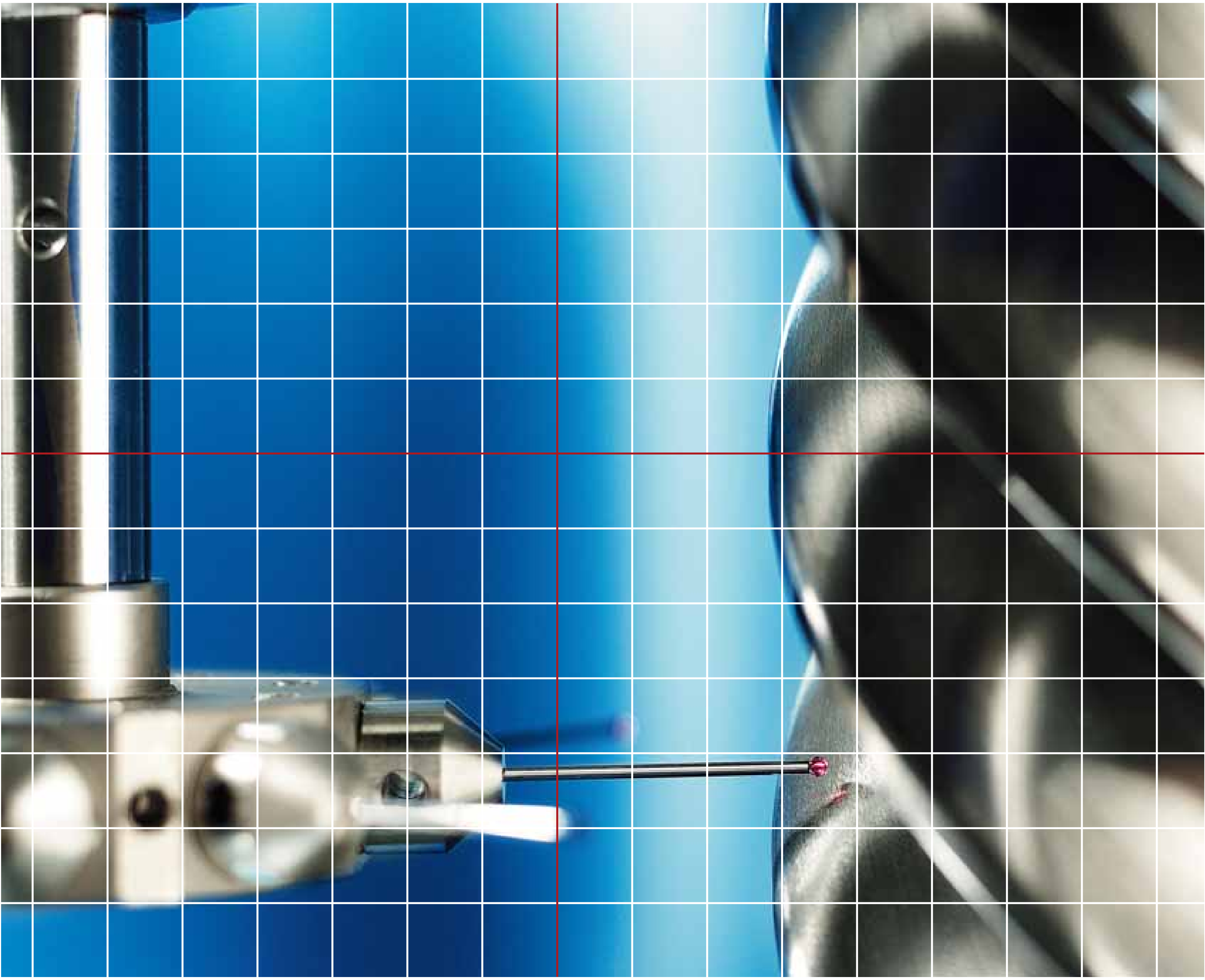
Annual Report **2008**



Hexagon's mission:

- To measure objects
- To position objects
- To update objects
- To time processes

HEXAGON
precision in everything

This is **Hexagon**

Hexagon is a global measurement technologies group with strong market positions. In 2008, Hexagon had net sales of 14 479 MSEK. The Group has 8 436 employees in 36 countries worldwide.

Hexagon's vision is to be number one or number two, in each core business, in order to generate growth and shareholder value.

Hexagon's mission is to develop and market leading technologies and services to measure in one, two or three dimensions, position and update objects and time processes.

Hexagon has a broad geographic coverage and a strong local presence. Hexagon's technologies and services are sold to more than 140 countries.

The Hexagon share is quoted on NASDAQ OMX Stockholm and the SWX Swiss Exchange.

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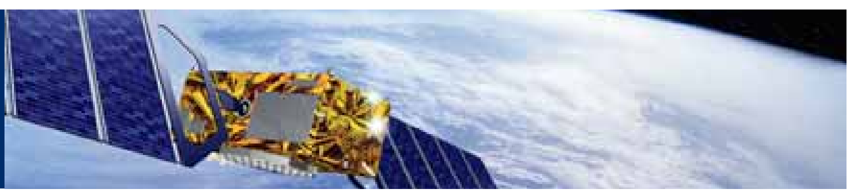

Hexagon is at the forefront of developments in new application technologies. GNSS, the Global Navigation Satellite System, is a fast growing, technologically sophisticated business with applications in many industries.

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Hexagon is closely collaborating with CERN, the world's leading laboratory for particle physics, since many years. CERN's engineers and technicians use a variety of Hexagon instruments for surveying and metrology.

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Hexagon offers customers in the wind turbine industry around the world customised measuring solutions for every component – for large volume or small component projects and to all required degrees of accuracy.

Contents

Hexagon AB is a Swedish public limited liability company with Corporate Registration Number 556190-4771.

All values are expressed in Swedish kronor. Kronor is abbreviated to SEK and millions of kronor to MSEK. Figures in parentheses refer to 2007 and include the polymers business that was de-consolidated from Hexagon as of 1 June 2008, unless otherwise stated.

Data on markets and competition represent Hexagon's own assessments, unless otherwise stated. Assessments are based on most recent available facts from published sources.

This report contains forward-looking statements based on the 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.

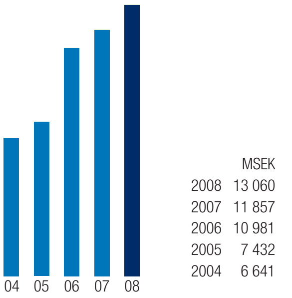
The Hexagon company GeoMax provides a comprehensive portfolio of integrated, robust and easy to use instruments for the surveying, mapping and construction industries.

Highlights 2008[1]

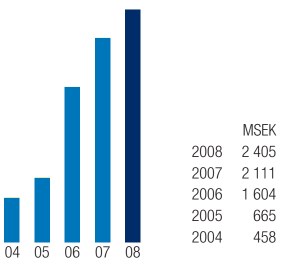
- Net sales increased by 7[2] per cent to 13 060 MSEK (11 857).
- Operating earnings (EBIT1) increased by 14 per cent to 2 405 MSEK (2 111).
- Earnings before taxes increased by 12 per cent to 2 004 MSEK (1 789).
- Earnings per share increased by 10 per cent to 6.63 SEK (6.05).
- The polymers business was distributed to Hexagon shareholders and listed on NASDAQ OMX Stockholm as Hexpol AB.
- Ten companies, with annual sales of about 450 MSEK, were acquired.
- The Hexagon Board of Directors proposes a dividend to shareholders of 0.50 SEK (2.08) per share.

Key Figures	2008	2007	Change
Net sales, MSEK [1]	13 060	11 857	7%[2]
Operating earnings (EBIT1), MSEK [1]	2 405	2 111	14%
Earnings before tax, MSEK [1]	2 004	1 789	12%
Net earnings, MSEK [1]	1 770	1 615	10%
Operating margin, % [1]	18.4	17.8	0.6
Return on equity, %	18.2	19.5	–1.3
Return on capital employed, %	12.0	14.3	–2.3
Solvency ratio, %	43.7	40.3	3.4
Earnings per share, SEK [1]	6.63	6.05	10%
Share price, SEK	38	135	–72%
Average number of employees during the year [1]	8 112	6 286	29%

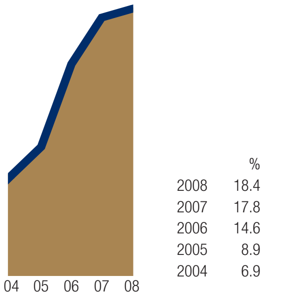
[1] Excluding Hexpol AB, which was de-consolidated from Hexagon AB as of 1 June 2008.
[2] Adjusted to fixed exchange rates and a comparable group structure (organic growth).



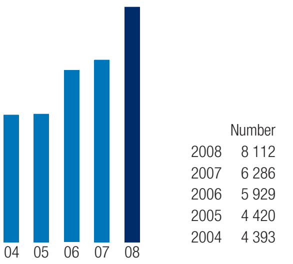
Net sales[1]
In 2008 net sales amounted to 13 060 MSEK, an organic growth of 7 per cent.



Operating earnings[1]
Operating earnings increased 14 per cent to 2 405 MSEK in 2008.



Operating margin[1]
The operating margin increased 0.6 percentage points to 18.4 per cent.



Average number of employees[1]
In 2008, the average number of employees was 8 112.

[1] Excluding Hexpol AB, which was de-consolidated from Hexagon AB as of 1 June 2008.

Stable market **position** in a turbulent world

The past year was turbulent, to say the least. After a strong first half, the market started to decline and 2008 ended in deep recession. We were entering the new year with cautious belief in a reversal as early as the second half of the year and a better finish in 2009.

This is my ninth letter to shareholders as CEO of the Hexagon Group. Not during any of these years has the close of the year been as fundamentally different to the beginning. Hexagon had its best year ever in 2008. Although we broke new sales and earnings records then, it is still not easy to write this message to you, our shareholders.

During the fourth quarter, the full force of the recession hit our company, and it's not difficult to forecast that 2009 will be a challenging year. This recession is exceptional in that it started as a financial crisis that later spread to the real economy. The financial system is the global economy's lubricant – without loan opportunities and functional currency markets, global commerce grinds to a halt. That is exactly what happened for a few weeks during the autumn of 2008. The situation in financial markets has stabilised somewhat since then, but the damage was already done. Consumers worldwide are keeping a firm grip on their money and companies are reducing their workforces. These two factors are driving down demand at both the consumer and the manufacturing levels which, in turn, is aggravating the recession.

As CEO, I have a duty to provide long-term protection for our shareholders' assets in the company. Accordingly, a necessary adjustment of Hexagon to the lower level of demand was made during the autumn, and a number of cost-cutting activities were initiated that will continue in the first half of 2009. While having to implement measures such as personnel cutbacks, which is always highly regrettable, our goal is that Hexagon will emerge from this crisis as an even stronger company with even better market positions. Several of Hexagon's competitors may no longer exist as independent companies when the recession is over.

Hexagon's performance during 2008

The year 2008 started strongly and, until September, all key ratios pointed in the right direction. In May, we took the final giant step in streamlining the Group to form a world-leading measurement technologies company. Our polymers business, Hexpol AB, was spun off to Hexagon's shareholders and listed as a separate company on NASDAQ OMX Stockholm.

Strategic complements to the product portfolio

The past year was intensive in terms of proprietary product development and the launch of new technologies. Comprehensive development work is a prerequisite for Hexagon's ability to be the industry's most innovative supplier and positioned at the cutting edge of commercialisation of technological development.

During 2008, we also completed a number of acquisitions to complement our technology base and strengthen our distribution capabilities. In June, we acquired Viewserve AB, a Swedish company that develops fleet management systems which, for example, enable suppliers to track and analyse vehicles via the Internet. We will be able to start offering our customers this service as an integrated part of our machine control programme already during 2009.

In July, we acquired MTWZ GmbH, a German software company. We had cooperated with MTWZ for about 10 years for precision measurements in applications requiring degrees of accuracy of less than 0.5 micrometres. In recent years, the expertise offered by MTWZ has become strategically important in our efforts to develop high-speed measurement capabilities in the engineering industry.

During the summer, we acquired Serein, a low-price supplier in China that will expand Hexagon's market in the low-price segment, a segment whose importance will increase in the future.

We also acquired m&h, a German company that develops machine tool probes. In conjunction with this acquisition, Hexagon established a new business for measurements conducted directly in production, an area in which m&h products will be combined with Hexagon's PC-DMIS NC software.

Strong positions in selected geographic markets

In combination with efforts to complement our product portfolio with critical core technologies, we continued our geographic expansion during the year. Emerging markets and new technologies account for about 47 per cent of our sales.

In recent years, Hexagon has focused on increasing its local presence in regions where growth is expected to remain strong. Brazil, Russia and China are high-priority geographic regions. Other geographic regions of strategic importance to Hexagon are Eastern Europe, Central Asia, Africa and Southeast Asia.

We inaugurated Hexagon Metrology's new production facility in Noida, India, during the summer. India is an important future market for measurement technology and our new operations will provide us with a market presence when business

growth begins in earnest. Read more about our investments in the Indian market and its development on page 28.

Prestigious projects indicate the height of our technology

Hexagon participated in a large number of interesting and highly advanced projects in 2008. Some of them are presented in this Annual Report. For example, Hexagon participates in the development of tomorrow's global positioning technology, the Global Navigation Satellite System GNSS, the CERN research project in Switzerland and the expansion of wind power stations throughout the world. Read more about these fascinating projects on pages 8, 12 and 22.

Major challenges in 2009

This year has started with weak demand and a lack of confidence in the future among our customers. However, the focus of most of the economic stimulus programmes currently being launched by governments worldwide is to regain economic momentum through the construction of highways, bridges, railways and energy production. At early stages of these projects, measurement technology will be required, particularly for the design and surveying of construction worksites. About half of Hexagon's current sales are infrastructure related.

Surveyors use Hexagon's total stations and GPS/GNSS receivers in the planning of construction projects. Hexagon's construction lasers and technology for earth- and satellite-based machine control are used in the construction phase. When the construction of a project has been completed, the structure is certified by a surveyor and a map company redrafts the map with the help of airborne cameras, again using Hexagon's measurement instruments.

We believe this planned increase in activities to support the global economy will gradually start to benefit Hexagon as early as in the second half of 2009. However, we expect to make a qualified assessment already in early summer.

In conclusion, I want to thank all Hexagon employees for their dedication and hard work throughout 2008. I hope we will be able to create continued success for our Group during 2009.

Stockholm, Sweden, January 2009

Ola Rollén
President and Chief Executive Officer

Clear strategies and **ambitious** growth targets

Hexagon's ultimate objective is to generate long-term favourable value growth for its shareholders. The aim is to strengthen the Group's market position as a world-leading measurement technology company and to deliver long-term profitability and sustainable competitiveness.

Hexagon's objective is to create long-term favourable value growth for its shareholders. In 2008, this entailed continued development of the business in order to further enhance Hexagon's position as a world-leading measurement technologies company. The business idea offers considerable potential for increasing market share through establishment in new geographical markets and in new application areas, combined with opportunities to increase the total market by introducing new applications for existing products and systems.

A focused measurement technologies company

During 2008 Hexagon focused the business to operate as a pure and dedicated measurement technologies company by distributing the polymers business to the shareholders of Hexagon. The polymers business was renamed Hexpol AB and listed on the NASDAQ OMX Stockholm as of 9 June 2008.

The spin-off enables the management and Board of Directors of both Hexagon and Hexpol to capitalise on the operational and strategic opportunities that arise in each company.

Vision

To be number one or number two, in each core business, in order to generate growth and shareholder value.

Mission

To develop and market leading technologies and services to measure in one, two or three dimensions, position and update objects and time processes.

Operational targets

Hexagon's vision is to be number one or number two, in core technological and geographical segments. To realise this vision, the following operational targets must be fulfilled:

Long term cost leadership

A competitive cost structure is a necessity, not least in order to more easily handle fluctuations in demand and changes in currency exchange rates. Cost-efficiency is also a prerequisite for being the innovator in the sector.

Being the innovator

Hexagon's innovative capacity is of vital significance when customers choose a supplier. Since a market-leading position brings with it a responsibility to develop the sector, investments in research and development are a high priority in Hexagon's operations.

The industry's best management

Management know-how and experience are decisive factors that are essential for being able to operate successfully and realise objectives in day-to-day business.

Speed management

Short and rapid decision processes and time-efficient implementation enhance competitiveness and raise organisational capacity.

Growth strategy

Hexagon aims to create profitable growth in selected segments through a combination of acquisitions and organic growth. Hexagon works on the basis of four growth strategies:

Marketing existing products in current markets

With a focus on core operations, growth is created through product modifications and acquisitions of complementary technologies, both of which create cost benefits and thus enhanced competitiveness through the rationalisation of the overall structure. The challenge is to avoid becoming too comfortable with the existing product portfolio and thus too slow in discovering new technologies in the market.

Introducing new products in existing markets

Through successful research and development and sound knowledge of customer needs, growth is created in the form of unique

Acquisitions 2008

Company	Domiciled	Business	Consolidation	Market segment[1] Macro	Micro
Elcome Technologies Pvt. Ltd.	India	Distributor and service provider for surveying equipment	1 January	●	
Surveyors Service Company	USA	Distributor and service provider for surveying equipment	1 February	●	
Haselbach Surveying Instruments	USA	Distributor and service provider for surveying equipment	1 February	●	
Santiago & Cintra Ibérica S.A.	Spain	Distributor and service provider for positioning solutions	1 March	●	
Advanced Metrology Solutions	USA	Distributor of precision metrology products	7 June		●
Viewserve AB	Sweden	Service and software for fleet management systems	23 June	●	
Messtechnik Wetzlar GmbH	Germany	Developer of software solutions for quality control	1 July		●
m&h Group	Germany	Developer and manufacturer of machine tool probes	1 July		●
Serein Metrology (Shenzhen) Co., Ltd	China	Developer and manufacturer of precision measuring instruments	1 August		●
Rinex Technology	Australia	Hardware and software for agricultural tractor and combine guidance	13 October	●	

[1] See page 10.

product offerings. The challenge is to “think outside the box” and create pioneering products in an already established market.

Introducing existing products in new markets

A new application area or a new geographical market creates growth for an existing product through access to a larger customer group. The challenge is to have sufficient knowledge of the new market, ensure that the product meets the market’s quality requirements and establish smoothly functioning distribution channels.

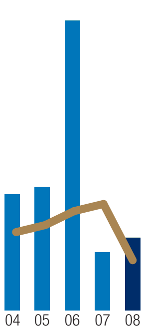
Introducing new products in new markets

Introduction of a new product or service in new markets creates growth through expansion of the total market. The challenge is to have sufficient knowledge of the new market, understand the needs of the customers, quality-assure the new product or service and gain access to smoothly functioning distribution channels, thus ensuring that the new offering reaches the market.

Acquisition strategy

Hexagon monitors a large number of companies to find acquisitions that can strengthen the product portfolio or improve the distribution network. The acquisition targets are regularly evaluated financially, technologically and commercially. Every acquisition candidate’s potential place in Hexagon is determined on the basis of synergy simulations and implementation strategies.

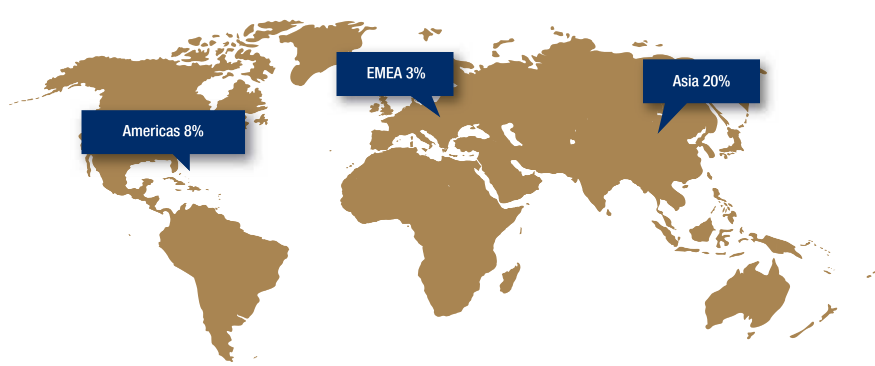
The acquisition price varies and is determined based on factors such as the acquisition target’s growth potential and operating margin. With a structured and well-conceived integration process, as a rule of thumb, the acquired company’s enterprise value should be less than 10 times operating profit about 12 months after consolidation of the acquired company.



	Recorded growth net sales %	Organic growth net sales %
2008	10	7
2007	8	15
2006	40	14
2005	17	12
2004	16	11

Recorded and organic growth in net sales

Hexagon’s sales growth has averaged 18 per cent per year since 2004, of which 12 per cent organically.



Organic growth in net sales

In 2008, Hexagon’s presence was strengthened especially in regions such as South America, Eastern Europe and China. During the year, Asia was the fastest growing region. Definition of regions, see page 88.

Chinese Premier Wen Jiabao visited Hexagon, as one of the high technology companies of Qingdao, China, to learn more about the business and its potential. Mr Li Hongquan, CEO of Hexagon's operations in China, hosted the event.

Hexagon's agricultural products and solutions build on the experience in the growing GPS/GNSS and machine control business. The Leica mojoRTK auto-steer system provides repeatable and reliable five centimetre accuracy for precision farming.

Brand strategy

The Hexagon brand is the Group brand, supplemented with subsidiaries' brands targeting specific customer segments, markets or geographical areas. Hexagon's brand portfolio comprises a large number of world-class brands that represent strong traditions and are well known in their individual sectors. The brands represent high quality and reliability.

As part of the Hexagon brand strategy it is vital to let the individual brands and subsidiaries work and "live" as individual companies. They each have their history, their culture, a deep knowledge of their market's needs and a professional approach to their customers. Hexagon aims to preserve these strengths. At the same time, the individual brands and companies are part of the larger Hexagon Group from which they can benefit from an extensive network of professionalism, knowledge, people and global culture.

Hexagon works continuously to strengthen the Hexagon brand globally and to utilise the synergies between the individual brands. The Hexagon brand strategy supports the Hexagon growth strategy and helps create long-term sustainability and profitability for the Hexagon Group.

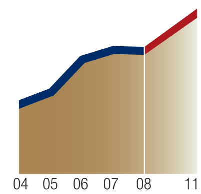
Values

Hexagon is guided by six fundamental values that create a platform for the Hexagon Group:

- *Sustainable profit* – Hexagon exists to generate earnings for its shareholders. Hexagon's employees are profit-oriented and focused on business and on delivering.
- *Professionalism* – Hexagon's employees know their business and act professionally.
- *Entrepreneurship* – Hexagon's employees have their own vision and ambition with their work at the same time as they progress with colleagues towards a common goal.
- *High energy and commitment* – Hexagon has decentralised responsibility with short decision paths. Employees are energetic and capable of taking responsibility.
- *Image is good, prestige is not* – An accurate and credible image is everything. Hexagon's employees are not preoccupied with status, but instead seek the potential to push business negotiations forward.
- *Corporate responsibility* – Hexagon focuses on long-term profitability. Respect for employees and the environment, but also for customers is vital as part of efforts to achieve the credibility that leads to sustainable success.

Financial plan

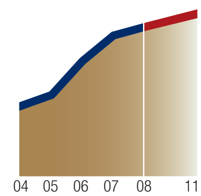
Target	Description	Outcome
Net sales Sales of 20 billion SEK by the end of 2011.	Hexagon's sales objective of 20 billion SEK is to be achieved through a mix of organic growth and acquisition of core technologies and distribution. Hexagon has a stable platform for future long-term organic growth. The Group is actively monitoring a large number of companies that represent potential acquisition candidates, so that it will also be able to grow through acquisitions.	In 2008 net sales was 14 479 MSEK. Excluding Hexpol, net sales was 13 060 MSEK, corresponding to an organic growth of 7 per cent.



Objective:
20 000 MSEK

	MSEK
2008	14 479
2007	14 587
2006	13 469
2005	9 637
2004	8 256

Target	Description	Outcome
Operating margin Operating margin of 20 per cent by the end of 2011.	Hexagon's objective of an operating margin of 20 per cent is to be achieved through an increase in the operating margin in the core business to 23 per cent and the acquisition of operations with an average operating margin of 15 per cent.	In 2008 the operating margin was 17.6 per cent. Excluding Hexpol, the operating margin was 18.4 per cent.

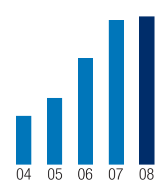


Objective:
20%

	%
2008	17.6
2007	16.6
2006	13.6
2005	9.6
2004	8.3

Financial targets

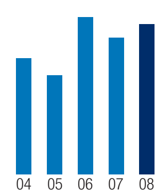
Target	Description	Outcome
Earnings per share Annual increase in earnings per share of >15 per cent.	Hexagon's overall financial target is to increase earnings per share by at least 15 per cent annually. Strong growth in earnings per share is the best way to produce favourable long-term return.	In 2008 earnings per share was 6.96 SEK. Excluding Hexpol, earnings per share was 6.63 SEK, corresponding to an increase in earnings per share of 10 per cent.



Objective:
>15% increase

	SEK
2008	6.96
2007	6.79
2006	5.01
2005	3.14
2004	2.28

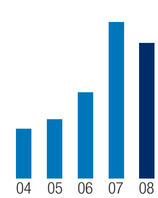
Target	Description	Outcome
Equity ratio An equity ratio between 25 and 35 per cent.	Hexagon shall strive to minimise the weighted average cost of capital (WACC) for the company's financing. A strong equity ratio provides opportunities for using loans to finance parts of future expansion.	At the end of 2008 the equity ratio was 44 per cent.



Objective:
25–35%

	%
2008	44
2007	40
2006	46
2005	29
2004	34

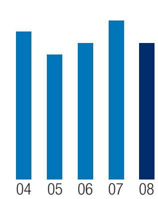
Target	Description	Outcome
Cash flow A positive cash flow over a business cycle.	A positive cash flow creates freedom of action for long-term expansion. It also allows Hexagon's shareholders to govern operations on the basis of a lower required equity ratio than if the cash flow was uncertain.	In 2008 cash flow from operating activities was 1 755 MSEK. This corresponds to cash flow of 6.61 SEK per share.



Objective:
Positive

	MSEK
2008	1 755
2007	2 027
2006	1 115
2005	764
2004	642

Target	Description	Outcome
Return on capital employed Return on capital employed of >15 per cent.	The long-term return on capital employed over a business cycle should amount to more than 15 per cent annually. The required return has been set based on an assumption of long-term risk-free interest rate of around 5 per cent and a risk premium of some 10 per cent.	In 2008 capital employed increased to 23 668 MSEK. Return on average capital employed was 12 per cent.



Objective:
>15%

	%
2008	12
2007	14
2006	12
2005	11
2004	13

Future proof **measuring** with satellites

Since Sputnik was launched into outer space in 1957, artificial satellites have surrounded our planet. Their signals connect people – and help measure the world.

At this very moment, more than 500 satellites are orbiting above our heads. Some of them are part of the Global Navigation Satellite System (GNSS). For Hexagon, GNSS is a fast growing, technologically sophisticated business with potential applications in many different industries. The most common civilian applications to date have been land, air and marine navigation, and surveying. More recent applications include construction, resource extraction, and geographic information systems (GIS). With the companies NovAtel and Leica Geosystems, Hexagon is at the forefront of developments in new application technologies.

The launch of the US Global Positioning System (GPS) in the 1980s changed the measuring world. Products such as the WM101, Leica Geosystems' world-first portable GPS receiver for surveying, were developed to reach one centimetre accuracy within the coordinate system provided by GPS. A surveyor demands accuracy, reliability, quick set-up, and data availability from the instrument – and wants to use as many satellites as possible to enhance productivity and accuracy. Europe, Russia and China are developing additional satellite systems. Russia's GLONASS system is planned to be fully operational in 2010, the European Galileo system aims to have 32 satellites by 2013, and the Chinese Compass/Beidou system is expected to have eight operational satellites by the end of 2009. For the surveyor, these additional satellites will improve productivity in the field significantly. Newly launched Hexagon products, such as the Leica GPS1200+ surveying system or NovAtel's GNSS-750 choke ring antenna, are already capable of tracking and processing signals from all four members of the GNSS.

The technology developed and deployed by Hexagon is based on dual frequency GNSS. Most GNSS/GPS devices, like those in a mobile phone, use single frequency GPS for positioning and can achieve accuracies in the order of one metre. With dual frequency technology accuracies approach one centimetre. NovAtel intellectual property protects its position as one of a handful of companies in the world that can deliver dual frequency GNSS technology, and Leica Geosystems is a pioneer in the application of this technology in the survey markets. Both Hexagon companies are well ahead in the development of the technology and products to make use of the new GNSS constellations. "Future proof" is not just a marketing slogan at Hexagon.

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NovAtel's new receiver named "15ab" was developed in conjunction with the Canadian Space Agency (CSA). The 15ab tracks the Galileo E1/L1, E5a, and E5b signals from the GIOVE-A and GIOVE-B test satellites, and also GPS and SBAS L1 and L5 signals.

Hexagon offers its customers a compliance upgrade path to four satellite systems which is based on publicly available system definitions. The new Leica GPS1200+ surveying system supports GPS, GLONASS, Galileo and Compass. It can be easily upgraded, in line with customer needs.

Measurement technologies – solid **growth** and constant **development**

Hexagon is a global leader in the market for measurement technologies, with strong positions in both the macro and micro segment. Despite the uncertainties in the global economy, the overall measurement technologies market is facing constant development. Market drivers are investments in major infrastructure projects, relocation of production facilities, and increased demand in sectors such as mining, oil and gas, electronics, and medical technologies.

Measuring, positioning, and processing multidimensional data are all of major strategic and financial significance to Hexagon's customers worldwide. Customers demand optimal quality, maximum productivity and efficiency, minimum tolerance levels and scrapping, and the ability to quickly adjust processes and projects based on changes in requirements or demand.

Hexagon estimates the size of the measurement technologies market at about 100 billion SEK, with annual growth of 8 per cent over a business cycle. This estimate is based on internal industry knowledge and available public statistics. Hexagon's market share is approximately 12 per cent.

Market segments

The market for measurement technologies can be divided into the macro, micro, and nano market segments. Boundaries between the three segments are based on the measurement precision required by the customer: the smaller the object to be measured, the greater the precision required. The algorithms used to interpret measurement data and mathematically describe an object represent the area where synergies can best be achieved among the three market segments. There are also substantial synergies to be achieved in the research and development of core technologies applicable to products supplied to all areas of the measurement technologies market.

The macro segment

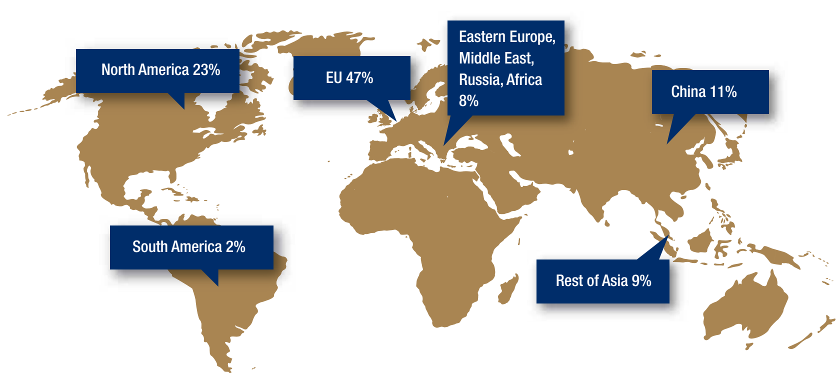
In the macro segment, large objects such as mountains, cities, roads, bridges, tunnels, dams, buildings, and other construction projects, are measured. These measurements require precision ranging from 10 metres to 100 micrometres. Customers in this market segment primarily consist of surveyors, map offices and cartography companies, authorities, construction companies, mining companies, aerospace, security and defense industries. Hexagon estimates the size of the macro segment to be about 52 billion SEK, with annual growth of about 10 per cent over a business cycle. Hexagon's market share is approximately 14 per cent.

The micro segment

In the micro segment, industrial components, from large aircraft to micro components in electronic and medical applications, are measured. Precisions from 100 to 0.3 micrometres are required

	%
Surveying	33
Heavy construction	12
Automotive	11
Manufacturing	8
Aerospace	7
Geospatial	6
Light construction	5
Heavy vehicles	4
Raw materials	3
Other	11

Net sales by customer category
Surveying is the largest customer category of Hexagon's core business measurement technologies and accounted for 33 per cent of net sales in 2008.



Net sales by geographic market
The EU is Hexagon's largest geographic market, accounting for 47 per cent of total net sales in 2008. North America accounts for 23 per cent and China 11 per cent. Approximately 28 per cent of total net sales is attributable to emerging markets.

Industry Participants

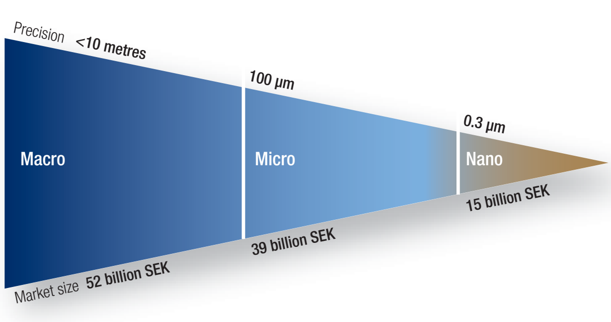
Company	Domiciled	Market segment Macro	Micro	Nano
Hexagon [1]	Sweden	●	●	
ESRI	USA	●		
Intergraph	USA	●		
Topcon [1]	Japan	●		●
Trimble [1]	USA	●		
Carl Zeiss	Germany		●	●
Faro Technologies [1]	USA	●	●	
Metris [1]	Belgium	●	●	
Mitutoyo	Japan		●	
Perceptron [1]	USA		●	
Renishaw [1]	UK		●	
KLA Tencor [1]	USA			●
Vecco [1]	USA			●
Zygo [1]	USA			●

[1] Publicly listed companies.

for these applications. Customers in this segment are primarily the automotive, aerospace, engineering, medical and energy industries. Hexagon estimates the size of the micro segment to be about 39 billion SEK, with annual growth of about 6 per cent over a business cycle. Hexagon's market share is approximately 13 per cent.

The nano segment

In the nano segment, objects such as microchips for the electronic industry, medical applications and materials with new characteristics are measured. Deviations may not exceed 0.3 micrometres. Hexagon estimates the size of the nano segment to be about 15 billion SEK with strong growth potential. Hexagon does not operate in the nano segment today, but is planning to establish operations long-term.



Measurement technologies market

Hexagon describes the measurement technologies market by three different segments: Macro, micro and nano. The boundaries between the three segments are the customers' requirements for measurement precision of the applications.

Diversified product mix and geographic presence

The prevailing market trend over the past four years with strong organic growth continued during the first half of 2008, but decelerated after the second quarter when the measurement technologies market had to face the effects of the worldwide economic slowdown.

The measurement technologies market is well diversified, and so are Hexagon's customers – in terms of industries and geography. As Hexagon's business is not related to any single region or market segment, lower investments in some industries are compensated by high investments in others. Approximately 47 per cent of sales in 2008 was from growth regions and growth technologies, compared to approximately 44 per cent in 2007.

Engineering and construction

While customer segments such as the automotive industry, residential housing and light construction continuously weakened throughout the year, growth in the newly industrialised regions of the world continued to be a significant driving force for the measurement technologies market. Increased demand for infrastructural projects in Western and Eastern Europe, the Middle East, Russia, and China boosted the demand for measurement systems. There is an increase in demand for projects such as construction of roads, bridges, tunnels, dams, airports, sanitation systems, and water mains in emerging economies as well as in established markets.

Agriculture, mining and natural resources

The agriculture and mining industries are increasing their levels of professionalism and efficiency. Hexagon sees strong growth in the exploration and extraction of natural resources such as gas and oil, as well as in mining and agriculture. Hexagon launched new products during the year to meet this demand. Also, significant acquisitions, such as the acquisition of the Australian agriculture machine guidance expert Rinex Technology, emphasise the importance of these emerging markets for Hexagon.

Geographic relocation of production

The need for measurement technologies is also driven by the ongoing geographic relocation of operations from industrialised countries in the West to newly industrialised countries in the East. While the automotive and aerospace industries in the western part of the world faced a downturn during the year, investments were being made in new technology in existing and future production plants in Asia, South America, and Eastern Europe – a market trend that benefits Hexagon. The automotive industry in Central and Eastern Europe is continuing its capacity expansion, and other engineering industries are speeding up planned capacity moves from Western to Eastern Europe, creating a demand for measurement technologies.

Particle collision – with **precision**

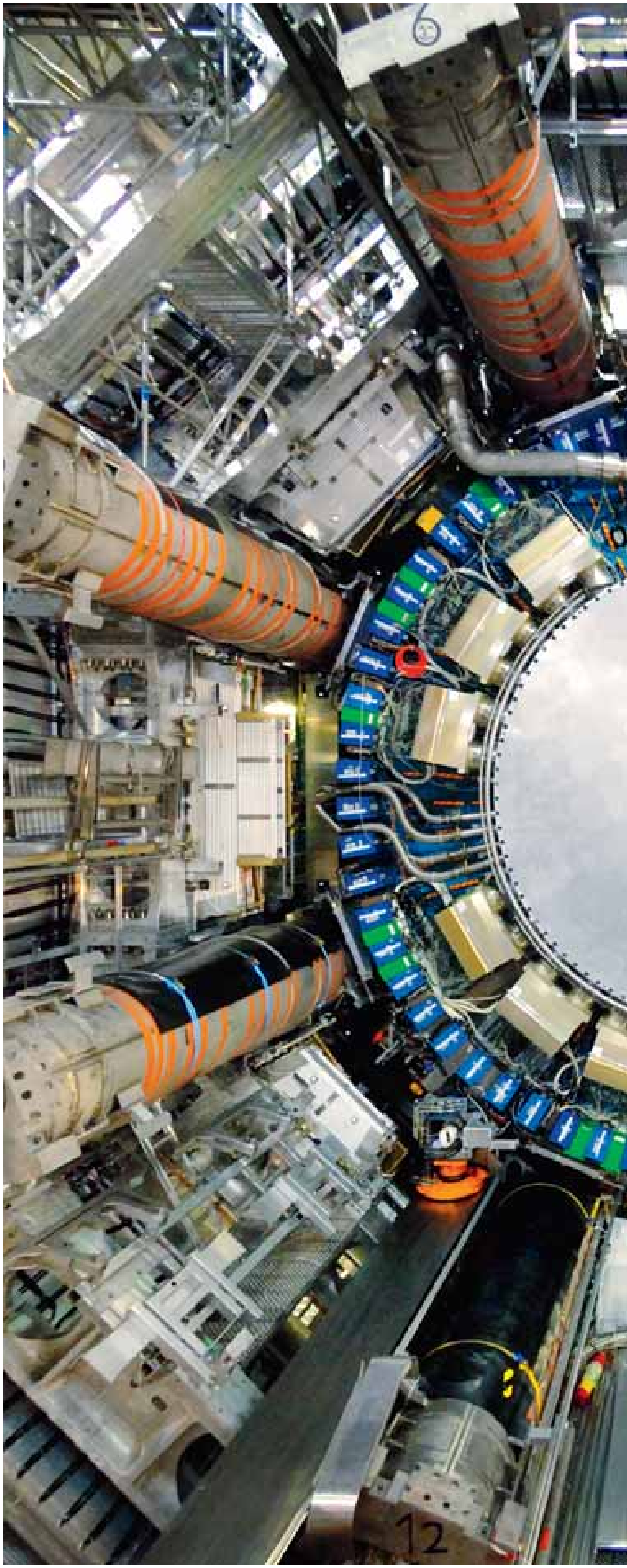
10 September 2008, 10:28 a.m. At that moment, if not earlier, CERN became known to the general public when the first beam was successfully steered around the world's most powerful particle accelerator, CERN's Large Hadron Collider. This historic event, marked the beginning of a new era of scientific discovery.

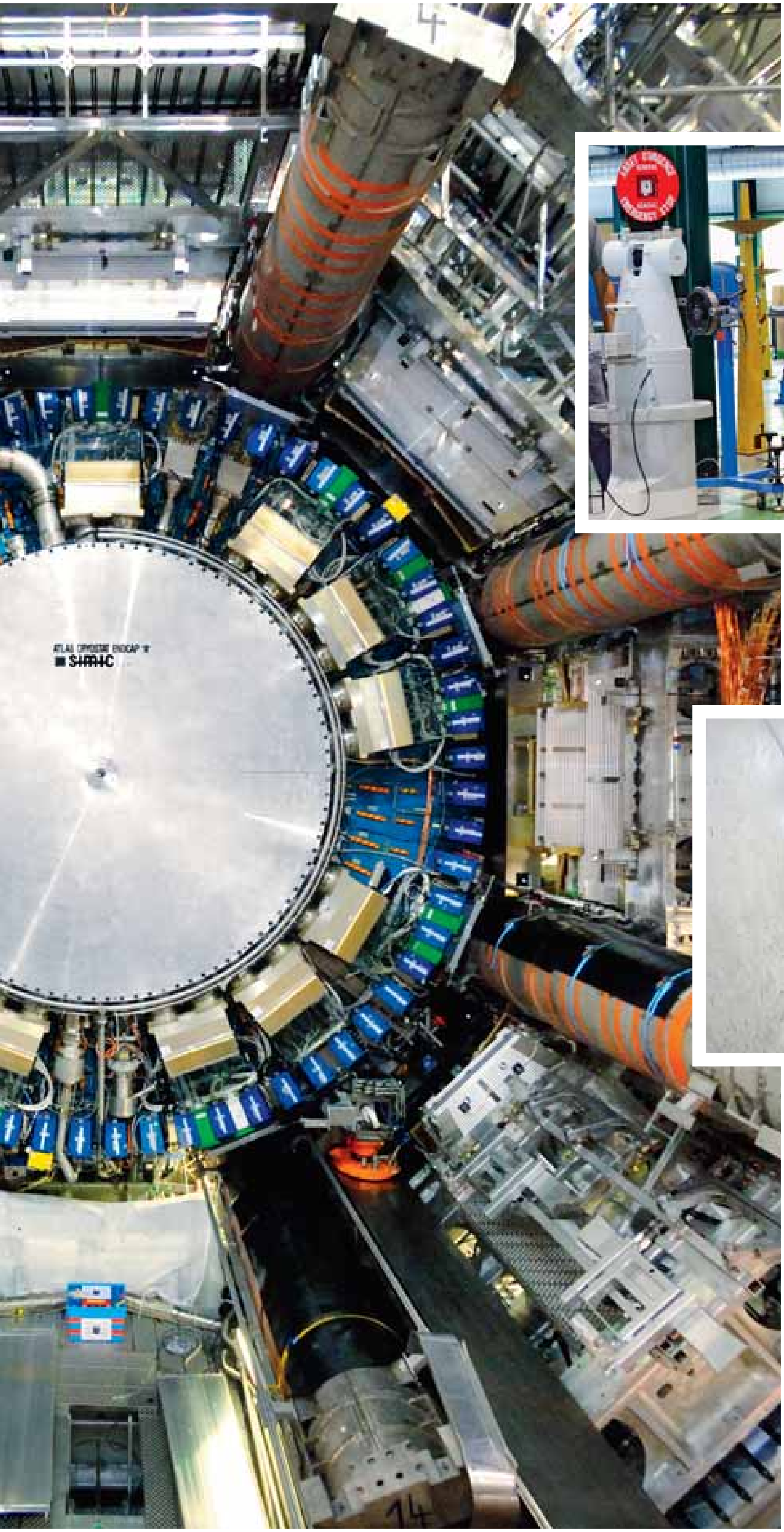
CERN, the European Organization for Nuclear Research, headquartered in Geneva, Switzerland, is the world's leading laboratory for particle physics. Located 50 to 150 metres below ground under the city's surroundings and crossing the border with France, the Large Hadron Collider (LHC) is installed in a tunnel 27 kilometres in circumference. The LHC will provide collisions at the highest energy levels ever achieved in laboratory conditions. For the CERN physicists, this means that they can observe these collisions via four huge detectors, exploring new territory in matter, energy, space and time.

Various companies within the Hexagon Group have been closely collaborating with CERN for more than 20 years. During this time, the highly skilled team of metrology engineers and technicians at CERN relied on a variety of Hexagon instruments for surveying and metrology – from optical and digital levels, theodolites, total stations and laser scanners, to laser trackers and articulated arms, not to mention office software.

Surveying in the LHC tunnel with a Leica HDS 3000 laser scanner ensured that the services and infrastructure were installed in accordance with specifications, and that there was always adequate space for successive installations of equipment and the accelerator elements. Laser trackers were used for the dimensional control of the dipoles and quadrupoles (magnets), and levels and theodolites were used for the accurate alignment of the magnets along the curved path of the LHC.

Suppliers to CERN also rely on the accuracy of Hexagon products. The French company Cerca used articulated arms from Romer for inspection and adjustment of 125 collimators to ensure that the required precision could be achieved.





© CERN

© CERN

Surveyors use lasers to check the 3D geometry of the super-conducting dipole magnets. All 1 232 dipoles must have just the right curvature so that the LHC forms a ring with a 27 kilometre circumference.

© CERN

Two LHC magnets seen before they are connected together. The blue cylinders contain the magnetic yoke and coil of the dipole magnets together with the liquid helium system required to cool the magnets so that they become superconducting. Eventually, this connection will be welded together so that the beams are contained within the beam pipes.

Leading **technology,** worldwide **service** and **support**

Hexagon provides its worldwide customers a broad portfolio of systems for the measurement of objects in one, two or three dimensions. To increase customer productivity, efficiency and avoid unnecessary costs, Hexagon provides proven precision, quick capture of large amounts of measurement data, reliable processing and superior service and support.

Increasingly stringent demands are being placed on the ability to measure and position objects, infrastructure and environments. The measurement data collected with the help of Hexagon's measurement systems are used as a basis for graphical and mathematical descriptions of an object. Such a description is used to recreate an exact model or drawing of an object, map deviations from the object's original design or to correct the object's manufacturing process.

Hexagon's customer offering

Hexagon develops complete, high-quality and reliable measurement systems through proprietary research and development. Hexagon's products meet the customers' demand for optimal quality, maximum productivity and efficiency, minimum tolerance levels and scrapping, and the ability to quickly adjust processes and projects based on changes in requirements or demand.

Hexagon Geosystems products

Surveyors, map offices and cartography companies, authorities, construction and engineering companies, mining companies, aerospace, security and defense industries are the main target groups for Hexagon Geosystems' products and services, using a variety of technologies and systems for multidimensional measurement and positioning. The systems in the Geosystems area measure with a precision that spans a deviation of 10 metres to 100 micrometres.

Geomatics

Hexagon's customers in the Geomatics product area capture, reference, measure, analyse, process, store, present and use geographical information. They are active across a wide spectrum of sectors and industries, and their task may vary from measuring a single point – a height above sea level or a simple distance – to hundreds and thousands of points to position complex objects or scan an object to transform the captured data into 3D drawings and images. Surveyors, construction and engineering companies, government agencies and authorities are the largest customer segments in the field of Geomatics. Its main driver is the need to update terrestrial information. Geomatics is the science and discipline of mapping the earth.

In surveying, a large and important segment for Hexagon within the vast field of Geomatics, terrestrial as well as satellite based systems are used to capture the image of our world. Theodolites and fully electronic total stations such as the Leica TPS1200+ and the Leica FlexLine, both launched in 2008, are optical instruments used to position determine a target by aiming through the telescope at the target, measuring the angles and distance and then using trigonometry for calculating the position. These two new products cover customers' needs in regard to productivity, speed and accuracy from high-end to middle range. Satellite based systems, on the other hand, rely on radio signals transmitted from the satellites to measure the distance between the antenna and the satellite. By using several satellites, the position can be calculated. With instruments such as the successful Leica SmartStation, the Leica SmartPole and SmartRover, surveyors can combine both systems and conduct measurements without needing additional personnel in the field, thus increasing productivity, speed of data acquisition, and reducing costs.

In Geomatics, the expansion of the current satellite systems is a key issue. After years of dominance by the US satellite system GPS (Global Positioning System), Russia launched GLONASS. A Global Navigation Satellite System (GNSS) is born. Europe with Galileo and China with Compass/Beidou are close on their heels. Hexagon is involved in this development and incorporates multi-constellation tracking capabilities in its GNSS products. The recently launched Leica GPS1200+ surveying system, as well as NovAtel's Smart-AG and GNSS750 antenna and SPAN-SE measurement engine, are ready for the future.

Hexagon is also highly involved in deformation monitoring, the systematic measurement and tracking of the alteration in the shape or dimensions of an object, such as a dam, a bridge or a landslide. Leica GeoMoS Web, launched in 2008, is a web-based service for visualisation and analysis of monitoring data. With an Internet connection and through Leica GeoMoS Web, customers can access their monitoring data anytime and anywhere using a standard web browser, and without installing any additional software.

During the year, Hexagon strengthened its presence in the geomatics market through the acquisitions of distribution companies Elcome Technologies Pvt. Ltd. in India, Surveyors Service

Leica FlexLine is a new generation of total stations. For the first time, hardware and software options can be simply selected so that the FlexLine total station exactly meets the individual requirements of the customer. In an ever increasing competitive environment it is vital for Hexagon's customers that a product is flexible enough to satisfy their requirements exactly. As a consequence, the Leica FlexLine family of total stations offers ultimate product customisation without compromises.

Company and Haselbach Surveying Instruments in the US as well as Santiago & Cintra Ibérica S.A. in Spain.

Machine control and construction

Large infrastructural projects are underway in emerging as well as traditional markets, and increased productivity and performance are being demanded with quantifiable savings on engineers, operators, time and materials. Environmental considerations such as reduced fuel consumption, better machine usage and efficiency, combined with health and safety demands of contractors and public authorities are other strong market trends in the construction segment.

Hexagon's customers in this segment are mainly the construction and civil engineering industry, mapping companies, government agencies and authorities as well as security and defense related industries.

Machine control is a strong area, the main applications being grading, excavating, trenching, paving, using two and three dimensional construction applications. Products such as the unique PowerSnap universal machine control systems platform, offered under both the Leica Geosystems and Mikrofyn brands provide the customer unrivalled flexibility, productivity and time savings. The benefit lies in an easy snap-on/snap-off concept. A single docking station allows easy and quick exchange of panels, depending on the operator's task. Integration for fleet monitoring, remote diagnostics, data exchange and machine performance metrics (telemetry) will be the cornerstone of successful Hexagon machine control products in the near future. Wireless data will be the key growth enabler for these added-value services.

Mining and agriculture machine control is a growing segment. The Leica mojoRTK, brought to the Australian market in 2007, also introduced in the US and Europe in 2008, is a tractor auto-steer system for the agricultural industry with a completely new approach. It is packaged in a console that is easy to use and installed in about an hour in the tractor's radio slot. The system provides an affordable solution for farmers, and the unique award-winning Virtual Wrench™ is the agriculture industry's first web-based remote service and diagnostics tool, providing the farmer instant on-line and real-time support.

With the development of Agatec's EZDigPro, Hexagon introduces new excavator products for small and mid-sized construction companies. With its new components and features and at reasonable introductory prices, EZDigPro can be sold by any standard laser distribution company, as the system can easily be installed and calibrated by the end-user.

Level meters, optical or digital, for measuring plane surfaces at, for example, a construction site, or construction lasers to measure angles, distances and levels, and buried service locators are other major product groups for construction customers.

Hexagon's products for interior construction are mainly dedicated to architects, construction workers, painters, carpenters and real estate agents. With the Leica DISTO™ D2, Hexagon presented the smallest laser distance meter in the world, and the Leica Roteo 35 is a multi-talented all-in-one rotating laser for tasks in interior works where levelling or aligning is required.

During the year, Hexagon strengthened its customer offering in machine control technologies through the acquisitions of Swedish software specialists Viewserve AB and Australian agricultural experts Rinex Technology.

Geographic Information Systems (GIS)

GIS is a computer-based system for collecting, storing, analysing and presenting position-related information. GPS, digital image processing, photogrammetry, radar data, laser scanning, spectral analysis, digitalisation of analogue documents and field inventories are done with various measurement instruments. Hexagon also develops digital sensors and software for the interpretation of images in two or three dimensions. Main target groups for GIS are mapping and government agencies, defense industries, system integrators, GIS Service Companies. The main drivers of demand for products and services in this area are the need to update and plan for changes in the cityscape or the environment, and for mapping natural disasters.

New customer segments outside the existing technological geospatial world are looking to use geospatial information to drive business decisions and processes in their organisations, such as urban planners, real estate agents, environmental consulting firms, civil engineering or oil and gas companies.

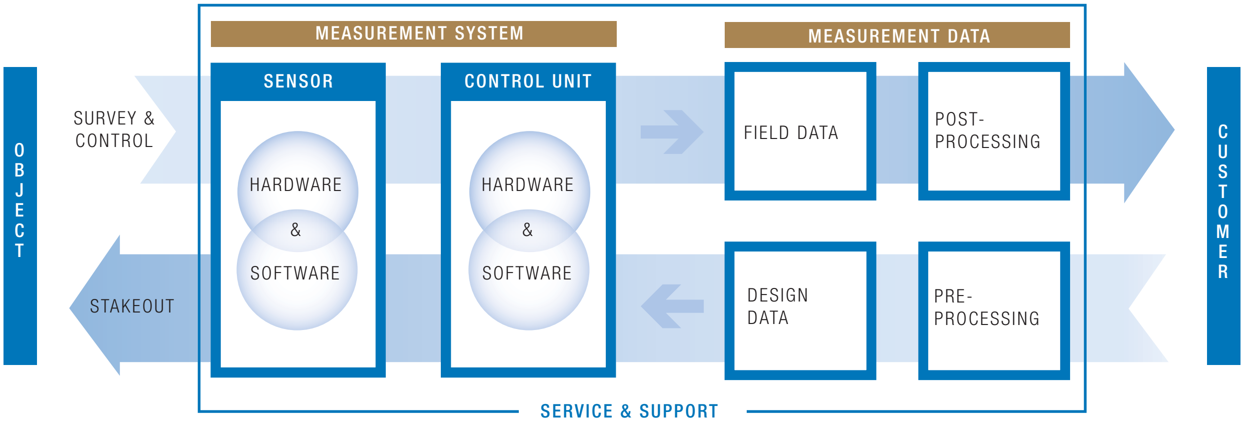
With Leica Cyclone II TOPO, Hexagon presented a next-generation software in 2008 which can easily be used by survey CAD technicians to quickly create accurate topographic maps from rich point cloud data, captured with HDS scanners such as the Leica ScanStation 2.

During the year, Hexagon also announced a new generation of digital imaging and laser scanning sensors, superior to the market's large-format digital airborne imaging and laser scanning technology available today. Together with the Leica ADS80 Airborne Digital Sensor and ALS60 Airborne Lidar Scanner, a whole new workflow was introduced with the Leica XPro Software, making it one of the market's most productive digital airborne imaging solution.

With the new Erdas APOLLO software, Hexagon eliminates the walls between GIS, photogrammetry and remote sensing, extending geospatial data to business applications. Providing a

Hexagon's machine control products and solutions increase operator and machine productivity leading to reduced labour and material costs.

Measurement Process



Depending on the application, the measurement process can be carried out in two directions. The starting point is the collection of an object's design parameters, for example the measurement points of a construction site, or the shape of an airplane wing. In applications such as geomatics, the goal is to obtain field data that the customer can work with. In metrology applications, the goal is to compare the object with its existing design data. The core of the measurement process is the sensor that collects the measurement data through physical contact with the object, called tactile measurement, or through technologies such as laser, GPS, optics and photogrammetry. The control unit converts the information into data the user can work with in Geographical Information Systems (GIS) or 3D systems such as CAD. Service and support include contract-based measurement of parts, training of measurement system operators, outsourcing of the measurement function and software upgrades.

Specifically designed for interior applications, the elegant Leica DISTO™ D3 is the smallest laser distance meter in the world.

Users of Erdas APOLLO have the ability to style feature data so it is properly presented in a web browser.

unified enterprise platform, the software manages and serves large volumes of geospatial data located and distributed across an organisation.

Hexagon Metrology products

In the measurement technologies market's micro segment, Hexagon offers the customer a complete range of products and one of the world's strongest service organisations. The systems measure parts as large as aircraft and as small as medical screws with precisions spanning from 100 to 0.3 micrometres.

A strong trend in metrology is the integration of the measurement system and the measurement itself into overall processes, such as automation and robotisation. This avoids unnecessary repetition and reduces errors and failures, while providing the customer with higher productivity, increased efficiency and lower costs during the production phase. This also has a strong impact on Hexagon's service and support operations. Production line manufacturers integrate measurement systems more and more directly into the production workflow and offer their customers complete solutions with integrated and specially adapted measurement systems included.

Stationary measurement systems, sensors and software

Hexagon's product offering in the area of stationary measurement systems includes vertical and horizontal coordinate measuring machines (CMM), sensors, software and aftermarket services.

Stationary measurement systems are generally automated, which means that they can be programmed and run repetitive inspections. Hexagon offers different machines ranging from high accuracy machines for measuring engines and gears, to machines for applications which do not require as high a level of accuracy, such as sheet-metal parts (car doors and aircraft wings) or machined casted parts (housing for gear boxes or turbine blades). These systems are often part of a manufacturing cell integration directly on the workshop floor, putting inspection close to the point of production. The measurement systems are also used for measurements of components or products in the engineering industry such as lenses and gears or complex high-precision parts such as implants or prosthetics in the medical equipment industry.

The largest customer categories comprise manufacturing companies such as the automotive, aerospace, electronics, machinery, energy, and medical technology industries. The main driver of demand for products and services in this area is the need for greater quality, productivity, and cost-efficiency in the manufacturing process.

New products such as the Leitz Micra, a highly accurate and robust coordinate measuring machine (CMM) for small work pieces, open new market segments for Hexagon in the area of medical technology. With DEA Bravo, a line of heavy duty high performance horizontal-arm measuring robots, Hexagon provides a product line specifically designed for flexible on-line dimensional inspection of car bodies and subassemblies, where speed, accuracy, reliability, and reduced maintenance are required for process control in real-time.

With Wilcox Associates' PC-DMIS™, Hexagon offers the world's leading software for CMMs. PC-DMIS™ technology is the core of a set of closely linked software products focused on the collection, evaluation, management, and presentation of manufacturing data. With Enterprise Metrology Solutions (EMS), Hexagon's customers are able to fully leverage manufacturing process knowledge and build truly lean systems.

During the year, Hexagon strengthened its position in the CMM and software segment through the acquisition of German software specialists Messtechnik Wetzlar GmbH and m&h Group, a leading developer, manufacturer, and distributor of

Panoramic viewing of 360⁰ digital photographic images in Leica Cyclone 6.0 point cloud software makes it easier to understand the scanned scene.

Extreme accuracy in all sizes and dimensions: Coordinate Measuring Machines (CMM) for maximum precision.

machine tool probes, and the acquisition of Chinese precision measuring expert Serein Metrology. In August, a new assembly and manufacturing facility was opened in Noida, India, that will supply locally assembled CMMs throughout the Indian subcontinent.

Portable measurement systems

In the area of portable measurement systems, Hexagon's product offering includes handheld measurement devices, articulated arms, laser trackers, software, and aftermarket services.

The largest customer categories in portable measurement systems comprise manufacturing companies in the automotive, aerospace, energy, medical technology, general metal fabrication, and design industries. A further important field of application is the maintenance and inspection of structures such as windpower plants and aircraft. The main driver of demand for products and services in this area is the need for flexible inspection of objects that cannot easily be moved to an inspection machine, low volume or customised production, and rapidly changing requirements. Hexagon's products contribute to higher quality, enhanced productivity, and greater cost-efficiency as a result.

With the fifth generation of the Leica Laser Tracker, Hexagon presents yet another high-end technological product that brings a new dynamic into the measurement systems market. Awarded the Reddot Design Award, it is a unique masterpiece of technology and user friendly, yet sophisticated design.

Design is also a striking feature of the newly launched Romer articulated arms, including the six-axis Romer MultiGage, a portable, easy to use, manual precision CMM exclusively designed for the machine shop, and the Romer INFINITE 2.0 designed for larger more sophisticated applications including three-dimensional inspection with laser scanner.

Hexagon Technology

In addition to its Geosystems and Metrology product offering, Hexagon functions as a sub-supplier of technologies, systems and precision components to customers outside the Hexagon Group. The strategy of offering Hexagon's technologies to other OEMs (Original Equipment Manufacturers) guarantees continued cost-efficient development of Hexagon's technologies.

Canadian company NovAtel develops receivers, enclosures, antennas and firmware integrated in high-precision positioning applications. The target group is GNSS system integrators over a wide range of industries, including land survey, marine, navigation, port management, aviation, construction and mining. The products provide position information for customer systems over a range of environments, from open sky areas to urban canyon and heavy foliage conditions. As an OEM company, NovAtel is able to branch and sell to a variety of markets and is not generally niched into specific segments. However, its products and firmware features are starting to cater to more market specific requirements, and therefore NovAtel is expanding its product portfolio to more vertical market segments.

Additional OEM manufacturers include companies in the construction instruments and metrology sensors segment.

Aftermarket services and support

Reliable instruments and measurement systems and quality technical support are essential ingredients in gaining maximum productivity from instruments and systems.

The sky is no limit – a Leica Geosystems Laser Tracker provides a reality check at NASA Goddard Space Flight Center.

Portable measuring arms offer total flexibility and mobility. This Romer measuring machine is brought to the work piece – not the other way round.

Hexagon offers a complete line of aftermarket services to complement the product portfolio. These services range from regular interval services such as calibration, spare parts, upgrades and repair of equipment to value-added offerings such as contract inspection of customer parts, on-site temporary staffing, custom part programming and PC-DMIS™ customisation and automation integration.

The Hexagon production and sales process

The production process, sales approach and distribution model for Hexagon's technologies vary from one product to another. The original sales and production process for large integrated measurement systems can take up to 12 months and involve several engineers, while the production of the handheld Leica DISTO™ laser meter is completely outsourced and the finished products may even be sold in building supply warehouses.

High technology product assembly

To ensure that the Hexagon measurement systems meet the highest precision and quality demands, they are manufactured in state-of-the-art facilities worldwide. Hexagon has research and development centres and production facilities in some 20 countries.

Hexagon purchases components from carefully selected and proven sub-suppliers worldwide, some of them owned by the Group itself. Purchasing of components is coordinated centrally to minimise cost, maintain quality and eliminate bottlenecks in component sourcing. At the Hexagon production facilities, components are assembled into complete measurement systems and proprietary software integrated into the systems.

Own sales force and a broad distribution network

For Hexagon Geosystems' products, sales are largely made through distributors around the world. During the year, Hexagon strengthened its distribution network in selected geographical markets through the acquisition of several distributors, including Elcome Technologies Pvt. Ltd. in India, Surveyors Service Company and Haselbach Surveying Instruments in the US as well as Santiago & Cintra Ibérica S.A. in Spain.

For the sale of Hexagon Metrology products, Hexagon has its own sales organisation with approximately 50 demonstration and service centres worldwide, at which the measurement systems are demonstrated by Hexagon's personnel and the customer is given the opportunity to make test measurements on site. Since the measurement system often involves a significant investment for the customer, it is essential for both Hexagon and the customer to establish a close relationship for continued service and future upgrades. For this reason Hexagon acquired the US distributor Advanced Metrology Solutions during the year.

For Hexagon's software, demand is growing for long-term agreements where customers subscribe to regular software updates. Hexagon also offers upgrades of the measurement systems, in which all sub-systems, except the carrier, are replaced.

Seasonality in sales and earnings

The traditional seasonal pattern in Hexagon's earnings is such that the second quarter of the year is stronger than the first quarter, the third quarter is the weakest quarter of the year and the fourth quarter is by far the strongest. This pattern is created by a combination of a number of factors, with Hexagon's large share of government related sales being one.

Innovation is the **joining** of **creativity** with **structure**

Acquiring technologies is one way to grow. Another way is to focus on innovation as a growth driver. The healthy mixture of the two is what makes Hexagon successful. Acquisitions require meticulous planning and careful execution, and so do innovations. The Hexagon Innovation Process guarantees that only those ideas that have what it takes to succeed in the highly competitive measurement technologies market reach the manufacturing phase.

One of Hexagon's overall operational targets is to be the industry's most innovative supplier. For Hexagon, innovation consists of two ingredients that initially appear contradictory: creativity and highly professional project management. Hexagon's research and development brings these ingredients together in the right mixture, be it to launch new products, to improve existing products and services, or to find new areas of application for established technologies.

Creativity means taking the market's pulse by having a complete understanding of needs in industries such as automotive, surveying, aeronautics, construction, machine control, and turning it into products that increase productivity and reduce cost for the customers. It means being able to transform customer needs into products and services even before they are articulated by inventing and applying cutting-edge technology. Creativity also involves finding ways to improve existing products and services and identifying new areas of application for established technologies.

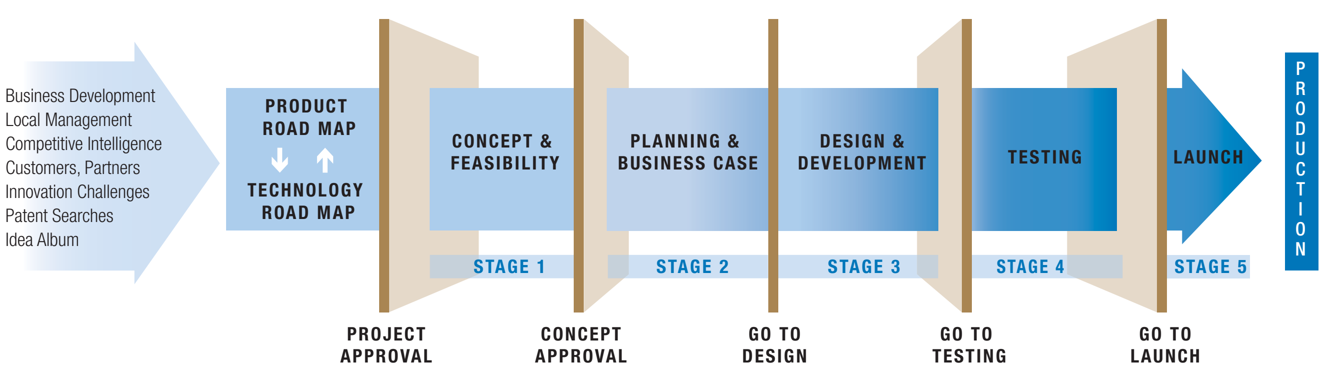
Clearly structured and adaptable

The Hexagon Innovation Process clearly defines the phases and milestones a product innovation has to pass to reach large-scale production. It is the track on which a continuous flow of new products and services are designed, developed, and launched. The Innovation Process has three main attributes:

- *Efficiency – To detect market and technological opportunities in advance.* The balance between the two elements results in new products being available when the need for them arises. There is also a constant focus on costs of development and production, as well as on product price. Clearly defined objectives help control and realise the cost targets.
- *Responsiveness – To quickly and precisely meet customer requirements.* Hexagon's research and development integrates customers, partners and internal and external experts at an early stage, so that new product specifications reflect a clear picture of the required product from the very beginning. The sooner a project reaches completion, the better it fits the defined market expectations – thus Hexagon continuously works to reduce time to market to increase responsiveness.
- *Learning – To avoid rigidity and inflexibility.* Monitoring innovation provides data and facts to continuously improve the innovation process. Employee development is a key component of this process.

An overriding framework of process rules allows Hexagon to work on a multitude of research and development projects

Innovation Process



simultaneously and to gain synergies across the Group. The Hexagon Innovation Process is a "philosophical framework". The essence is not just to have an established process, but to live its philosophy and apply it.

Innovation around the world

A total of about 700 engineers are engaged in research and development at Hexagon. Whereas most of them work on product development, about 10 per cent of research and development spending is allocated to technology development. The results are adapted and transformed into innovative products in the individual research and development departments of the Hexagon companies, brands, and units.

Together they jointly form a worldwide network of knowledge exchange and close cooperation with employees based in Sweden, Denmark, Switzerland, Germany, France, Italy, Israel, the US, Canada, Singapore, India, China, Japan, and Australia. The research and development units create tomorrow's products, while the task of technology development is to conceive those for the day after tomorrow.

Investments in research and development

Hexagon assigns investments in research and development a high priority. Expenses for 2008 in the core business measurement technologies was 1 667 MSEK, corresponding to about 13 per cent 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 major earnings potential. The current level of research and development investments is in line with, or above, those of other leading market players in the industry.

In February 2008 the Hexagon subsidiary Cable Detection launched EZiDIG, the world's first excavator mounted cable avoidance tool to add a crucial level of safety to the excavation process. The product won several innovation awards during the year.

Award winning innovations

Hexagon has launched a large number of award winning innovations over the years.

During 2008 the newly developed and launched cable detection tool EZiDIG won the OPERC Outstanding Contribution to Health and Safety Award followed by the SED Award for Excellence. Another award was won at the Aquatech Exhibition in Amsterdam and the product was also given the NCE Product Innovation of the Year Award at Civils 2008.

Another product recognised during the year was the Leica MojoRTK that won the FinOvation Award in the US. The award reflects Farm Industry News' recognition of farmers' needs for detailed product information. The award is given to innovative marketers who meet those needs.

Patent Portfolio

		Product Groups								
Technologies	Number of patents	CMM	Articulated arms	Laser trackers	Total stations	DISTO™	HDS	Construction	Handtools	Probe systems
Linear distance measurement	336			●	●	●	●	●	●	●
Optics	228			●	●	●	●	●		●
Sensors	317	●	●	●	●	●	●	●	●	●
Calibration and compensation	93	●	●	●	●	●	●	●	●	●
GPS and GNSS	210				●	●	●	●		
Machine control	44				●			●		
Laser	49							●		
Mechanical structures	170	●	●	●	●					●
Components	90	●	●							
Signal and image processing	130	●		●	●	●	●	●		
Control systems	45	●		●	●		●			
Software	10	●	●	●	●	●	●	●		
Total	**1 722**									

To protect investments in research and development, Hexagon submits a large number of patent applications annually. The patent portfolio consists of more than 1 700 active patents worldwide. Hexagon carefully monitors its competitors to ensure that its patents are respected, views patent infringement seriously and has a policy of legally defending its rights.

Utilising the **power** of wind

A major part of the wind energy industry relies on products and services supplied by Hexagon. Market leading companies in Germany, Denmark, Spain, France, Sweden, Poland, China, and the US place their trust in equipment supplied by the Hexagon Group.

Wind turbines are made up of a large number of components that can work together effectively only if all their dimensions perfectly fit together. Hexagon Metrology offers customers in the wind turbine industry exactly the right measuring solution for every component. Hexagon application specialists develop customised measuring solutions for large volume or small component projects and to all required degrees of accuracy.

With an accuracy in the 100 micrometre range, an industrial total station such as the Leica TDA is perfect for the production and assembly of large components such as tower segments. Also proven in many situations is the Leica Absolute Tracker, the most accurate Laser Tracker of all time. Turbine manufacturers use a Laser Tracker and a Leica T-Probe walk-around coordinate measuring machine (CMM) to measure large axis diameters and housing geometry of the fastenings for rotor blades with tolerances in the 10 micrometre range – a solution offering more freedom of movement than any other CMM. Rotor blades are captured effortlessly and precisely with the Leica T-Scan hand-held scanner and compared with the corresponding CAD data.

Core elements like gear wheels or drive shafts require the highest measurement accuracy. This is where Leitz CMMs with accuracies in the micrometre range are used.

Rapid measurement of small components is accomplished simply and cost-effectively with articulated arms and gauges from Romer, the portable measuring device specialist in the Hexagon Group.

Alignment and geometrical properties of the interfacing joints of each tower segment are essential to ensure that the complete structure can withstand the enormous wind load.

The efficiency of the rotor depends on its aero dynamic shape. The Leica T-Scan helps to bring a perfect Computer Aided Design into the real world by inspecting production moulds and the final blade shape against the CAD-model to within fractions of a millimetre.

Value through **sustainability**

Hexagon is committed to creating value by delivering long-term profitability and sustainable competitiveness. This can only be achieved by doing business responsibly.

For Hexagon, responsibility is about doing business that wins the trust of customers, employees, suppliers, shareholders, lenders and local communities. As the owner of world-class brands in highly demanding sectors, Hexagon knows the value of reputation and the cost when reputation is lost. That is why responsible business is essential to strong financial performance and a successful future. Hexagon strives to make the right decisions for the long-term, not just what is easy to achieve today. At Hexagon, professionalism is a core value and key to the Group's continued success.

In setting its corporate responsibility priorities, Hexagon strives to ensure alignment with overall business goals. This means that efforts and strategies are prioritised based on a balanced assessment of financial, technological and sustainability aspects.

Legislation and guidelines

Hexagon pledges to uphold and ensure the integrity of its business at all times. This implies, above all, that all employees, managers and Board Members respect the laws, rules and regulations in countries where Hexagon operates.

Hexagon's Corporate Responsibility Guidelines support and enact the core values expressed in the United Nations Global Compact's ten principles in the areas of human rights, labour rights, environment and anti-corruption. The guidelines apply to all locations and companies in the Group. All Hexagon employees are encouraged and expected to report any incidents of non-compliance to relevant internal officers, with the assurance that there will be no retaliation or other negative consequences for persons acting in good faith.

Employees

Hexagon employs about 8 000 people in the areas of research and development, marketing, sales, production, installation, customer training, service and administration. The company culture is based on competence, innovative thinking, loyalty and trust.

To build lasting profitability and shareholder value, it is important to have strong leadership and motivated employees. Hexagon's operations are guided by a common platform of values and attitudes: sustainable profit, professionalism, entrepreneurship, drive and a down-to-earth approach, and corporate responsibility.

As part of the efforts to strengthen cooperation and solidarity within Hexagon, an employee engagement survey was performed in all companies of the Hexagon Group throughout the world for the first time during 2008. The survey gave valuable insight into the employees' commitment, job satisfaction and productivity. From the results of the survey Hexagon has taken top-down actions and as well as appropriate bottom-up actions to improve employees commitment to the Hexagon Group even further. Hexagon is committed to improving the knowledge about the Group, the profile as employer of first choice as well as internal career opportunities for Hexagon's employees.

Equality, health and safety

Hexagon's ambitions as an employer extend beyond compliance of minimum ethical standards. As an industry leader in innovation and quality, Hexagon needs to attract and retain the most competent employees and motivate them to excel. The work environment must be stimulating, challenging and support life-long learning.

Hexagon is committed to a diverse workplace. The company seeks to actively recruit, continually develop and retain talented people from diverse backgrounds and origins. All employees are to be treated with equal respect and will have an equal opportunity to contribute fully to the company's success based on their individual skills and interests.

Hexagon employees will not discriminate against or harass any colleague or business associate. Hexagon has a zero-tolerance policy against harassment and discrimination based on age, ancestry, colour, marital status, medical condition, mental or physical disability, national origin, race, religion, political affiliation, sex, sexual orientation or gender identity, or any other factor as established by law. Employment-related decisions based on any of these factors are unacceptable.

Employee safety in the workplace is a top priority and Hexagon strives to minimise the risks of accidents or illness among its workers. Hexagon is responsible for maintaining a safe work environment by implementing all of the applicable health and safety rules and practices within the entire Group.

The Hexagon Code of Conduct defines the duty of all Hexagon employees to uphold high standards of ethical conduct. The Code also aims to ensure a safe work environment and that all employees are treated equally and fairly.

In the aftermath of the devastating earthquake in Sichuan, China, on 12 May 2008, local authorities coordinating disaster relief efforts required a fast, accurate and comprehensive overview of the damage and affected areas. The discovery and rescue of seven hundred villagers was made possible by a picture with a sign "SOS700" on the rooftop in the village of Cao Po captured from a 7 800 metre height by Leica ADS40 digital airborne sensors.

Competence and remuneration

Hexagon encourages communication and collaboration across divisions and geographic boundaries to ensure the best possible use of available knowledge and expertise. Hexagon teams work globally, sharing their knowledge and professional skills, and within the Hexagon Group there is a dynamic exchange of information, on the management level as well as among individual employees working together on comprehensive projects. Hexagon not only profits from the professional knowledge of the employees, but also from their cultural background and individual approach, ensuring that customers get the best out of Hexagon's worldwide network.

At Hexagon, career-oriented competence development is geared toward the needs of the Group and the individual. Hexagon's managers are provided training to ensure that they live up to the Group's high leadership standards. The level of remuneration should be market-based and competitive. Where appropriate, there is also a performance-based component.

Recruitment

For a global company like Hexagon, local expertise is a necessary and decisive factor for success in specific geographic markets. For this reason, most recruitment is carried out locally.

To bring competence and up-to-date knowledge to the company, Hexagon cooperates with a wide range of universities and colleges throughout the world. As an example, Hexagon provides universities with measurement instruments for students to use in their curriculum and research activities. Hexagon also offers students research and practical experience possibilities for their diploma thesis as well as participating in education by giving lectures at universities.

Customers and competition

Hexagon strives to be a preferred supplier to all customers, current and potential, by offering superior products and through fair and honest competition.

In advertising and marketing practices, Hexagon adheres to the ethical standards of the Consolidated ICC Code. In their dealings with customers and distribution partners, all Hexagon employees are expected to make only statements and commitments that can be honoured and delivered on.

Hexagon is compliant with all of the applicable antitrust and competition laws and standards of the countries where it conducts business. All employees must avoid situations that can lead to unlawful and anticompetitive conduct.

Suppliers

When choosing suppliers, the competiveness of the supplier's offer is the most decisive factor. However, particular preference is given to suppliers that are leaders in environmental performance and who live up to the goals and values articulated in Hexagon's Corporate Responsibility Guidelines.

Hexagon maintains close and ongoing contacts with its core suppliers to ensure quality and sound business practices. Within its sphere of influence, Hexagon strives to ensure that major suppliers follow the principles set out in the Hexagon Code of Conduct. Audits are performed on a regular basis by Hexagon representatives. In cases where non-compliance is discovered, Hexagon will engage with suppliers and require that appropriate measures are taken to ensure this will not happen again.

Owners and investors

Hexagon's goal is to be transparent, open and proactive in its communications with all of its stakeholders, while avoiding disclosing any sensitive information that could damage the Group's competitive position.

As a publicly-listed company, Hexagon is required to follow accounting principles and standards and to have appropriate internal processes to ensure that accounting and financial reporting complies with legal, regulatory and listing requirements.

Hexagon is committed to ensuring transparency in its financial reporting. It has a policy of full, fair and accurate disclosure to ensure that the market receives timely, comprehensive and understandable information on an impartial basis. Comments about financial performance and prospects to external parties may only be made by an official Hexagon spokesperson.

All published financial information is available on Hexagon's website, including press releases, financial reports, annual reports and presentations.

Society

High-quality measuring systems are contributing to improved quality, increased productivity and efficiency, decreased scrapping and, as a result, reduced consumption of materials and raw materials. Hexagon has made it its mission to meet these needs in a dedicated, professional and responsible manner.

Hexagon regularly engages in social projects where the Group's technology is used for the benefit of poor and vulnerable people or to support other social goals. These projects are decided and managed at the local level by each Hexagon company.

One example is the Hexagon company Erdas making TITAN data available at no charge to qualified US federal, state, and local government entities throughout the 2008 Atlantic hurricane season as part of Erdas' commitment to helping organisations better prepare and respond to natural disasters and emergency situations. TITAN is a tool for publishing, indexing, searching, and retrieving geospatial information. To further enhance the capabilities available to emergency management teams, Erdas has partnered with the US company MCH GeoPoints to offer data on medical facilities and other key institutions such as schools and nursing homes at no charge.

As partners, Hexagon will engage with well-renowned organisations and institutions that have the aim of supporting the common good.

Hexagon's responsibility as an innovator

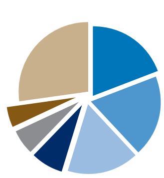
Hexagon considers sustainability aspects in every product development and design process. As an integrated part of the research and development work, continuous discussions are held and tests performed concerning product improvements and whether they are financially, technologically and ecologically justifiable. For Hexagon, sustainable product development includes:

- Controlling and striving to reduce the size and weight of its products to minimise the use of metals and plastics.
- Using recyclable materials, such as aluminium and brass.
- Facilitating upgrades of products and services to extend the lifecycle of the products (modular design).
- Increasing compatibility with other measuring systems or components, thereby broadening the functionality of the measuring system.
- Designing ergonomic products that are easy to use.
- Reducing the consumption of hazardous materials in production and design of products.

Environment

Hexagon strives to be a role model in the management of environmental issues. This means that Hexagon in its production:

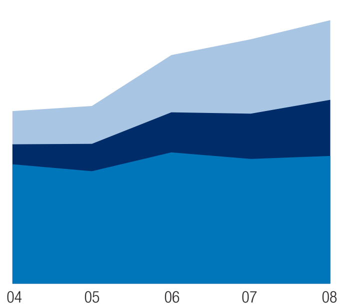
- Maintains policies designed to ensure that environmental standards are in compliance with various laws, regulations and directives.
- Requires certification of all major production facilities in accordance with ISO 14001.
- Limits the use of natural resources by minimising consumption of materials and maximising recycling.
- Utilises safe and environmentally friendly installations in Hexagon's manufacturing processes.
- Promotes energy efficiency in its facilities and in its services.



	Number
China	1 557
Switzerland	1 550
USA	1 339
Sweden	604
Germany	487
France	374
Other	2 201

Geographic distribution of average number of employees

Based on the average number of employees in 2008, excluding Hexpol, China, Switzerland and the US had the highest number of employees. Following the listing of Hexpol, the number of employees in Sweden decreased significantly.



Number	EMEA	Americas	Asia
2008	4 393	1 930	2 739
2007	4 290	1 557	2 559
2006	4 515	1 378	1 969
2005	3 868	941	1 302
2004	4 106	687	1 142

Geographic distribution of average number of employees

EMEA is the geographic region in which Hexagon has the highest number of employees. The average number of employees in the Americas and Asia almost tripled during the period 2004 to 2008. Definitions of regions, see page 88.

Hexagon considers sustainability aspects in every product development and design process. The above picture illustrates examples of sustainable product design.

Hexagon activities are to be guided by what is ecologically motivated, technically possible and financially defensible. An example of Hexagon's management of environmental issues is the participation of Hexagon's US operation in a programme to reduce demand on the electric grid during peak usage times, substantially reducing the facility's energy cost. Another example of Hexagon's ambition in the management of environmental issues is the successful ISO 14001 certification in 2008 of the Environmental Management System of Hexagon Wuhan, China.

During the year the Hexagon company Leica Geosystems Technologies received the Singapore Quality Class (SQC) award which is a recognition to have adopted a total and systematic approach to achieving business excellence. SQC is a logical step following ISO 9001/14001 and seeks to enhance the organisation's management system and processes to achieve profitable growth, competitiveness and sustainability.

Reducing material consumption, improving efficiency

The most significant environmental impact of Hexagon's products is through their application in production processes. Hexagon's measurement systems and services include key features that help customers achieve their sustainability goals:

- Measurement systems integrated in the production process help decrease scrapping, whereby consumption of components and raw material is reduced.
- Consumption of hazardous materials in the customer's production is reduced.
- Productivity and energy efficiency is improved.
- The ergonomic features of the measurement system lead to improvements in the work environment.
- By upgrading and servicing the instruments, the lifecycle of the measurement system is extended.

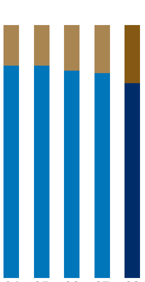
Hexagon's machine control system is an example of a technology that helps the customers achieve their sustainability goals. Hexagon's machine control system can increase the customer's productivity by more than 30 per cent, give substantial material savings and decrease fuel consumption by 50 per cent.

A continuous process

The Hexagon Code of Business Conduct and Ethics is the basic foundation for how the company operates and a fundamental framework that applies to all Hexagon employees. However, updating and developing the description of the manner in which Hexagon works for its stakeholders is a continuous process.

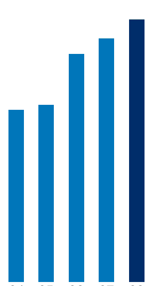
During 2008 Hexagon conducted a corporate responsibility risk/opportunity analysis, performed a risk assessment of Hexagon's Chinese production facilities and reviewed and updated all Hexagon's guidelines on corporate responsibility.

Hexagon remains committed to acting responsibly and meeting the high expectations of its employees, customers and broader communities and will continue to find ways to make a positive difference.



%	Men	Women
2008	77	23
2007	81	19
2006	82	18
2005	84	16
2004	84	16

Share of men and women
At year-end 2008, the share of female employees in Hexagon was 23 per cent, an increase of 4 percentage points.



	Number
2008	9 062
2007	8 406
2006	7 862
2005	6 111
2004	5 935

Average number of employees
In 2008, the average number of employees was 9 062. At year-end, the number of employees was 8 436.

	2008	2007	Change
Number of employees	**8 436**	10 062	–16%
Average number of employees	**9 062**	8 406	8%
Number of countries	**36**	36	–
Average number of employees outside Sweden, %	**92**	88	4
Remuneration as a share of sales, %	**25**	22	3

A **subcontinent** on the **fast track**

Since economic reforms began in 1991, India has become one of the fastest growing economies in the world. Substantial investments in infrastructure, construction, and several industry sectors make it an important market. With Elcome Technologies and Hexagon Metrology India, Hexagon operates from two subsidiaries, with 19 service centres and more than 130 employees in this strategically important and emerging region.

"The Indian economy shall turn from a developing country to a developed country by 2020", says Ajay Seth, Managing Director of Elcome Technologies Pvt.Ltd. Acquired by Hexagon in January 2008, Elcome is a leading distributor and systems integrator of products and solutions for customers in the fields of positioning, navigation, alignment, measurement, and surveying. The company is a market leader in India with offices and service centres all over the country. "8 074 kilometres of highways are to be built, 276 new ports, new airports in Delhi, Mumbai, Hyderabad and Bangalore, eight Ultra Mega Power Projects (UMPP) with capacities of 4 000 megawatts or more, three of them in their initial stage of implementation, India's attempt at its own satellite navigation program – all this offers vast opportunities for Hexagon, now and in the future", says Ajay Seth.

India's aerospace and automotive industries, but also the defense related sectors, expect continued growth in 2009. In August 2008, Hexagon Metrology opened a new production facility in Noida to produce coordinate measuring machines locally, but also to serve as a supplier of Hexagon Metrology products throughout the country. "Our strength in India is the high-end technology we provide our customers at an economical price and, of course, our four local Hexagon Metrology service centres across India", says Anup Verma, Managing Director, Hexagon Metrology India. "The local manufacturing facility gives customers solid confidence in Hexagon's commitment to the market and to long-term service and support. Along with our highly motivated team of engineers, support, and service specialists, this makes Hexagon one of the leading companies in this market", says Anup Verma.

Hexagon is committed to further increasing presence, support and supply of local products to customers on the Indian subcontinent.

The Nivedita Bridge in Dakshineswar, India, was built and opened for traffic in July 2007. The bridge is the single-largest foreign direct investment in the transportation sector in eastern India. Leica Geosystems' total stations ensured precise measurements during surveying and construction. Nivedita Bridge is part of a 6.1 kilometre long transfer project involving a six-lane modern multi-span bridge over the river Hooghly.

Hexagon's new assembly and manufacturing facility in Noida, India, was inaugurated in August 2008 with a traditional Indian ceremony by Anup Verma, Managing Director; Jaspal Singh, Production Manager; Rajesh Singh, Application Support; Ekant Gabba, Sales; and Piyush Garg, Accounts (anticlockwise from right to left). From the new facility Hexagon delivers locally assembled coordinate measuring machines to Indian customers. The facility will gradually cover the full range of metrology products including articulated arms.

Share performance

Hexagon's share price at year-end was 37.90 SEK and market capitalisation totalled about 10 billion SEK. Earnings per share, excluding Hexpol, increased by 10 per cent during the year.

The Hexagon share is traded on the NASDAQ OMX Stockholm. The Hexagon share also has a secondary listing on the SWX Swiss Exchange.

Share price and trading

At year-end 2008 the price of the Hexagon share was 37.90 SEK, corresponding to a decline of 72 per cent compared to year-end 2007. During the corresponding period, the NASDAQ OMX Stockholm's OMXS index declined by 42 per cent.

The highest closing price paid during the year was 134.50 SEK on 2 January 2008. The low for the year, 37.20 SEK, was recorded on 21 November 2008. Market capitalisation at year-end was 10 014 MSEK (35 955).

A total of 262 946 817 shares (90 669 787) were traded in 2008, including after-hour trading, for a total value of 22 307 MSEK (16 344). An average of 1 043 440 shares (364 136) were traded per trading day. The number of shares traded was 99 per cent (34) of the total number of shares.

Shareholder structure

At year-end 2008, Hexagon had 12 636 registered shareholders (10 069). Foreign ownership was 22 per cent (24) of the total number of shares. Shareholders in the US accounted for the largest foreign holding, representing 9 per cent (10) of total shares.

Share capital

Hexagon's share capital was 531 039 540 SEK, represented by 264 208 328 outstanding shares. Total outstanding shares at year-end was 11 812 500 class A shares, each carrying ten votes, and 252 395 828 class B shares, each carrying one vote. All shares confer equal rights to participate in Hexagon's assets and earnings.

Repurchase of own shares

Hexagon's Annual General Meeting on 5 May 2008 authorised the Board of Directors to purchase the company's own shares for the purpose of among other things giving the Board the possibility to adapt the company's capital structure and of enabling the financing of acquisitions. The authorisation totals repurchase of maximum ten per cent of outstanding shares in the company.

The total number of repurchased shares, held by Hexagon, at year-end 2008 was 1 311 442. The shares were repurchased at an average share price of 39.30 SEK.

Separate listing of the polymers business

Hexagon's Annual General Meeting on 5 May 2008 resolved to transfer all shares of the polymers business, renamed Hexpol AB, to the shareholders of Hexagon. Hexpol was de-consolidated from Hexagon as of 1 June 2008 and listed on NASDAQ OMX

Dividend policy

Hexagon's earnings and equity ratio determine the size of the dividend. Hexagon's dividend policy stipulates that 25–35 per cent of earnings per share after tax should be paid as a dividend to shareholders, assuming the company satisfies its equity ratio objective.

Financial information

Via Hexagon's subscription service, you can subscribe to press releases and other financial information. Information is also available on the company's website www.hexagon.se and can be ordered via e-mail ir@hexagon.se or telephone +46 8 601 26 27.

Annual report distribution

The Hexagon Annual Report 2008 is sent to all shareholders who have not informed the company that they do not wish to receive the Annual Report. Hexagon Annual Reports from 1997 to 2008 are available on the company's website www.hexagon.se.

Stockholm with 9 June 2008 as the first day of trading. For information on Hexpol's performance, please refer to the company's website www.hexpol.com.

Option programmes

Hexagon currently has three option programmes with the overall objective of harmonising the incentives applying to key employees with shareholder interests, by offering these employees the opportunity to participate in the Group's value growth.

Hexagon's subsidiary Leica Geosystems has two option programmes in place. These options have been transferred free on charge on allotment. Following Hexagon's acquisition of Leica Geosystems, the terms and conditions were adapted so that the options apply to Hexagon shares plus a cash consideration. The remaining 14 325 options confer rights to subscribe for 214 875 class B Hexagon shares, insofar as Hexagon elected not to redeem the options for cash.

Hexagon AB has one option programme in place through a directed issue of 2 500 000 subscription warrants for a price of 20 SEK per warrant. Each subscription warrant shall entitle the holder to subscribe for one class B Hexagon share during the period from 2 July 2011 up to and including 2 January 2012. When transferring the subscription warrants, the price to be paid upon subscription of new shares (exercise price) shall be based on a market valuation considering the established price for the warrants and the exercise period using the Black-Scholes model.

On 25 November 2008, Hexagon hosted a well-attended Capital Markets Day in Heerbrugg, Switzerland. Hexagon presented and demonstrated many of the newly developed products and services that will reach the market during 2009.

Upon full exercise of Hexagon's three option programmes, the dilutive effect would be 1.1 per cent of the share capital and 0.8 per cent of the number of votes.

Dividend

Hexagon's Board of Directors proposes a dividend of 0.50 SEK per share, to be compared to 2.08 SEK in 2007, excluding the Hexpol share of the dividend. The proposed reduced dividend will enhance Hexagon's ability to perform in a difficult market and to take advantage of market opportunities as they arise.

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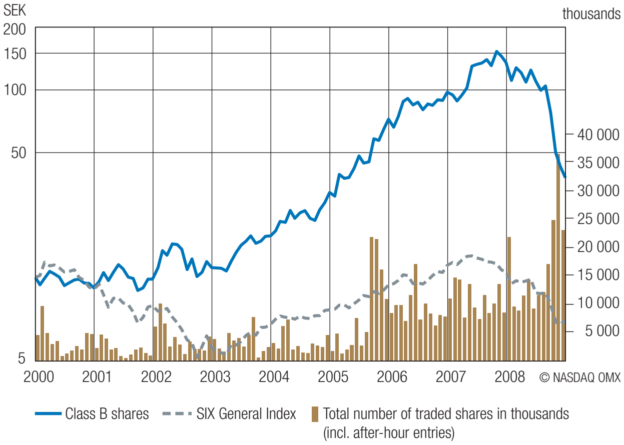
Share performance 2000–2008



Changes in shares outstanding and share capital

Year	Transaction	Nominal value, SEK	Change, series A	Change, series B	Total, series A	Total, series B	Share capital, SEK
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, options exercised	10	–	10 170	1 050 000	17 451 647	185 016 470
2005	New issue, options 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, options 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, options 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, options exercised	4	–	309 119	3 937 500	84 454 325	353 567 300
2007	New issue, options exercised	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, options exercised	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
31 December 2008		2			11 812 500	252 395 828	531 039 540

[1] Issues in kind in connection with the acquisition of Leica Geosystems.

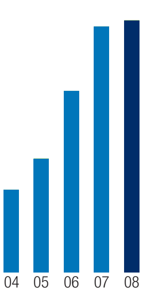
Distribution of shares

Distribution of shares	Number of shareholders	Number of shares, series A	Number of shares, series B
1 – 500	6 141	–	1 251 483
501 – 1 000	2 106	–	1 749 752
1 001 – 5 000	2 996	–	7 149 829
5 001 – 10 000	588	–	4 353 273
10 001 – 15 000	238	–	2 973 744
15 001 – 20 000	97	–	1 725 826
20 001 –	470	11 812 500	233 191 921
Total	**12 636**	**11 812 500**	**252 395 828**

Source: Direct and nominee-registered holdings with Euroclear Sweden AB at 31 December 2008.

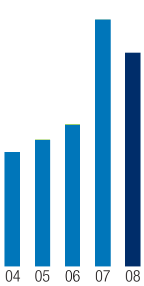
Symbols and codes

ISIN code	SE0000103699
NASDAQ OMX Stockholm	HEXA B
SWX Swiss Exchange	HEXN
Reuters Ticker	HEXAb.ST
Bloomberg Ticker	HEXAB SS



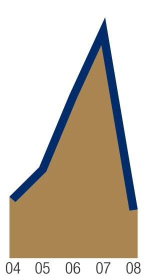
	SEK
2008	6.96
2007	6.79
2006	5.01
2005	3.14
2004	2.28

Earnings per share
In 2008 earnings per share increased by 3 per cent to 6.96 SEK. Excluding Hexpol, earnings per share grew by 10 per cent.



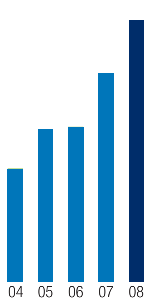
	SEK
2008	6.61
2007	7.64
2006	4.39
2005	3.92
2004	3.54

Cash flow per share
Cash flow from operating activities was 1 755 MSEK, corresponding 6.61 SEK per share.



	SEK
2008	0.50
2007	2.35
2006	1.67
2005	0.92
2004	0.61

Cash dividend per share
The Hexagon Board of Directors proposes a cash dividend of 0.50 SEK, corresponding 7 per cent of earnings per share after tax.



	Number
2008	12 636
2007	10 069
2006	7 443
2005	7 375
2004	5 471

Number of shareholders
The number of Hexagon shareholders has steadily increased. At year-end 2008, Hexagon had 12 636 shareholders.

Hexagon AB's largest shareholders

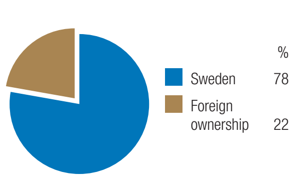
	Series A	Series B	Capital, %	Votes, %
Melker Schörling AB	11 812 500	66 374 551	29.6	49.8
Swedbank Robur Funds		16 455 152	6.2	4.4
AFA Insurance		15 249 792	5.8	4.1
Columbia Wanger Asset Management		14 048 000	5.3	3.8
Ramsbury Invest AB		9 312 000	3.5	2.5
AMF Pension Funds		5 968 400	2.3	1.6
AMF Pensionsförsäkring		5 900 000	2.2	1.6
Mellon Omnibus		5 262 895	2.0	1.4
Didner & Gerge Funds		5 200 000	2.0	1.4
JP Morgan		4 683 575	1.8	1.3
SEB Investment Management		4 604 205	1.7	1.2
Second AP Fund		4 324 579	1.6	1.2
Handelsbanken Funds		3 606 702	1.4	1.0
Simon Bonnier		3 242 430	1.2	0.9
Ola Rollén		2 761 152	1.0	0.7
First AP Fund		2 437 900	0.9	0.7
Folksam with subsidiaries		2 400 847	0.9	0.6
Fourth AP Fund		2 137 574	0.8	0.6
SEB Trygg Liv		1 759 270	0.7	0.5
Confederation of Swedish Enterprise		1 600 000	0.6	0.4
Total, largest 20 shareholders	**11 812 500**	**177 329 024**	**71.6**	**79.7**
Total, others	–	75 066 804	28.4	20.3
Total number of shares	**11 812 500**	**252 395 828**	**100.0**	**100.0**

Source: Direct and nominee-registered holdings with Euroclear Sweden AB at 31 December 2008.

Share class	Number of outstanding shares	Capital, %	Votes, %
Series A	11 812 500	4.5	31.9
Series B	252 395 828	95.5	68.1
Total	**264 208 328**	**100.0**	**100.0**

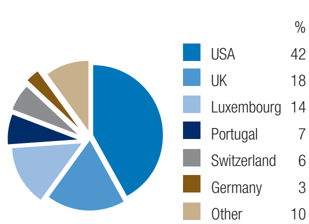
Press releases 2008

5 February	Year-End Report 2007
7 February	Hexagon takes over two distribution companies in North America
26 February	Hexagon acquires distributor Santiago & Cintra in Spain
9 April	The Hexagon Annual Report 2007 is now available
18 April	Information brochure on proposed distribution of Hexagon Polymers
5 May	Interim Report January–March 2008
5 May	Annual General Meeting of Hexagon AB
8 May	Hexpol AB Interim Report January–March 2008
4 June	Hexpol AB to be listed on NASDAQ OMX Stockholm
9 June	Hexagon acquires distributor Advanced Metrology in the US
23 June	Hexagon acquires Swedish software company Viewserve AB
24 June	Acquisition of German software company Messtechnik Wetzlar
27 June	Hexagon acquires machine tool probe manufacturer m&h in Germany
24 July	Acquisition of precision measuring instruments supplier Serein in China
1 August	Invitation to presentation of Hexagon's Q2 report on 8 August
7 August	Hexagon opens new assembly and manufacturing facility in India
8 August	Interim Report January–June 2008
15 September	Hexagon's outlook for the year remains
7 October	Board Member resigns from the Hexagon Board of Directors
14 October	Hexagon acquires agriculture machine guidance experts Rinex Technology
21 October	Invitation to presentation of Hexagon's Q3 report on 28 October
28 October	Interim Report January–September 2008
14 November	Utilisation of authorisation to repurchase own shares
25 November	Hexagon's financial plan updated at Capital Markets Day



Swedish and foreign ownership

The share distribution is based on where the shareholding is registered. At the end of 2008, foreign ownership was 22 per cent.



Proportion of foreign ownership

Of the foreign owners, 42 per cent were registered in the US and 18 per cent in the UK at the end of 2008.

Key data per share	2008	2007	Change
Shareholders' equity, SEK	**45.03**	37.69	19%
Earnings, SEK [1]	**6.63**	6.05	10%
Cash flow, SEK	**9.75**	9.32	5%
Cash dividend, SEK	**0.50**[2]	2.35	–79%
Dividend yield, %	**1.3**	1.7	–0.4
Pay-out ratio, %	**7**	35	–28
Share price, SEK	**38**	135	–72%
P/E ratio, SEK [3]	**5**	19	–74%

[1] Excluding Hexpol AB, which was de-consolidated from Hexagon AB as of 1 June 2008.
[2] According to the Board of Directors' proposal.
[3] Based on share price at 31 December and calendar year earnings.

Risk Management

Risks are a natural feature of international operations. The risks may be operational or financial. Hexagon deploys a structured approach to limiting exposure to short as well as long-term risks.

Hexagon's risk management activities are designed to identify, control and reduce risks associated with its business. Operational risks are primarily managed within each subsidiary of the Hexagon Group, while financial risks are managed at Group level.

Operational risk management

Since the majority of operational risks are attributable to Hexagon's customer and supplier relations, ongoing risk analyses of customers and suppliers are conducted to assess business risks.

Industry and market conditions

During 2008 a recession hit the global economy, starting off as a financial crisis that later spread to the real economy. A weaker economy increases the risk in business processes which may affect the customers' decision to invest in measurement technologies. During the fourth quarter of 2008 the recession also hit Hexagon.

The negative effects of the recession on Hexagon's performance are somewhat balanced by sales of growth technologies and sales to growth markets with differing economic cycles. Emerging markets and new technologies account for about 47 per cent of sales and Hexagon is focusing on increasing its local presence in regions where growth is expected to remain strong.

Political risk

Hexagon's operations may be limited by changes to regulatory structures, customs duties and other trading obstacles, pricing and currency controls and other central government regulations and restrictions in the countries where Hexagon is active.

To manage country specific risks, Hexagon observes local legislation and monitors political developments in the countries where the Group is active.

Customer and supplier dependence

Hexagon's business activities are conducted in a large number of geographical markets, with numerous customer categories. Surveying is the largest customer category for Hexagon's core business, measurement technologies, and accounted for 33 per cent of net sales in 2008. Surveying is followed by customer categories heavy construction (12 per cent), automotive (11 per cent) and manufacturing (8 per cent). Read more about Hexagon's customer categories on page 10.

The largest customer represents about 2 per cent and the major supplier accounts for some 1 per cent of the Group's total net sales. Customer credits account for the main counterparty risk.

Hexagon believes there is no significant concentration of counterparty risk. Hexagon has favourable risk diversification and dependence on a single customer, customer category or supplier is not decisive for the Group's performance.

Price risk

Part of Hexagon's operations are affected by pressure on prices and rapid technological change.

To reduce the price risk, Hexagon's ability to compete in a market environment by introducing new products with greater functionality, while simultaneously reducing costs for new and existing products, is of major significance. In the Hexagon innovation process there is a constant focus on cost, both of the development and production of new technologies as well as on the finished product's price.

Raw materials risk

The raw materials risk relates to the supply of and price formation for necessary production inputs.

Hexagon sources components such as electronics, sensors, optics and computers. 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.

Legal risk

To minimise legal risks, Hexagon closely monitors regulations and ordinances applicable in each market and works to rapidly adapt the company to identified future changes in the area.

While it occasionally occurs that Hexagon becomes a party to legal disputes relating to its business operations, no Group company is party to any legal process or dispute whose outcome is anticipated to have a material impact on consolidated earnings and financial position.

To secure a return on Hexagon's investments in research and development, the Group protects its technological innovations against infringement. Hexagon protects its intellectual property through legal proceedings when warranted.

Human capital risk

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.

Insurable risk

To ensure well-balanced insurance coverage and financial economies of scale, Hexagon's insurance includes Group-wide property and liability insurance, travel insurance and transport insurance. As Hexagon develops and damage-prevention programmes are completed, the insurance programme is periodically amended so that own risk and insured risk are optimally balanced.

Corporate responsibility risk

Changed environmental requirements could positively affect demand for the Group's products. Hexagon's measurement instruments help customers maximise productivity and efficiency, minimise tolerance levels and scrapping and quickly adjust processes based on changes in requirements or demand.

During 2008 Hexagon conducted a corporate responsibility risk/opportunity analysis and performed a risk assessment of Hexagon's production facilities in China.

Financial risk management

Hexagon is a net borrower and has operations in many countries around the world. Hexagon is therefore exposed to various financial risks. The Group Treasury Policy, approved by the Board, stipulates the rules and limits for the management of the financial risks in the Group.

Hexagon's treasury operations are centralised to the Group's internal bank, which is in charge of coordinating 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 costs and better control and management of the Group's financial risks. Within Hexagon there is no mandate to conduct independent trading in currencies and interest rate instruments. All relevant exposures are monitored continuously and are reported to Group Management on a regular basis.

Sensitivity analysis

The Group's earnings are affected by changes in certain key factors, as reviewed below. The calculations proceed from the conditions prevailing in 2008 and the effects are expressed on an annualised basis. Earnings in foreign subsidiaries are converted to SEK based on average exchange rates for the period the earnings arise.

During the year there have been very significant changes to the exchange rates of the foreign currencies that have the biggest impact on Hexagon's earnings and net assets, namely USD, EUR and CHF. The SEK weakened substantially against all these currencies, especially during the fourth quarter. Since Hexagon has a majority of its operating earnings denominated in USD and EUR this had a positive impact on earnings in the fourth quarter. But the strengthening of CHF had an adverse effect, since a large part of the cost and the majority of the external debt is denominated in CHF.

Furthermore, central banks in all major countries cut interest rates dramatically in the second part of 2008 due to the rapid deterioration of the financial system and world economy. Despite these interest rate cuts, the cost of new corporate borrowing has increased due to the substantial widening of credit spreads.

During 2008, total net operating earnings from operations in foreign currencies amounted to an equivalent of 2 267 MSEK. An isolated change in the SEK exchange rate by 1 per cent against all other foreign currencies would have an effect on operating earnings of approximately 23 MSEK.

A 1 per cent change in sales prices would affect revenues and operating earnings by approximately 145 MSEK. A 1 per cent change in payroll expenses, including social security contributions, would affect operating earnings by approximately 43 MSEK.

Based on the average interest fixing period of one month in the Group's total loan portfolio as of year-end 2008, a simultaneous 1 percentage point change in interest rates in all of Hexagon's funding currencies would have an earnings impact before tax of about 110 MSEK in the coming 12 months.

Sensitivity analysis 2008

	Change	Pre-tax impact
Sales price	1 per cent	145 MSEK
Payroll expenses	1 per cent	43 MSEK
Market interest rates	1 percentage point	110 MSEK
Foreign exchange rates	1 per cent	23 MSEK

Financial Risk Management

Risk | **Policy** | **Exposure 2008**

Foreign exchange

Foreign exchange risk is the risk that currency exchange rate fluctuations will have an adverse effect on cash flow, income statement or balance sheet. Furthermore, the comparability of Hexagon's results between periods will be affected by changes in currency exchange rates. Hexagon's operations are mainly located outside Sweden and sales, costs and net assets are therefore primarily denominated in currencies other than SEK.

Currency effects 2008

	Movement[1]	Income – cost	Profit impact
CHF	↗	negative	negative
USD	↘	positive	negative
EUR	↗	positive	positive
EBIT, MSEK			**–55**

[1] As compared to SEK.

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

Transaction exposures are hedged in accordance with the Group Treasury Policy. Contracted transactions, i.e. accounts receivable and payable, and orders booked, are fully hedged. In addition, 40 to 100 per cent of a rolling six month exposure forecast is hedged. Hedging of transaction exposures is done by using foreign exchange forward contracts.

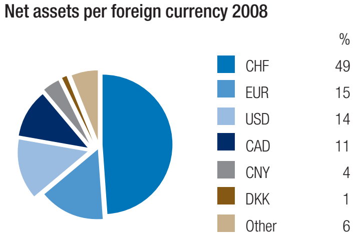
As of 31 December 2008, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of –2 MSEK. Cash flow hedge accounting is applied and thereby the market value is partly deferred in the hedge reserve in equity to offset the gains/losses on hedged future sales and purchases in foreign currencies.

Balance sheet
Translation exposure arises when the net assets in foreign entities are translated into SEK upon consolidation.

Translation exposures from net assets in foreign operations are partly hedged with external debt in corresponding currencies, mainly CHF, USD and EUR, in accordance with the Group Treasury Policy.

Translation differences from net assets in foreign operations reported in equity during 2008 were positive, 3 688 MSEK (224), which were partly offset by losses from revaluing loans in non-SEK currencies, designated as hedges of net assets in foreign entities, by –2 653 MSEK (–177).

Net assets per foreign currency 2008

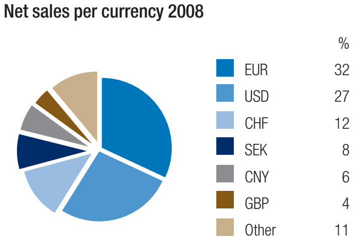


Income Statement
Since the consolidated operating income is mainly generated in non-Swedish subsidiaries, changes in foreign exchange rates have an impact on the Group's earnings when the income statements of foreign subsidiaries are translated to SEK.

Translation exposures related to forecasted earnings in foreign operations are not hedged.

Consolidated operating earnings was negatively affected by 55 MSEK using last year's exchange rates on 2008 operating income.

Net sales per currency 2008



Risk	Policy	Exposure 2008

Interest rate

The interest rate risk is the risk that changes in interest rates will adversely affect the Group's net interest expenses and/or the cash flow. Interest rate exposures arise primarily from the external interest bearing debt.

In accordance with the Group Treasury Policy all external debt has short interest rate duration, on average shorter than six months.

The average interest fixing period as of the end 2008 was one month. During 2008 no interest rate derivatives were used to manage the interest rate risk.

Financial income and expenses

MSEK	2008
Interest income	36
Interest expense	–355
Net	**–319**

Financial credit

Credit risk is the risk that counterparts may be unable to fulfil their payment obligations. Financial credit risks arise when investing cash and cash equivalents and when trading financial instruments.

To reduce the Group's financial credit risk surplus cash is only invested with a limited number of approved banks and derivative transactions are only conducted with counterparts where ISDA netting agreements have been established.

As the Group 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 being able to do so at materially disadvantageous terms due to lack of cash resources.

The policy is that total liquidity reserve shall at all times be at least 10 per cent of the Group's forecasted annual net sales to minimise the liquidity risk.

On 31 December 2008, cash and unutilised credit limits totalled 3 001 MSEK (2 753).

Access to funds and cash flow

MSEK	2008
Access to funds, 1 January 2008	**2 753**
Change in credit limits	1 343
Cash flow excluding repayments/borrowing	–958
Other change in cash and cash equivalents and borrowings	–137
Access to funds, 31 December 2008	**3 001**

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 of 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 committed credit facilities, is allowed to mature within the next 12 months.

A syndicated loan of 1 billion EUR, with maturity in June 2011, forms the foundation of the Group's financing. The key covenant in this syndicated loan is that the ratio between net debt and EBITDA shall be less than 3.5, which was the case at year-end 2008.

Currency composition pertaining to interest-bearing liabilities at 31 December 2008

CHF	62%
USD	22%
EUR	12%
SEK	4%
Other	0%
Total	**100%**

A more detailed description of Hexagon's financial risks is presented in Note 18 on page 79.

Corporate Governance Report

Hexagon is a listed company on NASDAQ OMX Stockholm. The company applies a transparent approach to the dissemination of information to shareholders and capital markets and applies the Swedish Code of Corporate Governance.

During 2008, deviations from the Swedish Code of Corporate Governance (the Code) were as follows:

Rule	Rule from the Code	Comments
10.1	The Board of Directors shall establish an audit committee that must comprise at least three Members of the Board.	In order to ensure active and efficient work by the Board of Directors, Hexagon has a limited number of Board Members. Accordingly, the Audit Committee only comprises two Board Members.

The Corporate Governance Report 2008 has not been audited by Hexagon's auditors and is not part of the formal annual report.

Articles of Association

Hexagon's current Articles of Association were adopted on 2 May 2007, and state that the objective of the company's operations is to own and manage shares in industrial, trade and service companies and to own and manage real property, securities, and to manage administrative operations for the subsidiaries as well as to carry on other operations compatible therewith.

The Articles of Association formalise issues such as shareholders' rights, the number of Board Members and auditors, that the Annual General Meeting (AGM) is to be held within six months of the end of the financial year, the structure of the notice convening the AGM and that the company's Board has its registered office in Stockholm, Sweden. The current Articles of Association are available on the company's website.

Continued on page 40

Comments from the Chairman of the Board

The role of the Board of Directors of Hexagon is to work for Hexagon's long-term development and in the best interests of the company's shareholders. This means working out an overall strategy for the Group, but also to take into consideration, at the earliest possible time, other circumstances which may affect the company's performance and development. Together with Hexagon's management, we establish a direction for the company and make overall decisions on how Hexagon's assets are to be used for investments, acquisitions and dividends. All of our decisions are taken with care and seriousness of purpose.

On 5 May 2008 Hexagon's Annual General Meeting resolved in accordance with our proposal to distribute all shares of the polymers business to Hexagon's shareholders, whereby ten shares in Hexagon entitled to one share in the polymers business, renamed Hexpol AB. Hexpol was de-consolidated from Hexagon as of 1 June 2008 and listed on NASDAQ OMX Stockholm with 9 June 2008 as the first day of trading.

The second half of 2008 was exceptional and was not like anything I have ever experienced. We experienced financial

turmoil working its way through the economies of the world, extreme movements in the stock markets and a downturn in the global economy. Hexagon has taken actions to meet the tougher market situation in order to maintain its position as a leading global measurement technologies company and the innovator of the industry.

On behalf of Hexagon's Board of Directors, I would like to thank you for the continued trust and support during 2008, and for your commitment to Hexagon. I would like to thank Hexagon's employees for the outstanding effort they have shown even in these turbulent times. We face 2009 with trust in our strengths and our potential.

Stockholm, Sweden, January 2009

MELKER SCHÖRLING
Chairman of the Board

Hexagon Corporate Governance

Shareholders via Annual General Meeting

The Annual General Meeting (AGM) is Hexagon's supreme executive body in which all shareholders may participate. At the AGM the Board presents the annual report, consolidated accounts and audit report. Hexagon issues the notice convening the AGM no later than four weeks prior to the meeting. The AGM is held in May in Stockholm, Sweden.

The development of the company is addressed at the AGM, which resolves on a number of issues such as discharging the Board and CEO from personal liability for the financial year, dividends, remuneration to the Board and auditors, appointment of new Board Members for the period up to the following AGM and any amendments to the Articles of Association.

Auditors

The AGM appoints auditors every fourth year. On behalf of the shareholders, the auditors' task is to examine the company's Annual Report and accounting records and the administration of the Board of Directors and the CEO.

The auditors report to the Audit Committee and participate in the AGM to present the audit report, which describes the audit work and observations made.

Nomination Committee

On behalf of the AGM, the Nomination Committee presents proposals on the election of Chairman and Board Members, chairman of the AGM, director fees etc. The Nomination Committee also presents proposals regarding the election of auditors and auditors' fees. The Nomination Committee includes representatives of major shareholders. If a replacement is required, the Committee elects a representative from the major shareholders in terms of voting rights.

Board of Directors

Hexagon's Board Members are elected annually at the AGM for the period until the following AGM has been held. The Board 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 Board is also responsible for ongoing evaluation of management, systems for monitoring and internal control and financial position.

Procedural rules and instructions for the Board and the CEO govern issues requiring Board approval, and financial information and other reporting to be submitted to the Board.

The Chairman of the Board is appointed by the AGM. 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.

Audit Committee

On behalf of the Board, the task of the Audit Committee is to consider the procurement and remuneration of auditors, plans for auditing work, to quality assure the financial reporting, and to meet the auditors on an ongoing basis. The Audit Committee's tasks also include monitoring the activities of external auditors and internal control systems, monitoring the current risk situation and the company's financial information, and monitoring other issues the Board assigns the Committee to consider.

Remuneration Committee

On behalf of the Board, the task of the Remuneration Committee is to consider issues regarding the remuneration of the CEO and the executives that report directly to the CEO, and other similar issues assigned by the Board for consideration. The Remuneration Committee obtains supporting data and views from, among others, other Board Members, the CEO and the CFO.

CEO and Group Management

The CEO is responsible for leading and controlling Hexagon's operations in accordance with the strategy determined by the Board. Group Management is responsible for overall business development, and apportioning financial resources between the business areas, as well as matters involving financing and capital structure. Where necessary, specialist know-how from leading experts is also commissioned.

Operations

Hexagon's management comprises also key personnel, each with responsibility for one of the Group's product segments and geographical regions. Regular management meetings constitute the Group's forum for implementing overall controls down to a particular business operation, and in turn, down to individual company level.

In financial terms, Hexagon's business operations are controlled on the basis of the return on capital employed. This requires that they focus on maximising operating earnings, and minimising their working capital. Hexagon's organisational structure is distinctly characterised by decentralisation. Individual managers assume overall responsibility for their respective business, and pursue clearly stated objectives.

Annual General Meeting

The 2008 AGM was held on 5 May 2008 in Stockholm, Sweden, and was attended by a total of 150 shareholders, who jointly represented 65 per cent of the total number of shares and 75 per cent of the total number of votes. Melker Schörling was elected Chairman of the AGM.

Resolutions

The following main resolutions were passed:

- Re-election of Directors Melker Schörling, Maths O. Sundqvist, Ola Rollén, Mario Fontana and Ulf Henriksson, and new-election of Gun Nilsson.
- Re-election of Melker Schörling as Chairman of the Board.
- Total Directors' fees of 2 425 000 SEK to be allocated with 650 000 SEK to the Chairman and 350 000 SEK to each of the other Directors elected by the AGM but not employed by the company. It was resolved that the Chairman of the Remuneration Committee would receive 75 000 SEK and that each member of this Committee would receive 50 000 SEK and that the Chairman of the Audit Committee would receive 150 000 SEK and that each member of this Committee would receive 100 000 SEK.
- Re-election of Ernst & Young AB, with the authorised public accountant Hamish Mabon as chief auditor, as auditor for a term of office of four years, whereby it was also resolved that the auditor shall be remunerated on current account.
- Payment of a dividend of 2.35 SEK per share for 2007 as per the Board's proposal.
- Distribution of all shares of the wholly-owned subsidiary Hexpol AB (previously named Hexagon Polymers AB) to Hexagon's shareholders, whereby ten shares in Hexagon entitled to one share in Hexpol.
- Guidelines for remuneration to Hexagon's senior executives.
- Issue in kind, whereby the company's share capital was to be increased by a maximum of 630 000 SEK by a new issue of not more than 315 000 class B shares. The background to the issue in kind was that, in connection with Hexagon's acquisition of Leica Geosystems Holdings AG in October 2005, there were approximately 90 000 outstanding options which had been awarded employees within the former Leica Geosystems Group.
- Authorisation of the Board to resolve on acquisition and transfer of the company's own shares.

The notice, minutes and documents presented at the 2008 AGM are available in Swedish and in English on Hexagon's website.

Nomination Committee

In accordance with the resolution at the 2008 AGM, five representatives of the company's major shareholders were by the end of the third quarter asked to become members of the Hexagon Nomination Committee. The composition of the Nomination Committee ahead of the 2009 AGM is:

- Mikael Ekdahl, Melker Schörling AB (Chairman)
- Anders Algotsson, AFA Försäkring
- Marianne Nilsson, Swedbank Robur fonder
- Fredrik Nordström, AMF Pension
- Carl Rosén, Andra AP-fonden

During 2008, the Nomination Committee held three minuted meetings at which the Chairman made a presentation of the evaluation process. The Committee discussed desirable changes and decided on proposals to submit to the 2009 AGM concerning the election of Chairman of the AGM, the election of Chairman and other Board Members, directors' fees, remuneration for committee work and to the auditors.

Shareholders wishing to submit proposals have been able to do so by contacting the Nomination Committee via post or e-mail. Addresses have been available on Hexagon's website.

Board of Directors

At the 2008 AGM, all members were re-elected. Gun Nilsson was elected as a new Member of the Board. During the year Maths O. Sundqvist resigned at his own request. Due to this resignation the Board Members are fewer than as decided at the 2008 AGM. However, the number of Board Members remains within the limits set by the Articles of Association.

The Board Members possess excellent financial know-how and broad international experience of the engineering technology business.

All Board Members are shareholders of Hexagon, which ensures considerable personal commitment to Hexagon's development. Chairman of the Board Melker Schörling is the principal owner of Melker Schörling AB, which controls slightly more than 49 per cent of the voting rights in Hexagon.

Hexagon's CFO Håkan Halén, Strategy Director Gert Viebke and General Counsel Frederick London attend the Board meetings. Other Hexagon employees participate in the Board meetings to make presentations on particular matters if requested. Hexagon's auditors attend the first Board meeting of the year and report their observations from their examination of the Group's internal controls and financial statements. At all scheduled Board meetings information concerning the Group's financial position and important events affecting the company's operations are presented.

Board activities

In 2008, the Board held nine minuted meetings, including the statutory Board meeting. The major matters included:

4 February	Financial statements for 2007
5 May	Interim report, first quarter, decision concerning acquisition
5 May	Statutory Board meeting
15 May	Allocation of shares, issue in kind resolved at the 2008 AGM
18 June	Decision concerning acquisition
7 August	Interim report, second quarter
27 October	Interim report, third quarter
14 November	Decision concerning repurchase of Hexagon shares
18 December	Budget 2009 and strategic discussion

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.

Remuneration Committee

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

During 2008, the Remuneration Committee comprised the Board Members Melker Schörling (Chairman) and Maths O. Sundqvist. In August, Maths O. Sundqvist resigned from the Board at his own request and thus also from the Remuneration Committee.

During 2008, the Remuneration Committee held one meeting:

2 June	Terms of employment for the CEO and Group Management

Audit Committee

Hexagon's Audit Committee is appointed annually by the Board, and its purpose is to consider issues regarding tendering and remunerating auditors on behalf of the Board, considering plans for auditing and the related reporting, to quality assure the company's financial reporting, other information, and meet the

Composition of the Board of Directors 2008

			Attendance				
Name	Position	Elected	Audit Committee	Remuneration Committee	Board Meetings	Independence[1]	Shares[2]
Melker Schörling	Chairman	1999	–	1	9	In relation to the company and management	A: 11 812 500[3] B: 66 374 551[3]
Mario Fontana	Member	2006	3	–	8	In relation to the company, management and the company's major shareholders	B: 62 000
Ulf Henriksson	Member	2007	–	–	9	In relation to the company, management and the company's major shareholders	B: 56 350
Gun Nilsson[4]	Member	2008	3	–	7	In relation to the company, management and the company's major shareholders	B: 1 000
Ola Rollén	Member President and CEO	2000	–	–	9	In relation to the company's major shareholders	B: 2 761 152
Maths O. Sundqvist[5]							

[1] The assessment of the independence of the Board Members has been made in accordance with NASDAQ OMX Stockholm's rule book for issuers and criteria for independence.
[2] At 31 December 2008.
[3] Shares owned through Melker Schörling AB.
[4] Elected in May 2008.
[5] Resigned from the Board at his own request in August 2008.

company's auditors on an ongoing basis to stay informed on the orientation and scope of the audit. The Audit Committee's tasks include monitoring external auditors' activities, and the company's internal control systems, monitoring the current risk situation and the company's financial information, and other issues the Board assigns the Committee to consider. The Committee has not been authorised to make any decisions on behalf of the Board.

During 2008, the Audit Committee comprised Gun Nilsson (Chairman) and Mario Fontana. The Committee members are independent of the company, its management and the company's major shareholders.

During 2008, the Audit Committee held three meetings:

4 February	Annual accounts 2007
10 September	Focus of the audit in 2008
5 December	Preparation of annual accounts

Auditors

At the 2008 AGM, Ernst & Young AB, with the authorised public accountant Hamish Mabon as chief auditor, was re-elected auditor for a term of office of four years. Ernst & Young AB possesses the requisite expertise and is a member of FAR SRS.

Hamish Mabon (born in 1965) has participated in the assignment of auditing Hexagon since 2001. In addition to Hexagon, he conducts auditing assignments for such companies as Vattenfall AB, Relacom Holding AB and Scania Sverige AB. Hamish Mabon has no active assignments in companies that are closely related to Hexagon's major shareholders or CEO.

During 2008, in addition to the audit, the auditors had other assignments in the form of work connected to acquisitions. Hexagon's auditors attended the first Board meeting of the year, at which they reported observations from their examination of the Group's internal controls and the annual financial statements. Moreover, the auditors met the Audit Committee on three occasions during 2008.

The address of Hexagon's auditors is Ernst & Young AB, P. O. Box 7850, SE-103 99, Stockholm, Sweden.

Group Management

The CEO is responsible for leading and controlling Hexagon's operations in accordance with the strategy determined by the Board. The CEO has appointed a Group Management comprising heads of business areas and Group staff functions, a total of six persons. Group Management is responsible for overall business development, and apportioning financial resources between the businesses, as well as matters involving financing and capital structure.

Information to the capital market

Hexagon provides the market with ongoing information on the company's progress and financial position. Hexagon aims to utilise openness, objectivity and a high level of service in its financial reporting, in order to enhance the market's trust in the company and increase the interest of current and potential investors in the Hexagon share. During 2008, Hexagon regularly met investors and capital market players to explain and clarify the value of the Group's operations.

The company's information policy was adopted by the Board on 5 May 2008 and is updated annually. The policy satisfies the communication standards set by the stock market, and is designed in accordance with NASDAQ OMX Stockholm's recommendations that complement the rule book for issuers.

Hexagon regularly publishes financial information in Swedish and English in the form of Interim Reports, the Annual Report and press releases on news and share price sensitive events, arranges presentations and telephone conferences for financial analysts, investors and the media when interim reports are published and/or publishes other significant information disclosures.

Remuneration to Group Management

SEK 000s	Year	Basic salary	Variable remuneration	Other benefits[1]	Pension	Other remuneration	Total
President and CEO	2007	9 111	4 000	–	1 370	–	**14 481**
	2008	10 135	4 000	–	2 027	–	**16 162**
Other senior executives (three people) [2]	2007	6 747	3 677	78	1 515	–	**12 017**
	2008	9 619	4 175	149	1 927	–	**15 870**

[1] Other benefits comprise company car.
[2] Two people during 2007.

Published information on the Group's progress, other information intended for the stock market and other important data is available on Hexagon's website.

Remuneration

Principles

The 2008 AGM resolved on the adoption of guidelines for the remuneration of senior executives, essentially entailing that such remuneration should comprise a basic salary, variable remuneration, other benefits and pension, and that in total this remuneration should be commercially viable and competitive in the market. The variable remuneration should be maximised in relation to the basic salary, be connected to the Group's earnings trend in terms of what the particular individual can affect and be based on individually established goals.

The executive must normally provide six-months notice of termination of employment. If the company terminates the executive's employment, the period of notice and severance pay should not exceed a total of 24 months. Pension benefits shall be based on either defined-benefit or defined-contribution plans, or a combination of such plans, with individually set retirement ages, although not lower than 60 years.

Incentive programmes

In order to create the conditions for recruiting and retaining valuable skills within the company, an option programme has been formulated that provides the option holder with the right to participate in the potential future value growth in the company's share. This programme also aims to enhance interest in the company's progress and stimulate continued loyalty to the company.

In connection with the acquisition of Leica Geosystems, the Leica Geosystems Group already had existing option programmes designed for the company's senior executives.

In 2007 Hexagon implemented a subscription warrant programme for senior executives and key employees in the Group by means of a directed issue of 2 500 000 subscription warrants to be transferred to approximately 80 senior executives and key employees identified by the Board, at a price of 20 SEK per warrant, and the remaining warrants to be reserved for future recruitment of senior executives and key employees in the Group.

The design of the outstanding incentive programmes is described in the section on the Hexagon share on page 31.

Remuneration to Group Management 2008

Remuneration to the President and CEO, as well as other senior executives, comprises basic salary, variable remuneration, other benefits and pension. Variable remuneration is set in relation to individual targets. For 2008, remuneration was paid as per the table on page 42.

Remuneration to Board of Directors 2008

Remuneration to the Board of Directors is resolved by the AGM on the proposal from the Nomination Committee. During 2008, the Chairman of the Board and other Board Members received remuneration totalling 2 425 000 SEK. The Chairman received 650 000 SEK and the other Board Members each received 350 000 SEK, apart from the CEO, who does not receive any director's fees. For 2008, remuneration was paid as per the table below.

Remuneration to Auditors 2008

Remuneration for services in addition to auditing services primarily refers to work related to acquisitions. For 2008, remuneration was paid as per the table below.

Remuneration to Board of Directors 2008

SEK 000s	Position	Directors' fee	Committee fee	Total
Melker Schörling	Chairman	650	75	**725**
Mario Fontana	Member	350	100	**450**
Ulf Henriksson	Member	350	–	**350**
Gun Nilsson [1]	Member	350	150	**500**
Ola Rollén	Member President and CEO	–	–	**–**
Maths O. Sundqvist [2]	Member	175	25	**200**

[1] Elected in May 2008.
[2] Resigned from the Board at his own request in August 2008.

Remuneration to Auditors

MSEK	2008	2007
Auditing	20	19
Assignments other than auditing	15	11
Total	**35**	**30**

The Board of Directors' report on internal control pertaining to financial reporting for the financial year 2008

The Code stipulates 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 reasonable 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. These five perspectives serve as subheadings below.

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 comprises an overall control environment in which the organisation, decision-making routes, authorities and responsibilities have been documented and communicated in control documents, such as in Hexagon's finance policy and reporting instructions and in accordance with the authorisation arrangements established by the CEO.

Hexagon's financial-control functions are integrated by means of a Group-wide reporting system. The Group'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 the Group'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.

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, relatively speaking, 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.

Control activities

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and correct errors and non-conformities. Their management is conducted by means of manual controls in the form of, for example, reconciliations and audits, 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.

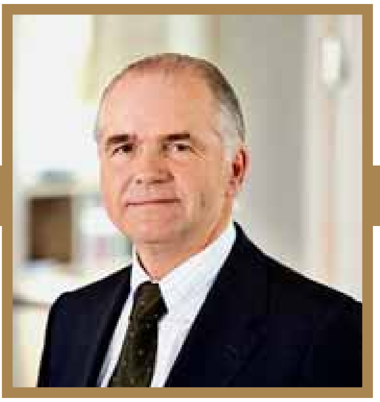
Information and communication

To ensure the completeness and correctness of financial reporting, the Group 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. Via the Audit Committee, the Board receives regular feedback in respect of the internal control process. 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.

Follow-up

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 reports on the Group'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.



Melker Schörling

Stockholm, Sweden, born in 1947

Chairman of the Board since 1999

Other assignments: Chairman of Melker Schörling AB, AarhusKarlshamn AB, Securitas AB and Hexpol AB. Board Member of Hennes & Mauritz AB.

Work experience: CEO Securitas AB, President and CEO Skanska AB.

Education: B.Sc. (Econ.)

Committees: Chairman of Remuneration Committee

Independent/Dependent: Independent of the company and its management

Hexagon shareholding[1]**:** 11 812 500 series A and 66 374 551 series B, through Melker Schörling AB

Mario Fontana

Herrliberg, Switzerland, born in 1946

Board Member since 2006

Other assignments: Board Member of three exchange-listed companies: Swissquote, Inficon and Dufry.

Work experience: Chief of Staff and CIO Brown Boveri Brazil, Country General Manager Storage Technology Switzerland, Country General Manager Hewlett-Packard Switzerland, General Manager Computer Business Hewlett-Packard Europe, General Manager Financial Services worldwide Hewlett-Packard USA.

Education: M.A., Georgia Institute of Technology and ETH Zurich

Committees: Audit Committee

Independent/Dependent: Independent of the company, its management and major shareholders

Hexagon shareholding[1]**:** 62 000 series B

Ulf Henriksson

Oxshott, UK, born in 1963

Board Member since 2007

Other assignments: CEO of Invensys plc.

Work experience: Executive and senior leader for Eaton Corporation, Honeywell International/Allied Signal Inc. and Volvo Aero.

Education: Master of Engineering

Independent/Dependent: Independent of the company, its management and major shareholders

Hexagon shareholding[1]**:** 56 350 series B

Gun Nilsson

Stockholm, Sweden, born in 1955

Board Member since 2008

Other assignments: CFO Nobia Group. Board Member of Husqvarna AB.

Work experience: CEO Gambro Holding AB, Deputy Managing Director and CFO at Duni AB.

Education: B.Sc. (Econ.)

Committees: Chairman of Audit Committee

Independent/Dependent: Independent of the company, its management and major shareholders

Hexagon shareholding[1]**:** 1 000 series B

Ola Rollén

London, UK, born in 1965

President and CEO since 2000

Board Member since 2000

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

Education: B.Sc. (Econ.)

Independent/Dependent: Independent of the company's major shareholders

Hexagon shareholding[1]**:** 2 761 152 series B

In 2008, Maths O. Sundqvist, was also a Member of Hexagon's Board of Directors until he resigned at his own request in August.

Ola Rollén

London, UK, born in 1965

President and CEO

Employed in 2000

Education: B.Sc. (Econ.)

Hexagon shareholding[1]**:** 2 761 152 series B

William Gruber[2]

London, UK, born in 1953

President Hexagon Metrology

Employed in 2003

Education: B.Sc. (Econ.)

Hexagon shareholding[1]**:** 108 818 series B and 50 000 warrants

Håkan Halén

Sollentuna, Sweden, born in 1954

Chief Financial Officer

Employed in 2001

Education: B.Sc. (Econ.)

Hexagon shareholding[1]**:** 1 279 441 series B, through capital insurance

Frederick London

London, UK, born in 1952

General Counsel

Employed in 2007

Education: B.A. (Econ.), J.D. (Law)

Hexagon shareholding[1]**:** 3 360 series B and 40 000 warrants

Bo Pettersson[2]

London, UK, born in 1952

Chief Technical Officer

Employed in 2001

Education: M.Sc. (Engineering)

Hexagon shareholding[1]**:** 195 000 series B (own and family members') and 50 000 warrants

Gert Viebke

London, UK, born in 1951

Vice President of Strategy

Employed in 2000

Education: B.Sc. (Econ.)

Hexagon shareholding[1]**:** 1 280 667 series B (own and family members')[3]

[1] At 31 December 2008.
[2] Part of Group Management as of 1 January 2009.
[3] Shareholding has been reduced during March 2009.

Directors' Report

Contents

Hexagon AB (publ)

Corporate identity number 556190-4771

The Board of Directors and Chief Executive Officer of Hexagon AB (publ), with its registered office in Stockholm, Sweden, hereby submit the Annual Report and consolidated financial statements for the financial year 2008.

The following Income Statements and Balance Sheets, Specifications of Shareholders' Equity, Cash Flow Statements and review of accounting principles and notes constitute Hexagon's formal financial report.

Financial year 2008

Hexagon is a global measurement technologies company with strong positions in selected market segments. Hexagon's business concept is to develop and market leading technologies and services to measure in one, two or three dimensions, to position and update objects and to time processes.

During the first five months of the year, Hexagon was organised in two business areas: Hexagon Measurement Technologies and Hexagon Polymers. The polymers business was distributed to Hexagon's shareholders, renamed Hexpol AB and listed on NASDAQ OMX Stockholm on 9 June 2008 as a separate listing. Hexagon's business activities are conducted through 154 operating companies in 36 countries throughout the world.

The Hexagon share is listed on the NASDAQ OMX Stockholm and SWX Swiss Exchange. Earnings per share before dilution and excluding Hexpol increased 10 per cent to 6.63 SEK (6.05).

Market trends

Demand for Hexagon's products in EMEA was solid during the first half of the year but was significantly reduced during the fourth quarter. Reductions in sales were recorded in both the industrial and construction segments across Western Europe. For the full year, organic growth in EMEA amounted to 3 per cent.

In the Americas, the negative trend continued in the US construction and automotive industries during the year. However, increased demand was recorded in infrastructure investments and non-automotive related segments such as mining, aerospace and electronics industries. For the full year, organic growth in Americas amounted to 8 per cent.

In Asia, strong organic growth continued during the year. For the full year, organic growth in Asia amounted to 20 per cent.

Hexagon's total organic growth during 2008 was 7 per cent.

Structural changes

Listing of the polymers business

Hexagon's Annual General Meeting on 5 May 2008 resolved to transfer all the shares of the polymers business, renamed as Hexpol AB, to the shareholders of Hexagon in the form of a dividend. The record date at Euroclear Sweden AB for receipt of Hexpol shares was 5 June 2008. The Hexpol shares were listed on the NASDAQ OMX Stockholm with 9 June 2008 as the first day of trading.

Acquisitions

Effective 1 January 2008, Elcome Technologies Pvt. Ltd. of India was acquired. Elcome is a distributor and systems integrator of products and systems for positioning, navigation, alignment, measurements and surveying. The company is a market leader in India in its targeted application segments, has more than 80 employees and operates from 12 locations throughout India. The company's sales during 2007 totalled about 100 MSEK. Excluding inter-company sales, Elcome adds approximately 35 MSEK to Hexagon's annual sales.

Effective 1 February 2008, Surveyors Service Company and Haselbach Surveying Instruments were acquired. The companies, headquartered near Los Angeles and San Francisco, respectively, are leading distributors of surveying equipment in South Western US. Surveyors Service Company and Haselbach Surveying Instruments had a combined turnover of over 110 MSEK in 2007. Excluding inter-company sales, the two entities add approximately 75 MSEK to Hexagon's annual sales.

Effective 1 March 2008, Hexagon acquired the Spanish company Santiago & Cintra Ibérica S.A. The company is a leading distributor and service provider for positioning solutions in applications such as geomatics, GIS, mapping, and machine control for agriculture and construction. The company has 48 employees operating out of the headquarters in Madrid and three sales offices in Valencia, Barcelona and Seville. Santiago & Cintra's sales in 2008 was approximately 100 MSEK.

Effective 7 June 2008, the American company Advanced Metrology Solutions was acquired. Advanced Metrology Solutions is a leading distributor of precision metrology products in a nine-state territory, stretching from Michigan to Florida. The company is a leading Sheffield CMM products distributor. The company also sells other Hexagon brands, including Romer portable arm measuring systems, TESA precision hand tools and PC-DMIS™ software. Excluding inter-company sales, Advanced Metrology Solutions adds approximately 30 MSEK to Hexagon's annual sales. The company has shown solid growth over the last years and employs 19 people.

Effective 23 June 2008, the Swedish software company Viewserve AB was acquired. Viewserve is a service and software company offering a web-based fleet management system to the construction market. Viewserve's web-based GPS platform facilitates monitoring of vehicles and work activities, and can be used to notify individual consumers about work carried out. Viewserve gives the customer real time and historic information presented geographically and statistically, which enables the customer to effectively optimise the utilisation of resources and maximise profitability. Viewserve was founded in 2005 and employs 12 people. Sales in 2008 was approximately 7 MSEK.

Effective 1 July 2008, the German company Messtechnik Wetzlar GmbH was acquired. MTWZ is a leading developer and provider of software solutions for quality control of complex mechanical parts in the power train area. Also, MTWZ is a solutions provider for turnkey projects around materials handling metrology solutions. Excluding inter-company sales, MTWZ adds approximately 20 MSEK to Hexagon's annual sales. The company has recorded a healthy growth in recent years and is expected to continue the growth path.

Effective 1 July 2008, the German m&h Group was acquired. m&h is a leading developer, manufacturer and distributor of machine tool probes including related software and services. The Group has a strong technology and intellectual property base. m&h was founded in 1991 and employs 55 people. The Group had a turnover of approximately 90 MSEK in 2007 and has recorded a healthy growth in recent years. The acquisition of m&h will position Hexagon as a leading player in the machine tool probing segment.

Effective 1 August 2008, the Chinese company Serein Metrology (Shenzhen) Co., Ltd was acquired. Serein Metrology develops and produces a wide range of advanced precision measuring instruments in the micro area of the measurement technologies market. Serein Metrology is based in Shenzhen, China, and employs 98 people. The company had a turnover of approximately 4 MUSD in 2007 and is expected to grow at a double digit rate in the years to come.

Effective 13 October 2008, the Australian company Rinex Technology was acquired. Rinex develops and supplies hardware and software for agricultural tractor and combine guidance. The company was founded in 1995 and employs 20 people. Rinex has recently released new products, and sales in 2008 was more than 30 MSEK.

Order intake and net sales

Order intake amounted to 14 593 MSEK (15 139) and net sales to 14 479 MSEK (14 587) during the year. Using fixed exchange rates and a comparable group structure, order intake grew by 5 per cent and net sales by 7 per cent.

Hexagon Measurement Technologies' net sales amounted to 12 356 MSEK (10 937) during the year. The increase was due in part to companies acquired during the year. Using fixed exchange rates and a comparable group structure, net sales increased by 7 per cent. The polymers business was deconsolidated from Hexagon as of 1 June 2008. For the first five months of 2008, net sales amounted to 1 419 MSEK (2 730: full year).

Net sales from Other operations amounted to 704 MSEK (922) during the year. The decline in sales is attributable to operations divested during the year. Using fixed exchange rates and a comparable group structure, net sales increased by 2 per cent.

Order intake and net sales for Hexagon's various businesses are presented in the table below.

Gross profit

Gross profit increased 8 per cent to 6 598 MSEK (6 097) during the year. The gross margin improved to 46 per cent (42).

Operating earnings

Operating earnings (EBITDA) grew to 3 267 MSEK (3 054). The operating margin (EBITDA margin) improved to 23 per cent (21).

Operating earnings (EBIT1) grew to 2 548 MSEK (2 421), corresponding to an operating margin of 18 per cent (17).

Hexagon Measurement Technologies' operating earnings (EBIT1) increased by 15 per cent to 2 469 MSEK (2 141) during the year, corresponding to an operating margin of 20 per cent (20). The improvement in earnings derived primarily from a favourable product mix and a healthy volume trend.

The polymers business operating earnings (EBIT1) for the first five months 2008 was 143 MSEK (310: full year). Operating earnings (EBIT1) from Other operations decreased during the year to 6 MSEK (30), corresponding to an operating margin of 1 per cent (3).

Operating earnings (EBIT1) for Hexagon's various businesses are presented in the table below.

Intangible fixed assets

As of 31 December 2008, Hexagon's carrying value of intangible fixed assets was 16 833 MSEK (14 151). Amortisation of intangible fixed assets for the 2008 financial year was –418 MSEK (–305).

Financial revenue and expenses

Financial net amounted to –319 MSEK (–214) during the year. The increase is primarily explained by the acquisition of NovAtel in December 2007.

Effective tax rate

The Group's tax cost for the year totalled –270 MSEK (–245), corresponding to an effective tax rate of 13 per cent (12). The tax cost is affected by the fact that a considerable part of Hexagon's earnings is generated in foreign subsidiaries located in countries where tax rates differ from those in Sweden as well as the fact that capital gains are essentially exempt from tax.

Minority share of net earnings

The minority share of net earnings was 12 MSEK (11).

Net earnings

Net earnings increased by 3 per cent to 1 859 MSEK (1 811), corresponding to earnings per share of 6.96 SEK (6.79).

Investments

Hexagon's net investments, excluding acquisitions and divestitures, were –1 005 MSEK (–825) during the year and consisted mainly of investments in production facilities, production equipment and intangible assets, primarily capitalised development costs. Investments corresponded to 7 per cent (6) of net sales. Depreciation and write-downs during the year, including –4 MSEK (–195) for impairment losses, was –719 MSEK (–803).

Cash flow

Cash flow from operations before changes in working capital increased by 5 per cent to 2 587 MSEK (2 472), corresponding to 9.75 SEK (9.32) per share. Including changes in working capital, cash flow from operations was 1 755 MSEK (2 027), corresponding to 6.61 SEK per share (7.64). Operating cash flow after normal investments amounted to 750 MSEK (1 202).

Cash flow from other investments was –1 048 MSEK (–3 031). The change in borrowings was 262 MSEK (3 374). Cash dividends to the Parent Company shareholders amounted to –624 MSEK (–442), corresponding to 2.35 SEK (1.67) per share.

Profitability

Capital employed, defined as total assets less non-interest bearing liabilities, increased to 23 668 MSEK (20 630). Return on average capital employed was 12.0 per cent (14.3). Return on average shareholders' equity was 18.2 per cent (19.5). The capital turnover rate was 0.7 times (0.9).

Financial position

Shareholders' equity, including minority interests, was 12 014 MSEK (10 046). The equity ratio increased to 44 per cent (40). Hexagon's total assets increased to 27 501 MSEK (24 940).

As a consequence of goodwill no longer being amortised according to a plan, regular tests are made to determine whether

Distribution by business area	Order intake		Net sales		Operating earnings (EBIT1)	
MSEK	2008	2007	2008	2007	2008	2007
Measurement technologies business	**12 551**	11 234	**12 356**	10 937	**2 469**	2 141
Polymers business	**1 425**	2 824	**1 419**	2 730	**143**	310
Other operations	**617**	1 081	**704**	922	**6**	30
Group costs and adjustments	**–**	–	**–**	–2	**–70**	–60
Total	**14 593**	**15 139**	**14 479**	**14 587**	**2 548**	**2 421**

the value of goodwill and/or similar fixed assets is justifiable or whether there is any impairment need in full or in part. Such a test was conducted at the end of 2008 and no impairment requirement arose.

Consolidated goodwill at 31 December 2008 amounted to 10 522 MSEK (9 523), corresponding to 38 per cent (38) of total assets. The table below shows the businesses to which the goodwill is attributable.

Goodwill

MSEK	2008	2007
Measurement technologies business	**10 511**	8 390
Polymers business	**–**	1 122
Other operations	**11**	11
Total	**10 522**	**9 523**

On 31 December 2008, Hexagon's net debt was 10 676 MSEK (8 887). The net debt was adversely affected by the fact that SEK weakened significantly against all major currencies used by Hexagon for debt financing. The net indebtedness was 0.89 times (0.88). The interest coverage ratio was 7.0 times (8.8).

Management of the Hexagon Group's capital

The Hexagon Group's capital comprises reported shareholders' equity, including minority interest, which was 12 014 MSEK (10 046) 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 25–35 per cent because Hexagon is endeavouring to minimise the weighted average cost of capital for the company's financing. Hexagon's expansion rate is limited by covenants made to the company's financiers, whereby net debt is not permitted to exceed 3.5 times EBITDA, pro forma over 12 months. Implementation of the company's strategy, as well as its financial position and other financial objectives are taken into account in connection with annual decisions concerning dividend payments.

Financial risk management

A predominant portion of Hexagon's revenues, expenses and net assets are denominated in foreign currencies thanks to extensive operations outside Sweden. This means that fluctuations in exchange rates affect Hexagon's net sales, operating earnings, net assets, shareholders' equity and other items. Hexagon is also affected by fluctuations in interest rates. Hexagon's Treasury function is responsible for coordinating the management of currency and interest rate exposure. The Treasury function is also responsible for the Group's external and internal financing. Rules and limits for the management of financial risks are determined annually by the Board and are stipulated in the Group Treasury Policy.

Financing

In order to ensure that Hexagon can satisfy its short and long-term needs for external capital, it is necessary for the Group to maintain a strong financial position and to take active measures to ensure its access to credit.

Hexagon's primary source for financing the company's operations is a syndicated loan facility amounting to 1 billion EUR that expires in June 2011. The loan facility includes certain financial covenants to be fulfilled in order to avoid additional financing cost. Hexagon met all its financial covenants in 2008.

The unused portion of all funding facilities, together with existing liquidity, on 31 December 2008 was 3 001 MSEK (2 753).

Interest rate

The interest rate risk is the risk that changes in interest rates will adversely affect the Group's net interest expense and/or the cash flow. The Group's interest rate risk is managed by the Treasury function. Interest rate risk primarily arises because of the Group's external borrowings. Standardised derivative instruments can be utilised to control interest rate exposure through means such as extending or shortening interest fixing periods without renegotiating underlying loans. In accordance with the Group Treasury Policy, all external debt has short interest rate duration.

Foreign exchange

Hexagon's transaction exposure pertains to currency exposure due to its subsidiaries' international trade. Exposure derives from changes in exchange rates in connection with buying and selling in currencies other than local currency. Contracted currency flows are fully hedged. Between 40 and 100 per cent of forecast flows in addition to contracted flows are hedged with a horizon of six months. Hedging is arranged through currency forward contracts.

The Group Treasury Policy states that the effect of currency changes on shareholders' equity should be alleviated through hedging via loans in the currencies in which net assets are denominated. Translation exposure related to forecasted earnings in foreign operations are not hedged.

Financial credit risk

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

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

Operational risk management

The Group faces a variety of operational risks, including relations with customers and suppliers and political, price, raw material, legal, human capital, insurable and corporate responsibility risks.

Hexagon works in a structured manner in its efforts to control both short-term and long-term risks in order to limit their impact on business operations.

Research and development

Being the most innovative supplier necessitates major product and process development, partly to improve and adapt existing products but also to identify new applications and thereby increasing the total market for Hexagon's products and services. Total expenditure for research and development during 2008 amounted to 1 679 MSEK (1 005), corresponding to 12 per cent (7) of net sales.

Capitalisation of the Group's development expenses only occurs with regard to new products where significant development costs are involved, where the products have likely earnings potential that is expected to accrue to the company and where the costs are clearly distinguishable.

Parent Company

The Parent Company's earnings after financial items were 1 444 MSEK (–155). The increase in earnings is mainly due to dividends from subsidiaries. The solvency ratio of the Parent Company was 36 per cent (34). The equity was 6 786 MSEK (6 655). Liquid funds including unutilised credit limits was 2 105 MSEK (2 026).

Share capital and ownership

Hexagon's share capital was 531 039 540 SEK, represented by 264 208 328 outstanding shares. Total outstanding shares at year-end 2008 was 11 812 500 class A shares, each carrying ten votes, and 252 395 828 class B shares, each carrying one vote.

At year-end 2008 Melker Schörling AB, the single largest shareholder in Hexagon, held a total of 11 812 500 class A shares and 66 374 551 class B shares, representing 49.8 per cent of the votes and 29.6 per cent of the capital.

Significant agreements

There are no significant agreements to which the company is a party that will have an impact or be amended or cease to apply if control over the company changes due to a public tender offer for the company.

Share repurchases during 2008

The Annual General Meeting on 5 May 2008 authorised Hexagon's Board of Directors to acquire the company's own shares for the purpose of, among other things, giving the Board the possibility to adapt the company's capital structure and of enabling the financing of acquisitions. The authorisation to repurchase totals a maximum of ten per cent of all outstanding shares in the company.

During 2008 Hexagon repurchased 1 311 442 class B shares, corresponding to 0.5 per cent of the total number of shares, at an average price of 39.30 SEK per share with a nominal value of 2 SEK per share.

Employees

The average number of employees in Hexagon during the year was 9 062 (8 406). The number of employees at year-end was 8 436 (10 062). The share of employees located outside Sweden increased to 92 per cent (88). The average number of employees in the Parent Company was 11 (10).

Remuneration of the CEO and other senior executives comprises basic salary, variable remuneration, other benefits and pension. The variable portion of salary is connected to the Group's earnings trend, comprises a maximum amount in relation to the fixed salary and is not pensionable. Pension benefits are based on defined contribution plans.

Environment

Hexagon's research and development work generates products and systems that comply with customer requirements for being able to measure with considerable precision in one, two or three dimensions. High-quality measurement systems contribute to increased quality, productivity and efficiency and reduced waste and thus to a decrease in the consumption of materials and raw materials.

When Hexagon implements processes, it takes the environment into account and endeavours to achieve sustainable product development. A fundamental requirement for environmental efforts is to use environment-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 are obliged to have ISO quality accreditation, wherever this is warranted.

Guidelines

The Annual General Meeting 2008 resolved, as proposed by the Board, on the establishment of guidelines concerning the remuneration of senior executives, essentially entailing that such remuneration should comprise a basic salary, variable remuneration, other benefits and pension, and that in total this remuneration should be commercially viable and competitive in the market. The variable remuneration should be maximised in relation to the basic salary, and be linked to the earnings trend that the specific individual can influence and be based on the outcome in relation to individually established targets. The Board of Directors' proposal to the Annual General Meeting 2009 is that these guidelines remain unchanged.

Outlook 2009

The first half of the year 2009 will be challenging. Hexagon is responding to the demand drop by cutting cost, reducing workforce and furloughing of personnel as well as delaying investments. As governmental stimulus programmes around the world start to have an impact on infrastructural investments, Hexagon's growth is expected to resume.

Consolidated Income Statement

MSEK	Note	2008	2007
Net sales	1	14 479	14 587
Cost of goods sold	4, 7, 19	–7 881	–8 490
Gross earnings		**6 598**	**6 097**
Sales expenses	4, 7, 19	–2 238	–1 990
Administration expenses	4, 6, 7, 19	–1 007	–1 080
Research and development expenses	4, 7, 19	–944	–811
Other operating revenues	5	84	59
Other operating expenses	5, 7	–46	–88
Share in associated company earnings	8, 13	1	–31
Capital gain/loss from sale of shares in Group companies	7, 8	–	114
Operating earnings [1]		**2 448**	**2 270**
Financial revenues and expenses			
Interest income	8	36	48
Interest expenses	8	–355	–262
Earnings before tax	1	**2 129**	**2 056**
Tax on earnings for the year	9	–270	–245
Net earnings [2]		**1 859**	**1 811**
[1] Of which, non-recurring items	7	–100	–151
[2] Of which, minority share		12	11
Average number of shares, thousands		**265 317**	**265 278**
Average number of shares after dilution, thousands		**265 768**	**266 034**
Earnings per share, SEK		**6.96**	**6.79**
Earnings per share after dilution, SEK		**6.95**	**6.77**
Earnings include depreciations and write-downs of		**–719**	**–803**

Consolidated Balance Sheet

MSEK	Note	2008	2007
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalised development expenditure	11	1 276	665
Patents and trademarks	11	4 138	3 194
Goodwill	11	10 522	9 523
Other intangible fixed assets	11	896	769
Total intangible fixed assets		**16 832**	**14 151**
Tangible fixed assets			
Buildings	11	734	761
Land and other real estate	11	229	210
Machinery and plants	11	724	976
Equipment, tools and installations	11	196	250
Construction in progress and supplier advances	11	20	80
Total tangible fixed assets		**1 903**	**2 277**
Financial fixed assets			
Shares in associated companies	12, 13	20	10
Other long-term securities holdings	12	39	11
Other long-term receivables	12	50	55
Total financial fixed assets		**109**	**76**
Deferred tax assets	9	587	492
Total fixed assets		**19 431**	**16 996**
Current assets			
Inventories, etc.			
Raw materials and consumables		1 283	1 072
Work in progress		282	258
Finished goods and goods for sale		1 729	1 256
Total inventories		**3 294**	**2 586**
Current receivables			
Customer receivables	14	3 151	3 075
Receivables, associated companies	14	10	20
Current tax receivables	9	33	11
Other receivables – interest bearing		44	–
Other receivables – non-interest bearing	14	362	434
Prepaid expenses and accrued income	15	257	206
Total current receivables		**3 857**	**3 746**
Short-term investments		20	781
Cash and bank balances		899	831
Total current assets		**8 070**	**7 944**
TOTAL ASSETS		**27 501**	**24 940**

MSEK	Note	2008	2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Share capital		531	531
Other capital contributions		5 509	5 539
Hedging reserve		–1	–2
Translation reserve		869	–716
Retained earnings		5 049	4 650
Shareholders' equity attributable to Parent Company shareholders		**11 957**	**10 002**
Minorities		57	44
Total shareholders' equity		**12 014**	**10 046**
Long-term liabilities			
Provisions for pensions	4a	452	433
Other provisions	17	174	192
Deferred tax liabilities	9	331	668
Liabilities to credit institutions	18	10 470	9 762
Other long-term liabilities – interest-bearing	18	39	27
Other long-term liabilities – non-interest bearing		26	17
Total long-term liabilities		**11 492**	**11 099**
Current liabilities			
Other provisions – current portion	17	339	208
Liabilities to credit institutions	18	500	163
Advance payments from customers		121	89
Accounts payable		1 185	1 473
Current tax liabilities	9	185	236
Other liabilities – interest-bearing	18	–	7
Other liabilities – non-interest bearing		239	432
Accrued expenses and deferred income	15	1 426	1 187
Total current liabilities		**3 995**	**3 795**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**27 501**	**24 940**
MEMORANDUM ITEMS			
Collateral pledged	20	20	41
Contingent liabilities	20	185	186

Changes in Consolidated Shareholders' Equity

2008	Share capital	Other capital contributions	Hedging reserve	Translation reserve	Retained earnings	Shareholders' equity attributable to Parent Company shareholders	Minorities	Total shareholders' equity
Opening shareholders' equity	**531**	**5 539**	**–2**	**–716**	**4 650**	**10 002**	**44**	**10 046**
Year's change in translation reserve[1]								
Gross	–	–	–	3 681	–	**3 681**	7	**3 688**
Effect of hedging	–	–	–	–2 653	–	**–2 653**	–	**–2 653**
Year's change in hedging reserve (cash flow hedging)	–	–	1	–	–	**1**	–	**1**
Tax attributable to items recognised directly in shareholders' equity	–	–	–	607	–	**607**	–	**607**
Total revenues and expenses recognised directly in shareholders' equity, excluding transactions involving company shareholders	**–**	**–**	**1**	**1 635**	**–**	**1 636**	**7**	**1 643**
Net earnings	–	–	–	–	1 847	**1 847**	12	**1 859**
Total revenues and expenses, excluding transactions involving company shareholders	**–**	**–**	**1**	**1 635**	**1 847**	**3 483**	**19**	**3 502**
Expense for share-based payments[2]	–	–	–	–	6	**6**	–	**6**
Effect of acquisitions and divestments of subsidiaries	–	–5[3]	–	–	–	**–5**	4	**–1**
Repurchase of shares	–	–52	–	–	–	**–52**	–	**–52**
Stock option payments	–	27	–	–	–	**27**	–	**27**
Cash dividend	–	–	–	–	–624	**–624**	–10	**–634**
Dividend – shares in Hexpol	–	–	–	–50	–830	**–880**	–	**–880**
Closing shareholders' equity, 31 Dec. 2008	**531**	**5 509**	**–1**	**869**	**5 049**	**11 957**	**57**	**12 014**
2007								
Opening shareholders' equity	**354**	**5 722**	**–1**	**–795**	**3 284**	**8 564**	**45**	**8 609**
Year's change in translation reserve[1]								
Gross	–	–	–	221	–	**221**	3	**224**
Effect of hedging	–	–	–	–177	–	**–177**	–	**–177**
Year's change in hedging reserve (cash flow hedging)	–	–	–1	–	–	**–1**	–	**–1**
Tax attributable to items recognised directly in shareholders' equity	–	–	–	35	–	**35**	–	**35**
Total revenues and expenses recognised directly in shareholders' equity, excluding transactions involving company shareholders	**–**	**–**	**–1**	**79**	**–**	**78**	**3**	**81**
Net earnings	–	–	–	–	1 800	**1 800**	11	**1 811**
Total revenues and expenses, excluding transactions involving company shareholders	**–**	**–**	**–1**	**79**	**1 800**	**1 878**	**14**	**1 892**
Expense for share-based payments[2]	–	–	–	–	8	**8**	–	**8**
Effect of acquisitions and divestments of subsidiaries	–	–6[3]	–	–	–	**–6**	–9	**–15**
Bonus issue	177	–177	–	–	–	**–**	–	**–**
Cash dividend	–	–	–	–	–442	**–442**	–6	**–448**
Closing shareholders' equity, 31 Dec. 2007	**531**	**5 539**	**–2**	**–716**	**4 650**	**10 002**	**44**	**10 046**

Share capital is described in detail in Note 16.
Other contributed capital includes, among others, share premium reserves and statutory reserves.
The hedging reserve includes changes in value of the hedging instruments representing cash flow hedges, net after amount transferred to the income statement.
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.
Retained earnings include all historical net earnings excluding minorities less dividends paid.
Minorities are the shares of equity that pertain to minority holders in certain subsidiaries.

1 Currency hedging pertains to net assets in foreign subsidiaries.
2 Value of services to be received based on original value of options issued to management and employees within Leica Geosystems prior to Hexagon's acquisition.
3 Leica Geosystems was acquired through a public tender offer comprising a combination of cash and new Hexagon shares. The offer was directed directly to all shareholders and indirectly to all existing option holders. In essence, all option holders at the time of acquisition have been treated as shareholders. In 2007 and to a lesser extent in 2008 Hexagon has utilised the possibility to redeem the options in cash alone, which results in an effect similar to that of a repurchase of shares.

Consolidated Cash Flow Statement

MSEK	Note	2008	2007
Cash flow from operating activities			
Net sales		14 479	14 587
Operating expenses		–12 031	–12 317
Operating earnings		**2 448**	**2 270**
Adjustments for items in operating earnings not influencing cash flow			
Depreciation and amortisation		715	608
Impairment losses		4	195
Change in provisions		10	–62
Capital gains on divestment of fixed assets		–7	–35
Capital gains on shares in Group companies		–	–114
Earnings from shares in associated companies		–1	31
Other items not influencing cash flow		7	–
Interest received		45	39
Interest paid		–290	–255
Tax paid		–344	–205
Cash flow from operating activities before changes in working capital		**2 587**	**2 472**
Cash flow from changes in working capital			
Change in inventories		–491	–300
Change in current receivables		80	–595
Change in current liabilities		–421	450
Cash flow from changes in working capital		**–832**	**–445**
Cash flow from operating activities		**1 755**	**2 027**
Cash flow from ordinary investing activities			
Investments in intangible fixed assets		–634	–416
Investments in tangible fixed assets		–387	–508
Divestments of tangible fixed assets		16	99
Cash flow from ordinary investing activities		**–1 005**	**–825**
Operating cash flow		**750**	**1 202**
Cash flow from other investing activities			
Investments in subsidiaries	11	–798	–3 592
Divestments of subsidiaries	11	–220	569
Investments in financial fixed assets	12	–44	–8
Divestments of financial fixed assets	12	14	–
Cash flow from other investing activities		**–1 048**	**–3 031**
Cash flow from financing activities			
Borrowings		262	3 374
Stock option payments		27	–
Repurchase of shares		–52	–
Dividend to Parent Company shareholders		–624	–442
Dividend to minority interests in subsidiaries		–10	–6
Cash flow from financing activities		**–397**	**2 926**
Cash flow for the year		**–695**	**1 097**
Cash and cash equivalents, beginning of year [1]		**1 612**	**481**
Effect of translation differences on Cash and cash equivalents		2	34
Cash flow for the year		–695	1 097
Cash and cash equivalents, end of year [1]		**919**	**1 612**
Net debt			
Pension obligations, net, and other interest-bearing provisions and liabilities		11 595	10 499
Cash and cash equivalents and other current interest-bearing receivables		–919	–1 612
Net debt		**10 676**	**8 887**

[1] Cash and cash equivalents include short-term investments and cash and bank balances.

Parent Company Income Statement

MSEK	Note	2008	2007
Net sales	2	28	24
Administration expenses	4, 6	–75	–51
Operating earnings		**–47**	**–27**
Financial income and expense			
Earnings from shares in Group companies	8	1 688	–
Other interest income	8	258	222
Other Interest expenses	8	–455	–350
Earnings before tax		**1 444**	**–155**
Tax on earnings for the year	9	54	48
Net earnings		**1 498**	**–107**

Parent Company Balance Sheet

MSEK	Note	2008	2007
ASSETS			
Fixed assets			
Intangible fixed assets			
Patents and trademarks	11	0	0
Tangible fixed assets			
Buildings	11	0	0
Land	11	0	0
Equipment	11	1	1
Total tangible fixed assets		**1**	**1**
Financial fixed assets			
Shares in Group companies	12	12 137	12 840
Receivables from Group companies	12	5 429	6 076
Other financial fixed assets	12	1	–
Total financial fixed assets		**17 567**	**18 916**
Deferred tax asset		128	79
Total fixed assets		**17 696**	**18 996**
Current assets			
Current receivables			
Receivables from Group companies		746	152
Current tax receivable		0	0
Other receivables		61	68
Prepaid expenses and accrued income	15	21	34
Total current receivables		**828**	**254**
Cash and bank balances		507	370
Total current assets		**1 335**	**624**
TOTAL ASSETS		**19 031**	**19 620**

MSEK	Note	2008	2007
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Restricted equity			
Share capital		531	531
Statutory reserve		2 814	2 814
Total restricted equity		**3 345**	**3 345**
Non-restricted equity			
Share premium reserve		1 980	2 754
Non-restricted equity		1 461	556
Total non-restricted equity		**3 441**	**3 310**
Total shareholders' equity		**6 786**	**6 655**
Provisions			
Pension provisions		–	0
Other provisions		–	8
Total provisions		**–**	**8**
Long-term liabilities			
Liabilities to credit institutions		8 315	9 808
Total long-term liabilities		**8 315**	**9 808**
Current liabilities			
Liabilities to credit institutions		430	0
Accounts payable		6	34
Liabilities to Group companies		3 410	3 089
Other liabilities		4	2
Accrued expenses and deferred income	15	80	24
Total current liabilities		**3 930**	**3 149**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**19 031**	**19 620**
MEMORANDUM ITEMS			
Collateral pledged	20	None	None
Contingent liabilities	20	269	146

Change in Parent Company Shareholders' Equity

MSEK	Share capital	Statutory reserve (restricted)	Share premium reserve (unrestricted)	Unrestricted shareholders' equity	**Total share-holders' equity**
Closing balance, 31 December 2006	**354**	**2 991**	**2 733**	**1 025**	**7 103**
Dividend	–	–	–	–442	**–442**
Group contributions issued and received, net	–	–	–	80	**80**
New share issue	0	–	21	–	**21**
Bonus issue	177	–177	–	–	**–**
Net earnings	–	–	–	–107	**–107**
Closing balance, 31 December 2007	**531**	**2 814**	**2 754**	**556**	**6 655**
Dividend	–	–	–793	–556	**–1 349**
Group contributions issued and received, net	–	–	–	14	**14**
New share issue	0	–	19	–	**19**
Repurchase of shares	–	–	–	–51	**–51**
Net earnings	–	–	–	1 498	**1 498**
Closing balance, 31 December 2008	**531**	**2 814**	**1 980**	**1 461**	**6 786**

Parent Company Cash Flow Statement

MSEK	**2008**	2007
Cash flow from operating activities		
Net sales	28	24
Operating expenses	–75	–51
Operating earnings	**–47**	**–27**
Adjustment for operating earnings items not influencing cash flow		
Depreciation	0	0
Capital gains/capital losses	–70	–
Other items not influencing cash flow	–3	–
Interest received	258	213
Dividend from subsidiaries	1 679	–
Interest paid	–386	–329
Cash flow from operating activities before changes in working capital	**1 431**	**–143**
Cash flow from changes in working capital		
Change in current receivables	–671	816
Change in current liabilities	291	498
Cash flow from changes in working capital	**–380**	**1 314**
Cash flow from operating activities	**1 051**	**1 171**
Cash flow from investing activities		
Investments in tangible fixed assets	0	0
Divestments of tangible fixed assets	0	29
Investments in financial fixed assets	–4	–992
Change in long-term receivables, Group companies	655	–3 418
Group contributions received	111	54
Cash flow from investing activities	**762**	**–4 327**
Cash flow from financing activities		
Borrowings	–	3 733
Repayments	–1 001	–
Repurchase of shares	–51	–
Dividend to shareholders	–624	–442
Cash flow from financing activities	**–1 676**	**3 291**
Cash flow for the year	**137**	**135**
Cash and cash equivalents opening balance [1]	**370**	**235**
Cash and cash equivalents closing balance [1]	**507**	**370**

[1] Cash and cash equivalents include cash and bank balances.

Accounting Policies

The consolidated accounts 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 EC Commission for application within the EU.

Furthermore, the recommendation RFR 1.1 Supplementary accounting rules for corporate groups issued by the Swedish Financial Accounting Reporting Board has been applied.

The Parent Company applies the Annual Accounts Act and RFR 2.1. This means that the Parent Company applies the same accounting policies as the Group, except as outlined below.

Changed accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Hexagon has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008.

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (Approved by the EU 1 June 2007)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Approved by the EU in Q4 2008)
- IAS 39 and IFRS 7 (revised) – Reclassification of financial instruments (Approved by the EU 15 October 2008)

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did give rise to marginal, or no, impact on disclosures, including, in some cases, revisions to the descriptions of accounting policies.

Changes in accounting policies in future reporting periods

Hexagon has not early adopted IFRS and IFRIC interpretations that become effective as of 1 January 2009 or later. The adoption of these standards and interpretations is not expected to have a material effect on the financial performance or position of the Group. They are however expected to give rise to additional disclosures, including in some cases, revisions to descriptions of accounting policies. A brief description of the changes is presented below.

IFRS 2 Share-based Payment (Revised) – Effective 1 January 2009 (Approved by the EU in Q4 2008)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

IFRS 8 Operating Segments – Effective 1 January 2009 (Approved by the EU 21 November 2007)

The IASB issued IFRS 8 in November 2006 intended as a replacement for IAS 14 Segment Reporting. The new standard sets disclosure requirements for the Group's Operating Segments and replaces the need to define primary and secondary segments based on operating and geographical segments. IFRS 8, however, requires that operating segment information is provided in the same manner as reported internally to the chief operating decision maker. Hexagon concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

IAS 23 Borrowing Costs (Revised) – Effective date 1 January 2009 (Approved by the EU in Q4 2008)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Hexagon has historically applied this accounting policy. However, it has few, or no, qualifying assets as defined by the revised standard.

IFRIC 13 Customer Loyalty Programmes – Effective 1 July 2008 (Approved by the EU in Q4 2008)

The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transactions in which they are granted. The Group does not maintain customer loyalty programmes of this nature.

Future changes in accounting policies (issued standards and interpretations, which are not yet effective)

Improvements to IFRSs (Expected to be approved by the EU in Q1 2009)

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard, but the majority will become effective as of 1 January 2009. Hexagon has not elected to early adopt any of these amendments, none of which are expected to have a material effect on the Group's financial performance or position.

IAS 1 (Revised) Presentation of Financial Statements (Approved by the EU in Q4 2008)

The revised IAS 1 is effective for reporting periods commencing 1 January 2009 or later. The standard separates changes in equity resulting from transactions with owners and other changes. The statement of changes in equity will only include details of transactions with owners. Other changes in equity than transactions with owners are presented as a separate caption in the statement of changes in equity. In addition the standard introduces the concept "statement of comprehensive income", which presents all items related to income and expenses in a separate statement or in two interrelated statements. Hexagon has not yet elected whether one or two statements will be applied.

IFRS 1 (Revised 2008) First-time Adoption of International Financial Reporting Standards and IAS 27 (Amended) Consolidated and Separate Financial Statements (Expected to be approved by EU in Q1 2009)

The revisions to IFRS 1 are not applicable to Hexagon. The amendment to IAS 27 requires that dividends received from subsidiaries, associated companies etc. are recognised in the income statement in the separate financial statements. The amendments should be applied for reporting periods commencing 1 January 2009 or later. The amendments to IAS 27 should be applied prospectively, but only affect the separate financial statements of the Parent Company and not the consolidated financial statements.

IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements (Expected to be approved by the EU in Q1 2009)

The revised/amended standards were issued in January 2008 and should be applied for reporting periods commencing on 1 July 2008 or later. IFRS 3 introduces a number of changes to the accounting for business combinations made after the effective date, which will affect the amount of goodwill recognised, the results reported in the period the business combination is concluded as well as results reported in future periods. The revised IAS 27 requires changes in the ownership in a subsidiary where the majority owner does not lose control to be accounted for within equity. Consequently such transactions will not give rise to goodwill, nor will they lead to gains or losses. Furthermore the revised IAS 27 changes the accounting for losses that arise in a subsidiary as well as losses, which arise upon loss of control of a subsidiary. The revisions/amendments have resulted in follow-on changes to IAS 7 Cash Flow Statements, IAS 12 Income taxes, IAS 21 The Effects of Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

In aggregate the revisions/amendments to IFRS 3 and IAS 27 will affect the accounting for future acquisitions, loss of control and transactions with minority owners. The revised/amended standards may be early adopted, but Hexagon does not intend to utilise this option.

IAS 32 Financial Instruments: Presentation and IAS 1 (Revised) Presentation of Financial Statements regarding Puttable Financial Instruments and Obligations Arising on Liquidation (Expected to be approved by the EU in Q1 2009)
These revisions to IAS 32 and IAS 1 were issued in February 2008 and are effective for reporting periods commencing on 1 January 2009 or later. The revisions to these standards will not have an impact on the Group's financial performance or position, since no such instruments have been issued.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged items (Expected to be approved by the EU in Q2 2009)
This amendment to IAS 39 was issued in August 2008 and is intended to be effective for reporting periods commencing on 1 July 2009 or later. The amendment covers the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or part of a hedged risk in a specific situation. Hexagon has assessed that the amendment will not have an effect on the Group's financial performance or position, as the Group has not entered into any such hedges.

IFRIC 12 Service Concession Arrangements (Expected to be approved by the EU in Q1 2009)
The interpretation provides, among other things, general principles on recognising and measuring the obligations and related rights in service concession arrangements. The interpretation will have no impact on Hexagon's financial statements.

IFRIC 15 Agreement for the construction of Real Estate (Expected to be approved by the EU in Q1 2009)
IFRIC 15 was issued in July 2008 and becomes effective for reporting periods commencing on 1 January 2009 or later. IFRIC 15 will not affect the Group's financial reporting in that such operations covered by the standard are not conducted within the Group.

IFRIC 16 Hedges of a net investment in a foreign operation (Expected to be approved by the EU in Q1 2009)
IFRIC 16 was issued in July 2008 and becomes effective for reporting commencing on 1 October 2008 or later. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on how to account for hedges of a net investment in a foreign operation with regards to the identification of foreign currency risks which qualify for hedge accounting of net investments, what entities within a group which may hold the hedging instrument in question, as well as how the entity shall determine the value of the foreign currency gains or losses in relation to the net investment and the hedging instrument, which should be reversed upon a sale of the foreign operations. Hexagon is currently assessing what accounting policy should be applied upon sales of foreign operations.

IFRIC 17 Distribution of Non-cash Assets to Owners (Expected to be approved by the EU in Q1 2009)
The interpretation addresses questions on the situation when a dividend is distributed by using other assets than cash. The interpretation will change the manner in which Hexagon accounts for any future dividends of this nature.

Basis of reporting for the Parent Company and the Group
The functional currency of the Parent Company is Swedish kronor as is the reporting currency for the Parent Company and the Group.

Assets and liabilities are reported at historical cost with the exception of certain financial instruments (derivatives), which are reported at fair value.

Consolidated Financial Statements
The consolidated financial statements consolidate the Parent Company and the other companies in which the Parent Company has a controlling influence.

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the Parent Company's acquisition value of shares in subsidiaries is eliminated against subsidiaries' shareholders' equity at the time of acquisition. The shareholders' equity of acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition including those not reported earlier by the acquired company. In those cases where the acquisition value of shares in subsidiaries exceeds the acquired shareholders' equity as stated above, the discrepancy is accounted for as goodwill in the balance sheet. In the event of an acquisition of minority interests, any differences between the acquisition price and the minority interest in the subsidiary's equity value are recognised as goodwill. Reported goodwill values are impairment tested at each reporting date or as soon as impairment indicators are noted.

In accordance with the stated principles for consolidated accounting, divested companies are consolidated up to their date of divestiture, while acquired companies are consolidated from the time of acquisition onwards, meaning from the time when a controlling interest was attained.

The current method is used for the translation of foreign subsidiaries, meaning that balance sheets are translated at year-end exchange rates, and income statements are translated at average exchange rates for the period. The resulting translation differences are recognised directly in consolidated shareholders' equity.

The value of the net assets of foreign subsidiaries, including goodwill and other intangible assets, is hedged, mainly through foreign 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 shareholders' equity regarding the foreign subsidiaries.

Divested operations
According to the applicable accounting rules, the earnings from certain divested operations, in terms of both operating profit and capital gains, must be separate from the earnings from continuing operations. However, a corresponding adjustment for acquired operations is not shown in the income statement but is provided, to the extent possible, as a supplementary disclosure.

Distributed operations do not constitute discontinued operations. Hexpol operations are thus not reported separately in the income statement. The dividend of Hexpol has reduced consolidated equity by the amount of net assets that Hexpol represented at the time of the dividend.

Associated companies and joint ventures
Hexagon applies the equity method for accounting for associated companies and joint ventures. Associated companies are those com-

panies over which Hexagon, directly or indirectly, has a material influence. Joint ventures are defined as companies over which Hexagon, through partnership agreements with one or more parties, exercises a joint controlling influence over the operational and financial control.

Any differences between the acquisition value and equity value at the time of acquisition are termed goodwill, and are included in the acquisition value. In the consolidated balance sheet, holdings in associated companies are recognised at acquisition value adjusted for dividends, share in earnings and losses during the holding period, and accumulated impairment losses. The consolidated income statement includes share in associated companies' earnings after elimination of any inter-company gains. Associated company taxes are included in the Group's tax expenses.

At the close of every reporting period, the carrying amounts for associated companies and joint ventures, including implicit goodwill values, are impairment tested.

Segment reporting

Business areas represent the primary segments within the Group and geographical areas the secondary segments. Internal billings between business areas are negligible and, where they occur, are made at market value.

Revenues

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;
- It is likely that the financial benefits for the seller associated with the transaction will arise for the seller;
- The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated.
- 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 arise for 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 dividing 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, and then, only to the extent that it is likely that they will be remunerated by the buyer. If it appears likely that all the expenditure for an assignment will exceed total revenues, the probable loss is accounted immediately, and fully, as an expense.

Research and development expenditure

Expenditure for research is 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 the company may benefit from, and the costs are clearly distinguishable from ongoing product development expenditure.

Leasing

The Group has entered into both finance and operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Finance 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 period and the lease period. For finance 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 shorter of the economic life or the lease period, unless it is certain that the asset will be taken over at the end of the lease period. The liability for future lease payments is interest bearing.

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 and revenues for sub-letting of premises.

Financial instruments

Financial instruments are measured and recognised in accordance with the rules of IAS 39.

With certain exceptions, financial assets and liabilities are entered at acquisition value applying settlement-date accounting. 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 shareholders' equity until the hedged transaction has been recognised.

Balances and transactions are 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. Hexagon did not hedge fair value in 2007 and 2008.When hedging cash flow, the change in value of the hedging instrument is recognised directly in shareholders' equity until the hedged transaction has been recognised.

When establishing fair value, official market listings on the balance-sheet date are used. If no such listings are available, a valuation is conducted based on the discounting of future cash flows based on market interest rate for the particular maturity. Currency swaps and currency forward contracts are valued at the listed market rate. Translation to SEK is based on the listed exchange rate on the balance-sheet date.

Receivables resulting from own lending and assets held to maturity are valued at amortised cost, applying the effective interest rate method. No financial instruments were classified in this category during 2007 and 2008.

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 shareholders' equity. Unlisted shares and participations whose value cannot be determined reliably are recognised at acquisition cost. Hexagon had no listed holdings in 2007 and 2008.

Accounts receivable and accounts payable are recognised at amortised cost.

Financial liabilities are mainly measured at amortised cost, applying the effective interest rate method.

Borrowing costs in the form of interest expense are charged against earnings during the period to which they apply, and are not included in an asset's acquisition value, unless Hexagon constructs the types of assets that would permit this. Costs for raising loans are expensed over the maturity of the loan.

Pension and similar commitments

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. Differences between expected and actual development of this liability are not expensed as long as the deviations remain within the so-called corridor. Pension expense for the year consists of pensions earned, interest expense during the period and – if applicable – actuarial gains and losses. A deduction is made for the yield on plan assets intended to cover the obligation. The net cost is recognised in the income statement. Obligations related to defined benefit plans are recognised net in the balance sheet, 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.

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, and shares in associated companies' tax.

Receivables and liabilities

Provisions for loss risks are made on a case-by-case basis; foreign-currency receivables and liabilities are translated at the exchange rates prevailing on the balance-sheet date. The difference between acquisition value and the value on the balance-sheet date is recognised as income.

Inventories

Inventories are accounted for 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 realisable value. Manufactured finished and semi-finished goods are recognised at the lower of manufacturing cost (including a reasonable portion of indirect manufacturing costs) and net realisable value. Market terms are applied for intra-Group transactions. The necessary provisions are made for obsolescence and intra-Group gains.

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. Acquisition-related intangible assets are recognised at fair value on the date of acquisition.

Both acquisition-related and other intangible assets are reported at acquisition value less accumulated amortisation and impairment losses. Acquisition-related intangible assets with an indefinite life are not amortised.

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/amortisation according to plan

Depreciation/amortisation according to plan is calculated on the original acquisition value and based on the asset's estimated economic life; the depreciation terms for various asset classes are:

Capitalised development expenditure	3–8 years
Patents and trademarks [1]	20 years
Other intangible assets	3–10 years
Computers	3–8 years
Machinery and equipment	3–15 years
Office buildings	20–50 years
Industrial buildings	20–50 years
Land improvements	5–30 years

[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 94 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 according to plan.

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, i.e. that 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 realisable 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.
The basic assumptions used to determine whether or not there is an impairment requirement are as follows:

Basic assumptions used for determining discount rate per currency

Risk-free interest rate	1.8–2.4%
Tax rate	7–40%
Beta value	1.0–1.4
Applied discount rate before tax	6.8–8.8%

Forecasting method

Forecast period	5–10 years
Growth after forecast period	2%

Cash-generating units

The definition of cash-generating units complies with the Group's organisation, whereby assessments of whether there are any impairment requirements are made at the sub-segment level within each particular business area. Intangible assets that are common to a specific business area are allocated to this business area. The total value of intangible fixed assets that are not subject to amortisation was 14 095 MSEK (12 182) at 31 December 2008. The entire amount is attributable to business area Hexagon Measurement Technologies. The recoverable value is generally set at the value in use.

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.
- The Parent Company normally recognises Group contributions paid and received, and the corresponding tax effect, directly in shareholders' equity. However, in those cases where Group contributions received can be considered as dividends, the Group contribution is recognised as financial income, and the tax effect is included in income tax for the year in the income statement.
- In the Parent Company, the shares in subsidiaries are recognised at acquisition value less any impairment.

The Parent Company applies hedge accounting for assets in foreign currencies that are effectively hedged by borrowings in foreign currencies. Accordingly, changes in exchange rates are not reported for loans raised to finance acquisitions of foreign subsidiaries.

Non monetary assets acquired in foreign currency are recognised at the historical exchange rate. Other assets and liabilities in foreign currency are recognised at the exchange rate prevailing on the balance-sheet date.

Approval of accounts

The Parent Company's and the consolidated financial statements will be presented to the Annual General Meeting for approval on 6 May 2009.

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.

Income recognition

Parts of Hexagon's sales derive from major, 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.

Intangible assets

Intangible assets in the Hexagon Group 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, ongoing 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 31 December amounted to 10 522 MSEK. Implemented impairment tests did not give rise to any cause to impair this amount.

Valuations of tax assets

The Board of Directors and company management continuously assess the carrying amount of both current and deferred tax assets/tax 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 may be uncertain due to ongoing tax processes, for example. Accordingly, the fair value of deferred tax assets 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 liabilities, Hexagon has to form an opinion of the tax rate that will apply at the time of the reversal of taxable temporary differences. Hexagon recognised deferred tax assets in an amount of 256 MSEK, net, at the end of 2008. At the same date, the Group had tax-loss carry-forwards with a tax value of 422 MSEK 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 the Hexagon Group, 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.

Notes

Amounts in MSEK (SEK millions), unless stated otherwise.

NOTE 1. Business areas and geographical markets

A detailed description of the operations is presented on pages 14–19 of this Annual Report.

BUSINESS AREAS 2008	Hexagon Measurement Technologies	Hexagon Polymers	Other operations	Group-wide and adjustments	Eliminations	Group
Net sales [1]	**12 356**	**1 419**	**704**	**–**	**–**	**14 479**
Operating earnings (EBIT1)	**2 469**	**143**	**6**	**–70**	**–**	**2 548**
Non-recurring items (Note 7)	–	–	–	–100	–	–100
Earnings before net interest expense	**2 469**	**143**	**6**	**–170**	**–**	**2 448**
Net interest income/expenses	–	–	–	–319	–	–319
Earnings before taxes	**2 469**	**143**	**6**	**–489**	**–**	**2 129**
Operational assets	25 302	–	514	104	–112	25 808
Operational liabilities	–3 220	–	–111	–21	112	–3 240
Net operating assets	**22 082**	**–**	**403**	**83**	**–**	**22 568**
Of which share in associated companies earnings	1	–	–	–	–	1
Shares in associated companies	5	–	15	–	–	20
Cash flow from operating activities	2 410	145	19	–819	–	1 755
Cash flow from ordinary investment activities	–925	–39	–36	–5	–	–1 005
Operating cash flow	**1 485**	**106**	**–17**	**–824**	**–**	**750**
Average number of employees	7 720	950	381	11	–	9 062
Number of employees at year-end	8 024	–	401	11	–	8 436
Depreciation/amortisation and impairment losses	–641	–38	–37	–3	–	–719

2007	Hexagon Measurement Technologies	Hexagon Polymers	Other operations	Group-wide and adjustments	Eliminations	Group
Net sales [1]	**10 937**	**2 730**	**922**	**–**	**–2**	**14 587**
Operating earnings (EBIT1)	**2 141**	**310**	**30**	**–60**	**–**	**2 421**
Capital gain (Note 7)	–	–	–	114	–	114
Other non-recurring items (Note 7)	–	–	–	–265	–	–265
Earnings before net interest expense	**2 141**	**310**	**30**	**–211**	**–**	**2 270**
Net interest income/expenses	–	–	–	–214	–	–214
Earnings before taxes	**2 141**	**310**	**30**	**–425**	**–**	**2 056**
Operational assets	19 441	2 599	692	80	–110	22 702
Operational liabilities	–3 012	–359	–306	0	110	–3 567
Net operating assets	**16 429**	**2 240**	**386**	**80**	**–**	**19 135**
Of which share in associated companies earnings	4	0	–	–35	–	–31
Shares in associated companies	20	0	–	–	–	20
Cash flow from operating activities	2 114	360	17	–526	–	1 965
Cash flow from ordinary investment activities	–576	–172	–64	–13	–	–825
Operating cash flow	**1 538**	**188**	**–47**	**–539**	**–**	**1 140**
Average number of employees	5 796	2 120	480	10	–	8 406
Number of employees at year-end	7 296	2 327	428	11	–	10 062
Depreciation/amortisation and impairment losses	–515	–70	–42	–176	–	–803

[1] Since inter-company invoicing among the business areas is negligible, only gross invoicing is stated.

Note 1, cont.

GEOGRAPHICAL MARKETS	Net sales per recipient country		Net operating assets[1] Assets		Liabilities		Net		Cash flow from ordinary investment activities	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
EMEA	7 967	8 646	18 882	15 774	–1 938	–2 711	16 944	13 063	–747	–498
Americas	3 593	3 551	2 010	6 228	–1 136	–1 062	874	5 166	–199	–188
Asia	2 919	2 390	5 848	1 447	–1 098	–541	4 750	906	–59	–139
Elimination of intra-Group items	–	–	–932	–476	932	476	–	–	–	–
Group	**14 479**	**14 587**	**25 808**	**22 973**	**–3 240**	**–3 838**	**22 568**	**19 135**	**–1 005**	**–825**

[1] Net operating assets are equivalent to operating earnings inasmuch as items such as cash and cash equivalents, tax, interest and interest-bearing liabilities and provisions are not included.

NOTE 2. Parent Company intra-group sales and purchases

Other Group companies account for 100 per cent (100) of the Parent Company's sales and 24 per cent (0) of the Parent Company's purchases.

NOTE 3. Average number of employees

	2008 Men	2008 Women	2008 Total	2007 Men	2007 Women	2007 Total
Parent Company	7	4	11	6	4	10
Subsidiaries	6 952	2 099	9 051	6 758	1 638	8 396
Total, Group	**6 959**	**2 103**	**9 062**	**6 764**	**1 642**	**8 406**

Average number of employees by country	2008 Men	2008 Women	2008 Total	2007 Men	2007 Women	2007 Total
Sweden	577	173	750	723	272	995
Norway	42	5	47	34	4	38
Denmark	80	41	121	67	37	104
Finland	7	1	8	9	0	9
Nordic region and Baltic states	**706**	**220**	**926**	**833**	**313**	**1 146**
UK	175	42	217	162	40	202
Germany	444	80	524	395	63	458
Netherlands	20	2	22	18	2	20
Belgium	75	11	86	98	10	108
France	266	108	374	201	65	266
Switzerland	1 289	261	1 550	1 192	229	1 421
Italy	285	75	360	289	69	358
Portugal	9	3	12	9	3	12
Spain	137	41	178	100	32	132
Russia	12	3	15	10	3	13
Czech Republic	53	5	58	112	6	118
Turkey	11	3	14	14	2	16
Austria	12	4	16	1	0	1
Poland	25	4	29	17	2	19
Hungary	7	4	11	–	–	–
Rest of Europe	**2 820**	**646**	**3 466**	**2 618**	**526**	**3 144**
Total, Europe	**3 526**	**866**	**4 392**	**3 451**	**839**	**4 290**
USA	1 169	293	1 462	1 082	264	1 346
Canada	256	83	339	99	26	125
Mexico	50	8	58	36	6	42
North America	**1 475**	**384**	**1 859**	**1 217**	**296**	**1 513**

Note 3, cont.

Average number of employees by country	2008 Men	2008 Women	2008 Total	2007 Men	2007 Women	2007 Total
Brazil	53	18	71	36	8	44
South America	**53**	**18**	**71**	**36**	**8**	**44**
South Africa	1	–	1	–	–	–
Africa	**1**	**–**	**1**	**–**	**–**	**–**
Australia	104	20	124	83	15	98
Australia	**104**	**20**	**124**	**83**	**15**	**98**
China	954	627	1 581	587	312	899
United Arab Emirates	4	1	5	1	0	1
Hong Kong	21	10	31	16	10	26
India	96	11	107	19	2	21
Israel	40	9	49	4	1	5
Japan	86	13	99	83	14	97
Korea	32	5	37	32	6	38
Malaysia	7	2	9	4	2	6
Thailand	6	6	12	5	5	10
Singapore	90	124	214	86	111	197
Sri Lanka	464	7	471	1 140	21	1 161
Asia	**1 800**	**815**	**2 615**	**1 977**	**484**	**2 461**
Total, Group	**6 959**	**2 103**	**9 062**	**6 764**	**1 642**	**8 406**

NOTE 4a. Employee benefits

Salaries and Remuneration	Board, CEO and other Senior Executives 2008	Board, CEO and other Senior Executives 2007	Other employees 2008	Other employees 2007
Parent Company	27	25	7	6
(of which performance-related pay and bonus)	(8)	(8)	(–)	(0)
Subsidiaries in Sweden	14	18	249	325
Total	**41**	**43**	**256**	**331**
Australia	5	4	73	55
Austria	1	0	8	3
Belgium	6	7	32	34
Brazil	4	3	11	8
Canada	5	5	174	60
China	7	8	99	71
Czech Republic	2	1	7	12
Denmark	3	3	55	47
Finland	–	–	3	1
France	8	7	138	113
Germany	18	9	268	228
Hong Kong	–	–	12	2
Hungary	1	–	2	–
India	3	0	11	1
Israel	2	–	28	8
Italy	12	3	151	139
Japan	7	6	41	37
Korea	–	1	12	11
Malaysia	0	0	1	1
Mexico	2	1	10	8
Netherlands	2	2	11	9
Norway	1	1	16	20

Salaries and Remuneration, cont.	Board, CEO and other Senior Executives 2008	Board, CEO and other Senior Executives 2007	Other employees 2008	Other employees 2007
Poland	5	1	2	4
Portugal	–	–	4	4
Russia	1	1	4	2
Singapore	3	5	39	37
South Africa	–	–	0	–
Spain	5	4	63	40
Sri Lanka	0	1	9	20
Switzerland	63	49	842	782
Thailand	1	1	1	1
Turkey	1	0	2	1
UK	8	7	101	101
United Arab Emirates	2	1	1	1
USA	28	24	824	772
Total, Group	**247**	**198**	**3 311**	**2 964**
(of which performance-related pay and bonus)	(45)	(50)	(205)	(244)

Social security expenses	All employees 2008	All employees 2007
Parent Company	16	15
(of which pension expenses)	(6)	(4)
Subsidiaries	770	664
(of which pension expenses)	(127)	(130)
Total	**786**	**679**
(of which pension expenses)	(133)	(134)

Note 4a, cont.

Pension expenses for Boards of Directors and Chief Executive Officers in the Group amounted to 15 MSEK (14). Pension commitments to Boards of Directors and Chief Executive Officers in the Group were 12 MSEK (13).

At year-end, one Board Member was a woman. The Chief Executive Officer and other senior executives were men.

Of all the Group's Board Members, Chief Executive Officers and other corporate executives, 36 were women and 337 were men.

Sickness absence in the Parent Company totalled 0 per cent (0) of the employees' combined ordinary working time. No part of sickness absence pertained to a continuous period of 60 days or more.

Defined-benefit pension schemes	2008	2007
Actuarial assumptions, %		
Discount interest rate	3.7	3.7
Expected return on plan assets	4.9	5.0
Inflation	1.5	1.5
Employee turnover	8.4	7.6
OVERVIEW		
Provisions		
Pension obligation	3 809	3 080
Fair value of plan assets	–3 416	–3 018
Pension obligation less plan assets	**393**	**62**
Unrecognised past service cost	25	25
Actuarial gains (+)/losses (–)	18	331
Pension provision	**436**	**418**
Expenses		
Pensions vested during the year	119	112
Interest on pension provision	119	112
Expected return on plan assets	–161	–144
Amortisation of unrecognised actuarial gains (+)/losses (–)	12	1
Expenses for prior-year service	7	–
Employees' own contribution	–41	–31
Pension expenses – defined-benefit plans	**55**	**50**
Pension expenses – defined-contribution plans	78	84
Total pension expenses	**133**	**134**
SPECIFICATIONS		
Pension obligations		
Opening balance	3 080	3 253
Change in terms and conditions	–	–31
Pensions vested during the year	119	112
Interest expense	119	112
Benefits paid	–186	–155
Obligations in acquired/divested subsidiaries	–9	–23
Expenses for prior-year service	–	–1
Actuarial gains (+)/losses (–)	–64	–216
Currency translation differences	750	29
Closing balance	**3 809**	**3 080**
Plan assets		
Opening balance	3 018	2 907
Expected return on plan assets	161	144
Funds contributed	118	113
Amounts refunded	–177	–159
Acquired/divested subsidiaries	–	0
Actuarial gains (+)/losses (–)	–406	–16
Currency translation differences	702	29
Closing balance	**3 416**	**3 018**

Defined-benefit pension schemes	2008	2007
Return on plan assets		
Expected return on plan assets	161	144
Actuarial gains (+)/losses (–)	–406	–16
Actual return on plan assets	**–245**	**128**
Provision for pensions		
Opening balance	418	474
Pension expense, defined-benefit schemes	77	80
Benefits paid	–186	–155
Funds contributed	–118	–113
Repayments	177	159
Expenses for prior-year service	–7	–6
Settlement of pension obligations	–	2
Acquired/divested subsidiaries	–9	–23
Currency translation differences	84	0
Closing balance	**436**	**418**
Actuarial gains/losses		
Opening balance, actuarial gains (+)/losses (–)	331	128
Amortisation during the year	–12	–
Redemption of pension obligations	–	4
Pension obligations, actuarial gains (–)/losses (+)	64	216
Plan assets, actuarial gains (–)/losses (+)	–406	–16
Other gains and losses	11	–
Acquired/divested companies	2	2
Currency translation differences	28	–3
Closing balance, actuarial gains (+)/losses (–)	**18**	**331**
Unrecognised expenses for prior-year service		
Opening balance	25	–
Recognised this year	–7	–6
Unrecognised this year	1	31
Currency translation differences	6	0
Closing balance	**25**	**25**
Acquired subsidiaries		
Increase in pension obligations (+)	–	4
Increase in plan assets (–)	–	0
Total – net	**–**	**4**
Divested subsidiaries		
Decrease in pension obligations (–)	–9	–31
Change in actuarial gains (–)/losses (+)	2	7
Total – net	**–7**	**–24**
Fair value of plan assets		
Equities and similar financial instruments	775	827
Interest-bearing securities, etc.	2 152	1 900
Real estate	489	291
Total	**3 416**	**3 018**

Note 4a, cont.

Pension obligations, 31 December 2008	Plan assets	Pension obligations	Net
Germany	31	–99	–68
Italy	–	–74	–74
Sweden	–	–41	–41
Switzerland	3 161	–3 321	–160
UK	184	–165	19
USA	39	–54	–15
Other minor commitments	1	–55	–54
Total (fair/present value)	**3 416**	**–3 809**	**–393**
Actuarial gains			–18
Unrecognised expense for prior-year service			–25
Pension provisions			**–436**

Any shortfall in the scheme 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.

NOTE 4b. Remuneration to senior executives

Pursuant to resolutions by the Annual General Meeting, the Chairman of the Board and Board Members were paid remuneration totalling 2 425 000 SEK (2 425 000). Due to changes in the Board of Directors, the Board fee paid amounted to 2 225 000 SEK. The Chairman of the Board received 650 000 SEK and other Board Members 350 000 SEK each. The Chief Executive Officer of Hexagon AB did not receive any director fees. In addition to director fees, remuneration is paid for work on committees. The chairman of the Remuneration Committee received 75 000 SEK and each member received 50 000 SEK. The chairman of the Audit Committee received 150 000 SEK and each member received 100 000 SEK. No Board Member received any remuneration in addition to director fees.

Remuneration to the President and Chief Executive Officer, as well as other senior executives, comprises basic salary, variable remuneration, other benefits and pension. Other senior executives are presented on page 47. Variable remuneration is based on outcome in relation to individually set targets.

Pensions and other benefits received by the President and other senior executives are paid as part of their total remuneration.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

SEK 000s	Basic salary/ Director fees	Variable remuneration	Other[1] benefits	Pension expenses	Other remuneration	Total
Chairman of the Board, Melker Schörling	725	–	–	–	–	725
Mario Fontana	450	–	–	–	–	450
Ulf Henriksson	350	–	–	–	–	350
Gun Nilsson	500	–	–	–	–	500
Maths O. Sundqvist [2]	200	–	–	–	–	200
Chief Executive Officer, Ola Rollén	10 135	4 000	–	2 027	–	16 162
Other senior executives (three people)	9 619	4 175	149	1 927	–	15 870
Total	**21 979**	**8 175**	**149**	**3 954**	**–**	**34 257**

[1] Other benefits comprise company cars.
[2] Resigned from the Board at his own request in August 2008.

PENSION

Pension expense comprises defined-contribution pension schemes, and is the expense affecting earnings for the year. The Chief Executive Officer's pensionable age is 65. Pension premiums are payable at 20 per cent of pensionable salaries. The pensionable age of other senior executives is 65. Pension premiums are 20–25 per cent of pensionable salary. Pensionable salary means basic salary.

SEVERANCE PAY

Notice period for Executive Officer's is six months. Only if the Chief Executive Officer's employment is terminated by the Company will severance pay, corresponding to 18 months' salary, be paid. No salary during the period of notice will be paid in addition to the severance pay. Notice periods for other senior executives are 12 to 18 months. During the notice period, only ordinary salary is payable.

FINANCIAL INSTRUMENTS

Stock option plans, Leica Geosystems

At the date of acquisition on 14 October 2005, Leica Geosystems had a number of stock option plans targeted at Leica's senior executives. These options conferred these employees with the right to subscribe for one new Leica share at a price predetermined at allotment. These stock options are associated with certain terms and conditions, such as a specified length of service, before the employee is permitted to redeem his/her options for shares. The options were allotted free of charge. During the acquisition process, a third party submitted a competing bid for Leica Geosystems. As a consequence of this competing bid, Hexagon raised its initial bid, submitting an additional bid premium comprising five Hexagon class B shares in addition to the 440 CHF that had been offered per share. Hexagon's initial bid and the revised bid were targeted at existing shareholders, and those individuals holding Leica Geosystems' employee stock options. The value of the additional bid premium, i.e. the market value of the five class B Hexagon shares, has been accounted for as a portion of the acquisition value of the acquired shares and options of Leica Geosystems. In connection with the new issue of Hexagon shares effected in 2006 (compulsory redemption), the cash portion was adjusted to 462 CHF by a Swiss court. Following a bonus issue and the share split implemented in 2007, the bid premium corresponds to 15 Hexagon class B shares. As a consequence of the distribution of the shares in Hexpol AB in June 2008, the cash portion was adjusted to 473.80 CHF per option.

Because the value of the additional bid premium stated above is not considered to correspond to remuneration for services, it has been regarded as a portion of the acquisition value of Leica Geosystems. Thus the expenses for the employee stock options in the Hexagon Group comprise the expense originally calculated regarding the services to which the benefits were considered to correspond at the date of allotment. These employee stock options are charged against the income statement until the earliest possible exercise date pursuant to the original calculation. For 2008, this expense was 7 MSEK (8).

The Chief Executive Officer and other senior executives (five people, including two appointed on 1 January 2009) are not participating in this stock option plan.

Note 4b, cont.

WARRANTS	Exercise period, until	Number of options/warrants	Number of shares in Hexagon to be received free of charge	To receive in cash less exercise price per Hexagon share	Share price on exercise
Warrant plan in Leica Geosystems					
Opening balance 2008	2010-04-07	1 281	19 215	146.26	
	2009-04-08	821	12 315	109.03	
	2011-04-08	8 633	129 495	100.29	
	2012-04-08	19 176	287 640	46.73	
	2008-04-04	29	435	36.47	
Total closing balance 2008		**29 940**	**449 100**	**68.13**	
Changes in 2008					
Warrants exercised for cash		–2 862	–	–	113.00
Warrants exercised for cash and Hexagon shares		–11 319	–	–	114.00
Forfeited warrants		–1 434	–	–	
Closing balance 2008	2010-04-07	503	7 545	193.59	
	2009-04-08	438	6 570	145.78	
	2011-04-08	2 568	38 520	134.55	
	2012-04-08	10 816	162 240	65.76	
Total closing balance 2008		**14 325**	**214 875**	**85.03**	

Stock option plan, Hexagon AB

In order to offer the opportunity for senior executives and key employees to participate in the increase in value of the company's share, increase their interest in the company's development and to stimulate a continued company loyalty over the forthcoming years, an Extraordinary General Meeting resolved in December 2007 to introduce a new warrant programme. The share price at the time was 144 SEK.

The warrants were transferred to the employees in the beginning of April 2008. The price was fixed at 20 SEK per option. Each warrant conferred the right to subscribe for one Hexagon share for 177 SEK per share. The exercise period was set to extend from 2 July 2011 through 2 January 2012. The transfer of the warrants was made at market value since the exercise price of 177 SEK per share was calculated using the Black-Scholes' method with the stipulated price per option and the exercise period as the base. The values of the remaining parameters in the calculation were as follows:

Dividend yield	1.6%
Expected volatility	35%
Risk-free interest rate	3.8%

As a consequence of the distribution of the shares in Hexpol AB in June 2008, the number of subscription-qualifying shares was adjusted to 1.04 per warrant and the exercise price to 170.20 SEK per share.

	Exercise period, until	Number of options	Number of subscription-qualifying shares in Hexagon	To be paid in cash per subscribed Hexagon share
Warrant plan in Hexagon AB				
Opening balance 2008		–	–	–
Changes in 2008				
Allotment of warrants to employees		1 391 000		
Closing balance 2008	**2012-01-02**	**1 391 000**	**1 446 640**	**170.20**

	Warrants in Leica Geosystems		Warrants in Hexagon AB	
WARRANTS, 31 DECEMBER 2008	Number	Acquisition price (CHF)	Number	Acquisition price (SEK)
CEO	–	–	–	–
Other Senior Executives (five people, including two appointed on 1 January 2009)	–	–	140 000	2 800 000
Other employees	14 325	–	1 251 000	25 020 000
Total	**14 325**	**–**	**1 391 000**	**27 820 000**

On full exercise of outstanding warrant programs, dilution would be 1.1 per cent of the share capital and 0.8 per cent of the voting rights.

NOTE 5. Other operating revenues and expenses

	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Operating revenues				
Capital gains on sale of fixed assets	7	34	–	–
Exchange rate gains	6	0	–	–
Other	71	25	–	–
Total	**84**	**59**	**–**	**–**
Operating expenses				
Capital losses on divestment of fixed assets	–	–1	–	–
Depreciation/amortisation and impairment	–	–76	–	–
Acquisition costs	–9	–	–	–
Other	–37	–11	–	–
Total	**–46**	**–88**	**–**	**–**

NOTE 6. Remuneration of the Group's auditors

	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Auditing				
Ernst & Young	19	18	1	1
Other	1	1	–	–
Total	**20**	**19**	**1**	**1**
Assignments other than auditing				
Ernst & Young	2	3	–	1
Other	13	8	–	–
Total	**15**	**11**	**–**	**1**

NOTE 7. Non-recurring items

	Business area	2008	2007
Capital gain from divestment of subsidiaries	Other operations	–	114
Acquisition of NovAtel	Hexagon Measurement Technologies		
Impairment of value of overlapping technologies		–	–91
Impairment of value of NovAtel's customer relations relating to Leica Geosystems		–	–60
Impairment of value of the associated company Outokumpu Nordic Brass AB	Other operations	–	–35
Costs related to preparations for the listing of Hexagon Polymers in 2008	Hexagon Polymers	–	–16
Legal costs pertaining to completed dispute concerning patent infringement	Hexagon Measurement Technologies	–	–20
Other restructuring costs	Hexagon Measurement Technologies	–100	–43
Total		**–100**	**–151**

Non-recurring items are reported in the "Group-wide and adjustments" column in Note 1, "Business areas and geographical markets".

NOTE 8. Earnings from financial investments

	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Earnings from shares in Group companies				
Dividend from subsidiaries	–	–	1 696	–
Impairment	–	–	–17	–
Capital gain	–	140	9	–
Capital loss	–	–26	–	–
Total	**–**	**114**	**1 688**	**–**
Interest income				
Interest income, Group companies	–	–	248	212
Other interest income	36	48	10	10
Total	**36**	**48**	**258**	**222**

Note 8, cont.

	Group		Parent Company	
	2008	2007	2008	2007
Interest expense				
Interest expense, Group companies	–	–	–114	–111
Other interest expense	–355	–262	–341	–239
Total	**–355**	**–262**	**–455**	**–350**
Earnings from shares in associated companies				
Share in associated company earnings	1	–	–	–
Impairment	–	–35	–	–
Capital gain	–	3	–	–
Profit shares, etc.	–	1	–	–
Total	**1**	**–31**	**–**	**–**

NOTE 9. Income taxes

	Group	
	2008	2007
Tax on earnings for the year		
Income tax	–243	–286
Total current tax	**–243**	**–286**
Deferred tax on earnings for the year	–27	41
Share of tax in associated companies	0	0
Total tax on earnings for the year	**–270**	**–245**

Non-accounted deferred Parent Company tax liabilities for untaxed reserves amount to – MSEK (–).

DEFERRED TAX

Deferred tax, meaning the difference between, on the one hand, income tax actually recognised as current tax in current and prior-year income statements and, on the other hand, the income tax the company will finally be charged as a consequence of business conducted in the current and prior financial years amounted to:

	Group	
	2008	2007
Deferred tax assets (liabilities) comprise:		
Fixed assets	–660	–532
Inventories	146	105
Customer receivables	4	16
Provisions	43	36
Hedge of net assets in foreign subsidiaries	602	12
Other	–108	–59
Unutilised loss carry-forwards and similar deductions	651	554
Less items not satisfying criteria for being recognised as assets	–422	–308
Total	**256**	**–176**
According to the balance sheet:		
Deferred tax assets	587	492
Deferred tax liabilities	–331	–668
Total, net	**256**	**–176**

Unutilised loss carry-forwards and similar deductions not satisfying criteria for being recognised as assets have not been recognised at any value. 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.

However, certain potential taxes on dividends and divestments remain within the Group. The principal internal interface pertaining to potential income tax consequences from share divestments is the US company Brown & Sharpe International Capital Corporation's ownership of the Swiss company Tesa SA. With respect to dividends, the principal internal interface is between the Group's Chinese companies that are owned in the US and their parent company.

Reconciliation of the year's change in current and deferred tax assets/liabilities	Group	
	2008	2007
DEFERRED TAXES		
Opening balance, net	**–176**	**53**
Change via income statement:		
Deferred tax on earnings	–32	–26
Change in reserve for deductions not satisfying criteria for being recognised as assets	–7	–67
Change in tax rates and items pertaining to prior years	12	135
Total	**–27**	**42**
Completion of acquisition analysis of Leica Geosystems[1]	–	–260
Change via acquisitions and divestments	–4	–65
Changes recognised directly in shareholders' equity, etc.	607	35
Translation difference	–144	19
Closing balance, net	**256**	**–176**
CURRENT TAXES		
Opening balance, net	**–225**	**–150**
Change via income statement:		
Current tax on earnings	–281	–286
Change in tax rates and items pertaining to prior years	38	0
Total	**–243**	**–286**
Change via acquisitions and divestments	5	12
Payments, net	344	205
Translation difference	–33	–6
Closing balance, net	**–152**	**–225**

[1] During 2007, it was established that deferred tax liabilities of 260 MSEK pertaining to temporary differences that existed at the time of the acquisition of Leica Geosystems had not been reported. At the same time the enacted tax rate for Leica Geosystems was lowered dramatically. A correction for the unrecorded tax liability would have been negated by a larger deferred tax income resulting from the tax rate change. Consequently, the counter-item for reporting this liability in the time limit permitted by IFRS 3 would have been goodwill and for periods thereafter – income tax expense. Hexagon has reported this tax liability against goodwill despite the time limit permitted by IFRS 3 having expired. After studying all the relevant factors, Hexagon has concluded that reporting the item in this way is the most suitable solution and that it does not constitute a significant deviation from IFRS 3.

Note 9, cont.

The Group's unutilised loss carry-forwards and similar deductions mature as follows:	Group 2008
Year	
2009	17
2010	4
2011	8
2012	17
2013 and later	541
Indefinitely	1 557
Total	**2 144**

The difference between nominal Swedish tax rate and effective tax rates arises as follows:	Group 2008	2007
Earnings before tax	**2 129**	**2 056**
Tax pursuant to Swedish nominal tax rate	**–596**	**–575**
Difference in tax rates in foreign businesses	280	228
Revaluation of loss carry-forwards, etc.	–7	–67
Non-deductible expenses	–43	–64
Non-taxable revenue	50	93
Change in tax rates, etc., in foreign operations	46	140
Tax, income statement	**–270**	**–245**

NOTE 10. Acquisitions and divestments of subsidiaries

NET ASSETS IN ACQUIRED SUBSIDIARIES EXCLUDING ACQUIRED CASH AND BANK BALANCES

Net assets in subsidiaries taken over and total cash flow from acquisitions is divided as follows:

	2008	2007
Goodwill	583	3 503
Other intangible fixed assets	206	627
Tangible fixed assets	32	244
Financial fixed assets	–3	59
Current receivables, inventories, etc.	221	552
Cash and cash equivalents	73	1 101
Provisions	–53	–526
Long-term liabilities	–19	–161
Current liabilities, etc.	–169	–704
Net assets	**871**	**4 695**
Acquisition price	859	4 819
Acquisition cost	15	59
Total acquisition expenditure	**874**	**4 878**
Less cash and cash equivalents in acquired Group companies	–73	–1 101
Less unpaid transaction costs	–2	–7
Less unpaid portion of acquisition price	–114	–211
Plus payment of unpaid portion of transaction costs from prior years	2	–
Plus payment of unpaid portion of acquisition price from prior years	90	13
Plus payment for Leica Geosystems	21	20
Cash flow from acquired Group companies, net	**798**	**3 592**

NET ASSETS IN DIVESTED SUBSIDIARIES EXCLUDING DIVESTED CASH AND BANK BALANCES

Assets and liabilities of divested subsidiaries and the total cash flow from divestments is divided as follows:

	2008	2007
Goodwill	1 094	25
Other intangible fixed assets	14	1
Tangible fixed assets	722	196
Financial fixed assets	1	–
Current receivables, inventories, etc.	789	540
Cash and cash equivalents	220	3
Minority share	–	–11
Provisions	–29	–34
Long-term liabilities	–1 406	–32
Current liabilities, etc.	–525	–230
Net assets	**880**	**458**
Dividend to Parent Company's shareholders	**880**	**–**
Selling price	–	593
Selling costs	–	–21
Total sales revenue	**–**	**572**
Divested net assets	–	–458
Capital gain	**–**	**114**
Total sales revenue	**–**	**572**
Less cash and cash equivalents in divested units	–220	–3
Cash flow from divested Group companies, net	**–220**	**569**

Most of the acquisition analyses pertaining to the year's acquisitions were completed using definitive figures. However, the acquisition analyses pertaining to a few of the acquisitions may require calibration during 2009, although only by minor amounts. The acquired companies apply IFRS as of the acquisition date, although the accounting standards previously applied are usually based on local legislation and/or tax legislation. Accordingly, historical figures are not comparable with the financial results reported after the acquisition. For this reason, Hexagon is not issuing any estimates of what the Hexagon Group's earnings would have been if the acquisitions had occurred at the beginning of the year or any similar information. Since each acquisition 2008 is insignificant in size, all acquisitions are reported in summary. The only divestment made during 2008 was the distribution of the shares in Hexpol to Hexagon's shareholders.

NOTE 11. Intangible and tangible fixed assets

GROUP **Intangible fixed assets** 2008	Capitalised development expenditure	Patents and trademarks	Goodwill	Other intangible fixed assets	Total
Acquisition value, opening balance	1 367	3 255	9 737	1 053	15 412
Translation differences	298	918	1 509	121	2 846
Investments	613	–	–	20	633
Investments via acquisitions of subsidiaries	1	78	583	127	789
Sales/disposals	–719	–	–	0	–719
Sales via divestments of subsidiaries	–17	–	–1 118	–11	–1 146
Reclassification	26	–	1	–1	26
Acquisition value, closing balance	**1 569**	**4 251**	**10 712**	**1 309**	**17 841**
Amortisation, opening balance	–408	–61	–214	–212	–895
Translation differences	39	–23	1	–40	–23
Amortisation for the year	–293	–29	–	–96	–418
Sales/disposals	719	–	–	0	719
Sales via divestments of subsidiaries	11	–	23	4	38
Reclassification	–12	–	–	0	–12
Amortisation, closing balance	**56**	**–113**	**–190**	**–344**	**–591**
Impairments, opening balance	–294	–	–	–72	–366
Translation differences	–51	–	–	3	–48
Impairments for the year	–4	–	–	–	–4
Impairments, closing balance	**–349**	**–**	**–**	**–69**	**–418**
Carrying value	**1 276**	**4 138**	**10 522**	**896**	**16 832**

2007	Capitalised development expenditure	Patents and trademarks	Goodwill	Other intangible fixed assets	Total
Acquisition value, opening balance	1 088	3 166	6 191	401	10 846
Translation differences	–14	35	72	15	108
Investments	389	–	–	14	403
Investments via acquisitions of subsidiaries	29	57	3 503	625	4 214
Sales/disposals	–32	–	–	–4	–36
Sales via divestments of subsidiaries	–	–	–29	–1	–30
Reclassification	–93	–3	–	3	–93
Acquisition value, closing balance	**1 367**	**3 255**	**9 737**	**1 053**	**15 412**
Amortisation, opening balance	–292	–36	–218	–95	–641
Translation differences	6	–1	–	–1	4
Investments via acquisitions of subsidiaries	–16	–	–	–68	–84
Amortisation for the year	–229	–24	–	–52	–305
Sales/disposals	32	–	–	4	36
Sales via divestments of subsidiaries	–	–	4	–	4
Reclassification	91	–	–	–	91
Amortisation, closing balance	**–408**	**–61**	**–214**	**–212**	**–895**
Impairments, opening balance	–164	–	–	–	–164
Translation differences	1	–	–	–8	–7
Impairments for the year	–131	–	–	–64	–195
Impairments, closing balance	**–294**	**–**	**–**	**–72**	**–366**
Carrying value	**665**	**3 194**	**9 523**	**769**	**14 151**

Capitalised expenditure on research and development pertains mainly to software, which is built into new products for sale.

With the exception of goodwill, the right to use the name “Leica” is the largest value in terms of intangible fixed assets. This right is not subject to amortisation. During 2005, development work was added through the acquisition of Leica Geosystems, which was recognised in an amount of 540 MSEK. The revaluation of assets and liabilities that resulted from the acquisition did not result in any change in this value. Following completion of the acquisition analysis, the value of software in Hexagon Metrology and Leica Geosystems was impaired by a combined amount of 162 MSEK via the income statement, due to overlaps.

During 2007, a corresponding analysis was performed in connection with the acquisition of NovAtel Inc. The analysis led to an impairment of overlapping capitalised development work by 91 MSEK and of the value of the customer portfolio by 60 MSEK via the income statement. At 31 December 2008, trademarks accounted for 3 573 MSEK (not subject to amortisation) of the total carrying value of patents and trademarks. Other intangible fixed assets primarily consist of customer bases identified upon acquisitions.

Note 11, cont.

GROUP **Tangible fixed assets** 2008	Buildings	Land and other real estate	Machinery and plants	Equipment, tools and installation	Construction in progress and suppliers advances	Total
Acquisition value, opening balance	1 135	220	2 441	611	80	4 487
Translation differences	139	40	273	52	2	506
Investments	49	9	224	69	36	387
Investments via acquisitions of subsidiaries	35	–	0	13	–	48
Sales/disposals	–4	–3	–25	–12	–	–44
Sales via divestments of subsidiaries	–300	–36	–905	–167	–77	–1 485
Reclassification	61	6	10	–96	–21	–40
Acquisition value, closing balance	**1 115**	**236**	**2 018**	**470**	**20**	**3 859**
Depreciation, opening balance	–374	–10	–1 465	–361	–	–2 210
Translation differences	–41	0	–189	–26	–	–256
Investments via acquisitions of subsidiaries	–16	–	–	–	–	–16
Depreciation for the year	–44	–3	–177	–73	–	–297
Sales/disposals	2	0	20	12	–	34
Sales via divestments of subsidiaries	105	6	521	130	–	762
Reclassification	–13	–	–4	44	–	27
Depreciation, closing balance	**–381**	**–7**	**–1 294**	**–274**	**–**	**–1 956**
Carrying value	**734**	**229**	**724**	**196**	**20**	**1 903**

2007	Buildings	Land and other real estate	Machinery and plants	Equipment, tools and installation	Construction in progress and suppliers advances	Total
Acquisition value, opening balance	1 114	217	2 338	489	108	4 266
Translation differences	5	2	13	1	–	21
Investments	70	3	265	111	59	508
Investments via acquisitions of subsidiaries	74	29	217	73	1	394
Sales/disposals	–41	–16	–36	–14	–	–107
Sales via divestments of subsidiaries	–123	–15	–391	–47	–1	–577
Reclassification	36	–	35	–2	–87	–18
Acquisition value, closing balance	**1 135**	**220**	**2 441**	**611**	**80**	**4 487**
Depreciation, opening balance	–393	–8	–1 474	–290	–	–2 165
Translation differences	–7	0	–18	–3	–	–28
Investments via acquisitions of subsidiaries	–9	–3	–100	–38	–	–150
Depreciation for the year	–40	–1	–187	–75	–	–303
Sales/disposals	3	–	33	6	–	42
Sales via divestments of subsidiaries	70	2	271	38	–	381
Reclassification	2	–	10	1	–	13
Depreciation, closing balance	**–374**	**–10**	**–1 465**	**–361**	**–**	**–2 210**
Carrying value	**761**	**210**	**976**	**250**	**80**	**2 277**

The taxable value of properties in Sweden was 33 MSEK (30) for buildings and 8 MSEK (6) for land.

PARENT COMPANY 2008	Patents and trademarks	Buildings	Land	Equipment	Total
Acquisition value, opening balance	2	0	0	2	4
Investments	–	–	–	0	0
Acquisition value, closing balance	**2**	**0**	**0**	**2**	**4**
Depreciation, opening balance	–2	0	0	–1	–3
Depreciation for the year	–	–	–	0	0
Depreciation, closing balance	**–2**	**0**	**0**	**–1**	**–3**
Carrying value	**0**	**0**	**0**	**1**	**1**

Note 11, cont.

2007	Patents and trademarks	Buildings	Land	Equipment	Total
Acquisition value, opening balance	2	21	8	2	33
Investments	23	8	–	0	31
Sales/disposals	–23	–29	–8	0	–60
Acquisition value, closing balance	**2**	**0**	**0**	**2**	**4**
Depreciation, opening balance	–2	0	0	–1	–3
Depreciation for the year	–	0	–	–	0
Sales/disposals	–	0	–	–	0
Depreciation, closing balance	**–2**	**0**	**0**	**–1**	**–3**
Carrying value	**0**	**0**	**0**	**1**	**1**

The taxable value of properties in Sweden was – MSEK (2) for buildings and – MSEK (1) for land.

Amortisation and depreciation of tangible and intangible assets allocated by function:	2008	2007
Production	–183	–229
Sales	–30	–12
Administration	–92	–60
Research and development	–302	–218
Other	–107	–89
Total	**–714**	**–608**

NOTE 12. Financial fixed assets

GROUP	Shares in associated companies 2008	Shares in associated companies 2007	Other long-term securities holdings 2008	Other long-term securities holdings 2007	Other long-term receivables 2008	Other long-term receivables 2007
Opening balance	10	50	11	1	55	52
Translation differences	0	0	1	0	1	2
Investments	15	–	29	–	2	7
Investments via acquisitions of subsidiaries	1	–	–	10	–	–
Sales via divestiture of subsidiaries	–	–	–	–	–1	–
Earnings participations, etc.	1	1	–	–	–	–
Impairment	–	–35	–2	–	–	–1
Sales	–7	–6	–	–	–7	–5
Closing balance	**20**	**10**	**39**	**11**	**50**	**55**

PARENT COMPANY	Shares in Group companies 2008	Shares in Group companies 2007	Receivables from Group companies 2008	Receivables from Group companies 2007	Other financial fixed assets 2008	Other financial fixed assets 2007
Opening balance	12 840	11 827	6 076	2 800	–	–
Purchases	40	1 013	–	–	1	–
Divestment	–17	–	–	–	–	–
Increase/decrease in receivables	–	–	–647	3 276	–	–
Dividend (shares in Hexpol)	–726	–	–	–	–	–
Closing balance	**12 137**	**12 840**	**5 429**	**6 076**	**1**	**–**

OTHER LONG-TERM SECURITIES HOLDINGS	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Brilliant Telecommunications, Inc.	30	10	–	–
Trimek	7	–	–	–
Others	2	1	–	–
Total	**39**	**11**	**–**	**–**

Note 12, cont.

	Corp ID. No.	Reg. Office/Country	Number of shares	Portion of share capital and voting rights, %	Carrying amount 2008	Carrying amount 2007
Subsidiaries of Hexagon AB						
Leica Geosystems AG	–	Switzerland	2 512 450	100	10 390	10 367
SwePart AB	556046-3407	Stockholm, Sweden	8 662 500	100	218	218
Hexagon Förvaltning AB	556016-3049	Stockholm, Sweden	200 000	100	206	206
Hexagon Polymers AB	556108-9631	Malmö, Sweden	–	–	–	726
Johnson Industries AB	556099-2967	Örebro, Sweden	3 000	100	133	133
Röomned AB	556394-3678	Stockholm, Sweden	1 439 200	100	100	100
Hexagon Metrology AB	556365-9951	Stockholm, Sweden	1 000	100	78	78
Tecla AB	556068-1602	Stockholm, Sweden	160 000	100	14	14
Kramsten Food and Drink Suppliers AB	556083-1124	Stockholm, Sweden	100 000	100	12	12
NovAtel Inc. [1]	–	Canada	953 864	9	311	311
Hexagon Acquisition Inc.	–	Canada	1	100	675	675
Hexagon Metrology Sro [2]	–	Czech Republic	1	10	0	0
Other companies, mainly dormant	–	–	–	100	0	0
Total					**12 137**	**12 840**

[1] Remaining 91 per cent of the shares is owned by Hexagon Acquisition Inc.
[2] Remaining 90 per cent of the shares is owned by Hexagon Metrology AB.

NOTE 13. Shares in associated companies

	Type of ownership	Number of shares	Portion of, % Share capital	Portion of, % Voting rights	Portion of shareholders' equity, MSEK	Carrying amount Group 2008	Carrying amount Group 2007	Share in associated companies' earnings Before tax 2008	Tax 2008	Before tax 2007	Tax 2007
Outokumpu Nordic Brass AB	Joint venture	10 500	50.0	50.0	21	15	0	0	0	0	0
Point Inc.	Joint venture	73 549	49.0	49.0	4	4	2	2	0	6	0
AED-SICAD AG	Associated company	–	–	–	–	–	7	–	–	–1	0
Geonova AG	Associated company	–	–	–	–	–	1	–	–	0	0
H&S Server & Laser LLC	Joint venture	–	50.0	50.0	1	1	–	–1	–	–	–
Total					**26**	**20**	**10**	**1**	**0**	**5**	**0**

Outokumpu Nordic Brass AB, corporate identity number 556499-3979, has its registered office in Valdemarsvik, Sweden.
Point Inc. has its registered office in Kansas, USA.
H&S Server & Laser LLC has its registred office in Las Vegas, USA.

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

NOTE 14. Current receivables

	Status: Not due	Due less than 30 days	Due between 30–60 days	Due between 61–90 days	Due between 91–120 days	Due for more than 120 days	Total
Age analysis of receivables, 31 December 2008							
Current receivables, net of impairment losses	2 258	613	200	159	91	202	3 523
Total	**2 258**	**613**	**200**	**159**	**91**	**202**	**3 523**
Age analysis of receivables, 31 December 2007							
Current receivables, net of impairment losses	2 249	756	203	110	119	92	3 529
Total	**2 249**	**756**	**203**	**110**	**119**	**92**	**3 529**

Note 14, cont.

Reserve for doubtful receivables	2008	2007
Opening balance	**139**	**111**
Reserve for anticipated losses	65	31
Adjustment for definitive losses	–35	–7
Recovery of provisions	–18	–
Acquired/divested companies	3	4
Translation differences	11	0
Closing balance	**165**	**139**

TRADE AND OTHER RECEIVABLES

Trade receivable exposures are managed locally in the operating units where they arise and credit limits set as deemed appropriate for the customer. Hexagon's business activities are conducted in a large number of geographical markets, with numerous customer categories. The underlying local economic and sovereign risks vary throughout the world. Where appropriate, the Group endeavours to minimise risks by the use of trade finance instruments such as letters of credit, insurance and advance payments from customers.

Each operating unit establishes an allowance for bad debt that represents its estimate of incurred losses in respect of specific trade and other receivables where it is deemed that a receivables may not be recoverable. When the receivable is irrecoverable, the allowance account is written off against the underlying receivable.

A credit assessment is done for all new customers. The assessment is based on several different sources as Dun & Bradstreet, prior company trading history and the Internet.

NOTE 15. Prepaid expenses and accrued income/accrued expenses and deferred income

	Group		Parent Company	
	2008	2007	2008	2007
Prepaid expenses and accrued income				
Accrued invoicing	122	93	–	–
Prepaid rent	15	13	0	0
Accrued interest income	3	12	3	4
Prepaid acquisition costs	6	6	0	1
Other items	111	82	18	29
Total	**257**	**206**	**21**	**34**
Accrued expenses and deferred income				
Accrued personnel-related expenses	595	594	3	3
Received goods and services, not invoiced	20	74	–	–
Deferred service revenues	48	77	–	–
Other deferred revenues	334	212	–	–
Accrued interest expenses	76	20	75	20
Accrued sales commission	78	85	–	–
Accrued installation and training expenses	49	39	–	–
Accrued consultant fees	30	20	–	–
Other items	196	66	2	1
Total	**1 426**	**1 187**	**80**	**24**

NOTE 16. Share capital and number of shares

		Number of shares									
	Par value per share,	Outstanding			Repurchased			Total issued			Share capital,
PARENT COMPANY	SEK	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total	MSEK
Opening balance 2007	**4**	**3 937 500**	**84 454 325**	**88 391 825**	**–**	**–**	**–**	**3 937 500**	**84 454 325**	**88 391 825**	**354**
New issues – exercise of warrants	4	–	58 170	58 170	–	–	–	–	58 170	58 170	0
Bonus issue and split 3:1	2	7 875 000	169 024 990	176 899 990	–	–	–	7 875 000	169 024 990	176 899 990	177
Closing balance 2007	**2**	**11 812 500**	**253 537 485**	**265 349 985**	**–**	**–**	**–**	**11 812 500**	**253 537 485**	**265 349 985**	**531**
New issues – exercise of warrants	2	–	169 785	169 785	–	–	–	–	169 785	169 785	0
Repurchase of shares	2	–	–1 311 442	–1 311 442	–	–1 311 442	–1 311 442	–	–	–	–
Closing balance 2008	**2**	**11 812 500**	**252 395 828**	**264 208 328**	**–**	**–1 311 442**	**–1 311 442**	**11 812 500**	**253 707 270**	**265 519 770**	**531**

Class A shares carry 10 votes each and class B shares one vote each.
In 2008, the Parent Company effected a new issue by conversion of options to shares.
In 2007, the Parent Company effected a new issue by conversion of options to shares. In addition, a bonus issue and 3:1 split were conducted.

AVERAGE NUMBER OF SHARES BEFORE AND AFTER DILUTION, THOUSANDS	2008	2007
Average number of shares before dilution	265 317	265 278
Estimated average number of potential shares pertaining to warrants plans	451	756
Average number of shares after dilution	**265 768**	**266 034**

The average number of shares has been calculated after taking the bonus issue and 3:1 split implemented in 2007 into account.

For more information on the Hexagon share, reference is made to page 30.

NOTE 17. Other provisions

GROUP	Restructuring measures	Other provisions[1]	Estimated supplementary payments for acquired companies[2]	Total
Closing balance 2006	**22**	**176**	**36**	**234**
Provision	15	85	53	153
Present value adjustment	–	3	3	6
Increase through acquisition of businesses	7	20	159	186
Payment of supplementary acquisition considerations	–	–	–20	–20
Utilisation	–17	–137	–	–154
Reclassification	–	12	–12	0
Translation difference	–1	0	–4	–5
Closing balance, 2007	**26**	**159**	**215**	**400**[3]
Provision	84	64	8	156
Present value adjustment	–	–	9	9
Increase through acquisition of businesses	0	–	91	91
Decrease through divestiture of businesses	–	–27	–	–27
Payments of supplementary acquisition considerations	–	–	–84	–84
Utilisation	–28	–63	–	–91
Reclassification	–	–9	–6	–15
Translation difference	13	28	33	74
Closing balance, 2008	**95**	**152**	**266**[4]	**513**[3]

[1] Include primarily warrant provisions.
[2] Supplementary purchase prices that cannot reliably be calculated, in that they most often are recalculated based on future financial results of acquired entities, have not been provided for.
[3] Of which, current portion: 339 (208).
[4] Estimated amounts fall due within three years.

NOTE 18. Financial risk management and financial instruments

Hexagon is a net borrower and has extensive operations outside Sweden and is therefore exposed to various financial risks. The Group Treasury Policy, approved by the Board, stipulates the rules and limits 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 costs and better control and management of the Group's financial risks. Within Hexagon there is no mandate to conduct independent trading in currencies and interest rate instruments. All relevant exposures are monitored continuously and are reported to Group Management on a regular basis.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that currency exchange rate fluctuations will have an adverse effect on cash flow, income statement and balance sheet. Furthermore, the comparability of Hexagon's earnings between periods will be affected by changes in currency exchange rates.

Hexagon operations are located mainly outside Sweden and sales, costs and net assets are therefore primarily denominated in currencies other than SEK.

Currency exposures originate both from transactions in foreign currencies in the individual foreign operating entities, i.e. transaction exposures, and from translation of earnings and net assets into SEK upon consolidation of the Group, i.e. translation exposures.

Transaction Exposure

Sales and purchase of goods and services in currencies other than the subsidiary's functional currency give rise to transaction exposure. Transaction exposures are 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 currencies.

Transaction exposures are hedged in accordance with the Group Treasury Policy. Contracted transactions, i.e. accounts receivable and payable, and orders booked, are fully hedged. In addition 40 to 100 per cent of a rolling six month exposure forecast is hedged. Hedging of transaction exposures is done by entering into foreign exchange forwards and swaps.

As of 31 December 2008, outstanding foreign exchange derivatives hedging transaction exposures had a net market value of –2 MSEK. Cash flow hedge accounting is applied and hereby the market value is partly deferred in the hedge reserve in equity to offset the gains/losses on hedged future sales and purchases in foreign currencies. The unrealised gains/losses deferred in equity will at unchanged exchange rates affect the income statement during 2009.

Note 18, cont.

FOREIGN EXCHANGE FORWARDS USED FOR HEDGING OPERATING CASH FLOWS

	2009		2010 and later		Total		
Currency	Sold	Bought	Sold	Bought	Sold	Bought	Net
CAD	–2	201	–	–	–2	201	199
CHF	–159	470	–	–	–159	470	311
DKK	–8	–	–	–	–8	–	–8
EUR	–183	56	–	–	–183	56	–127
GBP	–43	4	–	–	–43	4	–39
HUF	–4	–	–	–	–4	–	–4
JPY	–21	3	–	–	–21	3	–18
NOK	–18	3	–	–	–18	3	–15
PLN	–1	1	–	–	–1	1	0
SEK	–13	–	–	–	–13	–	–13
SGD	–	102	–	–	–	102	102
USD	–419	29	–	–	–419	29	–390
Total	**–871**	**869**	**–**	**–**	**–871**	**869**	**–2**

Translation Exposure – Balance Sheet
The majority of the subsidiaries operate outside Sweden with other functional currencies than SEK. Translation exposure arises when the net assets from foreign entities are translated into SEK upon consolidation.

Translation exposures from net assets in foreign operations are partly hedged with external debt in corresponding currencies, mainly CHF, USD and EUR, in accordance with the Group Treasury Policy.

Translation differences from net assets in foreign operations reported in equity during 2008 were positive, 3 688 MSEK (224), partly offset by losses from revaluing loans in non-SEK currencies by –2 653 MSEK (–177).

NET ASSETS PER FOREIGN CURRENCY	2008	Hedging, %	2007	Hedging, %
CHF	10 474	65	8 342	100
EUR	3 216	41	1 962	–
USD	3 028	77	2 919	25
CAD	2 354	–	3 256	–
CNY	878	–	515	–
DKK	237	–	53	–
CZK	14	–	473	–
Other	1 082	–	635	–
Total	**21 283**	**49**	**18 155**	**50**

Translation Exposure – Income Statement
The consolidated operating income is mainly generated in non-Swedish subsidiaries. Changes in foreign exchange rates therefore have a significant impact on the Group's earnings when the income statements of foreign subsidiaries are translated to SEK.

Translation exposures related to forecasted earnings in foreign operations are not hedged.

NET SALES PER CURRENCY	2008	2007
EUR	4 652	5 048
USD	3 928	3 711
CHF	1 761	1 662
SEK	1 205	1 499
CNY	848	596
GBP	539	646
Other	1 546	1 425
Total	**14 479**	**14 587**

INTEREST RATE RISK
The interest rate risk is the risk that changes in interest rates will adversely affect the Group's net interest expenses and/or the cash flow. Interest rate exposures arise primarily from the external interest bearing debt.

In accordance with the Group Treasury Policy all external debt has short interest rate duration; on average shorter than six months.

During 2008 no interest rate derivatives were used in order to manage the interest rate risk.

FINANCIAL INCOME AND EXPENSES 2008	2008	2007
Interest income	36	48
Interest expense	–355	–262
Net	**–319**	**–214**

FINANCIAL CREDIT RISK
Credit risk is the risk that counterparts may be unable to fulfil their payment obligations. Financial credit risks arise when investing cash and cash equivalents and when trading financial instruments. To reduce the Group's financial credit risk, surplus cash is only invested with a limited number of approved banks, and derivative transactions are only conducted with counterparts where ISDA netting agreements have 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.

LIQUIDITY RISK
Liquidity risk is the risk of not being able to meet our payment obligations in full as they fall due or can only do so at materially disadvantageous terms due to lack of cash resources.

The policy is that the total liquidity reserve shall at all times be at least 10 per cent of the Group's forecasted annual net sales to minimise the liquidity risk.

On 31 December 2008, cash and unutilised credit limits totalled 3 001 MSEK (2 753).

ACCESS TO FUNDS AND CASH FLOW	
Access to funds, 1 January 2008	**2 753**
Change in credit limits	1 343
Cash flow excluding repayments/borrowing	–958
Other change in cash and cash equivalents and borrowings	–137
Access to funds, 31 December 2008	**3 001**

In the table, access to funds is defined as unutilised credit facilities plus cash and bank balances.

Note 18, cont.

Dates for re-fixing the interest and capital due dates pertaining to interest-bearing liabilities, 31 December 2008

	Maturing amounts							
	2009		2010–2012		2013 and later		Total	
	Capital	Interest	Capital	Interest	Capital	Interest	Capital	Interest
Liabilities to credit institutions								
Syndicated loan	–	10 470	10 470	–	–	–	10 470	10 470
Bond loan	430	430	–	–	–	–	430	430
Other lenders	70	70	–	–	–	–	70	70
Total liabilities to credit institutions	**500**	**10 970**	**10 470**	**–**	**–**	**–**	**10 970**	**10 970**
Other interest-bearing liabilities	0	3	10	–	26	–	39	39
Total interest-bearing liabilities	**500**	**10 973**	**10 480**	**–**	**26**	**–**	**11 009**	**11 009**

The interest rate columns state the corresponding capital that is subject to interest re-fixing.
There were no interest rate derivatives pertaining to borrowing at 31 December 2008.

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 decline extending or difficulties in procuring new lines of credit at a given point of 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 committed credit facilities, is allowed to mature within the next 12 months.

A syndicated loan of 1 billion EUR, with maturity June 2011, forms the foundation of the Group's financing. The key covenant in this syndicated loan is that the ratio between net debt and EBITDA shall be less than 3.5, which was the case as per year-end 2008. Due to the different method for translating net debt and EBITDA this ratio is sensitive towards large changes in exchange rates. Net debt is translated into SEK using closing rate while EBITDA is translated using a 12 month rolling average rate. Large moves in exchange rates for important currencies, especially SEK and CHF, will have a larger impact, in the short-term, on net debt than on EBITDA.

Currency composition pertaining to interest-bearing liabilities at 31 December 2008	
CHF	62%
USD	22%
EUR	12%
SEK	4%
Other	0%
Total	**100%**

Group's capital structure	2008	2007
Interest-bearing liabilities	11 655	10 584
Less: interest bearing assets	–979	–1 697
Net debt	10 676	8 887
Total shareholders' equity	12 014	10 046
Debt/equity ratio	89%	88%

SENSITIVITY ANALYSIS

The Group's earnings are affected by changes in certain key factors, as reviewed below. The calculations proceed from the conditions prevailing in 2008 and the effects are expressed on an annualised basis. Earnings in foreign subsidiaries are converted to SEK based on average exchange rates for the period the earnings arise.

During the year there have been very significant changes to the exchange rates of the foreign currencies that have the biggest impact on Hexagon's earnings and net assets, namely USD, EUR and CHF. The SEK has weakened substantially against all these currencies, especially during the fourth quarter. Since Hexagon has a majority of its operating earnings denominated in USD and EUR, this had a positive impact in the fourth quarter. But the strengthening of the CHF had an adverse effect, since a large part of the cost and majority of external debt is denominated in CHF.

Furthermore, central banks in all major countries cut interest rates dramatically in the second part of 2008 due to the rapid deterioration of the financial systems and world economy. Despite these interest rate cuts, the cost of new corporate borrowing in general has increased due to substantial widening of credit spreads.

During 2008, total net operating earnings from operations in foreign currencies amounted to an equivalent of 2 267 MSEK. An isolated change in the exchange rate for SEK by 1 per cent against all other foreign currencies would have an effect on operating earnings of approximately 23 MSEK.

Based on the average interest fixing period of one month in the Group's total loan portfolio as of year-end 2008 a simultaneous 1 percentage point change in interest rates in all of Hexagon's funding currencies would exert an earnings impact before tax of about 110 MSEK in the coming 12 months.

Note 18, cont.

FINANCIAL INSTRUMENTS
Carrying amount and fair value on 31 December 2008

Assets	Carrying amount	Fair value
Other long-term securities holdings	39	39
Long-term receivables	34	34
Accounts receivable	3 151	3 151
Other current receivables	362	362
Accrued income	122	122
Accrued interest	3	3
Short-term investments	20	20
Cash and bank balances	899	899
Derivatives	–	–
Total	**4 630**	**4 630**

Liabilities	Carrying amount	Fair value
Long-term liabilities to credit institutions	10 470	10 470
Other long-term interest bearing liabilities	39	39
Long-term interest-free liabilities	26	26
Current liabilities to credit institutions	500	500
Accounts payable	1 185	1 185
Other current interest-free liabilities	360	360
Accrued expenses	968	968
Accrued interest	76	76
Derivatives	2	2
Total	**13 626**	**13 626**

All financial assets, apart from derivative instruments, are included in the category “loan receivables and accounts receivable”.

All financial liabilities, apart from derivative instruments, are included in the category “financial liabilities valued at accrued amortised cost”.

Interest-free financial instruments, such as accounts receivable and accounts payable are reported at acquisition value net of impairment, which does not deviate from fair value.

Pension commitments, which are encompassed by special accounting policies, are not entered here.

NOTE 19. Rented assets

Leasing/rental agreements of an operational nature	Group		Parent Company	
	Machinery, equipment, etc.	Premises	Machinery, equipment, etc.	Premises
Expenses due for payment in				
2009	54	132	–	2
2010–2013	76	333	–	5
2014 and later	12	107	–	0
Total	**142**	**572**	**–**	**7**

The amounts are un-discounted minimum undertakings pursuant to contract. Costs for leasing/rents for the financial year were 196 MSEK (173).

Leasing/rental agreements of a financial nature	Group		Parent Company	
	Machinery, equipment, etc.	Premises	Machinery, equipment, etc.	Premises
Expenses due for payment in				
2009	6	1	–	–
2010–2013	8	1	–	–
2014 and later	1	0	–	–
Total	**15**	**2**	**–**	**–**

The amounts are un-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.

NOTE 20. Memorandum items

Pledged assets to credit institutions for loans, bank overdrafts and guarantees	Group		Parent Company	
	2008	2007	2008	2007
Other	20	41	–	–
Total	**20**	**41**	**–**	**–**

Contingent liabilities	Group		Parent Company	
	2008	2007	2008	2007
Guarantees in favour of Group companies	–	–	184	80
Letters of credit	100	114	–	–
Other contingent liabilities	85	72	85	66
Total	**185**	**186**	**269**	**146**

NOTE 21. Related-party disclosures

Remuneration of senior executives, meaning both the Board of Directors and management, is presented in Note 4b. 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 22. Events after the balance-sheet date

Hexagon estimates that no significant events occurred during the period from the balance-sheet date up to the date upon which the Annual Report was published.

NOTE 23. Quarterly income statements

	2008				2007			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Net sales	**4 027**	**3 904**	**3 070**	**3 478**	**3 499**	**3 516**	**3 448**	**4 124**
Gross earnings	**1 699**	**1 760**	**1 514**	**1 625**	**1 364**	**1 472**	**1 450**	**1 811**
Sales expenses	–534	–541	–531	–639	–448	–484	–491	–567
Administration expenses	–251	–236	–247	–273	–250	–208	–213	–409
Research and development expenses	–245	–233	–189	–277	–183	–192	–175	–261
Other operating revenues/expenses	–27	–17	–4	93	–28	13	–11	–3
Share in associated companies' earnings	1	1	0	–1	–33	0	0	2
Capital gains from sale of shares in Group companies	–	–	–	–	120	–	–	–6
Operating earnings [1]	**643**	**734**	**543**	**528**	**542**	**601**	**560**	**567**
Interest income and expenses, net	–81	–77	–76	–85	–46	–46	–60	–62
Earnings before tax	**562**	**657**	**467**	**443**	**496**	**555**	**500**	**505**
Tax	–84	–91	–49	–46	–60	–44	–63	–78
Net earnings [2]	**478**	**566**	**418**	**397**	**436**	**511**	**437**	**427**
[1] of which non-recurring items	–	–	–	–100	22	–	–	–173
[2] of which minority shares	2	3	3	4	2	2	3	4
Earnings include depreciation and impairments of	**–178**	**–169**	**–156**	**–216**	**–167**	**–145**	**–152**	**–339**
Earnings per share, SEK	1.79	2.12	1.56	1.48	1.64	1.92	1.64	1.59
Earnings per share after dilution, SEK	1.79	2.12	1.56	1.48	1.63	1.91	1.63	1.59
Average number of shares, thousands	265 350	265 412	265 520	264 985	265 176	265 235	265 350	265 350
Average number of shares after dilution, thousands	265 733	265 792	265 939	265 607	266 223	265 902	266 013	265 999
Operating earnings (EBIT1)	643	734	543	628	520	601	560	740
Operating earnings (EBIT1) per share, SEK	2.42	2.77	2.05	2.37	1.96	2.27	2.11	2.79

Quarterly figures are unaudited.

Proposed Allocation of Earnings

The following earnings in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

– Share premium reserve	1 980 275
– Unrestricted equity	–38 100
– Net earnings	1 497 856
Total	3 440 031

The Board of Directors proposes that these funds be allocated as follows:

– That a cash dividend of 0.50 SEK per share be paid to shareholders

In the following manner:

– That the cash dividend to shareholders be paid via retained earnings	132 104[1]
– Balance remaining in the share premium reserve	1 980 275
– Carried forward	1 327 652
Total	3 440 031

[1] The amount is based on the number of shares outstanding on 31 December 2008, namely 264 208 328.

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 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 describe the substantial risks and uncertainties facing the Group companies.

Stockholm, Sweden, 26 March 2009

Melker Schörling
Chairman

Mario Fontana
Member of the Board

Ulf Henriksson
Member of the Board

Gun Nilsson
Member of the Board

Ola Rollén
Member of the Board
President and Chief Executive Officer

Our Audit Report was submitted on 26 March 2009

ERNST & YOUNG AB

Hamish Mabon
Authorised Public Accountant

Audit Report

To the Annual General Meeting of the shareholders of Hexagon AB
Corporate identity number 556190-4771

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the managing director of Hexagon AB for the year 2008. The company's Annual Report is included in the printed version of this document on pages 48–84. The Board of Directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the managing director and significant estimates made by the Board of Directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board Member or the managing director. We also examined whether any Board Member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the managing director be discharged from liability for the financial year.

Stockholm, Sweden, 26 March 2009

ERNST & YOUNG AB

Hamish Mabon
Authorised Public Accountant

Creating a world-class **measurement technologies** company

Hexagon has undergone a substantial transformation during the period 2000–2008. Nine years ago, Hexagon was a Swedish conglomerate of a large number of small engineering companies. Today, measurement technologies, which were not part of the Group in 2000, represents 85 per cent of Hexagon's sales.

This truly global measurement technologies Group was created by organic growth and via acquisitions. Successful product development and expansion of the distribution network has taken Hexagon to new market segments and new geographical areas. About 60 acquisitions were completed during 2000–2008.

Income statement, MSEK	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Net sales	5 099	6 204	6 997	7 103	8 256	9 637	13 469	14 587	**14 479**
Operating earnings (EBITDA)	440	531	719	711	929	1 272	2 429	3 054	**3 267**
Operating earnings (EBITA)	281	350	511	480	686	923	1 827	2 421	**2 548**
Operating earnings (EBIT1)	234	287	421	406	686	923	1 827	2 421	**2 548**
Operating earnings	267	310	400	406	634	844	1 743	2 270	**2 448**
Earnings before tax	223	227	319	323	541	705	1 618	2 056	**2 129**
– of which non-recurring items	33	23	15	–	–52	–79	13	–151	**–100**
Net earnings	139	144	187	221	420	618	1 280	1 811	**1 859**
– of which minority share	–	–	–	–	7	5	7	11	**12**

Balance sheet, MSEK	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Current assets	2 000	3 391	3 118	3 060	3 600	5 251	5 861	7 944	**8 070**
Fixed assets	1 541	3 096	3 100	2 866	3 798	13 391	12 687	16 996	**19 431**
Non-interest bearing liabilities and provisions	975	1 877	1 713	1 626	1 950	3 533	3 322	4 310	**3 833**
Interest bearing liabilities and provisions	874	2 825	2 275	1 981	2 952	9 590	6 617	10 584	**11 654**
Minority interests	13	30	36	47	–	–	–	–	–
Shareholders' equity	1 679	1 755	2 194	2 272	2 496	5 519	8 609	10 046	**12 014**
Total assets	3 541	6 487	6 218	5 926	7 398	18 642	18 548	24 940	**27 501**

Figures for 2000–2003 have not been restated to comply with IFRS.

The Hexagon story

Over the years Hexagon has been formed by a number of divestitures of non-core businesses and several strategic acquisitions. The foundation of today's Hexagon is the US measurement technologies company Brown & Sharpe Inc. acquired in May 2001.

2000

New management team is hired and new strategies set. The business area Norfoods is divested.

2001

Gustaf Fagerberg AB, Tecla, Johnson Metal Bearing Components and the business area Hexagon Wireless are divested. The US listed measurement technologies company Brown & Sharpe Inc., the software company Wilcox, Cubic Tavleproduktion and HTR Hydrauliikka Oy are acquired.

2002

The measurement technologies company C E Johansson, rubber compound company GFD Technology Gmbh, measurement technologies company Quality Ltda and software company Mirai Srl are acquired.

2003

Boliden and Hexagon form a joint venture comprising their respective brass operations, Nordic Brass AB and Boliden Gusum AB. Hexagon increases its ownership to 90 per cent in Qingdao Brown & Sharpe Quinshao Technology Co Ltd and Qingdao Brown & Sharpe Trading Co Ltd.

2004

Metodsvets i Kungälv AB and Tjust Mekaniska Verkstads AB are divested. The shares in the listed company VBG AB are spun off to Hexagon's shareholders.

The measurement technologies operations of Korea ErFa Systems Eng. Co, measurement technologies operations of Sheffield Automation LLC, polymer group Thona Group and measurement technologies companies Romer S.A and Romer Inc. are acquired.

Key figures	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Annual net sales growth, %	9	22	13	2	16	17	40	8	**–1**
Operating margin, %	5	5	6	6	8	10	14	17	**18**
Return on capital employed, %	12	9	10	10	13	11	12	14	**12**
Return on capital employed excluding goodwill amortisation, %	14	10	12	11	13	11	12	14	**12**
Return on equity, %	8	8	9	10	18	18	17	20	**18**
Return on equity excluding goodwill amortisation, %	11	12	14	13	18	18	17	20	**18**
Investments, MSEK	150	202	267	226	299	442	834	825	**1 005**
Equity ratio, %	48	28	36	39	34	30	46	40	**44**
Share of risk-bearing capital, %	48	28	37	41	35	32	49	43	**45**
Interest coverage ratio, multiple	4.3	2.9	3.4	4.2	5.0	5.1	7.4	8.8	**7.0**
Net debt/equity ratio, multiple	0.38	1.35	0.97	0.78	1.11	1.66	0.70	0.88	**0.89**
Cash flow before changes in working capital, MSEK	381	358	388	534	723	956	1 737	2 472	**2 587**
Cash flow, MSEK	274	310	307	440	642	764	1 115	2 027	**1 755**
Earnings per share, SEK	0.89	0.92	1.10	1.22	2.28	3.14	5.01	6.79	**6.96**
Earnings per share after dilution, SEK	0.89	0.92	1.10	1.22	2.27	3.10	4.97	6.77	**6.95**
Earnings per share excluding goodwill amortisation, SEK	1.19	1.32	1.62	1.63	2.28	3.14	5.01	6.79	**6.96**
Cash flow per share before changes in working capital, SEK	2.43	2.28	2.27	2.94	3.99	4.90	6.84	9.32	**9.75**
Cash flow per share after change in working capital, SEK	1.75	1.98	1.80	2.43	3.54	3.92	4.39	7.64	**6.61**
Shareholders' equity per share, SEK	11	11	12	13	13	24	32	38	**45**
Closing share price, SEK	11	14	14	20	32	72	97	135	**38**
Cash dividend per share, SEK	0.47	0.47	0.47	0.47	0.61	0.92	1.67	2.35	**0.50**[1]
Average number of shares, in thousands	156 925	156 925	170 714	181 376	181 386	195 125	254 019	265 278	**265 317**
Average number of shares after dilution, in thousands	156 925	156 925	170 714	181 376	182 259	197 960	256 323	266 034	**265 768**
Number of outstanding shares – closing balance, in thousands	156 925	156 925	181 376	181 376	181 484	228 547	265 176	265 350	**264 208**
Average number of employees	4 078	5 061	5 428	5 401	5 935	6 111	7 862	8 406	**9 062**

The share-related key financial ratios have been calculated considering the 3:1 split conducted in May 2005 and the rights issues conducted in June 2002 and 2006, as well as the 3:1 split implemented in 2007. The dividend of shares in Hexpol AB has been regarded as an extraordinary dividend not giving cause to a retroactive recalculation of the number of shares used in the calculation of historic key figures. Figures for 2000–2003 have not been restated to comply with IFRS.

[1] Board of Directors' proposal.

2005

The Hexagon Automation business area and tooling company SwePart Verktyg AB are divested.

The wheel division of Trostel SEG, Inc. and Swiss measurement technologies company Leica Geosystems AG are acquired.

2006

An industrial property in Västerås, Sweden, a line of business in Tidamek AB and the shareholding in Tradimus AB are divested.

Scanlaser AB, Scanlaser AS, assets of Thaimach Sales & Service Co., Ltd. in Thailand and Mikrofyn A/S are acquired.

2007

Johnson Metall AB, Eurosteel AB and Tidamek AB are divested.

The software company Svensk ByggnadsGeodesi AB (SBG), French D&P Systems, Topolaser System and Gamfi, American Allen Precision Equipment, Acquis and Jigsaw Technologies, Australian Earth Resource Mapping (ER Mapper), Turkish Transmetal, software company IONIC, Chinese company JMTC, German Gesswein, CogniTens Ltd in Israel, Canadian NovAtel Inc, Indian Elcome Technologies, R&A Rost Vertriebs and R&A Rost Produktions in Austria, Geopro in Hungary and Junglas in Germany are acquired. Also, the American rubber compounding company Gold Key Processing Ltd is acquired.

2008

Hexagon Polymers is distributed to the shareholders of Hexagon and is listed as a separate company, Hexpol AB, on the NASDAQ OMX Stockholm.

The American companies Surveyors Service Company, Haselbach Surveying Instruments, the Spanish Santiago & Cintra Ibérica S.A, the American Advanced Metrology Solutions, the Swedish software company Viewserve, the German software company MTWZ, the German machine tool probe manufacturer m&h Group, the Chinese measuring instruments supplier Serein Metrology and the Australian machine guidance supplier Rinex Technology are acquired.

Definitions

Financial definitions

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

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

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

Cash flow
Cash flow from operating activities after change in working capital.

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

Dividend payout ratio
Dividend divided by earnings per share.

Dividend yield
Dividend as a percentage of share price.

Earnings per share
Net earnings, excluding minority interests, divided by average number of shares.

Earnings per share excluding goodwill impairment
Net earnings, excluding minority interests and goodwill amortisation, divided by average number of shares.

Enterprise value
Market capitalisation less interest-bearing liabilities plus cash and bank balances.

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

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

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

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

Operating earnings (EBIT1)
Operating earnings excluding capital gains from participations in Group companies and non-recurring items.

Operating earnings (EBITA)
Operating earnings excluding capital gains from participations in Group companies, non-recurring items and amortisation of goodwill and similar fixed assets.

Operating earnings (EBITDA)
Operating earnings excluding capital gains from participations in Group companies, non-recurring items and amortisation and depreciation of fixed assets.

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

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

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

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

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

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

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

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

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

Share price
Last settled transaction on the NASDAQ OMX Stockholm on the last business day for the year.

Business definitions

Americas
North, South and Central America, and the Caribbean islands.

Asia
Asia, Australia and New Zealand.

CAD
Computer Aided Design.

CMM
Coordinate Measuring Machine.

EMEA
Europe, Middle East and Africa.

GIS
Geographical Information System.

GLONASS
Global'naya Navigatsionnaya Sputnikovaya Sistema.

GNSS
Global Navigation Satellite System.

GPS
Global Positioning System.

HDS
High Definition Surveying (3D laser scanning).

Micrometre
One millionth of a metre, one thousandth of a millimetre.

OEM
Original Equipment Manufacturer.

TPS
Terrestrial Positioning System (Total Station).

Shareholder Information

Annual General Meeting 2009

The Annual General Meeting will be held on Wednesday 6 May 2009 at 17:00 CET at IVA, Grev Turegatan 16, Stockholm, Sweden.

Shareholders who wish to participate at the Annual General Meeting must be registered in the share register maintained by Euroclear Sweden AB (formerly VPC AB) no later than 29 April 2009. Notification of attendance should be made no later than 12:00 CET on 30 April 2009.

Notification of attendance should be sent:

- By post to Hexagon AB head office
- By e-mail to bolagsstamma@hexagon.se
- By telephone to +46 8 601 26 20
- By fax to +46 8 601 26 21

To be eligible to participate in the Annual General Meeting, shareholders with nominee-registered holdings should temporarily register their shares in their own names through the agency of their nominees so that they are recorded in he share register in good time before 29 April 2009.

Applications should state the shareholder's name, personal/corporate identity number, address and telephone number. Shareholders wishing to be represented by proxy should send a power-of-attorney to Hexagon before the Annual General Meeting.

Dividend

The Hexagon Board of Directors proposes that the dividend for the financial year 2008 be decreased to 0.50 SEK per share.

The Board proposes 11 May 2009 as the record date for the payment of dividends. First day of trade excluding right to dividend is 7 May 2009. Dividends should be in the possession of shareholders by 14 May 2009, assuming that the Annual General Meeting approves the Board's motion.

Financial Information 2009

Hexagon will issue financial information concerning financial year 2009 on the following dates:

Annual General Meeting 2009	6 May 2009
Interim Report Q1 2009	6 May 2009
Interim Report Q2 2009	6 August 2009
Interim Report Q3 2009	28 October 2009
Year-End Report 2009	February 2010

Financial information is available on www.hexagon.se
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Cover: Innovative high-precision measurement: A Leitz coordinate measuring machine with the QUINDOS Screw Compressor package inspects a screw rotor.

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Photos of Board of Directors and Group Management: Linus Meyer, Kristofer Sandberg and Anna Simonsson.
Photos of products and operations: Center for Earth Observation and Digital Earth, Chinese Academy of Sciences, Taiyuan Aerophotography Co. Ltd., CERN, ESA, Hexagon's subsidiaries, Johnér Bildbyrå and Lars Nyman.

The **Hexagon** world

Hexagon has a broad geographic coverage and a strong local presence. Hexagon's technologies and services are sold to more than 140 countries.

- Production Facilities
- Research Units

www.hexagon.se