

# Corporate Governance report

Hexagon AB is a public company listed on the NASDAQ OMX Stockholm exchange. The corporate governance in Hexagon is based on Swedish legislation, primarily the Swedish Companies Act, Hexagon's Articles of Association, the Board of Directors' internal rules, the rules and regulations of the stock exchange, the Swedish Code of Corporate Governance ("the Code") and the regulations and recommendations issued by relevant organisations.

Hexagon applies the Code, which is based on the principle "comply or explain". Hexagon does not report any deviations from the Code for the financial year 2013, except one: although the Code stipulates that the Audit Committee shall consist of at least three members, Hexagon chose to operate the Committee through two members only.

This corporate governance report has been prepared in accordance with the provisions of the Annual Accounts Act and the Code and has, by virtue of Section 6, paragraph 8 of the Annual Accounts Act, been drawn up as a document separate from the Annual Report.

## **OWNERSHIP STRUCTURE AND SHARE INFORMATION**

At 31 December 2013, Hexagon's share capital was 78,771,810 EUR, represented by 354,996,977 shares, of which 15,750,000 are of series A with 10 votes each and 339,246,977 are of series B with one vote each. Hexagon AB held no treasury shares at year end. The Annual General Meeting 2013 authorised the Board of Directors ("the Board") to resolve on purchases and divestments of own shares equal to no more than 10 per cent of the total number of issued shares in the company.

Melker Schörling AB, the single largest shareholder in Hexagon, held a total of 15,750,000 series A shares and 78,711,582 series B shares at year-end 2013, representing 47.6 per cent of the votes and 26.6 per cent of the capital. No other shareholder has any direct or indirect shareholding representing more than 10 per cent of the total votes.

To the best of the Board's knowledge there are no shareholder agreements or similar agreements between the shareholders of Hexagon with the purpose of exercising joint control of the company. Neither is the Board aware of any agreements that could lead to a change of control in the company.

As far as the Board is aware, there is no shareholder agreement that could prevent the transfer of shares. Nor are there agreements between the company, directors or employees, other than as described in Note 30, which stipulate the right to compensation if such a person voluntarily leaves the company, is dismissed with cause or if such a person's employment is terminated as a result of a public offer for shares in the company.

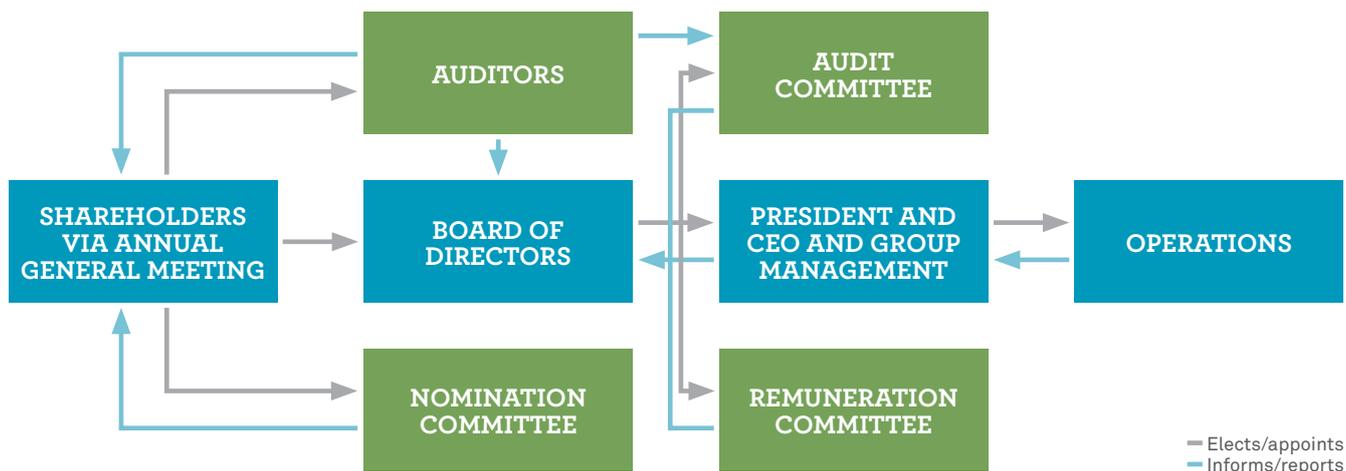
## **ANNUAL GENERAL MEETING (AGM)**

The General Meeting is Hexagon's supreme executive body in which all shareholders are entitled to participate. The Articles of Association of the company contain no restrictions regarding the number of votes that may be cast by a shareholder at general meetings. At the AGM, the Board presents the Annual Report (including the consolidated accounts) and the audit report. Hexagon issues the notice convening the AGM no later than four weeks prior to the meeting. The AGM is held in Stockholm, Sweden, usually in the month of May. The AGM resolves on a number of issues, such as the adoption of the income statement and balance sheet, the allocation of the company's profit and the discharge from liability to the company for the Board members and the President and CEO, remuneration to the Board and auditors, the principles for remuneration and employment terms for the President and CEO and other senior executives, election of members and Chairman of the Board of Directors, election of auditor and any amendments to the Articles of Association, etc.

## **NOMINATION COMMITTEE**

The AGM has resolved that the Nomination Committee's assignment shall comprise the preparation and presentation of proposals to the shareholders at the AGM on the election of Board members, Chairman of the Board and Chairman of the Meeting and the company's auditors. In addition, the Nomination Committee presents proposals regarding remuneration to the Board of Directors (including for committee work) and the auditors.

The Nomination Committee shall consist of representatives for major shareholders of the company elected by the AGM. In case a shareholder, who a member of the Nomination Committee represents, is no longer one of the major shareholders of Hexagon, or if a member of the Nomination Committee is no longer employed by such shareholder, or for any other reason leaves the Committee before the next AGM, the Committee is entitled to appoint another



representative among the major shareholders to replace such member. No fees are paid to the members of the Nomination Committee.

### BOARD OF DIRECTORS

In accordance with the Articles of Association, the Board of Directors of Hexagon shall consist of no less than three and not more than nine members, elected annually by the AGM for the period until the end of the next AGM. The Articles of Association of the company contain no special provisions regarding the election and discharge of Board members or regarding changes of the Articles of Association. The AGM 2013 elected six members, including the President and Chief Executive Officer. The Chief Financial Officer and Executive Vice President, Hexagon's General Counsel and the Chief Technical Officer participate in the Board meetings. Other Hexagon employees participate in the Board meetings to make presentations on particular matters if requested.

The Nomination Committee's assessment of the members' independence in relation to the company, its management and major shareholders is presented on page 39. According to the requirements set out in the Code, the majority of the Board members elected by the General Meeting must be independent in relation to the company and its management, and at least two of such Board members shall also be independent in relation to the company's major shareholders.

The Board of Directors is responsible for determining Hexagon's overall objectives, developing and monitoring the overall strategy, deciding on major acquisitions, divestments and investments and ongoing monitoring of operations. The Board is also responsible for ongoing evaluation of management, as well as systems for monitoring the internal control and the company's financial position. The Board ensures that the company's external disclosure of information is characterised by openness and that it is accurate, relevant and clear. Procedural rules and instructions for the Board and the President and CEO govern issues requiring Board approval and financial information and other reporting to be submitted to the Board.

The Chairman directs the Board's activities to ensure that they are conducted pursuant to the Swedish Companies Act, the prevailing regulations for listed companies and the Board's internal control instruments.

At all scheduled Board meetings, information concerning Hexagon's financial position and important events affecting the company's operations are presented.

### AUDIT COMMITTEE

The 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, including reviewing and surveying the auditors' impartiality and independence, considering plans for auditing and the related reporting, to quality assure the company's financial reporting and to 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, the company's internal control systems, the current risk situation and the company's financial information and other issues the Board assigns the Committee to consider. The Committee has not been authorised to make any decisions on behalf of the Board.

### REMUNERATION COMMITTEE

The Remuneration Committee is appointed by the Board annually, and its task is to consider issues regarding remuneration to the President and CEO and executives that report directly to the President and CEO, on behalf of the Board, and other similar issues that the Board assigns the Committee to consider. The Committee has not been authorised to make any decisions on behalf of the Board.

### EXTERNAL AUDITORS

The AGM appoints the company's auditors. On behalf of the shareholders, the auditors' task is to examine the company's Annual Report and accounting records and the administration by the Board of Directors and the President and CEO. In addition to the audit, the auditors occasionally have other assignments, such as work relating to acquisitions. Hexagon's auditors normally attend the first Board meeting each year, at which the auditors report observations from the examination of Hexagon's internal controls and the annual financial statements. Moreover, the auditors report to and regularly meet with the Audit Committee. In addition, the auditors participate in the AGM to present the auditors' report, which describes the audit work and observations made.

## INTERNAL CONTROL

The responsibility of the Board of Directors for internal control is regulated in the Swedish Companies Act and in the Code. It is the duty of the Board of Directors to ascertain that the internal control and formalised routines of the company ensure that the principles for internal control and financial reporting are adhered to, and that the financial reports comply with the law and other requirements applicable to listed companies. The Board of Directors bears the overall responsibility for internal control of the financial reporting. The Board of Directors has established written formal rules of procedure that clarifies the Board of Directors' responsibilities and regulates the Board of Directors' and its Committees' internal distribution of work.

## PRESIDENT AND CEO AND GROUP MANAGEMENT

The President and CEO is responsible for leading and controlling Hexagon's operations in accordance with the Swedish Companies Act, other legislation and regulations, applicable rules for listed companies, as well as the Code, the Articles of Association and the instructions and strategies determined by the Board. The President and CEO shall ensure that the Board is provided with objective, detailed and relevant information required in order for the Board to make well-informed decisions. Furthermore, the President and CEO is responsible for keeping the Board informed of the company's development between Board meetings.

The Group Management, comprising the President and CEO, presidents of application areas, heads of geographical regions and specific Group staff functions, totals ten persons. Group Management is responsible for the overall business development and the apportioning of financial resources between the business areas, as well as matters involving financing and capital structure. Regular management meetings constitute Hexagon's forum for implementing overall controls down to a particular business operation, and in turn, down to individual company level.

## OPERATIONS

In financial terms, Hexagon's business operations are controlled on the basis of the return on capital employed. This requires that they focus on maximising operating earnings and minimising their working capital. Hexagon's organisational structure is characterised by decentralisation. Targets, guidelines and strategies are set centrally in collaboration with the business units. Managers assume overall responsibility for their respective business, and pursue the clearly stated objectives.

## ACTIVITIES DURING THE YEAR

### ANNUAL GENERAL MEETING (AGM)

The AGM was held on 13 May 2013 in Stockholm, Sweden, and was attended by a total of 191 shareholders, who jointly represented 58 per cent of the total number of shares and 70 per cent of the total number of votes in the company. Melker Schörling was elected Chairman of the AGM.

The following main resolutions were passed:

- ▶ Re-election of Directors Melker Schörling, Ola Rollén, Ulrika Francke, Gun Nilsson and Ulrik Svensson. Election of Jill Smith
- ▶ Re-election of Melker Schörling as Chairman of the Board
- ▶ Re-election of the accounting firm Ernst & Young AB for a one year period of mandate. Ernst & Young AB has appointed the authorised public accountant Rickard Andersson as auditor in charge.
- ▶ Dividend of 0.28 EUR per share for the financial year 2012 as per the Board's proposal
- ▶ Guidelines for remuneration to Hexagon's senior executives
- ▶ Authorisation of the Board to resolve on acquisition and transfer of the company's shares

### NOMINATION COMMITTEE

In respect of the 2014 AGM, the Nomination Committee comprised:

- ▶ Mikael Ekdahl, Melker Schörling AB (Chairman)
- ▶ Jan Andersson, Swedbank Robur fonder
- ▶ Anders Oscarsson, AMF Fonder
- ▶ Bengt Belfrage (replaced Thomas Ehlin in November 2013), Nordea Fonder

During 2013, the Nomination Committee held two meetings at which the Chairman gave an account of the process of evaluation of the Board of Directors' work. The Committee discussed and decided on proposals to submit to the 2014 AGM concerning the election of Chairman of the AGM, the election of Chairman and other Board Members, directors' fees, remuneration for committee work and fees to the auditors. Shareholders wishing to submit proposals have been able to do so by contacting the Nomination Committee via mail or email. Addresses have been made available on Hexagon's website.

### BOARD OF DIRECTORS' ACTIVITIES

In 2013, the Board held ten minuted meetings, including the statutory Board meeting. At all Board meetings the President and CEO presented the financial and market position of Hexagon and important events affecting the company's operations. On different occasions, Hexagon senior managers presented their operations and business strategies to the Board. In addition, items such as the approval of the interim reports and the annual report are part of the Board's work plan and the company's auditors presented a report on their audit work during the year. At the final Board meeting of the year, the Board approved the operational strategy and the financial plan for 2014.

## KEY DATA FOR BOARD MEMBERS<sup>1</sup>

Board Member	Elected	Independent	Committee membership		Meeting attendance		
			Audit	Remuneration	Board of Directors	Audit Committee	Remuneration Committee
Melker Schörling	1999	No <sup>2</sup>		●	10/10		1/1
Mario Fontana <sup>3</sup>	2006	Yes	●		2/10	2/6	
Ulrika Francke	2010	Yes			8/10		
Ulf Henriksson <sup>3</sup>	2007	Yes			1/10		
Gun Nilsson	2008	Yes	●	●	10/10	5/6	1/1
Ola Rollén	2000	No <sup>4</sup>			10/10		
Jill Smith <sup>5</sup>	2013	Yes			7/10		
Ulrik Svensson	2010	No <sup>2</sup>	●		10/10	6/6	

<sup>1</sup> A complete presentation of the Board Members is included on pages 44–45.

<sup>2</sup> Melker Schörling and Ulrik Svensson are not deemed to be independent of the company's major shareholders.

<sup>3</sup> Mario Fontana and Ulf Henriksson left their assignments as Board Members during 2013.

<sup>4</sup> Ola Rollén is not deemed to be independent of the company as a result of his position as Hexagon's President and CEO.

<sup>5</sup> Jill Smith became Board Member during 2013.

## BOARD AND COMMITTEE MEETINGS

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Board of Directors		●			●●			●●●	●	●	●	●
Audit Committee		●			●			●●		●		●
Remuneration Committee										●		

## EVALUATION OF THE BOARD'S WORK

The Board continuously evaluates its work and the format of its activities. This evaluation considers factors such as how the Board's work can be improved, whether the character of meetings stimulates open discussion and whether each Board Member participates actively and contributes to discussions. The evaluation is coordinated by the Chairman of the Board. The Board is also evaluated within the framework of the Nomination Committee's activities.

## AUDIT COMMITTEE

During 2013 the Audit Committee comprised:

- ▶ Ulrik Svensson (Chairman)
- ▶ Gun Nilsson

Although the Code stipulates (rule 7.3) that the Audit Committee shall consist of at least three members, Hexagon opted to operate the Committee through two members only. The Board deems that two members is sufficient to correctly address Hexagon's most important areas in regard to risk and audit issues, and that the incumbent members have long-standing and extensive experience in these areas from other major listed companies. In 2013, the Committee held six minuted meetings where the financial reporting and risks of Hexagon were monitored and discussed. The Committee dealt with relevant accounting issues, audit work and reviews, new financing and testing of impairment requirements for goodwill.

## REMUNERATION COMMITTEE

During 2013, the Remuneration Committee comprised:

- ▶ Melker Schörling (Chairman)
- ▶ Gun Nilsson

In 2013, the Committee held one minuted meeting where remuneration and other employment terms and conditions for the President and CEO and Group Management were discussed. The Remuneration Committee also monitored and evaluated the ongoing programmes for variable remuneration to senior executives as well as the application of the guidelines for remuneration to senior executives and the structure and levels of remuneration in the company.

## EXTERNAL AUDITORS

The 2013 AGM re-elected the accounting firm Ernst & Young AB as auditor for a one year period of mandate. Ernst & Young AB has appointed authorised public accountant Rickard Andersson as auditor in charge. In addition to Hexagon, Rickard Andersson conducts auditing assignments for such companies as Autoliv Inc., Proact IT Group AB and NAXS Nordic Access Buyout Fund AB.

Hexagon's auditors attended the first Board meeting of the year, at which they reported observations from their examination of Hexagon's internal controls and the annual financial statements. The auditors met with the Audit Committee on six occasions during 2013. The address of the auditors is Ernst & Young AB, P.O. Box 7850, SE-103 99, Stockholm, Sweden.

## REMUNERATION

### PRINCIPLES

The following principles for remuneration to senior executives in Hexagon were adopted by the AGM 2013.

The guidelines for remuneration to senior executives principally entail that the remuneration shall consist of a basic salary, a variable remuneration, other benefits and pension and that all in all this remuneration shall be competitive and in accordance with market practice. The variable remuneration shall be maximised to 60 per cent of the basic remuneration, related to the earnings trend on which the individual may have an impact and based on the outcome in relation to individual targets. However, in relation to two senior executives employed in the USA a cap of 200 per cent in relation to the basic remuneration currently applies for the variable part of the salary, and will apply going forward.

The Board annually considers whether a share or share price related incentive programme shall be proposed to the AGM.

The notice period shall normally be six months on the part of the employee. In case of notice of termination by the company, the notice period and the period during which severance payment is paid shall, all in all, not exceed 24 months. The pension benefits shall be either benefit or fee-based, or a combination of both, with an individual pension age not lower than 60 years.

It is proposed to the AGM 2014 to resolve on substantially the same guidelines as above concerning the remuneration of senior executives.

### REMUNERATION OF GROUP MANAGEMENT

Remuneration of the President and CEO and other senior executives is presented in Note 30 on page 90.

### WARRANTS PROGRAMME

Details of the warrants programme are presented on page 35 (The Share section) and in Note 30 on page 91.

### REMUNERATION OF BOARD OF DIRECTORS

Remuneration to the Board of Directors is resolved by the AGM upon proposal from the Nomination Committee. During 2013, the Chairman of the Board and other Board Members received remuneration totalling 363.6 KEUR. Remuneration of the Board of Directors is presented in Note 30 on page 90.

### REMUNERATION OF EXTERNAL AUDITORS

Remuneration for services in addition to auditing services primarily refers to work related to acquisitions and tax. Remuneration of the external auditors is presented in Note 31 on page 92.

## INTERNAL CONTROL PERTAINING TO FINANCIAL REPORTING

The Annual Accounts Act and the Code stipulate that the Board of Directors must submit a report on the key aspects of the company's systems for internal controls and risk management regarding financial reports. Internal control pertaining to financial reporting is a process that involves the Board, Company Management and other personnel. The process has been designed so that it provides assurance of the reliability of the external reporting. According to a generally accepted framework that has been established for this purpose, internal control is usually described from five different perspectives:

### 1. CONTROL ENVIRONMENT

Hexagon's organisation is designed to facilitate rapid decision making. Accordingly, operational decisions are taken at the business area or subsidiary level, while decisions concerning strategies, acquisitions and company-wide financial matters are taken by the company's Board and Group Management. The organisation is characterised by well-defined allocation of responsibility and well-functioning and well-established governance and control systems, which apply to all Hexagon units. The basis for the internal control pertaining to financial reporting is comprised of an overall control environment in which the organisation, decision-making routes, authorities and responsibilities have been documented and communicated in control documents, such as Hexagon's finance policy and reporting instructions and in accordance with the authorisation arrangements established by the President and CEO.

Hexagon's functions for financial control are integrated by means of a group-wide reporting system. Hexagon's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the company's assessment of its internal control includes contacts with the company's auditor. Hexagon has no internal audit function, since the functions described above, in combination with the work completed by auditors, satisfy this need. All of Hexagon's subsidiaries report complete financial statements on a monthly basis. This reporting provides the basis for Hexagon's consolidated financial reporting. Each legal entity has a controller responsible for the financial control and for ensuring that the financial reports are correct, complete and delivered in time for consolidated financial reporting.

### 2. RISK ASSESSMENT

The significant risks affecting the internal control of financial reporting are identified and managed at Group, business area, subsidiary and unit level. Within the Board, the Audit Committee is responsible for ensuring that significant financial risks and the risk of error in financial

reporting are identified and managed in a manner that ensures correct financial reporting. Special priority has been assigned to identifying processes that, to some extent, give rise to a higher risk of significant error due to the complexity of the process or of the contexts in which major values are involved.

### 3. CONTROL ACTIVITIES

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and correct errors and non-conformities. Their management is conducted by means of manual controls in the form of, for example, reconciliations, automatic controls using IT systems and general controls conducted in the underlying IT environment. Detailed analyses of financial results and follow-ups in relation to budget and forecasts supplement the business-specific controls and provide general confirmation of the quality of the financial reporting.

### 4. INFORMATION AND COMMUNICATION

To ensure the completeness and correctness of financial reporting, Hexagon has formulated information and communication guidelines designed to ensure that relevant and significant information is exchanged within the business, within the particular unit and to and from management and the Board. Guidelines, handbooks and job descriptions pertaining to the financial process are communicated between management and personnel and are accessible electronically and/or in a printed format. The Board receives regular feedback in respect of the internal control process from the Audit Committee. To ensure that the external communication of information is correct and complete, Hexagon complies with a Board approved information policy that stipulates what may be communicated, by whom and in what manner.

### 5. MONITORING ACTIVITIES

The efficiency of the process for risk assessment and the implementation of control activities are followed up continuously. The follow-up pertains to both formal and informal procedures used by the officers responsible at each level. The procedures incorporate the follow-up of financial results in relation to budget and plans, analyses and key figures. The Board obtains current and regular reports on Hexagon's financial position and performance. At each Board meeting, the company's financial position is addressed and, on a monthly basis, management analyses the company's financial reporting at a detailed level. The Audit Committee follows up the financial reporting at its meetings and receives reports from the auditors describing their observations.