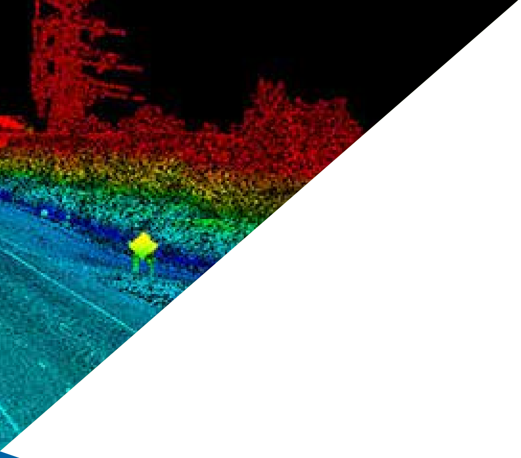


HEXAGON

shaping smart change

ANNUAL REPORT 2017

HEXAGON IN BRIEF

Hexagon is a leading global provider of information technology solutions that drive productivity and quality across geospatial and industrial landscapes. Hexagon's solutions integrate sensors, software, domain knowledge and customer workflows into intelligent information ecosystems that deliver actionable information. These solutions are used in a broad range of vital industries.

TECHNOLOGY SOLUTIONS PROVIDER

- Renowned information technologies leader focused on the customer's entire workflow
- Solutions that drive productivity and quality
- 55% of net sales from software and services

R&D FOCUS

- 10–12% of net sales invested in R&D
- 3,800+ employees in R&D
- 3,700+ active patents

GLOBAL REACH

- Broad range of vital industries served
- Approximately 18,000 employees in 50 countries

STRONG FINANCIALS

- 3.5 bn EUR in sales
- 24% operating margin

MISSION

We are dedicated to delivering actionable information through information technologies that empower customers to reach their full potential and shape smart change across diverse industry landscapes.

VISION

We aspire to play a leading role in the effort to solve the challenges our world is facing by delivering information technologies that fuel possibility.

CORE VALUES

PROFIT DRIVEN

We value performance over procedure, setting measurable goals and working collaboratively to achieve the results we seek.

INNOVATIVE

We understand the importance of innovation in meeting the ever-changing needs of our customers and that opportunities must be nurtured and developed quickly.

CUSTOMER FOCUSED

We know our customers' success is paramount to our own and is based on our ability to talk openly and set clear targets to meet their needs.

PROFESSIONAL

We are honest professionals who understand the importance of knowing our business, exceeding expectations and avoiding politics along the way.

ENGAGED

Our spirited energy and engagement are evident in our commitment to our work, passion for what we do and the speed by which we achieve it.

ENTREPRENEURIAL

We are not afraid to try new things and leverage our decentralised structure to make speedy decisions, take calculated risks and find new opportunities.

GEOSPATIAL ENTERPRISE SOLUTIONS

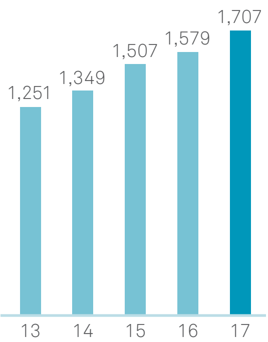
Geospatial Enterprise Solutions (GES) includes a world-leading portfolio of reality-capture sensors – from laser scanners, airborne cameras and UAVs (unmanned aerial vehicles) to monitoring equipment, mobile mapping technologies and precise positioning. The sensors are complemented by software (GIS) for the creation of 3D maps and models which are used for decision-making in a range of software applications, covering areas such as surveying, construction, public safety and agriculture. This segment consists of Geosystems, Safety & Infrastructure and Positioning Intelligence. *Read more on pages 16–19.*

OPERATING NET SALES
49%

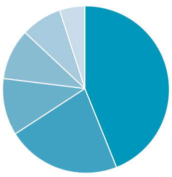
OPERATING MARGIN
24%

AVERAGE NO. OF EMPLOYEES
7,900

NET SALES, MEUR

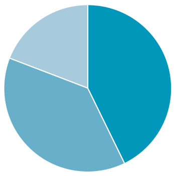


CUSTOMER SEGMENT, %



- Surveying, 44
- Infrastructure & Construction, 22
- Public Safety, 11
- Natural Resources, 10
- Transport and Public Service, 8
- Defence, 5

GEOGRAPHY, %



- EMEA, 43
- Americas, 38
- Asia, 19

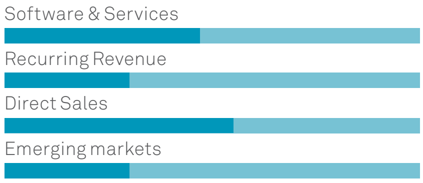
THE BUSINESS AREA COMPRISES THE FOLLOWING DIVISIONS:

- Geosystems
- Safety & Infrastructure
- Positioning Intelligence

SOLUTION EXAMPLES:

- Laser scanners
- Airborne cameras
- UAVs (unmanned aerial vehicles)
- Mobile mapping technologies
- Precise positioning

SALES MIX



INDUSTRIAL ENTERPRISE SOLUTIONS

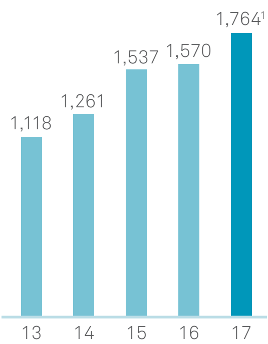
Industrial Enterprise Solutions (IES) includes a world-leading portfolio of metrology systems that incorporate the latest in sensor technology for fast and accurate measurements. These solutions include technologies such as coordinate measurement machines (CMM) and laser trackers and scanners – which optimise design, processes and throughput in manufacturing facilities. It also includes software for CAD (computer-aided design), CAM (computer-aided manufacturing) and CAE (computer-aided engineering). Solutions within this segment optimise design and processes, improve productivity in process facilities and create and leverage asset management information critical to the planning, construction and operation of plants and process facilities. This segment consists of Manufacturing Intelligence and PPM. *Read more on pages 20–23.*

OPERATING NET SALES
51%

OPERATING MARGIN
25%

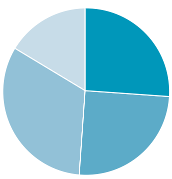
AVERAGE NO. OF EMPLOYEES
9,600

NET SALES, MEUR



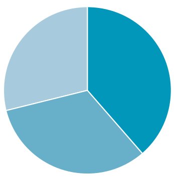
1) Operating net sales

CUSTOMER SEGMENT, %



- Power & Energy, 29
- Electronics & Manufacturing, 28
- Automotive, 25
- Aerospace & Defence, 18

GEOGRAPHY, %



- Asia, 38
- EMEA, 33
- Americas, 29

THE BUSINESS AREA COMPRISES THE FOLLOWING DIVISIONS:

- Manufacturing Intelligence
- PPM

SOLUTION EXAMPLES:

- CMMs (coordinate measuring machines)
- Optical and portable scanners
- Industrial metrology software
- CAD/CAM/CAE (computer-aided design/manufacturing/engineering) software
- Life cycle engineering software

SALES MIX

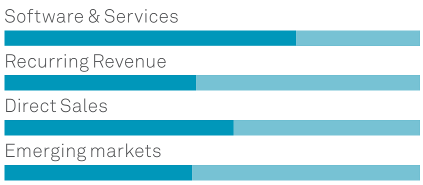


TABLE OF CONTENTS

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2017 IN BRIEF

Hexagon grew organically by 5 per cent in 2017 as customers continued to show a willingness to invest in innovative solutions that make their systems and workflows more efficient. Hexagon's gross margin reached 61 per cent, the operating margin (EBIT1) 24 per cent.

HEXAGON IMPORTANT EVENTS 2017

- Acquired MSC Software, a leading provider of computer-aided engineering (CAE) solutions. *Read more on page 21*
- Appointed Mattias Stenberg as new President of PPM
- Launched a cost savings programme to further accelerate margin improvement
- PPM launched the first module of the rollout of the Smart Digital Asset (SDA) information management platform for industrial facilities. *Read more on page 22*
- Acquired Catavolt, a leading mobile app platform provider. *Read more on page 11*
- Appointed Ben Maslen as Hexagon's new Chief Strategy Officer
- Acquired Vires, a leading provider of simulation software solutions simulation software solutions for autonomous driving
- Announced investments in a new state-of-the-art production facility in Hongdao, China
- Acquired Luciad, a leading provider of 5D visualisation and analysis solutions. *Read more on page 18*

KEY FIGURES[1]

	2017	2016	Δ%
Operating net sales	3,470.8	3,149.2	5[2]
Revenue adjustments[3]	-22.4	-	n.a.
Net sales	3,448.4	3,149.2	5[2]
Operating earnings (EBIT1)	835.3	736.1	13
Operating margin, %	24.1	23.4	0.7[4]
Earnings before tax excl. non-recurring items	812.6	714.3	14
Non-recurring items[5]	-73.2	-	n.a.
Earnings before tax	739.4	714.3	4
Net earnings	673.8	578.6	16
Earnings per share, EUR	1.85	1.59	16
Operating cash flow	631.6	524.5	20
Return on equity, %	14.8	13.7	1.1[4]
Return on capital employed, %	12.6	11.9	0.7[4]
Share price, SEK	410.90	325.5	26
Net debt	2,034.9	1,564.8	30
Average number of employees	17,543	16,460	7

1) All figures are in MEUR unless otherwise stated
2) Adjusted to fixed exchange rates and a comparable group structure, i.e. organic growth
3) Non-recurring reduction of acquired deferred revenue (haircut) in 2017 related to the acquisition of MSC Software
4) The change is specified in percentage points
5) Reduction of acquired deferred revenue (haircut) related to the acquisition of MSC Software and costs related to the implementation of a cost savings programme and the acquisition of MSC Software

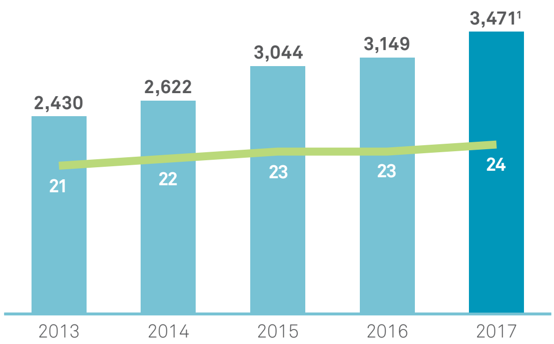
OPERATING MARGIN

24%

ORGANIC GROWTH

5%

NET SALES, MEUR AND OPERATING MARGIN, %



The year's financial performance by segments can be found on page 45.
1) Operating net sales

MARKET DEMAND 2017

AMERICAS

In North America, demand mainly increased in the infrastructure and construction sector. Operations related to the oil and gas sectors declined following the downturn in the oil price. South America started to recover, after the economic slowdown in Brazil and returned to growth.Operating net sales in Americas grew by 4 per cent organically in 2017 and amounted to 1,166.3 MEUR (1,076.5), representing 34 per cent (34) of Group sales.

EMEA

In Western Europe, Hexagon noted good demand from the infrastructure and construction sector but growth was hampered by weaker demand from the automotive and aerospace industries. In the Middle East, demand of geospatial solutions increased but growth was hampered in the region by though comparatives on the back of last year's large order within public safety. Operating net sales in EMEA grew by 4 per cent organically in 2017 and amounted to 1,303.4 MEUR (1,193.7), representing 37 per cent (38) of Group sales.

ASIA

China reported strong growth, mainly driven by robust demand from the electronics industry. Growth was hampered by weaker demand in India on the back of though comparatives due to last year's large order within public safety and the challenging oil and gas market. Operating net sales in Asia grew organically by 9 per cent in 2017 and amounted to 1,001.1 MEUR (879.0), representing 29 per cent (28) of Group sales.

DEAR SHAREHOLDERS,

Hexagon began 2017 with a new 5-year financial plan and a solid commitment to accelerate our customers' ability to outpace digital disruption and embrace limitless thinking for their business.

The year witnessed disruptive technologies, like cryptocurrencies, which gained momentum and challenged our notion of the future of money. The physical limits of computing power were once again pushed beyond what was recently considered impossible, setting the stage for even greater technological leaps and innovation.

It is within this dynamic environment that our approach to shaping smart change in the industries we serve continued to evolve.

SHAPING A DYNAMIC NEW NORMAL

In 2017, we furthered a key strategic objective – to be the global leader in creating a dynamic new normal, bringing about change that shatters paradigms of the past using digitalisation as a force multiplier.

We call our approach Smart X.

Smart X tackles the very toughest of global challenges, such as how to make our cities safe; how to sustainably farm to feed a fast-growing population; how to make refineries more efficient; how to mine responsibly; and, how to manufacture products faster, with less waste, less pollution and higher quality.

The X is what we solve for and the solution we deliver is based on our core competency – the Smart Digital Reality. It is a convergence of the real and digital worlds and the variable required to solve for X in any industry we serve.

Creating the Smart Digital Reality has two prerequisites at which Hexagon excels: *Digital First* and *Infinitely Connected.*

Digital First is the ability to experience the live world digitally by capturing its every detail. For instance, all the buildings and infrastructure of a city or every piece and part of an oil refinery down to the last pipe. We complete the picture and bring it to life by adding contextual information to the digital depiction and then feed it with infinite dynamic data sources that continuously capture the changing variables of the live world.

Infinitely Connected brings the element of intelligence to the experience, connecting disparate data, technologies and functions. Essentially, it's the virtual convergence of useful information that can be leveraged, shared and exchanged without any constraints – from digitised documentation to artificial intelligence, like machine and deep learning, to the linking of internal or external systems, legacy or new, that can "talk" to each other.

In its most generic sense, the Smart X is a "system of systems" – an intelligent ecosystem, comprised of infinite feedback loops that are automated or autonomous in nature.

HxGN Smart Convergence, our "plug and play" digital transformation platform, underpins our Smart X strategy. It's designed to provide important capabilities agnostic of industry discipline – things like intelligent edge-to-cloud connectivity; remotely deployable application- and user-specific; real-time workflows; advanced analytics that learn, automate and predict; enterprise integration and more.

Essentially, it's an enabling framework – based on standard protocols and easily customisable to different industry use cases – that can be tuned and tweaked to more easily operationalise our Smart X solutions.

SYNERGY FOR A SUSTAINED COMPETITIVE ADVANTAGE

In 2017, we also furthered a key operational objective – to build a sustained competitive advantage by leveraging our synergies.

While our divisions remain sharply focused on creating value for customers in their respective markets, our Smart X strategy comes from technology sharing and cross-selling of our solutions – enabling us to outpace current technologies in our served markets.

For example, the business opportunities related to Smart City solutions are vast. Over 3.8 billion people live in urban areas, a number that's estimated to grow to 7.5 billion by 2050. Cities around the world are forecasted to invest $41 trillion over the next 20 years to upgrade their infrastructure and benefit from the network of connected devices.

Our Smart City solutions are well positioned to gain market share within this vital growth. Led by our Safety and Infrastructure, Geosystems, Geospatial and Positioning Intelligence divisions, our Smart X strategy for cities stands out as one of the most comprehensive, market-ready portfolio of offerings.

We are also actively engaged in making autonomous transportation a reality, potentially a $100 billion+ market set to bring about many societal benefits – from safer and lower-cost transport to reduced emissions. The opportunity extends well past driverless cars to UAVs, industrial machinery, trains, vessels and more. Developing intelligent driverless vehicles requires technologies found in our Positioning Intelligence, Geospatial and Geosystems divisions – including environmental sensors, 5D maps and assured positioning solutions that ensure safety of life.

Our Manufacturing Intelligence and PPM divisions are uniquely positioned to deliver the production platform, sensors and software necessary to meet the impending high-volume needs with optimum quality and throughput with completely automated work flows.

STRENGTH THROUGH M&A

In keeping with our strategy to invest in technologies that complement and accelerate our own R&D efforts, Hexagon completed multiple acquisitions in 2017.

Highlights include US-based MSC, a leading CAE (computer-aided engineering software) supplier to various discrete manufacturing industries such as auto and aerospace. This was Hexagon's third largest acquisition ever and it promises the merger of quality data with advanced simulations.

The acquisition of Catavolt, a US-based company with an end-to-end platform for mobile application development and delivery, brought us technologies for realising the transformative potential of both cloud and edge computing. This means accelerated response times in time critical scenarios like smart traffic systems and autonomous vehicles.

We also acquired Belgium-based Luciad, a leading provider of 5D visualisation and analysis software. Luciad's technologies support live connections to dynamic sensor feeds in a 3D environment. The result is real-time, rapid fusion of multi-source content and the ability to perform analytics on the fly.

LOOKING AHEAD

Our key financial objectives include outperforming our industry peers and maximizing shareholder value through revenue growth and improved profitability – targeting 4.6-5.1 bn EUR in revenue and 27-28 per cent EBIT margin by 2021. We remain confident in our ability to deliver upon these targets, knowing the challenges and opportunities we will face will almost all derive from technological improvements and the everchanging global economy.

As I said in my opening remarks at our HxGN LIVE conference last June, I challenge all of us to look at the world through the lens of potential – to engage in limitless thinking, where we never say "we can't because," but instead say "we can if" to the constraints and problems we face.

We know we can if we continue to innovate with bold, disruptive technologies. We can if we lead, rather than chase industry trends. We can if we remain committed to our vision of shaping smart change in the world.

I hope you, as a valued shareholder, customer or employee, will agree that we have improved our future prospects through unwavering resolve to deliver on our objectives this past year. I also hope you have a better understanding of the scale and scope of the opportunity before us and the momentum we have carrying us into 2018.

By solving for X we are revolutionising industries in a way that's unprecedented in history and ultimately, ensuring a more productive, efficient and sustainable future.

Thank you for your continued support for Hexagon.

Stockholm, Sweden, March 2018

Ola Rollén
President and Chief Executive Officer
@OlaRollen

TRENDS

THE IMPORTANCE OF DIGITAL TRANSFORMATION

Global mega trends like the growing population, urbanisation and expanding middle class combined with the ever-increasing digitalisation of the world around us are contributing to changes that impact us all.

GLOBAL MEGATRENDS: DEMOGRAPHIC

EXPANDING MIDDLE CLASS REQUIRES MORE EFFECTIVE UTILISATION OF RESOURCES

Urbanisation means a growing share of the world's population is moving into cities. The transition from an agriculture-based economy to an industrial and technology-driven economy creates a larger middle class with greater purchasing power. Demand for capital goods, such as cars, household appliances and consumer electronics is increasing and making demands on both production capacity and the efficient utilisation of resources used in production.

CLIMATE CHANGE AND ITS IMPACT

The number and scale of natural disasters affecting large areas of land are increasing each year. As a result, demand has grown for monitoring and analysis in areas at risk of suffering from natural disasters. Real-time monitoring increases the ability to minimise human and material damage resulting from natural disasters and provides important information for rescue operations.

GROWING POPULATION REQUIRES MORE EFFICIENT AGRICULTURE

By 2025, the global population will reach 8 billion people, according to UN estimates. By 2050, the population is forecasted to be 9.6 billion. According to the UN, this means almost 250 million new hectares of arable land is needed to ensure an adequate food supply. Over the past 50 years, arable land has only increased by 12 per cent and the current expansion of agricultural area is progressing slowly. The need for innovative, efficient and safe agriculture solutions is therefore both great and time-critical.

GLOBAL MEGATRENDS: TECHNOLOGY

SMARTER CITIES

Every city is a unique and dynamic with a complex network of systems including people, processes, sensors, incidents and more. Each day brings volumes of data. To get a complete picture of what's happening, critical data must not only be accessible, but also connected and shared among all city agencies. It's the ability to digitalise the entirety into an intelligent, interactive ecosystem that enables real-time visualisation of the digital city. The power to connect everything in the ecosystem allows multi-discipline professionals to access and interpret all available and changing data. By integrating every digital system and adding intelligence, the smart city can use actionable information more effectively and at greater speed than human capacity.

INTELLIGENCE AND AUTOMATION

One of the greatest opportunities with digitalisation is improved productivity in almost all industries, through, for example, artificial intelligence (AI). By connecting the real and the virtual worlds, a machine can perceive and analyse its environment and correct deviations in real time, which reduces the risk of delays and cost overruns. Demands for higher productivity have also led to increased automation of time-consuming and resource-intensive tasks. The more digitalisation and automation achieved, the more intelligent machines and systems that can be created that learn, adapt, make decisions and act without human control.

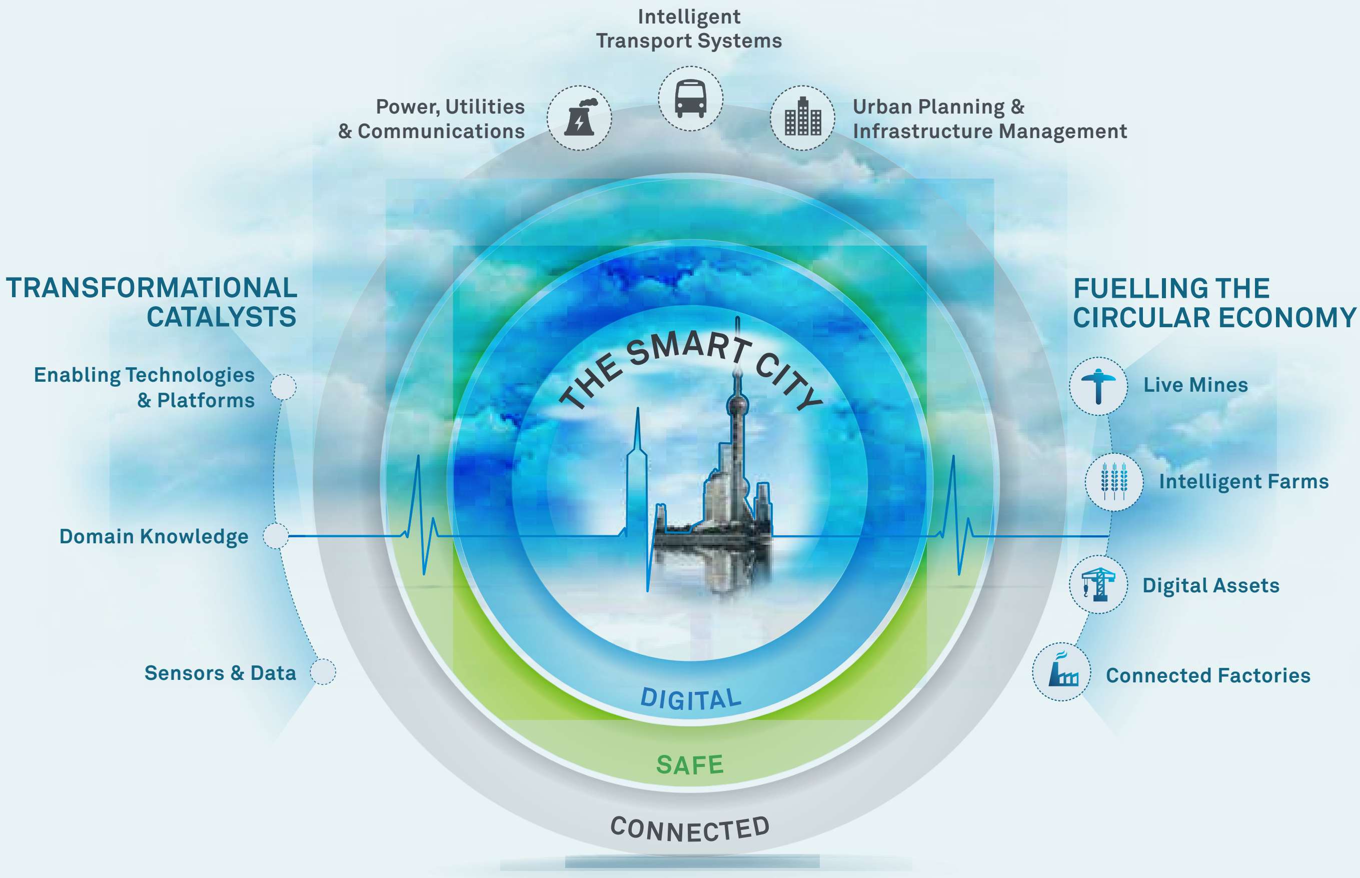
PROCESSING LARGE QUANTITIES OF DATA

An increasing amount of data is today stored in cloud services. There are several advantages, including the opportunity to access, adjust and share information more efficiently. This means there is only one source of information and the risk is eliminated that old, locally stored, data is used in work processes. Storing and using data in the cloud enables everyone to work under the same conditions, with exactly the same information available. Another efficient type of data processing is edge computing or edge data processing and analysis, which accelerates the response time by analysing data in real time, where the data is collected, rather than first allowing the data into the cloud. This is particularly important in time-critical situations, such as smart traffic systems and autonomous vehicle systems. This type of information flow, which is updated in real time, will and has already, changed a multitude of industries and is an important element in everything from smart cities to smart factories.

HEXAGON'S PEERS

Hexagon's peers include global companies of varying sizes and expertise. While Hexagon offers geospatial and industrial enterprise-wide applications, most of these peers operate within only one phase of an industry workflow or are limited to only sensors or software. Hexagon invests approximately 10-12 per cent of net sales in research and development (R&D) to maintain its competitive advantage and meet increasing demand for enterprise-wide applications.

COMPANY	DOMICILED	LISTED	GEOSPATIAL	INDUSTRIAL
Ansys	USA	✓		✓
Autodesk	USA	✓	✓	✓
AVEVA	UK	✓		✓
Bentley Systems	USA		✓	✓
Carl Zeiss	Germany			✓
Dassault Systèmes	France	✓		✓
ESRI	USA		✓	
Faro Technologies	USA	✓	✓	✓
Mitutoyo	Japan			✓
Nikon	Japan	✓		✓
Renishaw	UK	✓		✓
South Survey	China		✓	
Topcon	Japan	✓	✓	
Trimble	USA	✓	✓	



SHAPING SMART CITIES

DIGITAL, SAFE AND CONNECTED

We live in a time when cities are experiencing a great migration. Today, 50 per cent of the world's population lives in cities and urban areas. That number is expected is rise to 70 per cent by 2050.

This rapid influx of people poses big challenges to the essential services that public safety agencies, utilities and telecommunications companies, transportation departments and municipal governments provide.

Yet all the data, technologies and solutions promising to revolutionise urban life have limited individual value. The smartness of a city lies in how well its pieces are connected and function together. It is why Hexagon is putting its portfolio to work across three areas essential to every smart city – Digital, Safe and Connected.

DIGITAL
Being smart demands that cities become digital first. This allows for the complete picture – a Smart Digital Reality. By capturing a fully immersive, contextual 3D version of a city, it can be intelligently linked with real-time data to understand what is happening now (4D).

From this 4D reality, Hexagon move cities to a 5D reality by adding even more context using documents, databases, history and statistics, so that whatever they want or need to know is right at their fingertips. A smart city sets the stage for achieving real safety.

SAFE
Creating open and thriving cities can produce the unintended consequence of making them more vulnerable to public safety challenges.

By providing a technology framework, such as computer-aided-dispatch systems and planning and response applications, Hexagon enable multiple services to work together with a singular purpose on common objectives. That means making cities more resilient by connecting IoT systems and operational technologies within the city's enterprise information architecture; improving collaboration between government agencies and companies; and providing greater intelligence for planning and response operations.

CONNECTED
Hexagon is digitally transforming urban landscapes by simplifying synchronicity, so cities can create the autonomous "system of systems" necessary to reach Smart City potential. Because a city that is not absolutely connected cannot harness the exponential potential of its complexity. The goal is to enable legacy systems, new systems and organisational systems of all varieties to "talk" to each other.

Ultimately, the shape of a smart city all comes down to data and how to make sense of all the available data and visualise it in a meaningful format.

With the ability to integrate intelligence and visualisation capabilities, decision-making can be executed at speeds greater than human capacity. That is how Hexagon can help cities and citizens shape each other and the future.

THE SHAPE OF POTENTIAL

For over 20 years, Hexagon has been a global leader in the field of capturing geospatial and industrial data. Hexagon has evolved and augmented its vision to put this data to work — to enable it to do its greatest good by developing the information technology solutions that will digitally transform our most vital industries.

Driven by a commitment to disruptive innovation, Hexagon has established a competitive portfolio of solutions that empower customers to reach their full potential. Integrated data feeds and seamless workflows create smart ecosystems – from safer cities, more efficient power plants and less waste at factories, to more productive mines and greater yield from farms. In short, Hexagon leverages data to digitally transform the way these systems operate.

Hexagon's divisions include: Geosystems, Manufacturing Intelligence, Positioning Intelligence, PPM and Safety & Infrastructure. Each is focused on developing technologies for specific applications within their industries. Each possesses deep domain knowledge that is complemented by data in all of its forms. Every solution is enabled by disruptive technologies that are shared and leveraged across Hexagon's entire portfolio.

Our divisions, along with our central R&D Innovation Hub, are driving Hexagon's Smart X strategy, creating transformative smart digital realities – intelligent information ecosystems, built from 5D data – providing customers with the complete picture.

This is the shape of potential. This is shaping smart change.

HEXAGON'S TECHNOLOGY WORKS AS FOLLOWS:

SENSORS AND SOFTWARE
The combination of sensors and software is fundamental to delivering productivity and quality improvements.

VALUE-GENERATING CUSTOMER SOLUTIONS

Hexagon develops information technology solutions that drive productivity and quality in geospatial and industrial applications. Hexagon's strategy is based on the digital transformation of inefficient systems that in turn, deliver the actionable intelligence necessary for customers to reach their full potential.

Digital transformation is driving major changes in the world, producing opportunities for Hexagon and its customers. It involves the very toughest of challenges – how to make cities safe, how to sustainably farm and feed a fast-growing population, how to make refineries more efficient, how to mine responsibly and manufacture products faster – with less waste and higher quality.

Hexagon aspires to play a leading role in the effort to solve these challenges by delivering Smart X solutions, combining our expertise in hardware and software and an ability not only to solve the problems of today, but also to develop solutions for the challenges of tomorrow. These are crucial factors for continued success.

THE FOUNDATION FOR THE DEVELOPMENT OF THESE SMART X SOLUTIONS IS BASED ON FOUR KEY AREAS:

1. Solution-centric
2. Software focus
3. Technology leadership
4. Value-generating acquisitions

Smart X solutions

1. SOLUTION-CENTRIC

Measurement and positioning sensor technologies continue to become more exact and precise. At the same time, the ability to turn the growing amount of data provided by these advanced sensors into actionable intelligence is a challenge. To meet this challenge, solutions that optimise and automate data-centric workflows are needed.

The combination of Hexagon's expertise and portfolio of both hardware and software technologies can be utilised to do just that. Hexagon focus on delivering a solution-centric portfolio of offerings that ultimately enable customers to create intelligent information ecosystems. Simply, the solutions integrate data feeds, connect everything in the system – people, machines or processes – embedding intelligence and enable visualisation for smarter interaction with information.

Success in meeting both short-term and long-term challenges in the industries where Hexagon operates is based on always offering the most advanced solutions that help customers improve competitiveness.

2. SOFTWARE FOCUS

The most fundamental productivity and quality improvements are realised when the data captured, whether by Hexagon or third-party technologies, can be put to its greatest use. Hexagon's software portfolio plays a central role in creating such value. This has created a strong focus on in-house software development investments within Hexagon. The software portfolio is also supplemented through the acquisition of high-tech software companies that fit well with Hexagon's long-term strategy. Together, the strategic focus on software has resulted in a rise in synergies across Hexagon's divisions as software applicability tends to span multiple areas. Moreover, a large portion of Hexagon's software portfolio is open-source, making integration much easier.

A great example of wide-scale software applicability across Hexagon is the acquisition of Catavolt, whose cloud and mobile software platform can be used to benefit Hexagon's entire portfolio of solutions.

3. TECHNOLOGY LEADERSHIP

Hexagon has a strong focus on R&D, with annual investments of about 10–12 per cent of net sales. Hexagon has around 3,800 employees working in R&D, with more than 3,700 active patents. Every development project is based on an identified business case with clearly defined technical, commercial and cost targets. Hexagon's R&D investments in 2017 amounted to 415.6 MEUR (366.2), corresponding to 12 per cent (12) of net sales. Development expenses are capitalised if they pertain to new products, the cost is significant and the product is believed to have major earnings potential. *Read more about Innovation Hub on page 14.*

4. VALUE-GENERATING ACQUISITIONS

Acquisitions play a vital role in Hexagon's development and growth strategy. Over the past 20 years, Hexagon has completed more than 130 acquisitions to strengthen Hexagon's offerings by adding technology or knowledge that is not already present. Clear synergies must exist between the acquired company and Hexagon to justify the acquisition. The aim is not only to create growth, but also to ensure the synergy potential will be greater than the potential of each individual unit.

SELECTION OF ACQUISITIONS 2017

Month	Company	Country	Area	Segment
January	MiPlan	Australia	Mobile applications	GES
April	MSC Software	USA	CAE software	IES
May	Catavolt	USA	Mobile platform	Ventures
May	VIRES	Germany	CAE software	IES
June	DST Computer Services	Switzerland	Analytics	IES
June	FASys	Germany	Software	IES
June	InfraMeasure	USA	Measurement solutions	GES
October	Luciad	Belgium	5D maps	GES

Any acquisition candidates should have a strong position in markets where they operate and a good reputation among customers. Among software companies, the focus is on stable companies with high growth and profitability potential as well as clear synergies in relation to Hexagon's existing portfolio.

In the future, Hexagon expects acquired companies to add approximately 3–5 per cent to annual growth with an incremental operating margin of 30–35 per cent. Several acquisition candidates are regularly monitored and evaluated.

CATAVOLT

GOING TOWARD SMART TRANSFORMATION

With more efficient systems, Hexagon seeks to create a smarter world. Creating information networks capable of communicating and conveying data in an ever more intelligent and meaningful manner is key in Hexagon's Smart X strategy.

During 2017, Hexagon took an important strategic step by acquiring Catavolt, a provider of mobile app platforms and comprehensive solutions for developing and delivering mobile applications, secure cloud orchestration and real-time data analysis, i.e. edge computing. Catavolt's technology offers an open architecture and solid foundation for realising the transformative potential found in cloud and edge computing – architecture that can be seamlessly integrated with Hexagon's digital transformation platform, SMART Convergence.

Catavolt's technological prowess within data processing, in the cloud and on the edge, facilitates Hexagon's advancement of SMART Convergence, orchestrating connectivity technology (IoT), intelligence (AI) and visualisation (VR/AR/MR) according to industry-specific needs and user-specific workflows.

Technologically, the acquisition further strengthens the Convergence platform by allowing users to connect their organisations' full range of cloud services – an important step, since interlinked platforms and mobile applications are essential for driving productivity and efficiency. Together, a more efficient network of information and analysis is built, in turn building a more powerful ecosystem of smart solutions.

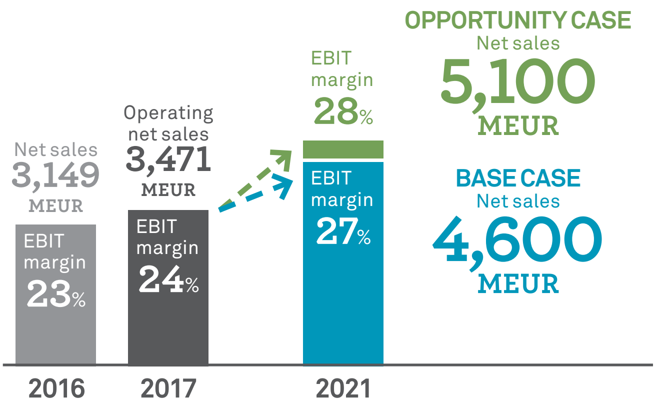
FINANCIAL PLAN FOR FUTURE GROWTH

Hexagon's growth strategy combines organic growth, using technology and innovative leadership, and acquisitions. The strategy is the base for Hexagon's financial plan for the period 2017–2021.

The financial plan features two scenarios for continued growth and improved profitability with the target to reach net sales of 4,600–5,100 MEUR and an operating margin of 27–28 per cent in 2021.

- **Base case scenario** – In the base case scenario, net sales will amount to 4,600 MEUR in 2021, which is equivalent to average annual growth of 8 per cent, whereof 5 per cent organic and 3 per cent growth from acquisitions. The operating margin is estimated in this scenario at 27 per cent in 2021.
- **Opportunity case scenario** – In a more optimistic scenario, net sales will amount to 5,100 MEUR, which is equivalent to average annual growth of 10 per cent, whereof 5 per cent organic and 5 per cent growth from acquisitions. The operating margin is estimated in this scenario at 28 per cent in 2021.

TARGET NET SALES AND OPERATING MARGIN (EBIT1)



CONTINUED GROWTH

Hexagon's growth strategy platform is focused on using technology and innovative leadership to grow organically and through acquisitions. Total average annual growth is estimated at 8–10 per cent depending on the scenario, even if some variation is expected between the years. Organic growth, which is estimated at approximately 5 per cent annually, relates in part to GDP-driven growth in the existing portfolio, but is primarily a result of increased revenues from new solutions. Recurring revenue is expected to increase as the percentage of software and services rises. Acquisition-related growth is estimated at approximately 3–5 per cent annually.

PROVEN ABILITY TO DELIVER MARGIN IMPROVEMENTS

Hexagon has proven its ability to steadily deliver enhanced margins. Since 2011, operating margin (EBIT1) has increased by 4 percentage points. The target in the financial plan through 2021 is for further margin improvements and to reach an operating margin (EBIT1) of 27 per cent or 28 per cent depending on the scenario. Improvements in margin will continue to be achieved through changes to the sales mix, where the software portfolio and new generations of products will account for a greater share of sales. The target is that organic growth will contribute with an incremental margin of 35–40 per cent. At the same time, the cost structure will continue to change. Investments in R&D will continue in order to meet the demand of more solution-centric business. This will trigger investments in sales resources while reducing administrative costs which are non-accretive to the profitability.

The target to improve profitability will be achieved through a higher proportion of sales from new high-margin applications and software, with a high percentage of recurring revenue. There is also a strong focus on further generating and utilising synergies.

The shift toward a higher proportion of software has improved the operating margin, but also resulted in changes to the cost structure. Hexagon now has lower costs for goods sold, but higher R&D and amortisation costs.

DEVELOPMENT DURING 2017

The result for the first year of the five-year financial plan proves that Hexagon is on track to reach the financial target for 2021. Net sales increased by 10 per cent to 3,471 MEUR, whereof 5 per cent organic growth, 6 per cent acquired growth and -1 per cent of currency. The operating result increased by 13 per cent to 835.3 MEUR, which generates an operating margin of 24.1 per cent (23.4). The favorable results for 2017 is an outcome of Hexagon's successful strategy, based on continued development of technology solutions, further investments in software in order to digitise the industries Hexagon serves and improved cost structure.

OTHER FINANCIAL TARGETS

EQUITY RATIO
54%

CASH CONVERSION
91%

WORKING CAPITAL TO SALES
13%

STRONG CASH FLOW GENERATION

A strong cash flow is necessary to finance investments, settle interest on debts and pay dividends to shareholders. Hexagon's cash conversion, i.e., the ratio at which profits are converted into cash, has averaged 84 per cent since 2011 and was 91 per cent (86) for 2017. Hexagon's target is to reach a cash conversion of 80-90 per cent. Cash flow from operating activities, excluding non-recurring items, amounted to 907.2 MEUR (782.1).

EFFICIENT USE OF OPERATING CAPITAL

Hexagon seeks to minimise working capital and in recent years, the ratio of working capital to sales has averaged less than 20 per cent. The ratio of working capital to sales in 2017 amounted to 13 per cent (17). The downward trend of working capital as a percentage of sales, is a result of a shift in business model towards more software-centric solutions. Hexagon's target is that return on capital employed, including goodwill from acquisitions, should exceed 15 per cent over a business cycle. Return on average capital employed, excluding non-recurring items, was 12.6 per cent (11.9) in 2017.

SOUND EQUITY RATIO AND BALANCED DEBT STRUCTURE

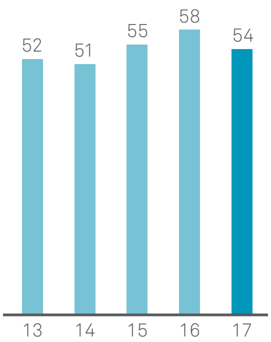
A sound equity ratio and balanced leverage are requirements for financing acquisitions by loans. Hexagon targets an equity ratio of at least 25 per cent and has the ambition to have a net debt to EBITDA ratio of 2.5x or below. The equity ratio amounted to 54 per cent (58) and the leverage ratio amounted to 1.8x (1.6) at year-end 2017.

Debt capital markets account for 94 per cent (99) of Hexagon's financing, while bank loans make up the remainder. Hexagon's net interest expense amounted to -22.7 MEUR (-21.8) in 2017. The average interest rate on the Group's short- and long-term loans was 1.0 per cent (1.3) at year-end 2017.

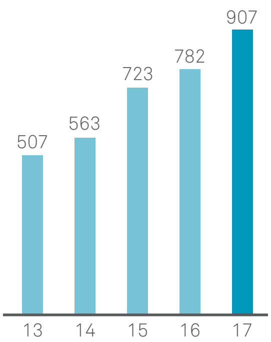
DIVIDEND POLICY

Hexagon's dividend policy is to distribute between 25 and 35 per cent of net earnings after tax. The Board's proposed dividend for 2017 is 0.53 EUR (0.48) per share, which is equivalent to 29 per cent (30) of the year's earnings.

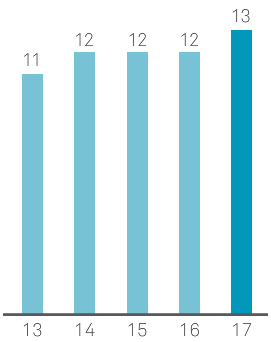
EQUITY RATIO, %



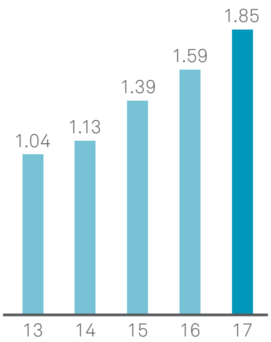
CASH FLOW, MEUR



RETURN ON CAPITAL EMPLOYED, %



EARNINGS PER SHARE, EUR



INNOVATION HUB

Hexagon's Innovation Hub is at the centre of the Hexagon-wide technology mandate to exploit cross-business synergies and raise the innovation bar across all lines of business.

While R&D efforts to improve divisional portfolios remain a focus of each of the divisions, the job of the Innovation Hub is to fuel disruptive, breakthrough innovation that benefits the entire company. This requires collaboration not only across business lines but also across disciplines. This is why Hexagon's Innovation Hub is a 'Hub' in the truest sense of the word, as it connects all of Hexagon's R&D experts, optimising resources and costs .

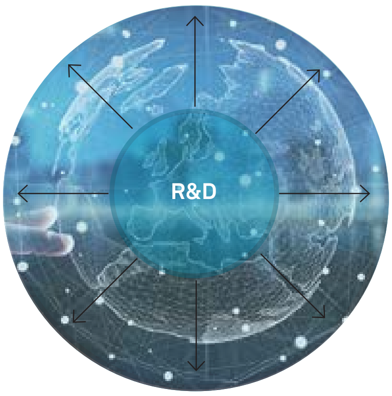
DEVELOP ONCE, REUSE EVERYWHERE

A single technology rarely solves anything on its own. For technology to reach its greatest potential, it must work dynamically within a broader ecosystem. Many of the Innovation Hub's R&D projects are foundational in nature, which means Hexagon's businesses realise many benefits from the Innovation Hub's technical endeavors.

With visibility into the R&D efforts across all divisions, the Innovation Hub enables Hexagon to take advantage of technology roadmap integration opportunities. This could be between one or more division or in alignment with foundational activities at the global level. Not only can this ensure that Hexagon avoid duplicate efforts but it can also speed up product development and delivery time.

Additionally, the Innovation Hub helps nurture Hexagon's own digital transformation by advancing foundational technologies in alignment with Hexagon's company-wide strategic plan and projecting the necessary R&D strategies going forward.

THE INNOVATION HUB SERVES THREE DISTINCT PURPOSES:



Global R&D – benefiting Hexagon as a whole

Divisional R&D support

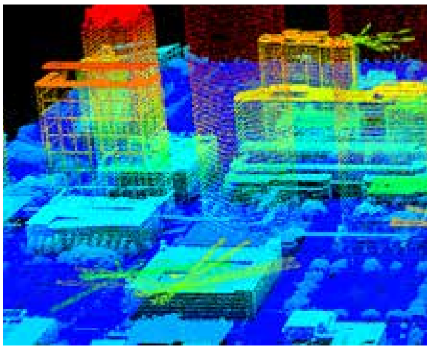
Business incubation

A CLOSER LOOK INSIDE THE INNOVATION HUB

The Group's primarily serving the global R&D purpose are responsible for product technologies, platform solutions and intellectual property.

The Technology Centre performs R&D to develop core technologies that are foundational to multiple Hexagon solutions.

The Application Centre develops software platforms and applications that enable new applications, mostly related to emerging technologies; for example, the IoT applications, advanced analytics (artificial intelligence techniques) and cloud and edge computing. These applications are the building blocks of new and disruptive Hexagon solutions.

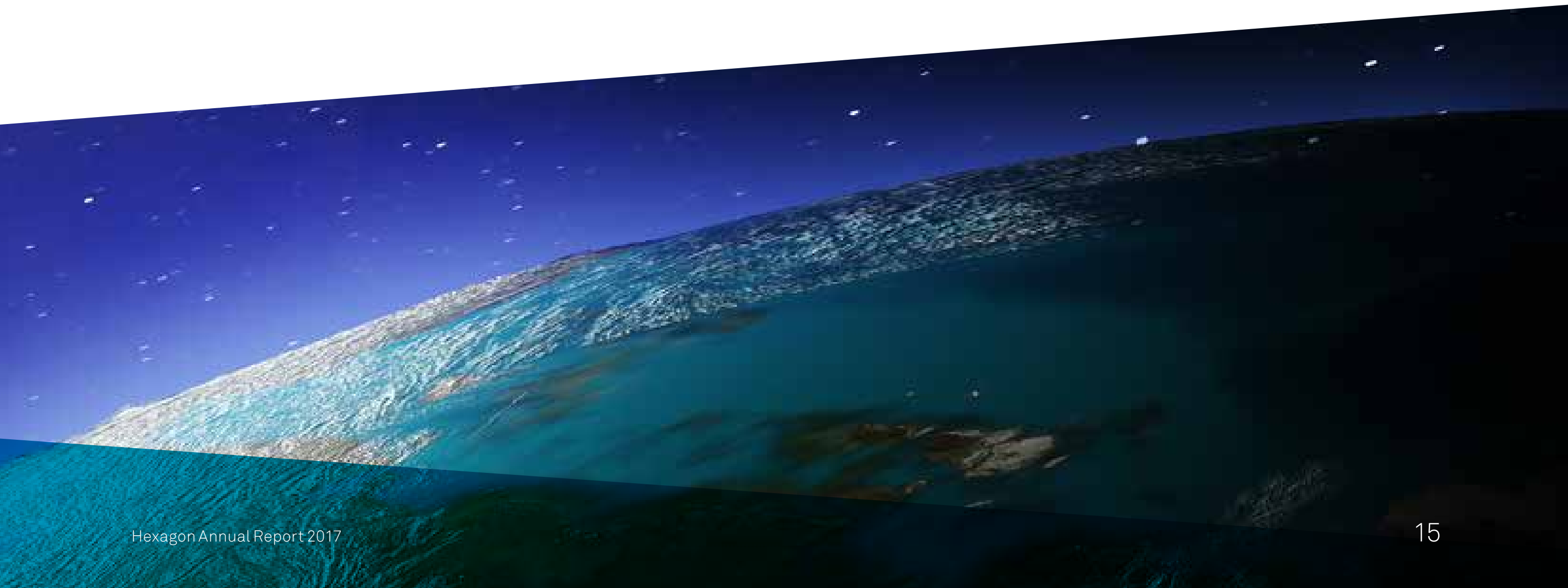


The Visualisation Centre develops and delivers a unique multi-platform core rendering, streaming and extended reality technologies specialised for the Hexagon-type data our customers use and produce.

The Mobile and Cloud Centre provides a powerful framework to support businesses with mobile deployment with legacy integration.

The Intellectual Property Group is responsible for collaborating with all divisional IP organisations to curate and administer our comprehensive portfolio of IP – containing more than 3,700 active patents.

Ventures is responsible for developing new applications, business models and channels. During an incubation period, Ventures is responsible for driving the initiative to a level of maturity where it can be transitioned to one of Hexagon's businesses. Post incubation and handover, Ventures and other parts of the Innovation Hub continue to support Ventures-driven initiatives where it makes business sense.



GEOSPATIAL ENTERPRISE SOLUTIONS

Geospatial Enterprise Solutions includes a world-leading portfolio of reality-capture sensors – from laser scanners, airborne cameras and UAVs (unmanned aerial vehicles) to monitoring equipment, mobile mapping technologies and precise positioning.

The sensors are complemented by software (GIS) for the creation of 3D maps and models which are used for decision-making in a range of software applications, covering areas such as surveying, construction, public safety and agriculture. This segment consists of Geosystems, Safety & Infrastructure and Positioning Intelligence.

GEOSYSTEMS

The Geosystems division develops sensors (total and multi-stations, 3D scanners, airborne cameras, etc.) to capture large quantities of data with high precision and accuracy and software to process, store and analyse the data, resulting in high-quality 3D models and maps of the real world. The solutions are used to provide actionable information in a number of areas where exact precision is required. These areas include bridge and tunnel projects, surveying and mapping or planning, construction and maintenance of infrastructure. The combination of Hexagon's sensors and software means data capture can be efficient, secure and accurate. Hexagon's solutions capture data quicker and often require fewer individuals in the field – leading to greater productivity and lower costs for customers.

Machine control enhances efficiency

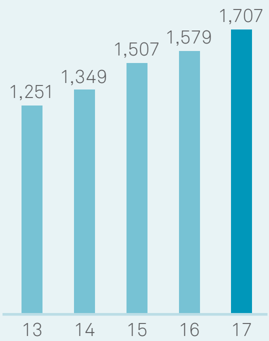
In areas such as agriculture, mining and construction, sensors and software are used to operate heavy machinery. The sensors send precise information in real-time to the in-cab control panel, which reduces the risk of error. This is because the operator is constantly fed information about his or her exact position in relation to obstacles, which

OPERATING NET SALES
49%

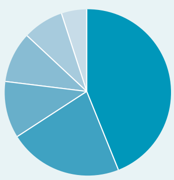
OPERATING MARGIN
24%

AVERAGE NO. OF EMPLOYEES
7,900

NET SALES, MEUR

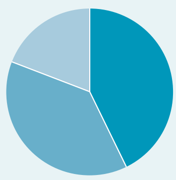


CUSTOMER SEGMENT, %



- Surveying, 44
- Infrastructure & Construction, 22
- Public Safety, 11
- Natural Resources, 10
- Transport and Public Service, 8
- Defence, 5

GEOGRAPHY, %



- EMEA, 43
- Americas, 38
- Asia, 19

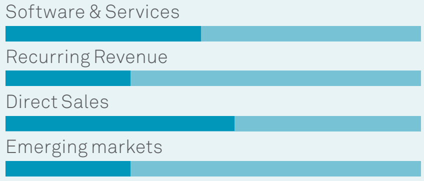
THE BUSINESS AREA COMPRISES THE FOLLOWING DIVISIONS:

- Geosystems
- Safety & Infrastructure
- Positioning Intelligence

SOLUTION EXAMPLES:

- Laser scanners
- Airborne cameras
- UAVs (unmanned aerial vehicles)
- Mobile mapping technologies
- Precise positioning

SALES MIX



ACQUISITIONS 2017

Company	Country	Area
MiPlan Ltd	Australia	A provider of mobile software applications to increase productivity in mines
IDS Georadar Australia	Australia	A distributor of structural health monitoring solutions
IDS Georadar North America	USA	A distributor of structural health monitoring solutions
InfraMeasure Inc	USA	A provider of measurement solutions for railroad and tunnelling applications
Luciad	Belgium	A provider of 5D visualisation and analysis solutions

LEICA GS18 T

ELEVATING AN INDUSTRY WITH PRECISION

During 2017 Hexagon launched the world's fastest and easiest self-learning mobile GNSS receiver: Leica GS18 T. It is also the industry's first calibration-free GNSS solution that contains tilt compensation and is immune to magnetic disturbance.

In practice, the technology means GNSS measurements can be picked up from any position, for example corners of houses or places partly obstructed by vehicles and also close to other metal objects. Since the instrument's tilt compensation eliminates the need for perfect verticality users can devote less time to calibrate and set up, resulting in time savings of around 20 per cent compared with conventional surveying practices.

The Leica GS18 T is seamlessly combined with Hexagon software to transform complex data into realistic and easy-to-handle 3D models, serving as yet another example of how Hexagon develops innovative solutions that not only heighten precision but elevate the entire industry.

increases both efficiency and safety. For example, in the mining industry, where precision and safety are key factors, Hexagon's solutions are used to integrate, automate and optimise planning, operations and safety in the most cost-effective manner as possible.

SAFETY & INFRASTRUCTURE

In Safety & Infrastructure, Hexagon's solutions are used in the areas of public safety, electricity, water and sanitation, among others. A threat in a densely populated area can quickly have a significant impact in the field of public safety. Couple this with rapid urbanisation and the demand for more complex control in planning and operation of cities worldwide is ever increasing. This is especially true for rapidly growing cities that were designed for far fewer people and consist of public infrastructure that has not evolved at the same pace. Monitoring critical functions in society, including electricity, water and public transport, is also of major importance in connection with natural disasters, such as landslides and flooding or terrorist attacks. Cities must be more connected and intelligent to enable quick and accurate decisions. This will impose growing demands on information technologies that contribute intelligence to the system.

As one of the largest providers of Geospatial Information Systems (GIS) in the world, Hexagon helps customers transform large amounts of data into relevant, actionable information. The solutions are used for building intelligent transportation systems, improving productivity in water management, developing more intelligent power grids and protecting critical infrastructure and sensitive ecosystems. In the area of incident response, Hexagon's computer-aided dispatch (CAD) solutions automatically and

LUCIAD

DEVELOPING MULTIDIMENSIONAL VISUALISATION OF INFORMATION

Hexagon is a global provider of innovative information technologies, driving productivity and quality. In order to strengthen the ability to deliver smarter visualisation and analysis, Hexagon has acquired the software company Luciad.

Luciad specialises in the processing and visualisation of real-time geospatial data. Its visualisation technologies fuse live connections with sensor data feeds, resulting in the creation of a dynamic 5D digital reality. By combining 3D visualisation with integrated real-time data from sensors (4D) and dynamic analytic capabilities (5D), Hexagon supplies smarter digital material. This also advances Hexagon's immersive Smart M.App platform into a complete information visualisation solution.

Luciad's intuitive command and control systems allow users to manage systems and data more efficiently. The products are employed to optimise air traffic control systems, route planning and agricultural production among other things, while also playing a crucial role in the creation of smarter cities.

Developing these multidimensional visualisation technologies enables Hexagon's customers to make well-informed decisions about their operations based on accurate data – regardless of whether they are working in the agriculture, aviation, defence and intelligence, public safety or smart cities domain.

efficiently handle information about various events and link operational and coordination centres with local police stations or other rescue functions. Response agencies receive accurate, real-time information that is locally adapted, contributing to efficient planning and coordination of efforts and resource optimisation.

Offering customers reliable, scalable and interoperable safety and infrastructure solutions increases both capacity and flexibility while reducing risks and total cost for processes and facilities. Hexagon's solutions increase situational awareness and produce better results – whether in an operating centre or the field, locally or in the cloud, at a workstation or via a smartphone application.

POSITIONING INTELLIGENCE

Positioning Intelligence uses Hexagon's sensors together with GNSS receivers to pinpoint geographic positions to a level measured in centimetres. Real-time awareness of position is a critical requirement for growth areas such as autonomous vehicles, vehicle navigation and precision farming. Hexagon's integrated positioning solutions can be used on land, sea or in the air, in demanding work environments such as dense forest areas or in deep opencast mines. Hexagon's GNSS receivers and antennas can be found in the surveying, oil, construction, agriculture, defence and mining industries – delivering superior position accuracy and increased signal availability.

Reliable and secure positioning

In several industries, security and reliability in positioning and tracking technology is essential for navigation operations. Today, Hexagon's Anti-Jam Technology (GAJT) is leveraged by the U.S. Navy to ensure concealment of a vessel's exact position by actively identifying and counteracting external jamming attempts. In addition, Hexagon's solutions help ensure that the vessel's position is communicated to the proper receiver in a closed communications system. Hexagon also offers anti-spoof solutions, providing special receivers that analyse and block attempts to manipulate a vessel's GPS and radar system.

LEICA BLK360

PIONEERING SCANNING SAVES TIME AND MONEY

Combining innovative design and engineering with minimalistic aesthetics proved a smart move on multiple levels. Not only is the Leica BLK360 the world's smallest imaging laser scanner – it also captures full digital reality data with astonishing efficiency, allowing for more dedication to the issues that really matter.

A press of the BLK360's sole button was all it took Maxwell Construction Co's engineering team to perform a complete construction site scan. Applying the documentation onto original drawings, the team identified misplaced plumbing and corrected the layout before pouring concrete – saving both money and a lot of time.

Thanks to the complete visualisation of client facilities in another project, Maxwell could accelerate the process when the client requested additional detailed mapping. No need to return for on-site supplementary work.

The scanner shoots 360-degree high dynamic range (HDR) spherical imagery to pair with its millimetre-accurate 3D laser point clouds, creating the kind of integrated workflows that drive productivity and quality.

The BLK360 captures ten times as much information in half the time compared with standard methods, being of great assistance to the company while simultaneously benefiting clients, subcontractors or cooperation partners. Quicker scanning and less reworking save resources on multiple levels.

INDUSTRIAL ENTERPRISE SOLUTIONS

Industrial Enterprise Solutions (IES) includes a world-leading portfolio of metrology systems that incorporate the latest in sensor technology for fast and accurate measurements. These solutions include technologies from coordinate measurement machines (CMM) to laser trackers and scanners.

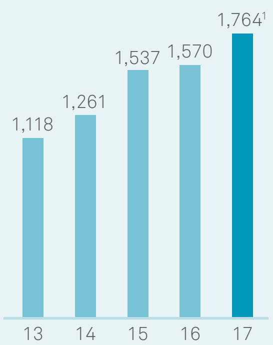
These technologies optimise design, processes and throughput in manufacturing facilities. It also includes software for CAD (computer-aided design), CAM (computer-aided manufacturing) and CAE (computer-aided engineering). Solutions within this segment optimise design and processes, improve productivity in process facilities and create and leverage asset management information critical to the planning, construction and operation of plants and process facilities. This segment consists of Manufacturing Intelligence and PPM.

MANUFACTURING INTELLIGENCE

All industries have their own unique challenges and drivers. Manufacturing companies share a focus on productivity and quality as determining factors in achieving success. Manufacturing companies must, therefore, find the right balance between speed, efficiency, cost and product quality to attain optimal productivity. By linking data from different parts of the production workflow, data can be analysed and converted into relevant decision support to continue optimising processes.

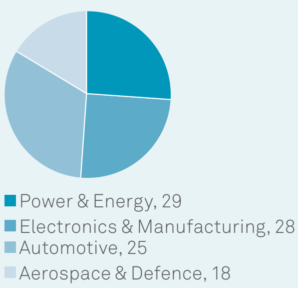
OPERATING NET SALES	OPERATING MARGIN	AVERAGE NO. OF EMPLOYEES
51%	25%	9,600

NET SALES, MEUR

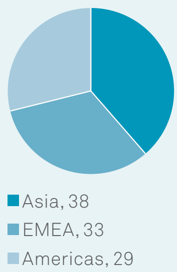


1) Operating net sales

CUSTOMER SEGMENT, %



GEOGRAPHY, %



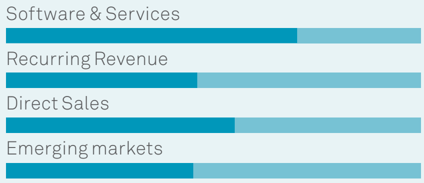
THE BUSINESS AREA COMPRISES THE FOLLOWING DIVISIONS:

- Manufacturing Intelligence
- PPM

SOLUTION EXAMPLES:

- CMMs (coordinate measuring machines)
- Optical and portable scanners
- Industrial metrology software
- CAD/CAM/CAE (computer-aided design/manufacturing/engineering) software
- Life cycle engineering software

SALES MIX



ACQUISITIONS 2017

Company	Country	Area
MSC Software	USA	A provider of computer-aided engineering (CAE) solutions
VIRES GmbH	Germany	A provider of simulation software solutions
DST Computer Services S.A.	Switzerland	A developer of piping stress analysis solutions for the nuclear industry
FASys GmbH	Germany	A developer of machine tools management software
Plant Design Solution	USA	A software and service distributor
Industrial Business Solutions Inc.	USA	A provider of completion and commissioning management systems

MSC SOFTWARE

SUPERIOR SOFTWARE FOR SCANIA'S SOUNDSCAPE

Scania is a world-leading manufacturer and designer of trucks and driver cabins. For that, Scania requires superior technology and software to test product experience.

One of the most important components of a comfortable driving experience is the soundscape. To address and optimise driver cabin noise, Scania sought to deepen its analysis and simulation. The search for new methods led to Hexagon and two new simulation tools within Manufacturing Intelligence: MSC Nastran and Actran.

To begin with, Scania's acoustic engineers identified and measured the most prominent noise sources inside and around the driver cabin using Nastran. Thereafter, the outputs were integrated with Actran to model the effects of various design and component choices on the soundscape of identified noise sources.

Merging test and simulation data, MSC assisted in the accurate recreation of cabin noise and the driver experience. Doing so facilitates a production process where smarter design and component choices can be made earlier and more efficiently.

MSC's solutions allow Scania to link design and production more explicitly – partly through the ability to visualise sound and noise experiences digitally prior to constructing cabins, partly due to the ability to construct sound models for other sources of noise.

With the help of MSC, Scania has managed to improve workflow and products, while upholding its position as a global market leader in truck design and manufacturing.

Manufacturing Intelligence's core expertise is in dimensional metrology, which uses sensors to gather data from a variety of sources to guarantee effective quality controls. Data capture can take place at the speed of the manufacturing line, which enables effective control of each individual part of manufacturing, using stationary or portable sensors that measure with extreme precision.

As software solutions have become increasingly important in optimising manufacturing processes, Hexagon has strengthened its software portfolio, enhancing capabilities in areas such as statistical process control, design software (CAD), solutions for production control (CAM) and software for simulation (CAE), which was added to Hexagon's portfolio through the acquisition of MSC. This has positioned Manufacturing Intelligence as a leading specialist in solutions for capturing, interpreting and analysing measurement data to raise production speed and productivity and improve product quality. MSC's analysis and simulation capacity offers customers an opportunity to optimise design prior to production, which guarantees productivity, quality and sustainability at the end of the production cycle. The acquisition strengthens Hexagon's ability to link traditionally separate phases in design and production by integrating data generated on the production line with simulation data. This further improves the customer's ability to detect and adjust design limitations and production problems before manufacturing.

The applications are used today in a number of different industries. In the highly competitive automotive industry, the technology is used to control bodies, powertrains and other components to enable automakers to build more efficiently and with less waste. In the aerospace industry, which is also highly competitive, where players strive for lightweight materials, freeform manufacturing and automation, there are similar solutions where Hexagon's technology contributes towards inspecting and controlling each individual component.

PPM

PPM is the leading global provider of enterprise-wide engineering software for designing, constructing and driving large and complex facilities. For example, in the process industry, power plants, offshore facilities and shipping, there are projects requiring substantial investments that can take years to plan and implement.

PPM's software enables 3D modelling and visualisation, stress analysis, procurement, fabrication, construction, project control and information management, which lead to smarter designs, processes and facility operation. These are often large and highly complex projects with thousands of people involved who are often geographically dispersed and have different duties and responsibilities.

Hexagon's solutions are used to minimise the risk of delays and cost overruns in these projects and simplify the handover when projects are complete.

When designing a new nuclear power station, for example, customers use PPM's software with relative ease to create 3D models of the plant to ensure safety requirements are met and provide a visual presentation that includes interactivity.

PPM's customers are located all over the world and about 70 per cent of revenues are recurring, such as subscriptions, services and software upgrades.

INTERGRAPH SMART DIGITAL ASSET

DIGITISATION REALISES VISIONS

PPM continually seeks innovative ways to increase efficiency and productivity in the design process and operation of facilities. PPM launched SDA Collaboration, a part of Intergraph Smart Digital Asset (SDA) during the year, the first phase of the rollout of the SDA information management platform for industrial facilities.

SDA Collaboration is the first online project collaboration technology architected to simultaneously build the owner operator's digital assets during the project phase for use later in operations and maintenance.

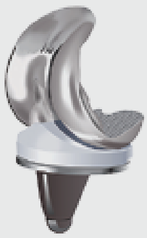
The SDA information management platform is a major step towards realising the vision of the smart digital industrial facility. The goal of SDA Collaboration is to deliver substantial resource efficiency gains by shortening cycle times, reducing costs and decreasing risks while improving total project quality.

With 10 per cent reduction in change orders and up to 7 per cent savings on total project costs, SDA Collaboration offers owner operators a new and powerful resource with enormous upside potential.

SDA Collaboration has an intelligent and simple approach to improving information exchange between project stakeholders. It gathers and leverages data to ensure that the right deliverables at the right milestones are reviewed by the right specialists, based on intelligent rules – an enormous improvement over the industry's document-centric approaches.

HxGN SMART QUALITY

COMMAND QUALITY BY COLLECTING DATA



Zimmer Biomet is a global leading developer of orthopaedic equipment. Quality demands are rigorous and specific, often at micrometre precision levels. As a medical device company, Zimmer must adhere to and comply with product and production process requirements from the FDA (U.S. Food and Drug Administration). Production supervision is therefore critical. By measuring deviations and controlling quality of products and production, valuable data is collected.

Complying with FDA regulation in turn requires supervision of temperature, vibrations and humidity during production. To ensure proper compliance for their coordinate measuring machines (CMM), Zimmer uses HxGN SMART Quality combined with PULSE systems.

Zimmer's previous and more manual system with log books caused production down time, time-consuming rebooting of systems and CMMs and loss of measurement data when critical tolerance limits were exceeded – problems which, thanks to Hexagon's solutions, now can be avoided – and with the help of HxGN SMART Quality and PULSE, quality and productivity is guaranteed.

PULSE is designed by Manufacturing Intelligence, employing a network of sensors to ensure data integrity and stability. PULSE records variations in temperature, vibrations, humidity in production environment and potential collisions – information then displayed and monitored using the PULSE system's central virtual control panels.

The virtual control panels allow for simpler supervision of Zimmer's entire process and earlier detection of when production approaches the required critical tolerance limits using HxGN SMART Quality. Through real-time data analysis the company can take action on deviations without interfering in production – a good example of how Hexagon's solutions give customers the necessary tools to create a more proactive production process.

In addition to real-time data processing, HxGN SMART Quality offers customisable status reports enabling advanced data flow management and intuitive data visualisation. Hexagon's solutions offer the customer command over the entire production – no matter if the CMM is located in China, Ireland or Puerto Rico.

With all data available in a uniform single-piece system visualising essential information in a manner easy to grasp, well-informed decisions can be made easier. With HxGN SMART Quality and PULSE, Zimmer increases its understanding of collected data and is able to shift focus to a real-time based production process. In that way, Hexagon helps companies move to data-driven processes without leaving trusted and world-leading methods behind.

INNOVATIVE SOLUTIONS FOR A BETTER WORLD

Hexagon's groundbreaking technologies and solutions help customers work smarter to increase their efficiency and productivity, which is one of Hexagon's greatest contributions to reducing resource waste and promoting a more sustainable society, now and in the future.

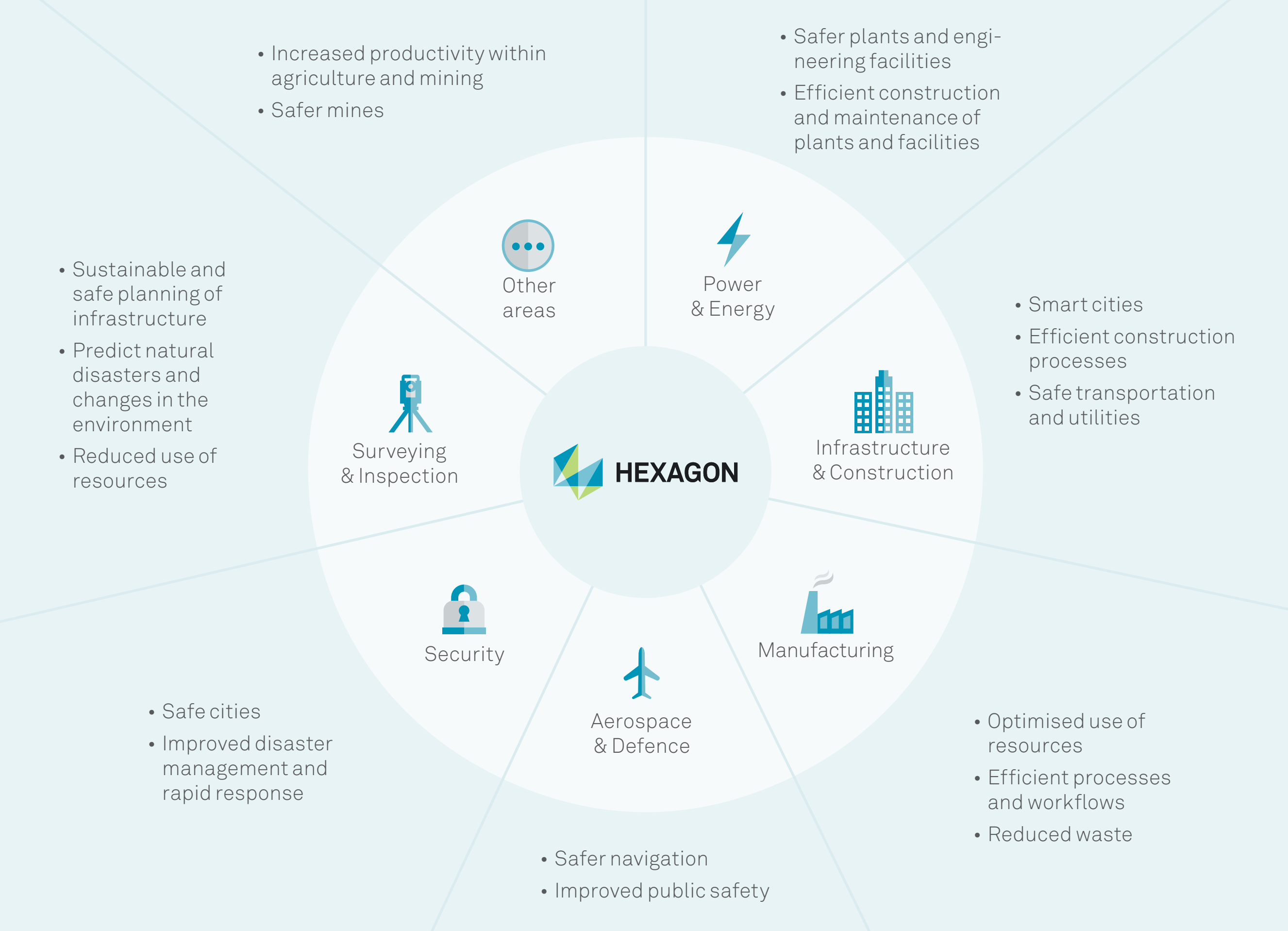
Global megatrends drive Hexagon's customers to continuously improve so they can meet market expectations for sustainable growth. A majority of vital industries can benefit from Hexagon technologies, which are used to create more sustainable communities.

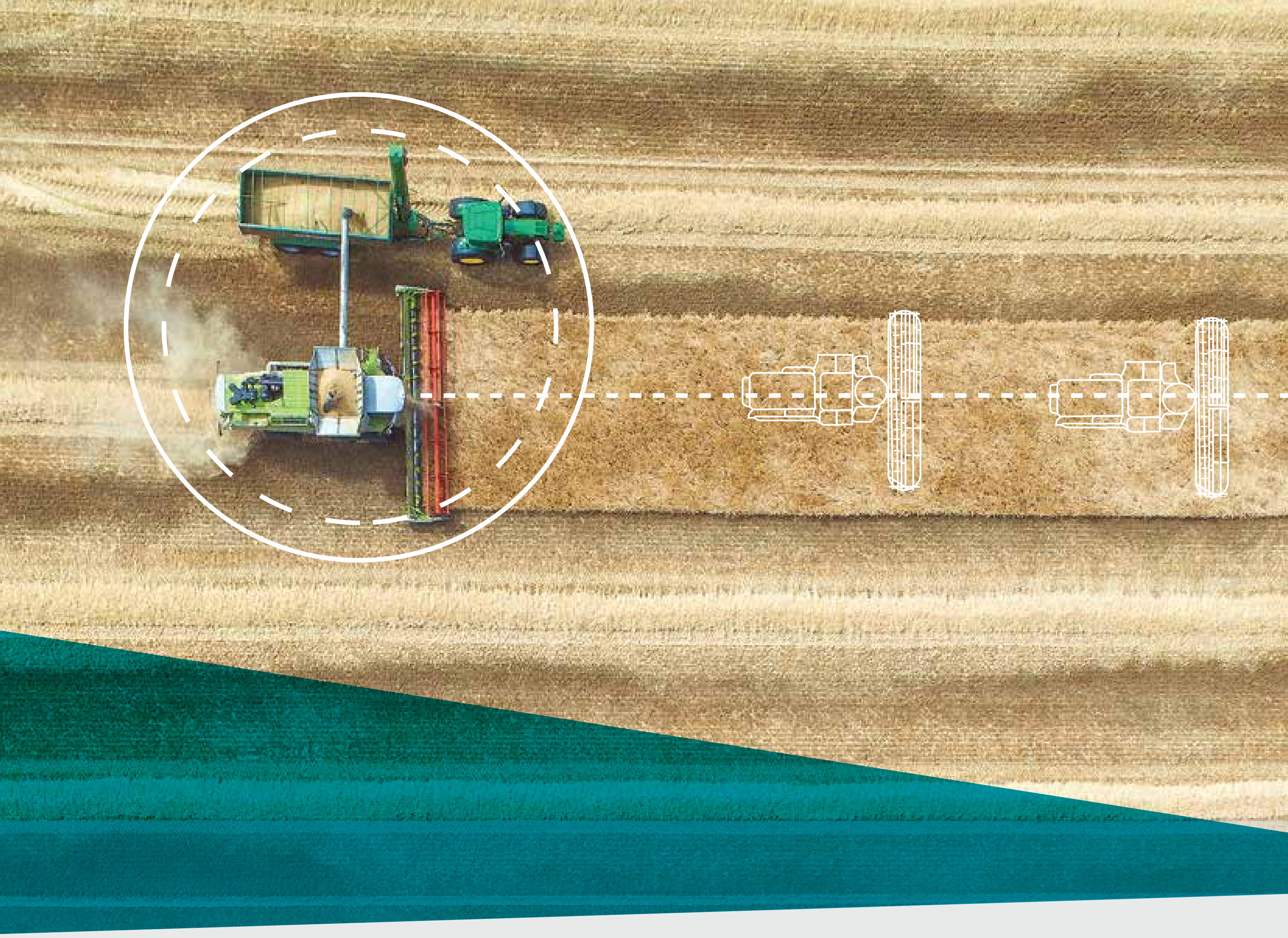
AN IMPORTANT ROLE IN SOCIETY

Hexagon has a leading role in addressing the challenges facing the world, from providing food and water and improving public safety for a growing population to reducing environmental and climate impact. Regardless the challenge, innovative, simple and effective solutions are needed to resolve these complex issues.

With a strong focus on technology leadership, Hexagon focuses on developing solutions with the potential to change the future. Hexagon's customers share the need to do more with less. Hexagon's solutions offer access to relevant information and analysis tools that provide greater understanding and the opportunity to make informed deci-

SMART CHANGE IN IMPORTANT INDUSTRIES





POSITIONING INTELLIGENCE

SUSTAINABLE PRECISION AGRICULTURE

Meeting the ever-growing global demand for food, growers are looking for ways to increase yield, reduce operating costs, reduce waste, reduce the use of chemicals, minimize water consumption and protect the environment for future generations. More and more farm equipment is being transformed into semi-autonomous smart machines that can accurately plant, fertilize, protect and harvest at centimeter accuracy. Hexagon's high-precision GPS/GNSS solutions enable automation of farm machinery for precise monitoring and planting. Helping farmers to be more efficient with the use of natural resources while protecting the planet and preserving the access to affordable and sustainable farmed products.

sions that lead to less waste, improved productivity and efficiency and achieved sustainability targets.

Hexagon's product range includes measurement systems with features that help customers reduce consumption of components and raw materials, improve energy efficiency, extend the product life cycle, improve work environments through ergonomic features and reduce the use of hazardous materials in product design. A future challenge is to further optimise the agriculture industry regarding the effects of natural disasters such as drought and flooding on access to arable land. Hexagon has solutions that increase agricultural efficiency and increase yields from existing agricultural area.

PROTECTING THE ENVIRONMENT AND PREVENTING NATURAL DISASTERS

To monitor areas impacted by climate change or subject to the risk of natural disasters, Hexagon's geospatial solutions are used to protect the environment and increase safety. Hexagon's solutions make it possible to monitor movement in infrastructure and in the landscape to predict areas where natural disasters may have a serious impact on people and property. Proactive planning for earthquakes and the placement of dikes for flood prevention are examples of preventive measures. Real-time monitoring increases the ability to minimise human and material damage resulting from natural disasters. In the event of an incident, the system sends a warning signal and provides information that can be used for possible rescue operations. In areas exposed to climate change, such as Greenland, Hexagon's solutions can calculate the length and speed of glacier movements. The reliability of this type of data is vital for the future.

A SAFER WORLD

Internationalisation, urbanisation and growing world trade are global trends that increase demand for infrastructure. In the fields of infrastructure and public safety, Hexagon's solutions are used in defence and public security, transports, water and energy supply, infrastructure maintenance and urban development. Continuous remote monitoring of buildings, dams and bridges is another application where monitoring in real time helps ensure public safety.

Hexagon's safety solutions also help agencies improve disaster management and rapid response, reconstruct crime scenes and monitor important locations or major events.

INNOVATION THAT MAKES A DIFFERENCE

Hexagon continues to invest in groundbreaking technologies and solutions that contribute to long-term sustainable development. Through the use of information technologies to make data actionable, Hexagon is helping develop solutions that are globally applicable and make a difference. Innovation in cooperation with customers and partners strongly contributes to Hexagon's profitable growth, as well as helps our customers achieve their sustainability targets.

HEXAGON'S STAKEHOLDERS

STAKEHOLDER DIALOGUE

Hexagon has a continuous dialogue with key stakeholders through different channels depending on the stakeholder group.

Dialogue with key stakeholders takes place both through Hexagon's divisions and business units (with customers, regulators, suppliers and employees), as well as at Group level (with investors and media).

MATERIALITY ASSESSMENT

Based on the stakeholder dialogue and horizon scanning, Hexagon has conducted a materiality assessment to determine the most material sustainability issues for the Group. Hexagon's board has evaluated and approved the material sustainability issues for Hexagon.

MANAGEMENT OF SUSTAINABILITY

The basis for Hexagon's sustainability work is the Code of Business Conduct and Ethics, which refers to the UN Global Compact principles and covers issues such as fair employment, diversity, anti-discrimination, workplace safety, privacy and protection of personal information, environment, fair competition, anti-corruption and other issues.

MATERIALITY ASSESSMENT

IMPORTANCE TO EXTERNAL STAKEHOLDERS

	Medium	High
High	• Anti-discrimination and diversity • Supply chain management	• Anti-corruption • Digitalisation • Employee engagement • Health and safety • Quality
Medium	• Greenhouse gas • Reduction of waste • Logistics and transportation • Social engagement • Materials and chemicals • Remuneration and other working conditions	• Competence • Data security and integrity • Economic value • Energy and resource efficiency • Export to risk countries and risk industries • Integration of acquisitions

IMPORTANCE TO HEXAGON'S BUSINESS

The Code of Business Conduct and Ethics applies to all Hexagon employees and guides interactions with customers and suppliers. The Code extends well beyond just legal compliance and reflects Hexagon's responsibility as a market leader to uphold the highest standards of ethics and compliance. In addition, Hexagon has a comprehensive group-wide Compliance Programme and manuals including anti-corruption, data privacy, export controls, government procurement, customs and competition matters.

The management of sustainability issues such as the environment, occupational health and safety and Human Resources predominantly takes place at a divisional level to allow for prioritisation of focus areas across the divisions and legal differences across countries.

DEVELOPING EMPLOYEES

Attracting, retaining and developing the best employees in the industry is key to Hexagon's success. The company employs more than 18,000 people globally, many of whom are highly skilled engineers and software developers. Hexagon is a global company with employees in 50 countries working in the company's different divisions.

Human Resources (HR) are managed by an HR organisation at the divisional and/or local level, allowing each division and region to focus on their specific HR-related priorities and needs. The Group HR function supports divisions in legal matters, as well as aligning processes for hiring, compensation and performance management. Also, Group HR is responsible for the bi-annual Employee Engagement Survey measuring employee engagement across the Group.

MATERIAL SUSTAINABILITY ISSUES FOR HEXAGON

Solution related contributions
- Digitalisation
- Quality
- Energy and resource efficiency

Financial
- Economic value
- Integration of acquisitions

Environmental
- Energy and resource efficiency

Employees
- Competence
- Anti-discrimination and diversity
- Employee engagement
- Health and safety

Compliance
- Anti-corruption
- Export to risk countries and risk industries
- Data privacy and integrity

Responsible value chain
- Supply chain management

The decentralised approach to HR has been a key success factor for Hexagon when integrating new acquisitions into the Group. Here, it has been a focus to maintain key employees and experts in the acquired companies and to be able to maintain existing practices to a certain extent.

OCCUPATIONAL HEALTH AND SAFETY

Personnel safety in the workplace is a top priority for Hexagon. Ensuring that employees work in a safe and healthy environment is the key to any successful business.

The guiding principles for workplace safety are laid out in the Code of Business Conduct and Ethics. The company strives to minimise the risks of accidents and work-related illnesses among its workers and employees. Hexagon is responsible for maintaining a safe work environment by implementing all applicable health and safety rules and practices within each Hexagon entity. Each division and local entity have in place processes and systems to ensure compliance with all applicable rules and regulations. Each Hexagon location has a management team member assigned to ensure that all mandated health and safety guidelines are followed.

COMPLIANCE AND BUSINESS ETHICS

Hexagon is committed to ensuring that its personnel act with the highest standard of ethics and in compliance with all regulatory and legal requirements and recommended practices.

Compliance and business ethics is managed by the Group Compliance function in close collaboration with compliance organisations in Hexagon's different divisions. Overall, Hexagon's compliance work is guided by the Code of Business Conduct and Ethics.

Hexagon continuously reviews and improves the Code of Business Conduct and Ethics to reflect evolving industry standards and changes to legislation. To these ends, Hexagon trains employees regarding its expectations, utilises experts in multiple jurisdictions across different disciplines and employs an in-house team of legal and compliance professionals to ensure that Hexagon remains at the forefront of these important topics. Though Hexagon's compliance efforts address all principles contained in the Code of Business Conduct and Ethics, Hexagon applies additional focus on six areas with a specially designated process. These programmes address anti-corruption, data privacy, export controls, government procurement, customs and competition matters.

Risk assessment and management

Hexagon conducted a risk assessment of its active entities during 2016 and 2017, to better identify entities with higher risks of violations in various areas of compliance. Hexagon is using the data collected to identify and address gaps in implementation of the compliance programme and to improve identification of training needs and targets.

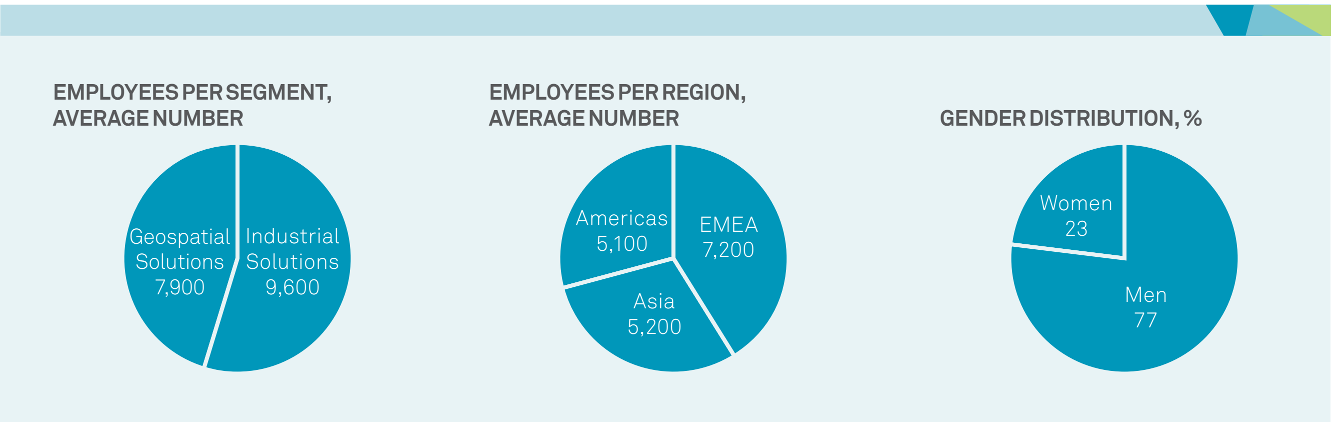
Hexagon's compliance department is also reviewing restricted party screening solutions to potentially replace other systems used across the company to address due diligence requirements in Hexagon's anti-corruption and export control compliance programmes. Also, Hexagon will provide all employees globally with online Code of Conduct training from a third-party provider in 2018.

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

Ensuring a responsible supply chain is important to Hexagon. Hexagon strives to ensure that its suppliers follow the principles set out in the Code of Business Conduct and Ethics. Also, Hexagon's compliance policies regarding supply chain management are documented within Hexagon's Anti-Corruption Compliance Documents and Export Compliance Documents.

When choosing suppliers, Hexagon will select suppliers based on an assessment of the overall competitiveness of the offering, as well as whether the supplier has in place practices to ensure they live up to the UN Global Compact principles. In some cases, Hexagon will perform audits of both new and existing suppliers. In 2017, the manufacturing divisions of Hexagon performed audits of 54 suppliers, focusing on social criteria in high risk countries and risk industries.

Read more in Hexagon's sustainability report at hexagon.com



HEXAGON CAPABILITY CENTER INDIA (HCCI)

COLLABORATING WITH UNIVERSITIES WORLDWIDE

Hexagon cooperates with multiple universities and colleges around the world, aiming at training and hiring students with industry-ready skills. In 2017, Hexagon started an Advanced Analysis Lab at the CBIT engineering college in Hyderabad, open for final year Bachelor and Masters students in the civil and mechanical engineering streams. Students and faculty undergo training programmes on Hexagon's solutions, making them industry-ready. Hexagon also launched a GNSS Lab at the Jawaharlal Nehru Technological University in the same region.

In order to continue to attract skilled employees, collaborations with local Universities is crucial for Hexagon's R&D centre in Hyderabad - Hexagon Capability Center India (HCCI) with over 1,100 employees.

THE SHARE

SHARE PRICE DEVELOPMENT AND TRADING

In 2017, the Hexagon share price increased by 26.2 per cent to 410.9 SEK as of 31 December. The share price reached the 52-week high of 437.0 SEK on 27 October and the 52-week low on 2 January at 329.4 SEK. Hexagon's total market capitalisation as of 31 December 2017 was 141,634.4 MSEK. During the year, 219 million (318) Hexagon shares were traded on the Nasdaq OMX Stockholm, BATS, Burgundy, Chi-X and Turquoise. The turnover rate, i.e. the degree of liquidity, was 64 per cent (92).

OWNERSHIP STRUCTURE

At year-end 2017, Hexagon had 27,226 registered shareholders (30,020). Shareholders in the USA accounted for the largest foreign holding, representing 19 per cent (18) of total shares followed by the UK, representing 12 per cent (11). The ten largest owners held 45.8 per cent (47.0) of the share capital and 61.1 per cent (61.9) of the votes.

SHARE CAPITAL

At year-end 2017, Hexagon's share capital amounted to 79,980,283 EUR, represented by 360,443,142 shares, of which 15,750,000 are of Class A with ten votes each and 344,693,142 are of Class B with one vote each. Each share has a quota value of 0.22 EUR. Hexagon AB held no treasury shares as of 31 December 2017.

Hexagon's Annual General Meeting in 2017 authorised the Board of Directors to resolve on the acquisition and transfer of Class B shares for the purpose of giving the Board the opportunity to adjust the company's capital structure and to enable the financing of acquisitions and the exercise of warrants. The authorisation covers a maximum of 10 per cent of all Hexagon shares.

INCENTIVE PROGRAMMES

In 2015, a new warrants programme was implemented for Group Management, presidents for Hexagon's divisions, senior managers and other key employees through the issue of 10,000,000 subscription warrants that entitle the holder to the same number of new Class B shares in Hexagon AB. The subscription warrants were issued to Hexagon Förvaltning AB, a wholly owned subsidiary and offered for sale to participants of the programme.

163 group managers, presidents for Hexagons's divisions, senior managers and other key employees in the Group purchased 7,107,660 warrants at a price of 25 SEK per warrant in 2015. Remaining subscription warrants have been reserved for future senior managers and recruitments of persons within the above eligible categories in the Group. The programme is expected to lead to an increased interest in the company's development and a strengthening of the share price.

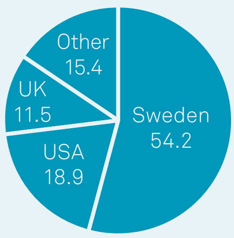
The strike price for subscription of shares upon exercise of the transferred warrants was set at 347.8 SEK. The warrants were valued by an independent institute in accordance with the Black-Scholes model and were acquired by the participants at market value. The warrants may be exercised during 1 June 2018 – 31 December 2019.

+26%

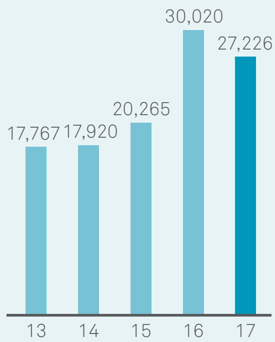
SHARE PRICE IN SEK, 2017

ISIN **SE0000103699**
NASDAQ OMX STOCKHOLM
HEXA B
REUTERS **HEXAB.ST**
BLOOMBERG **HEXAB SS**
SECTOR **TECHNOLOGY**
SEGMENT **LARGE CAP**

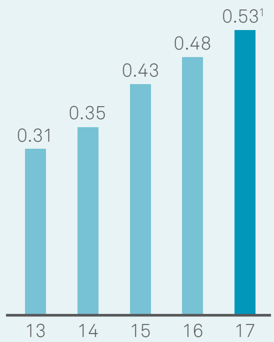
GEOGRAPHIC DISTRIBUTION OF SHAREHOLDINGS, %



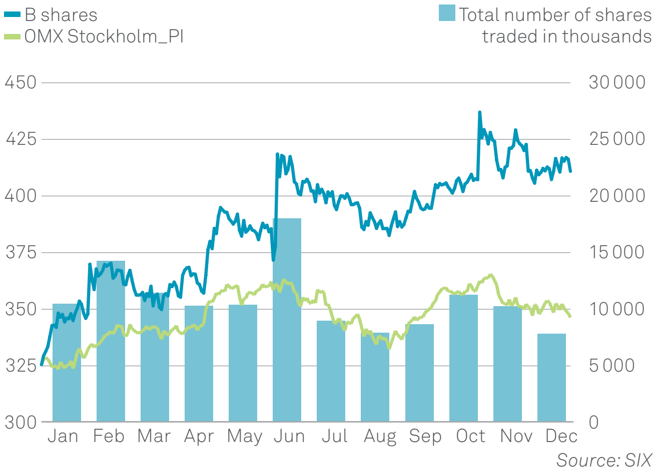
NUMBER OF SHAREHOLDERS



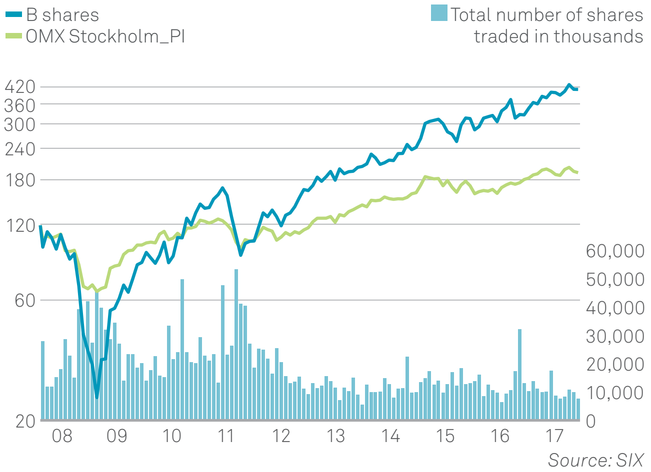
CASH DIVIDEND PER SHARE, EUR



1) According to the Board of Directors' proposal.



Source: SIX



Source: SIX

Class of shares	Number of shares	Number of votes	% of capital	% of votes
A shares	15,750,000	157,500,000	4.4	31.4
B shares	344,693,142	344,693,142	95.6	68.6
Total	360,443,142	502,193,142	100.0	100.0

LARGEST SHAREHOLDERS

Owner/manager/deposit bank	A shares	B shares	% of capital	% of votes
Melker Schörling AB	15,750,000	77,929,899	26.0	46.9
Ramsbury Invest AB	-	17,196,387	4.8	3.4
JPM Chase NA	-	13,883,991	3.8	2.8
SSB CL Omnibus	-	13,369,809	3.7	2.7
Swedbank Robur fonder	-	13,349,864	3.7	2.7
State Street Bank & Trust COM., Boston	-	7,084,313	2.0	1.4
AMF – Försäkring och Fonder	-	6,973,103	1.9	1.4
Första AP-Fonden	-	6,721,731	1.9	1.3
SEB Investment Management	-	4,610,294	1.3	0.9
CBNY-Norges Bank	-	4,434,181	1.2	0.9
Livförsäkringsbolaget Skandia	-	3,789,238	1.0	0.8
State Street BK-West Client/Treaty	-	3,440,319	1.0	0.7
Blackrock Global Funds	-	3,381,540	0.9	0.7
JP Morgan Chase Bank N.A.	-	3,346,720	0.9	0.7
State Street Bank & Trust COM., Boston	-	3,323,969	0.9	0.7
INV Bank & Trust	-	3,320,974	0.9	0.7
Andra AP-Fonden	-	3,177,730	0.9	0.6
Sumitomo Mitsui TRT Bank (USA) LTD., W9	-	3,160,032	0.9	0.6
Handelsbanken fonder	-	3,104,436	0.9	0.6
CBHK-GIC Private LTD-C(EQ)	-	3,061,163	0.8	0.6
Subtotal, 20 largest shareholders[1]	**15,750,000**	**198,659,693**	**59.5**	**70.9**
Summary, others	-	146,033,449	40.5	29.1
Total number of outstanding shares	15,750,000	344,693,142	100.0	100.0
Total issued number of shares	15,750,000	344,693,142	100.0	100.0

1) The concentration corresponds to the 20 largest shareholders presented in the list.
Source: Euroclear Sweden AB as of 29 December 2017 (with some adjustments).

DIVIDEND

The dividend policy of Hexagon provides that, over the long term, dividends should comprise between 25 and 35 per cent of earnings per share after tax, assuming that Hexagon satisfies its equity ratio objective. Dividends are resolved upon by the Annual General Meeting and payment is administered by Euroclear Sweden.

The Board of Directors proposes a dividend of 0.53 EUR (0.48) per share for 2017. The proposed dividend amounts to 29 per cent of the year's earnings per share after tax and is thus in line with the dividend policy.

THE HEXAGON SHARE

Year Transaction	Nominal value, SEK/ EUR	A shares, change	B shares, change	A shares, total	B shares, total	Share capital, SEK/EUR
2000	10			840,000	13,953,182	147,931,820
2002 Rights issue	10	210,000	3,488,295	1,050,000	17,441,477	184,914,770
2004 New issue, warrants exercised	10		10,170	1,050,000	17,451,647	185,016,470
2005 New issue, warrants exercised	10		722,635	1,050,000	18,174,282	192,242,820
2005 Bonus issue	12			1,050,000	18,174,282	230,691,384
2005 Split 3:1	4	2,100,000	36,348,564	3,150,000	54,522,846	230,691,384
2005 New issue, warrants exercised	4		154,500	3,150,000	54,677,346	231,309,384
2005 Private Placement[1]	4		11,990,765	3,150,000	66,668,111	279,272,444
2005 Private Placement[1]	4		82,000	3,150,000	66,750,111	279,600,444
2006 Rights issue	4	787,500	16,687,527	3,937,500	83,437,638	349,500,552
2006 New issue, warrants exercised	4		508,933	3,937,500	83,946,571	351,536,284
2006 Compulsory redemption, Leica Geosystems	4		198,635	3,937,500	84,145,206	352,330,824
2006 New issue, warrants exercised	4		309,119	3,937,500	84,454,325	353,567,300
2007 New issue, warrants exercised[2]	4		58,170	3,937,500	84,512,495	353,625,470
2007 Bonus issue	6			3,937,500	84,512,495	530,699,970
2007 Split 3:1	2	7,875,000	169,024,990	11,812,500	253,537,485	530,699,970
2008 New issue, warrants exercised[2]	2		169,785	11,812,500	253,707,270	531,039,540
2008 Repurchase of shares	2		-1,311,442	11,812,500	252,395,828	531,039,540
2009 Sale of repurchased shares, warrants exercised	2		138,825	11,812,500	252,534,653	531,039,540
2010 Sale of repurchased shares, warrants exercised	2		20,070	11,812,500	252,554,723	531,039,540
2010 Rights issue	2	3,937,500	83,845,572	15,750,000	336,400,295	707,284,354
2011 Rights issue	2		339,335	15,750,000	336,739,630	707,284,354
2011 Change of functional currency to EUR	0.22			15,750,000	336,739,630	78,471,187
2012 Sale of repurchased shares, warrants exercised	0.22		185,207	15,750,000	336,924,837	78,471,187
2013 Sale of repurchased shares, warrants exercised	0.22		967,340	15,750,000	337,892,177	78,471,187
2013 New issue, warrants exercised	0.22		1,354,800	15,750,000	339,246,977	78,771,810
2014 New issue, warrants exercised	0.22		2,392,236	15,750,000	341,639,213	79,302,633
2015 New issue, warrants exercised	0.22		2,947,929	15,750,000	344,587,142	79,956,762
2016 New issue, warrants exercised	0.22		106,000	15,750,000	344,693,142	79,980,283
Total number of issued and outstanding shares				15,750,000	344,693,142	79,980,283

1) Issues in kind in connection with the acquisition of Leica Geosystems whereby shares in Leica Geosystems were contributed in exchange for B shares in Hexagon.
2) Issue in kind in connection with annual block exercise in Leica Geosystems' warrant programme whereby shares in Leica Geosystems received by the programme participants based on the exercise of warrants were contributed in exchange for B shares in Hexagon.

OWNERSHIP STRUCTURE

Holding per shareholder	Number of shareholders	no. of A shares	no. of B shares
1–500	19,934	-	2,581,822
501–1,000	2,684	-	2,094,805
1,001–2,000	1,760	-	2,649,295
2,001–5,000	1,282	-	4,124,582
5,001–10,000	548	-	4,011,658
10,001–20,000	329	-	4,772,522
20,001–50,000	279	-	8,931,226
50,001–100,000	123	-	8,734,865
100,001–500,000	187	-	43,059,644
500,001–1,000,000	45	-	31,998,528
1,000,001–5,000,000	49	-	98,397,096
5,000,001–10,000,000	2	-	13,806,044
10,000,001-	4	15,750,000	119,531,055
Total	27,226	15,750,000	344,693,142

Source: Euroclear Sweden AB as of 29 December 2017.

KEY DATA PER SHARE

	2017	2016	2015	2014	2013
Shareholder's equity, EUR	12.78	12.70	11.36	9.68	8.00
Net earnings, EUR	1.85	1.59	1.39	1.13	1.04
Cash flow, EUR	2.52	2.17	2.01	1.58	1.43
Cash dividend, EUR	0.53[1]	0.48	0.43	0.35	0.31
Pay-out ratio, %	28.6	30.2	31.0	31.0	29.8
Share price, EUR	41.74	34.07	34.26	25.76	22.95
P/E ratio[2]	23	21	25	23	22

1) Restated for IAS19.
2) According to the Board of Directors' proposal.
3) Based on the share price at 31 December and calendar year earnings.

ANALYSTS FOLLOWING HEXAGON AB

Organisation	Name
ABG Sundal Collier	Olof Cederholm
Bank of America	Mark Troman
Barclays	Gerardus Vos
Berenberg	Gal Munda
Carnegie	Mikael Laséen
Danske Bank	Max Frydén
Deutsche Bank	Alex Tout
DNB	Mattias Holmberg
Exane BNP Paribas	Antoine Hucher
Goldman Sachs	Mohammed Moawalla
Handelsbanken	Daniel Djurberg
J.P. Morgan	Stacy Pollard
Kepler Cheuvreux	Markus Almerud
Morgan Stanley	Adam Wood
Nordea	Agnieszka Vilela
RBC	Wasi Rizvi
SEB Equities	Erik Golrang
UBS Investment Research	Guillermo Peigneux

CORPORATE GOVERNANCE REPORT

Hexagon AB is a public company listed on Nasdaq OMX Stockholm. 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, Nasdaq OMX Stockholm's rules and regulations, the Swedish Code of Corporate Governance ("the Code") and 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 2017 financial year.

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 2017, Hexagon's share capital was EUR 79,980,283, represented by 360,443,142 shares, of which 15,750,000 are of Class A with ten votes each and 344,693,142 are of Class B with one vote each. Hexagon AB held no treasury shares at year-end.

Melker Schörling AB, the single largest shareholder in Hexagon, held a total of 15,750,000 Class A shares and 77,929,899 Class B shares at year-end 2017, representing 46.9 per cent of the votes and 26.0 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 knowledge of the Board of Directors ("the Board") 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.

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 discharge from liability to the company for the Board members and the President and CEO, remuneration of 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.

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 AGM and the company's auditors. In addition, the Nomination Committee presents proposals regarding remuneration of the Board of Directors (including for committee work) and the auditors.

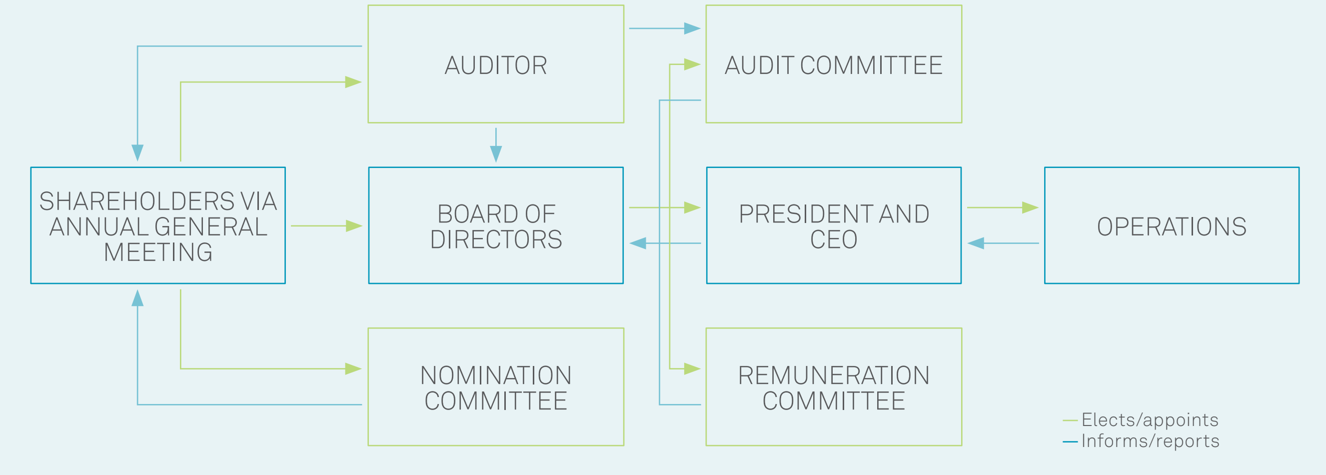
The Nomination Committee shall consist of representatives for major shareholders of the company elected by the AGM. In case a shareholder, who a member of the Nomination Committee represents, is no longer one of the major shareholders of Hexagon or if a member of the Nomination Committee is no longer 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 a 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 2017 elected eight members, including the President and Chief Executive Officer. The Chief Financial Officer and Executive Vice President, Hexagon's General Counsel and the Chief Strategy 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 board members' independence in relation to the company, its management and major shareholders is presented on page 40. 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 is presented.

AUDIT COMMITTEE

The Audit Committee, which is a preparatory body in the contact between the Board and auditors, is appointed annually by the Board and continuously submits reports to the Board about its work. The Audit Committee follows written instructions and is, through its activities, to meet the requirements stipulated in the Swedish Companies Act and in the EU's audit regulation. The Committee's tasks include assisting the Nomination Committee in drawing up proposals for General Meeting resolutions on the election of auditors and remuneration to auditors, monitoring that the auditor's term of office does not exceed applicable rules, procuring the audit and making a recommendation in accordance with the EU's audit regulation. Furthermore, the Audit Committee shall review and monitor the auditors' impartiality and independence and draw particular attention to whether the auditor provides the company with other services than the audit. The Audit Committee shall also issue guidelines for services in addition to auditing services provided by the auditors and in applicable cases approve these services according to the issued guidelines. The Audit Committee shall take part in planning auditing services and related reporting and regularly meet the external auditors to stay informed on the orientation and scope of the audit. The Audit Committee shall also review and monitor the Group's financial reporting, the activities of the external auditors, the company's internal controls, the current risk situation and the company's financial information to the market. The Audit Committee's tasks also include submitting recommendations and proposals to ensure the reliability of financial reporting and other issues that the Board assigns the Committee to consider. The Committee has not, in addition to written instructions approved by the Board specifically for the Audit Committee, 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, on behalf of the Board, to consider issues regarding remuneration of the President and CEO and executives that report directly to the President and CEO and other similar issues that the Board assigns the Committee to consider. The Committee shall also follow and evaluate ongoing programmes or programmes completed during the year, for variable remuneration to Group Management as well as the application of the guidelines for remuneration to senior executives as resolved by the AGM. 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 and tax. 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 clarify the Board of Directors' responsibilities and regulate 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 certain specific Group staff functions, totals 12 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 focus on maximising operating earnings and minimising 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, held on 2 May 2017 in Stockholm, Sweden, was attended by shareholders representing 63 per cent of the total number of shares and 74 per cent of the total number of votes. Mikael Ekdahl was elected Chairman of the AGM.

THE FOLLOWING MAIN RESOLUTIONS WERE PASSED:

- Re-election of Directors Ulrika, Francke, Ola Rollén and Gun Nilsson
- Election of Directors John Brandon, Henrik Henriksson, Märta Schörling Andreen, Sofia Schörling Högberg and Hans Vestberg
- Election of Gun Nilsson as Chairman of the Board and of Hans Vestberg as Vice 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 0.48 EUR per share for 2016 as per the Board's proposal
- Principles for remuneration to Hexagon's senior executives

NOMINATION COMMITTEE

In respect of the 2018 AGM, the Nomination Committee comprises:

- Mikael Ekdahl, Melker Schörling AB (Chairman)
- Jan Andersson, Swedbank Robur fonder
- Anders Oscarsson, AMF and AMF Fonder
- Ossian Ekdahl, Första AP-fonden

During 2017, the Nomination Committee held three minuted 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 2018 AGM concerning the election of Chairman of the AGM, the election of Chairman and other Board Members, remuneration to the Board, including 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.

KEY DATA FOR BOARD MEMBERS[1]

			Committee membership		Meeting attendance		
Board Member	Elected	Independent	Audit Committee	Remuneration Committee	Board of Directors	Audit Committee	Remuneration Committee
Melker Schörling[2]	1999	No[4]		⊙	2/14		0/1
Gun Nilsson	2008	No[4]	⊙	⊙	14/14	6/6	1/1
Hans Vestberg[3]	2017	Yes			8/14		
John Brandon[3]	2017	Yes			9/14		
Ulrika Francke	2010	Yes	⊙		13/14	3/6	
Henrik Henriksson[3]	2017	Yes			8/14		
Ola Rollén	2000	No[5]			12/14		
Märta Schörling Andreen[3]	2017	No[4]			9 /14		
Sofia Schörling Högberg[3]	2017	No[4]	⊙	⊙	7/14	4/6	1/1
Jill Smith[2]	2013	Yes	⊙		5/14	2/6	

1) A complete presentation of the Board Members is included on pages 40–41.
2) Melker Schörling and Jill Smith left their assignments as Board Members during 2017.
3) Hans Vestberg, John Brandon, Henrik Henriksson, Märta Schörling Andreen and Sofia Schörling Högberg became Board Members in May 2017.
4) Melker Schörling, Gun Nilsson, Märta Schörling Andreen and Sofia Schörling Högberg are not deemed to be independent of the company's major shareholders.
5) Rollén is not deemed to be independent of the company as a result of his position as Hexagon's President and CEO.

BOARD AND COMMITTEE MEETINGS

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

BOARD OF DIRECTORS' ACTIVITIES

In 2017, the Board held 14 minuted meetings, including the statutory Board meeting. At the 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 executives 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 Board meeting in December 2017, the Board approved the operational strategy, the financial plan for 2018 and the financial targets for 2017–2021.

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 2017 the Audit Committee comprised:

- Gun Nilsson (Chairman)
- Sofia Schörling Högberg
- Ulrika Francke

In 2017, 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 for impairment of goodwill.

REMUNERATION COMMITTEE

During 2017, the Remuneration Committee comprised:

- Gun Nilsson (Chairman)
- Sofia Schörling Högberg

In 2017, the Committee held one minuted meeting where remuneration and other employment terms and conditions for the President and CEO and other 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 managers and the structure and levels of remuneration in the company.

EXTERNAL AUDITORS

The 2017 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, he conducts auditing assignments for such companies as Alimak Group AB, Nynas AB and Pricer 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 2017.

The address of the auditors is Ernst & Young AB, Box 7850, SE-103 99, Stockholm, Sweden.

REMUNERATION PRINCIPLES

The following principles for remuneration to senior executives in Hexagon were adopted by the 2017 AGM.

Remuneration shall consist of a basic salary, variable remuneration, pension and other benefits and all remuneration shall be competitive and in accordance with market practice. The variable remuneration shall be maximized to up to 150 per cent in relation to the basic remuneration, related to the earnings trend which the relevant individual may influence and based on the outcome in relation to individual targets.

The Board annually considers whether a share or share-based incentive programme shall be proposed to the Annual General Meeting. 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. Pension benefits shall, as a main rule, be defined contribution. Deviation from this main rule may be permitted when appointing new senior executives whose previous employment agreement included a defined-benefit pension plan. The pension age for senior executives is individual, although not lower than 60 years.

It is proposed to the 2018 Annual General Meeting 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 87.

There are no agreements between the company, directors or employees, other than as described in Note 30, which stipulate the right to compensation if such person voluntarily leaves the company, is dismissed with cause or if such person's employment is terminated as a result of a public offer for shares in the company.

INCENTIVE PROGRAMMES

Details of the warrants programme are presented on page 30 (The Share section) and in Note 30 on page 87.

REMUNERATION OF BOARD OF DIRECTORS

Remuneration of the Board of Directors is resolved by the AGM upon proposal from the Nomination Committee. During 2017, the Chairman of the Board and other Board Members received remuneration totaling 593.8 KEUR (427.1). Remuneration of the Board of Directors is presented in Note 30 on page 87.

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 87.

For more details about principles practised:

- The Swedish Companies Act, www.regeringen.se
- The Swedish Code of Corporate Governance, www.corporategovernanceboard.se

More information is available at hexagon.com

- Articles of Association
- Information from earlier Annual General Meetings
- Information about the Nomination Committee
- Information ahead of the Annual General Meeting 2018

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 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. The control activities 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.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the annual meeting of the shareholders of Hexagon AB, corporate identity number 556190-4771.

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the corporate governance statement for the year 2017 on pages 33–37 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

OPINION

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts.

Stockholm, Sweden, 21 March 2018

Ernst & Young AB

Rickard Andersson
Authorised Public Accountant

"It's the Board's responsibility to support continued growth, which is becoming increasingly important in a world where change is constant and exponential."

DEAR SHAREHOLDERS,

When I reflect on my first year as Chairman of the Board, I am truly proud of the accomplishments Hexagon has achieved. This was year one of the new five-year financial plan, launched in December 2016 and Hexagon is, without a doubt, on the right path towards the 2021 targets.

It's the Board's responsibility to support continued growth, which is becoming increasingly important in a world where change is constant and exponential. Megatrends like shifting economic power, demographic changes and technological breakthroughs are shaping our world in new and diverse ways. It is because of this we stand boldly behind our mission – to empower customers to solve the challenges our world is facing and shape smart change.

It's rewarding to see the long-term strategy and decisions the Board took many years ago paying off – decisions led by Melker Schörling as Chairman and Ola Rollén as President and CEO, supporting a solution-centric product portfolio, reinforced by an emphasis on R&D. This has certainly been a winning concept for Hexagon. We can clearly see the importance of every division working collaboratively, sharing technologies to develop purpose-driven innovations for our customers.

During the year, we took many important decisions to further Hexagon's solution-centric strategy. We did the third largest acquisition in the history of Hexagon with MSC, a simulation software business and a game changer in Hexagon's Smart Connected Factory vision. We acquired Vires, Catavolt and Luciad which further enhanced our autonomous, visualisation and mobile capabilities. We also took a decision to invest in a brand new, state of the art production facility and R&D centre in Hongdao, China. As this market has grown to be a substantial part of Hexagon's revenues, the new facility is an important milestone to support further growth in the region, improving services for the customers while offering new technologies to support smart manufacturing. At the same time, we have continued to ensure a strong financial position, which enables us to further invest in profitable growth and deliver stable returns and value growth to our shareholders.

I am also very pleased how the Board has tackled both opportunities and challenges during the year with fundamental principles and sound corporate governance to ensure sustainable long-term shareholder value and to develop Hexagon and its operations in the best possible way. It has clearly been rewarding for both Hexagon and its shareholders. Good corporate governance is distinguished by clearly defined responsibilities for management and control bodies and by the sound processes that exists in Hexagon's internal systems.

On behalf of my colleagues on the Board of Directors, I thank all the 18,000+ employees who are the backbone of Hexagon's accomplishments and our shareholders for your continued trust and support. I look forward to seeing another year with great achievements for Hexagon.

Stockholm, Sweden, March 2018

Gun Nilsson
Chairman of the Board

BOARD OF DIRECTORS

GUN NILSSON
Born in 1955
Member of the Board since 2008
Chairman of the Board since 2017
Chairman of Audit Committee and Remuneration Committee

Education: B.Sc. (Econ)

Work experience: President Melker Schörling AB, CFO IP-Only Group, CFO Sanitec Group, CFO Nobia Group, CEO Gambro Holding AB, Deputy CEO and CFO Duni AB.

Other assignments: Board member of Hexpol AB, AAK AB, Loomis AB and Bonnier Holding AB.

Previous assignments in the past five years: Board member of Capio AB and Dometic Group.

Shareholding[1]: 10,666 shares of series B

Independent of the company and its management.

JOHN BRANDON
Born in 1956
Member of the Board since 2017

Education: B.A. (History)

Work experience: Vice President International of Apple Inc., CEO Academic Systems Inc., Vice President and General Manager North America of Adobe Systems Inc.

Other assignments: Board member of Securitas AB and Pillar Vision Inc.

Previous assignments in the past five years: –

Shareholding[1]: 3,000 shares of series B

Independent of the company, its management and major shareholders

ULRIKA FRANCKE
Born in 1956
Member of the Board since 2010

Education: University studies

Work experience: President and CEO Tyréns AB, City Planning Director and Street and Property Director City of Stockholm and CEO SBC AB.

Other assignments: Chairman of Knightec AB, BIM Alliance Sweden and IVA dept. III (the Construction Department at the Royal Engineering Science Academy). Vice Chairman of Swedbank AB. Board Member of Tyréns AB.

Previous assignments in the past five years: Chairman of Stockholm Stadsteater AB. Board Member of Almega - the Employer's Organisation for the Swedish Service Sector, IQ Samhällsbyggnad, Wåhlin Fastighets AB and Johanneberg Science Park.

Shareholding[1]: 6,000 shares of series B

Independent of the company, its management and major shareholders.

HENRIK HENRIKSSON
Born in 1970
Member of the Board since 2017

Education: B. Sc. (Business Administration)

Work experience: President and CEO Scania AB, Executive Vice President Sales and Marketing Scania, Senior Vice President Scania Trucks, Export Director Scania South Africa.

Other assignments: Board member of Scania AB and the Association of Swedish Engineering Industries.

Previous assignments in the past five years: –

Shareholding[1]: 725 shares of series B.

Independent of the company, its management and major shareholders.

OLA ROLLÉN
Born in 1965
President and Chief Executive Officer since 2000
Member of the Board since 2000

Education: B.Sc. (Econ.)

Work experience: President Sandvik Materials Technology, Executive Vice President Avesta-Sheffield AB and President of Kanthal AB.

Other assignments: Board Member of Greenbridge Investment Partners Ltd.

Previous assignments in the past five years: –

Shareholding[1]: 1,173,400 shares of series B

Independent of major shareholders.

MÄRTA SCHÖRLING ANDREEN
Born in 1984
Member of the Board since 2017

Education: B.Sc. (Econ)

Work experience: Brand and innovation consultant Pond Innovation & Design.

Other assignments: Board member of Melker Schörling AB, Hexpol AB, AAK AB and Absolent Group.

Previous assignments in the past five years: –

Shareholding[1]: 15,750,000 shares of series A and 73,758,099 shares of series B through Melker Schörling AB.

Independent of the company and its management.

SOFIA SCHÖRLING HÖGBERG
Born in 1978
Member of the Board since 2017
Member of Audit Committee and Remuneration Committee

Education: B. Sc. (Econ)

Work experience: Trademark consultant Essen International.

Other assignments: Board member of Melker Schörling AB, Securitas AB and Assa Abloy AB.

Previous assignments in the past five years: –

Shareholding[1]: 15,750,000 shares of series A and 73,758,099 shares of series B through Melker Schörling AB.

Independent of the company and its management.

HANS VESTBERG
Born in 1965
Vice Chairman of the Board since 2017

Education: B.Sc. (Econ)

Work experience: Deputy CEO Verizon, President and CEO Ericsson, CFO Ericsson, Chairman ST-Ericsson, Vice Chairman SonyEricsson.

Other assignments: Chairman of the Swedish Olympic Committee, Board Member of United Nations Foundation, Whitaker Peace & Development Initiative, Thernlunds AB and Sustainable Development Goals Center for Africa.

Previous assignments in the past five years: Chairman of the Swedish Handball Association.

Shareholding[1]: –

Independent of the company, its management and major shareholders.

1) Shareholdings and warrant holdings based on information per 19 March 2018 and also include related-party holdings.

GUN NILSSON

JOHN BRANDON

ULRIKA FRANCKE

HENRIK HENRIKSSON

OLA ROLLÉN

MÄRTA SCHÖRLING ANDREEN

SOFIA SCHÖRLING HÖGBERG

HANS VESTBERG

GROUP MANAGEMENT

OLA ROLLÉN

Born in 1965. President and Chief Executive Officer since 2000. Employed since 2000.

Education: B.Sc. (Econ.)

Work experience: President of Sandvik Materials Technology, Executive Vice President of Avesta-Sheffield and President of Kanthal.

Other assignments: Board Member of Greenbridge Investment Partners Ltd.

Previous assignments in the past five years: –

Shareholding[1]: 1,173,400 shares of series B.

JOHNNY ANDERSSON

Born in 1965. General Counsel. Retained since 2011, employed since 2017.

Education: M.Sc. (Law)

Work experience: Partner Mannheimer Swartling Advokatbyrå and Corporate Counsel at IKEA International.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: –

ROBERT BELKIC

Born in 1970. Chief Financial Officer and Executive Vice President. Employed since 2009.

Education: B.Sc. (Business Administration and Economics)

Work experience: Various positions within treasury at Hexagon AB, EF Education First Ltd and Autoliv Inc.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 300,000 warrants for Class B shares in Hexagon AB.

KRISTIN CHRISTENSEN

Born in 1971. Chief Marketing Officer. Employed since 2004.

Education: B.Sc., MBA (Marketing)

Work experience: Vice President of Corporate Communications Hexagon AB, various marketing management positions at Intergraph, Solution 6 North America and other software companies.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 100,000 warrants for Class B shares in Hexagon AB.

STEVEN COST

Born in 1967. President of Security & Infrastructure. Employed since 2007.

Education: B.Sc., MBA (Accounting)

Work experience: Intergraph Chief Accountant Officer/Controller/Treasurer, Senior management positions with Adtran, AVEX Electronics and Benchmark Electronics.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 100,000 warrants for Class B shares in Hexagon AB.

Group Management at HxGN Live in Las Vegas, June 2017. From left: Steven Cost, Li Hongquan, Ben Maslen, Edgar Porter, Claudio Simão, Mattias Stenberg, Robert Belkic, Johnny Andersson, Ola Rollén, Jürgen Dold, Kristin Christensen and Norbert Hanke.

JÜRGEN DOLD

Born in 1962. President of Geosystems. Employed since 1995.

Education: M.Sc., PhD (Engineering)

Work experience: Academic counsel at the Technical University of Braunschweig, Germany and various management positions within Leica Geosystems AG.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 30,000 shares of series B and 200,000 warrants for Class B shares in Hexagon AB.

NORBERT HANKE

Born in 1962. President of Manufacturing Intelligence. Employed since 2001.

Education: Diploma of Business Administration

Work experience: Chief Financial Officer at Brown & Sharpe and various positions within the Kloeckner Group.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 44,529 shares of series B and 100,000 warrants for Class B shares in Hexagon AB.

LI HONGQUAN

Born in 1966. Vice President and President of China Region. Employed since 2001.

Education: M.Sc. (Engineering)

Work experience: President of Qingdao Brown & Sharpe and Qianshao Technology Co. Ltd. Various positions in the Chinese manufacturing industry.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 120,000 shares of series B and 300,000 warrants for Class B shares in Hexagon AB.

BEN MASLEN

Born in 1972. Chief Strategy Officer. Employed since 2017.

Education: B.Sc. (Economics/Politics), Chartered Accountant.

Work experience: Co-head of European capital goods equity research Morgan Stanley and equity analyst at BoAML.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: –

EDGAR PORTER

Born in 1959. Chief Human Resources Officer. Employed since 2004.

Education: B.Sc. (Business Administration)

Work experience: Executive Vice President of Human Resources, Intergraph. Vice President of Human Resources, Solution 6 North America.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 100,000 warrants for Class B shares in Hexagon AB.

MATTIAS STENBERG

Born in 1977. President of PPM. Employed since 2009.

Education: B.Sc. (Econ.)

Work experience: Chief Strategy Officer, Vice President of Strategy and Communications Hexagon AB, various Investor Relations positions at Teleca AB and Autoliv Inc.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 300,000 warrants for Class B shares in Hexagon AB.

CLAUDIO SIMÃO

Born in 1957. Chief Technology Officer. Employed since 2002.

Education: M.Sc. (Mechanical Engineering) and B.Sc. (Physics)

Work experience: President of Hexagon South America and President of Hexagon Metrology Asia-Pacific.

Other assignments: –

Previous assignments in the past five years: –

Shareholding[1]: 100,000 warrants for Class B shares in Hexagon AB.

1) Shareholdings and warrant holdings based on information per 19 March 2018 and also include related-party holdings.

BOARD OF DIRECTORS' REPORT

The Board of Directors and the President and Chief Executive Officer of Hexagon AB hereby submit their annual report for the year of operation 1 January 2017 to 31 December 2017. Hexagon AB is a public limited liability company with its registered office in Stockholm, Sweden and its corporate registration number is 556190-4771.

OPERATING STRUCTURE

Hexagon's business activities are conducted through more than 300 operating companies in about 50 countries worldwide. The President and CEO is responsible for daily management and decision making together with the other members of Hexagon Group Management, including the Chief Financial Officer, the Chief Strategy Officer, the General Counsel, the Chief Marketing Officer, the Chief Human Resources Officer, the Chief Technology Officer and application area and division directors.

Hexagon's Group functions consist of Finance (group accounting, treasury, tax and investor relations), HR, Business and Technology development (Innovation Hub), Legal, Strategy and Marketing.

HEXAGON'S REPORTING STRUCTURE

HEXAGON

Hexagon is a leading global provider of information technologies that drive productivity and quality across industrial and geospatial enterprise applications. Hexagon's solutions integrate sensors, software, domain knowledge and customer workflows into intelligent information ecosystems that deliver actionable information used in a broad range of vital industries.

GEOSPATIAL ENTERPRISE SOLUTIONS

Collects, processes, presents and stores geospatial information

Geosystems

Safety & Infrastructure

Positioning Intelligence

GROUP FUNCTIONS

Finance

HR

Innovation Hub

Legal

Marketing

Strategy

INDUSTRIAL ENTERPRISE SOLUTIONS

Supply industries with solutions for measurement, quality control, design and operations

Manufacturing Intelligence

PPM

FIVE-YEAR OVERVIEW

MEUR	2017	2016	2015	2014	2013
Net sales	3,448.4	3,149.2	3,043.8	2,622.4	2,429.7
Operating earnings excl. non-recurring items (EBIT1)	835.3	736.1	692.7	578.1	507.7
Operating margin, %	24.1	23.4	22.8	22.0	20.9
Earnings before tax excl. non-recurring items	812.6	714.3	666.2	544.5	473.8
Non-recurring items	-73.2	-	-36.6	-36.0	-14.9
Earnings before tax	739.4	714.3	629.6	508.5	458.9
Net earnings	673.8	578.6	505.1	406.2	371.2
Earnings per share, EUR	1.85	1.59	1.39	1.13	1.04

SALES AND EARNINGS 2017

Operating net sales grew by 10 per cent during the year to 3,470.8 MEUR (3,149.2). Hexagon's net sales, adjusted to fixed exchange rates and a comparable group structure (organic growth), increased by 5 per cent during the year. Growth was primarily driven by new initiatives and products.

Operating earnings (EBIT1) increased by 13 per cent to 835.3 MEUR (736.1) and were favorably impacted by organic growth, good cost control and new high-margin products.

MARKET DEMAND 2017

Operating net sales in EMEA grew by 4 per cent organically in 2017 and amounted to 1,303.4 MEUR (1,193.7), representing 37 per cent (38) of Group sales. In Western Europe, Hexagon noted good demand from the infrastructure and construction sector but growth was hampered by weaker demand from the automotive and aerospace industries. In the Middle East, demand of geospatial solutions increased but growth was hampered in the region by though comparatives on the back of last year's large order within public safety.

Operating net sales in Americas grew by 4 per cent organically in 2017 and amounted to 1,166.3 MEUR (1,076.5), representing 34 per cent (34) of Group sales. In North America, demand mainly increased in the infrastructure and construction sector. Operations related to the oil and gas sectors declined following the downturn in the oil price. South America started to recover, after the economic slowdown in Brazil and returned to growth.

Operating net sales in Asia grew organically by 9 per cent in 2017 and amounted to 1,001.1 MEUR (879.0), representing 29 per cent (28) of Group sales. China reported strong growth, mainly driven by robust demand from the electronics industry. Growth was hampered by weaker demand in India on the back of though comparatives due to last year's large order within public safety and the challenging oil and gas market.

NET SALES

Operating net sales amounted to 3,470.8 MEUR (3,149.2). Net sales including revenue adjustment amounted to 3,448.4 MEUR (3,149.2). Using fixed exchange rates and a comparable group structure (organic growth), sales increased by 5 per cent.

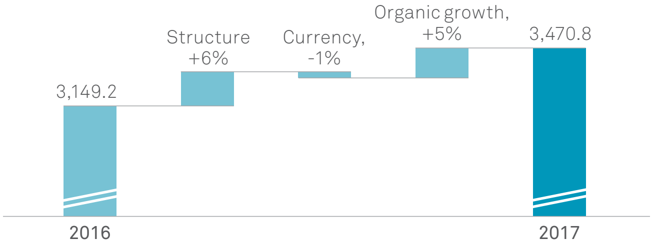
Operating net sales for Geospatial Enterprise Solutions amounted to 1,706.5 MEUR (1,579.3). Using fixed exchange rates and a comparable structure, net sales increased by 7 per cent.

Operating net sales for Industrial Enterprise Solutions amounted to 1,764.3 MEUR (1,569.9). Using fixed exchange rates and a comparable structure, net sales increased by 4 per cent.

OPERATING EARNINGS

Operating earnings (EBITDA) increased by 14 per cent to 1,109.5 MEUR (970.0), corresponding to an operating margin (EBITDA margin) of 32.0 per cent (30.8).

SALES BRIDGE[1], 2017
MEUR



1) Operating net sales from completed acquisitions and divestments during the year are recognised as "Structure". Percentages are rounded to the nearest whole per cent.

Operating earnings, excluding non-recurring items (EBIT1), increased by 13 per cent to 835.3 MEUR (736.1), corresponding to an operating margin (EBIT1 margin) of 24.1 per cent (23.4).

Operating earnings (EBIT1) for Geospatial Enterprise Solutions increased to 412.2 MEUR (354.8), corresponding to an operating margin of 24.2 per cent (22.5).

Operating earnings (EBIT1) for Industrial Enterprise Solutions increased to 443.9 MEUR (399.1), corresponding to an operating margin of 25.2 per cent (25.4).

BUSINESS AREAS

	Operating net sales		Operating earnings (EBIT1)	
MEUR	2017	2016	2017	2016
Geospatial Enterprise Solutions	1,706.5	1,579.3	412.2	354.8
Industrial Enterprise Solutions	1,764.3	1,569.9	443.9	399.1
Group cost	-	-	-20.8	-17.8
Total	3,470.8	3,149.2	835.3	736.1

Operating net sales has been adjusted for the acquired deferred revenue relating to MSC Software. Net sales including the acquired deferred revenue amounts to 3,448.4 MEUR.

GROSS EARNINGS

Gross earnings amounted to 2,121.2 MEUR (1,902.0). The gross margin was 61.1 per cent (60.4).

FINANCIAL INCOME AND EXPENSES

The financial net amounted to -22.7 MEUR (-21.8) in 2017. The increase is mainly explained by increased borrowings.

NON-RECURRING ITEMS

During 2017 non-recurring items amounted to -73.2 MEUR (-), consisting of reduction of acquired deferred revenue (haircut) related to the acquisition of MSC Software, -22.4 MEUR and costs related to the implementation of a cost savings programme and the acquisition of MSC Software, -50.8 MEUR.

EARNINGS BEFORE TAX

Earnings before tax, excluding non-recurring items, amounted to 812.6 MEUR (714.3). Including non-recurring items, earnings before tax were 739.4 MEUR (714.3).

EFFECTIVE TAX RATE

Hexagon's tax expense for the year totaled -65.6 MEUR (-135.7), corresponding to an effective tax rate of 8.9 per cent (19.0). Hexagon had a one-off positive tax income of 72.4 MEUR in the fourth quarter 2017, due to the recent US tax legislation (Tax Cuts & Jobs Act), resulting in a revaluation of deferred tax liabilities on the balance sheet. The tax rate, excluding non-recurring items, was 18.0 per cent (19.0) for 2017.

NON-CONTROLLING INTEREST

The non-controlling interest's share of net earnings was 7.1 MEUR (5.3).

NET EARNINGS

Net earnings, excluding non-recurring items, amounted to 666.5 MEUR (578.6) or 1.83 EUR per share (1.59). Net earnings, including non-recurring items, amounted to 673.8 MEUR (578.6) or 1.85 EUR per share (1.59).

CASH FLOW

Cash flow from operations before changes in working capital and non-recurring items amounted to 882.3 MEUR (832.1), corresponding to 2.45 EUR per share (2.31). Including changes in working capital, but excluding non-recurring items, cash flow from operations was 907.2 MEUR (782.1), corresponding to 2.52 EUR per share (2.17). Cash flow from other investment activities was -928.9 MEUR (-172.0). Cash flow after other investments amounted to -325.9 MEUR (344.6). The change in borrowings was 549.9 MEUR (-130.5). Cash dividends to the Parent company shareholders amounted to -173.0 MEUR (-155.0), corresponding to 0.48 EUR per share (0.43).

PROFITABILITY

Capital employed, defined as total assets less non-interest bearing liabilities, increased to 6,962.4 MEUR (6,489.1). Return on average capital employed, excluding non-recurring items, for the last 12 months was 12.6 per cent (11.9). Return on average shareholders' equity for the last 12 months was 14.8 per cent (13.7). The capital turnover rate was 0.5 (0.5).

FINANCING AND FINANCIAL POSITION

Shareholders' equity, including non-controlling interest, increased to 4,618.1 MEUR (4,590.8). The equity ratio decreased to 53.5 per cent (58.0).

Hexagon's main sources of financing consist of:

1) A multicurrency revolving credit facility (RCF) established during 2014. The RCF amounts to 2,000 MEUR with maturity 2021.
2) A Swedish Medium Term Note Programme (MTN) established during 2014. The programme amounts to 15,000 MSEK and gives Hexagon the option to issue bonds with tenors of up to five years. On 31 December 2017, Hexagon had issued bonds for a total amount of 10,850 MSEK (6,750).
3) A Swedish commercial paper programme (CP) was established during 2012. The CP programme amounts to 15,000 MSEK and gives Hexagon the option to issue commercial paper with tenors of up to 12 months. On 31 December 2017, Hexagon had issued commercial paper for a total amount of 7,590 MSEK (7,565) and 32 MEUR (11).

On 31 December 2017, cash and unutilised credit limits totalled 1,601.1 MEUR (1,595.3). Hexagon's net debt was 2,034.9 MEUR (1,564.8). The net indebtedness was 0.40 times (0.30). Interest coverage ratio was 27.1 times (27.9).

INVESTMENTS

Ordinary investments consist mainly of investments in production facilities, production equipment and intangible assets, primarily capitalised development expenses. Of the ordinary investments of 281.5 MEUR (261.0) during 2017, approximately 77 per cent (76) were capitalised expenses for development work. Development work is primarily performed in Hexagon's R&D centres with its primary units located in Switzerland, China and USA, that results in products and services that are sold worldwide. The remaining part of the current investments, approximately 23 per cent, comprised mostly investments in business equipment and machines. All current investments during the year have been financed by cash flow from operating activities. Investments corresponded to 8 per cent (8) of net sales. Hexagon does not expect any material change in the near future to current investment levels as a percentage of net sales. Depreciation, amortisation and impairment during the year amounted to -284.7 MEUR (-233.9).

INVESTMENTS

MEUR	2017	2016
Investments in intangible fixed assets	226.8	206.7
Investments in tangible fixed assets	54.7	54.3
Divestments of tangible fixed assets	-5.9	-3.4
Total ordinary investments	**275.6**	**257.6**
Investments in subsidiaries	915.3	183.5
Divestments of subsidiaries	-	-12.9
Investments in financial fixed assets	19.1	5.5
Divestments of financial fixed assets	-5,5	-4.1
Total other investments	**928.9**	**172.0**
Total investments	**1,204.5**	**429.6**

INTANGIBLE FIXED ASSETS

As of 31 December 2017, Hexagon's carrying value of intangible fixed assets was 6,408.3 MEUR (5,870.8). Amortisation of intangible fixed assets was -193.4 MEUR (-174.9). Impairment tests are made to determine whether the value of goodwill and/or similar intangible assets is justifiable or whether there is any impairment need in full or in part. Such a test was conducted at the end of 2017 and no impairment requirement arose. Goodwill at 31 December 2017 amounted to 4,412.3 MEUR (4,027.1), corresponding to 51 per cent (51) of total assets.

GOODWILL

MEUR	2017	2016
Geospatial Enterprise Solutions	1,920.9	1,940.5
Industrial Enterprise Solutions	2,491.4	2,086.6
Total	**4,412.3**	**4,027.1**

ACQUISITIONS

Hexagon's ambition is to generate profitable growth through a combination of organic growth and acquisitions. Acquisitions are an important part of Hexagon's long-term growth strategy. During 2017, Hexagon acquired the following companies:

- MiPlan Ltd, January
- IDS Georadar Australia, March
- MSC Software, April
- IDS Georadar North America, April
- Catavolt Inc, May
- VIRES GmbH, May
- DST Computer Services S.A., June
- FASys GmbH, June
- InfraMeasure Inc, June
- Assets from Kronion GmbH, October
- Luciad, October
- Plant Design Solution, December
- Industrial Business Solutions Inc., December

OTHER GROUP INFORMATION

Research and development

Hexagon places a high priority on investments in R&D. Being the most innovative supplier in the industry, it is important not only to improve and adapt existing products, but also to identify new applications and thereby increase the total market for Hexagon's products and services. Total expenditure for R&D during 2017 amounted to 415.6 MEUR (366.2), corresponding to 12 per cent (12) of net sales. Development expenses are capitalised only if they pertain to new products, the cost is significant and the product is believed to have considerable earnings potential. The current level of R&D costs is in line with other leading suppliers in the industry.

R&D COST

MEUR	2017	2016
Capitalised	216.1	197.1
Expensed (excluding amortisation)	199.5	169.1
Total	**415.6**	**366.2**
Amortisation	140.3	130.6

ENVIRONMENTAL IMPACT

Hexagon's R&D team develops solutions that drive prodctivity and quality across geospatial and industrial landscapes. Hexagon's solutions integrates sensors, software, domain knowledge and customer workflows into intelligent ecosystems that deliver actionable information. These solutions are used in a broad range of vital industries. High-quality measurement systems contribute to reduced waste and thus to a decreased consumption of materials and raw materials. Hexagon's products and services are used in thousands of applications that all have one thing in common: making various processes more efficient, cheaper and more environmentally friendly. This may involve measuring the quality in production processes, using a plot of land in an optimal way or reducing waste and loss in the construction industry. Hexagon develops and assembles high-technology products under laboratory-like conditions. Hexagon has implemented ISO 14001 at the majority of the largest production sites and a programme for monitoring the suppliers is in place.

Hexagon aims for development of sustainable products and uses environmentally friendly resources in production to the extent possible. Hexagon satisfies environmental requirements pursuant to legislation, ordinances and international accords. Decisions regarding operations that affect the environment are guided by what is ecologically justifiable, technically feasible and economically viable. Hexagon's subsidiaries have ISO quality accreditation wherever this is warranted. For more information about sustainability in Hexagon see the complete sustainability report on hexagon.com.

SHARE CAPITAL AND OWNERSHIP

On December 31, 2017, Hexagon's share capital was 79,980,283 EUR, represented by 360,443,142 shares. Total shares outstanding was 15,750,000 Class A shares, each carrying ten votes and 344,693,142 Class B shares, each carrying one vote. On December 31, 2017, Melker Schörling AB, the single largest shareholder in Hexagon, held a total of 15,750,000 Class A shares and 77,929,899 Class B shares, representing 46.9 per cent of the votes and 26.0 per cent of the capital.

SHARE REPURCHASES

The Annual General Meeting on 10 May 2016 authorised Hexagon's Board of Directors to acquire or sell the company's own shares for the purpose of, among other things, providing the Board with the possibility to adapt the company's capital structure and to enable the financing of acquisitions and the exercise of warrants. The authorisation to repurchase totals a maximum of 10 per cent of all outstanding shares in the company. No (-) shares were repurchased in 2017. By year-end 2017 Hexagon held no treasury shares.

SIGNIFICANT AGREEMENTS

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 of the company.

As far as the Board knows, 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 on page 87, which stipulate the right to compensation if such a person voluntarily leaves the company, is dismissed without cause or if such a person's employment is terminated as a result of a public offer for shares of the company.

MANAGEMENT OF HEXAGON'S CAPITAL

Hexagon's reported shareholders' equity, including non-controlling interest, was 4,618.1 MEUR (4,590.8) at year-end. Hexagon's overall long-term objective is to increase earnings per share by at least 15 per cent annually and to achieve a return on capital employed of at least 15 per cent. Another Group objective is to achieve an equity ratio of

25 per cent as Hexagon is seeking to minimise the weighted average cost of capital for the company's financing.

Hexagon has undertaken to comply with a requirement regarding a key financial ratio (covenant) towards lenders. The key financial ratio is reported to lenders in conjunction with the quarterly reports. If the requirement is not complied with, the terms and conditions are renegotiated and there is a risk of a temporary increase in borrowing costs. In addition, lenders have a right to terminate loan agreements. Hexagon has not breached any covenants in 2017 or in prior years.

The company's strategy, as well as its financial position and other financial objectives, are taken into account in connection with the annual decision concerning the dividend.

CORPORATE GOVERNANCE

In accordance with the Swedish Annual Accounts Act, Hexagon has prepared a Corporate Governance report separate from the annual report. It can be found in this document on pages 33-37. The Corporate Governance report contains the Board of Directors' report on internal control.

DIVIDEND

The dividend policy of Hexagon provides that, over the long term, the dividend should comprise 25-35 per cent of earnings per share after tax, assuming that Hexagon satisfies its equity ratio objective.

The Board of Directors proposes a dividend of 0.53 EUR per share, corresponding to 29 per cent of earnings per share after tax and to 21 per cent of cash flow from operating activities per share. The dividend is expected to total approximately 191.0 MEUR. The proposed dividend is in line with the dividend policy. The proposed record date for dividend is 8 May 2018.

REMUNERATION OF SENIOR EXECUTIVES

The following guidelines for remuneration to senior executives in Hexagon were adopted by the 2017 AGM. 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 maximized up to 150 per cent in relation to the basic remuneration, related to the earnings trend which the relevant individual may influence and based on the outcome in relation to individual targets. Variable remuneration is not pension-qualifying income.

The Board annually considers whether a share or share-based incentive programme shall be proposed to the Annual General Meeting.

Pension benefits shall, as a main rule, be defined contribution. Currently, all senior executives have defined-contribution pension plans. Deviation from this main rule may be permitted when appointing new senior executives whose previous employment agreement included a defined-benefit pension plan. The pension age for senior executives is individual, although not lower than 60 years.

The notice period shall normally be six months on the part of the executive. 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.

It is proposed to the 2018 Annual General Meeting that corresponding guidelines apply as those adopted at the 2017 Annual General Meeting.

INCENTIVE PROGRAMMES

See Note 30 on page 87.

PARENT COMPANY

The Parent company's earnings before tax were 31.7 MEUR (38.4). The equity was 4,553.0 MEUR (4,688.7). The equity ratio of the Parent company was 55 per cent (58). Liquid funds including unutilised credit limits were 1,272.8 MEUR (1,307.2).

Hexagon's activities are financed via equity and external borrowings in the Parent company. Substantial currency effects arise due to Intra-Group and external lending and borrowing transactions in multiple currencies.

SUBSEQUENT EVENTS AFTER THE FISCAL YEAR

On 15 March, 2018 Hexagon acquired the US-based company AGTEK, a leading software solutions provider to the civil construction industry.

MANAGING RISKS

Hexagon's risk management activities are designed to identify, control and reduce risks associated with its business. The majority of these activities are managed within each subsidiary of Hexagon. However, certain legal, strategic and financial risks are managed at the Group level.

MARKET RISK MANAGEMENT

Market risk concerns risks such as economic trends, competition and risks related to acquisitions and integration. Market risks are primarily managed within each subsidiary of Hexagon.

RISK	RISK MANAGEMENT
ACQUISITIONS AND INTEGRATION	
An important part of Hexagon's strategy is to work actively with acquisitions of companies and businesses. Strategic acquisitions will continue to be part of Hexagon's growth strategy going forward. It cannot be guaranteed, however, that Hexagon will be able to find suitable acquisition targets, nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms acceptable to Hexagon. This may lead to a decreasing growth rate for Hexagon. Acquisitions entail risk. The acquired entities' relations with customers, suppliers and key personnel may be negatively affected. There is also a risk that integration processes may prove more costly or more time consuming than estimated and that anticipated synergies in whole or in part fail to materialise.	Hexagon monitors a large number of companies to find acquisitions that can strengthen the Group's product portfolio or improve its distribution network. Potential targets are regularly evaluated on financial, technology and commercial grounds. Every acquisition candidate's potential place in the Group is determined on the basis of synergy simulations and implementation strategies. Thorough due diligence is performed to evaluate potential risks. From 2000 to 2017, Hexagon made more than 130 acquisitions, including the key strategic acquisitions of Brown & Sharpe (2001), Leica Geosystems (2005), NovAtel (2007), Intergraph (2010) and MSC Software (2017). Based on extensive experience of acquisitions and integration and clear strategies and goals, Hexagon is strongly positioned to successfully integrate acquired companies into the Group.
IMPACT OF THE ECONOMY	
Hexagon engages in worldwide operations that are dependent on general economic trends and conditions that are unique for certain countries or regions. As in virtually all businesses, general market conditions affect the inclination and the capabilities of Hexagon's existing and potential customers to invest in design, measurement and visualisation technologies. A weak economic trend in the whole or part of the world may therefore result in lower market growth that falls below expectations.	Hexagon's business is widely spread geographically, with a broad customer base within numerous market segments. Potential negative effects of a downturn in the developed world may for example be partially off-set by growth in emerging markets and vice versa.
COMPETITION AND PRICE PRESSURE	
Parts of Hexagon's operation are carried out in sectors which are subject to price pressure and rapid technological change. Hexagon's ability to compete in the market environment by introducing new and successful products with enhanced functionality while simultaneously cutting costs on new and existing products is of the utmost importance in order to avoid erosion of market share. R&D efforts are costly and new product development always entails a risk of unsuccessful product launches or commercialisation, which could have material consequences.	Hexagon invests annually approximately 10–12 per cent of net sales in R&D. A total of about 3,800 employees are engaged in R&D at Hexagon. The objective for Hexagon's R&D division is to transform customer needs into products and services and to detect market and technology opportunities early on.

OPERATIONAL RISK MANAGEMENT

Operational risks concern risks related to reception of new products and services, dependence on suppliers and risks related to human capital. Since the majority of operational risks are attributable to Hexagon's customer and supplier relations, ongoing risk analysis of customers and suppliers are conducted to assess business risks. Operational risks are primarily managed within each subsidiary of Hexagon.

RISK	RISK MANAGEMENT
CUSTOMERS	
Hexagon's business activities are conducted in a large number of markets with multiple customer categories. In 2017, Surveying was the single largest customer category and accounted for 21 per cent of net sales. For Hexagon, this customer category may involve certain risks as a downturn or weak development in the surveying sector can have a negative impact on Hexagon's business. Surveying is followed by customer categories Power and Energy with 16 per cent, Electronics and Manufacturing with 14 per cent and Infrastructure and Construction with 12 per cent.	Hexagon has a favourable risk diversification in products and geographical areas and dependence of a single customer or customer category is not decisive for the Group's performance. The largest customer represents approximately 2 per cent of the Group's total net sales. Credit risk in customer receivables account for the majority of Hexagon's counterparty risk. Hexagon believes there is no significant concentration of counterparty risk.
SUPPLIERS	
Hexagon's products consist of components from several different suppliers. To be in a position to sell and deliver solutions to customers, Hexagon is dependent upon deliveries from third parties in accordance with agreed requirements relating to, for example, quantity, quality and delivery times. Erroneous or default deliveries by suppliers can cause delay or default in Hexagon's deliveries, which can result in reduced sales.	Hexagon has a favourable risk diversification and dependence of a single supplier is not decisive for the Group's performance. The largest supplier accounted for approximately 1 per cent of Hexagon's total net sales in 2017. To minimise the risk of shortages in the supply or of excessive price variations among suppliers, Hexagon works actively to coordinate sourcing within the Group and to identify alternative suppliers for strategic components. Supplier risk surveys are performed (by Hexagon's external partner) in order to identify and mitigate risks associated with the suppliers' operations.
HUMAN CAPITAL	
The resignation of key employees or Hexagon's failure to attract skilled personnel may have an adverse impact on the Group's operations.	Since future success is largely dependent on the capacity to retain, recruit and develop skilled staff, being an attractive employer is an important success factor for Hexagon. Group and business area management jointly handle risks associated with human capital.
PRODUCTION AND DISTRIBUTION UNITS	
Hexagon's production and distribution units are exposed to risks (fire, explosion, natural hazards, machinery damages, etc.) that could lead to property damages and business interruption.	Risk grading surveys are performed (by Hexagon's external partner) in order to identify and mitigate risks as well as support local management in their loss prevention work. Surveys are conducted in line with a long term planning together with each subsidiary.
CYBER RISKS	
Hexagon relies on IT systems in its operations. Disruptions or faults in critical systems may have a negative impact on Hexagon's operations, including impact on production, Hexagon's tangible and intellectual property and, in some cases, the intellectual property and operations of external parties.	Cyber security risks are increasing in society in general and Hexagon works continuously to keep IT systems protected. In addition, Hexagon invests in enhanced disaster recovery and data storage capabilities, cyber security expertise, as well as adequate insurance protection. Hexagon also mitigates IT related risks in contracts with external parties.

FINANCIAL RISK MANAGEMENT

Financial risks are managed at Group level. The Group Treasury Policy, which is updated and approved annually by the Board of Directors, stipulates the rules and limitations for the management of financial risks throughout the Group. Hexagon's internal bank coordinates the management of financial risks and is also responsible for the Group's external borrowing and its internal financing.

CURRENCY

RISK

Hexagon's operations are mainly conducted internationally. During 2017, total operating earnings, excluding non-recurring items, from operations in currencies other than EUR amounted to an equivalent of 601.3 MEUR (465.9). Of these currencies, CHF, CNY and USD have the biggest impact on Hexagon's earnings and net assets. Currency risk is the risk that currency exchange rate fluctuations will have an adverse effect on income statement, balance sheet or cash flow.

Sales and purchases of goods and services in currencies other than the subsidiary's functional currency, give rise to transaction exposure.

Translation exposure arises when the income statement and balance sheets are translated into EUR. The balance sheet translation exposure might substantially affect other comprehensive income negatively. Furthermore, the comparability of Hexagon's earnings between periods is affected by changes in currency exchange rates. The income statement translation exposure is described in the table below for the currencies having the largest impact on Hexagon's earnings and net assets including the effect on Hexagon's operating earnings in 2017.

	Movement[1]	Net of income and cost	Profit impact
CHF	Weakened -2%	Negative	Positive
USD	Weakened -2%	Positive	Negative
CNY	Weakened -4%	Positive	Negative
EBIT1, MEUR			-15.9

1) Compared to EUR and 2016.

RISK MANAGEMENT

Hexagon's reporting currency is EUR, which has a stabilising effect on certain key ratios that are of importance to Hexagon's cost of capital.

As far as possible, transaction exposure is concentrated to the countries where the manufacturing entities are located. This is achieved by invoicing the sales entities in their respective functional currency from the manufacturing entities. According to the Group's financial policy, transaction exposure should not be hedged. The rationale for this is that the vast majority of transactions concern a short period of time from order to payment. Moreover, a transaction hedge of a flow only postpones the effect of a change in currency rates.

The translation exposure can be hedged by denominating borrowings in the same currency as the corresponding net assets. But in order to have the volatility in net debt at an acceptable level, currently, the majority of the borrowings is denominated in EUR.

INTEREST

The interest rate risk is the risk that changes in market interest rates will adversely affect the Group's net interest expense and/or cash flow. Interest rate exposure arises primarily from outstanding loans. The impact on the Group's net interest expense depends, among other things, on the average interest fixing period for borrowings.

In accordance with the Group Treasury Policy, the average interest rate duration of the external debt is to be between 6 months and 3 years. During 2017 interest rate derivatives were used to manage the interest rate risk.

RISK	RISK MANAGEMENT
CREDIT	
Credit risk, i.e., the risk that customers may be unable to fulfill their payment obligations, accounts for the majority of Hexagon's counterparty risk. Financial credit risk is the exposure to default of counterparties with which Hexagon has invested cash or with which it has entered into forward exchange contracts or other financial instruments.	Through a combination of geographical and industry diversification of customers the risk for significant credit losses is reduced. To reduce Hexagon's financial credit risk, surplus cash is only invested with a limited number of approved banks and derivative transactions are only conducted with counterparties where an ISDA (International Swaps and Derivatives Association) netting agreement has been established. As Hexagon is a net borrower, excess liquidity is primarily used to repay external debt and therefore the average surplus cash invested with banks is kept as low as possible.
LIQUIDITY	
Liquidity risk is the risk of not being able to meet payment obligations in full as they become due or only being able to do so at materially disadvantageous terms due to lack of cash resources.	The Group Treasury Policy states that the total liquidity reserve shall at all times be at least 10 per cent of forecasted annual net sales. At year-end 2017, cash and unutilised credit limits totalled 1,601.1 MEUR (1,595.3).
REFINANCING	
Refinancing risk refers to the risk that Hexagon does not have sufficient financing available when needed to refinance maturing debt, because existing lenders decline extending or difficulties arise in procuring new lines of credit at a given point in time. Hexagon's ability to satisfy future capital needs is to a large degree dependent on successful sales of the company's products and services. There is no guarantee that Hexagon will be able to raise the necessary capital. In this regard, the general development on the capital and credit markets is also of major importance. Hexagon, moreover, requires sufficient financing in order to refinance maturing debt. Securing these requirements demands a strong financial position in the Group, combined with active measures to ensure access to credit. There is no guarantee that Hexagon will be able to raise the sufficient funds in order to refinance maturing debt.	In order to ensure that appropriate financing is in place and to decrease the refinancing risk, no more than 20 per cent of the Group's gross debt, including committed credit facilities, is allowed to mature within the succeeding 12 months, unless replacement facilities have been entered into. Hexagon's main sources of financing consist of: • A multicurrency revolving credit facility (RCF) established during 2014. The RCF amounts to 2,000 MEUR with maturity 2021. • A Swedish Medium Term Note Programme (MTN) established during 2014. The MTN programme amounts to 15,000 MSEK and gives Hexagon the option to issue bonds with tenors of up to 5 years. • A Swedish Commercial Paper Programme (CP) established during 2012. The CP programme gives Hexagon the option to issue commercial paper for a total amount of 15,000 MSEK with tenor up to 12 months. During Q2 2016 Hexagon issued a private placement bond to SEK (Swedish Export Agency) of 1,500 MSEK with a tenor of 6 years.
INSURABLE RISK	
Hexagon's operations, assets and staff are to a certain degree exposed to various risk of damages, losses and injuries which could tentatively threaten the Group's business continuity, earnings, financial assets and personnel.	To ensure a well-balanced insurance coverage and financial economies of scale, Hexagon's insurance programme includes among other things group-wide property and liability insurance, travel insurance, errors and omissions insurance and transport insurance combined with local insurance coverage wherever needed. The insurance programme is periodically amended so that own risk and insured risk are optimally balanced.

LEGAL RISK MANAGEMENT

Legal risks are primarily managed within each subsidiary of Hexagon. The Group legal function supports the subsidiaries and manages certain legal risks at Group level.

RISK	RISK MANAGEMENT
LEGISLATION AND REGULATION	
Hexagon's main markets are subject to extensive regulation. Hexagon's operations may be affected by regulatory changes, changes to customs duties and other trading obstacles, pricing and currency controls, as well as other government legislation and restrictions in the countries where Hexagon is active.	Hexagon closely monitors legislation, regulations and applicable ordinances in each market and seeks to adapt the business to identified future changes in the area. To manage country-specific risks, Hexagon observes local legislation and monitors political development in the countries where the Group conducts operations. To this effect, Hexagon has adopted a worldwide compliance programme across the Group to ensure that its subsidiaries at all times comply with all applicable legislation, rules and ordinances.
INTELLECTUAL PROPERTY RIGHTS	
Patent infringement and plagiarism are risks to which Hexagon is exposed. There is no guarantee that Hexagon will be able to protect obtained patents, trademarks and other intellectual property rights or that submitted applications for registration will be granted. Furthermore, there is a risk that new technologies and products are developed which circumvent or replace Hexagon's intellectual property rights. Infringement disputes can, like disputes in general, be costly and time consuming and may therefore adversely affect Hexagon's business.	Hexagon seeks to protect its technology innovations to safeguard the returns on the resources that Hexagon assigns to R&D. The Group strives to protect its technical innovations through patents and protects its intellectual property through legal proceedings when warranted.
ENVIRONMENT	
Certain companies within Hexagon have operations that have environmental impact. Stricter regulation of environmental matters can result in increased costs or further investments for the companies within Hexagon which are subject to such regulation.	Hexagon complies with all applicable laws and obligations and obtains relevant approvals where needed. Hexagon continuously monitors anticipated and implemented changes in legislation in the countries in which it operates.
TAX	
Hexagon operates through subsidiaries in a number of jurisdictions and all cross-border transactions are normally a tax risk because there are no global transfer pricing rules. Local tax authorities have their local transfer pricing rules to follow and authorities interpret transfer pricing guidelines differently. Hexagon's interpretation of prevailing tax law, tax treaties, OECD guidelines and agreements entered into with foreign tax authorities may be challenged by tax authorities in some countries. Rules and guidelines may also be subject to future changes which can have an effect on the Group's tax position. Furthermore, a change of the business or part of the business can have an impact on agreements entered into with tax authorities in some tax jurisdictions. The tax rate may increase if large acquisitions are made in high tax jurisdictions or if the corporate tax rates change in countries where Hexagon carries out substantial business.	Transactions between group companies are carried out in accordance with Hexagon's interpretation of prevailing tax laws, tax treaties, OECD's guidelines and agreements entered into with foreign tax authorities.

FINANCIAL REPORTS

CONTENTS

CONSOLIDATED INCOME STATEMENT

MEUR	Note	2017	2016
Net sales	3, 5, 24	3,448.4	3,149.2
Cost of goods sold	6, 12	-1,327.2	-1,247.2
Gross earnings		**2,121.2**	**1,902.0**
Sales expenses	6, 12	-655.9	-573.3
Administration expenses	6, 12	-303.5	-269.1
Research and development expenses	6, 12	-390.2	-333.1
Other operating income	7	98.1	81.1
Other operating expenses	7, 12	-107.5	-72.6
Share of income in associated companies	17	-0.1	0.4
Capital gain/loss from sale of shares in group companies	9, 27	-	0.7
Operating earnings[1]	3, 13, 22, 25, 29, 30, 31	**762.1**	**736.1**
Financial income and expenses			
Financial income	10, 24	5.6	4.8
Financial expense	10, 24	-28.3	-26.6
Earnings before tax	3	**739.4**	**714.3**
Tax on earnings for the year	11	-65.6	-135.7
Net earnings		**673.8**	**578.6**
Attributable to:			
Parent company shareholders		666.7	573.3
Non-controlling interest		7.1	5.3
1) Of which non-recurring items	12	-73.2	-
Earnings include depreciation, amortisation and impairments of		-284.7	-233.9
- of which amortisation of surplus values		-44.9	-35.2
Average number of shares, thousands	21	360,443	360,433
Average number of shares after dilution, thousands	21	361,589	360,879
Earnings per share, EUR		1.85	1.59
Earnings per share after dilution, EUR		1.84	1.59

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	2017	2016
Net earnings		673.8	578.6
Other comprehensive income:			
Items that will not be reclassified to income statement			
Remeasurement of pensions	22	47.4	-9.4
Tax attributable to items that will not be reclassified to income statement	11	-6.6	1.8
Total items that will not be reclassified to income statement, net of tax		40.8	-7.6
Items that may be reclassified subsequently to income statement			
Exchange rate differences		-530.3	69.8
Effect of hedging of net investments in foreign operations		-	-0.1
Tax attributable to items that may be reclassified subsequently to income statement:			
Tax attributable to effect of translation differences	11	24.4	3.9
Total items that may be reclassified subsequently to income statement, net of tax		-505.9	73.6
Other comprehensive income, net of tax		-465.1	66.0
Total comprehensive income		208.7	644.6
Attributable to:			
Parent company shareholders		202.4	639.5
Non-controlling interest		6.3	5.1

CONSOLIDATED BALANCE SHEET

MEUR	Note	2017-12-31	2016-12-31
ASSETS			
Fixed assets			
Intangible fixed assets	8, 14	6,408.3	5,870.8
Tangible fixed assets	15	281.2	294.8
Shares in associated companies	16, 17	0.1	1.4
Other long-term securities holdings	16, 24	4.2	4.3
Other long-term receivables	16, 18	36.1	15.4
Deferred tax assets	11	83.9	55.0
Total fixed assets		**6,813.8**	**6,241.7**
Current assets			
Inventories	19	417.0	426.7
Customer receivables	18, 24	897.7	788.0
Current tax receivables	11	29.7	13.5
Other receivables – interest bearing	24	1.5	0.6
Other receivables – non-interest bearing	18, 24	60.8	56.9
Prepaid expenses and accrued income	20, 24	99.3	102.7
Short-term investments	24	90.3	60.1
Cash and bank balances	24	219.1	223.9
Total current assets		**1,815.4**	**1,672.4**
TOTAL ASSETS		8,629.2	7,914.1
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	21	80.0	80.0
Other capital contributions		1,397.8	1,397.8
Revaluation reserve		-4.8	-4.8
Translation reserve		67.5	573.4
Retained earnings		3,065.7	2,530.4
Shareholders' equity attributable to Parent company shareholders		**4,606.2**	**4,576.8**
Non-controlling interest		11.9	14.0
Total shareholders' equity		**4,618.1**	**4,590.8**
Long-term liabilities			
Provisions for pensions	22	82.3	132.0
Other provisions	23	8.5	3.8
Deferred tax liabilities	11	446.5	472.7
Long-term liabilities – interest bearing	24	1,960.2	1,476.2
Other long-term liabilities – non-interest bearing	24	48.6	77.9
Total long-term liabilities		**2,546.1**	**2,162.6**
Current liabilities			
Accounts payable	24	190.4	175.7
Advance payments from customers	24	51.6	30.8
Current tax liabilities	11	84.7	24.9
Current liabilities – interest bearing	24	301.8	240.6
Other liabilities – non-interest bearing	24	119.6	128.6
Other provisions	23	28.1	20.8
Deferred income	20, 24	351.2	254.3
Accrued expenses	20, 24	337.6	285.0
Total current liabilities		**1,465.0**	**1,160.7**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		8,629.2	7,914.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MEUR	Share capital	Other capital contributions	Revaluation reserve	Translation reserve	Retained earnings	Shareholders equity attributable to Parent company shareholders	Non-controlling interest	Total share-holders' equity
Opening shareholders' equity, 2016-01-01	80.0	1,397.8	-4.8	499.6	2,119.7	4,092.3	10.0	4,102.3
Total comprehensive income	-	-	-	73.8	565.7	639.5	5.1	644.6
New share issue	0.0	1.4	-	-	-	1.4	-	1.4
New share issue in progress	0.0	-1.4	-	-	-	-1.4	-	-1.4
Dividend	-	-	-	-	-155.0	-155.0	-1.1	-156.1
Closing shareholders' equity, 2016-12-31	80.0	1,397.8	-4.8	573.4	2,530.4	4,576.8	14.0	4,590.8
Total comprehensive income	**-**	**-**	**-**	**-505.9**	**708.3**	**202.4**	**6.3**	**208.7**
Dividend	-	-	-	-	-173.0	-173.0	-8.4	-181.4
Closing shareholders' equity, 2017-12-31	80.0	1,397.8	-4.8	67.5	3,065.7	4,606.2	11.9	4,618.1

Share capital is described in detail in Note 21.

Other contributed capital includes, among others, premium reserves and statutory reserves.

The revaluation reserve relates to fair value adjustments related to financial assets available for sale.

The translation reserve is the net of currency translation differences related to foreign subsidiaries and the effect after tax of the currency hedging of net assets made in foreign subsidiaries.

Retained earnings include all historical net earnings after tax excluding non-controlling interest less dividends paid, including remeasurements of pensions posted in other comprehensive income.

Non-controlling interest are the shares of equity that pertain to non-controlling interest in certain subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

MEUR	Note	2017	2016
Cash flow from operating activities			
Operating earnings		**762.1**	**736.1**
Adjustments for items in operating earnings not affecting cash flow:			
Depreciation, amortisation and impairment		284.7	233.9
Change in provisions		-60.7	-33.1
Capital gains on divestments of fixed assets		-1.1	0.4
Capital loss from sale of shares in group companies		-	-0.7
Earnings from shares in associated companies		0.1	-0.4
Other items not affecting cash flow		0.2	-2.2
Interest received		5.6	4.6
Interest paid		-22.4	-22.3
Tax paid		-114.8	-92.1
Cash flow from operating activities before changes in working capital		**853.7**	**824.2**
Cash flow from changes in working capital			
Change in inventories		-10.8	-6.8
Change in current receivables		-94.4	-84.6
Change in current liabilities		130.1	41.4
Cash flow from changes in working capital		**24.9**	**-50.0**
Cash flow from operating activities[1]		**878.6**	**774.2**
Cash flow from ordinary investing activities			
Investments in intangible fixed assets	14	-226.8	-206.7
Investments in tangible fixed assets	15	-54.7	-54.3
Divestments of tangible fixed assets	15	5.9	3.4
Cash flow from ordinary investing activities		**-275.6**	**-257.6**
Operating cash flow		**603.0**	**516.6**
Cash flow from other investing activities			
Investments in subsidiaries	27	-915.3	-183.5
Divestments of subsidiaries	27	-	12.9
Investments in financial fixed assets	16	-19.1	-5.5
Divestments of financial fixed assets	16	5.5	4.1
Cash flow from other investing activities		**-928.9**	**-172.0**
Cash flow from financing activities			
Borrowings	24	764.9	182.8
Repayment of debt		-215.0	-313.3
Dividend to Parent company shareholders		-173.0	-155.0
Dividend to non-controlling interests in subsidiaries		-8.4	-1.1
Cash flow from financing activities		**368.5**	**-286.6**
Cash flow for the year		**42.6**	**58.0**
Cash and cash equivalents, beginning of year[2]		284.0	225.5
Effect of translation differences on cash and cash equivalents		-17.2	0.5
Cash flow for the year		42.6	58.0
Cash and cash equivalents, end of year[2]		**309.4**	**284.0**
1) Of which non-recurring cash flow.		*-28.6*	*-7.9*

2) Cash and cash equivalents include short-term investments and cash and bank balances.

PARENT COMPANY INCOME STATEMENT

MEUR	Note	2017	2016
Net sales	4, 5	18.5	20.2
Administration expenses	6, 25, 29, 30, 31	-28.1	-26.9
Operating earnings		-9.6	-6.7
Financial income and expense			
Earnings from shares in group companies	9	59.0	-
Financial income	10	231.5	259.0
Financial expenses	10	-271.9	-215.7
Earnings before tax and appropriations		9.0	36.6
Appropriations			
Group contribution, net		22.7	1.8
Earnings before tax		31.7	38.4
Tax on earnings for the year	11	5.6	-0.2
Net earnings		37.3	38.2

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

MEUR	2017	2016
Net earnings	37.3	38.2
Other comprehensive income	-	-
Total comprehensive income	37.3	38.2

PARENT COMPANY BALANCE SHEET

MEUR	Note	2017	2016
ASSETS			
Fixed assets			
Intangible fixed assets	14	0.1	0.1
Tangible fixed assets	15	0.0	0.0
Total intangible and tangible assets		0.1	0.1
Financial fixed assets			
Shares in group companies	16	4,712.8	4,330.6
Receivables from group companies	16	2,656.3	2,872.6
Other financial fixed assets	16	0.4	0.4
Deferred tax assets	11	6.0	-
Total financial fixed assets		7,375.5	7,203.6
Total fixed assets		7,375.6	7,203.7
Current assets			
Current receivables			
Receivables from group companies		947.9	802.7
Other receivables		1.2	0.3
Prepaid expenses and accrued income	20	0.3	0.3
Total current receivables		949.4	803.3
Cash and bank balances		0.7	15.5
Total current assets		950.1	818.8
TOTAL ASSETS		8,325.7	8,022.5
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital	21	80.0	80.0
Statutory reserve		314.3	314.3
Total restricted equity		394.3	394.3
Non-restricted equity			
Premium reserve		922.4	922.4
Retained earnings		3,236.3	3,372.0
Total non-restricted equity		4,158.7	4,294.4
Total shareholders' equity		4,553.0	4,688.7
Provisions			
Other provisions		0.4	0.4
Total provisions		0.4	0.4
Long-term liabilities			
Liabilities to credit institutions	24	1,954.8	1,469.0
Total long-term liabilities		1,954.8	1,469.0
Current liabilities			
Liabilities to credit institutions	24	279.8	214.8
Accounts payable		0.4	0.3
Liabilities to group companies		1,529.8	1,646.0
Current tax liabilities		0.4	-
Other liabilities		0.4	0.1
Accrued expenses and deferred income	20	6.7	3.2
Total current liabilities		1,817.5	1,864.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		8,325.7	8,022.5

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

MEUR	Restricted shareholders' equity			Unrestricted shareholders' equity		
	Share capital	Paid-in, non-registered share capital	Statutory reserve	Premium reserve	Retained earnings	Total shareholders' equity
Opening balance 2016-01-01	80.0	0.0	314.3	922.4	3,488.8	4,805.5
Total comprehensive income	-	-	-	-	38.2	38.2
Dividend	-	-	-	-	-155.0	-155.0
New share issues	0.0	-	-	1.4	-	1.4
New share issues in progress	0.0	-	-	-1.4	-	-1.4
Closing balance 2016-12-31	80.0	0.0	314.3	922.4	3,372.0	4,688.7
Total comprehensive income	-	-	-	-	37.3	37.3
Dividend	-	-	-	-	-173.0	-173.0
Closing balance 2017-12-31	80.0	0.0	314.3	922.4	3,236.3	4,553.0

PARENT COMPANY STATEMENT OF CASH FLOWS

MEUR	Note	2017	2016
Cash flow from operating activities			
Operating earnings		-9.6	-6.7
Adjustment for operating earnings items not affecting cash flow:			
Depreciation, amortisation and impairment losses		0.0	0.0
Unrealised exchange rate gains and losses		92.9	149.0
Interest received		230.9	255.3
Interest paid		-269.8	-214.7
Tax paid		-0.2	0.0
Cash flow from operating activities before changes in working capital		44.2	182.9
Cash flow from changes in working capital			
Change in current receivables		-122.7	-93.0
Change in current liabilities		-114.2	382.7
Cash flow from changes in working capital		-236.9	289.7
Cash flow from operating activities		-192.7	472.6
Cash flow from investing activities			
Investments in financial fixed assets	16	-393.4	-3.6
Change in long-term receivables, group companies		106.2	-200.7
Cash flow from investing activities		-287.2	-204.3
Cash flow from financing activities			
Borrowings		766.0	181.7
Repayments		-214.1	-308.0
Provisions		0.0	0.1
Dividend to shareholders		-173.0	-155.0
Cash flow from financing activities		378.9	-281.2
Cash flow for the year		-101.0	-12.9
Cash and bank balances, beginning of year[1]		15.5	24.1
Effect of translation differences on cash and bank		86.2	4.3
Cash flow for the year		-101.0	-12.9
Cash and bank balances, end of year[1]		0.7	15.5

1) Cash and cash equivalents include cash and bank balances.

NOTE 1 ACCOUNTING POLICIES

The consolidated accounts of Hexagon have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements by the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the European Commission for application within the EU.

Furthermore, the recommendation RFR 1 Supplementary accounting rules for corporate groups issued by the Swedish Financial Reporting Board have been applied.

The Parent company applies the Annual Accounts Act and the recommendation RFR 2 Accounting for legal entities. The recommendation means that the Parent company applies the same accounting policies as the Group, except in those cases when the Annual Accounts Act or current tax rules limits the opportunities to apply IFRS. Differences between the accounting principles applied by the Parent company and the Group are outlined under Accounting Policies in the Parent company below.

The accounting policies and calculation methods applied by the Group are consistent with those of the previous financial year except as follows.

On 20 March 2018, the Board of Directors and the President approved this annual report and consolidated accounts for publication and they will be presented to the Annual General Meeting on 2 May 2017 for adoption.

APPLICATION OF NEW AND AMENDED ACCOUNTING RULES

The following amendments in accounting rules are applied for the first time in reporting periods starting on the 1st of January 2017:

Disclosure Initiative: Amendments to IAS 7 – the amendment requires further disclosures about liabilities categorised as financing activities, see Note 24.

STANDARDS ISSUED ENTERED INTO FORCE IN 2018 OR LATER

New standards, amended standards and interpretations that have not entered into force, have not been applied in advance in the financial reports of Hexagon. The following standards enter into force on 1 January 2018 or later.

IFRS 9 Financial Instruments – the standard replaces IAS 39 Financial Instruments: Recognition and Measurement and provides a model for classification and measurement of financial assets and liabilities, extended disclosure requirements for risk management and the effect of hedge accounting and a new model for impairment of financial assets based on expected loss. Financial instruments that would affect the Hexagon financial statements if remeasured occur in limited extent and the result of the analysis performed, shows that the standard will not have any significant impact on measurement and thereby the financial statements. The analysis by IFRS 9 methodology and Hexagon's experience also shows that the standard will not have a significant impact on the Group's reserve for credit loss. Expected credit losses are estimated by investigating a number of possible outcomes together with information about earlier experiences, present conditions and forecasts about future economic presumptions. Since IFRS 9 will not lead to any significant impact on Hexagon's financial statements, the transition will not lead to any adjustments of opening balances.

IFRS 15 Revenue from Contracts with Customers – the standard replaces all former published standards and interpretations about revenues with a comprehensive model of revenue recognition. The standard provides a five-step model for revenue recognition from contracts with customers. According to previous regulations, revenues are to be recognised when the essential risks and rewards associated with the goods or services are transferred to the buyer. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is then recognised. Hexagon applies IFRS 15 retrospectively. The following practical expedients have been applied at transition: a) No restatement has been done of contracts that are completed contracts at 1 January 2017 b) For completed contracts with variable consideration, Hexagon has chosen to use the transaction price at completion of contract rather than estimating variable consideration c) Contract modifications before 1 January 2018 have not been recalculated. d) For reporting periods presented before the date of initial application, no disclosure will be presented about the amount of the transaction price allocated to remaining performance obligations

In the financial reports for periods beginning after 1 January 2018, the comparative figures for 2017 will be restated. The transition to IFRS 15 implies that for certain contracts revenue cannot be recognised by applying the percentage of completion method and the revenue might be recognised at another point in time. The fact that the performance obligations of a contract must be identified and revenue for each performance obligation recognised when it is completed have affected the timing of the group's revenue recognition. Capitalization of sales commissions has also lead to minor adjustments in the transition to IFRS 15. The impact on earnings for 2017 amounts to -2.6 MEUR. The total effect of the transition will be adjusted in opening equity for 2017 and amounts to -17.8 MEUR.

MEUR	Effect on opening balance 2017	Q1	Q2	Q3	Q4	2017
Assets						
Deferred tax assets	1.4	-0.6	-1.4	0.3	0.1	-0.2
Current assets	-17.6	1.6	-1.7	0.0	2.1	-15.6
Total assets	**-16.2**	**1.0**	**-3.1**	**0.3**	**2.2**	**-15.8**
Equity						
Retained earnings	-17.8	1.3	5.0	0.2	0.2	-11.1
Income statement						
Net sales		1.1	-1.7	-1.6	1.9	-0.3
Cost of goods sold		0.9	-0.8	0.5	-2.4	-1.8
Sales expenses		-0.1	0.0	0.0	-0.3	-0.4
Earnings before tax		**1.9**	**-2.5**	**-1.1**	**-0.8**	**-2.5**
Tax		-0.3	0.6	0.4	-0.8	-0.1
Net earnings		**1.6**	**-1.9**	**-0.7**	**-1.6**	**-2.6**
Total equity	**-17.8**	**2.9**	**3.1**	**-0.5**	**-1.4**	**-13.7**
Liabilities						
Deferred tax liability	-4.7	0.1	0.1	-0.1	0.7	-3.9
Current liabilities	6.3	-2.0	-6.3	0.9	2.9	1.8
Total liabilities	**1.6**	**-1.9**	**-6.2**	**0.8**	**3.6**	**-2.1**
Total equity and liabilities	**-16.2**	**1.0**	**-3.1**	**0.3**	**2.2**	**-15.8**

IFRS 16 Leases – the standard replaces all former published standards and interpretations about leasing contracts. The present IAS 17 Leases requires the lessee to classify their leasing contracts as either finance leases or operating leases, which are accounted for differently. The operating leases does not require lessees to recognise assets and liabilities (off balance sheet leases). That together with limited information requirements has caused an inconsistency in the financial statements. The new standard requires the lessees to recognise the obligation to pay leasing fees as a lease liability in the balance sheet. The right to use the underlying asset during the lease term is recognised as an asset. Depreciation of the asset is recognised in the income statement as is an interest of the liability.

Paid leasing fees is recognised partly as a payment of the interest and partly as an amortisation of the liability. Lease contracts with a lease period of less than 12 months and leases of assets of low value are excluded from the standard. The standard also requires more information from both parties regarding the lease. The standard will be applied as of 1 January 2019. Hexagon has started the analysis of possible effects on the financial reporting. The Group's balance sheet will increase as both assets and liabilities are expected to increase. Also, the income statement and financing activities in the cash flow analysis will be affected but it is not possible to accomplish any reliable estimation of numbers at this stage. The rental fee for former off balance-sheet leases will be reallocated in the income statement and recognised as interest and depreciation. This will have a negative effect on financial net and a positive effect on operating earnings. The parent company will apply the exception in RFR 2, which means the regulation of IFRS 16 will not be applied in the legal entity.

Other changes in standards and interpretations that enter into force from 1 January 2018 are not expected to have any impact on the financial statements of Hexagon.

BASIS OF REPORTING FOR THE PARENT COMPANY AND THE GROUP

The functional currency of the Parent company is EUR as is the presentation currency for the Parent company and the Group. The financial reports are presented in EUR. All amounts, unless indicated otherwise, are rounded off to the nearest million with one decimal.

Assets and liabilities are reported at historical cost except for certain financial instruments which are reported at fair value.

Receivables and liabilities or income and expenses are only offset if required or explicitly permitted by an accounting standard.

Preparing the financial statements in compliance with IFRS requires that Management make judgements and estimates as well as make assumptions that affect the application of accounting principles and the amounts recognised as assets, liabilities, income and expenses. The actual outcome may diverge from these estimates and assumptions.

Estimates and assumptions are reviewed continuously. Changes of estimates are recognised in the period when the change is made if the change only affects current period or in that period when the change is made and coming periods if the change affects both current period and coming periods.

Judgements made by Management for the application of IFRS that have a substantial impact on the financial reports and estimates made that may lead to significant adjustments in coming years' financial reports are described in more detail in Note 2.

CLASSIFICATION

Fixed assets and long-term liabilities essentially consist of amounts expected to be realised or settled after twelve months from the balance sheet date. Current assets and short-term liabilities essentially consist only of amounts expected to be realised or settled within twelve months from the balance sheet date. The Group's operating cycle is assessed to be less than one year.

CONSOLIDATED FINANCIAL STATEMENTS

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

Companies or businesses acquired (acquisitions) are accounted for under the purchase method. The method involves a business combination to be regarded as a transaction in which the Group indirectly acquires the assets of the business and assumes its liabilities. The Group's acquisition cost is determined through a purchase price allocation in connection with the acquisition. The acquisition cost is the sum of the fair value at the acquisition date of what is paid in cash, assumed liabilities or issue of own shares. Contingent considerations are included in the acquisition cost and carried at their fair value at the acquisition date. Revaluations of contingent considerations are recorded in the income statement. Transaction costs are expensed in the income statement when incurred.

Identifiable assets acquired and liabilities assumed are recognised initially at their fair values at the acquisition date. Exceptions to this rule are made for acquired tax assets and liabilities, employee benefits, stock-based compensation and assets held for sale, valued in accordance with the principles described for each item in in each standard.

Goodwill recorded represents the difference between the acquisition cost of group companies' shares, the value of non-controlling interest in the acquired business and the fair value of previously owned shares and on the other hand, the purchase price allocation of the assets acquired and liabilities assumed. Goodwill is recognised in accordance with the section Goodwill and other intangible assets below. Non-controlling interests are recognised at the acquisition date, either at its fair value or at its proportionate share of the carrying value of the acquires identifiable assets and liabilities. Acquisition of non-controlling interest is reported as transactions between shareholders, i.e. in equity.

Group companies' financial statements are included in the consolidated accounts as of the date when control occurs (acquisition date) until the control ceases. When control of the group company ceases, but the Group retains shares in the company, remaining shares are initially reported at fair value. The gain or loss is recorded in the income statement.

TRANSLATION OF FINANCIAL REPORTS TO EUR

Hexagon applies the current method meaning that assets and liabilities in operations with a functional currency other than EUR are translated at the closing day exchange rate and income statements are translated at average exchange rates for the period. The resulting translation differences are recognised directly in other comprehensive income. The amount is recognised separately as a translation reserve in equity. In case of divestment of an operation with a functional currency other than EUR the accumulated translation differences related to the divested operation are reclassified from equity to income statement at the time of recognition of capital gain or loss from the divestment.

Monetary long-term items towards businesses with a functional currency other than EUR, for which settlement is not planned or will probably not occur within the foreseeable future, are part of the company's net investment. Translation differences on such monetary items, which comprise part of the company's net investment are recognised in other comprehensive income and accumulated in the translation reserve in equity.

TRANSACTIONS, ASSETS AND LIABILITIES OTHER CURRENCIES THAN EUR

Transactions in non-EUR currencies are recognised in the functional currency at the exchange rate on the transaction day. Monetary assets and liabilities are translated to the functional currency on the closing day at the exchange rate then in effect. Exchange rate differences that arise through these translations are recognised in the income statement.

ELIMINATED TRANSACTIONS

Intra-Group receivables and liabilities, revenue or expenses and gains or losses that arise from transactions between group companies are eliminated in their entirety in the preparation of the consolidated accounts. Losses are eliminated in the same way as gains, but only to the extent that there is no impairment loss.

SEGMENT REPORTING

Hexagon's Board of Directors is responsible for determining the Group's overall objectives, developing and monitoring the overall strategy, decisions on major acquisitions, divestments and investments and ongoing monitoring of operations.

The President is responsible for leading and controlling Hexagon's operations in accordance with the strategy determined by the Board. The President is therefore the Group's chief operating decision maker and is the function that internally within the Hexagon Group allocates resources and evaluates results. The Group's chief operating decision maker assesses the performance in the operating segments based on earnings before financial items and non-recurring items. Financial items and tax are reported for the Group as a whole.

Hexagon's operations are organised, governed and reported based on the two operating segments Geospatial Enterprise Solutions and Industrial Enterprise solutions. The operating segment Geospatial Enterprise Solutions has sensors for capturing data from land and air as well as sensors for positioning via satellites. The sensors are complemented by software (GIS) for creation of 3D maps and models, which are used for decision-making in a range of software applications, covering areas such as surveying, construction, public safety and agriculture. The operating segment Industrial Enterprise Solutions provides metrology systems that incorporate the latest in sensor technology for fast and accurate measurements, as well as CAD (computer -aided design) and CAM (computer -aided manufacturing) software. The solutions within this segment optimise design, processes and throughput in manufacturing facilities and create and leverage asset management information critical to the planning, construction and operation of plants and process facilities in a number of industries such as automotive, aerospace and oil and gas.

The two segments have separate product offerings and customer groups and hence differentiated risk composition. There is marginal sales between the two operating segments. Both segments are applying the same accounting principles as the Group. Hexagon's internal reporting, representing the base for detailed review and analysis, is designed in alignment with the described division into operating segments. Sales within each operating segment are additionally analysed geographically.

CURRENT REVENUE PRINCIPLES
Hexagon applies the following principles for revenue recognition:

Sales of goods
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 if:

- It is likely that the financial benefits for the seller associated with the transaction will accrue to the seller;
- The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated;
- Installation revenues comprise an insignificant portion of total revenues for equipment sold with a commitment to install the equipment.

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 accrue to the contractor.
- The percentage 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 percentage of completion is determined by comparing the expenditure that has arisen in relation with 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, but 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.

REVENUES ACCORDING TO IFRS 15
From the 1 January 2018 the Group will apply IFRS 15 Revenue from Contracts with Customers.

Sale of goods
Revenue is recognised when control of the good is transferred to the customer, which coincide with the good being delivered to the customer and Hexagon has objective evidence that the customer will approve the good. The amount of the revenue will equal the consideration stated in the contract minus rebates. There is no financing component in the contract as the credit to not exceed 30 days, which corresponds to practice. The Group's obligation to offer a repayment for defected goods in accordance with standard warranty terms, is accounted for as a provision, see Note 23.

Sale of services, licenses and similar assignment
Parts of contracts with customers not being sale of goods compose sale of installations, service, training, licenses and software subscriptions.

Revenue from sale of services such as installations, services and training is recognised in the period when the services are performed. Licenses are classified either as a license that gives right to use the underlying immaterial asset as it is constituted at the issuing of the license (right-to-use) or as a license that gives right to access the underlying immaterial asset during the license period (right-to-access). Revenue from sale of right-to-use licenses is recognised when the license is transferred to the customer. Revenue from sale of right-to-access licenses is recognised during the license period. Revenue from sale of software subscriptions is recognised straight-line as the performance obligation is fulfilled, during the subscription period. Revenue from contracts where there is no alternative use of Hexagon's performance and where Hexagon has right to cost compensation if the customer cancels the contract is recognised over time. The degree of completion is determined by comparing the 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, but 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.

Some contracts contain several performance obligations. A performance obligation that does not contain an integration service with the other obligations in the contract, does not lead to a significant modification or adaptation of the other obligations in the contract and that is not strongly dependent on or integrated with the other obligations in the contract is distinct and represents a separate performance obligation. The transaction price of the contract is allocated to the separate performance obligations according to their stand-alone selling prices. Revenue from each performance obligation is recognised as the obligation has been fulfilled.

Estimation of revenue, cost and degree of completion is being revised if conditions change. Changes in estimations is recognised in the income statement in the period when the group management had knowledge of the circumstances causing the change.

In fixed price contracts, the customers pay a fixed price according to an agreed payment plan. If the value of the services performed by Hexagon exceeds the payments, a contract asset will be recognised. If the payments exceed the value of the performed services, a contract liability will be recognised.

If the contract contains a fee per hour, revenue is recognised to the extent Hexagon has right to invoice the customer. Customers are invoiced on a monthly basis and right to consideration exists when the invoice has been generated.

Contract costs
Additional costs to obtain a contract are recognised as an asset if the Group expects to recover those costs. If time of depreciation of the asset that would have been recognised is below one year, the additional costs are recognised as cost when they occur.

Financing component
The Group does not have any contracts with customers where the period between transferring of goods and services to the customer and payment from the customer exceeds one year. As a conse-

quence of this, the Group does not adjust transaction prices for time value of money.

RESEARCH AND DEVELOPMENT EXPENDITURE
Expenditure for research is expensed as incurred, while expenditure for development is capitalised as follows: Capitalisation of development expenses in the Group are only applied to new products where significant development costs are involved, where the products have a probable earnings potential that Hexagon may benefit from and the costs are clearly distinguishable from ongoing product development expenditure. Straight-line depreciation and amortisation are done based on estimated economic life. Possible impairment is continuously evaluated. Depreciation, amortisation and impairment are in income statement reported as research and development expenditure.

LEASING
The Group has entered into financial as well as operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Financial leases are not material and primarily relate to vehicles. For operational leases, the lease payments are expensed straight-line over the shorter of the asset's useful life and the lease term. For capital leases the leased asset is carried on the balance sheet with a corresponding liability for future lease payments. The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. The liability for future lease payments is interest bearing.

As manufacturer lessor, the Hexagon group has entered financial lease contracts. Recognition of those takes place at the inception of the contract. Assets included in the contract is derecognised from the balance sheet. Instead, a receivable is recognised. The economic substance of a financial lease is equal to selling, why income and cost of goods sold is recognised when the contract is entered.

OTHER OPERATING REVENUES/EXPENSES
Other operating revenues/expenses primarily consist of gains/losses from sales of fixed assets, currency exchange gains and losses related to operating assets and liabilities, acquisition related expenses and revenues for letting of premises and other assets with corresponding expenses.

FINANCIAL INSTRUMENTS
Financial instruments recognised in the balance sheet include, on the asset side, cash and bank, accounts receivables, shares, loans receivable, other receivables and derivatives. Liabilities include trade accounts payable, loans payable, supplementary payments, contingent considerations and derivatives.

Financial instruments are initially recognised at cost, corresponding to the instrument's fair value plus transaction expenses for all financial instruments with the exception of those in the category financial assets at fair value through profit or loss. Subsequent measurement at fair value or amortised cost depends on how they are classified, as indicated below. Fair value of listed financial assets and liabilities are determined at market prices. Hexagon also applies different valuation methods to determine the fair value of financial assets and liabilities that are managed in an inactive market. These valuation methods are based on the valuation of similar instruments, discounted cash flows or accepted valuation models.

Amortised cost is determined using the effective interest rate calculated on the date of acquisition.

FINANCIAL ASSETS AND LIABILITIES ARE CLASSIFIED IN ONE OF THE FOLLOWING CATEGORIES:

Financial assets and liabilities at fair value through profit or loss
Financial derivative instruments are recognised at fair value, with changes in fair value recognised in profit and loss, apart from cases where the derivative fulfils the requirement for cash flow hedging, in which case the change in value is recognised directly in other comprehensive income until the hedged transaction has been recognised in the income statement.

Available for sale
Hexagon considers listed holdings of securities as being available for sale, which means that the change in value up to the selling date is recognised directly in other comprehensive income. Unlisted shares and participations whose value cannot be determined reliably are recognised at acquisition cost.

Held-to-maturity investments
Assets held to maturity are valued at amortised costs, applying the effective interest rate method. No financial instruments were classified in this category during 2017 and 2016.

Loans receivable and accounts receivable
Accounts receivable are recognised at the amount expected to be received based on an individual valuation. Accounts receivable have a short maturity, due to which they are recognised at their nominal amount without discounting. Impairment losses on accounts receivable are recognised in operating expenses.

Other receivables are receivables that arise when the company provides money without the intent to trade its claim.

Other financial liabilities
Bank loans classified as other financial liabilities are initially recognised at the amount received after deducting transaction expenses. After acquisition, the loans are carried at amortised cost, according to the effective rate method.

Trade accounts payable are carried at amortised cost. Trade accounts payable have a short expected maturity and are carried without discounting at their nominal amount.

Cash and bank
Cash and bank consist of cash and cash equivalents, immediately accessible balances with banks and similar institutions and short-term liquid investments with a maturity from acquisition date of less than three months, which are exposed to no more than an insignificant risk of fluctuation in value.

DERIVATIVES AND HEDGE ACCOUNTING
Balances and transactions are to some extent hedged and hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair value of the hedging instrument is recognised in the income statement together with the change in the value of the liability or asset to which the risk hedging applies. When hedging cash flow, the change in value of the hedging instrument is recognised directly in other comprehensive income until the hedged transaction has been recognised.

The value of the net assets of subsidiaries whose functional currency is not EUR, including goodwill and other intangible assets, is partly hedged, mainly through currency loans. Currency forward contracts are used to a lesser extent. In the consolidated financial statements, the after-tax effects of hedging are offset against those translation differences that were recognised directly in other comprehensive income regarding the international operations.

FINANCIAL INSTRUMENTS ACCORDRING TO IFRS 9
From 1 January 2018, the Group is applying IFRS 9 Financial Instruments.

Classification
From 1 January 2018 the Group classifies financial assets in the following categories:

- Financial assets measured at fair value (through other comprehensive income or profit or loss)
- Financial assets measured at amortised cost

Classification depends on the Group's business model and on the contractual cash flows the Group will obtain from the financial asset.

Gains and losses from assets measured at fair value will be recognised either through comprehensive income or through profit or loss. For debt instruments, this depends on the Group's business model. For equity instruments not available for sale, recognition depends on if the Group initially has chosen to measure the equity instrument at fair value through other comprehensive income. Reclassification does only occur if the business model is changed.

Measurement

Financial assets are initially measured at fair value plus, if financial assets not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial assets. Transaction cost for financial assets measured at fair value through profit or loss is recognised in the income statement.

Subsequent measurement of debt instruments depends on the Group's business model and the cash flows generated by the financial asset. Debt instruments are classified in three different measurement categories:

- Amortised cost: assets held for obtaining contractual cash flows and those cash flows consist of compensation for capital and interest, are measured at amortised cost. Gains or losses when debt instruments are derecognised or impaired are recognised in profit or loss. Interest income is classified as financial income according to the effective rate method.
- Fair value through other comprehensive income: assets held for obtaining contractual cash flows and for sale and where the contractual cash flows exclusively are compensation for capital and interest on outstanding capital is measured at fair value through other comprehensive income. Changes in recognised value in recognised in other comprehensive income except from impairments, interest income and currency effects recognised in profit or loss. When the financial asset is derecognised the accumulated profit or loss is reclassified from other comprehensive income in equity to the income statement. Interest income is recognised as financial income according to the effective rate method. Currency effects are recognised as other operating income or other operating cost and any impairment is recognised as other operating cost.
- Fair value through profit or loss: assets that not meet the criteria for being measured at fair value through other comprehensive income is measured at fair value through profit or loss. Gain or loss from a debt instrument measured at fair value through profit or loss is recognised in the income statement at net value, together with other profits and losses in the period they arise.

Derivatives are initially measured at fair value at the day of entering the contract and are subsequently measured at fair value at the end of every reporting period.

Impairment

The Group estimates on a forward-looking basis expected loss from debt instruments measured at amortised cost and fair value through other comprehensive income. The applied methodology for impairment depends on if there is a significant increase in credit risk (see Note 24).

For customer receivables, the Group applies the simplified methodology according to IFRS 9, which requires an initial provision for expected losses.

PENSIONS

Expenditure for defined contribution plans are expensed as incurred.

Expected expenditure under defined benefit plans are recognised as a liability calculated in accordance with actuarial models, consisting of an estimate of future benefits that employees have earned through their employment during the current and prior periods. This benefit is discounted to its present value. The discount rate is the yield on high-quality corporate bonds or if there is no deep market for such bonds, government bonds – that have maturity dates approximating the terms of the Group's obligations.

Changes of the defined benefit obligation related to changed actuarial assumptions including currency revaluation on defined benefit obligation in another currency than functional currency and experience based adjustment are reported in other comprehensive income. Pension expense for the year consists of pensions earned in the current period and pensions earned from prior periods resulting from any changes in the plan. Pension liabilities, -assets net is multiplied with discount rate and accounted for as a financial expense. Obligations related to defined benefit plans are recognised net in the balance sheet (as a provision), meaning after a deduction of the value of any plan assets.

Defined benefit plans for which the insurer (Alecta) cannot specify Hexagon's share of the total plan assets and pension obligations, pending this information becoming available, are recognised as defined contribution plans. This only exist in limited extent in Sweden.

PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes with their associated probabilities.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been publicly announced. No provision is posted for future operating losses.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group are lower than the unavoidable cost of meeting its obligations under the contract.

INCOME TAXES

Income taxes comprise:

- Current tax, meaning the tax calculated on taxable earnings for the period and adjustments regarding prior periods;
- Deferred tax, meaning 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 loss carry-forwards and other tax deductions.

The income tax expenses for the year consist of current and deferred tax. Transactions recognised in other comprehensive income are including tax effects, i.e. tax related to these transactions are also posted in other comprehensive income. Tax related to transactions directly recognised in equity, is posted in equity.

INVENTORIES

Inventories are accounted according to the FIFO (first-in first-out) principle. Raw materials and purchased finished and semi-finished goods are recognised at the lower of cost and net realizable value. Manufactured finished and semi-finished goods are recognised at the lower of manufacturing cost (including a reasonable portion of indirect manufacturing costs) and fair value. Market terms are applied for Intra-Group transactions. The necessary provisions and eliminations are made for obsolescence and Intra-Group gains respectively.

GOODWILL AND OTHER INTANGIBLE FIXED ASSETS

Goodwill comprises the difference between the acquisition cost and fair value of the Group's share of acquired companies' identifiable net assets on the date of acquisition. Goodwill is recognised at acquisition value less accumulated impairment losses. Other acquisition-related intangible assets primarily comprise various types of intellectual rights such as brands, patents and customer relations.

Both acquisition-related and other intangible assets are reported at acquisition value less accumulated amortisation and impairment losses, if any. Acquisition-related intangible assets with an indefinite life are not amortised, but are tested for impairment on an annual basis.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recognised at acquisition value less accumulated depreciation and impairment losses. Acquisition value includes expenditure that is directly attributable to acquisition of the asset.

Gains/losses on the divestment of a tangible fixed asset are recognised in the income statement as other operating income/cost and comprise the difference between the sales revenue and the carrying amount.

Amounts that can be depreciated comprise acquisition value less estimated residual value. The assets' carrying value and useful life are impairment tested on every balance-sheet date and adjusted if necessary.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation is calculated on the original acquisition value and based on the asset's estimated useful life. The depreciation terms for various asset classes are:

• Capitalised development expenditure	2–6 years
• Patents and trademarks[1]	5 years
• Other intangible assets	2–20 years
• Computers	3–8 years
• Machinery and equipment	3–15 years
• Office buildings	20–50 years
• Industrial buildings	20–50 years
• Land improvements	5–25 years

1) The value of trademarks obtained via acquired operations is determined by means of the acquisition analysis. If the trademark can be used without any time limitations, it is not subject to amortisation according to plan. The right to use the name Leica derives from a contractual useful life under an agreement that expires in 86 years' time. The agreement contains clauses stipulating extension opportunities. Since Hexagon is of the opinion that there is reason to believe that it will be possible to extend the agreement without considerable expenditure, the value of the right to use the name Leica is not subject to amortisation.

IMPAIRMENT

Goodwill and other intangible assets with an indefinite life are subject to annual impairment testing. All tangible and intangible assets are impairment tested if indications of an impairment requirement arise, meaning if the recognised value of an asset exceeds its recoverable value. If an impairment need is identified, the item is impaired to an amount corresponding to the recoverable value.

The recoverable value is the higher of the asset's net realizable value and the value in use, meaning the discounted present value of future cash flows. Previous impairments are reversed by relevant amounts matching the degree to which the impairment is no longer warranted, although goodwill impairments are never reversed.

If independent cash flows cannot be isolated for individual assets, the assets are grouped at the lowest level where independent cash flows can be identified (cash-generating units). See further Note 8.

EARNINGS PER SHARE

The calculation of earnings per share is based on net earnings attributable to the Parent company shareholders and on the weighted number of shares outstanding during the year. The calculation of earnings per share after dilution takes into account the quarterly calculated dilutive effect from any potential common shares stemming from options issued to employees. Dilution occurs only when the strike price is lower than the share price.

ACCOUNTING POLICIES IN THE PARENT COMPANY

The Parent company applies the same accounting policies as the Group with the following exceptions:

- The Parent company does not apply IAS 39.
- In the Parent company, all leases are treated as operational leases.
- In the Parent company, the shares in subsidiaries are recognised at acquisition value less any impairment.
- Acquisition value of shares in subsidiaries includes transaction costs and contingent consideration.
- Non-monetary assets acquired in other currencies than EUR are recognised at the historical exchange rate. Other assets and liabilities are recognised at the exchange rate prevailing on the balance sheet date.
- Group contributions are accounted for as appropriations in the income statement.

DIVIDENDS

The dividend proposed by the Board of Directors reduces earnings available for distribution and is recognised as a liability when the Annual General Meeting has approved the dividend.

APPROVAL OF ACCOUNTS

The Parent company's and the consolidated financial statements will be presented to the Annual General Meeting for approval on 4 May 2018.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The critical accounting estimates and assumptions that are addressed in this section are those that Company Management and the Board of Directors regard as the most important for understanding Hexagon's financial reporting. The information is limited to areas that are significant considering the degree of impact and underlying uncertainty. Hexagon's accounting estimates and assumptions are based on historical experience and assumptions that company management and the Board of Directors regard as reasonable under the current circumstances. The conclusions based on these accounting estimates constitute the foundation for the carrying amounts of assets and liabilities, in the event that they cannot be established through information from other sources. The actual outcome may differ from these accounting estimates and assumptions.

PARTS OF HEXAGON'S SALES DERIVE FROM MAJOR AND COMPLEX CUSTOMER CONTRACTS

In order to establish the amounts that are to be recognised as income and whether any loss provision should be posted, company management makes estimates of completed performance in relation to the contractual terms and conditions, the estimated total contractual costs and the proportion of the contract that has been completed.

Hexagon also enters into revenue agreements that contain multiple elements, such as hardware, software and/or services. For these agreements, Hexagon need to assess how revenue should be allocated to each element as different accounting principles apply for these elements.

INTANGIBLE ASSETS

Intangible assets within Hexagon concern essentially pertain to patents, trademarks and goodwill. Goodwill and other acquired intangible assets with an indefinite life are not subject to annual amortisation, while other intangible assets are amortised. Insofar as the underlying operations develop negatively, an impairment requirement may arise. Such intangible assets are subject to annual impairment testing, which is essentially based on the value in use, making assumptions about the sales trend, the Group's profit margins, on-going investments, changes in working capital and discount interest rate. The assumptions made by the Board of Directors are presented above. Company management considers the assumptions applied to be compatible with the data received from external sources of information or from previous experience. Hexagon's goodwill at the end of 2017 amounted to 4,412.3 MEUR (4,027.1). Other intangible assets not subject to amortisation amount to 945.2 MEUR (918.3) as of this date. Impairment tests performed did not give rise to any impairment.

TAX ASSETS AND LIABILITIES

The Board of Directors and Company Management continuously assess the carrying amount of both current and deferred tax assets and liabilities. For deferred tax assets, Hexagon has to assess the probability of whether it will be possible to utilise the deductible temporary differences that give rise to deferred tax assets to offset future taxable profits. In addition, in certain situations, the value of the deferred tax assets and liabilities may be uncertain due to ongoing tax processes, for example.

Accordingly, the value of deferred tax assets and liabilities may deviate from these estimates due to a change in future earning capacity, changed tax regulations or the outcome of examinations by authorities or tax courts of issued or not yet issued tax returns. When assessing the value of deferred tax assets and liabilities, Hexagon has to form an opinion of the tax rate that will apply at the time of the reversal of the temporary differences. Hexagon recognised deferred tax liabilities, net in an amount of 362.6MEUR (417.7), net, at the end of 2017. At the same date, the Group had tax-loss carry-forwards with a value of 35.1 MEUR (45.8) that were not recognised as assets. These assets could not be capitalised based on assessments of the opportunity to utilise the tax deficits. In comparison with the final outcome, the estimates made concerning both deferred tax assets and liabilities could have either a positive or a negative impact on earnings.

PENSION OBLIGATIONS

Within Hexagon, there are defined-benefit pension schemes based on significant assumptions concerning future benefits pertaining to either the current or prior workforce. When calculating the pension liability, a number of actuarial assumptions are of major significance to the outcome of the calculation. The most critical pertain to the discount interest rate on the obligation and the anticipated return on the plan assets. Other significant assumptions include the rate of pay increases, employee turnover and estimated length of life. A reduced discount interest rate increases the recognised pension liability. The actual outcome could deviate from the recognised amount if the applied assumptions prove to be wrong.

BUSINESS COMBINATION

Hexagon acquires companies on a continuous basis. In connection with the acquisitions, acquired assets and assumed liabilities are valued to fair value in a purchase price allocation analysis. The valuation is to a certain extent based on management assessment of the future earnings of the acquired company. Many of the acquisitions deals contain contingent consideration which is based on the outcome of the acquired company earnings for a predetermined period. The fair value of contingent considerations recognised as a liability is reviewed on a regular basis, which requires management to assess the future performance of the acquired company. An inaccurate assessment of this might result in overstated acquired assets or liabilities for contingent considerations.

NOTE 3 OPERATING SEGMENTS

Hexagon's operations are organised, governed and reported in two operating segments, Industrial Enterprise Solutions (IES) and Geospatial Enterprise Solutions (GES). The operating segment IES comprises the divisions Manufacturing Intelligence and PPM. The operating segment GES comprises the divisions Geosystems, Positioning Intelligence and Safety & Infrastructure.

2017	IES	GES	Total segments	Group expenses and eliminations	Group
Net sales	1,764.3	1,706.5	3,470.8	-22.4	3,448.4
Operating expenses	-1,320.4	-1,294.3	-2,614.7	1.6	-2,613.1
Operating earnings (EBIT1)[1]	**443.9**	**412.2**	**856.1**	**-20.8**	**835.3**
Non-recurring items	-55.7	-16.7	-72.4	-0.8	-73.2
Operating earnings (EBIT)	**388.2**	**395.5**	**783.7**	**-21.6**	**762.1**
Net interest income/expenses				-22.7	-22.7
Earnings before tax				**-44.3**	**739.4**
Operating assets	5,230.4	3,733.2	8,963.6	-798.0	8,165.6
Operating liabilities	-699.4	-1,141.7	-1,841.1	805.5	-1,035.6
Net operating assets	**4,531.0**	**2,591.5**	**7,122.5**	**7.5**	**7,130.0**
[1] Of which share in associated companies earnings	0.0	-0.1	-0.1	–	-0.1
Shares in associated companies	0.0	0.1	0.1	–	0.1
Investments in fixed assets	107.6	173.3	280.9	0.6	281.5
Average number of employees	9,599	7,872	17,471	72	17,543
Number of employees at year-end	10,139	8,100	18,239	76	18,315
Depreciation, amortisation and impairment	-135.8	-148.0	-283.8	-0.9	-284.7

2016	IES	GES	Total segments	Group expenses and eliminations	Group
Net sales	1,569.9	1,579.3	3,149.2	-	3,149.2
Operating expenses	-1,170.8	-1,224.5	-2,395.3	-17.8	-2,413.1
Operating earnings (EBIT1)[1]	**399.1**	**354.8**	**753.9**	**-17.8**	**736.1**
Operating earnings (EBIT)	**399.1**	**354.8**	**753.9**	**-17.8**	**736.1**
Net interest income/expenses				-21.8	-21.8
Earnings before tax				**-39.6**	**714.3**
Operating assets	4,664.1	3,786.8	8,450.9	-910.0	7,540.9
Operating liabilities	-528.3	-1,239.0	-1,767.3	933.1	-834.2
Net operating assets	**4,135.8**	**2,547.8**	**6,683.6**	**23.1**	**6,706.7**
[1] Of which share in associated companies earnings	0.4	0.0	0.4	-	0.4
Shares in associated companies	-	1.4	1.4	-	1.4
Investments in fixed assets	101.9	158.8	260.7	0.3	261.0
Average number of employees	8,454	7,934	16,388	72	16,460
Number of employees at year-end	8,640	7,877	16,517	75	16,592
Depreciation, amortisation and impairment	-94.5	-138.5	-233.0	-0.9	-233.9

Geographical markets

	Net sales by country[3]		Operating Assets[1] Assets		Liabilities		Net		Tangible and intangible fixed assets	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
EMEA[2]	1,303.4	1,193.7	4,457.3	4,308.3	-1,136.2	-1,243.4	3,321.1	3,064.9	3,094.1	3,031.5
Americas	1,166.3	1,076.5	4,305.3	4,040.7	-468.1	-427.1	3,837.2	3,613.6	3,475.9	3,009.5
Asia	1,001.1	879.0	547.8	472.8	-576.1	-444.6	-28.3	28.2	119.5	124.6
Elimination of Intra-Group items / Adjustments	-22.4	-	-1,144.8	-1,280.9	1,144.8	1,280.9	-	-	-	-
Group	**3,448.4**	**3,149.2**	**8,165.6**	**7,540.9,**	**-1,035.6**	**-834.2**	**7,130.0**	**6,706.7**	**6,689.5**	**6,165.6**

1) Net operating assets correspond with operating earnings in as much as items such as cash and cash equivalents, tax, interest and interest bearing liabilities and provisions are not included.
2) Sweden is included in EMEA with net sales of 78.1 MEUR (71.8) and tangible and intangible fixed assets of 29.5 MEUR (31.3).
3) Relates to the country where the customer has it's residence. No single customer represented more than 2.4 per cent (2.0) of net sales.

NOTE 4 PARENT COMPANY INTRA-GROUP PURCHASES AND SALES

Other Group companies account for 100 per cent (100) of the Parent company's sales and 83 per cent (82) of the Parent company's purchases.

NOTE 5 NET SALES

	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Surveying	736.9	693.7	-	-
Power and energy	538.3	553.8	-	-
Infrastructure and construction	427.8	391.8	-	-
Automotive	357.1	306.3	-	-
Public safety	287.6	297.2	-	-
Electronics and manufacturing	473.4	382.1	-	-
Aerospace and defence	283.0	254.0	-	-
Other	344.3	270.3	18.5	20.2
Total	3,448.4	3,149.2	18.5	20.2

NOTE 6 OPERATING EXPENSES

	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Cost of goods sold				
Cost of goods	695.3	622.2	-	-
Personnel cost	375.1	368.1	-	-
Depreciation and amortisation	25.4	27.7	-	-
Other	231.4	229.2	-	-
Total	1,327.2	1,247.2	-	-
Sales expenses				
Personnel cost	446.6	396.4	-	-
Depreciation and amortisation	13.6	11.9	-	-
Other	195.7	165.0	-	-
Total	655.9	573.3	-	-
General and administrative cost				
Personnel cost	181.9	171.1	7.0	5.2
Depreciation and amortisation	20.9	19.8	0.0	0.0
Other	100.7	78.2	21.1	21.7
Total	303.5	269.1	28.1	26.9
Research and development cost				
Personnel cost	162.9	145.0	-	-
Depreciation and amortisation	180.2	164.0	-	-
Other	47.1	24.1	-	-
Total	390.2	333.1	-	-

NOTE 7 OTHER OPERATING INCOME AND OPERATING EXPENSES

Group	2017	2016
Other operating income		
Capital gain on divestment of fixed assets	1.7	0.6
Exchange rate gains	36.4	51.5
Government grants	2.7	2.3
Fair value adjustments	53.7	18.6
Rental income	1.0	2.8
Other	2.6	5.3
Total	98.1	81.1

Group	2017	2016
Other operating expenses		
Capital loss on divestment of fixed assets	-0.4	-1.1
Exchange rate losses	-45.5	-46.1
Rental related expenses	-1.5	-4.0
Impairment	-47.5	-4.5
Acquisition related expenses	-7.5	-7.9
Other	-5.1	-9.0
Total	-107.5	-72.6

NOTE 8 IMPAIRMENTS

CASH-GENERATING UNITS

Goodwill and other intangible assets with indefinite lives acquired through business combinations has been allocated to the five (five) cash generating units (CGU) below, which complies with Hexagon's organisation:

- Geosystems
- Manufacturing Intelligence
- Positioning Intelligence
- Safety & Infrastructure
- PPM

Carrying amount of goodwill and other intangible assets allocated to each of the CGUs:

	Geosystems		Manufacturing Intelligence		Positioning Intelligence		Safety & Infrastructure		PPM		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Goodwill	1,106.2	1,117.9	1,118.2	537.4	333.1	362.6	481.6	460.0	1,373.2	1,549.2	4,412.3	4,027.1
Other intangible assets with indefinite useful lives[1]	427.2	437.3	145.0	64.5	14.1	15.7	76.3	79.3	282.6	321.5	945.2	918.3
Intangible assets subject to amortisation[2]	321.3	314.4	359.0	233.6	75.6	72.8	123.6	118.4	171.3	186.2	1,050.8	925.4
Total	1,854.7	1,869.6	1,622.2	835.5	422.8	451.1	681.5	657.7	1,827.1	2,056.9	6,408.3	5,870.8

1) Comprises the right to use the Leica name and other owned names and brands.
2) Comprises capitalised development costs, patents, technology and other intangible assets.

Hexagon performed its annual impairment test as per 31 December 2017. Hexagon tests if the carrying value of the CGU's exceed their recoverable value. The recoverable value is the higher of the CGUs net realisable value and the value in use, meaning the discounted value of future cash flows.

GEOSYSTEMS

The recoverable amount of the Geosystems CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections 7.3 per cent (6.6). The growth rate was used to extrapolate the cash flows beyond the five-year period was 2.0 per cent (2.0). This growth rate is assessed on a conservative basis and is set equal to the expected inflation. As a result of the impairment test performed, management did not identify an impairment for this CGU.

MANUFACTURING INTELLIGENCE

The recoverable amount of the Manufacturing Intelligence CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections 8.5 per cent (7.8). The growth rate was used to extrapolate the cash flows beyond the five-year period was approximately 2.0 per cent (2.0). This growth rate is assessed on a conservative basis and is set equal to the expected inflation. As a result of the impairment test performed, management did not identify an impairment for this CGU.

POSITIONING INTELLIGENCE

The recoverable amount of the Positioning Intelligence CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections 9.1 per cent (8.0). The growth rate was used to extrapolate the cash flows beyond the five-year period was approximately 2.0 per cent (2.0). This growth rate is assessed on a conservative basis and is set equal to the expected inflation. As a result of the impairment test performed, management did not identify an impairment for this CGU.

SAFETY & INFRASTRUCTURE

The recoverable amount of the Safety & Infrastructure CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections 9.3 per cent (9.1). The growth rate used to extrapolate the cash flows beyond the five-year period was approximately 2.0 per cent (2.0). This growth rate is assessed on a conservative basis and is set equal to the expected inflation. As a result of the impairment test performed, management did not identify an impairment for this CGU.

PPM

The recoverable amount of the PPM CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections 9.3 per cent (9.1). The growth rate was used to extrapolate the cash flows beyond the five-year period was approximately 2.0 per cent (2.0). This growth rate is assessed on a conservative basis and is set equal to the expected inflation. As a result of the impairment test performed, management did not identify an impairment for this CGU.

NOTE 8 Impairments, cont.

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS

The calculation of value in use for all CGU is most sensitive to the following assumptions:

- Forecasts, including operating margins and sales growth
- Discount rates
- Growth rates used to extrapolate cash flow beyond the forecast period

Forecasts

The forecasted cash flows, that is approved by senior management, are based on an analysis of historic performance as well as a best estimate regarding the future. Hexagon has since 2001 shown systematically rising operating margins and virtually continuous good organic growth.

The operating margins are based on average values achieved historically. The margins are increased over the period to reflect anticipated efficiency improvements. The organic growth is based on an analysis of how the competition situation is judged to develop over time.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money as well as individual risks. The discount rate calculation is based on the specific circumstances of each CGU and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group investors. The cost of debt is based on the interest bearing borrowings. Specific risks are incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Growth rates used to extrapolate cash flow beyond the forecast period

Rates are based on published industry research. The long term rate used to extrapolate the budget is assessed as conservative as this is set equal to the expected long term inflation rate.

Sensitivity to changes in assumptions

A sensitivity analysis including all key assumptions is performed and management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable value. For all cash generating units there is a significant headroom before any changes in key assumptions would cause a valuation adjustment, since the recoverable value totally is nearly double the book value. The performed sensitivity analysis demonstrates that the value of goodwill and other intangible assets with indefinite useful life is more than defendable even if the discount rate is increased with one percentage point or if the growth rate after the forecast period is decreased with one percentage point for all cash generating units. Even forecasts for sales growth and operating margin are included in the sensitivity analysis and no reasonable changes in these would cause a need of impairment.

NOTE 9 EARNINGS FROM SHARES IN GROUP COMPANIES

	Group		Parent Company	
	2017	2016	2017	2016
Earnings from shares in group companies				
Dividend from subsidiaries	-	-	70.2	-
Impairment loss of shares in Group companies	-	-	-11.2	-
Capital gain/loss from sale of shares in group companies	-	0.7	-	-
Total	-	0.7	59.0	-

NOTE 10 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Financial income				
Interest income	5.2	4.7	0.2	0.1
Interest income, intercompany receivables	-	-	105.2	91.9
Other financial income	0.4	0.1	126.1	167.0
Total	5.6	4.8	231.5	259.0
Financial expenses				
Interest expenses	-17.5	-15.2	-14.3	-12.8
Interest expenses, intercompany liabilities	-	-	-10.2	-4.8
Net interest on pensions	-1.6	-1.8	-	-
Other financial expenses[1]	-9.2	-9.6	-247.4	-198.1
Total	-28.3	-26.6	-271.9	-215.7

1) Mainly bank costs.

NOTE 11 INCOME TAXES

GROUP

Tax on earnings for the year

	2017	2016
Current tax	-145.4	-91.5
Deferred tax	79.8	-44.2
Total tax on earnings for the year	-65.6	-135.7

Specification of deferred tax

	2017-12-31	2016-12-31
Deferred tax assets (liabilities) comprise:		
Fixed assets	-466.9	-497.9
Inventories	13.8	10.5
Receivables	20.6	11.3
Provisions	7.5	17.6
Other	34.6	25.1
Unutilised loss carry-forwards and similar deductions	62.9	61.5
Less items not satisfying criteria for being recognised as assets	-35.1	-45.8
Total	-362.6	-417.7
According to the balance sheet:		
Deferred tax assets	83.9	55.0
Deferred tax liabilities	-446.5	-472.7
Total, net	-362.6	-417.7

Unutilised loss carry-forwards and similar deductions not satisfying criteria for being recognised as assets have not been recognised. Deferred tax assets that depend on future taxable surpluses have been valued on the basis of both historical and forecast future taxable earnings. Hexagon is striving for a corporate structure that enables tax exemption when companies are divested and favourable taxation of dividends within the Group.

NOTE 11 Income taxes, cont.

Certain potential tax on dividends and divestments remain within the Group.

Reconciliation of the year's change in current and deferred tax assets/liabilities

Deferred tax	2017	2016
Opening balance, net	-417.7	-357.4
Change via income statement		
Deferred tax on earnings	-20.3	-40.6
Change in reserve for deductions not satisfying criteria for being recognised as assets	-0.5	-2.0
Change in tax rates and items pertaining to prior years	100.6	-1.6
Total	79.8	-44.2
Change via other comprehensive income		
Deferred tax on other comprehensive income	17.8	5.7
Total	17.8	5.7
Change via acquisitions and divestments	-75.4	-10.3
Translation difference	32.9	-11.5
Closing balance, net	-362.6	-417.7

Current tax	2017	2016
Opening balance, net	-11.4	-12.5
Change via income statement		
Current tax on earnings	-149.3	-95.3
Items pertaining to prior years	3.9	3.8
Total	-145.4	-91.5
Change via acquisitions and divestments	-13.5	-0.8
Payments, net	114.8	92.1
Translation difference	0.5	1.3
Closing balance, net	-55.0	-11.4

The Group's unutilised loss carry-forwards and similar deductions mature as follows:

	2017-12-31
2017	14.2
2018	2.3
2019	9.2
2020	7.0
2021 and later	56.8
Indefinitely	184.8
Total	274.3

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

	2017	2016
Earnings before tax	739.4	714.3
Tax pursuant to Swedish nominal tax rate 22%	-162.7	-157.1
Difference in tax rates between Swedish and foreign tax rate	14.8	19.5
Revaluation of loss carry-forwards, etc.	-0.6	1.9
Permanent differences	-26.0	0.3
Change in tax rates and items pertaining to prior years[1]	108.9	-0.3
Tax, income statement	-65.6	-135.7

1) Mainly related to revaluation of deferred tax due to tax cut in USA.

PARENT COMPANY
Tax on earnings for the year

	2017	2016
Current tax	-0.4	-0.2
Deferred tax	6.0	-
Total tax on earnings for the year	5.6	-0.2

Reconciliation of the year's change in current and deferred tax assets/liabilities

	2017	2016
Deferred tax		
Opening balance, net	0.0	0.0
Change via income statement		
Deferred tax on earnings	6.0	-8.2
Change in reserve for deductions not satisfying criteria for being recognised as assets	-	8.2
Total	6.0	0,0
Closing balance, net	6.0	0.0
Current tax		
Opening balance, net	-0.2	0.0
Change via income statement		
Current tax on earnings	-0.4	-0.2
Total	-0.4	-0.2
Payments, net	0.2	-
Closing balance, net	-0.4	-0.2

The Parent company has unutilised loss carry-forwards of 27.1 MEUR (0). The maturity of these are indefinitely.

NOTE 12 NON-RECURRING ITEMS

Group	2017	2016
Acquired deferred revenue	22.4	-
Cost nature		
Personnel costs	36.2	-
Transaction costs	2.0	-
Impairments	10.5	-
Other	2.1	-
Total cost nature	50.8	-
Total non-recurring items	73.2	-
Net sales	22.4	-
Function		
Cost of goods sold	3.0	-
Sales expenses	15.0	-
Administration expenses	13.7	-
Research and development expenses	17.1	-
Other operating expenses	2.0	-
Total function	50.8	-
Total non-recurring items	73.2	-

Non-recurring items relate to a cost savings programme that was introduced in the first quarter of 2017 and acquired deferred revenue relating to the acquisition of MSC.

The new US tax legislation (Tax Cuts & Jobs Act) has led to a revaluation of deferred tax liabilities, which had a positive impact on tax income of 72.4 MEUR.

NOTE 13 GOVERNMENT GRANTS

During the year some of the subsidiaries within the Group have received government grants. The government grants relate primarily to education of employees and R&D funding. The table below shows how the grants are allocated to functions.

Group	2017	2016
Function		
Cost of goods sold	0.1	0.1
Research and development expenses	0.6	0.3
Other operating income	2.7	2.3
Total	3.4	2.7

NOTE 14 INTANGIBLE FIXED ASSETS

Intangible fixed assets

Group 2017	Capitalised development expenses	Patents	Trademarks	Goodwill	Other intangible fixed assets	Total
Acquisition value, opening balance	1,278.4	125.5	918.3	4,027.1	550.7	6,900.0
Investments	216.1	1.0	-	-	9.7	226.8
Investments/divestments of business	-	6.2	85.2	791.9	170.2	1,053.5
Sales/disposals	-5.3	0.0	-	-	-3.1	-8.4
Reclassification	-13.9	0.9	-	-	4.2	-8.8
Translation differences	-43.1	-4.8	-58.3	-406.7	-37.6	-550.5
Acquisition value, closing balance	**1,432.2**	**128.8**	**945.2**	**4,412.3**	**694.1**	**7,612.6**
Amortisation, opening balance	-611.4	-75.0	-	-	-222.9	-909.3
Amortisation for the year	-140.3	-8.3	-	-	-44.8	-193.4
Investments/divestments of business	-	-	-	-	-6.7	-6.7
Sales/disposals	5.3	-	-	-	3.1	8.4
Reclassification	11.8	-0.7	-	-	-2.3	8.8
Translation differences	20.9	3.0	-	-	15.1	39.0
Amortisation, closing balance	**-713.7**	**-81.0**	**-**	**-**	**-258.5**	**-1,053.2**
Impairments, opening balance	-101.3	-	-	-	-18.6	-119.9
Impairment for the year	-22.9	-	-	-	-16.3	-39.2
Translation differences	6.0	-	-	-	2.0	8.0
Impairments, closing balance	**-118.2**	**-**	**-**	**-**	**-32.9**	**-151.1**
Carrying value	**600.3**	**47.8**	**945.2**	**4,412.3**	**402.7**	**6,408.3**

Group 2016	Capitalised development expenses	Patents	Trademarks	Goodwill	Other intangible fixed assets	Total
Acquisition value, opening balance	1,097.8	122.4	885.6	3,812.6	525.9	6,444.3
Investments	197.1	0.9	0.0	-	8.7	206.7
Investments/divestments of business	-13.9	0.8	22.1	149.1	31.2	189.3
Sales/disposals	-18.3	0.0	-	-	-17.8	-36.1
Reclassification	0.0	-	-	-	-1.6	-1.6
Translation differences	15.7	1.4	10.6	65.4	4.3	97.4
Acquisition value, closing balance	**1,278.4**	**125.5**	**918.3**	**4,027.1**	**550.7**	**6,900.0**
Amortisation, opening balance	-497.9	-66.7	-	-	-189.6	-754.2
Amortisation for the year	-130.6	-8.1	-	-	-36.2	-174.9
Investments/divestments of business	5.2	-0.1	-	-	-1.2	3.9
Sales/disposals	16.0	0.0	-	-	6.8	22.8
Reclassification	0.0	-	-	-	0.8	0.8
Translation differences	-4.1	-0.1	-	-	-3.5	-7.7
Amortisation, closing balance	**-611.4**	**-75.0**	**-**	**-**	**-222.9**	**-909.3**
Impairments, opening balance	-97.6	-	-	-	-25.4	-123.0
Impairment for the year	-4.5	-	-	-	-	-4.5
Sales/Disposals	2.3	-	-	-	7.9	10.2
Translation differences	-1.5	-	-	-	-1.1	-2.6
Impairments, closing balance	**-101.3**	**-**	**-**	**-**	**-18.6**	**-119.9**
Carrying value	**565.7**	**50.5**	**918.3**	**4,027.1**	**309.2**	**5,870.8**

Capitalised expenditure on research and development pertains mainly to software for sales. Trademarks mainly comprise the right to use the "Leica" name and other owned names and brands. These are assessed to be used without any time limitations and are not subject to amortisation. Other intangible fixed assets primarily consist of customer bases and technology identified upon acquisition.

Amortisation of intangible fixed assets allocated by function:

Group	2017	2016
Cost of goods sold	-1.6	-1.7
Sales expenses	-9.7	-5.3
Administration expenses	-3.7	-4.2
Research and development expenses	-175.4	-160.5
Other operating expenses	-3.0	-3.2
Total	-193.4	-174.9

Other intangible fixed assets

Parent Company	2017	2016
Acquisition value, opening balance	0.3	11.9
Investments	0.0	0.0
Sales/Disposals	-	-11.6
Acquisition value, closing balance	**0.3**	**0.3**
Amortisation, opening balance	-0.2	-11.8
Amortisation for the year	0.0	0.0
Sales/Disposals	-	11.6
Amortisation, closing balance	**-0.2**	**-0.2**
Carrying value	0.1	0.1

NOTE 15 TANGIBLE FIXED ASSETS

Tangible fixed assets

Group 2017	Buildings	Land and other real estate	Machinery and other technical plants	Equipment, tools and installation	Construction in progress and advances to suppliers	Total
Acquisition value, opening balance	215.3	31.6	284.0	194.4	5.8	731.1
Investments	5.0	0.5	27.6	19.9	1.7	54.7
Investments/divestments of business	6.6	-	2.5	16.5	-	25.6
Sales/disposals	-3.2	-2.2	-8.4	-12.4	-0.2	-26.4
Reclassification	-0.4	0.0	1.8	4.5	-0.1	5.8
Translation differences	-10.1	-1.5	-10.6	-15.4	-0.2	-37.8
Acquisition value, closing balance	213.2	28.4	296.9	207.5	7.0	753.0
Depreciation, opening balance	-80.9	-4.7	-207.1	-139.8	-3.8	-436.3
Depreciation for the year	-10.5	-0.9	-18.6	-21.7	-0.4	-52.1
Investments/divestments of business	-4.1	-	-1.9	-12.1	-	-18.1
Sales/disposals	1.7	0.1	8.0	11.8	0.1	21.7
Reclassification	0.3	0.0	-2.7	-3.9	0.0	-6.3
Translation differences	1.0	0.3	7.0	11.0	0.0	19.3
Depreciation, closing balance	-92.5	-5.2	-215.3	-154.7	-4.1	-471.8
Carrying value	120.7	23.2	81.6	52.8	2.9	281.2

Group 2016	Buildings	Land and other real estate	Machinery and other technical plants	Equipment, tools and installation	Construction in progress and advances to suppliers	Total
Acquisition value, opening balance	205.5	32.5	264.2	174.1	7.2	683.5
Investments	7.6	0.3	21.0	23.7	1.7	54.3
Investments/divestments of business	1.0	-	-2.1	7.3	0.8	7.0
Sales/disposals	-3.6	-0.5	-5.3	-15.3	-0.5	-25.2
Reclassification	2.7	-1.1	4.0	1.4	-1.6	5.4
Translation differences	2.1	0.4	2.2	3.2	-1.8	6.1
Acquisition value, closing balance	215.3	31.6	284.0	194.4	5.8	731.1
Depreciation, opening balance	-70.5	-3.6	-192.9	-125.4	-3.2	-395.6
Depreciation for the year	-9.4	-1.0	-22.2	-21.4	-0.5	-54.5
Investments/divestments of business	0.0	-	1.4	-4.9	-0.5	-4.0
Sales/disposals	1.6	0.0	5.0	14.7	0.4	21.7
Reclassification	-1.2	-	1.8	-0.6	0.0	0.0
Translation differences	-1.4	-0.1	-0.2	-2.2	0.0	-3.9
Depreciation, closing balance	-80.9	-4.7	-207.1	-139.8	-3.8	-436.3
Carrying value	134.4	26.9	76.9	54.6	2.0	294.8

Depreciation of tangible fixed assets allocated by function:

Group	2017	2016
Cost of goods sold	-23.8	-26.0
Sales expenses	-3.9	-6.6
Administration expenses	-17.2	-15.6
Research and development expenses	-4.8	-3.5
Other operating expenses	-2.4	-2.8
Total	-52.1	-54.5

Equipment

Parent Company	2017	2016
Acquisition value, opening balance	0.0	0.0
Acquisition value, closing balance	0.0	0.0
Depreciation, opening balance	0.0	0.0
Depreciation for the year	0.0	0.0
Depreciation, closing balance	0.0	0.0
Carrying value	0.0	0.0

NOTE 16 FINANCIAL FIXED ASSETS

Group	Shares in associated companies 2017	Shares in associated companies 2016	Other long-term securities holdings 2017	Other long-term securities holdings 2016	Other long-term receivables 2017	Other long-term receivables 2016
Opening balance	1.4	3.5	4.3	4.9	15.4	16.6
Investments	-	-	-	-	19.1	5.6
Acquired as subsidiary	-	-1.9	-	-	9.2	-0.4
Earnings participations, etc.	-0.1	0.4	-	-	-	-
Capital gains/losses	-0.9	-	-	-0.3	-	-
Sales	-0.2	-0.1	-	-0.1	-4.6	-3.9
Reclassification	-	-	-	-	-1.6	-2.7
Translation differences	-0.1	-0.5	-0.1	-0.2	-1.4	0.2
Closing balance	0.1	1.4	4.2	4.3	36.1	15.4

Parent Company	Shares in Group companies 2017	Shares in Group companies 2016	Receivables from Group companies 2017	Receivables from Group companies 2016	Other financial fixed assets 2017	Other financial fixed assets 2016
Opening balance	4,330.6	4,327.0	2,872.6	3,334.7	0.4	0.3
Shareholders contribution	393.4	3.6	-	-	-	-
Impairment	-11.2	-	-	-	-	-
Increase/decrease in receivables	-	-	-216.3	-462.1	0.0	0.1
Closing balance	4,712.8	4,330.6	2,656.3	2,872.6	0.4	0.4

Other long-term securities holdings

Group	2017-12-31	2016-12-31
BIMobject AB	3.2	3.3
Euclideon PTY	1.0	1.0
Other	0.0	0.0
Total	4.2	4.3

Subsidiaries of Hexagon AB

	Corp ID. No.	Reg. Office/ Country	No. of shares	Portion of share capital and voting rights, %	Carrying amount 2017-12-31	Carrying amount 2016-12-31
Clever Together AB	556070-5138	Stockholm, Sweden	2,500	100	0.0	0.0
Hexagon Corporate Services Ltd	-	Hong Kong	10,000	100	0.0	0.0
Hexagon Corporate Solutions Ltd	-	England	1	100	0.0	0.0
Hexagon Förvaltning AB	556016-3049	Stockholm, Sweden	200,000	100	23.1	23.1
Hexagon Global Services AB	556788-2401	Stockholm, Sweden	1,000	100	0.0	0.0
Hexagon Intergraph AB	556370-6828	Stockholm, Sweden	1,000	100	0.0	0.0
Hexagon Metrology AB	556365-9951	Stockholm, Sweden	1,000	100	1,129.1	735.7
Hexagon Positioning Intelligence Ltd	-	England	3	100	154.6	154.6
Hexagon Solutions AB	556083-1124	Stockholm, Sweden	100,000	100	1.6	1.6
Hexagon Technology Center GmbH[1]	-	Switzerland	583	75	2,388.0	2,388.0
Intergraph Holding Company	-	USA	1	100	1,007.5	1,007.5
Johnson Industries AB	556099-2967	Stockholm, Sweden	100,000	100	7.3	7.3
Röomned AB	556394-3678	Stockholm, Sweden	1,439,200	100	0.0	11.2
Tecla AB	556068-1602	Stockholm, Sweden	160,000	100	1.6	1.6
Östgötaeken AB	556197-2380	Stockholm, Sweden	2,000	100	0.0	0.0
Total					4,712.8	4,330.6

1) The remaining part of share capital and voting rights in the company are owned by wholly owned subsidiaries in the Group.

NOTE 17 SHARES IN ASSOCIATED COMPANIES

		Portion of, %			Carrying amount Group		Share of income in associated companies			
							Before tax	Tax	Before tax	Tax
	Number of shares	Share capital	Voting rights	Portion of share-holders' equity	2017-12-31	2016-12-31	2017	2017	2016	2016
Aircraft Concept GmbH	50	40	40	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Alberta Ltd	-	-	-	-	-	1.2	0.0	0.0	0.0	0.0
Applied Thermal Fluid Analysis Center Ltd	252,000	45	45	0.0	0.0	-	0.0	0.0	-	-
Contravolts Infotech Pvt Ltd	392,000	49	49	0.0	0.0	-	0.0	0.0	-	-
H&S Server and Laser	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
HostSure Ltd	-	-	-	-	-	-	-	-	0.4	0.0
Navgeocom Severo-Zapad	-	-	-	-	-	0.0	0.1	0.0	0.0	0.0
Navgeocom Yug	-	45	45	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Sistem Solutions	7,182	25	25	0.0	0.0	-	0.0	0.0	-	-
Total				0.0	0.1	1.4	0.1	0.0	0.4	0.0

Aircraft Concept GmbH has its registered office in Germany.

Alberta Ltd has its registered office in Canada. Was divested during 2017.

Applied Thermal Fluid Analysis Center Ltd has its registered office in Taiwan.

Contravolts Infotech Pvt Ltd has its registered office in India.

H&S Server and Laser has its registered office in USA. Was divested during 2017.

HostSure Ltd has its registered office in Northern Ireland. Recognised as wholly owned subsidiary as of 2016.

Navgeocom Severo-Zapad has its registered office in Russia. Was divested during 2017.

Navgeocom Yug has its registered office in Russia.

Sistem Solutions has its registered office in Ukraine.

Since these holdings are insignificant in relation to the Group as a whole, no further disclosures are provided.

NOTE 18 RECEIVABLES

Group	Not due	Due less than 30 days	Due between 30–60 days	Due between 61–90 days	Due between 91–120 days	Older than 120 days	Total
Aging analysis of receivables, 31 December 2017, net of impairment losses							
Other long-term receivables	34.8	0.5	-	0.0	0.0	0.8	36.1
Customer receivables	668.9	97.1	35.7	23.3	13.2	59.5	897.7
Other receivables – non-interest bearing	55.5	2.7	0.3	0.0	0.1	2.2	60.8
Total	759.2	100.3	36.0	23.3	13.3	62.5	994.6
Aging analysis of receivables, 31 December 2016, net of impairment losses							
Other long-term receivables	11.3	1.3	-	0.0	0.6	2.2	15.4
Customer receivables	590.1	79.3	38.1	17.6	8.6	54.3	788.0
Other receivables – non-interest bearing	52.6	1.8	1.1	0.0	0.0	1.4	56.9
Total	654.0	82.4	39.2	17.6	9.2	57.9	860.3

Reserve for doubtful receivables

Group	2017-12-31	2016-12-31
Opening balance	25.0	25.6
Reserve for anticipated losses	13.5	10.3
Adjustment for actual losses	-4.3	-3.5
Reversal of unutilised amounts	-4.7	-7.3
Increase through acquisition	0.2	-
Translation differences	-0.9	-0.1
Closing balance	28.8	25.0

NOTE 19 INVENTORIES

Group	2017-12-31	2016-12-31
Raw materials and supplies	176.1	175.2
Work in progress	34.7	29.7
Finished goods and goods for sale	206.2	221.8
Total	417.0	426.7
Value adjustment reserve includes provisions for obsolescence etc of	-62.1	-64.2

NOTE 20 PREPAID EXPENSES AND ACCRUED INCOME/ACCRUED EXPENSES AND DEFERRED INCOME

PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accrued invoicing	11.5	21.8	-	-
Accrued interest income	0.2	0.2	-	-
Work in progress	38.0	39.5	-	-
Prepaid maintenance costs	5.7	5.1	-	-
Prepaid license costs	10.2	6.0	-	-
Prepaid products and services	11.1	14.1	-	-
Prepaid rent	3.7	3.2	0.1	0.1
Prepaid insurance	4.0	5.5	0.1	0.1
Other items	14.9	7.3	0.1	0.1
Total	99.3	102.7	0.3	0.3

ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accrued personnel-related expenses	186.2	156.0	1.4	0.3
Accrued sales commission	23.8	17.9	-	-
Accrued installation and training expenses	7.3	7.2	-	-
Accrued R&D expenses	2.0	2.3	-	-
Accrued fees	7.6	6.5	0.1	0.1
Accrued royalties	4.7	4.0	-	-
Accrued interest expenses	6.6	3.6	4.7	2.2
Work in progress	30.8	22.2	-	-
Other prepaid revenues	351.2	254.3	-	-
Other items	68.6	65.3	0.5	0.6
Total	688.8	539.3	6.7	3.2

NOTE 21 SHARE CAPITAL AND NUMBER OF SHARES

PARENT COMPANY

		Number of shares						
		Outstanding			Total issued			
	Quota value per share, EUR	Class A	Class B	Total	Class A	Class B	Total	Share capital, MEUR
Opening balance 2016	0.22	15,750,000	344,587,142	360,337,142	15,750,000	344,587,142	360,337,142	80.0
New share issues – exercise of warrants	0.22	-	106,000	106,000	-	106,000	106,000	0.0
Closing balance 2016	0.22	15,750,000	344,693,142	360,443,142	15,750,000	344,693,142	360,443,142	80.0
Closing balance 2017	0.22	15,750,000	344,693,142	360,443,142	15,750,000	344,693,142	360,443,142	80.0

Warrants exercised until 2015-12-31 incurred a new share issue in progress during 2016 of 106,000 new shares of series B. The new share issue was finalized in the first quarter of 2016.

Each series A share entitles the holder to 10 votes and each series B share to 1 vote. All shares entail the same right to share of profits in Hexagon. Dividend per share paid in 2017 regarding the financial year of 2016 amounted to EUR 0.48 (0.43) per share.

Average number of shares before and after dilution, thousands

	2017	2016
Average number of shares before dilution	360,443	360,433
Estimated average number of potential shares pertaining to warrants plans	1,146	446
Average number of shares after dilution	361,589	360,879

NOTE 22 PENSION PROVISIONS AND SIMILAR OBLIGATIONS

GROUP

Provisions – Defined-benefit plans

	2017-12-31	2016-12-31
Pension obligations	630.7	679.8
Fair value of plan assets	-553.1	-548.5
Pension obligations less plan assets	**77.6**	**131.3**
Unrecognised assets	-	0.1
Pension provision, net	**77.6**	**131.4**

Pension expenses - Defined-benefit plans

	2017	2016
Current service cost	24.6	25.3
Interest expense	6.1	8.0
Calculated interest income	-4.5	-6.2
Change in terms and conditions	-14.9	-2.6
Employees' own contribution	-10.7	-11.2
Total	**0.6**	**13.3**

Total pension expenses impact on the income statement

	2017	2016
Operating expenses – defined-benefit plans	-1.0	11.5
Operating expenses – defined contribution plans	52.8	30.5
Operating earnings impact	**51.8**	**42.0**
Net interest expenses – defined-benefit plans	1.6	1.8
Earnings before tax impact	**53.4**	**43.8**

Defined-benefit obligations

2017-12-31	Plan assets	Pension obligations	Net
Switzerland	496.8	-529.2	-32.4
Other countries	56.3	-101.5	-45.2
Total (fair/present value)	**553.1**	**-630.7**	**-77.6**
Pensions provisions, net			**-77.6**
Of which:			
Reported as asset (other non-current receivables)			4.7
Reported as liability			-82.3

2016-12-31	Plan assets	Pension obligations	Net
Switzerland	496.2	-585.4	-89.2
Other countries	52.3	-94.4	-42.1
Total (fair/present value)	**548.5**	**-679.8**	**-131.3**
Unrecognised assets			-0.1
Pensions provisions, net			**-131.4**
Of which:			
Reported as asset (other non-current receivables)			0.6
Reported as liability			-132.0

Three year summary

	2017-12-31	2016-12-31	2015-12-31
Fair value of plan assets	553.1	548.5	534.3
Pension obligations	-630.7	-679.8	-657.7
Net	**-77.6**	**-131.3**	**-123.4**
Unrecognised assets	-	-0.1	-0.1
Book-value	**-77.6**	**-131.4**	**-123.5**

Pension obligations

	2017	2016
Opening balance	679.8	657.7
Change in terms and conditions	-13.6	-1.0
Current service cost	24.6	25.3
Interest expense	6.1	8.0
Benefits paid	-30.7	-33.1
Acquired/divested subsidiaries	18.6	-0.2
Settlement of pension obligations	-1.3	-1.6
Actuarial gains/losses – Financial assumptions	-40.3	22.6
Actuarial gains/losses – Demographic assumptions	-1.5	8.8
Actuarial gains/losses – Experience adjustments	1.8	-3.5
Currency translation differences	-12.8	-3.2
Closing balance	**630.7**	**679.8**

Plan assets

	2017	2016
Opening balance	548.5	534.3
Calculated interest income	4.5	6.2
Contributions – employer	14.8	14.3
Contributions – employee	10.7	11.2
Benefits paid	-26.6	-33.2
Acquired/divested subsidiaries	3.6	-
Return on plan assets excluding calculated interest income as above	7.4	18.5
Currency translation differences	-9.8	-2.8
Closing balance	**553.1**	**548.5**

Fair value of plan assets

	2017-12-31	2016-12-31
Equities and similar financial instruments	205.8	190.1
Interest bearing securities, etc.	176.6	179.2
Real estate	170.7	179.2
Total	553.1	548.5

For 2018, the contributions to defined benefit plans are estimated at 27.1 MEUR, of which employer's contribution 16.4 MEUR.

Characteristics of the pension obligations

The following applies for the Swiss plans which represent 84 per cent of the total pension obligations. The Swiss plans include the following sub-plans: Retirement pension (main plan), disability pension, management plan, early retirement plan and jubilee plan. The main plan, retirement pension, is financed through an individual savings account. The plan defines a retirement credit in per cent of insured salary depending of the age of the plan member and it guarantees an interest rate, which is annually determined by the Pension Fund. The minimum legal rate as fixed by the Swiss government has to be credited to the minimum savings account. The interest is not allowed to negative, even if the actual return on assets is negative (capital protection). The other kinds of plans i Switzerland are of similar nature.

Shortfall in the schemes in Switzerland must be covered by the employer, while surpluses can only become due to the beneficiaries. The value of plan assets has been reduced accordingly.

Remaining duration is in average 20 year.

Actuarial assumptions for the defined-benefit pension schemes

(weighted average, where applicable)	2017	2016
Discount interest rate, %	1.0	1.4
Inflation, %	0.7	0.6
Future salary increase, %	0.8	0.8

For 84 per cent of the defined benefit obligation, the Swiss BVG 2015 tables have been used for the actuarial assumptions regarding employee turnover and life expectancy.

Sensitivity analysis

The table below describes the effect on the value of the defined benefit obligations of an isolated change in assumptions as described.

	Change in assumption, %	Effect, MEUR	Change in assumption, %	Effect, MEUR
Discount rate	-0.3	37.3	+0.3	-35.2
Salary increase	-0.5	-2.9	+0.5	3.3
Employee turnover	-1.0	11.8	+1.0	-11.8

	Change in assumption, no. of years	Effect, MEUR	Change in assumption, no. of years	Effect, MEUR
Life expectancy	-1.0	-35.4	+1.0	34.7

NOTE 23 OTHER PROVISIONS

GROUP

	Restructuring provisions	Warranty provisions	Other provisions	Total
Opening balance 2016-01-01	12.0	13.8	8.9	34.7
Provision for the year	0.6	7.7	0.7	9.0
Increase through acquisition of businesses	-	0.1	0.6	0.7
Utilisation	-8.4	-5.9	-2.6	-16.9
Reversal of unutilised amounts	-1.3	-1.1	-0.3	-2.7
Translation difference	-0.2	0.0	0.0	-0.2
Closing balance 2016-12-31	**2.7**	**14.6**	**7.3**	**24.6**
Provision for the year	41.1	13.0	0.4	54.5
Increase through acquisition of businesses	-	-	3.4	3.4
Utilisation	-28.1	-10.7	-1.6	-40.4
Reversal of unutilised amounts	-1.4	-1.3	-0.7	-3.4
Translation difference	-0.8	-0.5	-0.8	-2.1
Closing balance 2017-12-31	**13.5**	**15.1**	**8.0**	**36.6**

Restructuring provisions

Restructuring provisions primarily relates to a cost savings programme that was introduced in the first quarter of 2017. The remaining part of restructuring provisions are mainly related to personnel and are expected to become due within 12 months.

Warranty provisions

Warranty provisions are estimated based on previous years statistical data and are valuated on a regular basis. Since the warranty provisions are based on historical statistical data, the provided amount has a low uncertainty regarding the amount and timing of outflow. The majority of warranty provisions run over a period of 1-3 years. Estimated costs for product warranties are recognised when the products are sold.

Other provisions

Other provisions primarily consist of provisions for tax and legal disputes and also legally required personnel related provisions. The personnel related provisions are considered as long-term.

NOTE 24 FINANCIAL INSTRUMENTS

Hexagon is a net borrower and has extensive international operations and is therefore exposed to various financial risks. The Group Treasury Policy, approved by the Board, stipulates the rules and limitations for the management of the different financial risks within the Group. Hexagon's treasury operations are centralised to the Group's internal bank, which is in charge of coordinating the financial risk management. The internal bank is also responsible for the Group's external borrowing and its internal financing. Centralisation entails substantial economies of scale, lower financing cost and better control and management of the Group's financial risks. The internal bank has no mandate to conduct independent trading in currencies and interest rate instruments. All relevant exposures are monitored continuously and are reported to the Group Management and the Board of Directors on a regular basis.

CURRENCY RISK

Currency risk is the risk that exchange rate fluctuations will have an adverse effect on income statement, balance sheet and cash flow. Furthermore, the comparability of Hexagon's earnings between periods will be affected by changes in currency exchange rates. Hexagon's operations are mainly conducted internationally and sales, costs and net assets are therefore denominated in a number of currencies. As of 1 January 2011 the presentation currency is EUR for the Group. The change decreases the currency exposure in both the income statement and balance sheet as well as in other comprehensive income. It also allows the Hexagon Group to better match debt to net assets. Currency exposure originates both from transactions in non-domestic currencies in the individual operating entities, i.e. transaction exposure and from translation of earnings and net assets into EUR upon consolidation of the Group, i.e. translation exposure.

Transaction Exposure

Sales and purchase of goods and services in currencies other than respective subsidiary's functional currency give rise to transaction exposure. Transaction exposure is, as far as possible, concentrated to the countries where manufacturing entities are located. This is achieved by invoicing the sales entities in their respective functional currency.

In accordance with the Group Treasury Policy the transaction exposure should not be hedged.

Translation Exposure – Balance Sheet

Translation exposure arises when the net assets are translated into EUR upon consolidation. Translation differences from net assets in other currencies than EUR reported in other comprehensive income during 2017 were -530.3 MEUR (69.8).

Net exposure per currency

	2017-12-31	Hedging rate
USD	3,430.1	0%
GBP	341.1	1%
CNY	308.4	-
CAD	267.3	1%
BRL	137.1	1%
CHF	-75.6	-7%
INR	65.5	12%
Other	203.1	3%
Total	4,677.0	1%

Translation Exposure – Income Statement

The consolidated operating income and expense is mainly generated in subsidiaries outside the Euro-area. Changes in exchange rates therefore have a significant impact on the Group's earnings when the income statements are translated into EUR. Translation exposure related to actual and forecasted earnings is not hedged.

Net sales per currency

	2017	2016
USD	1,296.2	1,224.9
EUR	786.8	695.6
CNY	419.3	363.9
GBP	144.3	152.1
JPY	111.1	77.5
CHF	106.6	69.0
Other	584.1	566.2
Total	3,448.4	3,149.2

INTEREST RATE RISK

The interest rate risk is the risk that changes in interest rates will adversely affect the Group's net interest expense and/or cash flow. Interest rate exposure arises primarily from the external interest bearing debt. In accordance with the Group Treasury Policy the average interest rate duration for the external debt should be in a range from 6 months to 3 years.

During 2017 interest rate derivatives were used in order to manage the interest rate risk.

Financial income and expenses

	2017	2016
Interest income	5.2	4.7
Interest expense	-19.1	-17.0
Other financial income and expense	-8.8	-9.5
Net	-22.7	-21.8

CREDIT RISK

Credit risk is the risk that counterparts may be unable to fulfil their payment obligations. Financial credit risk arises when investing cash and cash equivalents and when trading in financial instruments. To reduce the Group's financial credit risk, surplus cash is only invested with a limited number by the company approved banks and derivative transactions are only conducted with counterparts where an ISDA netting agreement has been established.

As the Group is a net borrower, excess liquidity is primarily used to amortise external debt and therefore the average surplus cash invested with banks is kept as low as possible.

Credit risk also includes the risk that customers will not pay receivables that the company has invoiced or intends to invoice. Through a combination of geographical and business segmental diversification of the customers the risk for significant customer credit losses is reduced. An aging analysis of the receivables can be found in Note 18.

LIQUIDITY RISK

Liquidity risk is the risk of not being able to meet the Group's payment obligations in full as they fall due or can only do so at materially disadvantageous terms due to lack of cash resources. To minimise the liquidity risk, the Group Treasury Policy states that total liquidity reserves shall at all times be at least 10 per cent of the Group's forecasted annual net sales.

On 31 December 2017, cash and unutilised credit limits totalled 1,601.1 MEUR (1,595.3).

Group's maturity structure of interest bearing financial liabilities – undiscounted cash flows

The table below presents the undiscounted cash flows of the Group's interest bearing liabilities related to financial instruments based on the remaining period at the balance sheet to the contractual maturity date. Floating interest cash flows with future fixing dates are based on the actual interest rates at year-end. Any cash flow in foreign currency is translated to EUR using the exchange rate at year-end.

	2017		2018-2019		2020 and later		Total	
	Capital	Interest	Capital	Interest	Capital	Interest	Capital	Interest
Liabilities to credit institutions								
Revolving Credit	-	-	-	-	-	-	-	-
Bond loans	168.0	12.0	608.4	12.5	523.7	5.3	1,300.1	29.8
Commercial paper[1]	-	2.5	-	5.1	822.7	1.8	822.7	9.4
Other lenders	129.4	1.4	0.4	0.0	0.2	0.0	130.0	1.4
Total liabilities to credit institutions	297.4	15.9	608.8	17.6	1,346.6	7.1	2,252.8	40.6
Other interest bearing liabilities	4.4	0.4	2.3	0.3	2.5	0.3	9.2	1.0
Total interest bearing liabilities	301.8	16.3	611.1	17.9	1,349.1	7.4	2,262.0[2]	41.6

1) The Commercial Paper Program is supported by the long term revolving credit facilities as back-up and therefore classified as long term.
2) Interest bearing liabilities in the Parent company, 2,234.6 MEUR.

There were interest rate derivatives pertaining to borrowing at 31 December 2017. The agreement governing the Revolving Credit Facility include a financial covenant for Net debt/EBITDA to be fulfilled to avoid additional financing costs.

Currency composition pertaining to interest bearing liabilities

	2017-12-31	2016-12-31
EUR	98%	98%
USD	1%	1%
INR	0%	1%
SEK	0%	0%
Other	1%	0%
Total	100%	100%

REFINANCING RISK

Refinancing risk refers to the risk that Hexagon does not have sufficient financing available when needed to refinance maturing debt, due to existing lenders do not extend or Hexagon has difficulties in procuring new lines of credit at a given point in time. Securing these requirements demands a strong financial position in the Group, combined with active measures to ensure access to credit.

In order to ensure that appropriate financing is in place and to decrease the refinancing risk, no more than 20 per cent of the Group's gross debt, including unutilised credit facilities, is allowed to mature within the next 12 months without replacing facilities agreed.

Following a refinancing in 2014, Hexagon's main sources of financing consist of:

1) A multicurrency revolving credit facility (RCF) established during Q3 2014. The RCF amounts to 2,000 MEUR with maturity 2021.
2) A Swedish Medium Term Note Programme (MTN) established during Q2 2014. The MTN programme enables Hexagon to issue bonds up to a total amount of 15,000 MSEK. On 31 December 2017, Hexagon had issued bonds of a total amount of 10,850 MSEK (6,750).
3) A Swedish Commercial Paper Program (CP) established during 2012. The CP programme enables Hexagon to issue commercial paper up to a total amount of 15,000 MSEK. Commercial paper with tenor up to 12 months can be issued under the programme. On 31 December 2017, Hexagon had issued commercial paper of a total amount of 7,590 MSEK (7,565) and 32 MEUR (11). The 2,000 MEUR multicurrency revolving facility support the commercial paper programme.

During Q2 2016 Hexagon issued a private placement bond to SEK (Swedish Export Agency) of 1,500 MSEK with a tenor of 6 years.

Group's capital structure

	2017-12-31	2016-12-31
Interest bearing liabilities and provisions	2,344.3	1,848.8
Cash, bank and short-term investments	-309.4	-284.0
Net Debt	2,034.9	1,564.8
Shareholders' equity	4,618.1	4,590.8

SENSITIVITY ANALYSIS

The Group's earnings are affected by changes in certain key factors, as described below. The calculations proceed from the conditions prevailing in 2017 and the effects are expressed on an annualised basis. Earnings in non-EUR subsidiaries are converted into EUR based on average exchange rates for the period when the earnings arise.

During the year there have been significant changes to the exchange rates of currencies that have the biggest impact on Hexagon's earnings and net assets, namely CHF, CNY and USD. Compared to last year the EUR has strengthened against CHF, CNY and USD. Since Hexagon has a majority of the operating earnings denominated in CNY and USD, this had a negative impact on operating earnings. The weakening of the CHF had a positive impact since a considerable part of the costs are denominated in CHF. An isolated strengthening in the exchange rate for EUR by 5 per cent for all assets and liabilities denominated in non-EUR currencies would have had an immaterial effect on net income but a negative effect on equity of 231.9 MEUR (207.9) net and vice versa, after the impact of hedging.

During 2017, total operating earnings, excluding non-recurring items, from operations in other currencies than EUR amounted to an equivalent of 601.3 MEUR (465.9). An isolated change in the exchange rate for EUR by 5 per cent against all other currencies would have a net effect on operating earnings of approximately 30.1 MEUR (23.3).

The average interest fixing period in the Group's total loan portfolio as of year-end 2017 was more than one year. A simultaneous 1 percentage point change in interest rates in all of Hexagon's funding currencies would entail a pre-tax impact of about 10.3 MEUR (8.8) in the coming 12 months earnings.

FINANCIAL INSTRUMENTS – FAIR VALUE

	2017-12-31		2016-12-31	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets				
Other long-term securities holdings	4.2	4.2	4.3	4.3
Loan receivables and account receivables				
Long-term receivables	36.1	36.1	15.4	15.4
Accounts receivable	897.7	897.7	788.0	788.0
Other current receivables	62.3	62.3	57.5	57.5
Accrued income	49.5	49.5	61.3	61.3
Accrued interest	0.2	0.2	0.2	0.2
Short-term investments	90.3	90.3	60.1	60.1
Cash and bank balances	219.1	219.1	223.9	223.9
Total	1,359.4	1,359.4	1,210.7	1,210.7

	2017-12-31		2016-12-31	
Liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities valued at fair value through income statement				
Estimated supplementary payments for acquired companies	59.4	59.4	118.4	118.4
Derivative instruments				
Currency forward and swap contracts – short term	-8.9	-8.9	-8.4	-8.4
Currency forward and swap contracts – long term	-59.4	-59.4	-19.3	-19.3
Financial liabilities valued at accrued acquisition value				
Long-term liabilities – interest bearing[1]	2,019.6	2,030.3	1,495.5	1,501.6
Other long-term liabilities – non-interest bearing	16.5	16.5	12.3	12.3
Current liabilities – interest bearing[1]	307.9	307.9	245.6	245.6
Accounts payable	190.4	190.4	175.7	175.7
Other current non-interest bearing liabilities	146.7	146.7	110.0	110.0
Accrued expenses	331.0	331.0	269.9	269.9
Accrued interest	6.6	6.6	3.6	3.6
Total	3,009.8	3,020.5	2,403.3	2,409.4

1) Commercial papers and bonds have with currency forward and swap contract being swapped from SEK to EUR. The fair value of the derivatives are in the balance sheet included in current and long-term interest bearing liabilities.

FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE

	2017-12-31			2016-12-31		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
– Currency forward and swap contracts	-	-68.3	-	-	-27.7	-
– Estimated supplementary payments for acquired companies	-	-	-59.4	-	-	-118.4
– Other long-term securities holdings	-	4.2	0.0	-	4.3	0.0
Total	-	-64.1	-59.4	-	-23.4	-118.4

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

For further information about estimated supplementary payments for acquired companies see below.

During the reporting period ending 31 December 2017, there were no transfers between levels.

ESTIMATED SUPPLEMENTARY PAYMENTS FOR ACQUIRED COMPANIES

	2017	2016
Opening balance	118.4	115.9
Present value adjustment	0.4	0.6
Increase through acquisition of businesses	17.1	42.0
Payment of supplementary acquisition considerations	-13.8	-25.7
Reversal of unutilised amounts	-53.7	-18.6
Translation difference	-9.0	4.2
Closing balance	59.4	118.4

The fair value of the estimated supplementary payments for acquisitions are evaluated regularly and includes management's assessment of future financial performance of the acquired companies. Estimated supplementary payments for acquired companies have been discounted to present value using an interest rate that is judged to be in line with the market rate at the time of acquisition. Adjustments for changes in market interest rates are not made on a regular basis, as this effect is considered to be immaterial.

The valuation method is unchanged compared to the previous period. The fair value adjustment is offset by impairment of fixed assets and other fair value adjustments of current assets, including the impact from a review of ongoing projects performed in the second quarter of 2017.

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Group	Parent Company
Opening balance 2017-01-01	1,716.8	1,683.8
Cash flow	549.9	551.9
Translations differences	-4.7	-1.1
Closing balance 2017-12-31	2,262.0	2,234.6

NOTE 25 RENTED ASSETS

LEASING AGREEMENTS OF AN OPERATIONAL NATURE

	Group		Parent Company	
2017-12-31	Machinery, equipment etc.	Premises	Machinery, equipment etc.	Premises
Expenses due for payment in				
2018	16.0	43.2	0.1	0.3
2019–2022	23.4	99.8	0.0	0.6
2023 or later	1.2	77.5	-	-
Total	40.6	220.5	0.1	0.9

	Group		Parent Company	
2016-12-31	Machinery, equipment etc.	Premises	Machinery, equipment etc.	Premises
Expenses due for payment in				
2017	13.9	31.5	0.0	0.3
2018–2021	16.1	80.8	0.0	-
2022 or later	0.9	76.7	-	-
Total	30.9	189.0	0.0	0.3

The amounts are non-discounted minimum undertakings pursuant to contract. Costs for leasing/rents for the financial year were 59.6 MEUR (49.8).

LEASING AGREEMENTS OF A FINANCIAL NATURE

	Group	
2017-12-31	Machinery, equipment etc.	Premises
Expenses due for payment in		
2018	1.4	-
2019–2022	1.0	-
2023 or later	0.1	-
Total	2.5	-

	Group	
2016-12-31	Machinery, equipment etc.	Premises
Expenses due for payment in		
2017	0.9	-
2018–2021	0.8	-
2022 or later	0.0	-
Total	1.7	-

The amounts are non-discounted minimum undertakings pursuant to contract. There are no individual leasing agreements of material importance. Nor are there any individual sale/leaseback agreements of material importance.

AGREEMENTS WHERE A GROUP ENTITY IS LESSOR

	Group	
2017-12-31	Machinery, equipment etc.	Premises
Expenses due for payment in		
2018	16.0	-
2019–2022	9.2	-
2023 or later	0.0	-
Total	25.2	-

NOTE 26 ASSETS PLEDGED AND CONTINGENT LIABILITIES

PLEDGED ASSETS TO CREDIT INSTITUTIONS FOR LOANS, BANK OVERDRAFTS AND GUARANTEES

	Group		Parent Company	
December 31	2017	2016	2017	2016
Company mortgage	-	0.1	-	-
Other	1.2	0.1	-	-
Total	1.2	0.2	-	-

CONTINGENT LIABILITIES

	Group		Parent Company	
December 31	2017	2016	2017	2016
Guarantees in favour of Group companies	-	-	41.8	36.2
Other contingent liabilities	2.9	2.4	0,1	0.1
Total	2.9	2.4	41.9	36.3

NOTE 27 NET ASSETS IN ACQUIRED AND DIVESTED BUSINESSES

The fair values of assets and liabilities in businesses acquired and total cash flow from acquisitions is divided as follows:

	MSC	Other	2017	2016
Intangible fixed assets	242.9	25.4	268.3	48.9
Tangible fixed assets	6.3	1.3	7.6	8.3
Other fixed assets	25.1	0.1	25.2	2.2
Total fixed assets	274.3	26.8	301.1	59.4
Current receivables, inventories, etc.	67.3	15.0	82.3	33.4
Cash and cash equivalents	33.1	4.8	37.9	8.9
Total current assets	100.4	19.8	120.2	42.3
Total assets	374.7	46.6	421.3	101.7
Provisions	100.7	9.5	110.2	12.8
Long-term liabilities	-	14.3	14.3	0.8
Total long-term liabilities	100.7	23.8	124.5	13.6
Current liabilities, etc.	115.3	19.4	134.7	27.1
Total liabilities	216.0	43.2	259.2	40.7
Identifiable net assets at fair value	158.7	3.4	162.1	61.0
Long-term securities holdings				
Shares in associated companies	-	-	-	-1.9
Goodwill	654.5	137.4	791.9	149.1
Total purchase consideration transferred	813.2	140.8	954.0	208.2
Less cash and cash equivalents in acquired Group companies	-33.1	-4.8	-37.9	-8.9
Less unpaid acquisition price			-19.3	-49.3
Plus payment of unpaid portion of acquisition price from prior years			18.5	33.5
Cash flow from acquisitions of Group companies, net			915.3	183.5

During 2017, Hexagon acquired the following companies:

- MiPlan Ltd, a provider of mobile software applications to increase productivity in mines, based in Australia
- IDS Georadar Australia, a distributor of structural health monitoring solutions
- MSC Software, a US-based provider of computer-aided engineering (CAE) solutions
- Catavolt Inc, a US-based mobile app platform provider
- VIRES GmbH, a German-based provider of simulation software solutions

- DST Computer Services S.A., a developer of piping stress analysis solutions for the nuclear industry, based in Switzerland
- FASys GmbH, a German developer of machine tools management software
- IDS Georadar North America, a distributor of structural health monitoring solutions, based in the USA
- InfraMeasure Inc., a US-based provider of measurement solutions for railroad and tunnelling applications
- Acquired assets from Kronion GmbH, a German-based provider of data management and analytics solutions for discrete manufacturing
- Luciad, a Belgium-based provider of 5D visualisation and analysis solutions
- Plant Design Solution, a US-based software and service distributor
- Industrial Business Solutions Inc., a US-based provider of completion and commissioning management systems

Further information related to the acquisitions of MSC Software and Luciad, is presented below. The other acquisitions are individually assessed as immaterial from a group perspective which why only aggregated information is presented. The analysis of the acquired net assets is preliminary and the fair value might be subject to change.

ACQUISITIONS ANALYSIS

Acquisition of MSC SOFTWARE

As of 26 April 2017, after customary regulatory approvals were received, Hexagon acquired MSC Software, a US-based leading provider of computer-aided engineering (CAE) solutions, including simulation software for virtual product and manufacturing process development. MSC has over 1,200 highly-skilled professionals in 20 countries. Its strong brand and reputation in industries such as automotive, aerospace and electronics spans more than 50 years. In 2016 MSC generated proforma sales of 230.0 MUSD, with strong profitability and a high percentage of recurring revenue.

Background and reasons for the transaction

The acquisition strengthens Hexagon's ability to connect the traditionally separate stages of design and production – integrating real-world data generated on the production floor with simulation data to further improve a customer's ability to reveal and correct design limitations and production problems prior to manufacturing. MSC is a fully owned subsidiary of Hexagon and operate under the division Manufacturing Intelligence.

Purchase price of MSC amounted to 834 MUSD on a cash and debt free basis (Enterprise Value). The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by increasing Hexagon's total market in excess of MSCs own market and by combining Hexagon and MSC technologies to develop new customer solutions.

From the date of acquisition, MSC has contributed 148.0 MEUR of net sales in 2017. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 208.5 MEUR. The contribution to the earnings has been larger than the Group operating margin.

Acquisition of Luciad

As of 4 October 2017, Hexagon acquired Luciad, a Belgian-based software company specialising in the visualisation and analysis of real-time geospatial information. In 2016 Luciad generated sales of 16.0 MEUR.

Background and reasons for the transaction

The acquisition strengthens Hexagon's ability to deliver smart digital realities, enhancing Hexagon's Smart M.App platform with 3D, 4D (real-time sensor feed integration) and 5D (dynamic analytics) capabilities. Luciad is a fully owned subsidiary of Hexagon and operates under the Geospatial business unit.

From the date of acquisition, Luciad has contributed 9.3 MEUR of net sales in 2017. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 21.3 MEUR. The contribution to the earnings has been larger than the Group operating margin.

ACQUISITIONS ANALYSIS 2016

Acquisition of SCCS

As of 13 January 2016, after customary regulatory approvals were received, Hexagon became the owner of SCCS, one of the UK's leading suppliers of surveying equipment to the engineering and infrastructure market and a Leica Geosystems distributor. SCCS offer customers rent, purchase and service options.

Background and reasons for the transaction

As the UK continues to fund major infrastructure projects with more stringent processes related to Building Information Modelling (BIM), collaboration between the construction and software sectors becomes increasingly vital. SCCS's local market expertise and relationships coupled with Hexagon's digital technologies that enable new, data-enabled ways of working will strengthen adoption of Hexagon's solutions in this area.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by increasing Hexagon's total market in excess of SCCS's own market.

From the date of acquisition, SCCS has contributed 19.2 MEUR of net sales during 2016. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 19.2 MEUR. The contribution to the earnings has been lower than the Group operating margin.

Acquisition of SigmaSpace

As of 18 February 2016, after customary regulatory approvals were received, Hexagon became the owner of SigmaSpace, a provider of next-generation technologies used to rapidly deliver high-quality 3D maps of the Earth. SigmaSpace offers a unique LiDAR technology – Single Photon LiDAR (SPL) – which enables 3D data collection at much higher speed and resolution than conventional systems.

Background and reasons for the transaction

Today, accurate and geo-referenced 3D visualisations have become an absolute necessity in real-world situations due to the insight they can provide – from urban planning and emergency services to aviation safety and disaster response. SigmaSpace has been enabling private and government clients, including NASA and the U.S. Department of Defense, respond to the growing need for this kind of data.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by i) combining Geosystems and SigmaSpace's technologies and solutions ii) increasing Hexagon's total market in excess of SigmaSpace's own market.

The acquired intangible assets, were assigned to trademarks that are not subject to amortisation and capitalised development expenses with useful lives of 10-12 years. The intangible assets have been valued using a discounted cash flow method.

From the date of acquisition, SigmaSpace has contributed 11.7 MEUR of net sales during 2016. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 13.9 MEUR. The contribution to the earnings has been lower than the Group operating margin.

Acquisition of FTI

On 23 March 2016, after customary regulatory approvals were received, Hexagon acquired FTI, a provider of manufacturing software solutions designed to reduce the development time and material costs of sheet metal components. FTI serves original equipment manufacturers (OEMs) and suppliers in the automotive, aerospace, electronics and appliance industries with sheet metal design, simulation, feasibility and costing solutions.

Background and reasons for the transaction

Sheet metal is used extensively in the production of car bodies, aircraft, electronics enclosures and many other applications. Rapid, cost-efficient design and manufacturing of sheet metal components is key to addressing the rising challenges of manufacturing efficiencies. FTI's technology portfolio coupled with its engineering services and years of expertise in the sheet metal industry, enables customers to validate designs before they go into production and immediately reduce labour and material costs.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by i) combining Manufacturing Intelligence's and FTI's technologies and solutions ii) increasing Hexagon's total market in excess of FTI's own market.

The acquired intangible assets, were assigned to trademarks that are not subject to amortisation, capitalisecapitalised development expenses and customer relationships with useful lives of 12-15 years. The intangible assets have been valued using a discounted cash flow method.

From the date of acquisition, FTI has contributed 6.0 MEUR of net sales during 2016. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 7.2 MEUR. The contribution to the earnings has been larger than the Group operating margin.

Acquisition of AICON 3D Systems

On 30 March 2016, after customary regulatory approvals were received, Hexagon acquired AICON 3D Systems, a leading provider of optical and portable non-contact 3D measuring systems for industrial manufacturing.

Background and reasons for the transaction

AICON meets measurement needs of renowned automotive manufacturers and companies in the aerospace, shipbuilding, renewable energy and mechanical engineering markets. Its technology portfolio includes portable coordinate measuring machines for universal applications and specialised optical 3D measuring systems that enable efficient, high-precision monitoring, quality assurance and control in manufacturing production.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by i) combining Manufacturing Intelligence's and AICON's technologies and solutions ii) increasing Hexagon's total market in excess of AICON's own market.

The acquired intangible assets, were assigned to trademarks that are not subject to amortisation, capitalised development expenses and customer relationships with useful lives of 12-15 years. The intangible assets have been valued using a discounted cash flow method.

From the date of acquisition, AICON 3D Systems has contributed 17.0 MEUR of net sales during 2016. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 20.0 MEUR. The contribution to the earnings has been in line with the Group operating margin.

Acquisition of GeoRadar

On 14 July 2016, after customary regulatory approvals were received, Hexagon acquired the GeoRadar division of the Italian-based company Ingegneria dei Sistemi S.p.A. The GeoRadar division provides radar solutions for structural health monitoring and underground utility detection.

Background and reasons for the transaction

GeoRadar's structural health monitoring solutions enable engineers to remotely monitor movements and vibrations of the earth. Its underground utility detection solutions provide engineers with dimensional information such as size and location of buried pipes and/or the health condition of roads and rail tracks. GeoRadar's solutions complement Hexagon's reality capture solutions, enriching the portfolio across a wide variety of segments like surveying, construction and mining.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by i) combining Geosystem's and GeoRadar's technologies and solutions ii) increasing Hexagon's total market in excess of GeoRadar's own market.

The acquired intangible assets, were assigned to trademarks that are not subject to amortisation, capitalised development expenses and customer relationships with useful lives of 12-15 years. The intangible assets have been valued using a discounted cash flow method.

From the date of acquisition, GeoRadar has contributed 8.9 MEUR of net sales during 2016. If the acquisition had taken place at the beginning of the year, the contribution to net sales would have been 16.9 MEUR. The contribution to the earnings has been larger than the Group operating margin.

Acquisition of Multivista

On 15 August 2016, after customary regulatory approvals were received, Hexagon acquired Multivista, a leading provider of visual, cloud-based construction documentation solutions.

Background and reasons for the transaction

Multivista's visual construction documentation enables visibility of construction progress throughout the life cycle of a built asset. Its construction photography and video services provide progressive, digital records of ground-up development. The acquisition strengthens Hexagon's breadth of expertise in the changing construction landscape and offers opportunities to augment Multi-vista's documentation portfolio with 3D reality capture solutions.

The goodwill comprises expected synergies arising from the acquisition and the assembled workforce, which is not separately recognised. Synergies have primarily been identified to arise by i) combining Geosystem's and Multivistas's technologies and solutions ii) increasing Hexagon's total market in excess of Multivista's own market.

The acquired intangible assets, were assigned to trademarks that are not subject to amortisation, capitalised development expenses and customer relationships with useful lives of 12–15 years. The intangible assets have been valued using a discounted cash flow method.

The acquisition has no significant impact on Hexagon's earnings.

BOOK-VALUE OF DIVESTED ASSETS AND LIABILITIES

	2017	2016
Intangible fixed assets	-	8.7
Tangible fixed assets	-	1.5
Total fixed assets	**-**	**10.2**
Current assets	-	13.6
Total assets	**-**	**23.8**
Provisions	-	0.1
Current liabilities	-	1.7
Total liabilities	**-**	**1.8**
Book-value of divested assets, net	**-**	**22.0**
Capital gain		0.7
Total purchase consideration transferred	**-**	**22 .7**
Less cash and cash equivalents in divested Group companies	-	-9.8
Cash flow from divestments of companies/businesses	**-**	**12.9**

In December 2016, Hexagon divested Prim'Tools Ltd that was reported within the segment Geospatial Enterprise Solutions (GES).

NOTE 28 AVERAGE NUMBER OF EMPLOYEES

	2017			2016		
	Men	Women	Total	Men	Women	Total
Parent Company	5	10	15	3	10	13
Subsidiaries	13,581	3,947	17,528	12,561	3,886	16,447
Total, Group	**13,586**	**3,957**	**17,543**	**12,564**	**3,896**	**16,460**
Average number of employees by country						
Nordic region	499	134	633	472	126	598
Rest of Europe	5,175	1,251	6,426	4,738	1,154	5,892
Total, Europe	**5,674**	**1,385**	**7,059**	**5,210**	**1,280**	**6,490**
North America	3,346	1,102	4,448	3,168	1,125	4,293
South America	531	118	649	498	173	671
Africa	14	5	19	17	3	20
Australia and New Zealand	229	93	322	255	52	307
Asia	3,792	1,254	5,046	3,416	1,263	4,679
Total, Group	**13,586**	**3,957**	**17,543**	**12,564**	**3,896**	**16,460**

NOTE 29 EMPLOYEE BENEFITS

SALARIES AND REMUNERATION

	Board, CEO and other Senior Executives		Other employees	
	2017	2016	2017	2016
Parent Company	6.2	5.0	1.4	1.3
(of which performance related pay and bonus)	(2.1)	(1.5)	(0.2)	(0.1)
Subsidiaries	23.8	24.7	1,066.0	966.3
(of which performance related pay and bonus)	(6.1)	(5.6)	(104.3)	(79.3)
Total, Group	**30.0**	**29.7**	**1,067.4**	**967.6**

SOCIAL SECURITY EXPENSES

	All employees	
	2017	2016
Parent Company	2.7	2.2
(of which pension expenses)	(1.2)	(1.1)
Subsidiaries	185.2	151.1
(of which pension expenses)	(50.6)	(40.9)
Total, Group	**187.9**	**153.3**
(of which pension expenses)	(51.8)	(42.0)

Pension expenses for Boards of Directors and Chief Executive Officers in the Group amounted to 3.1 MEUR (3.0). Pension commitments to Boards of Directors and Chief Executive Officers in the Group were 4.5 MEUR (4.7).

At year-end, four Board members were women and four were men. The President and Chief Executive Officer and other senior executives consists of 11 men and one woman.

Of all the Group's Board members, Presidents and other senior executives 55 were women and 477 were men.

NOTE 30 REMUNERATION TO SENIOR EXECUTIVES

Pursuant to resolutions by the Annual General Meeting, the Chairman of the Board and Board members were paid remuneration of totaling 593.8 KEUR (427.1). The Chairman of the Board received 145.3 KEUR, the Vice Chairman of the Board received 88.2 KEUR and other Board members 57.1 KEUR each. The President and Chief Executive Officer of Hexagon AB did not receive any director fees. In addition to ordinary director fees, remuneration is paid for work on committees. The Chairman of the Remuneration Committee received 8.8 KEUR and each member received 6.2 KEUR. The Chairman of the Audit Committee received 23.4 KEUR and each member received 18.2 KEUR. No Board member received any remuneration in addition to director fees or remuneration for committee work. Remuneration to the President and Chief Executive Officer, as well as other senior executives, comprises basic salary, variable remuneration, other benefits and pension. The President and Chief Executive Officer total remuneration is recognised in note 29 in Parent company. Ola Rollén has received remuneration as President of the Parent Company and as Chief Executive Officer of the Group according to a separate employment contract with a group company.

Other senior executives are Robert Belkic, Chief Financial Officer and Executive Vice President Hexagon AB, Johnny Andersson, General Counsel, Claudio Simão, Chief Technology Officer, Ben Maslen, Chief Strategy Officer, Kristin Christensen, Chief Marketing Officer, Edgar Porter, Chief Human Resources Officer, Li Hongquan, President China Region, Jürgen Dold, President Geosystems, Norbert Hanke, President Manufacturing Intelligence, Steven Cost, President Safety & Infrastructure and Mattias Stenberg, President PPM.

Variable remuneration is based on operational performance. Pensions and other benefits received by the President and other senior executives are paid as part of their total remuneration.

PENSION

Pension expense comprises defined-contribution pension schemes and is the expense affecting earnings for the year. The President's pensionable age is 65. Pension premiums are payable at 20 per cent of pensionable salary. The pensionable age of other senior executives is 65, except for one person where the pensionable age is 60. Pension premiums for the senior executives are not higher than 25 per cent of pensionable salary. Pensionable salary means basic salary.

SEVERANCE PAY

The notice period for the President is six months. Upon termination by the Company or in case of change of principal ownership the President is entitled to severance pay equal to 18 months of salary. The period of notice for senior executives is a maximum of 24 months. During the notice period, basic salary is the only severance pay.

ADVISORY AND RESOLUTION MODEL

Remuneration and other benefits to the Group's senior executives is regulated by the Remuneration Committee, which is appointed by the Board of Directors, comprising the Chairman of the Board and one additional board member.

NOTE 30 Remuneration to senior executives, cont.

REMUNERATION AND OTHER BENEFITS

KEUR	Basic salary/ Director fees 2017	2016	Variable remuneration 2017	2016	Other benefits[1] 2017	2016	Pension expenses 2017	2016	Total 2017	2016
Melker Schörling	-	146.2	-	-	-	-	-	-	-	146.2
Gun Nilsson, Chairman of the Board	177.5	77.6	-	-	-	-	-	-	177.5	77.6
Hans Vestberg, Vice Chairman fo the Board	88.2	-	-	-	-	-	-	-	88.2	-
John Brandon	57.1	-	-	-	-	-	-	-	57.1	-
Ulrika Francke	75.3	55.4	-	-	-	-	-	-	75.3	55.4
Henrik Henriksson	57.1	-	-	-	-	-	-	-	57.1	-
Märta Schörling Andreen	57.1	-	-	-	-	-	-	-	57.1	-
Sofia Schörling Högberg	81.5	-	-	-	-	-	-	-	81.5	-
Jill Smith	-	71.3	-	-	-	-	-	-	-	71.3
Ulrik Svensson	-	76.6	-	-	-	-	-	-	-	76.6
Ola Rollén, President and Chief Executive Officer	2,418.3	2,460.2	1,209.2	1,230.2	-	-	483.7	492.0	4,111.2	4,182.4
Other senior executives (eleven people)	5,979.3	6,244.9	5,882.7	3,548.0	168.3	205.0	595.3	417.6	12,625.6	10,415.5
Total	8,991.4	9,132.2	7,091.9	4,778.2	168.3	205.0	1,079.0	909.6	17,330.6	15,025.0

1) Other benefits comprise company car, housing rent and insurance (excluding pension insurance).

WARRANTS PROGRAMME 2015/2019

The General Meeting on 6 May 2015 resolved to implement a warrants programme for the employees through a directed issue of a maximum of 10,000,000 subscription warrants. Each subscription warrant entitles the holder to subscribe for one share of series B in Hexagon AB during the period from 1 June 2018 up to and including 31 December 2019. The subscription warrants are sold at market price determined by using the Black-Scholes model. The subscription warrants programme is intended for allotment to senior executives and key employees within the Group, whereby they will be offered the opportunity to take part in a value increase of the Company's share. This is expected to increase the interest in the Company's development - as well as in the Company's share price development - and to stimulate a continued loyalty over the forthcoming years.

In September 2015, 7,107,660 warrants were purchased by the employees at a price of SEK 25 each. The warrants entitle to subscription of one new B-share in Hexagon at a price of SEK 347.80. The price was calculated using the Black-Scholes model.

WARRANTS PROGRAMME 2015/2019 HEXAGON AB

	Exercise period, until	Number of warrants	Number of shares qualified for subscription	To be paid /paid in cash per subscribed Hexagon share, SEK
Sale	2019-12-31	7,107,660	7,107,660	347.80
Closing balance 2017	2019-12-31	7,107,660	7,107,660	347.80

WARRANTS PROGRAMME 2015/2019, HEXAGON AB

2017-12-31	Number	Acquisition price, SEK
President and Chief Executive Officer	-	-
Other senior executives (ten people)	1,650,000	41,250,000
Other employees	5,457,660	136,441,500
Total	7,107,660	177,691,500

NOTE 31 REMUNERATION OF THE GROUP'S AUDITORS

	Group 2017	2016	Parent Company 2017	2016
Audit, Ernst & Young	4.4	4.3	0.4	0.4
Audit, Others	0.7	0.4	-	-
Audit related	0.6	0.7	-	-
Tax	1.4	1.6	-	-
Total	7.1	7.0	0.4	0.4

NOTE 32 RELATED-PARTY DISCLOSURES

Remuneration of senior executives, meaning both the Board of Directors and management, is presented in Note 30. The Group's holdings in associated companies and receivables from and liabilities to associated companies are immaterial. There were no significant transactions between Hexagon and its associated companies. Similarly, there were no significant transactions between Hexagon and Melker Schörling AB.

NOTE 33 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR'S END

On 15 March, 2018 Hexagon acquired the US-based company AGTEK, a leading software solutions provider to the civil construction industry.

NOTE 34 APPROPRIATION OF EARNINGS

THE FOLLOWING EARNINGS IN THE PARENT COMPANY ARE AT THE DISPOSAL OF THE ANNUAL GENERAL MEETING (KEUR):

Premium reserve	922,400
Retained earnings	3,198,980
Net earnings	37,274
Total	4,158,654

THE BOARD OF THE DIRECTORS PROPOSES THAT THESE FUNDS ARE ALLOCATED AS FOLLOWS:

Cash dividend to shareholders of 0.53 EUR per share	191,035[1]
Balance remaining in the premium reserve	922,400
Balance remaining in retained earnings	3,045,219
Total	4,158,654

1) The amount is based on the number of shares issued and outstanding on 31 December 2017, namely 360,443,142.

SIGNING OF THE ANNUAL REPORT

The undersigned certify that the consolidated accounts and the annual report have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and generally accepted accounting principles, respectively and give a true and fair view of the financial position and earnings of the Group and the Company and that the Board of Directors' Report for the Group and the Company give a fair review of the development of the operations, financial position and earnings of the Group and the Company and describes substantial risks and uncertainties that the Group companies face.

Stockholm, Sweden 20 March 2018

Gun Nilsson
Chairman

John Brandon
Member of the Board

Ulrika Francke
Member of the Board

Henrik Henriksson
Member of the Board

Ola Rollén
Member of the Board
President and Chief Executive Officer

Märta Schörling Andreen
Member of the Board

Sofia Schörling Högberg
Member of the Board

Hans Vestberg
Vice Chairman

Our Audit Report was submitted on 21 March 2018

Ernst & Young AB

Rickard Andersson
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Hexagon AB, corporate identity number 556190-4771

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Hexagon AB (publ) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 44–88 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition

Description

The Company is using the percentage of completion method to recognize revenue for large fixed priced projects. The percentage of completion is primarily determined comparing the incurred cost in relation with the estimated total cost. Management judgment is involved in estimating the cost to complete including the assessment of the remaining contingencies for projects until final delivery and acceptance.

The Company also enters into revenue arrangements that contain multiple elements, such as hardware, software, and/or services. For these arrangements, management judgment is applied to allocate revenue to each element as different accounting principles are applied for different delivered elements.

Due to the high degree of management judgment involved in revenue recognition using percentage of completion method and in arrangements containing multiple elements accounting for these types of arrangements have been a key audit matter in our audit.

Accounting principles for revenue recognition are included in Note 1 and key assumptions and judgments used for complex revenue arrangements are included in Note 2.

How our audit addressed this key audit matter

Our audit procedures in order to address this area, included, amongst others;

- We have for sample of customer contracts reviewed contractual terms and project documentation including side arrangements and amendments in order to evaluate the accounting principles used for revenue recognition.
- For a sample of large fixed price projects, we have evaluated significant judgments made by management and evaluated status of the projects including management´s assessment of cost to complete.
- For projects where revenue is recognized using the percentage of completion method we have on a sample basis tested that incurred cost such as invoices and hours spent are related to the projects.
- We have also evaluated the process and tested controls in relation to revenue recognition.
- Furthermore, we have evaluated status of legal proceedings in respect of large projects including examination of various claims.
- For multi-element arrangement contracts we have assessed the appropriateness of revenue split between elements and the accounting principle used for each element.
- We also assessed whether the information disclosed is appropriate.

Impairment test of goodwill and trademarks

Description

As per December 31, 2017 goodwill amounts to 4,412.3 MEUR and trademarks with indefinite life amounts to 945.2 MEUR in the consolidated balance sheet. Impairment tests are as described in Note 1 carried out annually or when there is an indication of impairment. Goodwill and trademarks acquired through business combinations are allocated to cash generating units (CGUs), and when the carrying value exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the higher of the CGUs net realizable value and the value in use, meaning the discounted value of future cash flows. The cash flow projections derive from next year's budget and forecasts for another 4 years approved by senior management. As stated in Note 2, these cash projections include making assumptions about sales trends, profit margins and discount rates.

Note 8 describes key assumptions used and management's sensitivity analysis for how changes in key assumptions would affect the value in use. Based on the nature of the asset, the high degree of management involved and the size of the account balance and the calculation of value in use we have assessed valuation of goodwill and trademarks as a key audit matter in the audit.

How our audit addressed this key audit matter
Our audit procedures in order to address this area, included, amongst others;

- We have evaluated the Company´s process to establish and perform impairment tests.
- We have examined how cash generating units (CGUs), based on established criteria´s, are identified and compared to how the Company internally monitors its business.
- We have involved valuation specialists to assist us in the evaluation of the Company´s valuation and calculation methods, assessment of reasonableness in used assumptions, sensitivity analysis, comparisons with historical results and the accuracy in previous forecasts. Each CGUs´ discount rate and long-term growth have been evaluated through comparisons with other companies within the same industry.
- We also assessed whether the information disclosed is appropriate.

Business combinations
Description
The Company acquires companies on a continuous basis. As stated in Note 1, the Company's acquisition cost is determined through a purchase price allocation in connection with the acquisition. Contingent considerations are included in the acquisition cost and carried at their fair value at the acquisition date and subsequently revaluations of contingent considerations are recorded in the income statement. Identifiable assets acquired and liabilities assumed are recognized initially at their fair values at the acquisition date.

As described in Note 2, the fair value determinations of assets acquired and liabilities assumed require management to make estimates and assumptions, especially with respect to identification and valuation of acquired intangible assets and accounting for contingent consideration. In some instances, contingent purchase considerations are based on the acquiree's performance over a predetermined period of time. The fair value determinations related to business combinations, including the valuation of contingent considerations, involves a high degree of management judgment as it is based on the Company's own assumptions and consequently a key audit matter in our audit.

The fair value determinations of the Company´s acquisitions are disclosed in Note 27. The closing balance for contingent purchase consideration liability amounts to EUR 59.4 million as per December 31 2017 and is disclosed in Note 24. Key assumptions used in fair value determinations are included in Note 2.

How our audit addressed this key audit matter
Our audit procedures in order to address this area, included, amongst others;

- Reviewed significant purchase agreements including contingent considerations.
- We have reviewed management´s purchase price allocation process including calculation and accounting for contingent considerations.
- We have evaluated management´s assessments and valuations of identifiable assets and assumed liabilities including contingent considerations.
- We have reconciled purchase price allocation documentation to the accounting records.
- We have involved valuation specialists to assist us in the evaluation of the Company´s valuation and calculation methods, assessment and used assumptions.
- We also assessed whether the information disclosed is appropriate.

Other Information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–43. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hexagon AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Hexagon AB by the general meeting of the shareholders on the 2 May 2017 and has been the company's auditor since 1994.

Stockholm 21 March, 2018

Ernst & Young AB

Rickard Andersson
Authorized Public Accountant

QUARTERLY INCOME STATEMENTS

	2017					2016				
MEUR	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Net sales	778.1	864.9	852.4	953.0	3,448.4	724.2	795.8	779.7	849.5	3,149.2
Gross earnings	475.0	534.2	519.0	593.0	2,121.2	442.3	479.5	466.4	513.8	1,902.0
Sales expenses	-156.8	-166.4	-161.9	-170.8	-655.9	-136.0	-147.0	-140.9	-149.4	-573.3
Administration expenses	-82.1	-70.3	-65.7	-85.4	-303.5	-64.4	-68.7	-60.5	-75.5	-269.1
Research and development expenses	-109.5	-93.9	-90.6	-96.2	-390.2	-80.1	-83.2	-85.7	-84.1	-333.1
Earnings from shares in associated companies	0.0	-	-	-0.1	-0.1	-0.1	0.0	0.4	0.1	0.4
Capital gain/loss from sale of shares in group companies	-	-	-	-	-	-	-	-	0.7	0.7
Other income and expenses, net	-2.9	-4.6	-2.2	0.3	-9.4	-1.2	6.5	0.1	3.1	8.5
Operating earnings[1]	123.7	199.0	198.6	240.8	762.1	160.5	187.1	179.8	208.7	736.1
Financial income/expenses net	-5.1	-5.3	-5.6	-6.7	-22.7	-5.2	-4.9	-5.6	-6.1	-21.8
Earnings before tax	118.6	193.7	193.0	234.1	739.4	155.3	182.2	174.2	202.6	714.3
Tax	-22.4	-36.3	-36.1	29.2	-65.6	-29.5	-34.6	-33.1	-38.5	-135.7
Net earnings[2]	96.2	157.4	156.9	263.3	673.8	125.8	147.6	141.1	164.1	578.6
[1] of which non-recurring items	-50.8	-8.8	-7.3	-6.3	-73.2	-	-	-	-	-
[2] of which non-controlling interest	1.4	1.9	2.0	1.8	7.1	1.2	1.5	1.6	1.0	5.3
Earnings include depreciation/ amortisation and impairments of	-87.1	-61.3	-72.7	-63.6	-284.7	-54.8	-56.8	-57.3	-65.0	-233.9
Earnings per share, EUR	0.26	0.43	0.43	0.73	1.85	0.35	0.41	0.39	0.45	1.59
Earnings per share after dilution, EUR	0.26	0.43	0.43	0.72	1.84	0.35	0.41	0.39	0.45	1.59
Earnings per share excluding non-recurring items, EUR	0.38	0.46	0.45	0.54	1.83	0.35	0.41	0.39	0.45	1.59
Average number of shares (thousands)	360,443	360,443	360,443	360,443	360,443	360,402	360,443	360,443	360,443	360,433
Average number of shares after dilution (thousands)	361,206	361,752	361,697	361,702	361,589	360,754	360,455	361,657	360,649	360,879

10-YEAR SUMMARY

MEUR	2008	2009	2010	2011	2012	2012[1]	2013	2014	2015	2016	2017
Income statement											
Net sales	1,511.0	1,112.0	1,481.3	2,169.1	2,380.0	2,380.0	2,429.7	2,622.4	3,043.8	3,149.2	3,448.4
Operating earnings (EBITDA)	340.1	238.9	362.4	542.4	610.3	605.7	642.2	743.5	912.3	970.0	1,109.5
Operating earnings (EBIT1)	265.3	168.0	272.9	439.8	489.5	484.9	507.7	578.1	692.7	736.1	835.3
Operating earnings	254.9	150.6	151.7	431.3	489.5	484.9	492.8	542.1	656.1	736.1	762.1
Earnings before tax	221.6	135.8	110.9	372.4	441.3	434.2	458.9	508.5	629.6	714.3	739.4
– of which non-recurring items	-10.4	-17.4	-136.6	-8.5	-	-	-14.9	-36.0	-36.6	-	-73.2
Net earnings	193.5	118.1	91.7	297.4	357.4	351.1	371.2	406.2	505.1	578.6	673.8
– of which non-controlling interest	1.2	0.8	1.8	2.2	2.9	2.9	3.3	3.4	5.2	5.3	7.1
Balance sheet											
Current assets	737.0	645.4	1,052.4	1,125.0	1,135.9	1,135.9	1,193.3	1,410.7	1,492.7	1,672.4	1,815.4
Fixed assets	1,774.5	1,834.7	3,954.2	4,218.7	4,299.4	4,298.0	4,280.3	5,401.3	5,939.4	6,241.7	6,813.8
Non-interest bearing liabilities and provisions	350.0	305.0	797.8	914.7	920.1	915.3	962.6	1,216.5	1,360.7	1,474.5	1,666.8
Interest bearing liabilities and provisions	1,064.3	957.4	2,036.5	1,903.2	1,742.6	1,769.5	1,664.7	2,125.3	1,969.1	1,848.8	2,344,3
Shareholders' equity	1,097.2	1,217.7	2,172.3	2,525.8	2,772.6	2,749.1	2,846.3	3,470.2	4,102.3	4,590.8	4,618.1
Total assets	2,511.5	2,480.1	5,006.6	5,343.7	5,435.3	5,433.9	5,473.6	6,812.0	7,432.1	7,914.1	8,629.2
Key ratios											
Operating margin, %	18	15	18	20	21	20	21	22	23	23	24
Return on capital employed, %	12	8	10	11	11	11	11	12	12	12	13
Return on equity, %	18	10	6	13	13	13	13	13	13	14	15
Investments	104.6	77.3	87.2	135.9	171.8	171.8	216.3	232.5	230.3	257.6	275.6
Equity ratio, %	44	49	43	47	51	51	52	51	55	58	54
Share of riskbearing capital, %	45	51	48	52	56	56	57	56	61	64	59
Interest coverage ratio (times)	7.0	9.5	3.6	7.0	9.3	8.8	12.7	14.3	20.3	27.9	27.1
Net debt/equity ratio (times)	0.89	0.66	0.82	0.66	0.54	0.56	0.49	0.50	0.38	0.30	0.4
Cash flow before changes in working capital and excluding non-recurring items EUR	269.3	189.1	294.1	397.2	494.4	494.4	538.0	619.2	749.9	832.1	882.3
Cash flow after changes in working capital and excluding non-recurring items EUR	182.7	247.4	260.4	369.0	497.3	497.3	506.8	563.4	722.6	782.1	907.2
Earnings per share, EUR	0.64	0.39	0.30	0.84	1.01	0.99	1.04	1.13	1.39	1.59	1.85
Earnings per share after dilution, EUR	0.63	0.39	0.30	0.84	1.00	0.99	1.03	1.13	1.39	1.59	1.84
Cash flow per share before changes in working capital and excluding non-recurring items, EUR	0.89	0.63	0.97	1.13	1.40	1.40	1.52	1.74	2.09	2.31	2.45
Cash flow per share after changes in working capital and excluding non-recurring items, EUR	0.60	0.82	0.86	1.05	1.41	1.41	1.43	1.58	2.01	2.17	2.52
Equity per share, EUR	3.62	4.02	6.15	7.15	7.84	7.77	8.00	9.68	11.36	12.70	12.78
Closing share price, SEK	33	93	144	103	163	163	203	242	315	326	411
Cash dividend per share, EUR	0.04	0.10	0.15	0.17	0.28	0.28	0.31	0.35	0.43	0.48	0.53[2]
Average number of shares (thousands)	302,687	301,509	303,655	352,484	352,499	352,499	353,226	355,764	359,387	360 ,433	360,443
Average number of shares after dilution (thousands)	303,202	301,768	303,677	352,546	353,494	353,494	355,482	357,225	359,817	360 ,879	361,589
Number of shares, closing balance (thousands)	301,422	301,580	352,150	352,490	352,675	352,675	354,997	357,389	360,337	360 ,443	360,443
Average number of employees	9,062	7,549	8,179	12,475	13,203	13,203	13,931	14,865	15,891	16,460	17,543

1) Restated – IAS 19.
2) As proposed by the Board of Directors.

The share-related key financial ratios have been calculated considering all historical share issues and splits.

FINANCIAL DEFINITIONS

In addition to the financial measures as required by the financial reporting framework based on IFRS, this report also includes other measures and indicators that are used to follow-up, analyse and manage the business. These measures also provide Hexagon stakeholders with useful financial information on the Group's position, performance and development in a consistent way. Below is a list of definitions of measures and indicators used in this report.

AMORTISATION OF SURPLUS VALUES
When a company is acquired, the purchase consideration is allocated to the identified assets and liabilities of the company. Intangible assets are most often allocated the substantial part of the purchase consideration. The amortisation of surplus values is defined as the difference between the amortisation of such identified intangible assets and what the amortisation would have been in the acquired company had the acquisition not taken place at all.

CAPITAL EMPLOYED
Total assets less non-interest bearing liabilities.

CAPITAL TURNOVER RATE
Net sales for the year divided by average capital employed for the year.

CASH CONVERSION
Operating cash flow excluding interest, tax payments and non-recurring items divided by operating earnings (EBIT1).

CASH FLOW
Cash flow from operations before change in working capital and excluding non-recurring items.

CASH FLOW PER SHARE
Cash flow from operations, after change in working capital, excluding non-recurring items divided by average number of shares.

COMMERCIAL PAPER
An unsecured promissory note with a fixed maturity of 1 to 365 days.

DIVIDEND YIELD
Dividend per share as a percentage of earnings per share.

EARNINGS PER SHARE
Net earnings excluding non-controlling interests divided by average number of shares.

EQUITY RATIO
Shareholders' equity including non-controlling interests as a percentage of total assets.

GROSS MARGIN
Gross earnings divided by operating net sales.

INTEREST COVERAGE 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
Interest bearing liabilities including pension liabilities and interest bearing provisions less short-terms investments and also cash and bank.

NET INDEBTEDNESS
Interest bearing liabilities less interest bearing current receivables and liquid assets divided by shareholders' equity excluding non-controlling interests.

NON-RECURRING ITEMS
Income and expenses that are not expected to appear on a regular basis.

OPERATING EARNINGS (EBIT1)
Operating earnings excluding capital gains on shares in group companies and non-recurring items. Non-recurring items are excluded to facilitate the understanding of the Group's operational development and to give comparable numbers between periods.

OPERATING EARNINGS (EBITDA)
Operating earnings (EBIT1) excluding amortisation, depreciation and impairment of fixed assets. The measure is presented to give depiction of the result generated by the operating activities.

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

OPERATING NET SALES
Net sales adjusted by the difference between fair value and book-value of deferred revenue regarding acquired businesses.

ORGANIC GROWTH
Net sales compared to prior period excluding currency exchange movements, acquisitions and divestments.

PAY-OUT RATIO
Dividend per share in per cent of share price.

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

PROFIT MARGIN BEFORE TAX
Earnings after financial items as a percentage of net sales.

RETURN ON CAPITAL EMPLOYED
Twelve months to end of period earnings after financial items, excluding non-recurring items, plus financial expenses as a percentage of twelve months to end of period average capital employed. The twelve months average capital employed is based on average quarterly capital employed.

RETURN ON EQUITY
Twelve months to end of period net earnings excluding non-controlling interests as a percentage of twelve months to end of period average shareholders' equity excluding non-controlling interests last twelve months. The twelve months average equity is based on quarterly average equity.

REVOLVING CREDIT FACILITY
A loan facility where the borrower may increase and reduce the size of outstanding debt up to the available limit during the term of the loan.

SHAREHOLDERS' EQUITY PER SHARE
Shareholders' equity excluding non-controlling interests divided by the number of shares at year-end.

SHARE OF RISK-BEARING CAPITAL
The total of shareholders' equity including non-controlling interests and tax provisions as a percentage of total assets.

SHARE PRICE
Last settled transaction on Nasdaq OMX Stockholm on the last business day for the year.

TERM LOAN
A fixed amount loan with a maturity date of more than one year and with a specified repayment schedule where the borrower is not entitled to re-borrow any amount which it has repaid.

BUSINESS DEFINITIONS

AI
Artificial Intelligence. Simulation of human intelligence by machines.

AMERICAS
North America, South America and Central America.

ASIA
Asia (excluding Middle East), Australia and New Zealand.

BIG DATA
Large volume of data that can be analysed for insights that lead to better decisions.

BIM
Building Information Modeling. A process which increases the use of technology in construction industry.

CAD
Computer Aided Design. Software for creating technical drawings.

CAE
Computer Aided Engineering. Simulation software.

CAM
Computer Aided Manufacturing. Software for controlling machine tools.

CMM
Coordinate Measuring Machine.

CSR
Corporate Social Responsibility.

EDGE COMPUTING
Optimizing cloud computing systems by performing real-time data processing at the edge of the network, near the source of the data.

EMEA
Europe, Middle East and Africa.

EMERGING MARKETS
Eastern Europe, Middle East, South America, Africa and Asia excluding Australia, New Zealand, Japan and Korea.

EPC
Engineering, Procurement and Construction. Engineering companies delivering design, purchases and building within big projects.

GES
Hexagon's operating segment Geospatial Enterprise Solutions.

GIS
Geographic Information Systems.

GNSS
Global Navigation Satellite System.

GPS
Global Positioning System.

IES
Hexagon's operating segment Industrial Enterprise Solutions.

IOT
Internet of Things. Objects connected to the Internet.

ISDA
International Swaps and Derivatives Association.

LASER TRACKER
A portable measurement system that uses a laser.

LIDAR
Light Detection and Ranging. A technology to collect topographic data using laser.

MULTISTATION
An integrated total station and 3D laser scanner.

NAFTA
North American Free Trade Agreement.

OECD
Organisation of Economic Cooperation and Development.

R&D
Research and development.

TOTAL STATION
An electronic theodolite with an integrated distance meter.

UAV
Unmanned Aerial Vehicle.

CURRENCY CODES

AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CHF	Swiss Franc
CNY	Chinese Yuan
EUR	Euro
GBP	British Pound
INR	Indian Rupee
JPY	Japanese Yen
SEK	Swedish Kronor
USD	US Dollar

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING 2018
The Annual General Meeting will be held on Friday 4 May 2018 at 17:00 CET at City Conference Center, Drottninggatan 71 B in Stockholm, Sweden.

SHAREHOLDERS WHO WISH TO ATTEND THE ANNUAL GENERAL MEETING MUST:

- be recorded in the share register maintained by Euroclear Sweden AB on Friday 27 April 2018. To be eligible to participate, shareholders with nominee-registered holdings should temporarily have their shares registered in their own names through the agency of their nominees so that they are recorded in the share register well before 27 April 2018.
- notify the Company of their intention to attend the Annual General Meeting by filling out a form on Hexagon's website, www.hexagon.com or by post to: Hexagon AB, "Annual General Meeting", c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden or by phone +46 8 402 92 21.

Notifications should state the shareholder's name, personal/corporate identity number, address, telephone number and number of shares.

Shareholders wishing to be represented by proxy should send a power-of-attorney to Euroclear Sweden AB before the Annual General Meeting.

DIVIDEND
The Board of Directors proposes that a dividend of 0.53 EUR per share be declared for the financial year 2017.

As record day for right to receive dividend, the Board of Directors proposes Tuesday 8 May 2018. If the Annual General Meeting resolves in accordance with the proposal, the dividend is expected to be paid through Euroclear Sweden AB starting on Wednesday 16 May 2018.

Payment is made in EUR, provided that EUR can be received on the shareholder's yield account; if not, payment will be distributed in SEK, whereby currency exchange is made in accordance with Euroclear Sweden AB's applicable procedures.

FINANCIAL INFORMATION 2018
Hexagon will issue financial information concerning the business year 2018 on the following dates:

Q1 Interim Report	4 May 2018
Q2 Interim Report	31 July 2018
Q3 Interim Report	1 November 2018
Year-End Report	6 February 2019

DISTRIBUTION POLICY
The Hexagon Annual Report is distributed digitally. The Annual Report can be downloaded at the website hexagon.com where Hexagon's Annual Reports from 1997 and onwards are available. For a printed copy please contact Hexagon AB.

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This report contains forward-looking statements based on Hexagon management's current expectations. Although management considers expectations expressed in such future-oriented information as reasonable, no assurance can be given that these expectations will prove correct. Consequently, actual future results can differ considerably from those implied in the forward-looking statements as a result of factors such as changed conditions in the economy, market and competition, changes in legal requirements and other political measures, fluctuations in exchange rates and other factors.

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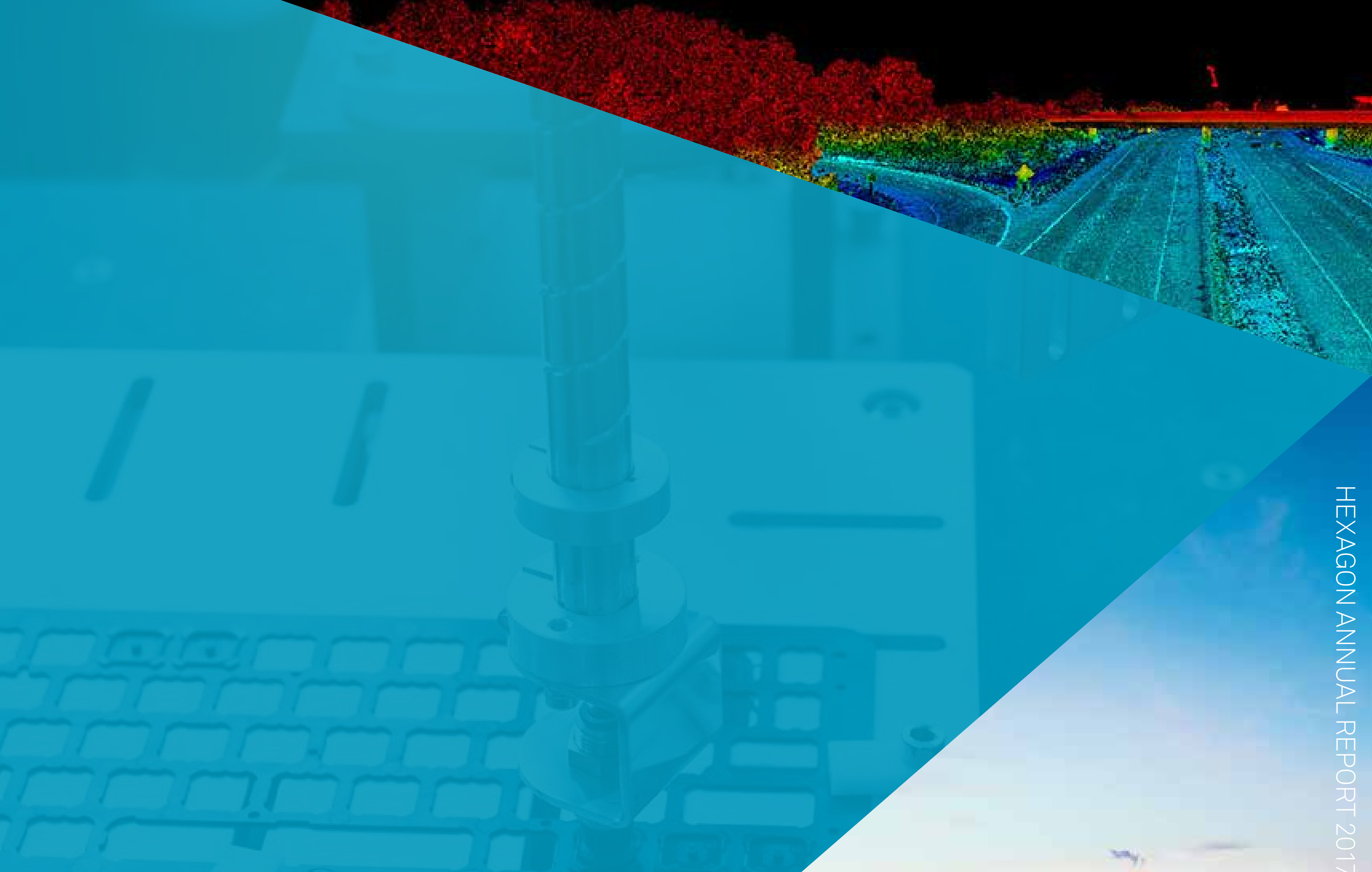

HEXAGON ANNUAL REPORT 2017

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