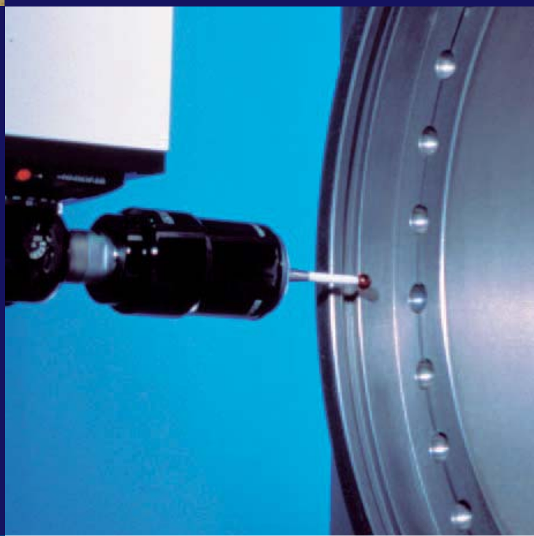
Annual Report

2003



HEXAGON

Annual General Meeting

The Annual General Meeting will be held on Wednesday 5 May 2004 at 5 p.m. at IVA (The Royal Swedish Academy of Engineering Sciences), Grev Turegatan 16, Stockholm, Sweden.

Entitlement to Participate

To participate and vote, shareholders must:
- Be registered as shareholders at VPC (the Swedish Central Securities Depository & Clearing Organisation);
- Notify the company of their intention to attend in advance

Registration in the share register maintained by VPC should have been effected by no later than Sunday 25 April 2004. To be eligible to participate at the Meeting, shareholders with nominee-registered holdings should temporarily re-register their shares in their own names through the agency of their nominees in good time before 25 April 2004. However, because of the intervening weekend, this process must be completed by Friday 23 April 2004.

Notification

Notification of attendance at the Meeting should made be to Hexagon AB (publ), P.O. Box 1112, 131 26 Nacka Strand, Sweden by no later than 12 noon on Thursday 29 April 2004. Notification is also possible by telephone: +46 (0)8 601 2600, by fax: +46 (0)8 601 2621 or e-mail: christina.ros@hexagon.se. Applications should state the shareholder's name, personal/corporate identity number, address and telephone number.

Dividends

The Board of Directors proposes a dividend of SEK 4.60 per share for the fiscal year 2003 (previous year: SEK 4.60). The Board proposes Monday, 10 May 2004 as the record date. If the AGM approves the Board's proposal, dividends are scheduled for payment from VPC on Thursday, 13 May 2004. In addition to ordinary dividends, the Board of Directors proposes that Hexagon's shareholding in VBG AB is distributed to shareholders.

Change of Address

Private persons domiciled in Sweden need not notify VPC of changes of address; other shareholders that have changed their address, and shareholders that have changed name or account number, should inform their nominee thereof without delay. Shareholders with nominee-registered holdings should inform their nominee of changes to name, address or account numbers without delay. Banks have forms for this purpose.

Financial Information from Hexagon

Hexagon will be publishing the following financial information in 2004:

5 May	First-quarter Interim Report
10 August	Half-year Interim Report
28 October	Third-quarter Interim Report
February 2005	Year-end Report 2004

These Reports can be ordered from Hexagon AB, P.O. Box 1112,
SE-131 26 Nacka Strand, Sweden.
Tel: +46 (0)8 601 2620, fax: +46 (0)8 601 2621
e-mail: postmaster@hexagon.se, internet: www.hexagon.se

Current e-mail subscribers for information from the company will receive these reports automatically.

Restructuring Hexagon Automation

Acquisitions, mergers and restructuring. More on page 12.

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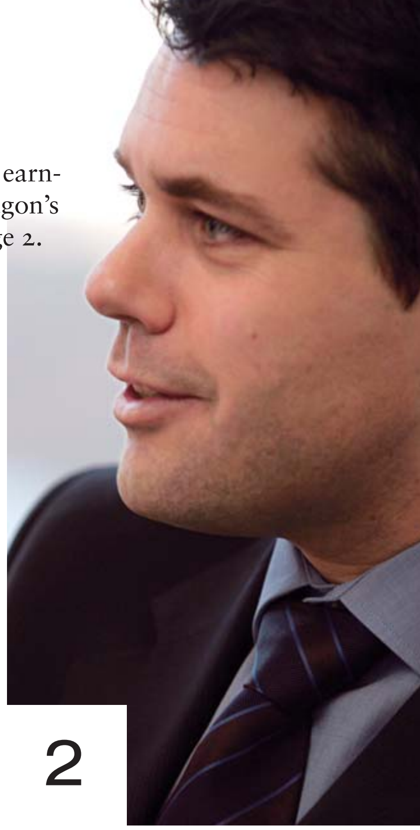

A Fantastic Year

A more clear-cut structure, healthy earnings and self-confidence were Hexagon's key concepts in 2003. More on page 2.

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A Tough Year for Hexagon Engineering

A tough year with a wealth of exciting opportunities. More on page 16.

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Robust Progress for Hexagon Metrology

Software initiative, product launches, continued standardisation of component supply and a review of our supplier structure. More on page 20.

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Hexagon Polymers—Set for Expansion

A raft of restructuring measures and deals meant business performing well. More on page 24.

CEO's Statement

The year 2003 was fantastic for Hexagon. Earnings performance in the year was positive, particularly considering depreciation of the dollar, by far our most important currency, which dropped 17 per cent during the year. But first and foremost, my thoughts centre on the fact that just three years ago, Hexagon had a diffuse business concept and its listed status was being questioned. Now, though, we sense that our employees and shareholders are satisfied and proud of the company. Over the last two years, we have established a new earnings level, created a business strategy and secured a market position that have made today's Hexagon an exciting company.

Hexagon pursues clear financial objectives, which ultimately, have a single purpose: to make an investment in the Hexagon share as attractive as possible. Our way of creating an attractive share for the long term is to increase earnings year after year, and if we can generate annual earnings gains of 15 per cent over a sustained period, we can create trust and gain the hallmark of a quality financial investment. Thus our requirement is for Hexagon's core businesses to have the capability of minimum annual earnings gains of 15 per cent, regardless of external circumstances such as exchange rate and business climate variations.

However, like any other business, from time to time, our earnings can suffer from too many adverse external factors in an individual year to truly achieve our objective, and this is exactly what happened in 2003. In such cases, we have to recover our ground the year after—and this is the way to create sustainably healthy returns.

Clear Objectives

So how can we ensure that we achieve our objectives? Although our financial objectives are our ultimate goals, we run our day-to-day business on the operational objectives of *market position*, *cost-efficiency*, *innovation and leadership*.

Our market position generates our results, and we try to identify market segments where we can be genuinely strong. By focusing our resources, Hexagon becomes an attractive supplier, creating growth and economies of scale, and this is how we achieve Objective 2: cost superiority.

To retain our market position we continually invest in product and process development. Innovation makes us a supplier of specialist engineering technology, able to retain our customers' confidence and a strong market position.

Once we have gained such a position in a market segment, we expand into adjacent markets, using for example, the same technology and/or customers as in our core business.

Strong Leadership

Our objectives put demanding standards on our organisation's managers and professionals. We assign high significance to evaluating and nurturing leadership talent internally—we offer challenging jobs for talented managers that want to develop. All our career development programmes are individualised, with close communication between line managers at various levels through our organisation. For vacancies we mainly seek talented people internally.

Over the last two years, Hexagon has consolidated its position and created resources for the next milestone towards the vision we set for ourselves in 2000, which is to double net sales to SEK 10 billion, and to double our operating margin to 8 per cent, while cutting the number of strategic businesses from 24 to 3–5 world leaders. In 2003, Hexagon had net sales of SEK 7 billion, with an operating margin of 6 per cent. We now have six strategic businesses organised into four business areas. Our next step is to grow, organically and through acquisitions, so that our core businesses have net sales of SEK

"Our earnings levels, strategy and market position

9 billion and have operating margins of 7 per cent within five strategic businesses.

A Great Year in the Circumstances

We expected earnings per share growth to easily beat our financial objective of 15 per cent in 2003, but the actual figure was 11 per cent, with the discrepancy mainly due to the US dollar's weaker performance against the Swedish krona. For Hexagon, dollar depreciation reduces North American and Asian earnings in Swedish krona terms, and because these markets represent a greater portion of Hexagon's earnings than of invoiced sales, our consolidated operating margin also contracts. Nevertheless, sales growth in these regions are above Hexagon's average, and thereby, growth and operating margins will start to increase again as soon as the US dollar stabilises against the Swedish krona. Currency effects are of marginal operational significance because Hexagon has local production in these regions.

The Hexagon Automation business area maintained its earnings levels despite substantial initial friction in Danish subsidiary Systemteknik's business, caused by a merger completed in the year. We witnessed some demand stabilisation in Sweden and Finland, although the Norwegian hydraulics market declined through the year. The business area made progress in the wind-power sector in the year, and growth in this sector remains brisk, although it has slowed somewhat in recent years.

Hexagon Engineering was hampered by slack demand, and its weak figures are mainly due to lower activity in the tooling business. The new gearwheel facility at Liatorp, Sweden, lifted productivity and quality to positive levels. The company secured several major master orders in the year, and thus the investment will generate a good pay-off in 2004. We reached a decision to invest some MSEK 70 in a sequential press line, an investment that will make Hexagon the European leader in pressing sheet plate components for cars no longer in production. We also incorporated a joint venture together with Boliden around our shared brass business, with Boliden managing the operation and eventually, Hexagon divesting its holding.

Hexagon Metrology progressed resolutely in the year; all business sectors grew despite unfavourable exchange rate relationships. The recovery we witnessed in the US through the year favoured this business area. In October, we acquired

make today's Hexagon an exciting company."

"Hexagon will progress well through the coming years, realising its strategic objectives of minimum annual growth in earnings and earnings per share of 15 per cent."

another 15 per cent of the business area's Chinese subsidiary, and as a result, Hexagon now owns 90 per cent of the stock. This investment is important because China will generate an increasing portion of business area earnings in forthcoming years. Meanwhile, we still have our Chinese partner, with good contacts within the growing Chinese aerospace industry, which benefits Hexagon. The keynote initiative on universal 3D measurement software, EMS (Enterprise Metrology Solutions) progressed according to plan, and several EMS modules were launched in 2003. We have high hopes of this project, but the commercial breakthrough will come later on because it takes time before customers adopt the system. We expect this initiative to start contributing to business area earnings in 2004, but with no significant contribution until 2005.

Hexagon Polymers progressed well in the year. The relocated production of so-called plate heat exchanger gaskets from Sweden to Sri Lanka continued to progress positively. Polymer's subsidiary Stellana, which manufactures rubber wheels for fork-lift trucks and shopping trolleys, achieved growth on the aftermarket in the year. The consequence is that this business is starting to grow again despite a weak market for new fork-lift trucks. The German company GFD Technology, acquired in 2002, satisfied our high expectations. Synergies with other parts of Polymers have been realised, while capacity utilisation remains positive. Expansion plans were given a concrete form within Polymer's core business of rubber compounds, which should enable this sector to make upbeat progress through the coming years.

Overall, Hexagon posted operating earnings of MSEK 406 excluding items affecting comparability, down MSEK 15 on 2002. Our earnings were adversely influenced by changed exchange rates by MSEK 47, and therefore, we should be satisfied with our results. Hexagon benefited from interest rate downturns in the year, resulting in a sharp improvement to our net financial cost. Earnings before tax grew by MSEK 4 to MSEK 323. Net earnings grew by 18 per cent to MSEK 221, which in earnings per share terms, means an 11 per cent increase to SEK 11.95 (10.74).

The following table shows how underlying business growth in the year increased earnings per share by SEK 3.68 year on year, or by 34 per cent. The number of shares increased because of the new issue effected in 2002, hence the dilution effect was SEK –0.74 per share. As a result of the dollar's pronounced depreciation

	SEK	%
Earnings per share 2002	10.74	
Earnings growth	3.68	34
Dilution effect	– 0.74	– 7
Currency effect	– 1.73	– 16
Earnings per share 2003	11.95	11

in the year, earnings per share experienced a negative currency effect of SEK 1.73. Overall, earnings per share grew 11 per cent to SEK 11.95.

A Stable Outlook in an Uncertain World

We expected 2003 to mark the definitive conclusion of the recession that started in the West in 2000. However, this did not prove to be the case. Although certainly, US demand for investment goods improved, the year overall was weak. One explanation is the ongoing relocation of component manufacture from the US and Western Europe to low-cost regions like China, Mexico and Eastern Europe. This relocation process is causing price pressure, meaning that while volumes are actually increasing, prices are falling, and currency movements accelerated this deflationary trend in 2003. The US dollar took a bruising fall, dragging the majority of Asiatic currencies down with it. The result is a pronounced shift in competitiveness from Europe to Asia and the US.

We have observed these events and expect to see European manufacturing hit hard. But Hexagon is well prepared, because we have already relocated much of our manufacturing capacity, mainly to China and Sri Lanka. Meanwhile, our dependency on component manufacture in Europe and the US is easing, because we assign much of our component needs to contract manufacturers in low-cost countries, instead focusing our resources on the development, design and final assembly of complete products or systems. In those cases where we still manufacture components in Europe or the US, they must be less price sensitive or more high tech than before.

During 2003, Hexagon further consolidated its market position, product portfolio and structure for continued growth in net sales and earnings. Accordingly, we expect Hexagon to progress well through the coming years, realising its strategic objectives of minimum annual earnings per share growth of 15 per cent.

Stockholm, March 2004

OLA ROLLÉN
President and Chief Executive Officer

Hexagon in Brief

This is Hexagon
Hexagon is a global engineering technology group with strong market positions in selected segments. Net sales in 2003 were SEK 7.1 billion. The group has 5,536 employees in 20 countries, 36 per cent of which are employed in Sweden.

Hexagon's business concept is to operate and develop global engineering technology businesses. The group has six strategic businesses, organised into four business areas:

- *Hexagon Automation*
  Hydraulics
- *Hexagon Engineering*
  Moulding tools manufacture, metals and key components
- *Hexagon Metrology*
  Metrology
- *Hexagon Polymers*
  Rubber products

Hexagon's vision is to be number one or two within each strategic business, thereby safeguarding its ability to generate growth and shareholder value. The strategy for realising this vision is based on Hexagon being the most cost-efficient and innovative supplier.

Hexagon Automation
Hexagon Automation supplies components, systems and aftermarket services within hydraulics, pneumatics, electromechanical engineering, flow systems, lubrication systems as well as electrical and control systems.

Hexagon Automation's customers are in two segments: engine and automotive manufacturers, using the components and systems supplied by the business area's companies in their machinery, installations and vehicles, as well as end-customers in the manufacturing, transportation and energy produktion sectors.

Net sales in 2003 were MSEK 2,227 (2,248).

Hexagon Engineering
Hexagon Engineering comprises two corporate groupings: Johnson Industries and SwePart. Johnson Industries is active in the metal components sector, mainly bronze, brass and steel, and primarily serves engineering industry customers. SwePart's business is oriented on the manufacture of tools and key components, mainly for the automotive industry. Hexagon Engineering's customers are automotive manufacturers and other engineering companies.

Net sales in 2003 were MSEK 1,461 (1,551).

Hexagon Metrology
Hexagon Metrology is a world-leading supplier of metrology for measurement of components and products. Its business encompasses hand tools, co-ordinate measuring machines (CMM), aftermarket services and software systems for one, two or three-dimensional measurement. Its customers include the world's automotive and aerospace manufacturers, defence, engineering, telecom, electronics and pharmaceuticals companies. Systems are supplied directly to end-users; most of the world's largest companies are customers.

Hexagon Metrology has seven manufacturing facilities in Europe, the US, Brazil and China, each of which has developed proprietary specialist know-how in specific product and/or customer segments. Moreover, the business area possesses some 30 precision centres worldwide, which satisfy customers' ongoing need for upgrades, maintenance and training.

Net sales in 2003 were MSEK 2,569 (2,564).

Hexagon Polymers
Hexagon Polymers, previously part of the Hexagon Engineering business area, became a separate business area on 1 April 2003. It is active in four product areas: gaskets for plate heat exchangers, plastic and rubber wheels for truck and track drive applications, rubber compounds as

Hexagon is a global engineering technology group semi-finished products and extrusions for the construction industry. Major, multinational OEMs in the plate heat exchanger, truck manufacture, materials handling equipment and cables industries are its main customers.

Net sales in 2003 were MSEK 873 (673).

Other Ownership

Hexagon's earnings also include a share of earnings in the associated company VBG AB, quoted on the Stockholm Stock Exchange O-list. As of 31 December 2003, Hexagon's equity holding was 45 per cent of the capital and 24 per cent of the votes. Hexagon's share of VBG's earnings is calculated according to the equity method.

VBG is a world leader in truck trailer couplings. In addition to ordinary dividends, the Board is proposing that the AGM approves the distribution of Hexagon's holding of 1,404,823 class B shares in VBG AB to Hexagon's shareholders.

The Year in Brief

- Net sales grew by 2 per cent in the year to MSEK 7,103 (6,997). In terms of fixed exchange rates and comparable structures, net sales increased by 6 per cent.
- Net earnings rose by 18 per cent to MSEK 221 (187).
- Earnings per share grew by 11 per cent to SEK 11.95 (10.74).
- Cash flow per share increased by 35 per cent to SEK 23.79 (17.64).
- The Board proposes unchanged dividends of SEK 4.60 per share (4.60). In addition, the Board proposes that Hexagon's shareholding in VBG AB is distributed to shareholders.

	2003	2002
Net sales (MSEK)	7,103	6,997
EBITA operating earnings (MSEK)	480	511
Earnings before tax (MSEK)	323	319
Net earnings (MSEK)	221	187
Operating margin (%)	5.7	6.0
Return on equity (%)	9.9	9.4
Return on capital employed (%)	9.7	10.1
Earnings per share (SEK)	11.95	10.74
Cash flow per share (SEK)	23.79	17.64
Equity ratio (%)	39	36
Share price, 31 December (SEK)	196	138

with strong market positions in selected segments.

Business Concept, Objectives and Strategies

Business Concept

Hexagon's business concept is to operate and develop leading engineering technology businesses globally within hydraulics, key components, metrology and rubber products.

Vision

Hexagon's vision is to be number one or two within selected core businesses, thereby creating growth and shareholder value.

The vision incorporates Hexagon comprising three to five core businesses in 2005, with net sales of SEK 10 billion, and a minimum operating margin of 8 per cent.

Strategy

Hexagon has a clear-cut strategy to realise its vision and financial objectives. The business focuses on selected markets and segments, where the company can be one of the two leading players. The objective in each core business is to be the most cost-efficient, innovative supplier.

Success breeds success; Hexagon will be part of its customers' success. Customers constantly expect new, innovative and cost-efficient solutions. Living up to this is a prerequisite for Hexagon being number one or two in its customers' perceptions.

To remain constantly at the developmental cutting edge necessitates Hexagon pursuing a strategy of having the best competence in its fields.

Financial Objectives

Hexagon has four financial objectives; two apply exclusively to the group as a whole, the other two simultaneously function as controls for the group's business areas. Running individual businesses in pursuit of common objectives enables the group management to rapidly track deviations and take the necessary remedial action.

1. *Earnings per share to grow by a minimum of 15 per cent annually*

This is Hexagon's definition of growth and shareholder value, and the absolutely prime measure of the group's success. Strong growth in earnings per share is the optimal guarantee for shareholders to gain healthy, sustainable returns.

2. *An equity ratio of 25 to 35 per cent*

This equity ratio target has been set against the background of Hexagon's pursuit of minimising its WACC (weighted average cost of capital). Over the next few years, the global economy is expected to sustain low inflation, and accordingly, Hexagon expects borrowings to be a cheaper source of funding than shareholders' equity in the future.

3. *Positive cash flow over a business cycle*

Positive cash flows create Hexagon's freedom of action for expansion and taking a long-term view. Stable positive cash flows enable Hexagon's shareholders to run the group with a lower equity ratio requirement than if its cash flows were uncertain.

4. *Return on capital employed of more than 15 per cent over a business cycle*

This objective is intended to measure the efficiency of individual businesses. It predicates risk-free interest of around 5 per cent and a risk premium of approximately 10 per cent, i.e. it changes with risk-free interest rates. For the effects of internal controls to be equitable, the calculation of returns is in terms of total acquisition costs—i.e. with goodwill amortisation and restructuring costs included.

Hexagon reports the progress of its financial objectives in the Five-year Summary section.

Operational Objectives and Strategies

Hexagon has formalised the above overall strategies in a number of operational objectives, formulated as the following strategies for running operations:

To be the number one or two in its core business

Hexagon's businesses being market leaders or the main challengers is a prerequisite for Hexagon to be able to generate sustainable profitability and competitiveness. To realise this objective, every business assigns a high priority to its market position.

To be the most cost-efficient player in its sector

Hexagon needs a competitive cost structure to operate successfully for the long term. Cost leadership enables short-term demand and exchange rate fluctuations to be mitigated.

To be the innovator in its sector

Innovation is central to Hexagon's prospects of sustainably remaining an attractive business partner for

Hexagon's vision is to be number one or two in its

its customers. The innovator takes responsibility for developing its sector, and this is something Hexagon does both internally and in partnership with customers and suppliers. Research and development investments have a high priority in each core business.

To have the sector's best leadership

To achieve all these objectives, skilful and experienced leaders, pursuing and realising objectives in day-to-day business, are prioritised. Hexagon has identified these skills as a critical factor for its long-term success.

Speed management

Short decision-paths enable Hexagon to pursue the fast implementation of change, and this enhances the organisation's capacity, while simultaneously minimising risk.

Growth Strategy

The group's growth objective necessitates a growth strategy. Obviously, the group's different businesses have diverse prospects, so different growth strategies are applied on a case-by-case basis. Variations arise both between core businesses and within individual core businesses. Each business pursues a key strategy for growth, choosing between four basic alternatives:

Existing products and existing markets

This is Hexagon's principal growth strategy, with growth created through product modifications, but more than anything, by acquiring competitors and rationalising the aggregate structure. This work creates cost benefits, which in turn, produces growth through enhanced competitiveness.

New products and existing markets

Capable R&D resources enable Hexagon to sharpen its competitiveness, and thereby win market shares through superior product offerings. This is an important strategy for a market leader and consistent with the objective of being the sector innovator.

Existing products and new markets

All opportunities for expansion are exploited by introducing products in a new application or geographical market; the financial benefits of this expansion strategy are greater than the combination of existing products and existing markets, but unfortunately, this combination is becoming increasingly rare.

New products and new markets

The introduction of what, for Hexagon, is an entirely new product or service to new customers or new markets gives Hexagon an opportunity to expand its total market. Despite this strategy having higher risk than other growth strategies, it is important for Hexagon to have an opportunity to expand its total business.

Long-term Objectives and their Realisation

Overall growth and operating margin objectives were also formulated coincident with Hexagon finalising its new strategic orientation in 2000. Net sales and operating margins were to be double over a five-year period, while Hexagon also set itself the objective to cut its number of strategic businesses from the initial 24 to 3–5 by the end of the period.

This vision will be achieved in 2005; the route there is divided into a number of milestones. The following table illustrates the initial status in 1999, the milestones, and vision for 2005.

Obviously, Hexagon will not downgrade its ambitions once is this vision is realised. New objectives, and a future vision and strategy will be defined coincident with the achievement of milestone 2. ■

	Actual 1999	Milestone 1	Actual 2003	Milestone 2	Vision 2005
Growth: Net sales (MSEK)	4,667	7,000	7,100	9,000	10,000
Margin: EBIT (%)	4.1 %	7 %	6 %	7 %	> 8 %
Focusing: Number of strategic businesses	24	10	6	5	3–5

selected core businesses.

Competence and Values

Hexagon's business development proceeds from a common platform of values and attitudes. With this as its foundation, Hexagon's success builds on the optimal utilisation of aggregate competencies so the group as a whole benefits.

Human Resources

Hexagon is a multinational group with businesses on four continents. On 31 December 2003, Hexagon had 5,536 employees in 20 countries.

Skills Enhancement and Remuneration Policy

Hexagon's salary levels are on market terms, and competitive. The right person can be decisive to the company's success, and good salaries are the best reward for good work. Hexagon does have performance-related pay, which is linked to earnings performance, but otherwise, Hexagon has not developed any other special benefits packages.

Hexagon's view is that personal and professional development should be individualised, and linked to an individual's position. Experience indicates that this is the most effective and optimal means of making use of individual abilities. Accordingly, Hexagon concentrates on individual management development programs in collaboration with leading enterprises in this field.

Hexagon has a selection of systems that exploit the group's aggregate know-how, including Centres of Excellence in the group's various business areas, where best practice is exchanged within and between business areas.

Hexagon's Corporate Culture

Getting all employees to accept and adopt the group's values proceeds from managers behaving as role-models. Hexagon's conviction is that having the best managers with strong entrepreneurial spirit is crucial for achieving its overall objectives.

On the market for talent, Hexagon's prime weapon is an attractive corporate culture. The following points encompass those characteristics and values the group cultivates.

Earnings are everything

Hexagon exists to generate earnings—there is no higher or nobler purpose for our business. To achieve this purpose, Hexagon has to market the best products and hire the best professionals.

Professionalism

Hexagon encapsulates the concept of professionalism in three points:

- *Know your business*. A line manager that doesn't know his or her business won't be able to operate professionally.
- *Have an agenda*. A manager without a vision for his or her business won't be going anywhere with it.
- *Never get complacent and self-satisfied*. Managers must be honest about themselves and their surroundings; when the spark and excitement fades, it's better to change position than hang on. Accordingly, Hexagon takes a positive view of job rotation.

Speed management

Freedom of action, decentralised responsibility and short decision-paths create speed in decisions and change. Hexagon avoids the uncertainty implicit in drawn-out processes and can quickly react to change within and outside the company.

Delivering instead of planning

Hexagon cultivates a high-energy management culture by rewarding real action rather than elaborate plans. The focus is oriented on businesses, rather than less relevant non-core activities.

"Know your business, have an agenda and never

Hexagon exists to generate earnings. The group cultivates an all-action, de-centralised, open management culture.

Image is good—prestige isn't
An accurate and credible image can help push discussions or business negotiations in the right direction, but negotiations that degenerate into questions of status and gridlock cannot result in any lasting relationship, thereby damaging the company.

Hard but human
Managers must be prepared to take uncomfortable but correct decisions and never compromise on results, only on the route to get them. The task is to eradicate all the obstacles to improving a business, while at the same time, showing consideration to the affected individuals.

No politics
All large organisations become political, but Hexagon creates the right conditions for an apolitical, businesslike environment by maintaining a compact head office without centralised staff functions. Everybody should be treated fairly. If we assign a premium to results rather than plans, we avoid unfair treatment. We think good managers are managers that send the same signals upwards and downwards in their organisations.

Openness
Power is intimidating, and managers must find out what their employees genuinely feel about various issues. This can only be achieved by creating trust, where managers stand by what they've said, and if they can't deliver on their promises, tell people why.

get complacent or self-satisfied."

Börje Vernet, President of Hexagon Automation. The business area supplies hydraulics systems and components for harbours, the shipbuilding industry and fork-lift truck manufacturers.

Hexagon **Automation**

The ambition is to exploit our highly specialised know-how to expand on new geographical markets.

Operations in Brief

Hexagon Automation provides components, systems and aftermarket services within hydraulics, pneumatics, electromechanical engineering, flow systems, lubrication systems as well as electrical and control systems. Business is pursued through 23 operational companies in the Nordic region, Baltic states, and Russia. These enterprises' prime strengths are specialist technological know-how, strong product ranges and closeness to customers. In 2003 the business area had net sales of MSEK 2,227 (2,248) and 1,373 (1,435) employees.

Hexagon Automation's customers are in two segments: engine building and automotive manufacture, which use the components and systems supplied by the business area's companies in their machinery, installations and vehicles, as well as end-customers in the manufacturing, transportation and energy production sectors.

Unfortunately, much of the business area's positive efforts in 2003 were eclipsed by major profitability problems for Danish company Systemteknik, and weak market progress in Norway.

The Business Development in the Year

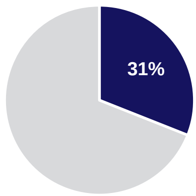
Hexagon Automation is the Nordic market leader in hydraulics, including systems and service. A series of restructuring measures was implemented in the year, the majority of which were targeted on increasing productivity, cutting fixed costs and increasing sales.

In Sweden, Hällaryds Hydraulik's business was merged with Vaggeryds Hydraulik. These companies had pursued market collaborations for some time. These changes create the right prerequisites for continued growth within hydraulic cylinders. Some 35 per cent of products are exported directly to customers outside Sweden. Hydronova's business in Stockholm is being wound down. The business is taken over by Hydraul Syd and has been organised into a separate subsidiary. These changes are cutting costs significantly.

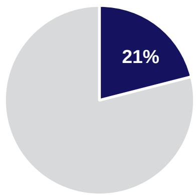
In Denmark, Systemteknik's two businesses have been merged and co-located. This merger initially resulted in sizeable operational disruption, which had a severe adverse impact on earnings in the year. These changes, though, are now complete, and a significant strengthening of the company's management functions has been completed.

The Norwegian business has been adjusted to lower market demand for products, simultaneous with a still-sharper focus on aftermarket service activities. Personnel headcount has

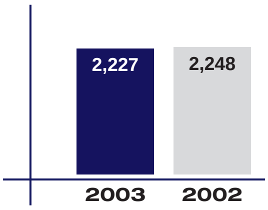
Share of Consolidated Net Sales



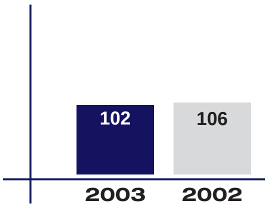
Share of EBITA Operating Earnings



Net Sales
MSEK



EBITA Operating Earnings
MSEK



The business area's products are included in a raft of applications, including lift cylinders for oil platform helicopter pads and hydraulic systems for the pitch control of Vestas wind power generators (image with kind permission of Vestas Wind Systems A/S).

been cut by 15 per cent coincident with these changes.

Two small asset acquisitions were effected to supplement product ranges, and thereby, expand volumes. Several investments in production equipment were made, in some cases combined with developing product ranges and start-ups in new segments. Efforts to internationalise and rationalise the procurement of raw materials and semi-finished goods is in hand, and exerted a positive impact on procurement costs in the year.

Hexagon Automation is active in a mature product area, although looking ahead, the need for these products and systems will remain firm. The business area's various companies and brands are very well known on their markets, and in most cases, the companies represent well-known international component manufacturers. The companies possess very specialised know-how on an array of applications. The ambition is to utilise this know-how for expansion onto new geographical markets.

The business area's technological know-how is safeguarded through the systematic exchange of best practice, internal training and external recruitment. A valuable exchange of know-how has resulted in leadership training, organised with representatives from all the business area's companies.

Market

Hexagon Automation is active in the northern European automation technology sector. Hexagon Automation's market is mature; its customers are engine builders, industrial plant manufacturers, automotive manufacturers and suppliers of off-shore project equipment; end-customers are in the manufacturing, transportation and energy production sectors.

The sector is dependent on the business cycle and investment trends in all sectors. Because wind power and hydroelectric stations are important applications, the need for power determines the demand for Hexagon Automation's products.

The market trend is towards increasingly large players, with mergers and restructuring deals progressively reducing the number of players, while those remaining become larger. Customers are also becoming increasingly inclined to source from a smaller cluster of suppliers.

The demand for the supply of complete systems and service agreements is increasing, as are customer needs for product quality and technology content. The result is major opportunities for players able to offer these services, and to compete through know-how.

Hexagon Automation encounters various types of competitor in various countries, and across an array of applications. Structural threats to the business include sudden technology shifts and the relocation of manufacturing away from the Nordic region. Hexagon Automation is attempting to broaden its operations continuously with new, alternative technologies and new applications.

The business area's market shares have grown for a number of years, and in 2003, this applied particularly to Denmark.

Operations in the Year

Order intake and employment levels in Norwegian manufacturing, which is important to Hexagon Automation, were low in the first half-year. Confidence was dampered by high interest rates and unfavourable exchange rates for exporters. During the autumn, though, the situation altered, with interest rates declining and currencies depreciating against the euro *inter alia*. The changes have started to feed through into export orders, but as yet, have not penetrated to the level where Hexagon Automation is active. This is

expected to occur in the second half-year 2004.

Although in many sectors, the business climate and demand in the rest of the Nordic region were better than in 2002, they were weaker than expected at the beginning of the year.

The order intake within the business area was MSEK 2,199 (2,204), and net sales were MSEK 2,227 (2,248). EBITA operating earnings amounted to MSEK 102 (106), corresponding to an operating margin of 5 (5) per cent.

The Future

Hexagon Automation's vision is to be a leading automation technology corporate grouping in northern Europe. The central challenge now is to achieve higher and more consistent profitability in a number of companies, while other companies grow with retained profitability.

For 2004, the business area's objective is to improve profitability by safeguarding the effects of restructuring measures implemented. It is also important to keep following customers' international expansion. Moreover, the business area should be able to secure the increased usage of its products within the group, products such as hydraulic cylinders, pneumatic and electromechanical components. The aftermarket service operation is expected to keep increasing its scope and significance. ■

Additional applications of solutions supplied by Hexagon Automation: materials handling is used in the manufacturing industry. Control systems, valve manifold and pumps are used when transporting aircraft at airports. Siwertell unloaders, which are lowered into cargo holds, can shift up to 2,000 tons of cargo an hour.

Hans Carlsson, President of Hexagon Engineering. Högmans, one of the business area's companies manufactured a separation ring for the Adriane rocket.

Hexagon **Engineering**

The trend of large companies outsourcing is a major business opportunity for Hexagon Engineering.

Operations in Brief

Hexagon Engineering consists of two corporate groupings, Johnson Industries and SwePart. Within these two corporate groupings, each individual company is accountable for its development, manufacture and marketing. In 2003 the business area had net sales of MSEK 1,461 (1,551) and 1,093 (1,204) employees.

Johnson Industries is active in the metal components segment: mainly bronze, brass and steel, and collaborates mainly with engineering sector customers. Its domestic market is the Nordic region, primarily Sweden, with a smaller export share outside the Nordic region. Johnson Industries' companies have high or very high market shares in their particular segments.

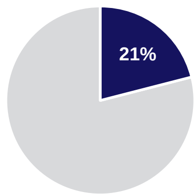
SwePart's businesses focus on the manufacture of tools and key components, mainly for the automotive industry. Its customers are automotive manufacturers and the rest of the engineering industry in Sweden, as well as some exports to Germany. The automotive group's companies have secured market leadership through specialisation on selected product segments with proprietary total concepts, specialist competencies and high cost-efficiency.

Business Development in the Year

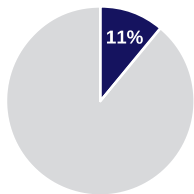
A number of activities were undertaken in 2003 that are expected to have a very positive effect through the coming years. Together with Boliden, Hexagon incorporated a joint venture in September, Boliden Nordic Brass. The purpose of this collaboration is to create a strong Nordic brass company intended to counter increasing competition from the European brass industry. Significant synergy effects are expected within production and administration, which are expected to feed through as early as during the current year, with the full effect expected in 2005/6. Hexagon expects Boliden Nordic Brass to reduce its production costs to levels consistent with Europe's most profitable companies in this segment.

In December 2003, a decision was made to invest in a new automated press line at EBP (EBP i Olofström AB). This initiative will mean EBP becoming one of Europe's most competitive and comprehensive suppliers of sheet metal parts for the automotive industry aftermarket. This investment, of some MSEK 70, creates the right prospects for expansion in Europe, because it will double capacity while raising technical standards. The company will be Europe's only player able to offer pressing, ass-

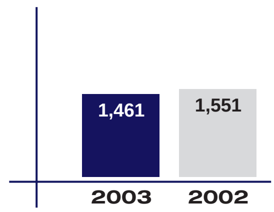
Share of Consolidated Net Sales



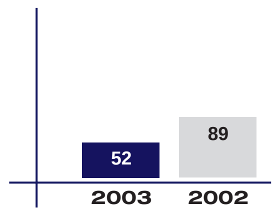
Share of EBITA Operating Earnings



Net Sales
MSEK



EBITA Operating Earnings
MSEK



embly, painting and distribution in customers' original packages direct. A major initiative is being focused on the German automotive market, which is now in an interesting phase. This investment will generate effects from 2005 onwards, with full capacity utilisation scheduled for 2006/7.

Within SwePart, Tidamek completed its development of a new steering wheel adjustment system for heavy trucks. Hexagon Engineering has a global patent on the steering adjustment system that increases collision safety for the driver. This product will be launched together with automotive safety supplier Autoliv. The collaboration with Autoliv will secure Hexagon a valuable position in the automotive industry.

Two restructuring measures, an initiative on a heavy plate unit at Oskarshamn, Sweden within Eurosteel, and the start-up of SwePart's major investment at Liatorp for the manufacture of precision-ground transmission components, did not provide the expected earnings effect in the year. However, after a slow sales start at Liatorp, volumes gradually converged on expected levels. At the Oskarshamn facility, planned restructuring measures were delayed, and accordingly, resolute remedial measures were taken, which started to pay off in the second half-year 2003.

Market

Hexagon Engineering's domestic market is the Nordic region, with a pronounced concentration on Sweden. Swedish customers are mainly automotive manufacturers and the rest of the engineering industry. In Norway, the shipyard and offshore sector is an important customer segment, particularly for Johnson Industries' bronze manufacture. Customers in Finland and Denmark are primarily within traditional engineering, with environmental technology, such as wind power, becoming more significant.

Generally, the business climate on Hexagon engineering's main markets of Sweden, the rest of the Nordic region and Europe, progressed less favourably than expected in the year.

Traditionally, competition has been sourced from smaller enterprises in the Nordic region, although as a result of the major companies' global supply strategies, competition from the rest of Europe is now increasing.

The most pronounced market trend is larger companies outsourcing production to subcontractors, with closeness, flexibility and service levels being decisive factors in their subcontractor choices. Accentuating competition from low-cost countries in regions including Asia is another notable trend. The globalisation of supply by large companies will attract increasing imports from low-cost countries. However, the need for regional suppliers will remain.

Operations in the Year

Business area order intake was MSEK 1,533 (1,535); and net sales were MSEK 1,461 (1,551). The incorporation of Boliden Nordic Brass exerted an MSEK 110 negative net sales effect in 2003, year on year.

In terms of markets, Sweden is dominant with a total share of 79 per cent. The rest of the Nordic region has a share of 18 per cent, with the remaining 3 per cent mainly from Germany. EBITA operating earnings amounted to MSEK 52 (89), corresponding to an operating margin of 4 (6) per cent.

A weak business climate, particularly in Sweden, but also in Europe, exerted a palpable impact on business area sales development in the year. Demand was unexpectedly weak and sector restructuring had a negative impact. Problems at the heavy plate unit within Eurosteel and SwePart, as mentioned above, exerted a detrimental net sales and earnings impact. A weak business climate has driven the relocation of tool manufacture to low-cost countries, which resulted in excess capacity and margin pressure for the tooling companies.

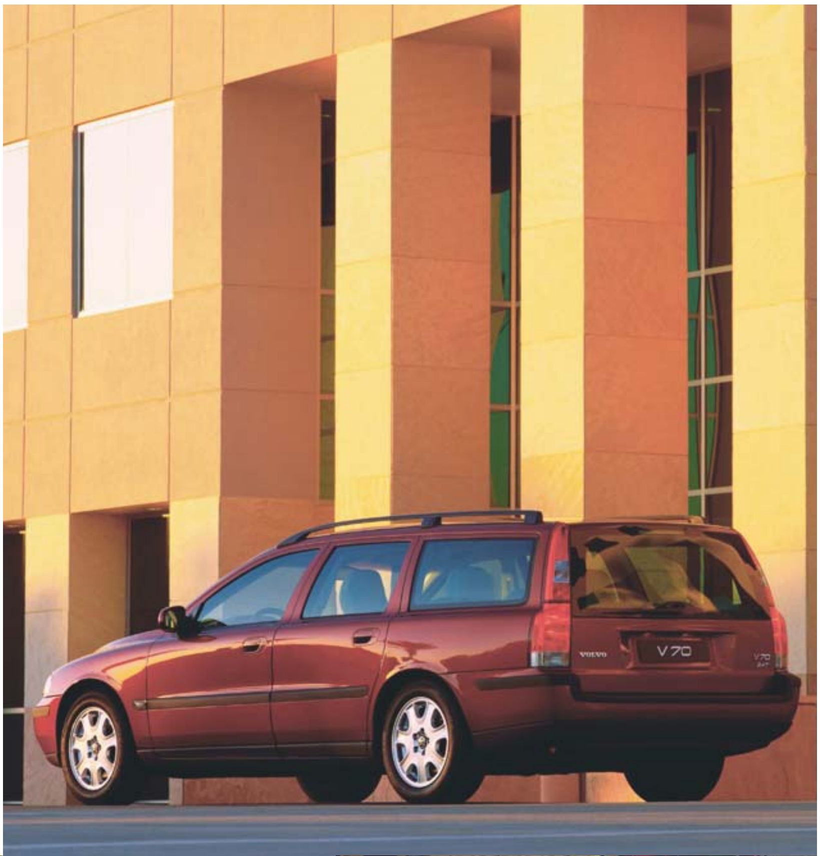
The Future

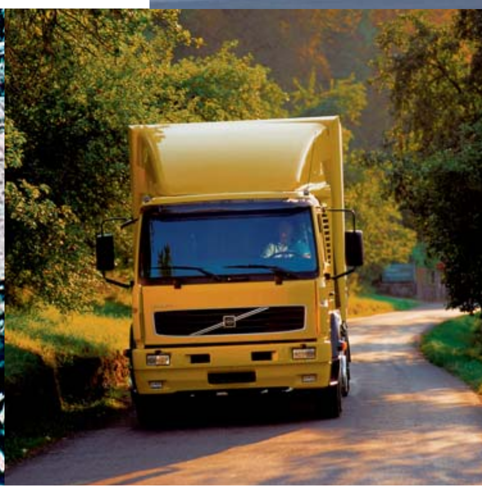
The objective for the business area is to achieve growth of some 15–20 per cent within three years in comparable structures, while also raising operating margins from the current 4 per cent to 7–8 per cent. This objective will mainly be achieved by growth within SwePart's vehicle group, and by the continued restructuring of Johnson Industries. The challenge is to win market share in the vehicle group, with sustained, firm cost control across all businesses.

The trend for larger companies outsourcing their production is a major business opportunity for Hexagon Engineering. A closer outsourcing collaboration with Volvo on low-volume production is an example here. With new models becoming more frequent within the automotive industry, retaining efficiency and low costs in original processes becomes impossible, if simultaneously, more components are to be produced in progressively shorter runs.

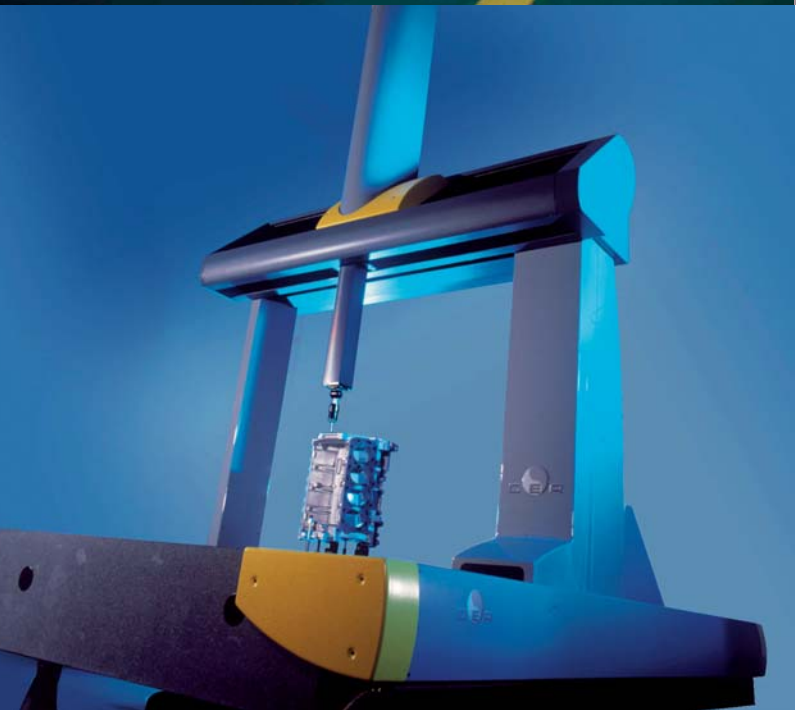
The primary threat to Hexagon Engineering lies in competition from low-cost countries, and to counter this threat, Hexagon Engineering's offering is to be its customers' regional partner, exploiting reduced procurement costs from low-cost countries, instead focusing on adding value in key component segments.

To achieve success in the slightly longer term, Hexagon Engineering will have to cut costs further, with retained technological and service superiority. If Hexagon Engineering succeeds in being more cost-efficient, it will become a still more attractive partner, able to compete through quality, know-how and flexibility, and as a regional supplier, the company can benefit in logistical terms.





Hexagon Engineering paints, assembles and packs bodywork components for Volvo's aftermarket. The business area's other products include bushes for wheel-mounted loaders, transmission components and exhaust manifolds for Volvo trucks, plus a separation ring for the Adriane rocket, illustrated right.



Hexagon's CEO Ola Rollén is also President of Hexagon Metrology. Brilliance Auto of China uses the business area's measurement equipment in its automotive manufacture. A Global CMM also made an appearance in the feature film Terminator III, where it was seen measuring robots.

Hexagon **Metrology**

Hexagon Metrology has rapidly established itself as one of the world's leading metrology suppliers.

Operations in Brief
Hexagon Metrology is a world-leading supplier of measurement technology. The business area develops, manufactures and markets various products for measuring components and products. Its business encompasses hand tools, CMMs (co-ordinate measuring machines), aftermarket services and software systems for one, two or three-dimensional measurements. The business area's core competence is its understanding of customer needs for quality and productivity through manufacturing processes. In 2003 the business area had net sales of MSEK 2,569 (2,564) and 1,867 (1,911) employees.

Its customers are the world's automotive and aerospace manufacturers, as well as companies in the defence, engineering, telecom, electronics and pharmaceuticals industries. The business area supplies its systems direct to end-users, and customers include most of the world's largest companies.

Hexagon Metrology has seven manufacturing facilities in Europe, the US, Brazil and China. Each has developed its own specialist know-how in a specific product and/or customer segment. Moreover, the business area has some 30 Precision Centres worldwide, which process customers' ongoing needs for upgrades, maintenance and training.

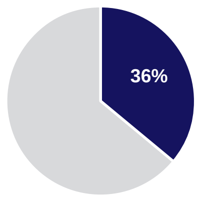
Hexagon Metrology is run from the business area's head office in London. Research and development, component purchase, software development and overall strategic issues are co-ordinated within the business area. Operations are organised geographically in terms of CMM and aftermarket services, unlike the hand tools operation and software systems operations, which are organised on a product basis.

The Europe region is responsible for the European market and the Middle East, Russia and Africa. Leitz of Germany manufactures CMM (ultra-high accuracy CMM), DEA manufactures sheet metal CMM in Italy, for the inspection of auto and aerospace bodies, and other applications. C E Johansson markets standard CMM in northern Europe, primary for placement directly on engineering shop floors.

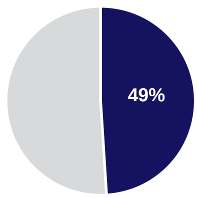
In the North America region, which includes Canada, the USA and Mexico, Brown & Sharpe is responsible for all business area products. In the South America region, standard CMM is manufactured under the Global brand in Brazil for the South American market.

Standard CMM is manufactured under the Global brand at Qingdao, China, for the Asian region, which encompasses all Asian countries east of Pakistan, plus Australia and New

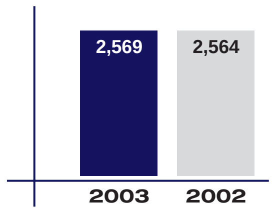
Share of Consolidated Net Sales



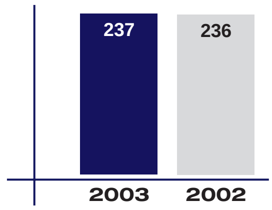
Share of EBITA Operating Earnings



Net Sales
MSEK



EBITA Operating Earnings
MSEK



Zealand. The biggest markets are China, Korea, Japan and Taiwan.

The hand tools business area has its primary unit in Switzerland, where one, two and three-dimensional manual measurement tools are developed, and sold worldwide through over 1,000 distributors.

Separate business unit Wilcox & Associates undertakes software development, with the resources located in the US, UK and Italy.

Business Development in the Year

In 2003, the largest development initiatives were on PCDMIS EMS (enterprise metrology solutions) software, which will be commercialised in 2004. EMS is built from five modules, offering an array of revolutionary solutions for customers. The base module exists today in Hexagon Metrology's machine systems. One new feature is that the software integrates metrology tools and CAD systems, which implies that the entire quality process from design, through production to final inspections, becomes more efficient. Finally, this system offers entirely new prospects for communication and co-ordination functionality. EMS enables the user to study metrology data centrally from measurement machines located in facilities worldwide. Moreover, it will be possible to collect measurement results from manufacturing processes directly to the active machine.

The launch of EMS's various modules enables Hexagon Metrology to expand into new three-dimensional metrology segments including optical measurement, light measurement and laser measurement. Hexagon Metrology's service organisation can offer upgrades to existing suppliers' systems and customer personnel training. Moreover, complementary acquisitions of hardware manufacturers will enable total systems to be offered to these markets. Meanwhile, efforts to consolidate existing positioning within tactile metrology will continue through acquisitions and new products.

A number of new measurement machines were launched in the year:

- A standard machine with robust bearings and temperature compensation used directly in production.
- A manual measurement machine, Microhite 3D, launched in the first quarter 2004, and is expected to be a big seller thanks to its highly competitive pricing. A motorised version will be launched in late spring 2004.
- A new horizontal arm, Prima, for measuring aerospace and car bodies, was launched in the year.
- A new version of the high-end machine PMM and a number of new hand tools with extra robust features were also launched in the year.

Additionally, the business area continued to standardise its supply of components, and began a project to locate component suppliers in Asia and the US as alternatives to those in Europe, which will enable all units to benefit from the dramatic exchange rate fluctuations that have occurred. This project will generate advantages as early as during 2004.

Market

In general, Hexagon Metrology's market is growing by some 4–5 per cent yearly, although growth is highly cyclical for new installations of CMM systems and hand tools. In the previous business cycle, the peak was in 2000, and the bottom in 2002.

The European market declined in 2003; the North American market bottomed out early in the year, and then started to grow once again. However, this market remains far from its peaks of 2000, although during the latter half-year 2003, the market did grow briskly. Upbeat market growth continued in Asia through the year, particularly in China.

Software sales and aftermarket services are non-cyclical. The market is tending to grow with manufacturers' willingness to invest. The relocation of production capacity from the West to low-cost countries is also rapidly transforming the size of markets. Traditionally, the US, Japan and Germany have been dominant in value terms, although in recent years, several new markets, and particularly China, have grown rapidly. In all probability, this trend will continue through the coming years.

Hexagon Metrology's market share has increased in recent years, mainly due to software development and the Global standard machine platform.

Operations in the Year

Hexagon Metrology continued to progress well in the year; order intake was MSEK 2,505 (2,547). In local currency terms, order intake rose by 8 per cent. Net sales grew to MSEK 2,569 (2,564). In local currencies, net sales increased by 9 per cent.

EBITA operating earnings amounted to MSEK 237 (236). Dollar depreciation exerted a MSEK 49 negative influence on earnings. Operating margin was also adversely effected for the same reason, because 60 per cent of business area net sales are in euro-related currencies, and 40 per cent in dollar-related currencies, which enjoy higher margins than in the eurozone. This effect will be corrected if the dollar stabilises versus the krona, because growth in this region is distinctly better than the eurozone.

PCDMIS software offers a major extension of applications for the business area's metrology tools. The system's advanced 3D inspection functionality is used in applications including the manufacture of the Airbus A380.

During the year, Hexagon Metrology secured its position as the leading player in North America. Hexagon continued to have healthy growth in the aftermarket services and software sales sector. The number of long-term contracts for software upgrades expanded rapidly late in the year.

In Europe, weak exports, the result of unfavourable exchange rates, meant the business area's European customers cutting back investment in new measurement machines. Nevertheless, aftermarket services and software sales also progressed well in Europe.

Hexagon Metrology is the market leader in China, where the market was very healthy. In local currency terms, the sales in China grew by 50 per cent on 2002. Software sales showed double-digit percentage growth in the year. A number of major reference orders were secured from several of the world's biggest automotive manufacturers, who chose to standardise their measurement systems around Hexagon Metrology's PCDMIS software.

Hand tool sales recovered somewhat in the year, but remained far weaker than the peak of 2000, partly the consequence of the US market increasingly accepting cheaper hand tools from Asia, but also due to persistent low employment in US and Western European manufacturing.

As a consequence of the development initiatives undertaken over the past year, Hexagon Metrology has filled the gaps in its product ranges identified coincident with the business area's acquisition. Over the next six months, the company will have a comprehensive metrology product range, from low-end manual products to the world's most accurate motorised measuring systems.

The Future

Hexagon Metrology has rapidly secured status as one of the world's leading metrology suppliers. Two years after the acquisition of bankrupt estate Brown & Sharpe, operations have been turned round into a leading and profitable metrology player with specialist know-how. This has been achieved through stern cost-cutting and innovative new products.

Customer needs for process quality and productivity are the highest priority as Hexagon Metrology continues to develop its concept. Traditionally, the metrology sector has viewed itself as a machinery supplier. Hexagon Metrology's future lies in refining its capacity for supplying metrology solutions to support customers' entire processes from development to final inspection.

During the coming years, Hexagon Metrology will utilise this concept to offer its customers equivalent service in various types of optical measurement, non-tactile measurement and nano measurement. This will extend the customer base towards medical and electronic-related products, such as medicine pills, semiconductors and integrated circuits. Thereby, the forthcoming years may also be very promising for Hexagon Metrology in financial terms. ■

Lars Olofsson is the President of the Polymers business area, which supplies products including Vulkollan® wheels for fork-lift trucks. The business area is also a world leader in manufacturing steering wheels for hand pallet trucks.

Hexagon

Polymers

The vision for this business area is to be a global market leader; the ambition is to have net sales of SEK 2–3 billion within a few years.

Operations in Brief
Hexagon Polymers, formerly a part of the Hexagon Engineering business area, became a separate business area on 1 April 2003. The business area is specialised on a product basis within a number of niches for the manufacture of polymer products, and comprises the four producing companies Gislaved Gummi (Sweden), Stellana (Sweden), GFD Technology (Germany) and Elastomeric Engineering (Sri Lanka). In 2003 the business area had net sales of MSEK 873 (673) and 1,194 (1,114) employees.

Hexagon Polymers is active in four product areas: gaskets for plate heat exchangers (PHEs), plastic and rubber wheels for truck and track drive applications, rubber compounds as semi-finished goods and extrusions for the construction and engineering industries. The customers are primarily major multinational groups in northern and Central Europe. However, exports are made to much of the world including the US, Canada, Japan, Australia and India.

The objective is for each product area to be number one or two in the geographical markets serviced. This is achieved by being the most cost-efficient and innovative player in each segment. A close collaboration with clients is a prerequisite for success, and knowledge of customer processes is essential.

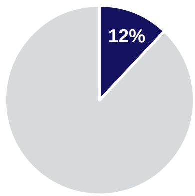
Business Development in the Year
Efforts continued on integrating GFD, a company acquired in 2002. This acquisition was one element of the initiative within the advanced rubber compounds segment, and the take-over made Hexagon Polymers into one of the leading players in this niche sector in Europe. The expected co-ordination gains within research and development, production and market servicing have been realised.

To counter current price pressure and intense competition, continuous efforts on rationalising business continues. Moreover, Hexagon Polymers is working intensively to find the optimal composition of compounds that provide cost-efficient and positive applications solutions.

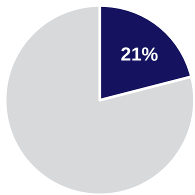
As a consequence of the take-over of GFD, Hexagon Polymers gained access to what probably, is the world's most modern polymers facility outside the tyre industry. This makes the business area competitive, while also conferring economies of scale. The rubber compounds sector features a number of pure rubber manufacturers. Moreover, on occasion, many rubber manufacturers sell their excess capacity on the market.

Hexagon Polymers enjoys world-leading status as a supplier of gaskets for plate heat exchangers (PHEs). The business area has created a

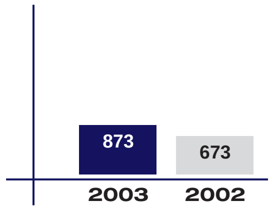
Share of Consolidated Net Sales



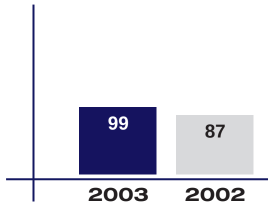
Share of EBITA Operating Earnings



Net Sales
MSEK



EBITA Operating Earnings
MSEK



strong concept by utilising low-cost production in Sri Lanka for high-volume gaskets, with Gislaved's production for medium-length runs, high-end materials and specialist solutions. The product area continued its organic growth with unrelenting pace; in Sri Lanka, investments include another 11 PHE presses and an entirely new rubber mixer in the year. The Sri Lankan facilities now maintain good Western standards. Complementary acquisitions in this product area may be considered.

Hexagon Polymers is developing; organically within each company, as well as through complementary acquisitions. A number of acquisition opportunities were considered in the year, particularly within the Rubber Compounds and Wheels product areas. Within compounds, the most desirable option is expansion in Eastern and southern Europe, while the North American market has also been considered. Expansion can be effected either through acquisitions or start-ups of green-field facilities. In the Wheels segment, acquisitions in Europe have been considered, as well as the possibilities of starting up in China.

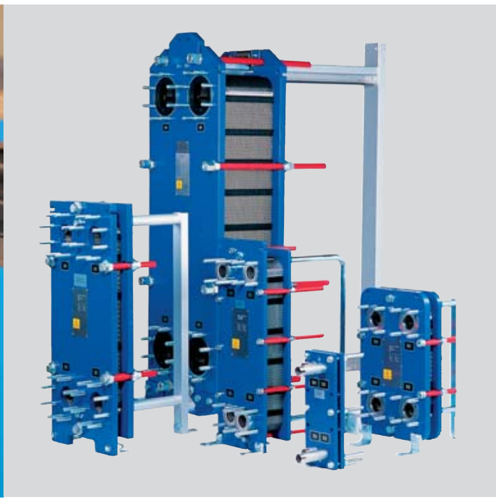
Continuous efforts to invest in new machinery and rationalising existing operations are being made to maintain healthy profitability and either retain, or achieve, market leadership. Examples in this context include the length measurement project within PHE designed to rationalise customers' assembly processes and new materials applications in the Wheels segment to enhance customers' price/performance relationships.

Market

Generally, those markets where Hexagon Polymers is active were weak in the year, although the American market did improve late in 2003.

Demand within PHEs was stable compared to 2002; investments in this segment have been at very modest levels in recent years. When the market turns around a relatively robust rally is expected. Typically, growth over a business cycle is 4–5 per cent.

The Wheels segment has also been at a relatively low but stable level compared to 2002. Throughout the 1990s, the fork-lift truck industry posted annual growth of some 6



The building and engineering industries are major consumers of various forms of rubber extrusion. Hexagon Polymers is a world leader in developing and manufacturing gaskets for plate heat exchangers (centre).

per cent, but over the last three years, progress has been negative, or at best, stable. The rally, given a cyclical upturn, is expected to be pronounced. But nevertheless, some sub-segments are relocating production, mainly to China, and accordingly, the recovery in Europe will be moderated.

The Rubber Compounds product area, with Germany as its prime customer base, had a stable market between 2002 and 2003, although this is offset by the ongoing outsourcing trend, and some competing capacity being eliminated.

Generally, Hexagon Polymers is located on growth markets. Over a business cycle, growth within PHEs and wheels should be some 5 per cent.

Growth is not as high within rubber compounds, but because of the pronounced trend of companies outsourcing their production to the rubber industry, the right conditions for sustained healthy market growth do exist.

Many manufacturing industries are relocating production to low-cost countries, with for Hexagon Polymers, China and Eastern Europe being particularly pertinent. Accordingly, to retain its customer base, starts-ups in these regions will be necessary, particularly in China. For Eastern Europe, in many cases, exports from existing facilities are possible. Across all product areas, progress is towards fewer competitors, and a continued concentration on the customer side onto fewer, larger entities.

In the Wheels segment, the main competition is from family businesses, which in most cases, also pursue other activities. Hexagon Polymers is the biggest player focusing exclusively on wheel manufacture, conferring it with distinct advantages in terms of product development and marketing.

In the PHE segment, there are few players established in Europe and North America. The business area's strategy, with its combination of volume manufacture in Sri Lanka, special manufacture, high-end materials and medium-volume manufacture in Sweden, has progressed well. Market leadership enables Hexagon Polymers to offer a comprehensive range of materials, efficient logistics solutions, while also supporting the customer on design and technology solutions.

The rubber industry's own manufacture of compounds for producing complete products is the largest unexploited market. The trend is towards this share progressively declining in favour of more concentrated compounds businesses.

Hexagon Polymers' compound business has enjoyed very healthy growth over the last five years. Size is important in this segment in order to utilise installed capacity optimally, to offer materials development capacity, and to secure the best raw materials prices.

Operations in the Year

A complete range of rubber wheels for track drive applications has been developed in the Wheels segment. New compounds solutions within the Rubber Compounds segment have been developed, which will generate new volumes for 2004.

Volume growth performance was positive despite a sustained weak business climate; order intake grew by 32 per cent in the year (including acquisitions), amounting to MSEK 889 (673). Net sales increased by 30 per cent to MSEK 873 (673). EBITA operating earnings grew to MSEK 99 (87), equivalent to an operating margin of 11 per cent (13). Although the acquisition of GFD conferred strong volume growth, because this compound business makes a lower contribution to margins, overall business area margins did decline somewhat.

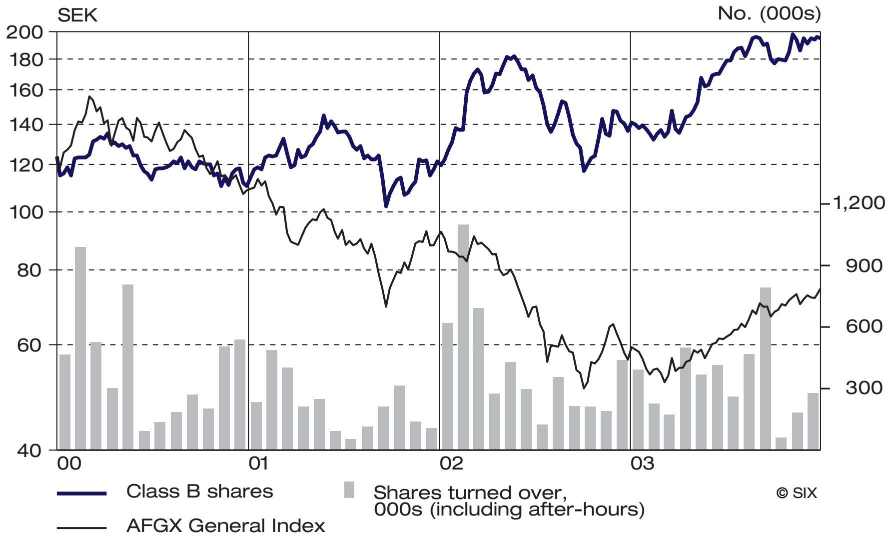
The Future

The vision for the business area to be the global market leader in the three product segments of Wheels, Rubber Compounds and the PHEs, means an ambition for annual net sales of SEK 2–3 billion within a couple of years.

The business area will achieve this vision by combining acquisitions and organic growth in each product area. Its success factors are focus, modest super-ordinate organisational structures, closeness to customers and the capacity to make the organisation as entrepreneurial as possible. ■

The Hexagon Share

The Hexagon Share



Share Capital History

Year	Issue	Change in Number of Shares	Number of Shares	Share Capital, SEK '000
1985			840,000	42,000
1986	Private placement	6,800	846,800	42,340
1987	Private placement	250,000	1,096,800	54,840
1988	Split 5:1	4,387,200	5,484,000	54,840
1988	New issue, convertibles, options exercised	25,885	5,509,885	55,099
1989	New issue, convertibles, options exercised	41,598	5,551,483	55,515
1990	New issue, convertibles, options exercised	325,127	5,876,610	58,766
1991	New issue, convertibles	206,666	6,083,276	60,833
1993	New issue, preferential rights	6,083,276	12,166,552	121,666
1994	Private placement	1,408,448	13,575,000	135,750
1996	Private placement	1,218,182	14,793,182	147,932
2002	New issue, preferential rights	3,698,295	18,491,477	184,915

Key Financial Ratios

SEK/share	2003	2002	2001	2000	1999
Share price	196	138	122	111	124
Shareholders' equity	123	119	110	105	101
Earnings	11.95	10.74	9.00	8.69	7.63
Cash flow	23.79	17.64	19.38	17.13	21.13
Dividend	4.60 [1]	4.60	4.60	4.60	4.60
Dividend yield (%)	2.3	3.3	3.8	4.1	3.7
Dividend pay-out ratio (%)	38	46	51	53	61
P/E ratio	16.4	12.8	13.6	12.8	16,2

[1] Board proposal. In addition, the Board proposes the Hexagon shareholding in VBG AB to be distributed.

Hexagon's class B share is listed on the Stockholm Stock Exchange A-list; a trading lot comprises 100 shares and its code is HEXA B. The share capital amounts to MSEK 184.9, divided between 1,050,000 class A shares and 17,441,477 class B shares. There are a total of 18,491,477 shares in the company, with a nominal value of SEK 10 per share. Class A shares have 10 votes and class B shares, one vote.

Share Price Performance

The closing price at year-end 2003 was SEK 196 (138), a 42 per cent increase. In the same period, the AFGX rose by 25 per cent. The year high, of SEK 200, was achieved on 2 December, and the low, of SEK 130, on 12 March. At year-end, market capitalisation was MSEK 3,624 (2,552).

A total of 5,353,218 (4,738,634) shares were turned over in 2003, including after-hours trading, with a total value of MSEK 690 (754). On average, 21,499 (18,879) shares were turned over each trading day; shares turned over comprised 29 per cent of the total number of shares.

Shareholder Structure

As of 31 December 2003, Hexagon had 5,315 shareholders, against 5,623 as of 31 December 2002. At year-end, foreign owners comprised 19 per cent (14) of total; institutional ownership was 24 per cent (25) of the total number of shares and 16 per cent (16) of the votes.

Dividend Policy

Consolidated earnings performance and equity ratio are decisive for dividends. The Board of Directors' general opinion is that dividends should represent 25–35 per cent of earnings after tax.

The Board of Directors proposes

that the Annual General Meeting approves dividends of SEK 4.60 (4.60) per share, corresponding to MSEK 85 (85). Dividends comprise 38 per cent (43) of earnings per share after tax and 3.7 per cent (3.9) of consolidated shareholders' equity.

In addition to ordinary dividends, the Board of Directors proposes that the AGM resolves on distributing Hexagon's holding of 1,404,823 class B shares of O-list quoted company VBG AB.

As of 31 December 2003, parent company non-restricted shareholders' equity was MSEK 678.

VPC will pay AGM-approved dividends to those shareholders included in the company's share register on the record date.

Dividends are scheduled for payment from VPC on 13 May 2004, assuming that the AGM approves the Board of Directors' proposal for 10 May 2004 as the record date.

At year-end 2003, Hexagon had two outstanding stock option programmes. Coincident with full utilisation of these option programmes, the dilution effect would amount to 6.1 per cent of the share capital and 4.1 per cent of the vote. In earnings per share terms, the dilution is marginal. ■

Ownership Structure

Information from VPC (The Swedish Central Securities Depository & Clearing Organisation) indicates that Hexagon had 5,315 shareholders as of 31 December 2003.

Largest Shareholders	A	B	% of Capital	% of Votes
Melker Schörling, privately and through companies	1,050,000	3,466,297	24.4	49.9
Maths O Sundqvist, privately and through companies		2,332,450	12.6	8.3
Didner & George Equity Fund		855,375	4.6	3.1
AFA AB		805,890	4.4	2.9
Investmentaktiebolaget Latour		605,000	3.3	2.2
State Street, US		600,874	3.2	2.2
Fidelity and associated funds		467,950	2.5	1.7
Bank of New York, Belgium		386,217	2.1	1.4
Robur and associated funds		372,950	2.0	1.3
Handelsbanken and associated funds		361,400	2.0	1.3
Livförsäkringsaktiebolaget Skandia		360,626	2.0	1.3
Simon Bonnier		351,250	1.9	1.3
Total	**1,050,000**	**10,966,279**	**65.0**	**76.9**

Shareholder Structure

Shareholding	No. of Shareholders	No. of Shares	Percentage of Shares
1–500	4,084	597,988	3.2
501–1,000	530	396,425	2.1
1,001–2,000	346	475,585	2.6
2,001–5,000	196	571,924	3.1
5,001–10,000	56	425,955	2.3
10,001–20,000	34	477,539	2.6
20,001–50,000	33	1,124,424	6.1
50,001–100,000	10	743,393	4.0
100,001–	26	13,678,244	74.0
	5,315	**18,491,477**	**100.0**

External Analysts

In 2003, the following financial analysts monitored the Hexagon share:

CAI Cheuvreux, Sasu Ristimäki
Carnegie, Björn Enarsson
Danske Bank, Fasial Kalim Ahmad
Enskilda Securities, Stefan Mattsson
Handelsbanken, Markus Almerud
Kaupthing Bank, Henrik Alveskog
Nordea Securities, Johan Wettergren
Swedbank, Mats Larsson

Corporate Governance

Hexagon's operations span four continents, which implies challenging standards on decentralised management and local accountability. Hexagon is interwoven by entrepreneurship, and features effective leadership.

Despite marginal synergies between the business areas' products, together, Hexagon's businesses build a forceful group. An active and professional circle of owners, shared values, closeness to the capital markets and a single public image confer major benefits. Apart from utilising the group's economies of scale within infrastructure, accounting, finance and procurement, each business area pursues its operations autonomously, in accordance with the group's overall strategy.

Ownership Influence

Hexagon's two largest owners are the Chairman and Deputy Chairman. Other Board members each own more than 13,500 shares, which enhances personal commitment to Hexagon's performance. Closeness to active owners enables fast decision processes and professionalism in terms of shareholders' assets.

Board Actions

The Board has five members including the Chief Executive Officer. The Board members possess solid financial competence as well as broad-based international experience of engineering technology businesses.

The Board of Directors resolves on the group's overall strategy, major corporate acquisitions, divestments and investments. Otherwise, the Board of Directors is responsible for the group's organisational structure and management pursuant to the Swedish Companies Act. Procedural rules direct the Board of Directors and Chief Executive Officer, including instructions that regulate the issues that require Board approval, and the financial information and other reporting to be submitted to the Board. The procedural rules are considered and approved annually.

In 2003, the Board of Directors held six meetings at which minutes were taken, and one meeting following election. The company's auditors participate at the first Board meeting of the year, and report their observations from their review of the group's internal controls and annual financial statement.

Nomination, Remuneration and Audit Committees

The AGM elects a Nomination Committee, whose task is prepare nominations for the Board ahead of forthcoming shareholders' meetings, determine Board fees and deal with associated issues. Ahead of the Annual General Meeting 2004, the Nomination Committee's members are Melker Schörling and Maths O. Sundqvist.

The Board of Directors has Remuneration and Audit Committees, whose purpose is to deepen and rationalise Board actions on relevant issues.

Remuneration and Incentive Plans

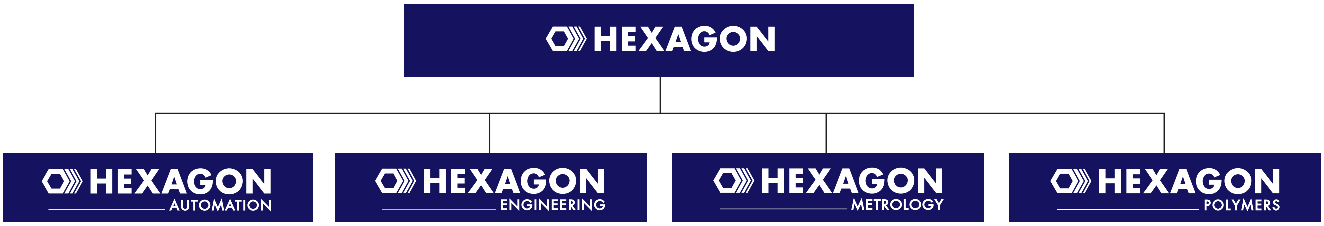
Hexagon pays its senior executives competitive salaries on market terms. The right person can have a decisive impact on the company's success, and any performance-related elements of salaries should be linked to earnings performance.

To create the prospects to associate valued competence to the company, stock option programmes have been formulated that enable the holder to benefit from future share price growth. This programme is also intended to enhance interest in Hexagon's progress and to stimulate continued loyalty to the company. At present, Hexagon has two outstanding stock option programmes targeted at its senior executives, which have express responsibility for the company's progress and a major opportunity to influence it. The structure of these programmes is reviewed in the Directors' Report.

Group Management

Hexagon has a compact, efficient group management comprising the Chief Executive Officer, Chief Financial Officer and Vice President of Strategy. The group management is responsible for leading and directing the business pursuant to the strategy determined by the Board of Directors. The group management is also accountable for overall business development, while also being responsible for funding and capital structures.

An active and professional circle of owners, share



Hexagon is organised into four business areas. Apart from exploiting the group's economies of scale within infrastructure, accounting, finance and procurement, individual business areas run their businesses entirely independently, pursuant to the group's overall strategy.

The group has no large centralised staff functions, to nurture its entrepreneurial spirit. To ensure that the company has access to the best resources in its functions such as human resources and legal services, where necessary, specialist knowhow from leading experts in these fields are appointed.

Managing Business Areas

Together with the group management, the company's Business Area Presidents form the company's management group. Regular management group meetings are the group's forum to implement the management's overall control of business areas.

Hexagon's business areas and subsidiaries are financially managed in terms of what they can themselves influence—return on capital employed. Accordingly, business areas are not evaluated according to earnings parameters such as earnings per share or return on equity. The consequence is that they focus on optimising operating earnings and minimising their own working capital.

Hexagon's organisation features pronounced decentralisation. The entrepreneurial spirit Hexagon possesses is created by means including individual managers assuming overall responsibility for their businesses and working towards clearly defined objectives. No line manager should feel that he or she is not directing their own progress as a consequence of conflicting or ambiguous delineation of responsibility within the organisation.

The uniform attitude is that Hexagon exists to make money for its owners. Hexagon's companies retain their identities and brands, while simultaneously being part of the group with a uniform attitude.

Investor Relations

Hexagon's ambition is to enhance interest in its stock among existing and potential investors. This is achieved by actively providing the market with relevant, up-to-date and rapid information. Hexagon's ambition to develop trust in the company on the stock market also includes openness and high levels of service. During the year, Hexagon regularly met investors and players on the capital markets in Scandinavia and elsewhere, with the intention of explaining and clarifying the value of its businesses. All published information on the group's progress, investor information and other key data is uploaded on the corporate Website www.hexagon.se.

Hexagon has no dedicated corporate communications unit; all external contacts with the markets are through the CEO and CFO.

d values and an entrepreneurial spirit.

Melker Schörling

Maths O Sundqvist

Hans Nergårdh

Ola Rollén

Carl-Henric Svanberg

Board

Melker Schörling
Chairman
Born in 1947, Board member since 1999.
Chairman of Securitas AB, Karlshamns AB and Attendo Senior Care AB. Deputy Chairman of Assa Abloy AB. Board member of Hennes & Mauritz AB.
Hexagon shareholdings: 1,050,000 class A shares and 4,265,297 class B shares, privately and through companies.

Maths O Sundqvist
Deputy Chairman
Born in 1950, Board member since 1991.
Chairman of Jämtlamell AB and Fabös AB. Board member of Investment AB Öresund and Wihlborgs Fastigheter AB. CEO of AB Skrindan
Hexagon shareholdings: 2,332,450 class B shares, privately and through companies.

Hans Nergårdh
Born in 1934, Board member since 1993.
Chairman of Schneidler-Företagen AB. Board member of FPG AMFK Kreditdelegationen.
Hexagon shareholdings: 13,500 class B shares.

Ola Rollén
Born in 1965, Board member since 2000.
Chief Executive Officer and President since 2000
Hexagon shareholdings: 15,000 class B shares.
Stock options: 212,000.

Carl-Henric Svanberg
Born in 1952, Board member since 1999.
President and CEO of Telefonaktiebolaget LM Ericsson. Deputy Chairman of Assa Abloy AB.
Hexagon shareholdings: 219,050 class B shares through companies.

Management

Ola Rollén
Born in 1965, with Hexagon since 2000.
Chief Executive Officer and President.
President of Hexagon Metrology.
Hexagon shareholdings: 15,000 class B shares.
Stock options: 212,000.

Håkan Halén
Born in 1954, with Hexagon since 2001.
Chief Financial Officer.
Member of Group Management and the management team.
Stock options: 100,000.

Gert Viebke
Born in 1951, with Hexagon since 2000.
Vice President of Strategy
Member of Group Management and the management team.
Stock options: 100,000.

Hans Carlsson
Born in 1954, with Hexagon since 2000.
President of Hexagon Engineering.
Member of the management team.

Lars Olofsson
Born in 1957, with Hexagon since 1998.
President of Hexagon Polymers.
Member of the management team.
Stock options: 5,000.

Börje Vernet
Born in 1953, with Hexagon since 1999.
President of Hexagon Automation.
Member of the management team.
Hexagon shareholdings: 1,250 class B shares.
Stock options: 5,000.

Auditors

Gunnar Widhagen
Auditor
Born in 1938, Authorised Public Accountant.
Ernst & Young AB.
Auditor since 1989.

Peter Lander
Deputy Auditor
Born in 1949, Authorised Public Accountant.
Ernst & Young AB.
Deputy Auditor since 1992.


Ola Rollén


Håkan Halén


Gert Viebke


Hans Carlsson


Lars Olofsson


Börje Vernet

Five-year Summary

(MSEK)	2003	2002	2001	2000	1999
Income Statement					
Net sales	7,103	6,997	6,204	5,099	4,667
EBITDA operating earnings	711	719	531	440	387
EBITA operating earnings	480	511	350	281	242
EBIT1 operating earnings	406	421	287	234	194
Operating earnings	406	400	310	267	209
Earnings before tax	323	319	227	223	179
Of which non-recurring items	–	15	23	33	20
Net earnings	221	187	144	139	122
Balance Sheet					
Current assets	3,060	3,118	3,391	2,000	1,570
Fixed assets	2,866	3,100	3,096	1,541	1,549
Non-interest bearing liabilities and provisions	1,626	1,713	1,877	975	740
Interest-bearing liabilities and provisions	1,981	2,275	2,825	874	759
Minority interests	47	36	30	13	10
Shareholders' equity	2,272	2,194	1,755	1,679	1,610
Total assets	5,926	6,218	6,487	3,541	3,119

Key Financial Ratios	2003	2002	2001	2000	1999
Annual net sales growth (%)	2	13	22	9	-6
Return on capital employed (%)	10	10	9	12	10
Return on capital employed excluding goodwill (%)	11	12	10	14	12
Return on equity (%)	10	9	8	8	8
Return on equity excluding goodwill (%)	13	14	12	11	11
Equity ratio (%)	39	36	28	48	52
Share of risk-bearing capital (%)	41	37	28	48	52
Interest coverage ratio (multiple)	4.2	3.4	2.9	4.3	4.5
Net debt/equity ratio (multiple)	0.78	0.97	1.35	0.38	0.40
Cash flow before change in working capital (MSEK)	534	388	358	381	243
Cash flow (MSEK)	440	307	310	274	338
Investments (MSEK)	226	267	202	150	170
Earnings per share (SEK)	11.95	10.74	9.00	8.69	7.63
Earnings per share excluding goodwill (SEK)	15.95	15.92	12.94	11.63	10.63
EBITA operating earnings per share (SEK)	25.96	29.36	21.88	17.56	15.13
Operating margin (%)	6	6	5	5	4
Cash flow per share before change in working capital (SEK)	28.88	22.29	22.38	23.81	15.19
Cash flow per share after change in working capital (SEK)	23.79	17.64	19.38	17.13	21.13
Shareholders' equity per share (SEK)	123	119	110	105	101
Share price on the balance sheet date (SEK) [1)]	196	138	122	111	124
Average number of shares ('000) [1)]	18,491	17,404	15,998	15,998	15,998
Average number of employees	5,401	5,428	5,061	4,078	3,656

[1)] Adjusted to take account of the bonus issue element of the new share issue

Financial Objectives

Coincident with Hexagon establishing its new strategic orientation in 2000, the following overall growth and operating margin objectives were formulated for the five-year period 1999 for 2005:

- Doubling of net sales
- Doubling operating margin

The financial objectives are:

- Minimum annual earnings per share growth of 15 per cent
- Equity ratio between 25 and 35 per cent
- Positive cash flow over a business cycle
- Return on capital employed of over 15 per cent over a business cycle

Net Sales

Since the start of Hexagon's transformation in 2000, businesses with aggregate net sales of some SEK 2.3 billion have been divested, while acquisitions within hydraulics, metrology and rubber, with aggregate net sales of approximately SEK 4.6 billion, have been consummated.

Since 1999, Hexagon's net sales have grown by 52 per cent. The objective of doubling net sales is to be achieved through organic growth and acquisitions in Hexagon's selected strategic businesses.

Operating Margin

Since 1999, Hexagon's operating margin has increased by 2 percentage points, and was 6 per cent in 2003. Hexagon Engineering's weak earnings exerted an adverse impact of 0.5 per cent on operating margin, while the dollar's sharp depreciation exerted a 0.7 per cent negative influence.

Hexagon will achieve its operating margin target of 8 per cent through improved operating earnings and more stable exchange rates.

Earnings per Share

Earnings per share rose by 11 per cent to SEK 11.95 (10.74) in 2003. Over the last three years, the average increase in earnings per share, adjusted for items affecting comparability, has been 18 per cent. The objective is for this key financial ratio to achieve yearly growth of at least 15 per cent.

Apart from the progress of business in the year, earnings per share have been affected by exchange rate variations and dilution from the new share issue in the previous year. The following table illustrates that underlying business growth in the year increased earnings per share by SEK 3.68, or 34 per cent year on year. The number of shares increased through the new issue, and the ensuing dilution effect was SEK –0.74 per share. Earnings per share experienced a negative currency effect of SEK 1.73 as a result of the dollar's sharp depreciation in the year. Overall, earnings per share increased by 11 per cent to SEK 11.95.

	SEK	%
Earnings per share, 2002	10.74	
Underlying earnings growth	3.68	34
Dilution effect	–0.74	–7
Currency effect	–1.73	–16
Earnings per share, 2003	11.95	11

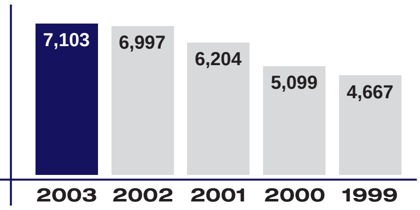
Equity Ratio

Hexagon's objective is for an equity ratio of between 25 and 35 per cent. As of 31 December 2003, the equity ratio was 39.1 per cent (35.9). A strong equity ratio enables Hexagon to increase the loan financing of its future expansion.

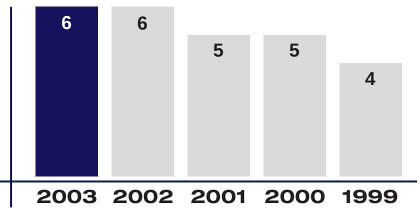
Cash Flow

The group pursues the objective of a positive cash flow over a business cycle to create room to act and enable business expansion. In 2003,

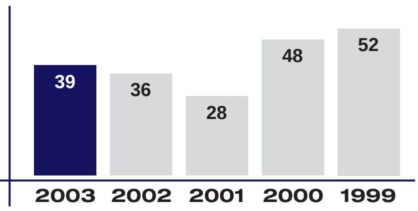
Net Sales
MSEK



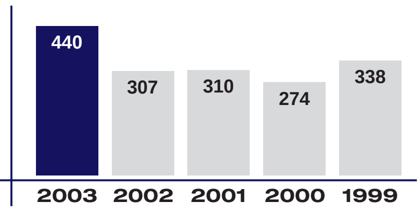
Operating Margin (EBIT1)
%



Equity Ratio
%



Cash Flow
MSEK



cash flow from ongoing operations before change in working capital increased by 38 per cent to MSEK 535. After change in working capital and investments, operating cash flow increased by 435 per cent to MSEK 214.

The fact that 2003 was not subject to equally extensive restructuring, which exerted an adverse impact on cash flows in 2001 and 2002, was a contributor to the improved cash flow.

Return on Capital Employed

The objective of a return on capital employed (excluding goodwill amortisation and including goodwill in the assets) of over 15 per cent was not satisfied in the year. Returns were 11 per cent, with the main explanation being the Engineering business area's return being significantly below target.

Dilution Due to Incentive Programmes

Upon full utilisation of the group's stock option programmes, the dilution effect would be 6.1 per cent of the share capital and 4.1 per cent of the vote. No calculation of the dilution effect on key financial ratios has been performed because any effect is considered marginal.

Definitions of Key Financial Ratios

Annual net sales growth
Percentage change in net sales on previous year.

Capital employed
Total assets less non-interest-bearing liabilities.

Capital turnover rate
Net sales for the year divided by average capital employed.

Cash flow
Cash flow from ongoing operations after change in working capital.

Cash flow per share
Cash flow from ongoing operations after change in working capital, divided by average number of shares.

Dividend pay-out ratio
Dividend divided by earnings per share.

Dividend yield
Dividend as a percentage of share price.

EBITA operating earnings
Operating earnings excluding capital gain on shares in group companies, items affecting comparability and amortisation of goodwill and similar fixed assets.

EBITDA operating earnings
Operating earnings excluding capital gain on shares in group companies, items affecting comparability and depreciation/amortisation of fixed assets.

EBIT1 operating earnings
Operating earnings excluding capital gain on shares in group companies and items affecting comparability.

Earnings per share
Net earnings divided by average number of shares.

Earnings per share excluding goodwill
Net earnings excluding amortisation of goodwill and similar fixed assets divided by average number of shares.

Equity ratio
Shareholders' equity including minority interests as a percentage of total assets.

Interest cover ratio
Earnings after financial items plus financial expenses divided by financial expenses.

Investments
Purchases less sales of tangible and intangible fixed assets, excluding those included in acquisitions and divestitures of subsidiaries.

Net debt/equity ratio
Interest-bearing liabilities less liquid assets divided by shareholders' equity.

Operating earnings
Operating earnings as in the Consolidated Income Statement.

Operating margin
Operating earnings (EBIT1) as a percentage of net sales for the year.

P/E ratio
Share price divided by earnings per share.

Profit margin
Earnings after financial items as a percentage of net sales for the year.

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

Return on capital employed excluding goodwill
Earnings after financial items plus financial expenses, excluding amortisation of goodwill and similar fixed assets as a percentage of average capital employed.

Return on equity
Net earnings as a percentage of average shareholders' equity.

Return on equity excluding goodwill
Net earnings excluding amortisation of goodwill and similar fixed assets as a percentage of average shareholders' equity.

Shareholders' equity per share
Shareholders' equity divided by the number of shares at year-end.

Share of risk-bearing capital
The total of shareholders' equity, tax provisions and minority interests as a percentage of total assets.

Share price
Year-end closing price on Stockholm Stock Exchange.

Directors' Report

The Board of Directors and Chief Executive Officer of Hexagon AB (publ), with corporate identity number 556190-4771, hereby submit the Annual Report and consolidated financial statements for the fiscal year 2003.

Operations

Hexagon is a global engineering technology group with strong positioning in selected market segments. The group is organised into four business areas: Hexagon Automation, Hexagon Engineering, Hexagon Metrology and Hexagon Polymers. Operations are pursued in 80 operational companies in 20 countries.

During the year, the global manufacturing industry was exposed to pronounced change pressure. The demand for investment-related products in Europe was weak despite record low yields. The US dollar's pronounced depreciation (–17 per cent in 2003) resulted in European export competitiveness deteriorating simultaneous with that of Asia increasing, because this region's currencies are linked to the dollar. Thanks to previous years' rationalisation, and thereby lower fixed costs, Hexagon has succeeded in retaining, and on many markets improving, its market positions.

Structural Changes

Divestments

No divestments were effected in the year.

Joint Venture

On 27 June 2003, Hexagon and Boliden incorporated Boliden Nordic Brass AB, a joint venture between the Hexagon company Nordic Brass AB and Boliden Gusum AB. This new brass company's annual turnover is approximately MSEK 500. By concentrating production on a single facility, significant synergies are realised that create the prospects of managing a sustainably profitable brass business and countering increasing competition, mainly from the European brass industry. The new company became operational on 1 September 2003.

Acquisitions

In April 2003, Hexagon's Swiss subsidiary TESA S. A. acquired the operations of French enterprise Sud Mesure. This acquisition will enable TESA to continue its expansion in the vision segment of metrology, by continuing to develop Sud Mesure's manual three-dimensional vision machine.

In December, Hexagon Metrology entered an agreement to acquire a further 15 per cent each of the Chinese subsidiaries Qingdao Brown & Sharpe Quinshao Technology Co. Ltd. and Qingdao Brown & Sharpe Trading Co. Ltd. Consequently, Hexagon owns 90 per cent of these enterprises. The remaining 10 per cent is held by a Chinese company, in turn owned by the Chinese government.

Order Intake, Net Sales and Earnings

The group's order intake grew by 2 per cent in the year to MSEK 7,126 (6,959). Consolidated net sales grew by 2 per cent and amounted to MSEK 7,103 (6,997). With fixed exchange rates and comparable structures, order intake grew by 6 per cent, and net sales by 6 per cent.

EBITDA operating earnings amounted to MSEK 711 (719). EBITA operating earnings were MSEK 480 (511), corresponding to a margin of 7 per cent (7). Goodwill amortisation was MSEK 74 (90). Consolidated earnings before tax excluding capital gains and items affecting comparability grew by 6 per cent to MSEK 323 (304). Including these items, earnings increased to MSEK 323 (319). Earnings before tax experienced a MSEK 43 negative impact from changed exchange rates. Earnings after tax grew by 18 per cent to MSEK 221 (187), equivalent to earnings per share of SEK 11.95 (10.74).

Profitability

Consolidated capital employed, defined as total assets less non-interest bearing liabilities, was MSEK 4,300 (4,505); the return on average capital employed excluding goodwill was 15 per cent (17). Return on average capital employed was 10 per cent (10). The capital turnover rate was 1.6 (1.6).

The return on average shareholders' equity excluding goodwill amortisation was 13 per cent (14). The return on average shareholders' equity was 10 per cent (9).

Tax Expense

The consolidated tax expense was MSEK 89 (122), equivalent to an effective tax rate of 27.6 per cent (38.2). Adjusted for non-recurring effects, the tax rate was 30 per cent (31). The tax expense was influenced by goodwill amortisation not being fully deductible, and a significant portion of operational earnings being generated in foreign subsidiaries, in countries where tax rates differ from that in Sweden.

Funding Risk

Because a significant portion of Hexagon's revenues and expenses are generated in foreign currencies, exchange rate variations influence Hexagon's revenues, operating earnings, shareholders' equity and other items. Bond market fluctuations also affect Hexagon. Hexagon's Treasury function is responsible for co-ordinating currency and interest exposure. The Treasury function is also responsible for the majority of the group's external and internal funding. The guidelines for managing financial exposure are determined annually by Hexagon's Board in a group policy.

The group's currency exposure is reviewed in the Comments and Notes.

Funding and Solvency

In July 2001, Hexagon signed a five-year syndicated loan of MUSD 255. In 2002, Hexagon also raised a MEUR 12 bond issue with Nordiska Investeringsbanken. The unutilised portion of all credit facilities, plus existing liquidity, implies that Hexagon's solvency is MSEK 977 (1,196), equivalent to 16 per cent (19) of total assets.

Financial Position

Consolidated total assets reduced to MSEK 5,926 (6,218). The equity ratio as of 31 December 2003 was 39 per cent (36). Shareholders' equity was MSEK 2,272 (2,194). Consolidated goodwill was MSEK 770 (957), or 13 per cent (15) of total assets and 34 per cent (44) of shareholders' equity.

Goodwill is attributable to the following businesses:

(MSEK)	2003	2002
Hexagon Automation	50	55
Hexagon Engineering	37	62
Hexagon Metrology	677	808
Hexagon Polymers	6	32
Group	**770**	**957**

Consolidated net liabilities reduced by MSEK 372 in the year to MSEK 1,762 (2,134), and the net debt/equity ratio was 0.78 (0.97). Interest cover was a multiple of 4.2 (3.4).

Investments

Consolidated net investments excluding corporate acquisitions amounted to MSEK 226 (267), or 3 per cent (4) of net sales. Depreciation and amortisation in the year was MSEK 305 (298), of which goodwill amortisation comprised MSEK 74 (90).

Business Area (MSEK)	Order Intake		Net Sales		Operating Earnings (EBITA)	
	2003	2002	2003	2002	2003	2002
Hexagon Automation	2,199	2,204	2,227	2,248	102	106
Hexagon Engineering	1,533	1,535	1,461	1,551	52	89
Hexagon Metrology	2,505	2,547	2,569	2,564	237	236
Hexagon Polymers	889	673	873	673	99	87

Cash Flow

Cash flow progressed very robustly; cash flow from ongoing operations before change in working capital increased by 38 per cent to MSEK 534 (388), or SEK 28.88 per share (22.29). Cash flow from ongoing operations amounted to MSEK 440 (307), equivalent to SEK 23.79 (17.64) per share. Operating cash flow increased to MSEK 214 (40). Other investments in the year and changes to external funding exerted an MSEK –59 (–253) impact on cash flow. Dividends to shareholders for the fiscal year 2002 were MSEK 85 (74), or SEK 4.60 per share (4.60). A new issue raising MSEK 420 was effected in the previous year. Thus cash flow for the year was MSEK 70 (–287).

Product Development

Being the most innovative supplier necessitates major product and process development resources, partly to enhance and modify existing products, but particularly, to identify new applications, and thereby, increase the total market for Hexagon's products and services. The total cost for research and development amounted to some 2 per cent (1) of net sales.

Capitalisation of development expenses in the group is only applied to new products and/or markets where significant amounts are involved, where there is significant earnings potential that the company may benefit from, and which is clearly distinguishable from ongoing R&D efforts. Consolidated capitalised development expenses are stated in Note 11, on page 58.

Business Areas

The order intake, net sales and operating earnings of Hexagon's various business areas for 2003 are stated above.

Parent Company

Parent company earnings after financial items were MSEK –18 (–39). The parent company's equity ratio was 34 per cent (35). Shareholders' equity including the equity share of untaxed reserves was MSEK 1,622 (1,701). Liquid assets including unutilised credit facilities were MSEK 690 (867).

Restructuring Provision

As of 1 January, Hexagon had a restructing provision of MSEK 30, with MSEK 22 of this provision utilised in the year, MSEK 16 of which relates to personnel costs.

Human Resources

The average number of employees of the group was 5,401 (5,428) in the year. At year-end, the number of employees was 5,536 (5,674). The share of employees in foreign companies increased to 64 per cent (63). The average number of employees in the parent company was 9 (9).

Incentive Programmes

Hexagon initiated a stock option programme in 2000; after the cancellation of those options in the group's ownership as of 1 June 2003, this plan encompasses 648,500 options, divided between 32 senior executives. The options confer shareholders with the rights to subscribe for a total of 706,217 new class B shares in the company at a subscription price of SEK 184.55 until 31 May 2005. These options are transferred at market value.

An Extraordinary General Meeting of 23 September 2003 resolved to initiate a stock option programme targeted at key personnel. In total, this plan encompasses 500,000 options; each option confers its holder with the right to subscribe for one new class B share in the company for SEK 250 until 1 October 2006. These options were transferred at market value according to the Black & Scholes valuation model, with the first apportionment in the first quarter 2004.

The dilution effect upon full utilisation of these stock option programmes would be 6.1 per cent of the share capital and 4.1 per cent of the vote. The dilution effect in terms of earnings per share for 2003 is marginal.

Environment

Issues relating to the external and working environment are an integrated element of Hexagon's business. Business decisions that impact on the environment must be guided by what is ecologically justifiable, technically feasible and financially viable. Hexagon insists that its subsidiaries are environmentally accredited or registered pursuant to ISO and EMAS.

Transfer to IFRS 2005

On 1 January 2005, all public Swedish companies will transfer to applying IFRS (International Financial Reporting Standards) published by the IASB (International Accounting Standards Board).

Because comparative information must be submitted for 2004, an analysis of the effects of this transfer as of 1 January 2004 must be performed. Hexagon has progressively adopted the updated Swedish accounting recommendations, primarily issued by *Redovisningsrådet* (the Swedish Financial Accounting Standards Council), which in turn, bases its recommendations on corresponding statements by the IASB. The residual areas where Swedish accounting principles, such as those applied in the Financial Statement 2003, differ from international standards are mainly pensions and financial instruments. At present, Hexagon has uncomplicated pension solutions and no complex financial instruments.

Overall, Hexagon considers that the transfer to IFRS will have a marginal impact on its earnings and financial position. However, the transfer will have a significant effect on the presentation of future financial reports, particularly the notes and supplementary disclosures. Hexagon has assigned resources to ensure that the transfer to IFRS accounting can be effected according to schedule. These efforts are proceeding according to plan.

Board Actions

The Board of Directors has five members including the Chief Executive Officer. In 2003, the Board of Directors held six meetings at which minutes were taken, and one Board meeting following election. The Board of Directors resolves on the group's overall strategy, major corporate acquisitions, divestments and investments. Otherwise, the Board of Directors is responsible for the organisational structure of the group

Net Sales by Foreign Currency

(MSEK)	2003	2002
CHF	229	278
CNY	116	199
DKK	484	431
EUR	2,530	2,208
GBP	146	168
NOK	392	491
USD	948	889
Other	84	71
	4,929	**4,735**

Net Assets, by Currency and Hedging Ratio, %

(MSEK)	Exposure	%
CHF	444	118
EUR	707	100
NOK	121	99
USD	809	99
Other	474	73
	2,555	**98**

Net Sales and Earnings before Tax

(MSEK)	Invoicing	Earnings
1999	4,667	179
2000	5,099	223
2001	6,204	227
2002	6,997	319
2003	7,103	323

Cash Flow and Investments

(MSEK)	Cash Flow	Investments
1999	338	170
2000	274	150
2001	310	202
2002	307	267
2003	440	226

and its management pursuant to the Swedish Companies Act. Procedural rules and instructions apply to the Board of Directors and Chief Executive Officer, formalising those issues necessitating the Board's approval, and which financial information and other reports should be submitted to the Board. Such reports are considered and approved annually. The company's auditors attend the first Board meeting of the year and report their observations from their audit of the group's internal controls and annual financial statement.

The AGM elects a Nomination Committee, whose task is to prepare nominations for the Board ahead of forthcoming shareholders' meetings, determine Board fees and deal with associated issues. Ahead of the Annual General Meeting 2004, the Nomination Committee's members are Melker Schörling and Maths O. Sundqvist.

The Board of Directors has Remuneration and Audit Committees, whose purpose is to deepen and rationalise Board actions on relevant issues.

Events after the Balance Sheet Date

On March 22, 2004, Hexagon made an agreement to acquire the Belgian company Thona Group with production facilities in Belgium, The Czech Republic, Canada and the US. Thona Group is technically advanced and has the capacity to manufacture both rubber as well as TPE-compounds. The Group has a sales turnover of approximately MEUR 100 per annum and is employing some 270 employees. The acquisition, which is conditioned by approval from competition authorities, is expected to be completed as of April 30, 2004. The acquisition will realize Hexagon's strategic plan regarding the establishment of the business area Hexagon Polymers as a world leading supplier of polymers solutions.

Outlook

In 2003, Hexagon further strengthened its market position, product portfolio and structure, for continued net sales and earnings growth. Hexagon is retaining its financial objective of minimum annual earnings per share growth after tax of 15 per cent.

Proposed Allocation of Earnings

Consolidated non-restricted equity, as stated in the Consolidated Balance Sheet, amounted to TSEK 1,279,700 of which TSEK 221,070 comprised net earnings. No provision to restricted reserves will be made for the group. The following earnings in the parent company are at the disposal of the Annual General Meeting (TSEK):

– Earnings brought forward from previous year	647,251
– Group contribution, net after tax	15,304
– Net earnings	15,304
Total	677,859

The Board of Directors and Chief Executive Officer propose that these funds are allocated as follows:

– Cash dividends of SEK 4.60 per share to shareholders	85,061
– The shareholding in VBG AB (publ), distributed to shareholders, with a book value of	83,544[1]
– Carried forward	509,254
Total	677,859

[1] The market value of the holding was MSEK 138 as of 31 December 2003.

Consolidated Income Statement

(MSEK)		Note	2003	2002
Net sales		1	7,103	6,997
Cost of goods sold		4,7	–5,282	–5,134
Gross earnings			**1,821**	**1,863**
Sales expenses		4,7	–794	–803
Administration expenses		4,7,14	–498	–514
Research and development expenses		4,7	–78	–59
Other operating revenues		5	25	25
Other operating expenses		5,7	–16	–16
Earnings from shares in associated companies		13,7	20	15
Goodwill amortisation		7	–74	–90
Expenses affecting comparability		6	–	–31
Capital gain on shares in group companies		8	–	7
Capital gain on shares in associated companies		8	–	3
Operating earnings			**406**	**400**
Financial revenue and expenses	Earnings from other securities classified as fixed assets	8	0	36
	Other interest income	8	19	15
	Interest expenses	8	–102	–132
Earnings before tax		1	**323**	**319**
Tax on earnings for the year		9	–89	–122
Minority share in net earnings			–13	–10
Net earnings			**221**	**187**
Operating earnings excluding goodwill amortisation (EBITA)			**480**	**511**
Earnings per share (SEK)			**11.95**	**10.74**
Earnings per share excluding goodwill (SEK)			**15.95**	**15.92**
Earnings include depreciation of			**–305**	**–298**

Consolidated Balance Sheet

(MSEK)		Note	2003	2002
ASSETS				
Fixed assets				
Intangible fixed assets	Capitalised expenditure on research and development	11	98	61
	Patents and trademarks	11	204	244
	Goodwill	11	770	957
Total intangible fixed assets			1,072	1,262
Tangible fixed assets	Buildings	11	473	515
	Land and other real estate	11	130	142
	Machinery and other technical plants	11	644	733
	Equipment, tools and installations	11	148	171
	Construction in progress and supplier advances	11	14	13
Total tangible fixed assets			1,409	1,574
Financial fixed assets	Shares in associated companies	12,13	177	128
	Other long-term securities holdings	12	14	14
	Deferred tax receivables	9,12	131	49
	Other long-term receivables	12	63	73
Total financial fixed assets			385	264
Total fixed assets			**2,866**	**3,100**
Current assets				
Inventories	Raw materials and consumables		518	586
	Work in progress		204	242
	Finished goods and goods for resale		668	617
Total inventories			1,390	1,445
Current receivables	Customer receivables		1,269	1,350
	Other receivables – non-interest bearing		76	79
	Prepaid expenses and accrued revenue	15	106	103
Total current receivables			1,451	1,532
Cash and bank balances			219	141
Total current assets			**3,060**	**3,118**
TOTAL ASSETS			**5,926**	**6,218**

(MSEK)		Note	2003	2002
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity		16		
Restricted equity	Share capital		185	185
	Restricted reserves		808	864
Total restricted equity			993	1,049
Non-restricted equity	Non-restricted reserves		1,058	958
	Net earnings		221	187
Total non-restricted equity			1,279	1,145
Total shareholders' equity			**2,272**	**2,194**
Minority holdings			**47**	**36**
Provisions	Pension provisions - interest bearing		137	145
	Pension provisions - non-interest bearing		67	72
	Tax provisions	9	92	78
	Other provisions	17	124	107
Total provisions			**420**	**402**
Long-term liabilities	Liabilities to credit institutions	18	1,730	1,970
	Other long-term liabilities - interest bearing	18	1	6
	Other long-term liabilities - non-interest bearing		4	–
Total long-term liabilities			**1,735**	**1,976**
Current liabilities	Liabilities to credit institutions	18	101	128
	Advance payments from customers		33	28
	Accounts payable		612	739
	Tax liabilities		25	28
	Other liabilities - interest bearing	18	12	26
	Other liabilities - non-interest bearing		225	91
	Accrued expenses and deferred revenues	15	444	570
Total current liabilities			**1,452**	**1,610**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			**5,926**	**6,218**
MEMORANDUM ITEMS		20		
Pledged assets			154	401
Contingent liabilities			19	76

Change in Consolidated Shareholders' Equity

(MSEK)	Share Capital	Equity Method Reserve	Other Restricted Reserves	Non-restricted Equity	Translation Differences in Non-restricted Reserves excl. Hedging Effect[1]	Translation Differences in Non-restricted Reserves Hedging Effect[1]	Total Share-holders' Equity
Closing balance, Annual Report 31 Dec. 2001	**148**	**71**	**464**	**1,072**	**90**	**–90**	**1,755**
Dividend	–	–	–	–74	–	–	–74
Option premiums	–	–	–	0	–	–	0
Translation differences	–	–	–	–	–159	65	–94
Transfer between restricted and non-restricted equity	–	–28	–26	54	–	–	–
New issue	37	–	388	–	–	–	425
Issue costs	–	–	–5	–	–	–	–5
Net earnings	–	–	–	187	–	–	187
Closing balance, Annual Report 31 Dec. 2002	**185**	**43**	**821**	**1,239**	**–69**	**–25**	**2,194**
Revised accounting principle in associated company VBG	–	–3	–	–	–	–	–3
Dividend	–	–	–	–85	–	–	–85
Translation differences	–	–	–	–	–206	151	–55
Transfer between restricted and non-restricted equity	–	8	–62	54	–	–	–
Net earnings	–	–	–	221	–	–	221
Closing balance, 31 Dec. 2003	**185**	**48**	**759**	**1,429**	**–275**	**126**	**2,272**

[1] Hedging is for net assets in foreign subsidiaries.

Consolidated Cash Flow Statement

(MSEK)		Note	2003	2002
Cash flow from ongoing operations	Net sales		7,103	6,997
	Operating expenses		–6,697	–6,597
	Operating earnings		**406**	**400**
	Adjustment for items not influencing cash flow in operating earnings			
	Depreciation		305	294
	Write-downs		–	9
	Change in provisions		–42	–121
	Capital gains on divestiture of fixed assets		0	–2
	Capital gains on shares in group companies		–	–7
	Earnings from shares in associated companies		–20	–13
	Interest received		15	12
	Dividend received		4	5
	Interest paid		–92	–137
	Tax paid		–42	–52
	Cash flow from ongoing operations before change in working capital		**534**	**388**
Cash flow from change in working capital	Change in inventories		–27	18
	Change in current receivables		–19	–10
	Change in current liabilities		–48	–89
	Cash flow from change in working capital		**–94**	**–81**
	Cash flow from ongoing operations		**440**	**307**
Cash flow from ordinary investment activity	Investments in intangible fixed assets		–79	–54
	Investments in tangible fixed assets		–163	–262
	Divestitures of tangible fixed assets		16	49
	Cash flow from ordinary investment activity		**–226**	**–267**
	Operating cash flow		**214**	**40**
Cash flow from other investment activity	Investments in subsidiaries	10	– 9	– 219
	Divestitures of subsidiaries	10	–	5
	Divestitures of financial fixed assets		–	82
	Cash flow from other investment activity		**–9**	**–132**
Cash flow from financing activity	Amortisation		–50	–541
	New issue		–	420
	Dividends to shareholders		–85	–74
	Cash flow from financing activity		**–135**	**–195**
	Cash flow for the year		**70**	**–287**
	Liquid assets, opening balance[1]		**141**	**458**
	Effect of translation differences on liquid assets		8	–30
	Cash flow for the year		70	–287
	Liquid assets, closing balance[1]		**219**	**141**
	Net debt			
	Interest-bearing provisions and liabilities		1,981	2,275
	Liquid assets[1]		–219	–141
	Net debt		**1,762**	**2,134**

[1] Liquid assets include short-term investments and cash and bank balances.

Parent Company Income Statement

(MSEK)		Note	2003	2002
Net sales		2	11	10
Operating expenses	Administration expenses	4,7,14	–26	–35
	Total operating expenses		–26	–35
Operating earnings			**–15**	**–25**
Financial revenue and expenses	Earnings on shares in group companies	8	11	7
	Earnings from shares in associated companies	8	4	27
	Other interest income	8	81	88
	Interest expenses	8	–99	–136
Earnings after financial items			**–18**	**–39**
Appropriations	Change in tax allocation reserve		34	36
	Total appropriations		34	36
Earnings before tax			**16**	**–3**
Tax on earnings for the year		9	–1	1
Net earnings			**15**	**–2**

Parent Company Balance Sheet

(MSEK)		Note	2003	2002
ASSETS				
Fixed assets				
Intangible fixed assets	Patents and trademarks	11	0	0
Tangible fixed assets	Buildings	11	6	8
	Land	11	2	2
	Equipment	11	1	1
Total tangible fixed assets		9	11	
Financial fixed assets	Shares in group companies	12	2,523	2,434
	Receivables, group companies	12	1,519	1,471
	Shares in associated companies	12,13	84	84
	Other long-term securities holdings	12	10	10
	Deferred tax receivables	9	0	7
Total financial fixed assets			4,136	4,006
Total fixed assets			**4,145**	**4,017**
Current assets				
Current receivables	Receivables, group companies		511	606
	Tax receivables		0	0
	Other receivables		19	45
	Prepaid expenses and accrued revenue	15	8	7
Total current receivables			538	658
Cash and bank balances			94	19
Total current assets			**632**	**677**
TOTAL ASSETS			**4,777**	**4,694**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity		16		
Restricted equity	Share capital		185	185
	Share premium reserve		511	511
	Statutory reserve		220	220
Total restricted equity			916	916
Non-restricted equity	Earnings brought forward		663	734
	Net earnings		15	–2
Total non-restricted equity			678	732
Total shareholders' equity			**1,594**	**1,648**
Untaxed reserves	Tax allocation reserves		40	74
Total untaxed reserves			**40**	**74**
Provisions	Pension provisions	9	1	1
Total provisions			**1**	**1**
Long-term liabilities	Liabilities to credit institutions	18	1,979	2,015
Total long-term liabilities			**1,979**	**2,015**
Current liabilities	Liabilities to credit institutions	18	2	2
	Accounts payable		3	2
	Liabilities to group companies		1,021	911
	Other liabilities		130	33
	Accrued expenses and deferred revenues	15	7	8
Total current liabilities			**1,163**	**956**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			**4,777**	**4,694**
MEMORANDUM ITEMS		20		
Pledged assets			None	None
Contingent liabilities			137	163

Change in Parent Company Shareholders' Equity

(MSEK)	Share Capital	Share Premium Reserve	Statutory Reserve	Non-restricted Equity	Total Share-holders' Equity
Closing balance, Annual Report 31 Dec. 2001	**148**	**128**	**220**	**726**	**1,222**
Dividend	–	–	–	–74	–74
Group contributions paid and received, net	–	–	–	114	114
Tax effect, group contribution	–	–	–	–32	–32
New issue	37	388	–	–	425
Issue cost	–	–5	–	–	–5
Net earnings	–	–	–	–2	–2
Closing balance, Annual Report 31 Dec. 2002	**185**	**511**	**220**	**732**	**1,648**
Dividend	–	–	–	–85	–85
Group contributions paid and received, net	–	–	–	22	22
Tax effect, group contribution	–	–	–	–6	–6
Net earnings	–	–	–	15	15
Closing balance, 31 Dec. 2003	**185**	**511**	**220**	**678**	**1,594**

Parent Company Cash Flow Statement

(MSEK)		Note	2003	2002
Cash flow from ongoing operations	Net sales		11	10
	Operating expenses		–26	–35
	Operating earnings		**–15**	**–25**
	Adjustment for items not influencing cash flow in operating earnings			
	Depreciation		0	1
	Provisions		–	0
	Capital losses, divestments of fixed assets		0	–
	Interest received		80	87
	Dividend received		4	5
	Interest paid		–96	–162
	Tax paid		–	–
	Cash flow from ongoing operations before change in working capital		**–27**	**–94**
Cash flow from change in working capital	Change in current receivables		123	17
	Change in current liabilities		204	242
	Cash flow from change in working capital		**327**	**259**
	Cash flow from ongoing operations		**300**	**165**
Cash flow from investment activity	Investments in tangible fixed assets		–	–4
	Divestitures of tangible fixed assets		2	–
	Investments in financial fixed assets		–	–70
	Divestitures of financial fixed assets		179	45
	Change in long-term receivables group companies		–48	–314
	Group contributions received		110	147
	Group contributions paid		–88	–31
	Dividend received		7	90
	Shareholders' contribution paid		–266	–51
	Cash flow from other investment activity		**–104**	**–188**
Cash flow from financing activity	Amortisation		–36	–504
	New issue		–	420
	Dividends to shareholders		–85	–74
	Cash flow from financing activity		**–121**	**–158**
	Cash flow for the year		**75**	**–181**
	Liquid assets, opening balance[1)]		19	200
	Liquid assets, closing balance[1)]		**94**	**19**

[1)] Liquid assets include cash and bank balances.

Comments and Notes

All amounts are accounted in MSEK (millions of Swedish kronor), unless otherwise stated. Figures in brackets are comparative figures for 2002.

Accounting Principles

Hexagon observes RR's (*Redovisningsrådet*, the Swedish Financial Accounting Standards Council) applicable recommendations. A number of new recommendations came into force on 1 January 2003, although these new recommendations have not resulted in any change to the accounting principles applied other than some amendment to the presentation of calculations and notes, and accordingly, have not caused any recalculation of accounted earnings or shareholders' equity.

New recommendations from RR applicable from 1 January 2003

RR's recommendations:

RR 2:02	Inventories
RR 22	Presentation of Financial Statements
RR 24	Investment Property
RR 25	Segment Reporting—Operational and Geographical Segments
RR 26	Events after the Balance Sheet Date
RR 27	Financial Instruments: Disclosure and Presentation
RR 28	Accounting for Government Grants and Disclosure of Government Assistance

Hexagon has applied these principles from 1 January 2003, although RR 24 Investment Property is not applicable to Hexagon. Principally, the other recommendations are intended to determine the information to be disclosed in Interim and Annual Reports.

New Recommendations from RR Applicable from 1 January 2004

RR 29 Employee Benefits will apply from 1 January 2004. Its implementation implies a revision of accounting principles, and the effect of the revised principles will be accounted directly to shareholders' equity, and will exert a marginal impact on consolidated shareholders' equity as of 1 January 2004.

Consolidated Financial Statements

The consolidated financial statements consolidate the parent company and the other companies in which the parent company has a controlling influence.

The consolidated financial statements have been prepared pursuant to acquisition accounting, implying that the parent company's acquisition value of shares in subsidiaries is eliminated against subsidiaries' shareholders' equity at the time of acquisition. The shareholders' equity of acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition. In those cases where the acquisition value of shares in subsidiaries exceeds the acquired shareholders' equity as stated above, the discrepancy is accounted as goodwill in the Balance Sheet. Consolidated goodwill is amortised over 10–20 years, based on expected earnings capacity. Goodwill values are evaluated on the basis of the potential need for write-downs at each accounting date. Acquired companies are consolidated from acquisition date onwards. Divested companies are consolidated until their date of divestiture inclusive.

The current method is used for the conversion of foreign subsidiaries, implying that balance sheets are converted at year-end exchange rates, and income statements are converted at average exchange rates. The resulting conversion differences are accounted to consolidated shareholders' equity.

Between 70 and 100 per cent of the net assets of foreign subsidiaries are hedged, mainly through foreign-currency loans. Currency forward contracts are used to a lesser extent.

Because exchange rates fluctuate, exchange rate gains/losses arise for the owning company; considering their fiscal effect, these gains or losses are offset in the consolidated financial statements against translation differences accounted directly to shareholders' equity for the foreign subsidiaries.

Associated Companies and Joint Ventures

Hexagon applies the equity method for accounting associated companies, which means those companies where Hexagon does not hold the majority of voting power, but has a continuous shareholding of between 20 and 50 per cent. Joint ventures are considered as holdings where Hexagon has 50 per cent ownership.

Potential differences between acquisition value and equity value at the time of acquisition are termed goodwill, consequently included in acquisition values. The Consolidated Balance Sheet accounts the holdings in associated companies at acquisition value adjusted for dividends, participations in earnings and losses in the period they remain a holding, and accumulated goodwill amortisation after the acquisition date. The Consolidated Income Statement accounts shares in associated companies' earnings after goodwill amortisation. Associated company taxes are accounted under consolidated tax expenses.

Goodwill values are evaluated on the basis of the potential need for write-downs at each accounting date.

Revenues

Hexagon applies RR's recommendation no. 11 when accounting revenues, whereby the following principles apply:

Goods Sales

Revenues from sales of goods are recognised when all the following conditions are satisfied:

- The company has transferred the essential risks and benefits associated with the ownership of the goods to the buyer;
- The company does not retain any commitment in ongoing management usually associated with ownership, and nor does the company exert any actual control over the goods that have been sold;
- Revenues can be reliably calculated;
- It is likely that the financial benefits for the seller associated with the transaction will arise for the seller;
- The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated.

Sales of Services/Contracts and Similar Assignments

Income from the sale of services is recognised on the basis of the degree of completion at the balance sheet date, when all the following conditions are satisfied:

- Income attributable to the assignment can be reliably calculated;
- It is likely that the financial benefits to the contractor associated with the assignment will arise for the contractor;
- The degree of completion can be reliably calculated;
- The expenditure that has arisen and the expenditure that remains to complete the assignment can be reliably calculated.

The degree of completion is determined by setting expenditure that has arisen in relation to the total estimated expenditure for the assignment.

If the degree of completion cannot be reliably determined, only those amounts corresponding to the expenditure that has arisen are recognised as revenues, and then, only to the extent that it is likely that they will be remunerated by the buyer.

If it appears likely that all the expenditure for an assignment will exceed total revenues, the probable loss is accounted immediately, and fully, as an expense.

Research and Development Expenditure

Expenditure for research is written off as it arises, while expenditure for development is capitalised if it generates future financial benefits.

Leasing

Preferably, the Hexagon group enters operational leasing contracts; financial leasing only arises marginally, and primarily applies to vehicles.

Other Operating Revenues/Expenses

Other operating revenues/expenses mainly relate to projects for the automotive industry and letting.

Borrowing Costs

Borrowing costs burden earnings in the period to which they are attributable, and are not normally included in the acquisition value of an asset.

Pension and Similar Commitments

Provisions are made for all pensions and similar commitments, pursuant to the prevailing practice in each applicable country. As stated above, RR's recommendation RR 29 Employee Benefits will be adopted from 1 January 2004.

Income Tax

Income tax comprises:

- Current tax is the tax calculated on taxable earnings for the period, and corrections regarding previous periods;
- Deferred tax is the tax attributable to taxable temporary differences to be paid in the future, and the tax that represents a reduction of future tax attributable to deductible temporary differences, deductible lost carry-forwards and other tax deductions. The income tax expenses for the year consist of current and deferred tax, and shares in associated companies' tax.

Group contributions are accounted according to their financial significance. The parent company normally accounts group contributions paid and received, and the corresponding fiscal effect, directly to shareholders' equity. In those cases where group contributions received can be considered as dividends, however, the group contribution is accounted as a financial revenue, and the tax effect is included in income tax for the year in the Income Statement.

Receivables and Liabilities

Provisions for loss risks are made after consideration on a case-by-case basis; foreign-currency receivables and liabilities are converted at year-end exchange rates. The difference between acquisition value and year-end value is accounted as income. In those cases where currency hedging is undertaken, the forward rate is applied. Forward premiums are accounted linearly over time as interest.

Inventories

Inventories are accounted according to the FIFO principle; for intra-group transactions, market terms apply. The necessary provisions are made for obsolescence and intra-group earnings.

Raw materials, and purchased finished and semi-finished goods, are valued at the lower of cost and market.

Manufactured finished and semi-finished goods are valued at the lower of manufacturing cost (including a reasonable portion of indirect manufacturing costs) and market value.

Depreciation According to Plan

Depreciation according to plan is calculated on the original acquisition value and based on estimated financial life-span; the depreciation terms for various asset classes are:

Development work	3–8 years
Patents and trademarks	20 years
Goodwill	10–20 years
Other intangible assets	3–10 years
Computers	3–8 years
Machinery and equipment	3–15 years
Office buildings	20–50 years
Industrial buildings	20–50 years
Land improvements	5–30 years

Write-downs

An evaluation of whether any need for write-downs exists is performed at each accounting date, i.e. whether the accounted value of an asset exceeds its recoverable value. If a need for write-downs is considered to arise, a write-down is effected to the amount corresponding to the recoverable value, which in turn, comprises the greater of an asset's net sales value and utility value. Previous write-downs are reversed at relevant amounts to the degree that is justifiable.

Options

The company has a stock option programme targeted at the group's key staff; option premiums paid are accounted to shareholders' equity. Calculations of the dilution effect on earnings per share are performed if considered necessary.

NOTE 1. Business Areas and Geographical Markets

BUSINESS AREAS

2003	Hexagon Automation	Hexagon Engineering	Hexagon Metrology	Hexagon Polymers	Other Operations	Elimina-tions	Group
Net sales	**2,227**	**1,461**	**2,569**	**873**	**–**	**–27**	**7,103**
Operating earnings (EBITA) [1]	**102**	**52**	**237**	**99**	**–10**	**0**	**480**
Goodwill amortisation	–	–	–	–	–74	–	–74
Operating earnings (EBIT1)	**102**	**52**	**237**	**99**	**–84**	**0**	**406**
Capital gain	–	–	–	–	–	–	–
Items affecting comparability	–	–	–	–	–	–	–
Operating earnings (EBIT2)	**–**	**–**	**–**	**–**	**–84**	**0**	**406**
Net interest income/expenses	–	–	–	–	–83	–	–83
Earnings after net financial income/expenses	**–**	**–**	**–**	**–**	**–167**	**0**	**323**
Operational assets	1,001	877	2,959	502	57	–14	5,382
Operational liabilities	355	204	786	160	11	–13	1,503
Net operating assets	**646**	**673**	**2,173**	**342**	**46**	**–1**	**3,879**
[1] of which earnings from shares in associated companies	–	6	–	–	14	–	20
Shares in associated companies	–	54	–	–	123	–	177
Cash flow from ongoing operations	137	76	210	121	–104	–	440
Cash flow from ordinary investment activity	–52	–46	–87	–42	1	–	–226
Operating cash flow	**85**	**30**	**123**	**79**	**–103**	**–**	**214**
Average number of employees	1,335	1,092	1,076	1,889	9	–	5,401
No. of employees, closing balance	1,373	1,093	1,867	1,194	9	–	5,536

2002	Hexagon Automation	Hexagon Engineering	Hexagon Metrology	Hexagon Polymers	Other Operations	Eliminat-ions	Group
Net sales	**2,248**	**1,551**	**2,564**	**673**	**–**	**–39**	**6,997**
Operating earnings (EBITA) [1]	**106**	**89**	**236**	**87**	**–7**	**0**	**511**
Goodwill amortisation	–	–	–	–	–90	–	–90
Operating earnings (EBIT1)	**106**	**89**	**236**	**87**	**–97**	**0**	**421**
Capital gain [2]	–	–	–	–	46	–	46
Items affecting comparability	–	–	–	–	–31	–	–31
Operating earnings (EBIT2)	**–**	**–**	**–**	**–**	**–82**	**0**	**436**
Net interest income/expenses	–	–	–	–	–117	–	–117
Earnings after net financial income/expenses	**–**	**–**	**–**	**–**	**–199**	**0**	**319**
Operational assets	983	1,048	3,318	509	63	–34	5,887
Operational liabilities	339	268	929	93	12	–33	1,608
Net operating assets	**644**	**780**	**2,389**	**416**	**51**	**–1**	**4,279**
[1] of which earnings from shares in associated companies	–	–	–	–	15	–	15
Share of equity in associated companies	–	–	–	–	128	–	128
Cash flow from ongoing operations	186	113	60	107	–159	–	307
Cash flow from ordinary investment activity	–30	–88	–117	–29	–3	–	–267
Operating cash flow	**156**	**25**	**–57**	**78**	**–162**	**–**	**40**
Average number of employees	1,375	1,123	1,880	1,041	9	–	5,428
No. of employees, closing balance	1,435	1,204	1,911	1,114	10	–	5,674

Because intra-group invoicing between business areas is negligible, gross invoicing only is stated.

[2] Including earnings from other securities.

GEOGRAPHICAL MARKETS

	Net Sales per Recipient Country		Net Operating Assets: Assets		Net Operating Assets: Liabilities		Net Operating Assets: Net		Cash Flow from Ordinary Investment Activity	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Sweden	2,145	2,109	1,736	1,920	–420	–437	1,316	1,483	–86	–129
Finland	668	674	326	326	–99	–90	227	236	–16	–8
Denmark	560	578	181	158	–86	–83	95	75	–7	–4
Norway	445	577	178	217	–57	–79	121	138	–8	–3
Estonia	25	15	–	–	–	–	–	–	–	–
UK	203	229	139	251	–55	–102	84	149	0	–1
Ireland	16	9	–	–	–	–	–	–	–	–
Germany	695	582	464	479	–183	–132	281	347	–7	–3
Netherlands	24	25	–	–	–	–	–	–	–	–
Belgium	66	65	–	–	–	–	–	–	–	–
France	221	205	156	159	–118	–139	38	20	2	–3
Switzerland	85	81	727	840	–35	–65	692	775	–25	–15
Austria	22	17	–	–	–	–	–	–	–	–
Italy	214	212	563	675	–287	–258	276	417	–8	–5
Spain	102	96	44	50	–17	–27	27	23	4	–
Portugal	5	13	–	–	–	–	–	–	–	–
Russia	20	32	–	–	–	–	–	–	–	–
Poland	22	28	–	–	–	–	–	–	–	–
Rest of Europe	144	91	–	–	–	–	–	–	–	–
US	750	814	469	412	–12	–93	457	319	–50	–54
Canada	42	37	–	–	0	–	0	–	–	–
Rest of North America	31	27	3	–	–4	–	–1	–	–1	–
South America	36	20	28	20	–6	–	22	20	0	0
China	294	219	245	263	–97	–80	148	183	–8	–34
Japan	94	106	30	22	–18	–16	12	6	–	0
Korea	21	21	–	–	–	–	–	–	–	–
Taiwan	37	34	–	–	–	–	–	–	–	–
Malaysia	2	6	–	–	–	–	–	–	–	–
Other Asia	74	63	93	95	–9	–7	84	88	–16	–8
Australia and New Zealand	15	11	–	–	–	–	–	–	–	–
Africa	25	1	–	–	–	–	–	–	–	–
Group	**7,103**	**6,997**	**5,382**	**5,887**	**–1,503**	**–1,608**	**3,879**	**4,279**	**–226**	**–267**

Net operating assets are equivalent to operating earnings inasmuch as items related to liquid assets, tax, interest and interest-bearing liabilities and provisions are not included.

NOTE 2. Intra-Group Transactions

Of parent company net sales, 100% (100) relate to other group companies and of parent company purchasing, none relates to other group companies.

NOTE 3. Average Number of Employees

	2003			2002		
	Men	Women	Total	Men	Women	Total
Parent company	7	2	9	7	2	9
Subsidiaries	4,536	856	5,392	4,477	942	5,419
Total group	**4,543**	**858**	**5,401**	**4,484**	**944**	**5,428**

Average Number of Employees by Location in Sweden	2003			2002		
	Men	Women	Total	Men	Women	Total
Arboga	12	1	13	11	1	12
Borlänge	6	2	8	6	1	7
Eksjö	9	2	11	9	2	11
Eskilstuna	81	19	100	79	16	95
Gislaved	114	134	248	101	176	277
Gothenburg	54	12	66	54	12	66
Halmstad	10	1	11	9	9	18
Helsingborg	6	1	7	5	1	6
Hässleholm	101	7	108	103	8	111
Järfälla	–	–	–	6	2	8
Karlskoga	7	1	8	6	1	7
Kungälv	17	3	20	18	3	21
Laxå	68	13	81	65	15	80
Lidköping	6	–	6	6	–	6
Ljungby	53	10	63	50	10	60
Luleå	4	–	4	5	–	5
Lund	–	–	–	–	1	1
Malmö	7	2	9	7	2	9
Nacka	5	2	7	7	2	9
Nybro	94	7	101	91	7	98
Olofström	98	34	132	105	34	139
Oskarshamn	74	2	76	52	2	54
Skellefteå	5	–	5	5	–	5
Stockholm	40	9	49	37	14	51
Sävsjö	47	9	56	49	10	59
Tidaholm	77	9	86	75	9	84
Tranemo	4	–	4	5	–	5
Trollhättan	28	1	29	34	1	35
Vaggeryd	81	5	86	78	6	84
Vetlanda	17	–	17	17	–	17
Värnamo	21	4	25	20	2	22
Västervik	39	2	41	40	3	43
Västerås	67	7	74	103	13	116
Ystad	44	8	52	41	8	49
Älmhult	84	9	93	88	13	101
Örebro	179	17	196	179	18	197
Örnsköldsvik	19	3	22	20	2	22
Other municipalities	7	1	8	6	1	7
Total, Sweden	**1,585**	**337**	**1,922**	**1,592**	**405**	**1,997**

Average Number of Employees by Country	2003			2002		
	Men	Women	Total	Men	Women	Total
Sweden	1,585	337	1,922	1,592	405	1,997
Norway	169	30	199	174	31	205
Denmark	227	40	267	233	42	275
Finland	381	83	464	381	85	466
Estonia	8	1	9	17	–	17
Latvia	2	–	2	3	–	3
Nordic region and Baltic states	**2,372**	**491**	**2,863**	**2,400**	**563**	**2,963**
UK	80	16	96	79	14	93
Germany	270	35	305	235	27	262
Netherlands	–	–	–	1	–	1
Belgium	1	–	1	2	–	2
France	72	14	86	77	14	91
Switzerland	228	82	310	223	78	301
Italy	299	54	353	309	57	366
Spain	20	6	26	20	6	26
Russia	–	–	–	2	–	2
Rest of Europe	**970**	**207**	**1,177**	**948**	**196**	**1,144**
Total, Europe	**3,342**	**698**	**4,040**	**3,348**	**759**	**4,107**
US	379	73	452	372	102	474
Canada	–	–	–	1	–	1
Mexico	10	2	12	10	1	11
North America	**389**	**75**	**464**	**383**	**103**	**486**
Brazil	18	6	24	6	2	8
South America	**18**	**6**	**24**	**6**	**2**	**8**
China	137	44	181	121	39	160
Hong Kong	–	–	–	1	–	1
India	2	2	4	3	–	3
Japan	15	5	20	16	5	21
Singapore	6	1	7	5	–	5
Sri Lanka	634	27	661	601	36	637
Asia	**794**	**79**	**873**	**747**	**80**	**827**
Total, group	**4,543**	**858**	**5,401**	**4,484**	**944**	**5,428**

NOTE 4a. Personnel Expenses, Pensions and Other

Salaries and Remuneration	Board and CEO 2003	Board and CEO 2002	Other employees 2003	Other employees 2002
Parent company	5	4	8	9
(of which performance-related pay and bonus)	(–)	(–)	(–)	(–)
Subsidiaries in Sweden	23	23	536	517
Total	**28**	**27**	**544**	**526**
Belgium	–	–	0	0
Brazil	1	1	3	3
Denmark	4	5	115	95
Estonia	–	0	1	1
Finland	4	4	133	135
France	2	2	30	31
Hong Kong	–	–	–	0
India	–	–	0	0
Italy	3	2	125	118
Japan	2	1	7	12
Canada	–	–	–	1
China	1	1	6	6
Latvia	–	0	0	0
Mexico	–	–	4	3
Netherlands	–	–	–	0
Norway	4	4	91	96
Russia	–	–	–	0
Switzerland	3	4	142	146
Singapore	–	–	2	2
Spain	1	1	8	7
Sri Lanka	1	0	9	9
UK	2	2	35	44
Germany	5	2	124	108
US	6	5	257	313
Total	**67**	**61**	**1,636**	**1,656**
(of which performance-related pay and bonus)	(5)	(5)	(42)	(27)

All Employees	Social Security Expenses 2003	Social Security Expenses 2002
Parent company	4	6
(of which pension expenses)	(2)	(2)
Subsidiaries	487	509
(of which pension expenses)	(117)	(118)
Total	**491**	**515**
(of which pension expenses)	(119)	(120)

Pension expenses for Boards of Directors and Chief Executive Officers in the group amounted to MSEK 10 (9). Pension commitments to Boards of Directors and Chief Executive Officers in the group were MSEK 6 (6).

All Board members, Chief Executive Officer and other senior executives are men.

Of all the group's Board members, Chief Executive Officers and other corporate executives, 14 are women.

Because the parent company has fewer than ten employees, sickness absence data is not published.

NOTE 4b. Remuneration to Senior Executives

The Chairman and Board members were paid remuneration pursuant to AGM decision, totalling SEK 825,000 (530,000). The Chairman of the Board received SEK 300,000, the Deputy Chairman SEK 225,000 and other Board members SEK 150,000 each (the Chief Executive Officer of Hexagon AB did not receive any Board fees). No Board member received any remuneration in addition to Board fees.

Remuneration to the Chief Executive Officer and President, and other senior executives, comprises basic salary, performance-related pay, other benefits and pension. Other senior executives are the five people reviewed on page 33. Performance-related pay only encompasses those senior executives that are operational in a business area and is based on performance in relation to individual targets.

Pension and other benefits to the Chief Executive Officer and other senior executives are paid as a portion of total remuneration.

Pension

Pension expenses consist of defined-benefit pension schemes and those expenses posted as net earnings. The Chief Executive Officer's pensionable age is 65. Pension premiums are 15 per cent of pensionable salary. For other senior executives, the pensionable age is 65. Pension premiums are 20 - 25 per cent of pensionable salary; pensionable salary is basic salary.

Severance Pay

The Chief Executive Officer has rights to severance pay, exclusively coincident with termination initiated by the company, equivalent to 18 months' salary. The notice period for other senior executives is 12 to 18 months. During the termination period, regular salary is the only severance pay.

Remuneration and other Benefits in the Year (SEK '000)	Basic Salary/ Board Fees	Performance-related Remuneration	Other Benefits	Pension Expenses	Other Remuneration
Chairman	300	–	–	–	–
Chief Executive Officer	4,630	–	–	694	–
Other senior executives (five people)	9,211	375	430	1,860	22
Total	**14,141**	**375**	**430**	**2,554**	**22**

Other benefits primarily comprise company cars.

NOTE 4B (CONT.)

Financial Instruments
In 2000, Hexagon's AGM resolved on a stock option programme, coincident with which, Hexagon issued an SEK 100,000 debenture with 700,000 detachable options for subscription for new Hexagon shares. The debenture was subscribed by Hexagon Förvaltning AB. Each option confers its holder with the right to subscribe for one new class B share with a nominal value of SEK 10 in the period 1 July 2004 to 31 May 2005 inclusive for SEK 184.55. The options were transferred at market value calculated according to the Black & Scholes valuation model. Coincident with full utilisation of options, share capital could increase by a maximum of SEK 7,000,000. The dilution coincident with full exercise would be equivalent to 4.0 per cent of the share capital and 2.8 per cent of the vote. As of 31 December 2002, 648,500 options had been subscribed, with the Chief Executive Officer purchasing 212,000 and other senior executives 210,000 of this total. Subscription premiums received are accounted directly to consolidated shareholders' equity. In 2003, the remaining options in this plan were cancelled, and a new option plan encompassing 500,000 options was introduced. No options in the new plan were subscribed in 2003.

WARRANTS 2000/2005

	No.	Acquisition Price SEK
Chief Executive Officers	212,000	2,628,800
Other senior executives	210,000	1,898,000
Total	**422,000**	**4,526,800**

Acquisition price corresponding to subscription at market value.

Drafting and Decision Model
Salary and other terms and conditions for the group's senior executives are considered by a Remuneration Committee appointed by the Board of Directors and comprising the Chairman of the Board, the Deputy Chairman and CEO. The CEO does not participate in consideration of matters relating to the CEO's salary and other benefits.

NOTE 5. Other Operating Revenues and Operating Expenses

	Group		Parent Company	
Operating Revenues	**2003**	**2002**	**2003**	**2002**
Capital gains on divestment of fixed assets	2	2	–	–
Exchange rate gains	2	2	–	–
Other	21	21	0	–
Total	**25**	**25**	**0**	**–**

	Group		Parent Company	
Operating Expenses	**2003**	**2002**	**2003**	**2002**
Capital gains coincident with divestment of fixed assets	2	–	0	–
Exchange rate losses	1	1	-	–
Other	13	15	-	–
Total	**16**	**16**	**0**	**–**

NOTE 6. Items Affecting Comparability

	Group		Parent Company	
	2003	**2002**	**2003**	**2002**
Restructuring expenses	–	–31	–	–
Total	**–**	**–31**	**–**	**–**

Comparative years' restructuring expenses primarily comprise restructuring costs in the engineering business area's activities in the SwePart group.

NOTE 7. Depreciation According to Plan

Depreciation on intangible and tangible fixed assets is included in Income Statement items as follows:

Depreciation for the year	Group		Parent Company	
according to plan	**2003**	**2002**	**2003**	**2002**
Cost of goods sold	133	131	–	–
Sales expenses	24	17	–	–
Administration expenses	55	56	1	1
Research and development expenses	14	1	–	–
Other operating expenses	5	3	–	–
Goodwill amortisation	74	90	–	–
Total depreciation according to plan for the year	**305**	**298**	**1**	**1**

NOTE 8. Earnings from Financial Investments

	Group		Parent Company	
	2003	**2002**	**2003**	**2002**
Earnings on shares in group companies				
Dividend	–	–	7	90
(of which anticipated)	–	–	–	–
Capital gain	–	7	8	13
Capital loss	0	–	–4	–1
Write-downs of shares in subsidiaries	–	–	–	–95
Total	**0**	**7**	**11**	**7**
Earnings from shares in associated companies				
Capital gain	–	3	–	22
Dividend	–	–	4	5
Total	**–**	**3**	**4**	**27**
Earnings from other securities classified as fixed assets				
Dividend	0	0	–	–
Capital gain	–	36	–	–
Total	**0**	**36**	**–**	**–**
Other interest income				
Interest income group companies	–	–	71	84
Other interest income	19	15	10	4
Total	**19**	**15**	**81**	**88**
Interest expenses				
Interest expenses group companies	–	–	25	29
Other interest expenses	102	132	74	107
Total	**102**	**132**	**99**	**136**

NOTE 9. Tax

	Group		Parent Company	
	2003	2002	2003	2002
Tax on earnings for the year				
Income tax	–32	–54	6	32
Total current tax	**–32**	**–54**	**6**	**32**
Deferred tax on earnings for the year	–55	–61	–7	–31
Share of tax in associated companies	–2	–7	–	–
Total tax on earnings for the year	**–89**	**–122**	**–1**	**1**
Tax receivables				
Other receivables include the following tax receivables	131	49	–	7
of which deferred tax receivables	131	49	–	7
Provisions for tax				
Deferred tax liabilities	92	78	–	–
Total provisions for tax	**92**	**78**	**–**	**–**

Non-accounted deferred parent company tax liabilities for untaxed reserves amount to MSEK 11 (21).

Deferred tax

Deferred tax, i.e. the difference between income tax actually accounted as current tax in current and previous years' Income Statements on the one hand, and the income tax the company will finally be subject to as a consequence of business in the financial year and previous financial years on the other hand, amounted to the following:

	Group	
	2003	2002
Deferred tax receivables (liabilities) comprise:		
Fixed assets	–162	–126
Inventories	34	53
Customer receivables	8	–3
Provisions	24	32
Other	–32	–18
Un-utilised loss carry-forwards and similar deductions	403	361
Less items not satisfying criteria for being accounted as assets	–236	–328
Total	**39**	**–29**

Loss carry-forward and similar deductions not satisfying the criteria for being accounted as assets have not been accounted at any value.

The group's un-utilised loss carry-forwards and similar deductions mature as follows:

	Group
Year	**2003**
2004	6
2005	16
2006	6
2007	5
2008 and beyond	171
Indefinitely	1,082
Total	**1,286**

The difference between nominal Swedish tax rates and effective tax rates arises as follows:

	Group	
	2003	2002
Earnings before tax	**323**	**319**
Tax pursuant to Swedish nominal tax rates	**–90**	**–89**
Difference in tax rates in foreign subsidiaries	0	–3
Losses for which deferred tax receivables are not considered	–	–8
Revaluation of loss carry-forwards, etc.	21	–
Non-deductible expenses	–24	–30
Non-taxable revenue	4	12
Tax effect, associated companies	0	–4
Tax, Income Statement	**–89**	**–122**

NOTE 10. Net Assets in Acquired and Divested Subsidiaries

Net assets in acquired subsidiaries excluding acquired cash and bank balances

The market value of assets and liabilities in subsidiaries taken over and total cash flow from acquisitions is divided as follows:

	2003	2002
Intangible fixed assets	7	224
Tangible fixed assets	–40	139
Financial fixed assets	58	–8
Current receivables, inventories, etc.	–78	147
Liquid assets	–1	12
Provisions	–1	–80
Long-term liabilities	22	–88
Current liabilities, etc	41	–115
Total purchase price	**8**	**231**
Less liquid assets in acquired group companies	1	–12
Cash flow from acquired group companies, net	**9**	**219**

Net assets in divested subsidiaries excluding divested cash and bank balances

Market value of transferred assets and liabilities of subsidiaries and the total cash flow from divestitures is divided as follows:

	2003	2002
Intangible fixed assets	–	5
Total sales price	**–**	**5**
Cash flow from divested group companies, net	**–**	**5**

NOTE 11. Intangible and Tangible Fixed Assets

GROUP

Intangible fixed assets	Capitalised Expenditure on Research and Development	Patents and Trademarks	Goodwill	Total
Acquisition value, opening balance	67	300	1,176	1 543
Translation differences	–15	–54	–141	–210
Investments	62	15	2	79
Investments via acquisitions of subsidiaries	–6	–	13	7
Sales/disposals	–2	–1	–	–3
Reclassification	3	–3	–27	–27
Acquisition value, closing balance	**109**	**257**	**1,023**	**1,389**
Depreciation, opening balance	–6	–56	–210	–272
Translation differences	3	16	14	33
Investments via acquisitions of subsidiaries	5	–	11	16
Depreciation for the year	–15	–17	–63	–95
Sales/disposals	1	1	–	2
Reclassification	1	3	4	8
Depreciation, closing balance	**–11**	**–53**	**–244**	**–308**
Write-downs, opening balance	–	–	–9	–9
Write-downs, closing balance	**–**	**–**	**–9**	**–9**
Residual value according to plan	**98**	**204**	**770**	**1,072**

Capitalised expenditure on research and development mainly relates to software for sale.

Tangible fixed assets	Buildings	Land and Other Real Estate	Machinery and Other Technical Plants	Equipment, Tools and Installations	Construction in Progress and Supplier Advances	Total
Acquisition value, opening balance	850	145	2,060	463	13	3,531
Translation differences	–29	–11	–112	16	–	–136
Investments	13	1	115	34	0	163
Investments via acquisitions of subsidiaries	–14	–	–118	–6	–	–138
Sales/disposals	–5	–1	–59	–23	–	–88
Reclassification	3	–	3	16	1	23
Acquisition value, closing balance	**818**	**134**	**1,889**	**500**	**14**	**3,355**
Depreciation, opening balance	–335	–3	–1,327	–292	–	–1,957
Translation differences	11	–	84	–19	–	76
Investments via acquisitions of subsidiaries	3	–	90	5	–	98
Depreciation for the year	–26	–1	–136	–44	–	–207
Sales/disposals	2	–	55	15	–	72
Reclassification	–	–	–11	–17	–	–28
Depreciation, closing balance	**–345**	**–4**	**–1,245**	**–352**	**0**	**–1,946**
Residual value according to plan	**473**	**130**	**644**	**148**	**14**	**1,409**

The taxable values of properties in Sweden were MSEK 118 (119) for buildings and MSEK 24 (24) for land.

PARENT COMPANY

	Patents and Trademarks	Buildings	Land	Equipment	Total
Acquisition value, opening balance	2	8	2	3	15
Purchases	–	0	–	0	0
Sales/disposals	–	–2	–	0	–2
Acquisition value, closing balance	**2**	**6**	**2**	**3**	**13**
Depreciation, opening balance	–2	0	–	–2	–4
Depreciation for the year	–	0	–	0	0
Sales/disposals	–	0	–	0	0
Depreciation, closing balance	**–2**	**0**	**–**	**–2**	**–4**
Residual value according to plan	**0**	**6**	**2**	**1**	**9**

NOTE 12. Financial Fixed Assets

Group	Shares in Associated Companies 2003	Shares in Associated Companies 2002	Other Long-term Securities Holdings 2003	Other Long-term Securities Holdings 2002	Other Long-term Receivables 2003	Other Long-term Receivables 2002
Opening balance	128	168	14	53	122	227
Revised accounting principle, associated company VBG	–3	–	–	–	–	–
Translation differences	–3	–7	0	–1	–11	–28
Investments via acquisitions of subsidiaries	47	5	–	0	11	16
Earnings share, etc.	8	–1	–	–	–	–
Write-down	–	–6	–	–	–	–
Change in deferred tax	–	–	–	–	82	–33
Sales	–	–31	–	–11	–	–
Reclassification	–	–	–	–27	–10	–60
Closing balance	**177**	**128**	**14**	**14**	**194**	**122**

Parent Company	Shares in Group Companies 2003	Shares in Group Companies 2002	Receivables from Group Companies 2003	Receivables from Group Companies 2002	Shares in Associated Companies 2003	Shares in Associated Companies 2002
Opening balance	2,434	2,407	1,471	1,157	84	95
Capital contribution	266	51	–	–	–	–
Write-down	–	–95	–	–	–	–
Purchases	–	71	48	314	–	–
Sales	–177	–	–	–	–	–11
Closing balance	**2,523**	**2,434**	**1,519**	**1,471**	**84**	**84**

Parent Company	Other Long-term Securities Holdings 2003	Other Long-term Securities Holdings 2002
Opening balance	10	10
Closing balance	**10**	**10**

Parent company shareholdings in associated companies are of VBG AB (publ).

Other Long-term Securities Holdings	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Tradimus AB	10	10	10	10
Kiint Oy Honkakoli	1	1	–	–
Other	3	3	–	–
Total	**14**	**14**	**10**	**10**

Subsidiaries of Hexagon AB (All Wholly Owned Companies)	Corporate ID No.	Reg. Office/Country	No. of Shares	Book Value 2003	Book Value 2002
Hexagon Holdings, Inc.	–	USA	100	1,412	1,412
SwePart AB	556046-3407	Stockholm	8,662,500	218	218
Hexagon Förvaltning AB	556016-3049	Stockholm	200,000	206	206
Hexagon Polymers AB	556108-9631	Gislaved	100	188	0
Hexagon Automation AB	556207-5357	Helsingborg	2,000	160	160
Johnson Industries AB	556099-2967	Örebro	3,000	133	133
Röomned AB	556394-3678	Stockholm	1,439,200	100	100
Hexagon Metrology AB	556365-9951	Stockholm	1,000	78	0
Tecla AB	556068-1602	Stockholm	160,000	14	14
Kramsten Food and Drink Suppliers AB	556083-1124	Stockholm	100,000	12	12
Other companies, mainly dormant				2	3
Holdings divested to subsidiary, 2003				–	176
Total				**2,523**	**2,434**

NOTE 13. Shares In Associated Companies

	No. of Shares	Share, % Equity	Share, % Votes	Prop. of Shareholders' Equity, MSEK	Book Value Group 2003	Book Value Group 2002	Share in Associated Companies' Earnings Before Tax 2003	Tax 2003	Before Tax 2002	Tax 2002
VBG AB (publ)	1,404,823	44.9	24.0	115	123	127	11	–4	11	–7
Boliden Nordic Brass AB	10,500	50.0	50.0	29	53	–	7	1	–	–
Brown & Sharpe Precizika	2,298,526	52.8	52.8	1	0	0	0	0	1	0
Precisionsstål AB	1,250	25.0	25.0	1	1	1	0	0	0	0
Megufo AB	500	50.0	50.0	0	0	0	0	0	0	0
Total				**146**	**177**	**128**	**18**	**–3**	**12**	**–7**

VBG AB (publ), corporate identity no. 556069-0751, has its registered office in Vänersborg, Sweden. VBG AB (publ)'s share price was SEK 98.50 (90.00). Boliden Nordic Brass AB, corporate identity no. 556499-3979, has its registered office in Valdemarsvik, Sweden. Brown & Sharpe Precizika has its registered office in Lithuania. Because of the limited interest, this company has been accounted pursuant to the equity method. Precisionsstål AB, corporate identity no. 556096-9940, has its registered office in Stockholm, Sweden. Megufo AB, corporate identity no. 556421-2453, has its registered office in Gislaved, Sweden.

NOTE 14. Auditors' Fees

(SEK '000)	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Auditing				
Ernst & Young	8,875	9,099	315	250
SET Revisionsbyrå	–	366	–	123
Other	300	1,391	–	–
Total	**9,175**	**10,856**	**315**	**373**
Assignments other than auditing				
Ernst & Young	1,212	933	245	105
SET Revisionsbyrå	–	576	–	296
Other	100	418	–	–
Total	**1,312**	**1,927**	**245**	**401**

NOTE 15. Significant Accruals and Deferrals

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Prepaid expenses and accrued revenue				
Accrued invoicing/billing	28	23	–	–
Prepaid rent	12	14	–	–
Accrued interest income	4	–	–	–
Prepaid acquisition expenses	0	4	–	–
Other items	62	62	8	7
Total	**106**	**103**	**8**	**7**
Accrued expenses and deferred revenues				
Accrued person-related expenses	260	266	2	3
Received goods and services, not invoiced	26	41	–	–
Prepaid service revenues	15	26	–	–
Accrued interest expenses	6	3	5	3
Accrued sales commission	15	15	–	1
Other items	122	219	0	1
Total	**444**	**570**	**7**	**8**

NOTE 16. Shareholders' Equity

Number of Shares in Parent Company	Class A	Class B	Total
Opening balance 2002	840,000	13,953,182	14,793,182
New issue with preferential rights	210,000	3,488,295	3,698,295
Closing balance 2002	**1,050,000**	**17,441,477**	**18,491,477**
Closing balance 2003	**1,050,000**	**17,441,477**	**18,491,477**

In 2002, the parent company effected a new issue with preferential rights for existing shareholders. The new issue increased the number of class A shares by 210,000 and the number of class B shares by 3,488,295, whereupon the share capital increased by MSEK 37 and the share premium reserve by MSEK 383.

At year-end, the number of shares in the parent company was 18,491,477 with a nominal value of SEK 10, of which 1,050,000 are class A shares. Each class A share confers the holder with rights to 10 votes and each class B share, to one vote. All shares confer the same rights to the company's assets and earnings.

NOTE 17. Other Provisions

The Group	Restructuring Measures	Guarantee Commitments	Estimated Supplementary Payments for Acquired Companies
Opening balance, 2002	**107**	**5**	**99**
Provision	1	–	–
Present value adjustment	–	–	2
Increase due to acquired businesses	55	–	–
Utilisation	–123	–	–12
Translation difference	–10	–1	–16
Closing balance, 2002	**30**	**4**	**73**
Provision	–	1	57
Present value adjustment	–	–	1
Utilisation	–22	–	–
Re-classification	–	35	–37
Translation difference	–3	–2	–13
Closing balance, 2003	**5**	**38**	**81**

Supplementary purchase prices that cannot be calculated reliably have not been entered as liabilities.

NOTE 18. Financial Instruments and Financial Risk Management, Group

FINANCIAL RISK
Because a significant portion of consolidated revenues and expenses are generated in foreign currencies and the group is established in a large number of countries, exchange rate variations influence the group's revenues, operating earnings, shareholders' equity and other items. Bond market fluctuations also affect Hexagon. Hexagon's Treasury function is responsible for co-ordinating currency and interest exposure. The Treasury function is also responsible for the majority of the group's external and internal funding. The guidelines for managing financial risks are determined annually by Hexagon's Board in a group policy.

Currency Exposure
Translation Exposure
The group's funding policy states that the effects of exchange rate variations on shareholders' equity should be minimised through hedging via loans and forwards contracts in the currency of net assets. Value changes on such loans and financial instruments are accounted directly to shareholders' equity on an ongoing basis as an adjustment to differences in shareholders' equity that arose coincident with currency conversions of foreign subsidiaries. Coincident with divestments of subsidiaries, the accumulated value changes are included in the capital gain that arise due to the divestiture.

Transaction Exposure
Hexagon's transaction exposure is the currency exposure resulting from subsidiaries' international trading. This exposure is due to the fact that exchange rates can change coincident with sales and purchases in currencies other than local currency.

Contracted currency flows are hedged in their entirety. Forecast flows in addition to contract flows are hedged at 50 and 75 per cent with a horizon of 12 months. Hedging is primarily effected using currency forwards and currency clauses.

Interest Exposure
Interest risk is the risk of an adverse impact on consolidated earnings resulting from changes in yields. Consolidated interest risk is managed by the parent company. Interest risk primarily arises as a consequence of the group's borrowings. Standard derivative instruments are used to control interest exposure, through means such as extending or shortening interest fixing periods without renegotiating the underlying loans. At the end of the period, the average interest fixing period in the group was approximately nine months

Funding Risk
The funding risk is the risk that Hexagon is unable to satisfy its need for external capital. Satisfying this necessitates a secure consolidated financial position, and active measures to ensure access to credits.

In June 2001, Hexagon signed a five-year syndicated loan of MUSD 255. In 2002, Hexagon also raised an MEUR 12 bond issue with Nordiska Investeringsbanken.

Moreover, a cash issue was consummated in 2002, which raised for MSEK 420 for Hexagon. In the table, solvency is defined as un-utilised credit facilities plus cash and bank balances.

Net Assets by Foreign Currency, 31 Dec. 2003		Hedging Ratio %
USD	809	99
EUR	707	100
CHF	444	118
NOK	121	99
Other	474	73
Total	**2,555**	**98**

Net Sales by Foreign Currency, 2003	
EUR	2,530
CHF	229
CNY	116
DKK	484
GBP	146
NOK	392
USD	948
Other	84
Total	**4,929**

Interest Revenue and Expenses 2003	
Revenue	19
Expenses	–102
Net	**–83**

Solvency and Cash Flow	
Solvency, 1 January 2003	**1,196**
Change in credit limits	–500
Cash flow excluding amortisation/borrowing	120
Other change in liquid assets and loans	161
Solvency, 31 Dec. 2003	**977**

FINANCIAL INSTRUMENTS
Book-Value and Fair Value on December 31, 2003

Assets	Book-Value	Fair Value
Other long-term securities holdings	14	14
Long-term receivables	15	15
Short-term investments	0	0
Total	**29**	**29**

Liabilities	Book-Value	Fair Value
Long-term liabilities to credit institutions	1,736	1,736
Other long-term interest bearing liabilities	1	1
Current liabilities to credit institutions	101	101
Other current interest-bearing liabilities	12	12
Foreign currency interest swaps received	911	914
Foreign currency interest swaps paid	–910	–910
Total	**1,851**	**1,854**

Financial assets and liabilities are accounted according to the settlement date principle at accrued cost. Non interest-bearing financial instruments such as customer receivables and accounts payable are accounted at actual value, and accordingly, do not appear in the table. Nor are pension commitments, which are encompassed by special accounting principles, stated in the table. Swaps are accounted including underlying nominal amounts and accrued interest.

NOTE 18 (CONT.)

Interest Fixing and Capital Maturities for Interest-bearing Liabilities 31 Dec. 2003

	2004		2005-2007		2008 and beyond		Maturity Total	
Maturity	**Capital**	**Interest**	**Capital**	**Interest**	**Capital**	**Interest**	**Capital**	**Interest**
Liabilities to credit institutions	101	1,784	1,705	27	25	20	**1,831**	**1,831**
Interest swaps	–	–908	–	908	–	–	**–**	–
Other interest-bearing liabilities	12	13	–	–	1	–	**13**	**13**
Total	**113**	**889**	**1,705**	**935**	**26**	**20**	**1,844**	**1,844**

The interest columns state the corresponding capital in MSEK, which is subject to interest re-fixing.

NOTE 19. Rented Assets

The following operational leasing/rental agreements have been entered into:

	Group		Parent Company	
	Machinery, Equipment, etc.	**Premises**	**Machinery, Equipment, etc.**	**Premises**
Expenses due for payment in				
2004	24	75	–	1
2005–2008	31	207	–	2
2009 and beyond	7	31	–	–
Total	**62**	**313**	**–**	**3**

Information encompasses un-discounted minimum undertakings pursuant to contract. Costs for leasing/rents for the financial year were MSEK 103 (102).

Financial leasing/rental agreements are included as follows:

	Group		Parent Company	
	Machinery, Equipment, etc.	**Premises**	**Machinery, Equipment, etc.**	**Premises**
Expenses due for payment in				
2004	15	12	–	–
2005-2008	22	20	–	–
2009 and beyond	1	–	–	–
Total	**38**	**32**	**–**	**–**

Information encompasses un-discounted minimum undertakings pursuant to contract.

NOTE 20. Memorandum Items

	Group		Parent Company	
Pledged Assets to Credit Institutions for loans, Bank Overdrafts and Guarantees	**2003**	**2002**	**2003**	**2002**
Real estate mortgages	86	65	–	–
Floating charges	48	257	–	–
Other	20	79	–	–
Total	**154**	**401**	**–**	**–**

	Group		Parent Company	
Contingent Liabilities	**2003**	**2002**	**2003**	**2002**
Guarantees in favour of group companies	–	–	137	163
Letters of credit	17	73	–	–
Other contingent liabilities	2	3	–	–
Total	**19**	**76**	**137**	**163**

NOTE 21. Quarterly Income Statements

	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
Net sales	1,847	1,825	1,605	1,826	1,689	1,788	1,589	1,931
Gross earnings	**458**	**464**	**415**	**484**	**427**	**468**	**408**	**560**
Sales expenses	–201	–209	–186	–198	–219	–172	–192	–220
Administration expenses	–130	–115	–133	–120	–94	–141	–117	–162
Research and development expenses	–15	–22	–20	–21	–16	–18	–17	–8
Other operating revenues/expenses	–1	6	2	2	6	4	4	–5
Earnings from shares in associated companies	4	2	9	5	6	2	2	5
EBITA operating earnings	**115**	**126**	**87**	**152**	**110**	**143**	**88**	**170**
Goodwill amortisation	–20	–19	–19	–16	–22	–22	–22	–24
Items affecting comparability	–	–	–	–	–	–31	–	0
Earnings on shares in group companies	–	–	–	–	–	–	2	5
Capital gain from associated companies	–	–	–	–	–	–3	6	0
Operating earnings	**95**	**107**	**68**	**136**	**88**	**87**	**74**	**151**
Earnings from other securities	–	–	–	–	–	36	–	–
Other financial revenue and expenses	–25	–20	–18	–20	–31	–31	–29	–26
Earnings before tax	**70**	**87**	**50**	**116**	**57**	**92**	**45**	**125**
Tax	–22	–26	–16	–25	–21	–33	–22	–46
Minority shares	–3	–2	–5	–3	–3	–2	–2	–3
Net earnings	**–45**	**–59**	**–29**	**88**	**33**	**57**	**21**	**76**
Earnings include depreciation of	–78	–77	–76	–74	–70	–71	–80	–77
Earnings per share (SEK)	**2.43**	**3.19**	**1.57**	**4.76**	**2.06**	**3.43**	**1.14**	**4.11**
Earnings per share excluding goodwill (SEK)	**3.52**	**4.22**	**2.60**	**5.62**	**3.44**	**4.75**	**2.33**	**5.41**
Operating earnings (EBITA)	**115**	**126**	**87**	**152**	**110**	**143**	**88**	**170**
Operating earnings (EBITA) per share (SEK)	**6.22**	**6.81**	**4.70**	**8.22**	**6.88**	**8.60**	**4.76**	**9.19**

Stockholm, 22 March 2004

Melker Schörling
CHAIRMAN OF THE BOARD

Hans Nergårdh

Maths O Sundqvist
DEPUTY CHAIRMAN

Carl-Henric Svanberg

Ola Rollén
CHIEF EXECUTIVE OFFICER

Audit Report

To the Annual General Meeting of Hexagon AB (publ)
Corporate identity number 556190–4771

I have examined the Annual Report, the Consolidated Financial Statements and the accounts, as well as administration by the Board of Directors and the Chief Executive Officer of Hexagon AB for 2003. The accounts and administration are the Board of Directors' and Chief Executive Officer's responsibility. My responsibility is to issue a statement of opinion on the Annual Report, the Consolidated Financial Statements and the administration on the basis of my audit.

The audit has been conducted in accordance with accepted auditing standards in Sweden. This implies that I have planned and completed the audit in order to ensure that, to a reasonable degree, the Annual Report and the Consolidated Financial Statements do not contain any material misstatement. 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 Financial Statements. As a basis for my statement of opinion on discharge of liability, I have examined crucial decisions, measures and conditions in the company in order to be able to assess whether any Board Member or the Chief Excecutive Officer is liable to compensate the company. I have also examined whether any Board Member or the Chief Executive Officer has otherwise acted contrary to the provisions of the Companies Act, the Annual Reports Act or the Articles of Association. I am of the opinion that my audit gives me reasonable grounds for my pronouncements below.

The Annual Report and the Consolidated Financial Statements have been prepared in compliance with the Annual Reports Act and thereby provide a true and accurate impression of the earnings and position of the Company and the Group in accordance with generally accepted accounting standards in Sweden.

I recommend that the Annual General Meeting adopt the Income Statement and Balance Sheet of the Parent Company and the Group, that the earnings in the Parent Company be appropriated in accordance with the proposal in the Directors' Report and that the Members of the Board of Directors and the Chief Executive Officer be discharged of liability for the fiscal year.

Stockholm, 26 March 2004

Gunnar Widhagen
Authorised Public Accountant

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