

# Hexagon's Corporate Governance

Hexagon is a Swedish public limited company. Responsibility for governance and control of the group is divided between the shareholders via the Shareholders' General Meeting, the Board of Directors and the Chief Executive Officer pursuant to the Swedish Companies Act, prevailing regulations governing listed corporations and Hexagon's Articles of Association.

Hexagon has defined unequivocal roles and division of responsibility between the Board, management and various control bodies. Transparency applies to information provided to shareholders and the capital markets. Hexagon works continually to improve the company's decision-making and control systems, and as part of these efforts, at the Annual General Meeting (AGM) in 2004, the company inaugurated Election and Audit Committees to deepen and rationalize the Board's activities on these issues. Hexagon's corporate governance process is illustrated schematically below.

In all essential respects, Hexagon observes the Swedish Corporate Governance Code. In those respects where Hexagon has chosen to diverge from the Code, justification for this divergence is clearly stated in the relevant section of the Corporate Governance Report.

This Corporate Governance Report has not been subject to specific review by Hexagon's auditors.

## Articles of Association

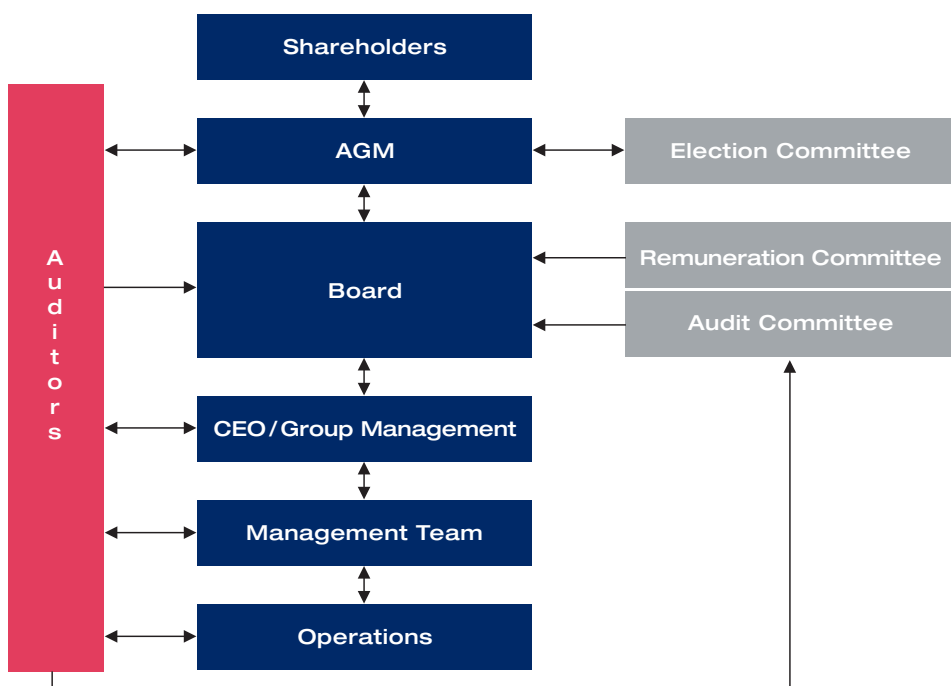
Hexagon's current Articles of Association were adopted on 15 September 2005, and state that the company's operations are

to own and manage shares in manufacturing, trading and servicing corporations, and to own and manage real estate, securities, conduct administrative operations for subsidiaries, and related business. The Articles of Association also formalize issues such as shareholders' rights, the number of Board members and auditors, that the AGM should be held once annually within six months of the end of the financial year, the notice convening AGMs, and that the company's Board has its registered office in Stockholm, Sweden. The current Articles of Association are available at [www.hexagon.se](http://www.hexagon.se).

## Annual General Meeting

The shareholders' general meeting is Hexagon's supreme executive forum, where all shareholders may participate. Usually, the AGM is held in May in Stockholm, Sweden. The AGM can only be observed on-site, because there has been no demand for participation from other locations.

The corporation's progress is considered at the AGM, which resolves on a number of central issues such as dividends, remuneration to the Board and auditors, amendments to the Articles of Association, discharging the Board from liability, and resolutions on the Board for the forthcoming twelve



months. Decisions on appointing auditors are reached at the AGM every fourth year.

#### AGM 2005

The AGM was held on 3 May 2005 in Stockholm. Melker Schörling was elected Chairman of the Meeting. The AGM made the following resolutions:

- The Meeting adopted the Income Statement and Balance Sheet, resolved to appropriate earnings in accordance with the adopted Balance Sheet, and discharged the Board members and Chief Executive Officer from liability.
- The meeting approved the Board's proposed dividends of SEK 6.00 per share, subsequently SEK 2.00 after the share split (see below). Monday 9 May 2005 was approved as the record date for dividends.
- All Board members were re-elected: Melker Schörling, Maths O. Sundqvist, Hans Nergårdh, Ola Rollén, Marianne Arosenius and Carl-Henric Svanberg, with Melker Schörling elected as Chairman of the Board.
- Total fees of SEK 975,000 were resolved to the Board, divided as follows: SEK 300,000 to the Chairman, SEK 225,000 to the Deputy Chairman and SEK 150,000 to each of the other Board members elected by the AGM that are not employed by the company.
- Melker Schörling, Maths O. Sundqvist, Henrik Didner (Didner & Gerge Fonder) and Anders Algotsson (AFA Försäkring) were elected as members of the Election Committee until the AGM 2006, with Melker Schörling appointed as Chairman of the Election Committee.
- The Meeting resolved to increase the company's share capital to SEK 230,691,384 through a bonus issue. The Meeting resolved to consummate the issue by writing up the nominal value of shares from SEK 10 to SEK 12 per share.
- The Meeting resolved to reduce the nominal value of shares after the bonus issue to SEK 4 per share, through a 3:1 split.
- The Meeting approved wholly owned Hexagon subsidiary SwePart AB's transfer of all the shares of Tjusts Mekaniska Verkstad AB through a transfer agreement of 21 April 2005.

For more information on the AGM 2005, please refer to the notice convening the Meeting and press release from the Meeting at [www.hexagon.se](http://www.hexagon.se).

#### Extraordinary General Meeting 2005

An EGM was held on 15 September 2005. The Meeting's resolutions included a revision of the Articles of Association, a new issue of shares and authorization of the Board to issue new shares to consummate the public offering to the shareholders of Leica Geosystems Holdings AG, to acquire all shares in this company.

For more information on the EGM of 15 September 2005, please refer to the notice convening the Meeting and press release from the Meeting at [www.hexagon.se](http://www.hexagon.se).

#### Election Committee

The AGM elects the Election Committee, whose task is to submit proposals for the Chairman of the Board and other Board members, the election of the Chairman of the AGM, Board fees divided between the Chairman and other Board members and associated issues. The Election Committee does not submit proposals regarding appointing and remunerating the auditors because these issues are part of the Audit Committee's tasks.

In those cases where there is a need to replace a member that has left the Election Committee before its activities conclude, the Election Committee possesses the right to appoint another representative of the largest shareholders in terms of the vote, to replace such member.

The Election Committee held two meetings at which minutes were taken in the year, where the Chairman presented the evaluation process, whereupon the Committee discussed desirable changes and recruitment.

Melker Schörling (Chairman) and Maths O. Sundqvist are the members of the Election Committee until the AGM 2006. Pursuant to AGM resolution, the Election Committee has also appointed two representatives of major institutional shareholders for consultation on nomination activities. These are Didner & Gerge Fonder and AFA Försäkring.

Hexagon considers that in contrast to the Swedish Corporate Governance Code, Board members that are main shareholders should also sit on the Election Committee, to enable an efficient nomination process. For the same reason, Hexagon also considers it essential that the Election Committee should have a limited size, and accordingly, the number of non-Board members should not exceed the number of main shareholders/Board members.

The members of the Election Committee are presented in the notice convening, and press release from, the AGM 2005, and at [www.hexagon.se](http://www.hexagon.se), and were available by mail for shareholders' proposals for the Election Committee.

## Board of Directors

The Articles of Association stipulate that Hexagon's Board should comprise a minimum of three and maximum of nine regular members. These members are elected annually at the AGM for the period until the next AGM has been held. In 2005, Hexagon's Board comprised six members elected by the AGM, including the Chief Executive Officer (CEO).

Board members possess rigorous financial know-how and broad international experience of engineering technology business. Hexagon's two largest shareholders are also the company's Chairman and Deputy Chairman. Other Board members are also Hexagon shareholders, which contributes to substantial personal commitment to Hexagon's progress.

The Chairman of the Board is appointed by the AGM. The Chairman leads the Board's activities, so that these activities are conducted pursuant to the Swedish Companies Act, prevailing ordinances for listed corporations and the Board's internal control instruments.

All Board members apart from the company's CEO Ola Rollén, are independent of the company and its management. Moreover, three Board members, Marianne Arosenius, Carl-Henric Svanberg and Hans Nergårdh, are independent of the company's major shareholders.

The Board is presented in more detail on page 36. All Board members can be reached via Hexagon's head office.

### Board Responsibilities

The board is responsible for determining the overall objectives of the company's operations, developing and monitoring the company's overall strategy, decisions on major company acquisitions, divestments and investments, and ongoing updates of operations in the year. Otherwise, the Board is responsible for ongoing evaluation of the company's management, the presence of effective systems for monitoring and internal control of the company's operations and financial position, the group's organisational structure and administration pursuant to the Swedish Companies Act.

Procedural rules and instructions have been formulated for the Board and CEO, formalising those issues requiring Board approval, and the financial information and other reporting to be submitted to the Board. These issues are considered and resolved annually.

Hexagon's guidelines for Board activities are also applied by the Boards of Hexagon's business areas.

### Board activities in 2005

In 2005, the Board held 14 meetings at which minutes were taken, one of which was the Board meeting following election. Additionally, the company's auditors attended the first Board meeting of the year, reporting their observations from reviewing the group's internal controls and financial statement for 2004. In the year, the Board reached decisions including the divestment of the Hexagon Automation business area, an offering for Leica Geosystems and the associated financing.

### Board Fees

Pursuant to AGM resolution, total remuneration to the Chairman of the Board and Board members is SEK 975,000 for 2005. The Chairman received SEK 300,000, the Deputy Chairman received SEK 225,000 and other Board members each received SEK 150,000, apart from Hexagon's CEO Ola Rollén, who does not receive any Board fees. No specific remuneration is payable to Board members for committee activities.

### Evaluation of Board Activities

The Board evaluates its activities and the forms for conducting its activities on an ongoing basis. This evaluation considers factors such as how the Board's activities can be improved, if the character of meetings stimulates open discussion, and whether each Board member participates actively, contributing to the discussion. By the Board comprising a small number of members, this evaluation is effected through ongoing communication between the members. The evaluation is coordinated by the Chairman of the Board, who also evaluates each individual member's input and skills on an ongoing basis. The Board is also evaluated within the framework of the Election Committee's activities.

### Board Committees

#### Remuneration Committee

Hexagon's Remuneration Committee is appointed by the Board annually, and its task is to consider issues regarding remuneration to the CEO and executives that report directly to

## HEXAGON'S BOARD OF DIRECTORS

	Number of Meetings and Attendance in 2005				Board fees and Shareholding 2005		
	Board	Remuneration Committee	Audit Committee	Election Committee	Regular Fees (SEK)	A shares	B shares
Melker Schörling, Chairman	14	1	-	2	300,000	3,150,000	12,795,891
Maths O. Sundqvist, Deputy Chairman	14	1	2	2	225,000	-	10,000,000
Marianne Arosenius	11	-	-	-	150,000	-	450
Hans Nergårdh	14	-	3	-	150,000	-	40,500
Ola Rollén	14	-	-	-	-	-	718,680
Carl-Henric Svanberg	6	-	-	-	150,000	-	657,150
<b>Total</b>	<b>14</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>975,000</b>	<b>3,150,000</b>	<b>24,212,671</b>

the CEO, on behalf of the Board, and other similar issues that the Board assigns the Committee to consider.

The Remuneration Committee held one meeting at which minutes were taken in the year. The Remuneration Committee collates supporting data and views from other Board members, the CEO and CFO. The Committee also collates comparable decision data from an external consultant.

In the financial year, the Remuneration Committee comprised Melker Schörling (Chairman), Maths O. Sundqvist and Ola Rollén. Mr. Rollén does not participate on Committee activities where they relate to remuneration are other benefits to himself. Two of the Committee's members are independent of the company and its management. Considering the Swedish Corporate Governance Code, at one Board meeting on 14 February 2006, the Board resolved that the CEO should no longer be a member, but only make presentations to the Remuneration Committee.

#### Audit Committee

Hexagon's Audit Committee is appointed annually by the Board, and its purpose is to consider issues regarding tendering and remunerating auditors on behalf of the Board, considering plans for auditing and the related reporting, to quality-assure the company's financial reporting, other information, and meet the company's auditors on an ongoing basis to stay informed on the orientation and scope of the audit. The Audit Committee's tasks include monitoring external auditors' activities, and the company's internal control systems, monitoring the current risk situation and the company's financial information, and other issues the Board assigns the Committee to consider.

The Audit Committee held three meetings at which minutes were taken in the year. The Audit Committee collates information and supporting data from the Board members, CEO, CFO and the company's external auditors on an ongoing basis. The Committee also receives all reports from external auditors, and reviews these reports internally and with the auditors.

During the financial year, the Audit Committee comprised Hans Nergårdh (Chairman) and Maths O. Sundqvist. As previously announced, with the intention of creating an active and effective Board, Hexagon has chosen to have a limited number of Board members. This implies that the Audit Committee also comprises fewer members than the Swedish Cor-

porate Governance Code recommends. The Committee members are independent of the company and its management. Moreover, Hans Nergårdh is independent of the company's major shareholders.

#### Management

**Group Management, Management Team and Organization**  
The CEO is responsible for leading and controlling the operations of Hexagon pursuant to the strategy determined by the Board. The CEO has appointed the Group Management comprising the CEO, Chief Financial Officer and Vice President of Strategy. The Group Management is responsible for overall business development, and apportioning financial resources between business areas, as well as financing and capital structure. Where necessary, specialist know-how from leading experts in segments such as human resources and legal services is also appointed.

Alongside the Group Management, the company's business area Presidents constitute the company's management team. Regular management team meetings are the group's forum for implementing the Group Management's overall controls down to business area level, and in turn, down to individual company level. In 2005, the management team comprised:

- Ola Rollén, CEO and President of Hexagon Measurement Technologies
- Håkan Halén, CFO
- Gert Viebke, Vice President, Strategy
- Lars Olofsson, President of Hexagon Polymers
- Hans Carlsson, President of Hexagon Engineering
- Börje Vernet, President of Hexagon Automation until the business area was divested on 1 July 2005

Senior executives are presented in more detail on page 37. All senior executives can be reached via the company's head offices.

In financial terms, Hexagon's business areas and subsidiaries are controlled in terms of what they are able to influence themselves, i.e. return on capital employed. This means they focus on maximizing operating earnings, and minimizing their working capital. Hexagon's organizational structure features clear decentralization. Individual managers take overall responsibility for their business, and pursue clearly stated objectives.

#### FEES PAID TO SENIOR EXECUTIVES

SEK 000	Year	Basic Salary	Performance-related Pay	Other Benefits	Pension Benefits	Other Remuneration	Total
Ola Rollén, CEO	2004	5,494	-	-	824	-	6,318
	2005	6,411	-	-	962	-	7,373
Other senior executives	2004	9,704	1,630	279	2,443	38	14,094
	2005	9,877	140	424	2,355	28	12,824

#### Remuneration to Senior Executives

Hexagon pays competitive, market salaries to its senior executives. The right person can be decisive to the company's success, and any performance-related portion of salary should be linked to the earnings performance that person can influence.

#### Incentive Scheme

A number of option programmes have been prepared to create the conditions to recruit and retain valuable skills within the company, giving the option-holder the right to participate in the company's future shareholder value growth. These programmes are also intended to enhance interest in the company's progress and stimulate continued loyalty to the company. At present, Hexagon has one outstanding stock option programme targeted at the company's senior executives within Hexagon Metrology, who have expressed responsibility for the company's progress, and sizeable scope to influence it. Moreover, Hexagon also has a number of programmes targeted at the employees of Leica Geosystems. The design of these incentive programmes is reviewed in the section on Hexagon's share on page 29.

#### Financial Reporting and Information

Hexagon provides the market with ongoing information on its progress and financial position. Hexagon's ambition is to utilise openness, impartiality and a high level of service in its financial reporting, to enhance trust in the company on the market, and accentuate interest in the Hexagon share with current and potential investors. Hexagon regularly met investors and capital market players in the year, in Scandinavia and internationally, with the aim of explaining and clarifying the value of the group's operations.

The company's corporate communication policy was adopted by the Board in May 2005 and is updated annually. The policy satisfies the communication standards set by the stock market, and is designed pursuant to the Stockholm Stock Exchange's recommendations as a complement to the listing agreement. The corporate communication policy's stipulations include who may represent the company as a spokesperson, who considers what constitutes share price-sensitive information, how share price-sensitive information should be dealt with, the information content and methods of communication with the financial market.

Hexagon regularly publishes financial information in Swedish and English in the form of Interim Reports, Annual Reports, press releases on news and events that significantly influence its share price, presentations and telephone conferences for financial analysts, investors and the media, on the same day as interim and annual financial statements are published.

All the published information on the group's progress, other information for the stock market and other important data, is available on the company's website: [www.hexagon.se](http://www.hexagon.se).

#### Internal Control

The Swedish Corporate Governance Code stipulates the Board of Directors submitting a report on internal controls, to be reviewed by the company's auditors. Hexagon's Board has chosen to observe a statement from the Swedish corporate governance committee of 15 December 2005, that for 2005, it is sufficient if the Corporate Governance Report reviews how internal controls are organized, without making any statement on how well they have functioned, and without an auditor's review.

The company's Board is responsible for Hexagon's internal controls, whose overall purpose is to protect shareholders' investments and the company's assets. Hexagon features a clear division of responsibility, smoothly functioning and established control and monitoring systems. Internal controls encompass all Hexagon's units.

Hexagon's accounting functions are integrated through shared financial and accounting systems, and shared accounting instructions. The group's accounting unit has a close and well-functioning collaboration with subsidiary controllers in terms of financial statements and reporting.

Hexagon has no internal audit function, because the aforementioned functions performs this task fully.

#### Auditors

The AGM appoints auditors every fourth year. The auditors task is to review the company's Annual Report and accountability and the Board's and Chief Executive Officer's administration on behalf of the shareholders.

Ernst & Young AB, with Peter Lander (born in 1949) as senior auditor, was appointed by the AGM on 5 May 2004 for a four-year mandate period. Ernst & Young AB is member of FAR. Hexagon's auditors' address is Ernst & Young AB, P.O. Box 7850, SE-103 99, Stockholm, Sweden.

In addition to the audit, the auditors also received other assignments in 2005 coincident with the acquisition of Leica Geosystems. This was mainly a matter of reviewing the stock market prospectus. The company's auditors attended the first Board meeting of the year, reporting their observations from their review of the company's internal controls and financial statement. Moreover, on three occasions in the year, the auditors met the Board's Audit Committee.

A complete statement of remuneration to the auditors over the last three years is published in Note 13.