HEXAGON

2 August 2023

Response to questions regarding short seller report

We have received questions from investors and analysts regarding a recent report published by a self-interested short seller - Viceroy. Hexagon has diligently reviewed and analysed the short seller report with its legal advisors and auditors.

Executive Summary:

Hexagon fundamentally disagrees with the short seller report. The allegations contained in the report by Viceroy are based on demonstratable factual inaccuracies, incorrect assumptions, and unfounded speculation. The short seller report was published without any involvement by Hexagon. We rebut all accusations made as false and driven by the short seller's desire to profit from said unfounded speculation.

Our organic and structural growth have been appropriately recorded. In the appendix below, it's demonstrated that reported numbers in our annual and interim reports are correct. The short seller's numbers are inaccurate and grossly miscalculated regarding the value of the individual assets, as well as the impact of currency and consolidation.

Hexagon's historical performance in adding value for its shareholders speaks for itself. Over the past 10 years, Hexagon has transformed itself into a market-leading technology company, with around 60% of revenue derived from software and services, at the same time increasing gross margins from 55% to 65% and more than doubling revenues and cash flows. The short seller's claims that Hexagon buys insolvent businesses are categorically false.

The investment in Divergent Technologies was not a related party transaction. Hexagon and Greenbridge are not related parties under IFRS and there are no related party transactions to report.

Accusations of fraud are without merit. Hexagon strongly refutes these allegations. Hexagon has never used a "vehicle" to "front run" its acquisitions for the benefit of others. Hexagon invested in Divergent independently and before any of the other Series D investors, including Greenbridge.

Change in auditors was mandated by law in 2021. As a listed entity in Sweden, Hexagon adheres to the EU audit directive and the EU audit regulation, which require mandatory rotation of an audit firm and individual lead auditor at defined time periods.

Our accounting practices are consistent with IFRS. Hexagon follows all practices and rules stipulated by IFRS. This is verified by the auditor's report presented in each annual report.

Hexagon follows corporate governance standards. Hexagon is in compliance with the Swedish Corporate Governance Code recommendations on corporate governance in relation to board composition and governance.

Hexagon has evolved substantially over the last decade and consistently delivered exceptional value to shareholders. We act in compliance with applicable rules and regulations for Swedish listed companies. Hexagon will continue to operate at world-class standards across all functions, and consequently our governance strategy and disclosures will continue to evolve and strengthen.

Below we provide additional background and analysis to refute the short seller’s accusations. For the benefit of analysts and investors, this document also highlights some ongoing initiatives regarding the work of the board to continuously improve governance and financial disclosures.

Board of Directors
HEXAGON AB (publ)

Stockholm 02-08-2023

Regarding Hexagon's organic and acquisition growth:

- Hexagon has a clearly defined M&A strategy and continues to strongly execute on it to the benefit of shareholders. As a matter of strategy, Hexagon does not acquire companies out of insolvency, nor companies in decline, and since 2017 distributors have accounted for only 5% of acquired revenues.
- Overall, the average contribution to growth from acquisitions has been 4.3% per annum between 2017-2022, in line with the stated 3% to 5% target.
- The aggregate gross margin and EBIT margin of companies acquired since 2017 has been above Hexagon's own, helping progress towards margin targets. Pure software companies have accounted for around 70% of acquired revenues.
- Hexagon's approach to M&A disclosure in the annual report, which is compliant with IFRS and independently audited, balances visibility with materiality of information and commercial sensitivities in increasingly competitive M&A markets. Hexagon's disclosures related to growth from M&A are consistent with our policies and sufficiently detailed to support the 'organic' and 'structure' growth figures.
- The short seller report argues that Hexagon's organic growth is overstated because the acquisition contribution to growth is deliberately understated. We disagree with the analysis behind this allegation and the methodology used to support it.
- Taking the 2017-2022 period as an example, the short seller report overstates Hexagon's growth from structure and understates organic growth by around 800 MEUR. This is due to a combination of errors, including ignoring clear public disclosures made on larger acquisitions, overestimating company size based on factual inaccuracies, and incorrectly extrapolating historical trends. (*Please see the Appendix for further details.)*

Regarding the Divergent investment:

- Hexagon has had contact with Divergent since 2017. We have discussed further involvement and collaboration ever since then.
- After summer 2022, a formal opportunity arose given Divergent's intention to raise capital and look for a partner for manufacturing process quality technologies.
- Hexagon was interested in a minority position in Divergent to benefit from the resulting operational partnerships, which is expected to be the leading value driver for Hexagon.
- During August through October 2022, Hexagon and Divergent met several times to discuss the opportunity.
- In late October the discussions progressed, and by early November, a proposal had been negotiated where Hexagon would take the lead in a Series D round of newly issued shares in Divergent and Hexagon would participate with a maximum 100 MUSD.
- Hexagon and Divergent also agreed that the investment would include a framework for Hexagon to supply certain metrology technology equipment and software products in Divergent Adaptive Production Systems manufacturing process.
- On the 6th of December, Hexagon's board took the decision to invest in Divergent in line with the conditions outlined in the Series D documentation.
- Hexagon invested in Divergent on the 9th of December 2022. As lead investor Hexagon invested long before any other investor in the Series D Round. Greenbridge invested in Divergent on the 4th of April 2023.

- In early 2023, Divergent started to have discussions with other potential investors in the Series D round, which we understand are still ongoing.
- As noted in Greenbridge's response to the short seller report, it invested 15 MUSD through the Blackbird consortium, which in total invested 65 MUSD, in line with the conditions set in the Series D round, in April 2023.
- The Series D round is expected to close in August 2023.

In summary:

- Hexagon never planned to invest more than 100 MUSD in Divergent, and Hexagon confirmed with Divergent that it never made an announcement to the contrary.
- Hexagon has confirmed that its investment in Divergent was not a reportable related party transaction, in accordance with applicable regulations.
- Hexagon does not have a financial relationship with Greenbridge and does not use any third party to "front-run" Hexagon investments. Hexagon did not participate in Greenbridge's transaction. Allegations of fraud and front-running are false.

Regarding the relationship between Hexagon and Greenbridge:

- Melker Schörling AB (MSAB) and Ola Rollén are the largest shareholders in Greenbridge, with 19% each.
- Three managers in Hexagon own shares in Greenbridge. These holdings are less than one percent of Greenbridge. None of them can exert influence over Greenbridge and are personal private financial investments.
- Furthermore, Greenbridge has confirmed that (1) none of these three individuals have ever held any position or performed any duties in relation to Greenbridge, and (2) there will be no other employees of Hexagon invited to become shareholders in Greenbridge.
- Greenbridge and Hexagon have not had any related party transactions. Greenbridge has declared its holdings and none of the four holdings acquired before Divergent have any connection with Hexagon. Hexagon's investment in Divergent is not a related party transaction, as discussed above. We have acted in accordance with our responsibilities under IAS 24 and our auditors have been consulted on this assessment.
- Greenbridge has not been used to "front-run" Hexagon investments or acted as a "slush-fund" for Hexagon's management's and major shareholder's benefit. These allegations have no merit.
- We believe that Hexagon secured maximum value in its investment in Divergent.

However, to remove any future doubt about the independence of these entities, Greenbridge and Hexagon have today signed an agreement with the following commitment: "Greenbridge hereby undertakes in relation to Hexagon not to hereinafter invest in any company, business, or asset where Hexagon, already prior to such investment, has an ownership or other financial or economic interest."

Regarding accounting policies:

- Hexagon's accounting practices and disclosures are extensively analysed internally and by our independent auditors. Based on the audit of the annual accounts and consolidated accounts, PwC provided an unqualified (i.e., clean) opinion that the annual accounts have been prepared in accordance with the

Annual Accounts Act and in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

- Hexagon was required to rotate auditors by law. A competitive audit tender process compliant with the EU audit regulation was initiated, where our current auditors were nominated to the AGM in 2021 by Hexagon's Nomination Committee and then elected by the AGM in April 2021.
- Hexagon has a strong acquisition record and applies IFRS 3 Business Combinations. We make the necessary distinction for every single acquisition, that is if it shall be recognised as an asset purchase or business combination.
- Goodwill and other acquired intangible assets with an indefinite life are not subject to annual amortisation but are subject to annual impairment testing in accordance with IFRS. Hexagon performs the requisite test for the cash generating units and applies sensitivity analysis in line with IAS 36. No impairment is deemed necessary as the recoverable value in total in 2022 was nearly double the book value.
- When implementing IFRS 15 during 2018 Hexagon reviewed contracts, processes, and revenue recognition methods in depth. Hexagon applied the changes required under the standard and has developed the organisation to identify, classify and evaluate the various performance obligations within a contract and attribute value appropriately and thus recognise revenue in accordance with IFRS 15. The implementation of IFRS 15 did not have any significant impact on Hexagon's reported revenue. Comparative numbers were accordingly also restated and did not have any significant impact on a single year.
- Hexagon evaluates R&D expenditure in line with the requirements in IAS 38 and capitalises qualifying expenses in the development phase where it can be demonstrated that the intangible assets are expected to generate future economic benefits. Amortisation of capitalised intangible assets commences on commercial release of the project, and the depreciable amount is allocated on a systematic basis over its useful life, in order to match with anticipated future revenue. The majority of the capitalised development spend is in software with an anticipated useful life of 5 years or less.
- Hexagon is a large, multinational enterprise operating in many countries, and therefore tax audits are a normal course of business. Hexagon has no material tax legal proceedings in process at this time.

Regarding disclosures:

- Hexagon has historically met all disclosure requirements and has endeavored to include sufficient information to facilitate stakeholders in their assessment of the performance of the company, and delivery against the financial targets and strategic vision.
- Even so, it is normal to continually review the level of disclosure, to ensure it is commensurate with current best in class practice and was already planned to be a topic for the upcoming CMD in December. The topics under consideration include:
  - increased detail on revenue quality;
  - additional disclosures around acquisitions, to include a revenue and EBIT bridge (as in the 2Q23 presentation), more detail on smaller transactions; and
  - increased disclosure on R&D priorities, material investments and payback.

Regarding the question of the independence of the board:

- The board today consists of seven directors, after three previous directors decided to not seek reelection at the AGM 2023 because of other professional commitments.
- The nomination committee, which includes MSAB and other shareholder representatives, is committed to continuously improve board composition.
- MSAB, who chairs Hexagon's nomination committee, had already decided to propose to the committee the addition of more independent members for the board of directors. The new members will have strong relevant industry knowledge and financial background.
- The board is committed to strengthening the independence of its audit and remuneration committees and is always looking at ways to align its leadership to investors' requirements.

(*See Appendices attached*)

[*] Hexagon reserves all rights related to legal actions against the short seller, its representatives, and partners.

Appendix regarding Organic Growth & M&A:

Hexagon's M&A disclosure and integration:

Hexagon's approach to M&A disclosure, as well as being compliant with IFRS, has been to try and balance visibility with seller's wishes, materiality of information and commercial sensitivities in increasingly competitive M&A markets.

Current Disclosure Policy

- Hexagon discloses the contribution to growth from structure every quarter. Acquisitions are treated as "structure" for the first 12 months following acquisition.
- Acquisitions are disclosed in the annual report and quarterly earnings release by name during the year of purchase.
- For companies with material revenues in the year of purchase, revenues are disclosed in the annual report and/or press release on closing.
- For larger acquisitions Hexagon discloses valuation, revenues and profitability in the press release, and discloses separately the acquisition details in the annual report.

The following table (Exhibit 1) aggregates the acquisitions closed annually between 2017 and 2022, which we take as a sample period best reflecting Hexagon's current growth strategy and summarises the level of disclosure presented historically. We note:

1) Hexagon disclosed the revenues for 15 acquisitions during the period, which accounted for 755 MEUR revenues, representing over 75% of the total acquired revenues.
2) The 45 acquisitions where revenues were not disclosed account for less than 25% of total revenues acquired. With average revenues of less than 5 MEUR, these were deemed to be below the materiality threshold.
3) The three larger software acquisitions made during the 2017-2022 period (MSC, EAM and ETQ) accounted for total consideration of 4.265 BEUR, representing around 70% of the total. In assessing annual contribution to growth from 'structure' for these years, the publicly disclosed purchase values and valuation multiples should be considered. This is particularly the case for 2021 and 2022 when over 90% consideration paid went on two publicly disclosed transactions (EAM, ETQ).

Exhibit 1: A summary of Hexagon's M&A disclosures (2017-2022)

Eur m		Total Acquisitions Disclosed		Acquisitions Individually Disclosed				Calculated
Year	Revenues from "Structure" *	Number of Acquisitions	Consideration (Annual Report)	Number of Acquisitions	Annual Revenues (AR, Release)	Consideration (AR, Release)	Transactions Disclosed	% of Total Consideration
2017	204	13	915	2	230	780	MSC	85%
2018	150	10	427	3	83	207	AutonomouStuff	49%
2019	118	8	350	2	69			
2020	100	12	761	6	157			
2021	182	6	2500	1	151	2422	Infor EAM	97%
2022	220	11	1195	1	65	1063	ETQ	89%
	974	**60**	**6147**	**15**	**755**	**4472**		**73%**

Source: Hexagon press releases and annual reports

** - Revenues disclosed as contributing to structure during the calendar year. The net adjustment of 2016 revenues flowing into 2017 and 2022 revenues flowing into 2023 is insignificant.*

Short seller analysis on acquired versus organic growth:

The short seller report argues that Hexagon's organic growth is overstated because the acquisition contribution to growth is deliberately understated. We disagree with the analysis behind this allegation.

Taking the 2017-2022 period as an example, where we think the short seller report overstates Hexagon's growth from acquisitions and understates organic growth by around 800 MEUR, we make the following observations:

1) Applying a revenue (EV/Sales) multiple to the annual acquisition proceeds is an imprecise way to calculate the contribution of 'structure' to overall growth. It also ignores the disclosures Hexagon has made over this period, with details being provided for 15 individual acquisitions (Exhibit 1), which in aggregate accounted for over 70% of revenues acquired as well as overall acquisition consideration spent.
    a. This is especially the case for 2021 and 2022, when the Infor EAM and ETQ acquisitions together accounted for over 90% of acquisition consideration, and Hexagon disclosed valuation, revenues and gave guidance on profitability for both. If this is considered then the 'acquired revenue' claimed by the short seller report for 2021 (646 MEUR) and 2022 (308 MEUR) becomes much lower, and closer to reality. The actual figures can be found in Exhibit 2 below.

2) We also disagree with the short seller report's estimates of individual acquisition size, used as justification for the applied acquisition multiples. Taking a sample from the 2017-2022 period we note:
    a. Mecadat: the public filings (Bundesanzeiger) show 2020 revenues at 10.7 MEUR, far below the 84 MEUR estimated by the short seller report.
    b. Immersal: on page 25 Immersal revenues are estimated to be 381 KEUR yet they are 37 MEUR in the analysis on page 62, which is inconsistent. The business is growing, and the technology is also being utilised in Hexagon's hardware products.
    c. ZG Technologies: is a Chinese manufacturer of 3D scanning technologies. It delivered revenues of 58 MCNY in 2021, not 58 MEUR.
    d. Licom: a distributor which was already 50% owned by Hexagon and fully consolidated, so there were no additional revenues acquired.
    e. Etalon, Melown, Fasys, Kronion: grossing up receivables with a fixed multiple is an imprecise methodology to estimate revenues in our view, especially across very different business models.

More information on Hexagon's organic growth:

Hexagon already discloses in the annual report and in the quarterly earnings report a revenue bridge, which breaks out the contribution to growth from "organic", "structure" and "currency".

The organic growth reported for a period is the balance, after adjusting the overall reported growth for the impact of currency and structure. Overall, every acquisition is reported as "structure" for the twelve-month period after closing, after which it becomes "organic". For example, an acquisition acquired on October 1st would be included in "structure" during the fourth quarter and for the first three quarters of the following year.

Exhibit 2 shows the absolute contribution to revenue growth from "organic", "structure" and "currency" for the most recent time-period (2017-2022), which has been an additional disclosure request from some market participants. This more detailed analysis supports the percentages previously reported in the annual reports for these same years.

Exhibit 2: Contribution to Hexagon sales growth (2017-2022) from structure, currency and organic

Revenue bridge (Eur m)	2017		2018		2019		2020		2021		2022		TOTAL	Average
Prior period revenue	**3,149**		**3,471**		**3,761**		**3,908**		**3,771**		**4,347**		**3,149**	**Growth**
Structure	204	*6.0%*	150	*4.0%*	118	*3.0%*	100	*3.0%*	182	*5.0%*	220	*5.0%*	**974**	***4.3%***
Currency	-40	*-1.0%*	-121	*-3.0%*	77	*2.0%*	-77	*-2.0%*	-49	*-1.0%*	261	*6.0%*	**51**	
Organic	**158**	***5.0%***	**261**	***8.0%***	**-48**	***-1.0%***	**-160**	***-4.0%***	**443**	***12.0%***	**348**	***8.0%***	**1,002**	***4.7%***
Revenue reported CY	**3,471**		**3,761**		**3,908**		**3,771**		**4,347**		**5,176**		**5,176**	

Source: Hexagon

Over this period, we note that average organic growth has been 4.7%, despite headwinds from the COVID-19 pandemic, exiting Russian operations and supply-chain shortages, and average contribution from "structure" has been 4.3%. In aggregate, this growth performance is in line with Hexagon's current overall financial targets (8-12% growth, excluding currency). This, plus the ongoing shift to software and recurring revenue, shows consistent execution on the overall growth strategy.

The aggregate contribution to structure for each individual year shown in Exhibit 2 is supported by a more detailed breakdown of the contribution by acquired company in Exhibit 3 below. We note that Exhibit 3 includes additional revenue information for several companies acquired during the 2017-2022 period, to improve disclosure. We note:

1) That revenue from "others" in each year is low, reflecting the small size of each individual company at the time of acquisition (i.e., below Hexagon's disclosure threshold)
2) As noted in the section above, existing disclosures in the annual report already support the majority of the revenues included in "structure" in each year.

Exhibit 3: Supporting information for annual contribution to growth from "structure"

2022 (Eur m)

Acquisition	Period	Contribution	Disclosed
ETQ	Q2 22	51	Yes
Minnovare	Q1 22	11	
Innovatia	Q2 22	7	
Others	2022	13	
PY Contribution*	2021	138	
Total 2022		**220**	

** Contribution from Prior Year Acquisitions (EAM, Mecadat, ZGtech etc)*

2021 (Eur m)

Acquisition	Period	Contribution	Disclosed
EAM	Q4 21	38	Yes
Mecadat	Q1 21	8	
ZGtech	Q3 21	3	
Others	2021	6	
PY Contribution*	2020	127	
Total 2021		**182**	

** Contribution from Prior Year Acquisitions (DPT, PAS, Oxblue etc)*

2020 (Eur m)

Acquisition	Period	Contribution	Disclosed
PAS Global	Q4 20	0	Yes
DPTech	Q4 20	4	Yes
Oxblue	Q4 20	3	Yes
Blast MT	Q1 20	21	Yes
Romax	Q2 20	13	Yes
Cowi division	Q2 20	9	Yes
Others	2020	8	
PY Contribution*	2019	42	
Total 2020		**100**	

** Contribution from Prior Year Acquisitions (Volume Graphics, Thermopylae etc)*

2019 (Eur m)

Acquisition	Period	Contribution	Disclosed
Volume Graphics	Q4 19	3	Yes
Thermopylae	Q2 19	36	Yes
J5	Q1 19	3	
Others	2019	7	
PY Contribution*	2018	69	
Total 2019		**118**	

** Contribution from Prior Year Acquisitions (Bricsys, Nextsense, AutonomouStuff etc)*

2018 (Eur m)

Acquisition	Period	Contribution	Disclosed
Nextsense	Q2 18	12	Yes
Agtek	Q1 18	10	
Guardvant	Q3 18	11	
AutonomouStuff	Q3 18	19	Yes
Bricsys	Q4 18	4	Yes
Others	2018	7	
PY Contribution*	2017	87	
Total 2018		**150**	

** Contribution from Prior Year Acquisitions (MSC, Luciad etc)*

2017 (Eur m)

Acquisition	Period	Contribution	Disclosed
IDS Georadar	Q2 17	13	
MSC	Q2 17	148	Yes
Luciad	Q4 17	9	Yes
Others	2017	11	
PY Contribution*	2016	23	
Total 2017		**204**	

** Contribution from Prior Year Acquisitions (Aicon, Georadar, Multivista etc)*

Source: Hexagon

Hexagon's M&A strategy:

Hexagon's current acquisition strategy, which has been in place since 2016, is well defined, and has been consistently presented at previous capital markets days, as per the following links:

Capital Markets Day 2016
https://investors.hexagon.com/en/financial-information/reports-and-presentations?page=/en/capital-markets-day-2016

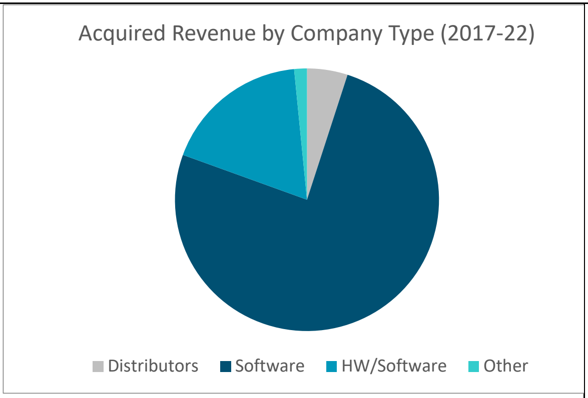
Capital Markets Day 2018
https://investors.hexagon.com/en/financial-information/reports-and-presentations?page=/en/capital-markets-day-2018

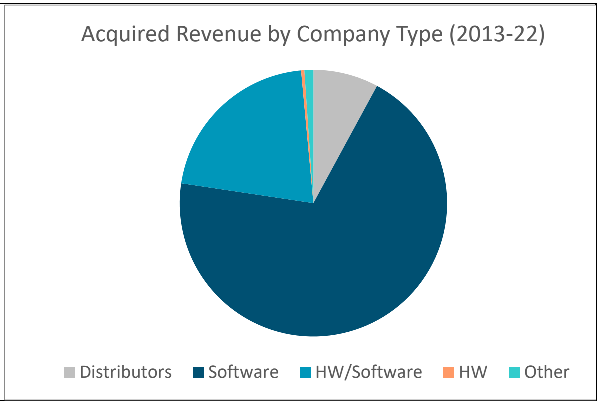
Key principles of this strategy:

- Hexagon has a target to deliver 3% to 5% revenue contribution per annum from acquisitions.
- Acquisitions are driven by a strategic review process, which identifies areas for expansion close to the core businesses, where synergies are most attractive and integration risk lower. We focus on commercially successful companies with accretive margins.
- Hexagon has followed a strategy of pursuing infrequent larger acquisitions (Brown and Sharp, Leica Geosystems, Novatel, Intergraph, MSC, Infor EAM) which become platforms for the group, and onto which smaller companies are added - to increase portfolio breadth and customer reach. These platforms now form the basis of Hexagon's divisional operations.
- Acquisitions are always compared to the cost and time involved in developing a solution internally (i.e., 'make versus buy'), which feeds into the investment decision.
- Hexagon has been focused on software acquisitions, which support its drive to increase recurring revenues.
- Hexagon is disciplined on valuation, using earnouts where possible to improve the risk/reward for shareholders. It also screens hundreds of projects a year to identify those acquisition candidates which are most attractive and synergistic for the group, only selecting the most attractive opportunities.
- Before Hexagon completes an acquisition, the project team will build a detailed plan to integrate the business into Hexagon. Integration is necessary to ensure the efficient operation of the group, and that targeted cost synergies are achieved. This will involve, among other things, closing legal entities, integrating back-office functions, and sharing overhead costs. If Hexagon did not integrate acquisitions properly, the synergies and benefits to shareholders would be greatly reduced.

Successful execution of this strategy:

Exhibit 4: Acquired revenue by Company Type (2017-22, and last 10 years)





Note: allocation by category is based on expected split in the year of acquisition. 'Other' are mainly geospatial services providers.

Hexagon continues to execute accurately on the stated strategy, which has led to a transformation in the profile of the group, with Hexagon now generating around 60% of revenues from software and services. The following KPIs highlight the successful implementation of the current strategy, since it was put in place (i.e., 2017-2022):

- Average contribution to growth from Structure has been 4.3% per annum between 2017-2022 (Exhibit 2). Hexagon has acquired 60 companies over this period.
- Software businesses have accounted for around 70% of revenues acquired during the 2017-2022 period and a similar ratio over the last decade (Exhibit 4). This excludes businesses which sell integrated hardware and software products.
    - Of the total software companies acquired between 2017-2022 (32 companies), around 85% revenues (617 MEUR aggregate revenues) originate from 10 companies, where revenues were disclosed in both press releases and the annual report, as shown in Exhibit 5.

Exhibit 5: 10 largest software companies acquired (2017-2022), showing information disclosed

Year	Company	Description	Disclosed Revenues (€m)	Disclosed Profitability	Disclosed Purchase Price
2017	MSC	A US-based provider of computer-aided engineering (CAE) solutions	209	"strong profitability"	780
2017	Luciad	A Belgium-based provider of 5D visualisation and analysis solutions	21	"larger than group margin"	*Undisclosed*
2018	Bricsys	A Belgian based developer of CAD (computer-aided design) software	16	Undisclosed	*Undisclosed*
2019	Thermopylae	A software provider that specialises in geospatial applications/location intelligence	43	"accretive to group"	*Undisclosed*
2019	Volume Graphics	A market leader in the industrial computed tomography (CT) software industry	26	"accretive to group"	*Undisclosed*
2020	Romax	A provider of Computer Aided Engineering (CAE) software	24	"accretive to group"	*Undisclosed*
2020	DPT	A provider of computer-aided manufacturing (CAM) technology	35	"accretive to group"	*Undisclosed*
2020	PAS	A leading provider of Operational Technology (OT) integrity solutions	28	Undisclosed	*Undisclosed*
2021	Infor EAM	A provider of Enterprise Asset Management and APM software	151	"Over 40%"	2422
2022	ETQ	A leading provider of SaaS-based quality management (QMS) software	65	"Over 35%"	1063
	Total		**617**		**4265**

Source: Hexagon press releases and annual reports

- The aggregate EBIT margin (year 1, post integration) of the total acquisitions made between 2017-2022 has been over 30%, in line with the stated strategic objective for the margin to be accretive to Hexagon's own, and is also supported by the individual company commentary for the larger software acquisitions shown in Exhibit 5. This reflects the quality of businesses acquired.
    - Given the stated M&A strategy, Hexagon does not look to buy companies out of insolvency, as claimed. Addressing some specific claims:

- British Thornton is not a subsidiary of Hexagon. Hexagon did not acquire the assets of Claughton Office Equipment.
- J5 is an international developer of solutions for operations and compliance management, with entities in South Africa, UK, US, Singapore, Japan and Australia. Margins were above group averages on acquisition.
- iConstruct is a provider of Building Information Modelling (BIM) software, which was spun out of a larger group in 2016. We acquired it in 2022, when the business had grown and was profitable.

- Hexagon has acquired 15 distributors between 2017 and 2022, accounting for only around 5% of total revenues acquired (Exhibit 4). These tend to be small in size, with an average annual revenue on acquisition (i.e., current year) of around 3 MEUR.
    - The rationale for acquiring distributors is to get closer to the customer and move to a direct sales approach, enabling cross selling of additional Hexagon products and greater efficiency of sales representatives. This is especially the case for our Production Software business, where we have actively pursued this strategy over recent years (*CIM3, MaW, TST Tooling, Vero Solutions, Mecadat, ProCAM*).

Appendix regarding accounting practices:

Hexagon complies with the relevant reporting requirements and standards and its accounting practices and disclosures are extensively analysed internally and by our independent auditors. PwC audits Hexagon's annual accounts and consolidated accounts and provided us with an unqualified (i.e., clean) opinion that the annual accounts have been prepared in accordance with the Annual Accounts Act and in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Change of Auditors. The change of auditors was a mandatory requirement under Swedish law.

As a listed entity in Sweden, Hexagon is affected by the EU audit directive and the EU audit regulation. Under these rules, a mandatory audit firm rotation of Hexagon's audit firm EY no later than the calendar year 2021 was required. A competitive audit tender process compliant with the EU audit regulation was initiated, where PwC was nominated to the Annual General Meeting (AGM) in 2021 by Hexagon's Nomination Committee. PwC was elected by shareholders at the AGM in April 2021.

Focus of the Auditors. The focus for the audits is around obtaining comfort on material and significant matters and is not a reflection of particular areas for concern.

The audit focuses on significant matters for the financial reporting. In accordance with International Standard on Auditing, key audit matters are those which, in the auditor's professional judgement, were of most significance in the audit of the financial statements. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency.

The 2022 audit report of Hexagon financial statements discloses; revenue recognition, business combination and goodwill and other intangible assets with indefinite useful lives as key audit matters.

- In the first key audit matter, revenue recognition, PwC outlines their focus on different revenue types given different IFRS accounting principles on these revenue types which Hexagon applies. PwC focus on revenue recognition includes establishing the amounts that are to be recognised as income and when the income should be recognised.
- The second key audit matter, business combinations, focus on acquisition of new businesses and the consolidation of new businesses (business combinations) and Hexagon's application of IFRS 3 Business combinations. Several areas fall under auditors focus such as, purchase price allocations of the fair values of acquired assets and liabilities including identification of goodwill and other intangible assets. Furthermore, acquisitions that include contingent earn-out payments as contingent considerations often are based on coming years sales and EBIT performance of the acquired business and are remeasured at every reporting.
- The third key audit matter, goodwill and other intangible assets with indefinite useful lives. PwC have focused on the valuation of goodwill and intangible assets with indefinite useful lives. IFRS and Hexagon policy requires annual impairment tests or when there is an indication that values could be impaired, given that the carrying value of these assets are not amortised.

Further detail regarding each key audit matter is outlined below:

Revenue recognition IFRS 15 (Key Audit Matter 1). The implementation of IFRS 15 did not lead to any material change in Hexagons revenue recognition.

The implementation of a new IFRS, such as IFRS 15 Revenue Recognition, is naturally a key focus. When implementing IFRS 15 during 2018 Hexagon reviewed contracts, processes, and revenue recognition methods in depth. Hexagon applied the changes required under the standard and has developed the organisation to identify, classify and evaluate the various performance obligations within a contract and attribute value appropriately and thus recognise revenue in accordance with IFRS 15. The implementation of IFRS 15 did not have any significant impact on Hexagon's reported revenue. Comparative numbers were accordingly also restated in the 2018 Annual Report and did not have any significant impact on a single year.

Business Combinations IFRS 3 (Key Audit Matter 2). Hexagon as an acquisitive organisation evaluates transactions and accounts appropriately based on the nature of the agreement.

Hexagon has a strong acquisition record and applies IFRS 3 Business Combinations and makes the necessary distinction for every single acquisition, that is if it shall be recognised as an asset purchase or business combination. For a transaction to be a business combination, the assets acquired and liabilities assumed over which the acquirer has obtained control are required to constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities. Key elements to identify a business combination is if the purchase includes employees and processes in place to generate output. Each acquisition is evaluated based on the above and accounted for accordingly. Those acquisitions considered to be asset deals are not disclosed in the annual report.

Regarding Goodwill IAS 36 (Key Audit Matter 3). Hexagon has a significant carrying value for goodwill related to acquisitions which is extensively reviewed and tested for impairment, no impairment was deemed necessary as the recoverable value in total in 2022 was nearly double the book value.

Intangible assets within Hexagon are essentially goodwill, trademarks and other assets as a result of acquisitions. Goodwill and other acquired intangible assets with an indefinite life are not subject to annual amortisation but are subject to annual impairment testing in accordance with IFRS. According to IAS 36 the impairment test of goodwill is done for each cash-generating unit. A cash generating unit is identified by dividing the group into clearly identifiable business components. For Hexagon the business has been divided into five cash generating units and acquisitions are included in the respective cash generating unit where integration and synergies are expected. The basis for the impairment test, key assumptions and sensitivity analysis are presented and disclosed in the annual report, note 8. The outcome of the annual impairment test in 2022, did not result in any need for impairment loss for any of the five cash-generating units. A sensitivity analysis including all key assumptions was performed to validate this impairment test. For all cash generating units there was significant headroom before any changes in key assumptions would cause an impairment loss in any of the cash generating units, since the recoverable value totally is nearly double the book value.

Regarding other accounting topics:

Regarding Capitalisation of R&D IAS38. In a growing, acquisitive technology company such as Hexagon which is investing in innovation, the capitalisation of development spend naturally creates a differential in the financial statements between the capitalisation and amortisation charge, to match the future economic benefits.

Hexagon evaluates R&D expenditure and in line with the requirements in IAS 38, capitalises qualifying expenses in the development phase where it can be demonstrated that the intangible assets are expected to generate future economic benefits. Amortisation of capitalised intangible assets commences on commercial release of the project, and the depreciable amount is allocated on a systematic basis over its useful life, to match with anticipated future revenue.

The timing and size of both significant transformational investment projects which are in the capitalisation phase and acquisitions which are initially consolidated, with technology evaluated under purchase price accounting, plus the necessary review of overlapping technology and impairment evaluation, will create a varying differential between the capitalisation and amortisation rates, as reflected in the profit and loss account.

- Significant transformational investments in hardware and software platform projects, including but not limited to those already announced such as Nexus, HxDR, on-road and off-road autonomy and the BLK family of sensors, typically have a longer R&D development phase.
- When material acquisitions, such as ETQ and EAM, are consolidated, the existing acquired technology is evaluated under purchase price accounting, and the capitalisation of qualifying development spending commences from the point of acquisition, with the corresponding depreciation charge starting from the next product release.
- Hexagon is required to evaluate existing capitalised expenditure annually, and also review newly acquired technology at the point of acquisition for any potential overlap, and perform any resultant impairment necessary.

Regarding useful life IAS 38. The majority of the capitalised development spend is in software with an anticipated useful life of 5 years or less.

As required by IAS 38, the depreciable amount of an intangible asset shall be allocated on a systematic basis over its useful life, and a company has to assess the length of that useful life when investing in an asset. A subsequent adjusted to the useful life of assets would only occur infrequently and in circumstances supported by future economic value and is not a customary practice.

Regarding tax Audits. Tax audits are a normal course of business in many jurisdictions, Hexagon has no material tax legal proceedings in process.

Many tax jurisdictions rely on regular tax audits, for verification that organisations are complying with local regulations. For Hexagon as a large multinational enterprise, operating in many countries, tax audits are a normal course of business, and the note in the annual report alludes to this fact, and it’s customary to have multiple audits open at any juncture. Hexagon has no material tax legal proceedings in process at this time.

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