Kerava			
GEFA Processtechnik GmbH (Germany)	124660813	Dortmund			
Roto-Sieve Filter AB	556247-6811	Kungälv			
Roto-Sieve France SA (France)	410570-329	MaisonsLaffitte			
Gislaved Gummi AB <i>with the following group companies</i>	556112-2382	Gislaved	2 000	49 028	49 028
Stellana AB	556084-8870	Laxå			
Stellana A/S (Denmark)	201 551	Gilleleje			
Moteco AB <i>with the following group companies</i>	556103-0502	Kalmar	20 000	25 037	25 037
Moteco Production AB	556281-7311	Högsby			

	Org No.	Reg. Office	Share	1997	1996
Johnson Metall AB	556062-0196	Örebro	100 000	90 449	90 449
<i>with the following group companies</i>					
Johnson Metal A/S (Denmark)	46145313	Rödovre			
Johnson Metal A/S (Norway)	921573367	Åmot			
Oy Johnson Metall AB (Finland)	364 122	Pirkkala			
Johnson Metall INC. (USA)		Lorain, Ohio			
SwePart Material AB	556248-6034	Mullsjö	100 000	93 558	-
<i>with the following group companies</i>					
Nybro Stålprodukter AB	556179-4628	Nybro			
Malmö Stålprodukter AB (90,1 %)	556348-1455	Malmö			
Värnamo Stålprodukter AB	556229-5419	Värnamo			
Moss Stål & Metall A/S (Norway) (52 %)	971198575	Moss			
AB Centrostål	556188-4080	Malmö			
SwePart AB	556046-3407	Mullsjö	8 662 500	334 993	353 810
<i>with the following group companies</i>					
SwePart Plast AB	556054-1301	Götene			
AB SwePart Verktyg	556161-1301	Hässleholm			
Högmans Industri Verktyg AB	556073-9111	Trollhättan		-	6 000
Tjust Mekaniska AB	556090-3048	Västervik		-	10 000
SwePart Transmission AB	556092-8508	Älmhult			
Tidamek AB	556142-1222	Tidaholm			
Swedrive AB	556145-6319	Ljungby		-	15 249
EBP i Olofström AB (57 %)	556529-1928	Olofström			
AB R Lundberg	556021-5526	Malmö	20 000	36 718	36 718
<i>with the following group companies</i>					
AWP Importen AB	556292-4836	Helsingborg			
LG Fredriksson International AB	556059-0498	Malmö	10 000	26 087	-
<i>with the following group companies</i>					
LG Fredriksson Handels AB	556176-8176	Malmö			
Ingenjörfirman Konvex AB	556119-4795	Malmö			
Robust Ståldörrar RSD AB	556072-5995	Filipstad	4 000	1 000	1 000
<i>with the following group companies</i>					
Robust Ståldörrar AS (Norway)	833916882	Sandvika			
Hexagon Förvaltning AB	556016-3049	Landskrona	200 000	185 599	-
Other companies essentially dormant			-	3 067	3 068
Company sold					
Bruces Shipyard AB	556211-5310	Landskrona		-	6 900
Total				1 147 055	913 983

Note 10 Share in earnings of affiliates

	Group	
	1997	1996
VBG Produkter AB	15 776	16 636
Svedbergs i Dalstorp AB	11 005	15 148
Precisionstål AB	282	-
	27 063	31 784
Tax	-10 257	-10 034
Total	16 806	21 750

Note 11 Capital shares in affiliates

	Group		Parent Company	
	1997	1996	1997	1996
VBG Produkter AB	119 958	69 094	79 269	34 602
Svedbergs i Dalstorp AB	-	51 421	-	29 332
Precisionstål AB	842	560	-	-
EBP i Olofström AB	-	9 000	-	-
Total	120 800	130 075	79 269	63 934

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Affiliates	Org No.	Reg. Office	No. shares	Capital share	Share of company's own capital	Votes share
VBG Produkter AB	556069-0751	Vänernsborg	1 540 589	45,0 %	95 433	39,9 %
Precisionstål AB	556096-9940	Stockholm	1 250	25,0 %	842	25,0 %
Total					96 275	

During the year in connection with the stock exchange listing of Svedbergs i Dalstorp AB, Hexagon sold 70 % of the holding in this company. Svedbergs is therefore reported as an affiliate only up to and including 30 September 1997. EBP i Olofström AB is reported since 31 December 1997-12-31 as a subsidiary.

Note 12 Other long-term securities holdings

	Group		Parent Company	
	1997	1996	1997	1996
Svedbergs i Dalstorp AB (795 000 shares, capital 15,0%, votes 9,7%)	16 564	-	-	-
Stockholm Fondbörs (1 656 shares)	33	33	18	18
Kiint Oy Honkakoli	2 004	2 047	-	-
Others	1 098	921	-	-
	19 699	3 001	18	18

Svedbergs i Dalstorp AB were reported as an affiliate up to and including 30 September 1997.

Note 13 Accrual items

	Group		Parent Company	
	1997	1996	1997	1996
Prepaid expenses and accrued incomes				
Accrued commission	1 421	1 389	-	-
Accrued interest incomes	838	336	30	-
Prepaid rents	7 712	5 421	-	77
Other items	22 247	19 945	376	801
Total	32 218	27 091	406	878
Accrued expenses and prepaid incomes				
Accrued personnel-related costs	171 830	153 931	2 531	1 971
Accrued interest costs	3 262	3 725	2 020	2 634
Other items	48 137	40 645	6 753	1 419
Total	223 229	198 301	11 304	6 024

Note 14 Shareholders' Equity

Change of shareholders' equity in the Group

	Share capital	Non-registered new issue	Restricted reserves	Capital-share-reserve	Unrestricted reserves	Year's income	Total
Amounts at 1 January	135 750	139 725	287 244	55 450	203 310	174 001	995 480
Registration new issue	12 182	- 139 725	127 543				
Transferred earnings 1996					174 001	- 174 001	
Dividend					-59 173		- 59 173
Translation difference					301		301
Displacement between restricted and unrestricted shareholders' equity			34 931	-6 745	-28 186		
Net income						282 339	282 339
Amounts at 31 December	147 932	-	449 718	48 705	290 253	282 339	1 218 947

Change of shareholders' equity in the Parent Company

	Share capital	Non-registered new issue	Premium fund	Reserve fund	Profit carried forward	Year's income	Total
Amounts at 1 January	135 750	139 725		220 381	131 086	68 774	695 716
Registration new issue	12 182	- 139 725	127 543				
To be carried forward					68 774	- 68 774	
Dividend					- 59 173		- 59 173
Net income						280 557	280 557
Amounts at 31 December	147 932	-	127 543	220 381	140 687	280 557	917 100

The number of shares in the Parent Company at year-end was 14 793 182 with a nominal value of SEK 10 apiece, of which 840 000 series A shares. Each series A share carried 10 votes and each series B share one vote. All shares carry the same entitlement to a share in the company's assets and profits.

Note 15 Period-based reserves

	Parent Company	
	1997	1996
Allocated taxation 1995	8 600	8 600
Allocated taxation 1996	15 000	15 000
Allocated taxation 1997	36 450	36 450
Allocated taxation 1998	33 313	-
Total	93 363	60 050

Note 16 Other allocations

	Group		Parent Company	
	1997	1996	1997	1996
Guarantee risks	4 131	4 037	-	-
Other items	1 200	700	-	-
Total	5 331	4 737	-	-

Note 17 Other financial information

The Group's total limit on overdrafts is 159 080TSEK (169 827), of which 53 624TSEK (38 321) is utilised. Interest-bearing debts amount to 751 173TSEK (861 135), of which 119 102TSEK (117 847) are short-term.

Of the Group's loans:

- 108 813TSEK mature within one year from the closing day of accounts.
- 486 695TSEK between one and five years from the closing day of accounts.
- 21 479TSEK later than five years from the closing day of accounts.

Note 18 Rented assets

The information includes undiscounted contract undertakings. Leasing/rents which have been paid during 1997 are 58 685TSEK.

Leasing/which fall due for payment:

1998	65 046
1999	64 461
2000	57 539
2001 and later	155 067

Note 19 Memorandum items

Securities pledged	Group		Parent Company	
	1997	1996	1997	1996
Property mortgages	105 201	106 051	-	-
Floating charges	197 232	223 508	-	-
Blocked bank account	2 641	2 165	98	98
Diverse pledged	12 340	15 850	-	-
Net assets in Group companies	573 237	612 538	-	-
Shares in subsidiaries	-	-	558 516	570 393
Total	890 651	960 112	558 614	570 491
Securities pledged are in favour of credit institutes in connection with loans and overdrafts.				
Contingent liabilities				
Guarantee in favour of				
Group companies	-	-	78 403	162 317
Other contingent liabilities	15 428	10 051	1 626	286
Total	15 428	10 051	80 029	162 603

Landskrona, March 6, 1998

Torbjörn Ek
Chairman

Simon Bonnier

Christer R Christensson

Hans Nergårdh

Sven Ohlsson

Erik Paulsson

Maths O Sundqvist
Vice-Chairman

Börje Andersson
President and CEO

Our Auditors' Report was issued on March 9, 1998

Gunnar Widhagen
Authorized Public Accountant

Peter Pankko
Authorized Public Accountant

Auditors' Report

*To the Annual General Meeting of Hexagon AB (publ)
Organisation Number 556190-4771*

We have examined the Annual Report, the Consolidated Accounts and the accounts, as well as administration by the Board of Directors and the Chief Executive Officer of Hexagon AB for 1997. It is the Board of Directors and the Chief Executive Officer who hold the responsibility for the accounts and administration. Our responsibility is to issue a statement of opinion on the Annual Report, the Consolidated Accounts and the administration on the basis of our audit.

The audit has been conducted in accordance with accepted accounting standards. This implies that we have planned and completed the audit in order, to a reasonable degree, to ensure that the Annual Report and the Consolidated Accounts do not contain any major errors. An audit entails examining a selection of the documentary basis for amounts and other information in the accounts. An audit also includes testing the accounting principles and their application by the Board of Directors and the Chief Executive Officer and also assessing the body of information in the Annual Report and the Consolidated Accounts. We have examined crucial decisions, measures and conditions in the company in order to be able to assess whether any Board Member or the Chief Executive Officer is liable to compensate the company, or has otherwise acted contrary to the provisions of the Companies Act, the Annual Reports Act or the Articles of Association. We are of the opinion that our audit gives us reasonable grounds for our pronouncements below.

The Annual Report and the Consolidated Accounts have been prepared in compliance with the Annual Reports Act, for which reason, we recommend

- that the Income Statement and Balance Sheet for the Parent Company and the Group be adopted, and
- that the profits in the Parent Company be disposed of in accordance with the proposal in the Directors' Report.

The Members of the Board and the Chief Executive Officer has not implemented any measure, or been guilty of any negligence which, in our opinion could occasion any liability for damages to the Company, for which reason, we recommend

- that the Members of the Board of Directors and the Chief Executive Officer be discharged of liability for the fiscal year.

Landskrona, March 9, 1998

Gunnar Widhagen
Authorized Public Accountant

Peter Pankko
Authorized Public Accountant

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