

HMS NETWORKS ANNUAL REPORT 2019

SHAPING THE CONNECTED WORLD



THURSDAY



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This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish original, the latter shall prevail.

HMS is shaping the connected world

HMS makes it possible for industrial machines and devices to get connected. Our products connect millions of robots, drives, HVAC-units, generators etc. to smart control systems and the internet. Our motto, Connecting Devices™, is the foundation for realizing the Industrial Internet of Things.

Connecting Devices, meaning HMS



10 quick facts about HMS:

Founded in	1988
Sector	industrial communication
Operations in	16 countries
Employees	~600
Major markets	Germany, US, Japan
Head office	Hammarby, Sweden
CEO	Staffar Dahlström
2019 sales	SEK 1,519 million
2019 operating profit	SEK 243 million
Product brands	Axybus, Etron, Intesis, iomat

2019 in brief

In 2019, sales increased to SEK 1,519 (1,366) million and operating profit was SEK 243 (251) million. The average number of employees during the year was 617 (536).

February: HMS opens a new office in Seoul, South Korea

April: HMS acquires the majority of German company WEBfactory GmbH, a leading provider of web-based software solutions for automation and IIoT

April: HMS opens a new sales and support office in Dubai, UAE.

April: HMS launches HMS Hub™, a new platform for IIoT where Hardware meets Software™.

April: HMS announces a collaboration with Ericsson regarding smart manufacturing over 5G.

May: HMS acquires Raster Products B.V., which is HMS' primary distributor of Ewon products in the Netherlands.

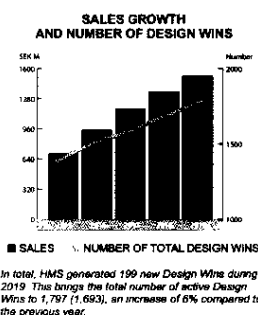
September: HMS wins the prestigious Swedish Enterprise Award in Germany

September: HMS implements a cost reduction program to adapt to weaker market conditions. In total, the program affects 43 employees throughout the group.

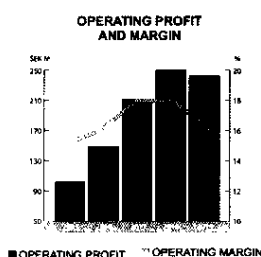
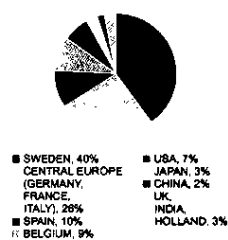
October/November: During the fall trade fairs, HMS launches a number of solutions under the theme "Hardware Meets Software™", all of which enable industrial hardware to connect to IoT software.

November: HMS delivers the 7,000,000th Anybus product to IAI Corporation.

FINANCIAL INFORMATION IN BRIEF, SEK m	2019	2018	2017	2016	2015
Net sales	1,519	1,366	1,183	952	702
Growth in net sales, %	11	15	24	36	19
Operating profit	243	251	212	149	102
Operating margin, %	16	18	18	16	15
Profit (loss) for the year	205	171	143	100	60
Net profit margin, %	13.5	12.5	12.1	10.6	8.6
Order intake	1,470	1,433	1,204	966	682
Earnings per share, basic, SEK	4.43	3.68	3.06	2.16	1.33
Earnings per share, diluted, SEK	4.40	3.65	3.04	2.16	1.33
Cash flow from operating activities	254	193	207	155	90
Average number of employees during the year	617	536	486	467	359



EMPLOYEES / COUNTRY



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A more connected, productive and sustainable world



MY POINT-OF-VIEW:

"CONNECTING DEVICES" IS MORE RELEVANT THAN EVER

HMS has always worked with "Connecting Devices" in different ways. We started by connecting industrial devices to fieldbuses and industrial Ethernet networks, and moved on to edge remote solutions and wireless networks. Today, we are a front runner in solutions for Industrial Internet of Things and 5G. We use various types of technologies to help our customers create a more productive industrial environment, with higher returns on the capital they have invested in their machinery.

2019 has been a year of change in many ways with an unpredictable market, new technology advancements and acquisitions for the future. During the year, we developed new solutions and reorganized ourselves in order to continue helping industrial companies around the world to get connected. All according to our motto "Connecting Devices."

Sales increased by 11% during the year, but with a clear slowdown in the second half of the year, as many of our customers saw a weaker demand in the short term.

ACQUISITIONS

During 2019, we made two smaller acquisitions. We acquired and integrated our Dutch distributor Raster Products B.V. to strengthen our presence in the Benelux countries, and we also acquired the interesting German software company WEBfactory GmbH. HMS's ambition is to enable hardware to meet software (HMS — Hardware Meets Software™) and WEBfactory enables us to take an important step in this direction. Their software solutions for processing and visualizing data from industrial machines and processes, create additional values for our customers and enable them to improve their productivity and sustainability.

In 2019, we also established an HMS office in Dubai in the United Arab Emirates. We believe that this market is interesting for our brands Intesis (communication solutions for building automation) and Ewon (monitoring of machines and plants), and within a few years, this market will drive further growth.

WEAK GROWTH LEAD TO COST-SAVINGS PROGRAM

The weak growth during the year caused us to implement a cost-savings program during the fall, partly to reduce our costs but also to create an

organization that can take new steps towards new growth in the coming years. This means that 43 people left HMS in connection with the cost-savings program. Despite this, we ended 2019 with 624 employees in 16 countries, an increase of 5% people during the full year 2019 — a clear indication that our growth ambitions continue.

NEW TECHNOLOGY FOR THE FUTURE

During the year, Industrial IoT technology from the German technology company Beck IPC GmbH which was acquired by HMS in 2018, was implemented into our technology platform and the first related products — Anybus Edge and Ixxat SmartGrid — were launched.

We also continued working with solutions for the fifth generation of cellular networks (5G) together with several leading telecom companies. 5G as a technology has excellent qualities for industrial communication and we believe that it will play an increasingly important role in industrial applications in the coming years, both in critical applications where there are high demands on time synchronization and security, but also in applications where a lot of data from sensors need to be collected for statistical applications for predictive maintenance. HMS plays an active role as an "early adopter" of 5G technology and during 2019, we carried out several test installations, mainly in the German industrial sector, together with leading Nordic telecom companies and their operators.

HELPING CUSTOMERS BECOME SUSTAINABLE

During the year, we continued our sustainability efforts based on the UN guidelines according to GRI. At HMS, we see this as a natural continuation of our long-standing commitment to sustain-

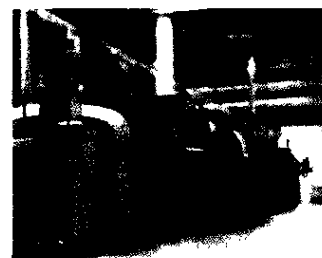
ability. The primary focus is to continue to develop solutions that help our customers reduce their resource utilization and energy consumption while increasing productivity. It is in this area that HMS has the greatest opportunity to make a difference. As a company, we also need to be a good employer who takes environmental responsibilities and uses sustainable solutions in our production and our other operations.

TRENDS THAT DRIVE OUR BUSINESS

We see a bright future ahead, where HMS can benefit from strong global trends such as Digitalization, Automation and Sustainability with the related technology trends Industrie 4.0, Industrial IoT, 5G, CyberSecurity and Artificial Intelligence (AI). All are areas where HMS already has products and solutions for our industrial customers. However, we know that our customers typically need several years to move to new technologies, so it feels very good that our traditional industrial communication products remain attractive and profitable for the industrial communication systems of today and tomorrow.

Together with the company's management team, I would like to extend a big thank you to all employees, customers, partners, suppliers and shareholders for a successful year for HMS on several levels, but also a year in which we built for the future. We look forward with confidence to the coming years and a continued growth journey together.

Staffan Dahlström
President and CEO

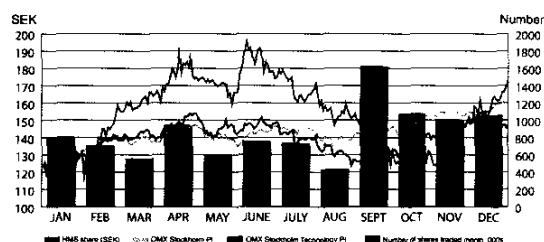


HMS STOCK

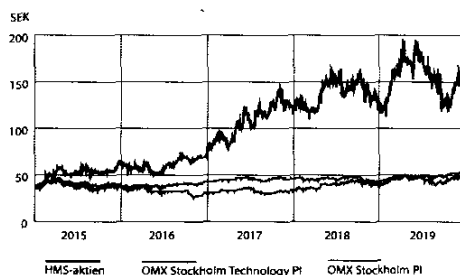
HMS stock

HMS stock has been listed on the NASDAQ OMX Stockholm Mid Cap list, in the Information Technology sector, since 19 October 2007. The ISIN code of the stock is SE0009997018. Shares are traded under the HMS ticker. A trading lot is 1 share.

HMS STOCK PERFORMANCE 2019



HMS STOCK PERFORMANCE 2015 – 2019



NUMBER OF SHARES AND SHARE CAPITAL

HMS has a total of 46,818,868 shares. The share capital amounts to SEK 1,170,472. All shares have the same voting rights.

PRICE TREND

In 2019, HMS's share price increased by 40% to SEK 173 (123) per share. OMX Information Technology rose by 18% during the same period and, in total, Nasdaq Stockholm rose by 30%. The highest price paid during the year for HMS shares was SEK 205 in June 10, and the lowest price paid was SEK 117 in January 4. At year-end 2019, HMS's market capitalization was SEK 8,090 (5,759) million.

TRADING VOLUME

A total of 10.2 million shares were traded during the year, valued at SEK 1,541 (1,330) million, which corresponds to an annual turnover rate of 22% (20). On average, 41,061 (38,038) shares were traded for a value of SEK 6,188 (5,322) thousand each trading day.

DIVIDEND POLICY

HMS's policy is to pay annual dividends of approximately 50% of the net profit for the year. The dividend amount is adapted to the company's earnings level, financial position and future growth opportunities. For 2020, the Board and CEO propose dividends of SEK 1.90 (1.80) per share, which corresponds to approximately 43% of net profit for the year. Over the last five years,

average dividends have been nearly 47% of net profit for the year. HMS stock has had an average yield of 1.35% per year over the last five years.

INCENTIVE PROGRAM

All HMS employees were invited to participate in an incentive program, which will involve savings in HMS shares during 2020.

SHAREHOLDERS AND SHAREHOLDER STRUCTURE

As of 31 December, HMS Networks AB (publ) had approximately 4,568 (4,098) shareholders. The ten largest shareholders represented 73.9% (70.6) of the voting rights and capital.

THE FOLLOWING ANALYSTS MONITOR HMS ON A CONTINUOUS BASIS:

Viktor Högberg, Danske Bank.

SHAREHOLDERS, BASED ON HOLDINGS AS OF 31 DECEMBER 2019

Shareholding	Number of shareholders	%
1-500	3,250	71.1
501-1,000	525	11.5
1,001-5,000	572	12.5
5,001-10,000	89	1.9
10,001-15,000	23	0.5
15,001-20,000	22	0.5
20,001-	87	1.9
Total	4,568	100.0

SHARE CAPITAL TREND

Year	Transaction	Change in no. of shares	Total no. of shares	Change in share capital, SEK	Total share capital, SEK
2004	Company formed	100,000	100,000	100,000	100,000
2004	New share issue	900,000	1,000,000	900,000	1,000,000
2005	New share issue	22,100	1,022,100	22,100	1,022,100
2006	New share issue	1,900	1,024,000	1,900	1,024,000
2007	Warrants	33,165	1,057,165	33,165	1,057,165
2007	Split 10:1	9,514,485	10,571,650	0	1,057,165
2009	Warrants	581,250	11,152,900	58,125	1,115,290
2012	Warrants	169,500	11,322,400	16,950	1,132,240
2016	Non-cash issue	382,317	11,704,717	38,232	1,170,472
2017	Split 4:1	35,114,151	46,818,868	0	1,170,472

KEY FIGURES*

	2019	2018	2017	2016	2015
Share price (last trading day)	173	123	124	76	61
Volume-weighted average share price	151	140	115	60	51
Average sales per day, SEK m	6.2	5.3	2.9	0.9	0.9
Average number of shares traded per day	41,061	38,038	25,168	14,876	18,064
No. of shares	46,819	46,819	46,819	46,818	45,290
Earnings per share, basic, SEK	4.43	3.68	3.06	2.16	1.33
Earnings per share, diluted, SEK	4.40	3.65	3.04	2.16	1.33
Market cap, SEK m**	8,090	5,759	5,806	3,558	2,774
Enterprise value, EV (Market cap + net debt), SEK m***	8,492	6,101	6,109	3,977	2,951
P/E	39.0	33.4	40.5	35.2	46.0
Net debt /EBITDA***	1.2	1.1	1.2	2.2	1.3
EV/EBITDA	25.6	20.2	23.6	21.1	21.8
EV/Net sales	5.6	4.5	5.2	4.2	4.2

* The HMS share was listed 2007

** Total number of shares

*** In accordance with IFRS16, leasing liabilities are reported in the net debt line 2019

OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2019



■ SWEDISH INSTITUTIONAL OWNERS, 74%
 ■ SWEDISH INDIVIDUALS, 10%
 ■ FOREIGN OWNERS, 16%

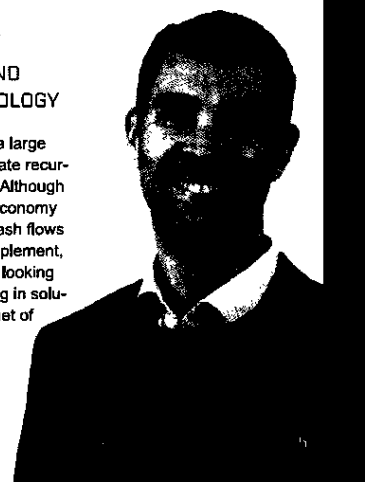
HMS'S 10 LARGEST SHAREHOLDERS ON 31 DEC 2019

	No. of shares	Share of votes and equity
Investment AB Latour	12,109,288	25.9%
Staffan Dahlström	8,468,292	13.8%
Swedbank Robur fonder	4,036,996	8.6%
SEB Fonder	3,572,726	7.6%
Handelsbanken Fonder	2,133,821	4.6%
Livförsäkringsbolaget Skandia	2,116,939	4.5%
State Street Bank & Trust	1,233,907	2.6%
AMF Försäkring och Fonder	1,176,853	2.5%
Fosielund Holding AB	950,000	2.0%
Skandia Fonder	788,723	1.7%
Other	12,231,323	17.6%
Total	46,818,868	100%

MY POINT-OF-VIEW A STRONG FOUNDATION AND INTERESTING NEW TECHNOLOGY

The foundation of our business is a large base of Design Wins, which generate recurring business for HMS every year. Although we have seen a slowdown in the economy during 2019, we still have stable cash flows from these Design Wins. As a complement, we see more and more customers looking into new technologies and investing in solutions to enable the Industrial Internet of Things.

Joakim Nidebom – CFO



HMS gets industrial devices and machines connected

Modern devices and machines need to be connected — to surrounding systems and the Internet. This is exactly what HMS does, and has been doing for decades. Here are a few examples of how HMS enables devices, machines and even entire factories and buildings to get connected.

MULTI-NETWORK CONNECTIVITY

Connecting an industrial device to any industrial network on the factory floor. This means that the device can be used in different market segments and geographical regions, all of which use different industrial networks.

INDUSTRIAL INTERNET OF THINGS (IIOT)

Connecting machines to the Internet for surveillance and control, enabling reports and statistics any time, anywhere. HMS has several solutions for remote management and connecting machines to the Internet.

REMOTE ACCESS

Providing service teams with access to their machines or sites for remote programming and maintenance, saving travel costs and enabling faster service.

COMMUNICATION EXPERTISE

Helping device manufacturers and machine builders with in-depth knowledge about communication issues and providing customized hardware and software.

CONNECTING BUILDINGS

Connecting heating, ventilation and air-conditioning units to building automation systems, making sure that they can communicate.

FUNCTIONAL SAFETY

Making sure that a device or machine can communicate on safety networks for emergency stops and more.

WIRELESS COMMUNICATION

Giving devices and machines wireless access via WLAN or Bluetooth which reduces wiring, enabling users to check machine status with a smartphone or tablet.

Trends — what is driving the industrial world to get connected?

GLOBALIZATION: ACCESS TO INFORMATION ANYWHERE



With IIoT, data from industrial processes is made available no matter where you are, making collaboration across borders easier.

When operators and decision-makers can get immediate access to information from industrial processes, it is possible to optimize processes and resource usage.

CONNECTING THE NEW AND THE OLD



Even modern factories often include older systems that users want to keep using with new IIoT applications. This means that there is a need for solutions that can integrate the old equipment with the new.

HMS products are often used for retrofitting — connecting old systems with new ones. This is yet another way that IIoT creates new and business opportunities for HMS products and services.

ENVIRONMENTAL AND ENERGY EFFICIENCY



Connecting industrial equipment to information systems opens up new opportunities for optimizing energy and equipment in industrial systems.

HMS's main contribution to sustainable development is developing and manufacturing products that make energy conservation and energy efficient production possible.

FOCUS ON SECURITY



Connected devices go hand in hand with high demands for security — increasingly important in the light of new internet-based technologies which open up for hackers.

Security is an important, prioritized area for HMS and our customers who tend to be very careful in selecting only established, reliable and knowledgeable communication partners such as HMS when they implement IIoT solutions.

WIRELESS ACCESS



Wireless communication has been around in consumer products for a long time, but in the industrial world, it is still a novelty.

Costs and complexity can be greatly reduced by using WLAN and Bluetooth instead of wires.

Also, with the advent of 4G, cellular communication speeds are getting up to par with the requirements of industrial processes.

BUSINESS MODEL AND THE VALUE WE CREATE

Business models – How HMS generates revenue

HMS products are sold to customers in all parts of the value chain – automation manufacturers, machine builders, system integrators, end users, and more. The business models vary depending on the customer, market and product offering. HMS typically uses three different business models: direct sales (Design Wins), indirect sales via distribution and solution partners, and services and subscriptions.

1. DIRECT SALES AND DESIGN WINS

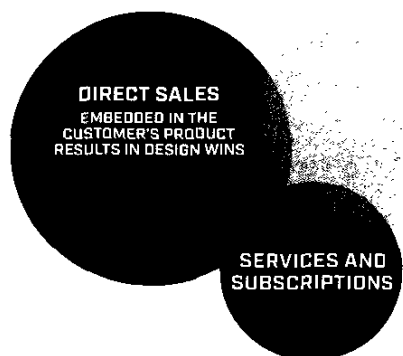
The customer integrates support for HMS solutions into their product, and then order HMS products on a recurring basis. A Design Win typically involves a long-term collaboration with a manufacturer of automation equipment. Sales are handled directly with the customer and although the sales cycle is relatively long, the upside is a steady stream of income over a long period of time, provided that the customer's automation product gains market acceptance.

For some customers, HMS offers customized hardware and software solutions that meet customer-specific requirements.

2. INDIRECT SALES

This business model is based on a network of around 300 independent distributors with great technical expertise covering approximately 50 countries. They ensure that HMS products are sold to local projects. The target groups are primarily local system integrators, installers and machine builders who are working to integrate networks, and design communications solutions for various applications.

REVENUE DISTRIBUTION



3. SERVICES AND SUBSCRIPTIONS

When HMS sells a product that enables remote connectivity to industrial equipment, the customer also subscribes to a web-based service through which both the customer and its approved users gain access to their equipment online.

Customers who purchase HMS products are also offered product-related technical services. These services are provided by HMS or HMS's partners, targeting to ensure correct use of the products.



WHAT'S EXPECTED AND WHAT WE DELIVER

BUSINESS MODEL AND THE VALUE WE CREATE

EXPECTATIONS

CUSTOMERS

Our customers expect us to be able to solve their industrial communication challenges. To do that, we must also understand their future challenges so that we can deliver high quality, future-proof products and turnkey solutions.

EMPLOYEES

HMS strives to offer a workplace that both attracts and retains employees who have the skills and commitment to provide the market with industrial communication solutions for the future. We are expected to provide security and career development opportunities, as well as involving our employees in the company's journey.

SUPPLIERS AND PARTNERS

Our suppliers and partners expect HMS to be a stable, long-term partner that creates and shares value. This requires mutual trust, respect and transparency.

SHAREHOLDERS

Our shareholders expect HMS to keep on delivering profitable growth so that we can provide them with a return on their invested capital. Our owners also expect us to act ethically and responsibly.

SOCIETY

HMS has an opportunity to create more sustainable development at the global level. Digitalization and smart industrial communications can help create more energy-efficient solutions, but they also bring high demands for security. HMS is expected to take its responsibility as an employer and taxpayer.

OUR BUSINESS

VISION

In a world where all devices are intelligent and networked, HMS is the leader in making industrial devices and systems communicate – for a more productive and sustainable world.

MISSION

We drive innovation in collaboration with partners and customers creating leading technologies, products and solutions bringing value to real-world challenges.

STRATEGIES



VALUES – HMS H15

- 1 Customer Commitment**
We will always prioritize our commitment to customers
- 2 Growth and Innovation**
We will grow and be innovative
- 3 Long-Term Perspective**
We pursue our work with a long-term perspective
- 4 Strong Relationships**
We believe in building relationships
- 5 Lean & Efficient**
We are efficient

WHAT WE CREATE

SOLUTIONS FOR INDUSTRIAL COMMUNICATION AND IIOT

The core of HMS's mission is summed up in the motto, Connecting Devices™ – providing solutions for industrial communication and IIoT.

The products are focused on different market segments, and are offered in both standardized and customized formats.

As a supplier to all parts of the industrial value chain, HMS has unique insight into the market's communication needs, which ensures success in our continual product development efforts.

GOALS

LONG-TERM GROWTH:

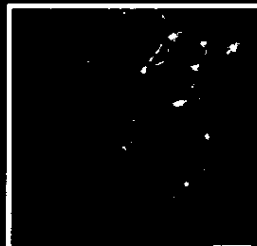
20%

At least 99% of deliveries must be made on time.

Product returns must be less than 200 ppm (parts per million).

OPERATING MARGIN:

>20%



STAKEHOLDER VALUE

CUSTOMERS

When customers choose HMS, they get a partner that can solve both current and future communication needs. Our commitment, along with the high technical level of our products, provide customers with great flexibility, productivity, reliability and a longer product lifetime.

EMPLOYEES

HMS employees are given the opportunity to develop in a modern, dynamic and growing organization with a wide network of international contacts. This enables career opportunities and fosters a sense of pride, with an underlying confidence in HMS as a secure and long-term employer.

SUPPLIERS AND PARTNERS

We develop our suppliers by being demanding and setting high expectations. In collaboration with our partners, we create value and develop future solutions for our customers.

SHAREHOLDERS

HMS creates value for its owners via both share performance and dividends. HMS strives to achieve a long-term, stable dividend for the shareholders. It also has an explicit dividend policy to distribute up to 50% of the profit.

SOCIETY

HMS products lower energy consumption in the industrial sector. Remote monitoring solutions make a large contribution here, because they reduce or eliminate the need to travel. As an employer, HMS contributes to the local economy in several regions across the globe and the company is proactive in ensuring that it has strong ties with society.

HMS goals for profitable and sustainable growth

For several years, HMS's goal has been to grow by 20% each year while maintaining an operating margin of at least 20%, and over the last 10 years, HMS has been growing by 18% per year with an 18% average profitability. In 2019, the growth was 11% with an operating margin of 16% and we can thus conclude that we did not quite reach our goals. However, as the industrial world is becoming increasingly connected, HMS has excellent opportunities for future growth. The well-established brands Anybus, Ewon, Intesis, and Ixat address different aspects of communication problems in various markets and they are continually being expanded and developed with new products and solutions for industrial communication and IIoT.

ORGANIC GROWTH AND SUPPLEMENTARY ACQUISITIONS

HMS aims to expand, primarily via organic growth, and strengthen its position by continually developing its range of products and services. Selective acquisitions may also be made if they are a valuable addition to HMS's technology and/or offering to the market.

FOCUSED, SUSTAINABLE PRODUCT DEVELOPMENT

HMS's products will continue to be developed in line with new customer requirements and technological trends. In addition to the sales goals, the aim is to strengthen HMS's market position as a leading supplier of user-friendly and secure solutions for industrial communication. The importance of security in industrial applications is increasing as a result of the growing need for new, innovative internet-connected communication solutions. HMS is well-positioned in this area thanks to ongoing collaborations with leading industrial companies.

The cornerstone of all development work is to create significant value by designing products that focus on market needs, while maintaining focus on quality and environmental aspects. HMS's products and solutions are based on the latest, proven, sustainable technology for industrial networking, wireless communication, remote monitoring and IoT.

GLOBAL PLAYER WITH LOCAL PRESENCE

Local presence is one of the key factors for HMS as a global company. HMS currently has 16 own sales and marketing offices in key strategic markets. In addition, HMS has a well-established network of selected distributors in more than 50 countries. Thanks to this organization, HMS is able to ensure quick, efficient product sales as well

as proactive Technical Services offered in local languages.

SUSTAINABLE VALUE CHAIN

HMS customers require high-quality products that are easy to install and use. Another requirement is the ability to use products for a long period of time. HMS is able to meet all of these requirements as we have full control over the entire value chain, from product development, component supply and manufacturing, to distribution, sales, training and after-sales service. Our Business Management System (BMS) specifies and monitors the processes and ensures quality and continuous improvement in the entire value chain.

Products are manufactured at our own facilities and by exclusive subcontractors in Europe and Asia, with whom HMS collaborates closely. HMS's own production facility is located right next to the development center in Halmstad. This is where production takes place for prototypes, small series and certain customized products, along with final assembly and quality control. By maintaining its own manufacturing operations and capabilities, HMS maintains a high competence in this area and can continue to be highly demanding with respect to subcontractors.

For many years, HMS has been certified according to the ISO 9001 quality management standard, as have all of strategically important subcontractors. HMS's sustainability strategy is based on the corporate vision and core values, along with the respect that the company shows for all of its stakeholders (customers, employees, shareholders and suppliers).

HMS's most significant contribution to a more sustainable society is that we manufacture products that enable major energy savings and efficiency improvements for users, with minimal environmental impact during the product lifespan.

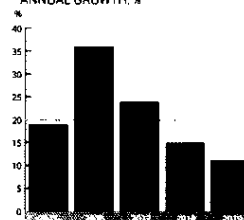
FINANCIAL OBJECTIVES

Long-term growth of
20%

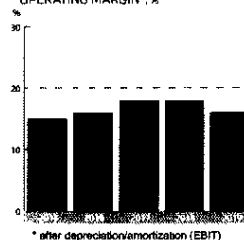
Operating margin
>20%

OUTCOME

ANNUAL GROWTH, %



OPERATING MARGIN*, %



* after depreciation/amortization (EBIT)

Staying close to the customers

With offices in 16 countries and distributors in another 50 or so, HMS is represented in all major industrial markets. HMS products have been installed throughout the world, but are primarily found in countries with a strong manufacturing industry.

HMS CORPORATE HALMSTAD, SWEDEN

Head office for HMS operations, with central functions like IT, accounting, finance, global sales and marketing.

BUSINESS UNIT ANYBUS HALMSTAD, SWEDEN

Center for development of Anybus products.

BUSINESS UNIT IXXAT RAVENSBURG, GERMANY

Center for development of Ixxat products.

BUSINESS UNIT EWON NIVELLES, BELGIUM

Center for development of Ewon products.

BUSINESS UNIT INTESIS IGUALADA (BARCELONA), SPAIN

Center for development of Intesis products.

DEVELOPMENT SITES

WETZLAR, GERMANY

BECK IPC, a key technology and platform development site within HMS.

BUCHEN, GERMANY

Development site: WEBfactory. Also an office in Sibiu (Romania).

MARKET UNIT CONTINENTAL EUROPE KARLSRUHE, GERMANY

Center for HMS in Central Europe. Manages local sales, support and marketing. Includes country offices in Mulhouse (France) and Milan (Italy).

MARKET UNIT AMERICAS CHICAGO, USA

Center for HMS in North and South America. Manages local sales, support and marketing. Also an office in Manchester (New Hampshire).

MARKET UNIT ASIA PACIFIC

Manages local sales, support and marketing. Offices in Shin-Yokohama (Japan), Pune (India), Beijing (China), Singapore, Seoul (South Korea).

MARKET UNIT NORTHERN EUROPE AND THE REST OF THE WORLD HALMSTAD, SWEDEN

Manages local sales, support and marketing in northern Europe and other selected countries that do not belong to one of the other market units. Offices in Coventry (UK), Hefel (The Netherlands) and Dubai (UAE).

MY POINT-OF-VIEW – HMS REGIONAL MANAGERS ABOUT THEIR MARKETS

In Europe we see very strong interest in 5G technology from factories such as car plants since 5G enables safer, more flexible and efficient manufacturing systems. The manufacturing industry faces a big transformation when going wireless and IIoT. HMS is very well positioned as our upcoming product offering enables users to connect machines and systems on the factory floor to IT systems using 5G. Cutting the cables in the factory for true flexibility will be the next industrial revolution and HMS is in a good position to benefit from that.

Thilo Döring
General Manager, Market Unit Continental Europe



In North America, interest in digital transformation and Industrial IoT applications has never been greater. In 2019, IIoT products and services were 33% of the HMS revenue in the Americas. We are expecting the pace of Industrial IoT adoption to grow even higher in 2020. With our best-in-class Ewon product offering and new Anybus Edge and HMS Hub cloud offering, HMS is well-positioned to benefit from the growing convergence between IT and OT, and the general digital transformation trend.

Kevin Kniske
General Manager, Market Unit Americas



The Asia Pacific region represents a big portion of the the global manufacturing output and is currently going through a transformation towards smart factories. Our focus in the region is to continue offering solutions for improved efficiency, flexibility and quality in order to enable the smart factories of the future. The region has a diverse mix of old and new manufacturing sites with a great need for connecting devices to support the IIoT convergence. Our traditional solutions, as well as our new products with 5G support and security-focus, make HMS well positioned for growth.

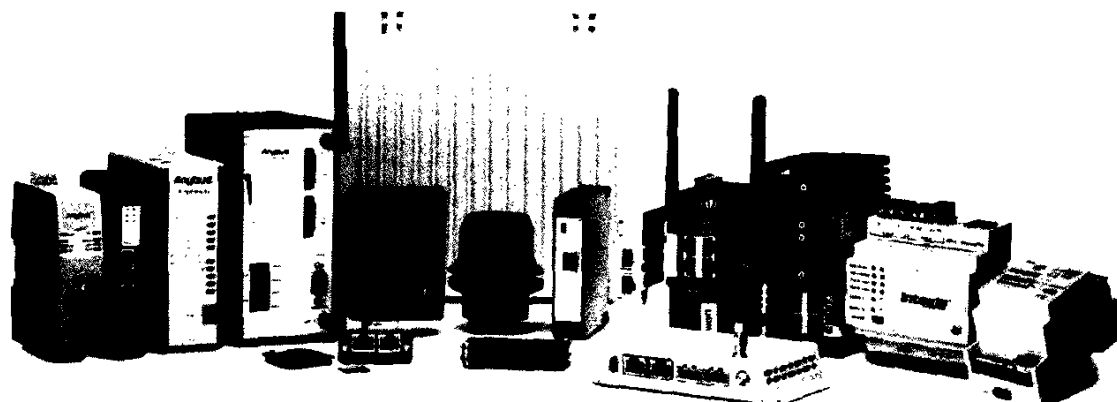
Bartek S. Gaudel
General Manager, Market Unit Asia Pacific



Following a challenging 2019, we look positively on 2020. We see opportunities in many vertical markets for our traditional products as well as a growing market for our new range of products for IIoT. HMS technologies and our position with our customers, well established as well as emerging markets put us in a favorable position to offer new and exciting connectivity solutions. These solutions will enable access to even more value for our customers.

Matthias Hoffert
General Manager, Market Unit Northern Europe and Rest of the World





Anybus®
BY HMS NETWORKS

Ewon®
BY HMS NETWORKS

Intesis™
BY HMS NETWORKS

Ixxat®
BY HMS NETWORKS

PRODUCT OFFERING

HMS PRODUCT OFFERING

Products – By HMS Networks

All HMS products are Connecting Devices™ in one way or another – making sure industrial equipment can communicate. Although they are marketed under four different brands and solve different communication needs, they are all “by HMS Networks” – a tagline which ensures users that they have chosen a solution from a world-leading expert in industrial communication and IIoT.



Anybus®
BY HMS NETWORKS

Ewon®
BY HMS NETWORKS

Intesis™
BY HMS NETWORKS

Ixxat®
BY HMS NETWORKS

"BY HMS NETWORKS"

Our customers rely on HMS to help them with products and solutions for industrial communication and IIoT. With our strong position in our field, we know that they will not find a partner that can do it better. From innovating, designing, marketing and selling to producing, delivering and supporting, we take pride in saying that all of this is done *by HMS Networks*.

In 2019, we started to highlight this fact explicitly by introducing new homogeneous logotypes for our product brands Anybus, Ewon, Ixxat and recently also Intesis – they all include the statement "BY HMS NETWORKS."

REASSURANCE FOR OUR CUSTOMERS

So, even if HMS's product brands address different markets and communication needs, they are all "by HMS Networks" — a tagline which assures users that they have chosen a solution from a world-leading expert in industrial communication and IIoT. Users can rely on the fact that the solutions meet the most demanding standards for e.g. quality, sustainability and security. They can also rely on strong partnerships and team-

work with HMS for the future. All guaranteed "by HMS Networks."

THE 12 DIMENSIONS OF "BY HMS NETWORKS"

In addition to stamping our product brands with "by HMS Networks," global campaigns were run at HMS corporate web site and in social media based on this theme in 2019. 12 HMS employees from different parts of the world were selected to comment upon 12 core dimensions of "by HMS Networks".

Starting from the ability to create a *Connection* between industrial technologies and people, HMS created a series of ground-breaking *Innovations*, which established the company on the market. By ensuring the highest level of *Quality and Reliability*, the foundation was set for successful *Business* and substantial year-by-year *Growth*, with HMS reaching 7 million delivered products in 2019. With *Industrial IoT*, the need for communication solutions is increasing, and HMS is addressing the IIoT market with several solutions which meet the *Security* standards for internet connected equipment. When installed, HMS's

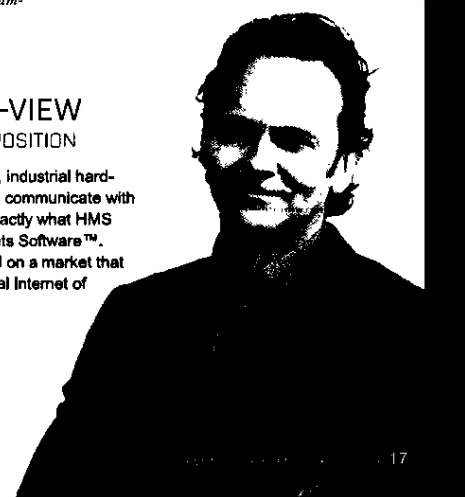
solutions help customers with their *Sustainability* agendas by saving time and resources – partly through more efficient control of factories, and partly by enabling insight into the status of devices and machines in the field which opens up for predictive maintenance. Finally, an important part of HMS success comes from the ability to form *Partnerships* characterized by intense *Teamwork* and *Passion* for what we do.

Over the next few pages, you can read more about the products branded Anybus, Ewon, Intesis and Ixxat – all including the 12 core dimensions of "by HMS Networks".

MY POINT-OF-VIEW A STRONG MARKET POSITION

To realize IIoT applications, industrial hardware needs to connect and communicate with IoT-software. And this is exactly what HMS stands for – **Hardware Meets Software™**. HMS is perfectly positioned on a market that is growing with the Industrial Internet of Things.

Anders Hansson – CMO



Anybus[®] Connecting any device, machine and network

The word "Any" is key to the HMS Anybus offering. Anybus products make it possible to connect any industrial device to any industrial network or the Internet. Industrial networks (sometimes referred to as fieldbuses, hence Anybus) come in different variants depending on the geographic market and industry. It's much like the multitude of languages used around the world, with Anybus making it possible for industrial equipment to speak them all.

The products are grouped into integrated network cards (Anybus Embedded) that are designed into a customer's products and standalone units (Anybus Gateways) that function as "translators" between machines and networks. There are also wireless products (Anybus Wireless) which is a strong and growing member of the Anybus family. Furthermore, the new offering called "Anybus Edge" also enables industrial devices to get connected to the Internet via the HMS Hub, opening many new possibilities for smart monitoring and control.

PRODUCTS

Anybus Embedded:

Network cards which are embedded into the customer's product to provide network connectivity.

Anybus Gateways:

More than 300 stand-alone gateways for connecting devices, machines, systems or networks.

Anybus Wireless:

Connects networks, machines and devices over Bluetooth or WLAN.

Anybus Edge:

Connecting industrial devices to the Internet.

Timo Van't Hoff
General Manager
Business Unit Anybus

MARKET

Factory automation remains the most important market for Anybus. The increasing importance of communication in other areas such as vehicles, process plants and infrastructure continually open up new applications and markets for Anybus.

BUSINESS MODEL

Anybus Embedded is typically sold through direct sales to manufacturers of automation products. A Design Win means that the customer has decided to use Anybus, after which an Anybus module is mounted to each new product that is manufactured. Anybus Gateways and Wireless products are sold directly to customers or via distributors depending on the situation.

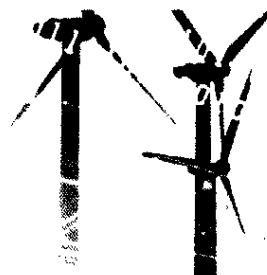
COMPETITION

In the embedded segment, the competitor is often also the actual customer, who could decide to develop network solutions in-house. Companies like Hilscher, ProSoft, Moxa and Molex compete with HMS in various gateway sub-segments. However, none are able to match HMS's broad offering.



Remote solutions for industrial applications

HMS's Ewon® brand provided IIoT solutions before the term IIoT even existed. With Ewon solutions, machines are accessible in a secure way over the Internet, giving users access to the machine's data anytime and anywhere.



PRODUCTS

Ewon Cozy:

Provides users with a secure tunnel for remote maintenance and troubleshooting.

Ewon Flexy:

Industrial routers and IIoT gateways for remote access and data services such as remote surveillance and information gathering.

Francis Vander Ghinst
General Manager
Business Unit Ewon

MARKET

Ewon solutions typically enable remote access to industrial machines with a PLC (Programmable Logic Controller — an industrial computer that runs the machine.) But there are many other application areas such as backup power generators, UPSs (Uninterruptible Power Supplies), wind turbines, solar panels, telecom base stations, tanks, reservoirs, and more.

BUSINESS MODEL

Ewon products are primarily sold to machine builders through a network of distributors. Customers can subscribe to various services after having purchased the hardware products.

COMPETITION

HMS is one of the leading companies for remote access and monitoring of industrial equipment, with customers in all significant industrial segments. There are other suppliers of remote access and data monitoring solutions, but most are specialized in a particular market segment.



NEW PRODUCT OFFERING

Intesis™ Connecting buildings

Modern buildings are like highly advanced networks with thousands of devices and machines that need to communicate. Intesis offers communications solutions designed for buildings. Building automation is a rapidly growing market where HMS has identified excellent growth opportunities for the future. Intesis was acquired by HMS in 2016 and as of 2020, the brand is an integral part of the HMS offering to all markets.

PRODUCTS

Intesis offer gateways which act as translators between air-conditioning units, thermostats, lighting ballasts, etc. and building management systems running on protocols KNX, BACnet or Modbus. The communication is configured with the software intesis MAPS. Additionally, Intesis is known for the market leading ability to design specific AC interfaces for the major vendors of air conditioning equipment.

Josep Ceron
General Manager
Business Unit Intesis

MARKET

Intesis' market is mainly building automation, with special focus on HVAC integration (Heating, Ventilation and Air-Conditioning). Typical customers include system integrators, distributors and manufacturers of equipment for buildings.

BUSINESS MODEL

Depending on the situation, Intesis products are sold either through HMS' international network of distributors or directly by HMS staff.

COMPETITION

With the Intesis brand, HMS is one of the leading communication companies within building automation. Competitors exist in Europe, USA and Asia, but these companies only cover parts of the wider Intesis portfolio.

HMS PRODUCTS



Making machines work on the inside

Ixxat is a well-known brand in the automation market, especially for machine communication and security. Ixxat stands for extensive expertise in CAN, a technology originating in the automotive industry but nowadays used in many industries. The Ixxat offering primarily consists of a large number of standard products that solve the most common types of communication problems in machines, including safety aspects. It also contains products that solve new communication problems in smart grids.

PRODUCTS

Ixxat Automotive:
Test tools and hardware for use in test benches, during development, and for troubleshooting.

Ixxat Embedded Control:
Connectivity solutions for machines and development of hardware, software and associated services.

Ixxat Energy:
Smart Grid Solutions for industrial, energy and railway power systems.

Ixxat Safe:
Solutions for easy implementation of safety communication.

Alexander Hess
General Manager
Business Unit Ixxat

MARKET

Industrial automation and the automotive industry are important markets for the Ixxat offering. The products are used in areas such as medical automation, energy production, heavy vehicles and infrastructure.

BUSINESS MODEL

Ixxat products are sold directly and via distributors depending on the product. Many Ixxat products are sold using a similar Design Win-based business model as Anybus Embedded. Other fundamental components of the Ixxat brand are development services and customized products.

COMPETITION

CAN is a mature technology and other companies offer similar products. None, however, with such a complete portfolio and the level of technical expertise offered by Ixxat. Additionally, unique solutions are offered for automotive testing, functional safety and network connectivity.

"The edge" is a metaphor for the border between Operational Technology on the factory floor and IT-systems. It is here that HMS's new IoT platform, HMS Hub, operates, making sure that the two worlds can communicate.

1. The first part of the paper is devoted to the study of the asymptotic behavior of the solutions of the system (1) as $\epsilon \rightarrow 0$. It is shown that the solutions of the system (1) converge to the solutions of the system (2) in the sense of the weak convergence in the space $L^2(\Omega; \mathbb{R}^n)$.

With four different product brands and 100+ units, there is a risk of re-inventing the wheel, trying to solve the same technical problems in different parts of the company. HBS's common platform solves this, available to all development centers. It can be used in building hardware, software, cloud solutions and more. With certifications, it's being securely deployed within the platform. Development becomes faster, making room for more innovations. With HBS Hub, we have added an IoT dimension to HBS platform strategy.

Modeling
the Effect of
Temperature on
the Rate of
Reaction



WHAT IS HMS HUB?

Introduced in 2019, the new IIoT platform from HMS, *HMS Hub™*, solves two major challenges. Firstly, it is a way for customers to realize IIoT projects. By connecting industrial machinery on the factory floor to HMS Hub, data from Operational Technology (OT) is made available to IT-systems and IoT applications. This makes it possible to view live data, analyze performance and control the equipment from anywhere.

Secondly, the HMS Hub is also a way to streamline HMS's internal development efforts and provide the Anybus, Ewon, Ixxat and Intesis product development teams with a common, ready-made platform from which it is faster and easier to develop new solutions.

Consequently, HMS Hub becomes the place where industrial hardware meets software, boosting internal development speed, innovation and consistency, as well as HMS' ability to meet external customer demands related to IIoT.

COMBINING NEW HMS TECHNOLOGIES

Already today, Anybus Edge gateways, launched during 2019, are using HMS Hub to connect machines to cloud applications. More Anybus, Ixxat, Ewon and Intesis products will follow meaning that any industrial device can connect to the HMS Hub.

HMS Hub is based upon technology from Beck IPC, acquired by HMS in 2018, and this IIoT platform is now developed further by teams in Halmstad, Sweden and Wetzlar, Germany.

Thanks to HMS Hub, machine data is presented in easy-to-understand formats for IT-systems. Once the data is in HMS Hub, customers can connect this data flow to their IT-system of choice such as Microsoft Azure or SAP, but they can also utilize a software user interface from HMS-owned WEBfactory to display data in intuitive graphical dashboards.

This means that HMS has a full IIoT solution allowing industrial hardware to meet IoT software.

PARTNERSHIPS IMPORTANT

No matter if customers use HMS's own solutions to display data or integrate HMS Hub with their own IT-systems or a third-party supplier, collaborations will most likely be of utmost importance. A clear trend today is that innovations are more often coming from collaborations rather than from a lone innovator. Here, HMS Solution Partner program will expand the reach of HMS Hub-connected solutions into new application areas and markets.

IT-COMPANIES WANT OT-INFORMATION

Enabling communication between machines and industrial systems has always been in HMS's DNA and communication between different parts on the factory floor will continue to be the backbone of HMS's business for many years to come. But with IIoT and Industrie 4.0, more companies from the IT-sector are looking for ways to communicate and exchange information with OT-machinery and this trend is driving companies to utilize HMS products.

WHAT ABOUT 5G?

The next generation of cellular networks, 5G, has communication speeds which caters for demanding industrial processes. There is a great interest in 5G from the industrial sector as wireless communication will reduce cumbersome wiring and make factory floors a lot more flexible. HMS is an early adopter of 5G technology and there are already communication solutions from HMS for 5G.

5G is an enabler of new and more flexible industrial processes and will be a part of many new HMS solutions as factories move from Industry 3.0 to 4.0 – from the factory floor to the Internet.

POSSIBILITIES WITH NEW TECHNOLOGY

With IT- and OT- technologies fully connected, new and exciting opportunities open up for the industrial world. For example, the ability to automate the manufacturing of tailor-made products like cars, furniture and TVs according to the customers' demands. Other examples include the possibility to analyze machine data in IT systems to predict maintenance needs or make the production site even more efficient. By monitoring industrial devices remotely 24/7, it is also possible to minimize travels for support and maintenance.

HMS technology and HMS Hub in particular, enables these new opportunities to become real-life applications and is therefore an important component for any company wanting to realize an IIoT solution.



SUSTAINABILITY

SUSTAINABILITY

Economic, environmental and social sustainability

HMS's vision is to enable industrial devices and systems to communicate for a more productive and sustainable world. It is a vision that also underlines our strategy of creating long-term value and sustainable development for the company and our stakeholders. We combine growth and profitability with environmental and social responsibility.

This is the HMS Networks sustainability report for the 2019 fiscal year. The sustainability report includes the parent company HMS Networks AB (org. no. 556661-8954) and all units consolidated in the 2019 consolidated financial statement of HMS Networks AB, which are specified in note 35 in the consolidated financial statement. The sustainability report is prepared in accordance with the provisions of chapters 6 and 7 of the Swedish Annual Accounts Act, and with the Global Reporting Initiative's GRI Standards, Core option, and includes pages 3, 8–9, 26–34 and 107–113.

For HMS, sustainable growth includes three interdependent components: economic, environmental and social sustainability. We believe that sustainable growth is about making things better for customers, the environment and the people around us in all areas of our operations. (Information about HMS' business models and value creation is available on page 8–9 in this annual report.)

FOCUS AREAS

The HMS management team has established four focus areas that serve as the foundation for how HMS is able to contribute to the sustainable development of society. These areas are:

- Innovative products and attractive solutions
- Energy efficiency
- Being an attractive employer
- Responsible business dealings

The sustainability aspects deemed most important are:

- Environmental impact from products and services
- Energy consumption in properties
- Greenhouse gas emissions (company cars, electricity consumption, incoming material, transport)
- Electronic waste
- Anti-corruption
- Customer privacy
- Skills development
- Supplier human rights assessment.

At HMS, we maintain an ongoing dialog with our stakeholders on what is important in order to obtain valuable feedback on how to carry out effective sustainability efforts. Please read more about our materiality assessment and HMS's approach to stakeholder engagement in our GRI appendix (on pages 107–113).



The United Nations has specified 17 global goals that leaders around the world have pledged to achieve by 2030. HMS takes responsibility and actively strives to help achieve these goals within the areas relevant to our operations. HMS has decided to focus on the 7 areas that are most relevant and where we can make the most impact.

GOAL 8
DECENT WORK
AND ECONOMIC GROWTH
Promoting a long-term safe and
secure work environment.
Read more on page 32-33.

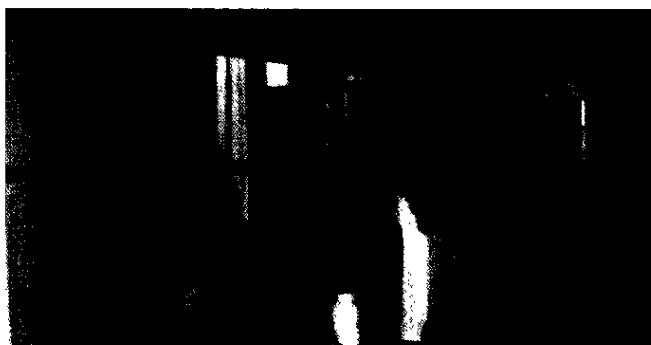
GOAL 12
**SUSTAINABLE CONSUMPTION
AND PRODUCTION**
Developing and manufacturing products that enable significant energy savings for our customers.
Read more on pages 30-31.



SUSTAINABILITY

A multinational team with common values

HMS is a global company with operations in many countries. A shared company culture and shared values are imperative to achieve our goals and grow without sacrificing quality. Our work environment, gender equality and pay-setting efforts are summarized in our company-wide policy: "HMS Hi 5".



EMPLOYEE STRATEGIES – GOVERNANCE AND POLICIES

HMS is reliant upon motivated, skilled employees who think in an innovative way. Employee knowledge, commitment and performance are critical for HMS to succeed with its strategy, achieve its goals and continue growing.

HMS offers its employees exciting personal and professional development in a modern, dynamic and growing organization with a wide international network and excellent career opportunities. The company culture is modern and open, where shared values, learning and own responsibility are prioritized.

HMS HI 5

HMS is an international, fast-growing entrepreneurial company with exciting technological development and proximity to customers. In a growing organization, it is important to have shared values that are aligned with long-term strategies, upon which decisions and working methods are based. *HMS Hi 5* serves as the guiding star when performing daily tasks and interacting with customers, suppliers, colleagues and other stakeholders. HMS Hi 5 includes five dimensions:

- Customer Commitment
- Growth and Innovation
- Long-Term Perspective
- Strong Relationships
- Lean & Efficient

AN ATTRACTIVE EMPLOYER

HMS is constantly working to develop our workplace to be an attractive employer. During 2019, we continued to focus on improving the personal benefits for our employees through wellness, lectures and training.

Frequent surveys are carried out three times per year in order to get quick feedback from the organization. These surveys offer managers a way of obtaining feedback from employees via a portal that shows the department's results. This has proven to be an effective tool for facilitating meaningful discussions at the departmental level.

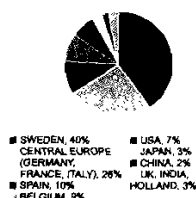
In 2019, we have also continued to focus on developing our managers and their leadership to meet the demands of our employees. Furthermore, there has been a special focus on understanding and improving group dynamics to develop our employees and create commitment.

HEALTH AND LIFESTYLE

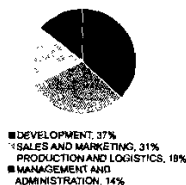
We see a good working environment as a primary condition for being able to do one's job. We have modern, functional offices at all our workplaces around the world. Various initiatives are regularly taken to promote good health and a balanced lifestyle. Social and fitness activities are arranged on a regular basis. We have low sick leave rates and the sick leave rate in Sweden for 2019 was 3.34% (4.35). The employee turnover for the HMS Group was 17.2% (7.8) compared to 18.0% (6.3) for Sweden. The higher rates for 2019 are mainly explained by completed restructuring program that affected 43 persons in the Group. However,

SUSTAINABILITY

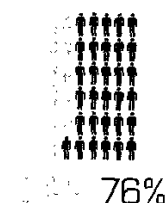
EMPLOYEES / COUNTRY



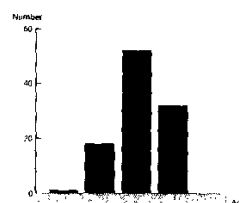
EMPLOYEES / FUNCTION



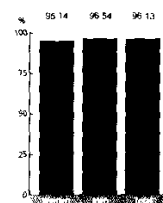
DISTRIBUTION WOMEN / MEN



MANAGERS / AGE DISTRIBUTION



ATTENDANCE 2019



the company continually monitors absence due to illness and takes proactive initiatives to keep sick leaves at a low level.

THE RIGHT RECRUITMENT LEADS TO GROWTH AND QUALITY

HMS's growth strategy depends on it having employees with the right competence. We actively strive to promote and profile HMS in the labor market, with a special focus on technicians and engineers. For example, HMS participates in job fairs at universities and colleges, offers students opportunities for doing their thesis projects at HMS and promotes the company through various social media platforms. In 2019, we added a total of 109 (87) new employees to the Group, 39 (30) in Sweden and 70 (57) in other countries.

EMPLOYEE DEVELOPMENT

HMS is a learning organization, which applies to our daily operations as well as both our external and in-house training initiatives. Employees at HMS are used to taking responsibility, tackling new challenges and learning new skills.

A large portion of development work is carried out jointly with customers, typically in an international context that provides new perspectives for

HMS staff resulting in personalized skills development. New employees participate in individually tailored, local orientation programs. In addition, all new HMS employees throughout the world participate in an orientation week held at the head office in Halmstad.

At HMS, there are many opportunities for shaping and developing one's own professional career. In 2019, we invested an average of 22 hours per employee on training. Furthermore, every employee has career development discussions with their manager each year. This creates a strong drive and commitment to continually improve, which is a critical success factor for long-term success. The company has a special foreign exchange program that gives engineers from the development department the opportunity to work in one of the company's other offices around the world.

SOCIETY

Besides the taxes and fees paid by HMS in each local market, HMS actively strives to strengthen its bonds with society. HMS also contributes by donating money to charities that are active on either a local or global level. For example, HMS in Halmstad has supported WOW, Women On Wednesdays, an organization that aims to promote

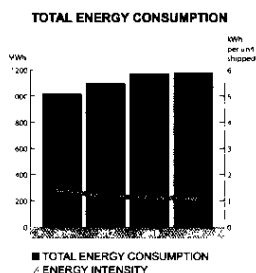
a better integration of immigrant women in society.



SUSTAINABILITY

HMS products lower environmental impact

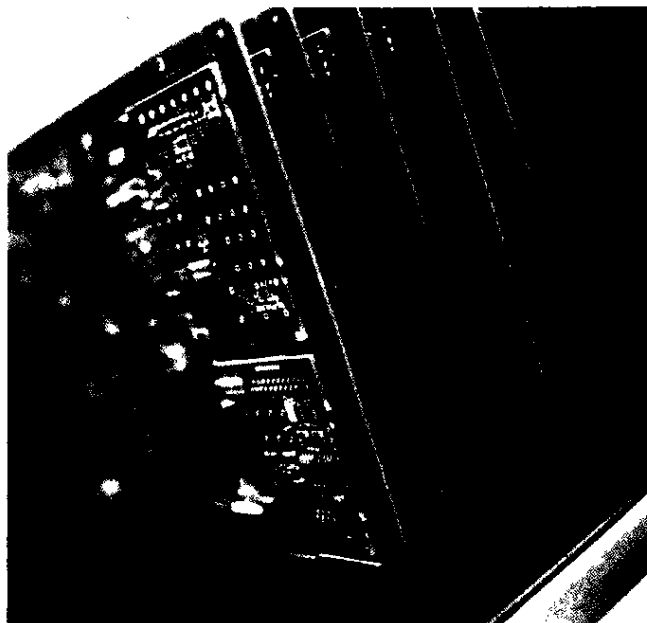
HMS's main contribution to sustainable development is offering products that make energy savings possible for users throughout the product lifespan. HMS operates in an industry where changes in directives and legislation can result in additional fees, which in turn may require more materials and higher production costs. Failure to comply with laws and environmental requirements for purchased materials could result in fines and a company's reputation could be damaged. HMS's environmental policy covers issues that govern long-term investments, material selection during the design process, distribution, supplier selection, recycling of electronic waste and chemical handling. Environmental aspects are considered when developing, manufacturing, delivering and using HMS products. In other words, HMS considers the entire product life cycle.



The graph shows the energy consumption from HMS's three largest business areas, Anybus, Ixat and Ewon.

Greenhouse gas emissions, metric tons CO ₂ e	2019	2018
Scope 1, direct greenhouse gas emissions	246	244
Scope 2, indirect greenhouse gas emissions from energy consumption	33	21
Scope 3, other indirect greenhouse gas emissions	384	323
Total greenhouse gas emissions	663	588
Greenhouse gas emissions for each unit (kg CO ₂ e)	0.60	0.57

The table shows greenhouse gas emissions from HMS's three largest business areas. Scope 1 is from company cars, Scope 2 is electricity and Scope 3 is transport.



HMS's goal is to develop products that contribute to higher energy efficiency and lower emissions. For this purpose, HMS monitors several key performance indicators associated with greenhouse gases and energy consumption, as well as energy and reduced emissions for customers, all of which is aimed at lowering costs and negative environmental impact.

SUSTAINABLE PRODUCTS

HMS actively works with the following areas:

- Products that are considered to be fundamental components in sustainable industrial systems
- Sustainable product development
- Sustainable manufacturing and logistics

SUSTAINABLE SOLUTIONS

HMS makes valuable data available via the ability to connect industrial devices in a secure and easy way. This enhances our customers' productivity and facilitates their sustainability efforts.

HMS products make it possible to create sustainable industrial solutions, with a focus on parameters such as energy and resource efficiency, lower emissions, less pollution, higher quality and less waste. Another important aspect is being able to offer effective and flexible industrial solutions to reduce overproduction. The goal is to be able to manufacture a small number of devices just as efficiently as through mass production.



HIGHER EFFICIENCY WITH DIGITALIZATION

The industrial sector is in the midst of a communication and data revolution fueled by trends such as Industrie 4.0, the Industrial Internet of Things (IIoT) and Smart Manufacturing. There is a global impetus behind these trends based on the desire to reclaim manufacturing from low-cost countries, increase competitiveness and future-proof the individual countries' exports of machinery and systems. Another powerful driving force is sustainability, with goals that relate to improvements to the work environment and ergonomics, energy and resource optimization, flexible mass production, reduced environmental impact and a clearer understanding of our own impact. The basis for creating the smart industrial systems of the future is getting access to the information and data that is generated by industrial systems. HMS products facilitate this by offering intelligent control functions, and solutions for capturing and presenting data in an understandable way in any monitoring or analytics software on IT/IIoT level. The growing need for data collection and remotely connected systems lays the foundation for the creation of new services and businesses.

PRODUCT DEVELOPMENT

HMS continually develops the capacity of the offered products and solutions in a way that is compatible with HMS corporate sustainability goals, ensuring that they can easily be integrated into industrial systems and provide valuable functionality and information to the customers for sustainable decisionmaking. With this in mind, HMS participates in various technical standardization organizations, thus ensuring that the company's products and solutions remain on the cutting edge

in terms of functions such as energy management. In the area of industrial communication, technology is developing at a rapid pace, which puts high demands on the ability to offer more powerful, efficient products without compromising on environmental aspects. Since time to market is important, methods and platforms also play a critical role given that there is more to gain from a sustainability perspective when new, energy-efficient, smart solutions can start being used sooner.

HMS puts a great deal of emphasis on energy-efficient technologies and solutions. Powerful, energy-efficient solutions are created using processors and memories with contemporary silicon geometries. Products are designed to be used over a long period of time in demanding environments. And, to achieve maximum lifespan, it must be possible to make repairs and perform upgrades to all solutions in the field. Low weight, small size and efficient packaging are also considered in the design in order to conserve material resources and create a lower environmental impact in the logistics chain. Only materials and manufacturing processes that meet the latest international legal requirements are used. Hazardous substances and chemicals are avoided to the greatest extent possible.

FOCUS ON ENERGY EFFICIENCY

HMS strives to develop products and solutions that contribute to efficient energy consumption and

resource-efficient production. By using automated processes and intelligent industrial communication, it is possible to achieve more efficient energy consumption for industrial equipment, such as motor drives, pumps and fan systems. HMS products for remote control and monitoring with the associated cloud solutions, can be utilized to address global challenges in sustainable development. Intelligent remote control of equipment also enables energy savings thanks to more efficient operations and fewer site visits required for inspection and control. With this, HMS's products contribute significantly to higher energy efficiency and thus lower environmental impact. As an example, the savings potential related to travelling and lower carbon dioxide emissions increased by 35% in 2019 compared to 2018 thanks to higher customer usage of Ewon products for remote access and data connected to the Talk2M cloud solution.

RECYCLING AND E-WASTE

Through careful control of production processes, it is possible to achieve efficient manufacturing with minimal use of materials, waste and energy consumption. HMS minimizes the use of hazardous substances and facilitates recycling by complying with environmental laws like RoHS, REACH and WEEE.

Estimated savings through use of Talk2M	2019	2018
Travel savings (million km)	4,837	3,576
Lower carbon dioxide emissions (thousand tons CO ₂ e)	617	456

HMS products lower the amount of travelling needed for our customers. The travel savings enabled through Talk2M usage in 2019 are estimated to 4,837 million km per year

Sustainable business

Responsible business dealings and profitability go hand in hand. By combining good business ethics and innovation, HMS strengthens its competitiveness and is able to offer sustainable solutions to meet the challenges facing our customers.

A key factor for HMS is to do business and take full responsibility for the supply chain, given that the company's reputation is one of our most valuable corporate assets. Accordingly, HMS is committed to maintaining the excellent reputation as a reliable partner for industrial communication and IIoT and keep on running our business in a responsible way.

HMS CODE OF CONDUCT

HMS's Code of Conduct is based on international agreements like the ILO Core Conventions on Human Rights, the Universal Declaration on Human Rights and the Convention on the Rights of the Child. The Code of Conduct provides guidance on how HMS employees should behave in an ethical way, in line with the company's values. It is also used when monitoring direct suppliers. Compliance with the Code of Conduct ensures that HMS runs the business in a professional, honest and ethical manner.

HMS's Code of Conduct covers topics such as safe working conditions, responsibility for the environment, ethical interaction with customers and suppliers as well as positive interaction with society. Our core values are summarized in HMS Hi 5, which provides supplementary guidance for our employees in their daily activities.

The Code of Conduct reflects the company's commitment to conduct its business responsibly and it includes:

- being a responsible member of society
- respecting human rights
- ensuring health and safety
- striving for sustainable development
- preventing corruption

HMS has internal procedures that make it possible for all employees to report suspected legal or regulatory violations without repercussions. All employees of the HMS Group are encouraged to report any behavior that is perceived as serious misconduct to their manager, or in accordance with established procedures. It is also possible to report misconduct anonymously. Managers are expected to thoroughly deal with reported violations and strive for a satisfactory solution with reasonable remedial action. During 2019, HMS did not have any cases of improper conduct that resulted in remedial action.

The Code of Conduct has been approved by the corporate management and Board of Directors. It has also been published on the company's website. The Code of Conduct is also available to all employees via the company intranet and it is covered during the introduction of new employees.

PROCESSING OF CUSTOMER DATA

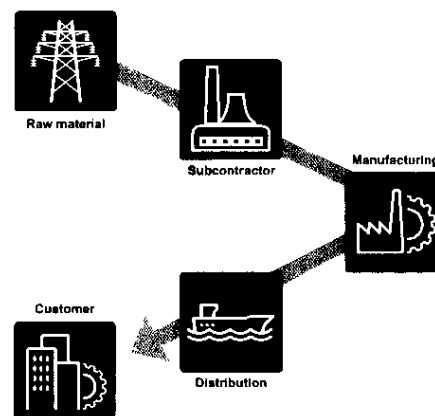
HMS operations involves processing customer data generated in our systems when customers use our cloud services. HMS respects and protects our customers' privacy and this is managed by the HMS Customer Privacy Policy. Data privacy awareness training is required for all data owners to ensure data protection and transparency. By using a certified management system for information safety (ISO 27001), we are also assured that data is protected in the best possible way. Possible vulnerabilities in our systems are identified using penetration tests. To meet the requirements of the EU GDPR, HMS has strengthened the personal data protection by adapting our systems and incre-

asing information about the data stored and processed. HMS neither received any complaints during 2019 in relation to customer privacy, nor identified any leaks of customer data.

SUSTAINABLE DELIVERY CHAIN

It is very important for HMS to respect human rights in all manufacturing steps and we expect our suppliers to also respect human rights and employee working conditions. They must also take responsibility for their environmental impact. However, components from a large number of manufacturers are used in the production process of HMS products. For this reason, HMS does not always have control over how the components are manufactured from an environmental, social and

ethical perspective. There is also a risk that the electrical components contain conflict minerals. As a prerequisite for conducting business with HMS, we require that our business-critical suppliers have implemented a management system for their environmental and work environment initiatives. HMS selects and evaluates suppliers based on such criteria as quality, delivery, price and reliability. The company also considers environmental and social responsibility and commitment.





Engaging with customers at the SPS tradeshow

Environment

HMS is required to comply with applicable laws and regulations, like the RoHS Directive and REACH Regulation. Therefore, we require that our suppliers follow the latest guidelines and provide declarations of compliance with rules for materials and products delivered to HMS.

Human rights

HMS supports and respects human rights. Follow-up on human rights in the delivery chain has been integrated into the monitoring and approval process for HMS suppliers.

The HMS policy for conflict minerals governs our reporting efforts in the context of supply chain traceability to ensure a conflict-free supply chain. Conflict minerals are defined as tantalum (coltan), tin (cassiterite), tungsten (wolframite), gold or their derivatives. If these minerals stem from the Democratic Republic of the Congo or adjoining countries, there is a risk that they might finance conflicts in the region. Given that HMS's products contain metals from these minerals in the form of purchased materials, suppliers of these materials are requested to provide proof of a transparent and conflict-free supply chain.

HMS addresses the issue of conflict minerals, including compliance with the US Dodd-Frank Act (the SEC), by cooperating actively with our suppliers and reporting the results on our website. To succeed in these efforts, our suppliers are required to comply with HMS's policy for conflict minerals, which includes providing information about the source and origin of potential conflict minerals in deliveries to HMS.

We require our suppliers to take responsibility

HMS partners and suppliers are encouraged to apply business principles that comply with the HMS Code of Conduct. We also expect them to pass on these values to their suppliers.

The HMS process for supplier evaluation is based on scrutiny before and during our collaboration and is linked to human rights, sustainability and social conditions. The process is partly based on site visits and partly on self-evaluation forms. The focus of on-site audits is Code of Conduct, Work Environment and Health, Quality and Safety. Performance in these areas is evaluated and if the supplier does not meet HMS requirements, this results in deviations that must be reported and rectified, and if this is not done, the collaboration

will be terminated by HMS.

During the year, visits to key suppliers were carried out according to plan. Preparations have also been made regarding the HMS Supplier Code of Conduct, where HMS will contact our suppliers to make self-declarations in accordance with the Code of Conduct.

HMS's largest suppliers have good guidelines on how to conduct their business in an ethically, socially and environmentally correct way. Working with HMS, they need to clearly state that they support, respect and prioritize these areas. Among other things, our agreements with key suppliers require that workplaces are managed in way that upholds human rights and that the management teams are prepared to assume its responsibilities.

When it comes to social responsibility, HMS refers to SA8000*, which is a comprehensive global standard for social responsibility.

Furthermore, HMS encourages our suppliers to introduce certifiable management systems for work environment, quality, environment and safety.

No deviations were identified during 2019 in the environmental or work environment area.

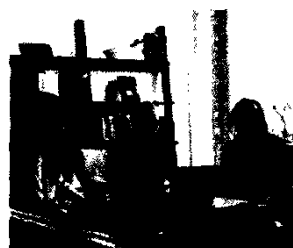
Realizing social commitments

HMS maintains a close dialogue and long-term partnerships with universities and schools in several parts of the world. This has resulted in collaboration on innovation and research as well as in the context of our core business activities, where students gained valuable work experience from projects and summer jobs at the company. In 2019, HMS has made a major effort to host more degree projects, bringing the total number of participating students during the year to 52. HMS also arranges visits at our offices in Halmstad.

During the year, we held six visits that were open to students and the public. Each year, in collaboration with Halmstad University, HMS grants scholarships for the best thesis projects to outstanding students in computer science, electrical engineering and mechatronics.

HMS has various sponsorship programs to help the needy and reduce inequalities. We also provide opportunities and encourage local initiatives in the Group. For example, HMS has supported and contributed to ADA – a student society

for female engineers. HMS also participates in WOW, a meeting place for women from different cultures, which aims to promote a better integration of immigrant women in Swedish society. The organizations that have received donations from HMS during the year include WOW, the Swedish Cancer Society, Save the Children and UNICEF.



Read more in the HMS GRI-APPENDIX on pages 107-113.

Auditor's statement on the statutory sustainability report

To the Annual General Meeting of the shareholders of HMS Networks AB (publ),
corporate identity number 556661-8954.

ENGAGEMENT AND RESPONSIBILITY

The board of directors is responsible for the statutory sustainability report for the year 2019 on pages 26-33 and for its preparation in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our audit has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's opinion regarding the statutory sustainability report. This means that our audit of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practices in Sweden. We believe that the audit has provided us with a sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Halmstad, 19 March 2020
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Chairman's comments

2019 has been a mixed year for HMS where the management has had to handle both forward-looking activities such as acquisitions, collaboration around 5G-technology and the establishment of new sales offices, while at the same time adjust to a weaker market and slower growth in the shorter perspective. HMS management saw the signals from the market early on. A slowdown in the automotive industry in Europe affected investments in automation equipment and thus also temporarily HMS's growth curve.

However, HMS continues to have a unique position in an increasingly digitalized world – increasing the degree of automation of industrial processes, reducing maintenance costs for advanced machines and creating new service offerings linked to digital technology. All to increase productivity and security and reduce resource consumption for end users of HMS products.

For a growth company in a fast-growing sector, the Board has an important role to play both in terms of control and governance as well as in a more supportive role. The latter is important since the product and application areas have widened in recent years. This puts increasing demands on HMS management to be able to handle a greater complexity between markets and products.

For the Board, it is important to actively sup-

port the corporate management team in strategic matters, to ensure a good balance between risk and opportunity, access to the right human capital and to ensure that plans are followed. The work of the Board follows a fixed annual cycle with scheduled meetings and a division of work and responsibilities defined in the Rules of Procedure.

The Board works well, with a good balance between different experiences. Some of the members of the Board are in a managerial position with good insight into and understanding of HMS management's challenges. Others add valuable experience from senior positions in areas such as stock markets, corporate acquisitions, technology development and marketing. Not least in our strategic discussions – when the entire management team participates – this mix creates an exciting and dynamic atmosphere.

During the year, a Board evaluation was made based on a model developed by the Latour Group. This evaluation is of great importance to ensure effective board work, but also as a guide to achieve the right composition and competence of the board. This year's summary showed a well-functioning board, with good dynamics both within the board and between the board and management. The committee functions also work well. The Audit and Remuneration Committees work

to ensure that we work effectively with both capital and personnel matters, while the Development Committee has the task of specifically monitoring the important issues surrounding product and technology development.

The Board's challenges in the future are to assist and encourage the management to continue developing HMS's business in the short-term with more hesitant market without losing focus on HMS's long-term growth and competitiveness.

Charlotte Brogren
Chairman of the Board



Corporate governance report

HMS's Board and management team work to ensure that the company lives up to the requirements that NASDAQ OMX, shareholders and other stakeholders have on the company. The Board also monitors all issues having to do with the recommendations and requirements from the company's stakeholders. HMS complies with the directives in the Swedish Code of Corporate Governance. Corporate governance at HMS is primarily exercised at the Annual General Meeting and through the work done by the Board. In a broader perspective, corporate governance also applies to management, its duties and the Group's control and reporting functions.

STRUCTURE FOR CORPORATE GOVERNANCE

HMS's shareholders are ultimately responsible for making decisions on corporate governance. The Annual General Meeting (AGM) elects the Board of Directors, the Chairman of the Board and the auditors. It also decides how the nomination committee will be elected. The Board is responsible to the shareholders for the organization of the Group and the administration of the Group's affairs. The auditors report their findings at the AGM.

SHAREHOLDERS AND AGM

The shareholders exercise their right to decide on the company's affairs at the general meeting of shareholders, which is the company's highest decision-making body. The AGM decides, among other things, on the adoption of the income statements and balance sheets, appropriation of profits, discharge of responsibility for the CEO and the Board, election of Board members and auditors, as well as remuneration to the Chairman of the Board, other Board members and auditors. The AGM also decides on guidelines for remuneration to the management team.

In addition, the AGM decides on any changes to the company's Articles of Association, new share issues and the introduction of any share-based incentive programs. The Articles of Association is the fundamental governing document for the company. It stipulates the type of operations,

the size of share capital, shareholders' right to attend the AGM and the agenda of the AGM. Any shareholder who wishes to have a particular item dealt with at the AGM must submit a written request to the Board well in advance so that the item can be included in the notice of the AGM. Information on the deadline for submitting such requests to the Board is available on the company's website. Information relevant to the AGM and the minutes from the AGM are available on the company's website: www.hms-networks.com.

The AGM must be held within six months following the end of the financial year. All shareholders registered in the shareholders' register on the record day (five calendar days before the day of the AGM) and who have applied, have the right to attend. Each share entitles the shareholder to one vote. Notice of the AGM must be issued no earlier than six weeks and no later than four weeks in advance by advertising in *Dagens Industri* and the Swedish Gazette.

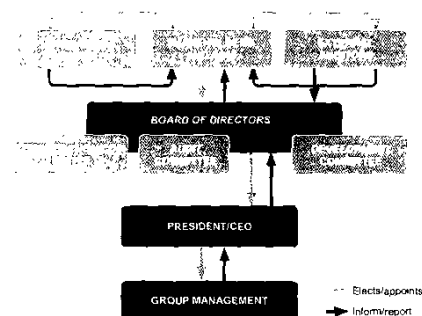
ANNUAL GENERAL MEETING 2019

The AGM was held on 25 April 2019 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 73 (70) % of the number of shares and votes. The following were present at the AGM: Chairman Charlotte Brogren and Board members Ray Mauritsson, Fredrik Hansson, Anders Mörck, Cecilia Wachtmeister, Ulf Södergren and Tobias Persson (employee representative). Also at the

meeting were Per Frygg, representing the nomination committee and Fredrik Göransson from the firm of auditors. Shareholders at the AGM decided:

- to pay dividends to SEK 1.80 (1.50) per share, corresponding to a paid dividend of SEK 83,909 (69,894) thousand
- that the Board of Directors shall consist of six AGM elected Board Members without Deputies
- to re-elect Charlotte Brogren as Chairman of the Board and to re-elect Anders Mörck, Ray Mauritsson, Fredrik Hansson, Cecilia Wachtmeister and Ulf Södergren as Directors

- that remuneration to the Board would be SEK 1,625 thousand for the next term, of which SEK 500 thousand to the Chairman of the Board and SEK 225 thousand to each of the other AGM elected Board members
- that remuneration for work in the audit committee would be SEK 100 thousand to the Chairman of the audit committee and SEK 50 thousand for other members
- the election of Öhrlings PricewaterhouseCoopers AB (PwC) as auditor, with Fredrik Göransson, Authorized Public Accountant, in charge
- on guidelines for salary and other remuneration for the CEO and other senior executives



CORPORATE GOVERNANCE

- on the authority of the Board to issue new shares
- to set up a share savings plan open to all permanent employees of the Group.
- to purchase own shares in HMS Networks AB in connection with the established Share Savings Plan.

NOMINATION COMMITTEE

The AGM decides on how the nomination committee is appointed. It is the duty of the nomination committee to, prior to the next AGM, prepare and submit proposals for a Chairman of the Board and other Board members, as well as remuneration to the Chairman and other Board members. The nomination committee is also responsible for evaluating the work done by the Board of Directors based on the report it receives from the Chairman. The nomination committee also proposes the election of auditors and their remuneration.

At the 2017 AGM, there was a decision on the criteria for appointing members to the nomination committee at HMS Networks AB. In accordance with the nomination committee's proposal, the shareholders at the AGM decided that the nomination committee would consist of the Chairman of the Board, along with representatives from the four largest shareholders (as of 31 August) up until the next AGM is held or, when necessary, until such time as a new nomination committee has been appointed.

Staffan Dahlström's knowledge and experience, in this context, is considered to be so important to the nomination committee's work and continuity of the top management of the company, that it justifies having him represented on the committee.

The nomination committee appoints one of its members as chairman (however, neither the Chairman of the Board nor any other member of the Board of Directors may be elected as chairman of the nomination committee). Should any of the four largest shareholders decline their right to appoint a representative, the right is transferred to the shareholder with the next largest shareholding on the specific date. If a member leaves the nomination committee in advance then, if appropriate,

NOMINATION COMMITTEE FOR THE AGM 2020

Member's name	Share of votes 2019-08-31
Johan Hjertqvist, Investment AB Latour (publ)	26%
Staffan Dahlström, own holdings	14%
Evert Carlsson, Swedbank Robur Fonder	9%
Per Trygg, SEB Fonder	6%
Charlotte Brogren, Chairman of the Board	<1%

a replacement will be appointed by the same shareholder that appointed the one departing, or if this shareholder no longer ranks among the four largest shareholders, by the shareholder who in terms of shareholding is next in line.

The composition of the nomination committee will be published on the company's website no later than six months before the next AGM. The nomination committee strives to achieve gender balance on the Board of Directors. The Board of Directors currently has 25 (29) % women serving on it. Of the total number of Board members elected at by the AGM, 33 (33) % are women

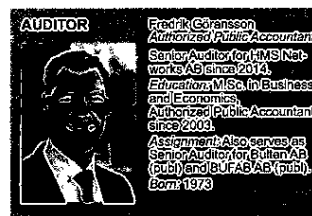
EXTERNAL AUDITORS

Auditors are elected by the AGM. The auditors are accountable to the shareholders at the AGM and they must provide an auditor's report on the financial statements and the administration by the Board of Directors.

The auditors report verbally and in writing on an ongoing basis to the audit committee about how the audit has been carried out and give their views on the level of order and control in the company. Auditors also report in person at least once per year to the entire Board about their audit and state their views about internal controls.

At the 2019 AGM, shareholders elected Öhrlings PricewaterhouseCoopers AB (PwC) as the audit firm, with Authorized Public Accountant Fredrik Göransson as the auditor in charge until the date of the next AGM. In addition to the audit, PwC also provides advisory services relating to financial reporting and taxes. This advice is not considered to be biased.

In 2019 total remuneration paid to HMS's auditors amounted to SEK 2,305 (3,199) thousand. Further information regarding auditors' remuneration is available in Note 8.



BOARD OF DIRECTORS

The Board is responsible for how the company is organized and for administration of the company's affairs on behalf of the owners. The Board assesses the company's financial situation on an ongoing basis and makes sure that it is organized such that there are adequate controls on its bookkeeping, fund management and other financial matters. The Board sets policies and instructions for how this is to be achieved. It also adopts rules of procedure for the Board and instructions for the CEO. These central governance documents specify how responsibilities and authority are allocated between the Board and its committees, as well as between the Chairman of the Board and the CEO. The Board appoints the CEO. The Chairman is responsible for evaluating the work of the Board and providing the nomination committee with the results of that evaluation.

BASIS FOR BOARD WORK

The fundamental issues concerning the division of responsibility between the Board of Directors, Board committees, Chairman and CEO are expressed in the Board's rules of procedure and instructions for the CEO. The rules of procedure regulate such things as how often the Board convenes and the items that it should address at Board meetings. The rules of procedure also explain the

allocation of responsibility between the Board, its Chairman and the CEO.

The Board is responsible for adopting strategies, business plans, budgets, quarterly reports, financial statements and the annual report. The Board is also responsible for appointing and dismissing the CEO and decisions involving significant changes to the HMS organization and operations. The rules of procedure state the thresholds that apply when the Board must decide on investments, company mergers and acquisitions, loans, etc.

Evaluation of the work done by the Board occurs continually, in part on its overall efforts and in part on the contribution made by each individual member. The purpose is to ensure that the HMS Board of Directors has the right structure in terms of its expertise and dedication. Each year, the work done by the Board is evaluated by having every member of the Board answer a number of questions, which the Chairman then compiles and presents to the Board. This evaluation, which is also distributed to the nomination committee, is important for ensuring that the work done by the Board is effective.

BOARD STRUCTURE

The Board consists of six members elected by the AGM, one employee representative and one Deputy. The Board consisted of another employee representative during the period of May 2019 to February 2020. The Board members that are elected by the AGM have extensive professional experience and are, or have at some time, been CEOs and/or senior executives in large companies and many are also Board members in large companies. Some of the company's Board members have served on the Board for quite some time and they are well acquainted with the company's operations.

The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control 10% or more of the shares or voting rights

in the company. The nomination committee has, during a joint assessment of each member's relationship to the company, Group management and major shareholders, found that all members are independent in relation to the company and its management. Except for Anders Möck, all the members have been assessed as being independent in relation to major shareholders. The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on page 44-45.

The total amount of fees paid to the Board in 2019 was SEK 1,625 (1,450) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 10.

DISTRIBUTION WOMEN/MEN ON THE BOARD



DIVERSITY POLICY

HMS Networks, through the nomination committee, applies rule 4.1 of the Swedish Code of Corporate Governance as its diversity policy when preparing nominations for the election of board members. The rule stipulates that the Board should have a composition appropriate to the company's operations, phase of development and other relevant circumstances. The Board members elected by the AGM must, as a whole, reflect diversity and breadth in terms of their qualifications, experience and background. The company must also strive for gender balance on the Board. The aim of the diversity policy is to satisfy the need of sufficient diversity on the Board regarding gender, age and nationality, and also experience, work background and business areas. The nomination committee has concluded that the Board of HMS Networks in this respect has an appropriate composition.

CHAIRMAN OF THE BOARD

The Board's rules of procedure stipulate that the Chairman must ensure that the Board's work is run effectively and that the Board meets its obligations. This includes organizing and leading the Board's efforts and creating the best possible conditions for meeting its responsibilities. It is also the duty of the Chairman to ensure that Board members regularly update and hone their know-how about the company and that new members receive the requisite introduction and training. Furthermore, the Chairman must meet with the CEO to provide advice and discuss important issues. She must also evaluate the CEO's work and report these findings to the Board. In addition, it is the Chairman's duty to ensure that the work of the Board is evaluated annually and that a report on this evaluation is provided to the nomination committee.

At the AGM on 25 April 2019 Charlotte Brogren was elected as Chairman of the Board.

The Chairman of the Board is not involved in the operational management of the company.

WORK OF THE BOARD IN 2019

Since the AGM of 25 April 2019, the Board has held 10 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 23 April 2020. Both the CEO and CFO of HMS Networks AB participate in Board meetings, with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board's rules of procedure. This includes discussion of the company's business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board's work consists of regular follow-up on financial matters, strategic product development, providing recom-

mendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

REMUNERATION COMMITTEE

The Board appoints some of its members to serve on the remuneration committee, which is responsible for regularly reviewing the employment terms of senior executives by making comparisons with individuals holding similar positions in other companies. The Board decides on the principles for remuneration to senior executives and the CEO.

The remuneration committee consists of the Chairman of the Board (Charlotte Brogren) and one other Board member (Cecilia Wachmeister) who was appointed by the Board. Charlotte Brogren was elected as Chairman of the remuneration committee. Attendance was 100% at all the meetings.

Board work follows a structure that includes certain standing items, mainly in accordance with the following plan:

Year-end closing and Year-end Report		Annual Report	Interim Report for January-March		Interim Report for January-March			Interim Report for January-September			Budget meeting
JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
	HR processes	Preparation of AGM	First Board meeting		Financial monitoring Full-year forecast		Strategy meeting		CSR		Risk analysis

CORPORATE GOVERNANCE

REMUNERATION TO GROUP MANAGEMENT 2019, SEK THOUSANDS

	Basic salary*	Variable remuneration	Pension costs	Share-related remuneration	Total 2019
CEO	3,067	680	763	164	4,664
Group management, other (5 individuals)	8,388	1,201	2,500	148	12,237
Total	11,455	1,881	3,263	312	16,891

* Including other remuneration

AUDIT COMMITTEE

The Board nominates an audit committee, which monitors the financial reporting by examining all critical audit issues and other conditions that might affect the content and quality of the financial statements. The committee also monitors the effectiveness of the company's and Group's internal controls, risk management systems and the external auditors' impartiality and independence.

The audit committee evaluates the audit work and assists the nomination committee in the selection of auditor. The committee also makes decisions regarding all purchases of consulting services (not related to the audit) from the company's auditor.

The audit committee consists of two Board members appointed by the Board (Anders Möck and Fredrik Hansson). Anders Möck was elected as Chairman of the audit committee. Attendance was 100% at all the meetings.

The committee has regular contact with external auditors, who report to the committee concerning important details that arose during the statutory audit, specifically concerning possible inconsistencies in the internal controls for financial reporting.

DEVELOPMENT COMMITTEE

The Board appoints some of its members to serve on the development committee. This committee is meant to serve as a sounding board for the HMS management team on issues having to do with research and development, specific projects and the company's portfolio of development projects, the organizational structure of the R&D department and how it is managed, as well as the training

and development of employees. Furthermore, the committee should serve as a resource when it comes to preparing and obtaining support for R&D initiatives that require a decision by the Board due to the strategic importance, investment decisions or collaboration with others. The committee should ensure that the HMS Board stays up to date on R&D issues relevant to the company and its future.

The development committee consists of three appointed Board members (Charlotte Brogren, Ulf Södergren and Ray Mauritsson). Ulf Södergren was elected as Chairman of the development committee. Attendance was 100% at all the meetings.

CEO AND GROUP MANAGEMENT

The CEO is responsible for developing the company's business, as well as leading and coordinating daily operations in accordance with the instructions and directions adopted by the Board. This means, among other things, responsibility for the financial reporting, compiling the supporting information for decisions and ensuring that obligations, contracts and other legal documents do not contravene Swedish or international laws and regulations. The CEO must also ensure that the company's goals, policies and strategic plans are being followed and that they are updated whenever necessary. The CEO appoints the other members of the Group management team.

Furthermore, the CEO is responsible for providing the Board with required information and supporting documentation for decisions. Such information must be sent to each Board member at least seven days prior to scheduled Board meetings, where the CEO serves as rapporteur. The CEO keeps the Board and its Chairman constantly

updated about the company's and Group's financial position and growth.

The Group management team is headed by the CEO and its other members are the five individuals who hold the following positions: Chief Financial Officer, Chief Technical Officer, Chief Commercial Officer, Chief Marketing Officer and Chief Product Officer. For additional information about the Group management team, please see page 46.

The Group management team has overall responsibility for ensuring that the activities of the Group are in accordance with the strategy and long-term objectives stipulated by the Board. The Group management team meets approximately 10-15 times per year. These meetings deal with strategic

issues that concern the entire Group. The meetings are led by the CEO, who makes decisions after consulting with the other members of the Group management team.

In 2019, the total remuneration (including pension provisions) to the CEO amounted to SEK 4,654 (4,449) thousand. For more information about remuneration to the CEO and Group management team, see Note 10.



Board's internal control report

HMS's work with internal controls has been designed to ensure that the company's financial reporting is correct and reliable¹⁾ and that its financial statements have been prepared in accordance with applicable laws and regulations, accounting standards and other requirements for listed companies. The work with internal controls provides value by clarifying roles and responsibilities, improving the efficiency of processes, increasing risk awareness and improving the reliability and quality of financial reporting and follow up.

DESCRIPTION

At HMS, the internal controls over financial reporting are an integral part of corporate governance. They consist of processes and methods for protecting the Group's assets and ensuring the accuracy of its financial reporting. The purpose of such internal controls is to protect the owners' investment in the company. To organize and further improve this work, HMS uses the COSO framework, which provides structure when evaluating and monitoring the internal controls over financial reporting.

CONTROL ENVIRONMENT

The foundation for internal controls consists of the overall control environment that has been established by the Board and management team. This is built on an organization with clear decision-making paths where authority and responsibility are defined with clear instructions. It is also built on a corporate culture with common values and individual awareness of each person's role in maintaining good internal control.

The Group strives to ensure that the entire organization lives by these values. There is much emphasis on making sure that these core values guide all behavior, both internally and externally.

HMS has established a Code of Conduct. It explains the desired behavior in different situations. In 2019, a global security awareness program was initiated for all our employees. The program runs over several months with the goal to better understand the risks related to information security and the operational, reputational and financial consequences.

The Board has overall responsibility for the internal controls concerning financial reporting. The Board has established written rules of procedure that clarify the Board's responsibilities and how work should be allocated within the committees. The Board has also appointed an audit committee, which is primarily responsible for ensuring the reliability of financial reporting and adequacy of internal controls. It also interacts with the company's auditors for that same purpose. Furthermore, the Board has drawn up instructions pertaining to financial reporting for both the CEO and the Board of HMS. Responsibility for main-

taining an effective control environment and the ongoing work concerning internal controls is delegated to the CEO who in turn delegates function-specific responsibility to managers at different levels throughout the Group.

The purpose of HMS's internal control efforts is to ensure that the Group achieves its goals for financial reporting. A minimum requirement is for the control activities to address the key identified risks within the Group.

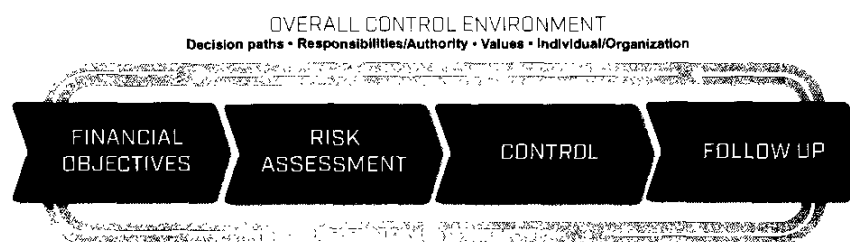
Responsibility and authority are defined in the instructions for the right to sign on behalf of the company, manuals, policies and routines. Examples include HMS's manual for accounting and reporting, the finance and credit policy, information policy, IT security policy and HR policies. These guidelines, together with laws and other external regulations, are the components of the control environment. Every employee must follow these guidelines.

During 2019, in accordance with established

guidelines, HMS continued its review of the existing internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The result of this effort will be an evaluation and verification of the governing documents and guidelines that form the basis of corporate governance.

RISK ASSESSMENT

Risk assessment stems from the Group's financial targets. The overall financial risks are liquidity & financing risk, currency risk, interest rate risk and customer credit risk. These are primarily dealt with via the accounting and finance functions, in accordance with the Group's financial policy. For more detailed information, please see Note 3. Through quantitative and qualitative risk analyses based on the Group's balance sheet and income statement, HMS identifies the key risks that could pose a threat to the company achieving its business objectives and financial targets. Risk assessment involves identifying the risks that could arise if the



¹⁾ Financial reporting consists of the interim reports, year-end report, annual report and internal reporting

CORPORATE GOVERNANCE

fundamental requirements on financial reporting (completeness, accuracy, valuation and presentation) by the Group are not fulfilled.

The focus is on risks in the financial reporting related to significant income statement and balance sheet items, which, on the whole, are more dependent on an underlying complex process or where the effect of errors could be very large, since the transaction amounts are significant. These investigations result in specific measures such as improved control routines for further safeguarding correct financial reporting.

CONTROL ACTIVITIES

Control activities mitigate the identified risks and ensure that financial reporting is both correct and reliable and that processes are efficient. The control activities include both the overall and specific controls and they aim to prevent, discover and

correct inaccuracies and deviation.

The central Group Finance function is responsible for the consolidated financial statements, as well as the financial and administrative control systems. The department's responsibilities also include ensuring that relevant instructions for the financial reporting are made known and available to the employees concerned.

Group Finance regularly perform reconciliations and checks of reported amounts, along with analysis of the income statements and balance sheets, cash flow and working capital. The function analyzes and follows up on any budget deviations, makes forecasts, monitors significant fluctuations over defined periods and reports findings to the rest of the company, thus minimizing the risk of errors in the financial reporting. The function performs control activities at all levels of the company.

The financial managers of the subsidiaries are responsible for ensuring that the control activities for the financial reporting of their respective units are adequate, which means that they have been designed to prevent, discover and correct errors and deviations, and that they comply with internal guidelines and instructions.

A high degree of IT security is required for good internal control in financial reporting. Rules and guidelines are therefore in place to ensure accessibility, accuracy, confidentiality and traceability of the information in the ERP. Access to the various components of the ERP is limited, based on the employee's authorization level, responsibilities and position. Furthermore, segregation of duties helps prevent both intentional and unintentional entries.

As part of the effort to ensure the quality of the financial statements, the Board has set up an audit committee consisting of two Board members appointed by the Board. The committee deals with such things as critical auditing issues and monitors the effectiveness of internal controls and risk management concerning the financial reporting.

INFORMATION AND COMMUNICATION

Information and communication about risks, controls and effectiveness of controls throughout the HMS Group help ensure that the right business decisions are made. The Group strives to make certain that the information and communication routes for the internal controls pertaining to financial reporting work as intended and are known throughout the Group.

The guidelines for financial reporting are communicated to all employees concerned within the Group via policies, manuals and work instructions. The information includes methods, instructions and practical checklists, descriptions of roles

and responsibilities and a comprehensive schedule. The HMS Group's published financial statements for external reporting purposes are derived from all of its legal entities and they are prepared in accordance with standardized reporting routines.

The HMS Group's accounting policies and any changes that are made to them are always communicated by direct mail to all employees concerned within the organization. Furthermore, each month, all subsidiaries prepare a report, which contains information about its financial status and performance.

To ensure that information reported externally is correct and complete, the Board has established an information policy. It specifies which items must be communicated, who is responsible for communicating the information, and how this should be done. There are also instructions for how financial information should be communicated between managers and other employees. There must also be adequate information security routines to ensure correct dissemination of information.

HMS's information routines and systems aim at providing the market with relevant, reliable, correct and current information about the Group's development and financial position. HMS's information policy meets the requirements that have been established for listed companies.

Financial information is regularly published in the form of:

- Quarterly and year-end reports, which are published as press releases.
- Annual Report
- Press releases about important news and events that could have a significant impact on the share price.



- Presentations and teleconferences for financial analysts, investors and the media on the same day as the financial statements and quarterly reports are published and in conjunction with the publication of other important information.
- Meetings with financial analysts and investors. All reports, presentations and press releases are published simultaneously on the Group's website at: www.hms-networks.com.

FOLLOW UP

Follow up and tests of controls are regularly performed to ensure that all risks have been taken into account and dealt with satisfactorily. Follow up includes both formal and informal routines used by managers, process owners and controllers. They include such things as comparing results to budgets and plans, analyses and key figures.

If controls fail, actions are taken to address the problem and correct whatever weaknesses were identified.

The Board studies and approves all the Group's quarterly reports, year-end reports and annual reports prior to publication. The Board also receives monthly financial reports concerning the Group's position and earnings trend and the Group's financial situation is discussed at each Board meeting. The Group Finance function and management team carry out detailed monthly analyses of financial reports.

Budgets and forecasts are other important components of Group-wide internal control. Sales are budgeted at the product level by managers within the sales organization. They are then consolidated and validated in conjunction with compilation of the complete, overall budget for operations. This is done during the fourth quarter of the year, to be approved by the Board. Besides the budget, a fore-

cast is also prepared during May-June. Besides the forecast and budget, Group management also works with overall strategic plans.

The audit committee follows up the financial reports and receives information from the company's auditor about their findings and recommendations. Checks on how well internal control activities are working are regularly performed at various levels within the Group and reported back to the Board by the audit committee. In view of the scope of the business and the existing control activities, the Board has decided that there is no need to introduce a special internal audit function.

The Board is of the opinion that the company complies with the Swedish Code of Corporate Governance, except for the following:

- Internal audit.
- Composition of members in the nomination committee.

The reasons for these deviations are explained in this corporate governance report.

Halmstad, 19 March 2020

Charlotte Brogren Fredrik Hansson

Ray Mauritsson Anders Möck

Ulf Södergren Cecilia Wachmeister

Tobias Persson

Auditor's statement on the corporate governance report

To the general meeting of the shareholders in HMS Networks AB (publ), corporate identity number 556661-6954.

ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the 2019 Corporate Governance Report on pages 37-43 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our review has been conducted in accordance with RevU 16, Auditor's Review of the Corporate Governance Report. This means that our review of the Corporate Governance Report has a different focus and significantly smaller scope than the focus and scope required for performing an audit in accordance with International Standards on Auditing and generally accepted auditing practices in Sweden. We believe that this review provides a reasonable basis for our opinion set out below.

OPINION

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, second paragraph, items 2-6 of the Swedish Companies Act, along with Chapter 7, Section 31, second paragraph of the Swedish Companies Act are consistent with the financial statements and consolidated financial statements and they are in accordance with the Annual Accounts Act.

Halmstad, 19 mars 2020

Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson

Authorised Public Accountant

GOVERNANCE – BOARD OF DIRECTORS

Board of Directors



CHARLOTTE BRÖGREN



FREDRIK HANSSON



RAY MAURITSSON



ANDERS MÖRCK

Board position	Chairman of the Board	Board member	Board member	Board member
Special skills to contribute to HMS	Years of experience in automation and development.	Leadership, business development and internationalization with a strategic perspective in sales and marketing.	Several years of experience as the CEO of a fast-growing technology company	Mergers and acquisitions, company business values, stock exchange experience and financial management.
Current employment	Chief Technology Officer (CTO) at Alimak Group AB (publ)	Active in own company.	CEO of Axis AB (publ).	CFO at Investment AB Latour (publ).
Education	PhD in Chemical Engineering from Lund University	Bachelor of Science, Economics and Finance from the University of North Alabama.	M.Sc. in Engineering Physics and Executive MBA from Lund University.	M.Sc. in Business and Economics, Växjö University.
Year elected	2010	2015	2007	2016
Born in	1963	1971	1962	1963
Resident of	Stockholm	Karlskrona	Malmö	Gothenburg
Other posts	Board member of Gunnebo AB	Chairman of the board at Hedson Technologies International AB and Scanbox Thermoproducts AB and board member of Nord-Lock International AB, Anocca AB and Troax Group AB (publ).	None	Board member of Caljan A/S, Swegon Group AB, Hultafors Group AB, Latour Industries AB, Nord-Lock International AB and Artico Group AB.
Dependence	Independent from the company and its main owners.	Independent from the company and its main owners.	Independent from the company and its main owners.	Independent from the company. Not independent of the major shareholders.
Previous experience	Development Manager for ABB Robotics and executive positions within ABB's research organization as well as General Director of Vinnova	CEO at Roxtec Group AB	Various senior positions in TAC (now Schneider Electric). Division Manager and other senior positions in Axis Communications.	Experience of management position and organizational issues, business dealings, stock market experience and financial management.
Shareholding* (own and related parties)	5,500	2,400	20,000	4,000
Audit committee		X		X (chair)
Remuneration committee	X (Chair)			
Development committee	X		X	
Attendance at Board meetings	100%	100%	100%	100%
Remuneration 2019**	500,000	275,000	225,000	325,000

* Pertains to holding as of 31 December 2019

** Pertains to the period between AGM 2019 and AGM 2020


ULF SÖDERGREN

Board member

Innovation and industry processes


CECILIA WACHTMEISTER

Board member

Several years of complex system sales in the telecommunication industry.


TOBIAS PERSSON

Employee representative

Employee of HMS


MIKAEL MÅRTENSSON

Employee representative (deputy)

Employee of HMS.

Board member

M.Sc. in Mechanical Engineering from KTH and Bachelor in Economics from Stockholm University

2018

1953

Stockholm

Board member of ÅF Pöyry AB (publ), IV Produkt AB and Lagercrantz Group AB (publ)

Independent from the company and its main owners

CTO of ASSA ABLOY AB (publ) and prior to that various positions within the ASSA ABLOY Group, such as Regional Manager and COO. Before that active within Electrolux and ABB.

10,000

Executive Vice President Business & Group Functions at Kambi Plc

M.Sc. in Industrial Engineering from The Institute of Technology at Linköping University.

2018

1966

Stockholm

Board member of Smart Eye AB (publ)

Independent from the company and its main owners

Several years of experience in leading positions at Ericsson AB

3,000

X

X (Chair)

90%

225,000

Senior Development Engineer at HMS

M.Sc. in Computer Systems Engineering B.Sc. in Information and Communication Technology B.Sc. in Electrical Engineering University degree in mechatronics

2016

1978

Halmstad

Chairman of the Board at MedicWave AB (publ) Partner of Lypson Intelligentia System HB

Employee of HMS

1,026

100%

0

Senior Field Application Engineer at HMS

B.Sc. in Computer Systems Engineering

2019

1972

Halmstad

Inga

Employee of HMS

More than 20 years of experience in Industrial Automation / Communication as product manager and developer at HMS

27,095







100%

0



GOVERNANCE - GROUP MANAGEMENT

Group management

						
	STAFFAN DAHLSTRÖM	ANDERS HANSSON	HANS LARSSON	JOAKIM NIDEBORN	JÖRGEN PALMHAGER	TIM VAN'T HOFF
Current position	Chief Executive Officer - CEO	Chief Marketing Officer - CMO	Chief Commercial Officer - CCO	Chief Financial Officer - CFO	Chief Technology Officer - CTO	Chief Product Officer - CPO
Education	Degree in Computer Systems Engineering from Halmstad University and Executive MBA from Lund University, School of Economics and Management	Master's Degree in Industrial Management and Economics from Halmstad University.	B.Sc. in Innovation Engineering from Halmstad University.	M.Sc. in Industrial Economics from Lund Institute of Technology	B.Sc. in Computer Systems Engineering from Halmstad University.	B.Sc. in Automotive Engineering from HTS Autotechniek, Apeldoorn, The Netherlands. M.Sc. in Technology Management from Chalmers University of Technology, Gothenburg.
Born in	1967	1968	1970	1983	1968	1971
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish	Swedish, Dutch
Other posts	Board member of Mycronic AB (publ) and Clavister Holding AB (publ)	None	Board member of Berniq AB	None	None	Board member of Unimer Plast & Gummi AS
Previous experience	Sales and Marketing Manager at HMS.	Previous positions at HMS: Head of Global Key Account Management Team, Global Key Account Manager, Sales and Marketing Manager for France, Benelux, Spain and Portugal, Product Manager.	Vice President Life Science at Getinge AB, General Manager Sweden at GEA Food Solutions A/S.	CFO at Beyer Electronics Group AB, Management and Strategy Consultant at Axholmen Consulting and Celerant Consulting.	Developer, Project Manager, Development Manager and COO at HMS	CEO at Volvo Car Retail Solutions, Director Product Management and R&D at Marine Tank Management, Emerson Process Management, Manager Diagnostic & SWDL Tools, AB Volvo, and Consultant at Capgemini.
Shareholding (own and related parties)	6,490,745	34,052	1,044	698	240,037	768
Employed since	1989	2000	2017	2017	1992	2017
Member of Group management team since:	2007	2010	2017	2017	2007	2019

Extended management team



PATRIK ARVIDSSON

Global Supply Manager

B.Sc. in Production and Quality Management from Chalmers University of Technology, Gothenburg.

1969

Swedish

None

Distribution Manager at Retlog, Head of Planning at Svenska Foder, Section Manager for Mechanics at SP Tekniska Forskningsinstitut AB and the following positions at Nolito, COO Europe, Purchasing Manager, Site Manager and Logistics Manager.

2011



THILO DÖRING

General Manager, Market Unit Continental Europe

B.Sc. in Computer Technology from University of Technology in Weilburg, Germany and Technical Business Administration from SGD in Darmstadt, Germany

1971

German

None

Sales Manager at Mitsubishi Electric

2010



MAGNUS HANSSON

Global Systems and Security Manager

M.Sc. in Computer Systems Engineering from Halmstad University.

1975

Swedish

None

Development Manager at HMS.

1997



ALEXANDER HESS

General Manager, Business Unit Ioxat

B.Sc. in Computer Engineering from Esslingen University of Applied Sciences, Germany and MBA from Steinbeis University in Berlin, Germany

1981

German

None

Business Unit Director Safety at Leuze electronic GmbH & Co. KG, Marketing Director, Senior Product Manager at Hengstler GmbH / Danaher Corp. and Team Manager, Software Engineer at SMART Electronic Development GmbH

2020



KEVIN KNAKE

General Manager, Market Unit Americas

Bachelor's degree in Industrial Engineering and Computer Science from Central Michigan University, USA

1961

American

Chairman of ODVA Roundtable of EtherNet/IP

Engineering Manager at Rockwell Automation, Micro Processor Systems Inc. and Pyramid Solutions Inc.

2003



FRANCIS VANDER GHINST

General Manager, Business Unit Ewon

B.Sc. in Electrical Eng from INRACI, Brussels. B.Sc. in Computer Science from IPL, Brussels. Exec. Master in Management, Solvay Business School/ULB, Belgium

1964

Belgian

None

Product Marketing Manager and Head of Sales for HMS Industrial Networks SA and IT Consultant and Partner for Object Solution

2006



FINANCIAL DEFINITIONS

Financial definitions

No. of outstanding shares

The number of registered shares, less repurchased own shares that are held as treasury shares.

Return on shareholders' equity

Share of the profit after tax attributable to the parent company's shareholders as a percentage of the average equity.

Return on capital employed

Share of the profit after financial income in relation to the average capital employed.

CAGR

Compound annual growth rate.

EBIT

Operating income according to income statement.

EBITDA

Operating profit excluding depreciation and amortization of tangible and intangible assets.

Equity per share

Average equity attributable to the parent company's shareholders divided by the number of outstanding shares at the end of the period.

Financial assets

Long-term- and current financial receivables plus cash and cash equivalents.

Average number of outstanding shares

The average number of registered shares during the year, less repurchased shares that are held as treasury shares.

Adjusted profit

Profit exclusive items affecting comparability.

Capital turnover

Net sales in relation to average balance sheet total.

Cash flow from operating activities per share

Cash flow from operating activities as a percentage of the average number of outstanding shares.

Net debt

Non-current- and current interest-bearing financial liabilities less financial assets.

Net debt/equity ratio

Net debt in relation to shareholders equity.

P/E ratio

Market price as a percentage of earnings per share.

Earnings per share, undiluted

Share of the profit after tax attributable to the parent company's shareholders as a percentage of the average number of outstanding shares.

Earnings per share, diluted

Share of the profit after tax attributable to the parent company's shareholders as a percentage of the average number of outstanding shares plus an adjustment for the average number of shares that are added when converting the outstanding number of convertibles and options.

Working capital

Current assets less cash and cash equivalents and current liabilities, calculated on average values.

Operating margin

Operating profit as a percentage of net sales.

Equity/assets ratio

Shareholders' equity as a percentage of total assets.

Capital employed

Total assets less non-interest-bearing liabilities, provisions and deferred income tax liabilities.

Glossary

CBM – Chip Brick Module, the formats in which HMS's Anybus embedded concept is offered.

Design-Win – a framework agreement with an OEM company. It enables a company to use an HMS-product in its products for as long as the products are manufactured.

Discrete manufacturing – involves manufacturing volumes consisting of discrete units of a product, which are manufactured according to a description and component's list, such as computers, cars and toasters. This type of manufacturing is usually in batches and the final product can typically be disassembled into its original components.

EMS – Electronic Manufacturing Services, EMS is a contract manufacturer of electronics. Their end customers are typically OEMs (Original Equipment Manufacturers).

ESD protection – Protection from electrostatic discharge.

FPGA – Field Programmable Gate Array, programmable semiconductor devices that are based on a matrix of configurable logic blocks. The FPGA circuit's logic function can be adapted to different functional requirements, which makes possible flexible solutions with high, optimal performance.

Gateway – a connection point between different networks where some form of address and data conversion takes place. It is actually a collection of hardware and software, such as routers that convert data between networks, or between networks and equipment with different standards.

IoT (Internet of Things) – IoT typically pertains to ordinary physical devices that connect to the Internet. Such devices make "things", i.e. information available to IT systems so that the information can be managed and analyzed.

IIoT (Industrial Internet of Things) – pertains to industrial devices and machines that can exchange information with manufacturing systems, control systems and operators.

NP40 – One of the base technologies in HMS' embedded concept.

Network – is a general term for a system with interconnected computers that can be constructed in different ways. In an industrial network, such as a manufacturing facility, machines and equipment are connected and controlled by programmable logic controllers (PLCs), which enable the devices to interact with one another.

Network protocol – a collection of rules or a standard, for how two or more computer programs communicate and exchange information with each other. Examples of communication protocols are HTTP (transfer of websites between computers over the internet), TCP/IP (for basic internet communication) and SMTP (transfer of emails).

OEM – Original Equipment Manufacturer is a company that manufactures and sells products under its own brand, even though their products can contain products and components from other companies.

PFOS – EU Directive 2006/122/EC restricts the use of perfluorooctane sulfonates and substances that can be broken down into PFOS in chemical products and goods.

PLC – Programmable Logic Controller. Programmable control system that controls all or parts of an automation system or equipment in discrete manufacturing.

PPM – Parts per million.

Process manufacturing – a branch of manufacturing that is associated with formulas and manufacturing recipes, such as quantiles of liquid, gas or powder. Once an output is produced by this process, it cannot be distilled back to its basic components.

REACH – EU framework legislation (2006/1907/EC) governing the registration, evaluation, authorization and restriction of chemicals. This legislation came into force on 18 December 2006.

RISC – Reduced Instruction Set Computing, a processor architecture that requires fewer logic levels and thus achieves higher clock speeds while consuming less silicon. It provides high performance and high cost effectiveness.

RoHS – EU Directive (2002/95/EC) on the restriction of the use of

certain hazardous substances in electrical or electronic equipment. The Directive has been in force since 1 July 2006. The banned substances are mercury, lead, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE). The government authority in charge of enforcing this in Sweden is the Swedish Chemicals Agency.

RTA – Real Time Accelerator, HMS's unique IP that makes it possible for HMS network interface cards to be used in the most demanding real-time applications.

Serial port – a traditional physical interface through which information is transferred serially (one bit at a time).

WEEE – EU Directive (2002/96/EG) on waste that is comprised of, or contains, electrical or electronic equipment. The Directive has been in force since 27 January 2003. The government authority in charge of enforcing this in Sweden is the Swedish Environmental Protection Agency.

VPN – virtual private network is a technology used for creating strong connection "tunnels" between two points in a computer network.

FINANCIAL STATEMENTS

CFO explains



COULD YOU EXPLAIN HMS'S FINANCIAL TARGETS?

HMS has 3 financial targets:

1. To have an average annual net sales growth of 20% during a business cycle. We believe that 2/3 of that growth will be organic, and the remaining 1/3 will come from acquisitions. Over the past ten years, the annual growth rate (CAGR) has been 18%.
2. HMS also has a target operating margin (EBIT) of 20%. Over the past ten years, the average operating margin has been 18%.
3. Our third target is to distribute 50% of the profit per share as dividends. Over the past ten years, the average has been 47%.

WHAT IS HMS'S MARKET SHARE AND WHAT IS THE RATE OF GROWTH IN THE MARKET?

HMS operates in several niches in various industrial markets, but it is difficult to judge exactly how large these niches are. HMS is the market

leader in the two main niches - industrial communication and solutions for remote monitoring of industrial equipment. Market growth varies depending on the market and product offerings from HMS. The majority of HMS sales are generated in the industrial automation market where HMS enables communication between industrial equipment over industrial networks. This market is expected to grow by 4-7% CAGR over the next five years based on information in various industry reports and the knowledge that HMS has of this market.

Approximately 20% of HMS sales come from remote monitoring where HMS enables remote access to machines and their data for visualization in solutions often linked to Industrial Internet of Things (IIoT). This market is expected to grow at a much quicker rate, with growth of 10-20% per year over the next five years.

COULD YOU TELL US A LITTLE ABOUT THE HMS ACQUISITION STRATEGY?

Organic growth is still the highest priority for HMS. However, complementary acquisitions are still an important component of the company's growth strategy. HMS primarily seeks strong technology companies that have demonstrated robust growth and profitability and which work in line with the HMS motto, "Connecting Devices". Synergies may exist as regards both technology and market.

COULD YOU DESCRIBE THE HMS BUSINESS MODEL AND CUSTOMER TYPES?

HMS has two main customer categories: *Makers* are the manufacturers of automation products and machines. *Users* is how we describe the context around end-users where all of the automation equipment winds up.

For *Makers*, HMS strives to establish long-term relationships with customers who integrate HMS products into their automation products

and machines. When a customer decides to integrate an HMS product in this way, we call it a Design-Win. Once a Design-Win has been completed, HMS assists the customer in getting production underway. The customer then typically orders the HMS products contained in the Design Win for many years to come. We typically sell directly to *Makers* via our own sales force.

For *Users*, HMS typically engages with system integrators, offering them Gateway solutions that help them arrive at well-integrated systems of automation products, machines and software in end-user factories. For this, HMS ordinarily sells indirectly to system integrators and end-users via distributors in our wide network that covers more than 50 countries. Accordingly, even though our solutions are represented in many end-user industries (primarily factory automation), the end-user is seldom a direct customer to HMS.

COULD YOU DESCRIBE HMS'S COMPETITIVE ADVANTAGES?

HMS is a well-known company in the industrial arena and has been doing business for more than 30 years. HMS offers proven, high-quality solutions trusted by thousands of automation companies, including several industry giants. Our strong position is reflected in the fact that we currently have 1,797 active Design-Wins. HMS also has a reputation of being flexible and adapting its products to the customer's requirements. Doing so helps establish long-term relationships with them.

Another important part of HMS's offering is making all products future-proof. By continuously offering software updates, certifications for the latest standards and, most importantly, high-quality products, HMS ensures that the customer's product will not only work today, but also meet future requirements.

IF ONE COMMUNICATIONS STANDARD BECOMES ADOPTED, WOULD HMS'S MARKET DISAPPEAR?

We've been asked this question frequently since our IPO in 2007 and it is relevant to the business related to our Anybus brand. Part of the success of Anybus is rooted in the wide variety of industrial networks on the market. Over the last 10 years, it has consolidated to around 5-7 networks that are currently most popular for new installations. There are no indications whatsoever that we are moving towards a single standard for all applications. But if that were to happen, HMS would still be needed for connecting the new equipment to that specific network and for delivering retrofit solutions for connecting new and existing equipment that has already been installed in millions of industrial applications. Anybus is thus still very important to HMS. However, the company is less vulnerable now than it used to be in that the portfolio is more diversified, having added the Ewon, Inesis and Ixat brands.

COULD YOU SAY SOMETHING ABOUT THE FUTURE FOR HMS?

We believe that industrial communication will continue to be an interesting growth market, which many leading market analysts agree with. HMS has a solid, established customer base that is spread across many verticals and geographic markets. We have many active product lines that provide continual stability and health revenue streams, along with new technology for IIoT and wireless communication that enables us to serve both existing and new markets. In 2019, our efforts associated with 5G increased and HMS has already established a position as a visionary for industrial connection and we have ongoing collaboration with several leading industrial players.

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DIRECTORS' REPORT

Directors' report

Operations

HMS is a market-leading supplier of solutions for industrial communication and Industrial Internet of Things, IIoT. HMS develops and manufactures products sold under the Anybus®, Ixxat®, Ewon® and Intesis™ brands. Product development takes place at the head office in Halmstad (Sweden), in Ravensburg, Wetzlar and Buchen (Germany), Nivelles (Belgium) and Igualada (Spain). Local sales and support are managed by our sales offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, Netherlands, India, UK, Sweden, South Korea and United Arab Emirates (UAE), as well as via a wide network of distributors and partners across the globe. HMS has more than 600 employees and its sales in 2019 were SEK 1,519 million. HMS is listed on the NASDAQ-OMX in Stockholm in the Mid Cap, Information Technology category.

Seasonality

HMS does not have any significant seasonal variations in its operations, except for higher costs in the fourth quarter, primarily associated with the number of large marketing events that occur in that period.

SIGNIFICANT EVENTS

HMS ended the year with growth at 11 (15)% and annual sales at a new record level, SEK 1,519 (1,366) million. Order intake for the year was SEK 1,470 (1,433) million, which corresponds to a growth rate of 3 (19)%.

In April 2019, HMS acquired 74.9% of the shares in WEBfactory GmbH located in Buchen, Germany. It is a leading supplier of web-based software solutions for Industrial Internet of Things, IIoT. The company has 32 employees and sales for the full year 2019 were approximately SEK 22 million.

In May 2019, the Group acquired 100% of the shares in the Dutch company, Raster Products B.V. located in Dreumel, Netherlands. For several years, the company has been the main distributor of HMS's Ewon products in the Netherlands. The company has 7 employees and sales for the full year 2019 were approximately SEK 21 million.

On the market side, economic growth slowed down, particularly during the second half of the year. Because of the weaker growth, an action plan was implemented during the fall, whereby 43 employees were made redundant.

Geographically, all the markets have showed relatively stable growth during the year, while the Japanese market's growth rate

weakened somewhat during 2019 compared to the other markets.

Growth for the Anybus®, Ewon® and Intesis™ brands was good. There was only slight growth for the Ixxat® products, however. The stable, upward trend in the number of new Design-Wins also continued in 2019. In total, there were 199 (177) new Design-Wins during the year. It brings the total number of active Design-Wins to 1,797 (1,693), which is an increase of 6% compared to last year. Of these Design Wins, 1,399 (1,304) are in production and 398 (389) are expected to enter production in the coming years.

Efforts to launch products in accordance with HMS's strategy for Industrial Internet of Things (IIoT) continued in 2019. New technology resulting from the acquisition of Beck IPC has been implemented in the existing technology platform and the first products based on that were launched in 2019.

On 25 April 2019, HMS held its AGM. All the proposals by the Board and nomination committee were adopted by the AGM. Charlotte Brogren was re-elected as Chairman of the Board and Ray Mauritsson, Fredrik Hansson, Anders Möck, Cecilia Wachmeister and Ulf Södergren were re-elected as Directors.

At the first Board meeting following election, Staffan Dahlström was appointed President and CEO of HMS Networks AB.

On 31 December 2018, the Share Savings Plan from 2015 was concluded and in 2019, a total of 89,826 shares (of which 44,913

were performance shares), were distributed free-of-charge to the remaining participants. For this distribution, the company used shares that were held in treasury.

Based on the authorization from the Annual General Meeting, the Board of Directors decided during the year to purchase own shares. The purpose of the repurchase is to ensure that HMS is able to fulfill its commitment to deliver shares in accordance with the company's Share Savings Plan. In total, 40,000 shares were acquired for a value of SEK 6 million. That, however, occurred subsequent to the end of the financial year. The total holding of own shares at the end of the year was 202,999.

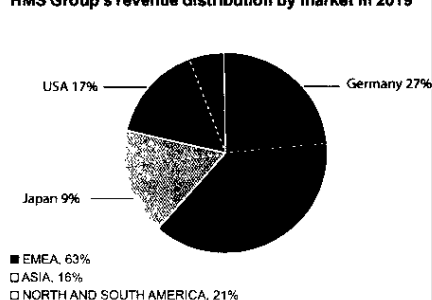
Significant events subsequent to year-end

The recent COVID-19 pandemic has led to a higher level of uncertainty and the impact this will have on the Group's operations is very difficult to predict. No other significant events have occurred subsequent to the end of the period, but prior to the signing of this annual report.

Net sales

The Group's net sales increased by 11 (15)% and amounted to SEK 1,519 (1,366) million. Exchange rate fluctuations positively affected net sales during the year by SEK 73 million, compared to last year. Invoiced sales by region were as follows: EMEA (Europe, Middle

HMS Group's revenue distribution by market in 2019



Summary of performance

	2019	2018
Net sales, SEK m	1,519	1,366
Operating income before depreciation (EBITDA), SEK m	334	302
Operating margin before depreciation (EBITDA), %	22	22
Operating income after depreciation (EBIT), SEK m	243	251
Operating margin after depreciation (EBIT), %	16	18
Profit after financial items, SEK m	228	232
Profit (loss) for the year, SEK m	205	171
Earnings per share, basic, SEK	4.43	3.68
Earnings per share, diluted, SEK	4.40	3.65

East and Africa) 63 (62)%, North and South America 20 (21)% and Asia 17 (17)%. The Group's largest markets are Germany, USA and Japan.

Profit (loss)

Operating profit before depreciation and amortization (EBITDA) amounted to SEK 334 (302) million, which corresponds to an operating margin of 22.0 (22.1)%. Operating profit after depreciation and amortization (EBIT) amounted to SEK 243 (251) million, which corresponds to an operating margin of 16.0 (18.4)%. Included in operating profit are restructuring costs of SEK 22 million and a positive effect of SEK 19 million associated with settlement of the contractual contingent consideration for the Beck IPC acquisition. Currency translation effects had a positive impact on operating profit of SEK 31 (23) million. Due to a decline in the value of the SEK currency, realized forward exchange agreements had an impact on operating profit of SEK -14 (-5) million. The acquired companies have not had any significant impact on operating profit after depreciation and amortization (EBIT) for the year.

Net financial income/expense amounted to SEK -15 (-20) million and profit after financial items amounted to SEK 228 (232) million. The reported tax expense amounted to just SEK -23 (-61) million, which is primarily attributable to one of the Belgian subsidiary's products having received a significant tax exemption, which has had a positive impact on tax by SEK 19 million (of which SEK 10 million is related to 2018 and SEK 9 million to 2019). There was also a positive impact on tax of approximately SEK 8 million associated with conditional consideration transactions. Profit after tax thus amounted to SEK 205 (171) million.

In 2019, several items affecting comparability were reported. The main items were: restructuring costs of SEK 22 million, contingent consideration of SEK 19 million and tax credits attributable to last year for SEK 15 million. The adjusted profit after these items amounted to SEK 188 million.

Investments

The year's investments in property, plant and equipment, along with intangible assets, amounted to SEK 66 (30) million. The acquisition of new subsidiaries (WEBfactory GmbH and Raster Products B.V.) also impacted investing activities by SEK 24 (26) million. Investments in financial assets amounted to SEK 2 (6) million. Investments in intangible assets primarily consist of the costs associated

with development of new technology platforms. Amortization of capitalized development costs amounted to SEK 30 (24) million.

Financial position

As of 31 December 2019, the Group had cash and cash equivalents of 51 (58) million, excluding unutilized credit facilities of SEK 176 (158) million. The Group's net debt amounted to SEK 402 (342) million and net debt in relation to EBITDA was 1.20 (1.13). The net debt to equity ratio was 40 (40)% and the equity to assets ratio was 58 (54)%.

During the year, the financing agreement with the existing bank was extended. The agreement applies to a revolving facility of EUR 45 million which runs until September 2022.

In total, amortization of the Group's external loans was SEK 58 (56) million. Repurchase of shares for the year was 0 (42) million and dividends of SEK 1.80 (1.50) per share were paid, totaling SEK 84 (70) million.

Cash flow from operating activities amounted to SEK 254 (193) million. After net investments of SEK -92 (-62) million and new borrowings, amortization, repurchase of own shares and dividends paid, totaling SEK -173 (-166) million, the cash flow for the year amounted to SEK -12 (-35) million.

Group structure

HMS Networks AB (publ), CIN 556661-8954, is the Parent Company of the wholly-owned subsidiary, HMS Industrial Networks AB, which, in turn is the Parent Company of several subsidiaries, see Note 35. The following two subsidiaries were liquidated during the year: FAR S.p.A. in Belgium and HMS Industrial Networks ApS in Denmark. HMS Industrial Networks AB, HMS Technology Center Ravensburg GmbH, Beck IPC GmbH, HMS Industrial Networks SA, Intesis Software SLU and WEBfactory GmbH comprise the development center for the HMS Group while the other subsidiaries are responsible for sales, marketing and support in their respective geographic markets.

Foreign branch offices

The Group has branch offices in China and France that are responsible for sales, marketing and support of these local markets. The branch offices in Finland and Switzerland were shut down during the year.

SUSTAINABILITY

Sustainability report

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, HMS Networks AB (publ) has elected to prepare its sustainability report as a separate report from the Annual Report. The sustainability report is provided on pages 26-33 of this annual report.

Research and development

The Group expensed SEK 190 (162) million for research and development during the year. In addition, capitalized development costs were SEK 53 (24) million, of which SEK 11 (7) million has been acquired. Total costs for research and development expenses make up 15 (14)% of sales. The Group's policy is to only capitalize major projects for developing its own integrated circuits and new platforms for products intended for use in embedded systems. Development of additional products or applications based on these are not capitalized. Customer-specific projects are capitalized when it has been determined as likely that the development costs will be covered by future volume commitments.

Employees

At year-end, the number of employees for the Group was 624 (592).

New guidelines for remuneration to senior executives (Group management team)

Remuneration to the CEO and other senior executives (currently the CFO, CTO, CCO, CMO and CPO) is decided in accordance with the guidelines on remuneration to senior executives. The guidelines were adopted at the AGM on 25 April 2019 and they apply through to the next AGM.

According to the guidelines, remuneration to the CEO and other senior executives shall consist of basic salary, short-term and long-term incentive schemes and pension. In this context, other senior executives are the members of the Group management team that also includes the CEO. Other benefits and remuneration are awarded on the same terms that apply to other employees.

The aim of the HMS remuneration policy for senior executives is to offer remuneration that promotes the retention and recruitment of qualified expertise to HMS. Basic salary is established on the basis that it, in combination with both short and long-term incentives, will be competitive. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is estab-

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lished by the Board based on the proposal from the remuneration committee. Remuneration to other senior executives is decided by the CEO after approval by the remuneration committee.

Short-term incentive schemes to the CEO and senior executives are based on the financial targets for the Group. Incentive schemes must be primarily based on growth and profitability. In addition to that, other personal goals may be established. For the CEO and other senior executives, the highest possible amount is 50% of basic salary in 2019.

The retirement age for the CEO and other senior executives is 65 years. The pension premium for the CEO must amount to 35% of fixed monthly salary up to 28.5 times the price base amount. For salary above that level, the pension premium is 25%.

In the case of notice of termination, the mutual period of notice for the CEO is six months. In the case of notice of termination of the CEO from the company's side, a severance payment is made corresponding to 12 month's salary. Other earnings are not deducted from the severance pay. In the case of notice of termination from the CEO's side, no severance payment is made. The mutual notice of termination period between the company and other senior executives is six months. For more information on remuneration to senior executives, please see Note 10.

The Board of Directors' proposed guidelines on future remuneration to senior executives

Whom the guidelines apply to and their applicability

These guidelines apply to persons who, during the period of time that the guidelines are in effect, are member of the HMS Group management team. The guidelines shall be applied to contractual remuneration, and any changes made to already agreed remuneration, after the guidelines are adopted at the 2020 AGM. The guidelines do not apply to remuneration that is decided by the AGM.

Alignment of the guidelines with the HMS business strategy, long-term interests and sustainability

HMS is a market-leading supplier of solutions for industrial communication and Industrial Internet of Things, IIoT. The company's vision is to, in a world where machines and devices are intelligent and connected, be a leader in enabling industrial devices and systems to communicate for a more productive and sustainable world. In brief, the HMS business strategy aims to achieve profitable growth

in strategic markets, focus on sustainable product development, be a global player with a local presence and have a sustainable supply chain. A successful implementation of the HMS business strategy and safeguarding the company's interests, including its sustainability, depends on HMS being able to both recruit and retain skilled employees. The goal for the HMS remuneration policy for senior executives is thus to offer competitive and market-based remuneration, so that it is possible to attract, motivate and retain talented and skilled employees. These guidelines make it possible to offer senior executives a competitive total remuneration package.

HMS has ongoing long-term share-based incentive schemes that have been adopted by the AGM and which are not covered by these guidelines. The incentive schemes apply to all employees of HMS, with the aim of motivating them to take greater interest in the business and its performance, while creating a sense of solidarity with the company by establishing long-term ownership interests. The incentive schemes also help make it possible for HMS to offer competitive total remuneration packages and thereby create the prerequisites for being able to recruit and retain talented employees. Performance requirements are currently linked to profit per share. The incentive schemes require own investment during a certain holding period.

Types of remuneration, etc.

Remuneration to senior executives shall be market-based and it may consist of fixed cash salary, variable cash compensation, pension benefits and other benefits, as well as additional variable cash compensation in certain extraordinary circumstances. The AGM may also, and independent of these guidelines, decide on share-based and share-price-based remuneration.

Fixed cash salary shall be established on the basis that it, in combination with both short and long-term incentives, will be competitive. The absolute level shall be established based on the person's position, expertise, experience and performance. The fixed cash salary amount shall be reviewed and revised each year.

Variable cash compensation shall be based on predetermined and measurable financial and non-financial targets for the Group and may amount to a maximum of 50 percent of the fixed cash salary. The distribution between fixed and variable cash compensation shall be proportionate to the executive's responsibilities and authority. The goal shall primarily relate to growth and profitability, where

the relationship between these KPIs shall be used for determining the amount of variable cash compensation. In addition to that, other individual goals may be established. The goals shall be formulated such that they promote HMS's business strategy and long-term interests, including sustainability. For example, there should be a clear link to the business strategy or promoting the senior executive's long-term development at HMS. The measurement period for goals on variable cash compensation can be one or several years.

For the CEO, both pension and insurance benefits shall be defined contribution benefits. Variable cash compensation shall be pensionable. The pension premium shall amount to, at most, 35 percent of the pensionable income up to 28.5 times the price base amount and at most, 25 percent on salary amounts in excess of that. For other senior executives, both pension and insurance benefits shall be defined contribution benefits. Variable cash compensation shall be pensionable. The pension premiums shall follow the ITP-1 plan and amount to, at most, 30 percent of the pensionable income.

Other benefits may include such things as health insurance, occupational health care and car benefits. In total, such benefits may amount to, at most, 10 percent of the fixed cash salary.

Additional variable cash compensation may be awarded in extraordinary circumstances, provided that such decisions are only made for the purpose of recruiting or retaining senior executives. Such compensation may not exceed an amount corresponding to 50 percent of the fixed cash salary and an employee may only receive it, at most, once per year. Decisions on such compensations shall be made by the Board of Directors based on recommendations by the remuneration committee.

As regards employment terms for pension benefits and other benefits that are subject to rules that apply outside Sweden, adaptations may be made to conform with such rules or the established local practices. In doing so, there must still be, to the extent possible, adherence with the overriding goals of these guidelines.

Determining the outcome of variable cash compensation etc.

The remuneration committee is tasked with preparing, monitoring and evaluating matters having to do with variable compensation on behalf of the Board. When the measurement period for fulfilling criteria for payment of variable cash compensation has elapsed, an assessment shall be made on the extent to which the criteria have been fulfilled. Assessments on the extent to which financial targets

have been fulfilled shall be based on adopted financial statements and documentation pertaining to that period. Remuneration to the CEO shall be decided by the Board based on the recommendations of the remuneration committee. Remuneration to other senior executives is decided by the CEO after consultation with the remuneration committee.

Variable cash remuneration may be paid after the end of the measurement period. Or, it may be deferred for later payment. The Board of Directors is entitled to, by law or agreement, fully or partially demand repayment of variable remuneration that has been paid out on incorrect grounds.

Termination of employment

Senior executives shall have permanent employment. In the case of notice of termination, the mutual period of notice for the CEO is six months. In the case of notice of termination of the CEO from the company's side, a severance payment corresponding to 12 month's salary may possibly be awarded. Other earnings are not deducted from the severance pay. In the case of notice of termination from the CEO's side, no severance payment is made. The mutual notice of termination period between the company and other senior executives is six months, without the right to severance pay.

It shall be possible for senior executives to obtain compensation for a non-compete clause that they have signed after termination of their employment. However, this is only allowed if severance pay has simultaneously been awarded during that same period. Such remuneration shall be aimed at compensating the senior executive for the difference between the fixed cash salary at the date of termination and the (lower) income that is received via a new employment contract, assignment or own pursuits. The compensation may be paid during the period of time that the non-compete clause is in effect. The maximum period of time that it may be paid, however, is for 12 months subsequent to the termination of employment.

Salary and employment terms for employees

The Board of Directors' proposal for these remuneration guidelines has been made after having given consideration to the salary and employment terms for employees of HMS, which has included their total remuneration package, the various components of that package and the rate of increase over time. The reasonableness of the guidelines and the limitations that follow have been based on that.

Decision process for establishing, monitoring and implementing the guidelines

The Board of Directors has set up a remuneration committee. The committee's tasks include preparing the material upon which the Board's decisions will be based and making proposals for guidelines on remuneration to senior executives. The Board must make proposals on new guidelines for remuneration every four years and present those proposals for decisions to the AGM. The guidelines shall apply until new guidelines have been adopted by the AGM. The remuneration committee is also required to follow and evaluate the variable remuneration schemes for senior executives, application of the guidelines for remuneration to senior executives and applicable remuneration structures and levels at HMS. Members of the remuneration committee are independent in relation to the company and its senior executives. When the Board considers and makes decisions on remuneration issues, the CEO and other members of the Group management team are not present and do not participate.

Deviation from the guidelines

The Board of Directors may decide on temporary deviations from the guidelines, either in part or fully, if there are special reasons for doing so in individual cases and it has been deemed necessary for meeting the long-term needs (including sustainability) of HMS or for safeguarding the company's economic viability. As stated above, the remuneration committee's tasks include preparing the material upon which the Board's decisions will be based, which includes decisions on deviating from the guidelines.

RISKS AND UNCERTAINTY FACTORS

Market-related risks

HMS is exposed to market-related risks that are beyond the Group's control. These risks are mainly connected with the business climate, competitive situation, world market demand and access to resources that are essential to the Group's operations. The recent COVID-19 pandemic has led to a higher level of uncertainty and the impact this will have on the Group's operations is very difficult to predict.

Business cycle

The company's products are primarily used in industry. Industry is affected by the general economic situation and investment levels, which in turn may be affected by a number of factors beyond the

company's control, such as interest rates, currency exchange rates, inflation, deflation, political uncertainty, taxes, stock market trends, unemployment and other factors that impact the economic outlook. These factors could impact the Group's profit and overall financial situation.

Competitors

The market for HMS's products is competitive. HMS competes in local markets where there are a number of competitors and it is possible for new entrants to become established. HMS's strategy is to improve the Group's already strong market position and thereby prepare it for possibly tougher competition in the future. A change in the competitive situation affects both sales volumes and gross profit margins. HMS must be able to successfully compete because a failure to do so could affect the Group's profit and overall financial position.

Operational risks

The company is exposed to operational risks in its business. These risks are associated with the company's strategy, activities and its relations with the world at large.

Suppliers

HMS is dependent on well-functioning cooperation with suppliers. HMS is also dependent on its component suppliers, but other suppliers are important as well. If cooperation with these suppliers should deteriorate or be terminated, the Group would be forced to replace them with new suppliers, alternative components or it might possibly even need to redesign its products. This could have a negative effect on the Group's earnings and financial position.

Customers

The Group's sales are to professional firms. It is of the utmost importance for HMS to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that HMS is able to develop and market new products that are both accepted by the market and fulfill customer requirements. HMS must also have the capacity for improving its existing products. If major changes should occur in the purchasing patterns of the Group's largest customers, this would affect the company's profitability. However, because HMS has such a large number of customers, its

dependence on any individual customer is limited. Nevertheless, if the Group were to encounter difficulty in maintaining its relations with one or more customers, this could negatively affect the company's business, earnings and financial position.

Employees

The Group's future growth is partly dependent on retaining key employees. There are no guarantees that HMS can succeed in retaining such individuals. The loss of one or more key employees could have a negative impact on the business. Thus far, HMS has not had difficulty recruiting qualified employees. However, the Group cannot guarantee that it will be able to recruit equally skilled individuals in the future. Going forward, if HMS is less successful in recruiting and retaining highly qualified managers and other skilled employees, it could find it difficult to maintain and further develop the business.

Acquisitions

In the future, HMS could acquire, divest or discontinue certain operations and/or companies. All such transactions are associated with uncertainties and risks. A thorough valuation is carried out prior to a transaction in order to reduce risks and avoid inaccurate price setting for acquisitions. However, that is not always sufficient to ensure success or minimize the associated risks.

Risk related to new products

If HMS is unsuccessful in introducing new, innovative products or in keeping up with technological developments, there could be a negative impact on the business and revenues. HMS is convinced that much of its success stems from the Group's ability to introduce new, innovative products and further develop its existing products on a continual basis. There could be a negative impact on the Group's revenues and market shares if its competitors are more successful in introducing new or improved products or services that customers find attractive. If HMS doesn't succeed in keeping up with product development and technological developments, or fails to meet customers requirements, it could have an impact on the Group's earnings and financial position.

Product safety

When manufacturing and selling industrial products, there is an

associated risk of warranty claims and product liability. Therefore, HMS typically designs its products according to detailed technical specifications in order to meet the requirements of industry. Even though the company tests its products thoroughly to ensure that they meet the relevant specifications, the activities in this area could nevertheless be associated with an increased risk of warranty claims and product liability. When HMS carries out detailed studies on product safety, it relies on both internal and external analyses to ensure that its products correspond to the agreed product specifications. Even though the Group considers that these measures are sufficient in each individual case, it cannot guarantee that warranty claims or product liability suits will not occur, despite its efforts to prevent this from happening.

The purchasing and ordering of components from subcontractors also carries a risk that issues in the supplied components are only discovered at a later stage of production or after the product has been sold. In these types of situations, it can be difficult to pinpoint where the problem occurred and obtaining compensation for lost revenue and the costs associated with warranty claims and product liability suits from the supplier who was responsible for the problem can also be difficult.

Even though HMS considers that it has adequate insurance protection for product liability, it still cannot guarantee that the insured amount will be sufficient to cover claims that could be brought forth against the Group in the future. Product liability or warranty claims can result in significant costs of litigation and damages. Claims successfully made on HMS that exceed the Group's insurance cover, or claims that entail considerable negative publicity, could significantly impact the Group's earnings and financial position.

Legal risks

Legislation and regulation

HMS and its markets are, to a certain extent, affected by legislation and other directives that regulate the business. Changes in legislation, or political decisions, can thus negatively affect HMS's ability to run or develop its business.

Intellectual property rights

HMS's intellectual property rights are essential to its business. HMS has registered patents and brands in a number of countries. HMS

has endeavored to protect its brand by registering it in each country where it currently has operations, or expects to soon become established. HMS has also sought patent protection where the company considers it to be commercially justified. Nevertheless, there is no guarantee that these measures are, or will be, sufficient to protect the company's intellectual property rights. HMS cannot prevent its competitors from using the HMS brand and logotype to market their own products in a way that infringes or in any other way poses a threat to the company's intellectual property rights. If the intellectual property rights cannot be protected, regardless of the reason, the Group's business could be affected in a negative way.

Disputes

The company is not currently involved in any disputes. However, although no potential future disputes have been identified, the Group could nevertheless still become involved in disputes that could have a negative impact on its earnings and financial position.

Financial risks

The Group's international operations entail a number of financial risks, which are dealt with in accordance with policies that have been established by the Board. The overall objective is for the Group to be able to provide financing to its companies and manage its financial risks so that there is minimal effect on the Group's earnings. The Group is mainly exposed to liquidity, currency, interest rate and credit risks. For further information, see Note 3.

Currency exposure

Assets and liabilities in foreign currencies are revalued at each closing. Hedging contracts are also revalued at each balance sheet date and there is also an effect when they are settled. The revaluation of balance sheet items associated with operations and the result from settlement of any hedging contracts are reported in either Other operating income or Other operating expenses. Any value change pertaining to hedging of net investments is reported in other comprehensive income. Changes in the value of other balance sheet items in foreign currency, such as cash and cash equivalents, are reported in net financial items. Operating income and expenses are also affected by changes in exchange rates. These changes have a direct impact on income and expense items.

The currency composition of operating income is approximately

DIRECTORS' REPORT

60% in EUR, 23% in USD, 8% in JPY and 9% in other currencies. The currency composition of cost of goods sold is approximately 58% in EUR, 25% in USD, 0% in JPY and 16% in other currencies. The currency composition of operating expenses is approximately 46% in EUR, 12% in USD, 3% in JPY and 37% in other currencies.

The Group's policy is to minimize currency exposure by entering into forward exchange agreements.

FUTURE OUTLOOK

The Group's long-term growth is supported by a continued inflow of Design Wins, a wider product offering, particularly for the Gateway products and Remote Management, further strengthened by product offerings from Ewon and Intesis, supplementary technology platforms from Ixxat and improved customer focus with expansion of HMS's sales channels, in accordance with the established strategy.

The global economic situation is assessed as uneven with a careful, positive undertone. Its effects on the market for HMS's product offering and the currency impact is difficult to assess, but HMS's long-term goals remain unchanged: Long-term growth averaging 20% per year and an operating margin that exceeds 20%.

HMS stock

HMS Networks AB (publ) is listed on the NASDAQ OMX Stockholm Mid Cap list, in the Information Technology sector. On average, 41,061 (38,038) shares were traded each day. The shares' volume-weighted average price in 2019 was SEK 150.69 (139.91). The total number of shares was at the time of completion of this annual report 46,818,868, of which 154,916 are held in treasury. All shares have the same voting rights.

PARENT COMPANY

Information about the business

The Parent Company's activities focus on Group-wide administration and financing. Apart from the CEO, the Parent Company has no employees.

Proposed distribution of profit in the Parent Company

The following profits are at the disposal of the AGM:

Profit brought forward and other non-restricted reserves	97,347
Profit for the year	180,791
SEK t	278,138

The Board of Directors proposes the following appropriation of profits:

Distributing dividends to shareholders of SEK 1.90/share*	88,662
Carried forward	189,476
SEK t	278,138

* The dividend is calculated on the total number of outstanding shares as of 2020-03-19.

It is the Board's opinion that the proposed dividend would not inhibit the company, or any other company belonging to Group, from meeting its obligations over the short or long term, nor would it prevent the Group from being able to make necessary investments. The proposed dividend is thus justifiable, having considered what is stated in Chapter 17, Chapter 3, sections 2-3 of the Swedish Companies Act (prudence rule).

Consolidated income statement

SEK t	Note	2019	2018
Net sales	5	1,518,708	1,365,804
Cost of goods and services sold		-590,925	-531,807
GROSS PROFIT		927,783	833,997
Selling expenses		-348,714	-310,427
Administrative expenses		-123,767	-111,487
Research and development expenses		-189,666	-162,233
Restructuring costs	2.10	-22,000	-
Other operating income	2.10, 6	19,794	6,352
Other operating expenses	2.10, 6	-20,305	-4,852
OPERATING PROFIT	7, 8, 9, 10, 11	243,124	251,351
Financial income	12	101	51
Financial expenses	13	-15,110	-19,587
Total income from financial investments		-15,009	-19,536
PROFIT BEFORE TAX		228,115	231,815
Income tax	2.10, 14	-23,158	-60,577
PROFIT FOR THE YEAR		204,957	171,238
Profit attributable to:			
HMS Network AB's shareholders		206,260	171,238
Non-controlling interests		-1,303	-
Total		204,957	171,238
Earnings per share, basic, SEK	15	4.43	3.68
Earnings per share, diluted, SEK	15	4.40	3.65
Average number of shares, basic, 000s	15	46,508	45,540
Average number of shares, diluted, 000s	15	46,844	46,859
Paid dividends per share, SEK	16	1.80	1.50

Consolidated statement of comprehensive income

SEK t	Note	2019	2018
Profit for the year		204,957	171,238
Other comprehensive income:			
Items that can later be reclassified to profit and loss			
Cash flow hedges		3,582	-206
Hedging of net investments		-2,073	-10,424
Exchange differences arising from translation of foreign operations		15,243	47,726
Income tax attributable to the items above	17	-323	2,275
Other comprehensive income for the year, after tax		16,429	39,371
Total comprehensive income for the year		221,386	210,609
Total comprehensive income for the year attributable to:			
HMS Network AB's shareholders		222,689	210,609
Non-controlling interests		-1,303	-
Total		221,386	210,609

THE GROUP

Consolidated balance sheet

SEK t	Note	2019-12-31	2018-12-31	SEK t	Note	2019-12-31	2018-12-31
ASSETS				EQUITY AND LIABILITIES			
Non-current assets				Equity			
Intangible assets				Share capital	29	1,170	1,170
Capitalized development work	18	123,821	100,060	Other contributed capital	29	218,318	218,318
Goodwill		875,848	840,855	Reserves		99,748	83,319
Customer relations and technology platforms		65,479	53,891	Retained earnings including profit for the year		679,224	554,099
Brands		100,706	100,524	Equity attributable to HMS Networks AB's shareholders		998,480	856,907
Total intangible assets		1,165,854	1,095,330	Non-controlling interests		11,923	-
Property, plant and equipment				Total equity		1,010,383	856,907
Buildings and land	19, 20	5,023	3,500	Non-current liabilities			
Plant and machinery	19, 20	17,423	35,141	Non-current interest-bearing liabilities	23	339,399	377,597
Equipment, installations and facilities	19, 20	22,343	12,913	Non-current lease liabilities	30	82,047	-
Construction-in-progress	19, 20	199	228	Non-current tax liability	21	76,553	76,278
Rights-of-use assets	17	111,430	-	Total non-current liabilities		497,999	453,875
Total property, plant and equipment		156,418	51,782	Current liabilities			
Financial assets				Current interest-bearing liabilities	23	1,195	23,829
Deferred tax asset	17	3,675	3,638	Current lease liabilities	30	30,521	-
Other long-term receivables		9,333	7,423	Accounts payable - trade	21	75,893	104,610
Total financial assets		13,008	11,061	Current tax liability		9,966	14,235
Total non-current assets		1,335,280	1,158,173	Derivative instruments	26	1,212	3,109
Current assets				Other liabilities		33,893	32,974
Inventories	24	158,799	157,465	Accrued expenses and deferred income	31	85,468	85,712
Accounts receivable - trade	25	142,854	160,574	Other provisions	32	11,029	1,554
Current tax assets		26,871	2,499	Total current liabilities		249,177	266,023
Derivative instruments	26	4,042	2,357	TOTAL EQUITY AND LIABILITIES			
Other receivables		20,867	21,562			1,757,559	1,576,804
Prepaid expenses and accrued income	27	17,605	15,223				
Cash and cash equivalents	28	51,241	58,951				
Total current assets		422,279	418,631				
TOTAL ASSETS		1,757,559	1,576,804				

Consolidated cash flow statement

SEK t	Note	2019	2018
Cash flow from operating activities			
Profit before tax		228,115	231,815
Adjustment for items not included in cash flow:			
Depreciation/amortization		90,444	50,672
Share Savings Plan	9	2,774	5,449
Unrealized exchange differences		3,890	10,553
Other provisions		8,200	-2,705
Impairment of inventories		1,511	13,449
Gain on settlement of contingent consideration*	2.10	-19,721	-
Other non-cash items on the income statement		6,818	1,750
Income tax paid		-58,414	-78,783
Cash flow from operating activities before changes in working capital		263,817	232,200
Change in working capital			
Change in inventories		572	-42,843
Change in accounts receivables - trade		27,942	-10,414
Change in other current receivables		6,334	12,062
Change in accounts payable - trade		-37,558	-1,700
Change in other current liabilities		-7,106	3,444
Cash flow from operating activities		253,801	192,749

* Pertains to Beck IPC GmbH, see also Note 6 and Note 33

Change in liabilities associated with financing activities

SEK t	Closing balance 2018	Cash flow	Not affecting cash flow	New accounting standard	Closing balance 2019
Bank loans	336,518	-37,302	26,623	-	324,839
Leases	-	-29,438	-	142,006	112,568
Additional consideration	41,102	-21,188	-9,480	-	10,434
Defined benefit pension plan	2,468	-	2,855	-	5,321
Total	379,086	-87,928	19,998	142,006	453,163

SEK t	Note	2019	2018
Investing activities			
Investments in intangible assets	18	-41,608	-16,523
Investments in PPE	19	-24,710	-13,434
Investments in subsidiaries	33	-24,355	-25,609
Change in non-current financial assets		-1,878	-8,164
Sale of property, plant and equipment		98	-
Cash flow from investing activities		-92,453	-61,730
Financing activities			
Borrowings		107,716	102,254
Loan amortization		-166,080	-158,416
Lease payments	21	-29,438	-4
Repurchase of own shares		-	-42,223
Dividends paid to the Parent Company's shareholders	16	-83,909	-69,894
Change in other current interest-bearing liabilities		-1,305	1,953
Cash flow from financing activities		-173,016	-166,330
CHANGE IN CASH AND CASH EQUIVALENTS		-11,668	-35,311
Cash and cash equivalents at beginning of year	26	58,951	90,982
Exchange rate differences in cash and cash equivalents		3,959	3,280
Cash and cash equivalents at year-end	26	51,241	58,951

Interest paid and received

Interest paid	-7,599	-5,817
Interest received	101	52

THE GROUP

Consolidated statement of changes in equity

SEK t	Note	Share capital	Other contribut- ed capital	Reserves	Retained earnings including profit for the year	Total equity	SEK t	Note	Share capital	Other contribut- ed capital	Reserves	Retained earnings including profit for the year	Total	Non-controlling interests	Total equity
Opening balance on 1 January 2018 as per the adopted balance sheet		1,170	218,318	43,948	457,859	721,295	Opening balance on 1 January 2019 as per adopted balance sheet		1,170	218,318	83,319	554,099	856,907	-	856,907
Profit for the year		-	-	-	171,238	171,238	Profit for the year		-	-	-	206,260	206,260	-1,303	204,957
Other comprehensive income:							Other comprehensive income:								
Cash flow hedges		-	-	-206	-	-206	Cash flow hedges		-	-	3,582	-	3,582	-	3,582
Hedging of net investment	26	-	-	-10,424	-	-10,424	Hedging of net investment	26	-	-	-2,073	-	-2,073	-	-2,073
Exchange rate differences		-	-	47,728	-	47,726	Exchange rate differences		-	-	15,243	-	15,243	-	15,243
Income tax attributable to components of other comprehensive income	14	-	-	2,275	-	2,275	Income tax attributable to components of other comprehensive income	14	-	-	-323	-	-323	-	-323
Total comprehensive income		-	-	39,371	171,238	210,609	Total comprehensive income		-	-	16,429	206,260	222,689	-1,303	221,386
Transactions with shareholders in their capacity as owner:							Transactions with shareholders in their capacity as owner:								
Costs for share-related remuneration		-	-	-	5,449	5,449	Costs for share-related remuneration		-	-	-	2,774	2,774	-	2,774
Repurchase of own shares		-	-	-	-10,553	-10,553	Holdings without a controlling influence that have arisen upon acquisition of subsidiaries		-	-	-	-	-	13,226	13,226
Dividend (SEK 1.50 per share)	16	-	-	-	-69,894	-69,894	Dividend (SEK 1.80 per share)	16	-	-	-	-83,909	-83,909	-	-83,909
Total transactions with shareholders, reported directly in equity		-	-	-	-74,998	-74,998	Total transactions with shareholders, reported directly in equity		-	-	-	-81,135	-81,135	13,226	-67,909
Closing balance as of 31 December 2018		1,170	218,318	83,319	554,099	856,907	Closing balance as of 31 December 2019		1,170	218,318	99,748	679,224	998,480	11,923	1,010,383

THE PARENT COMPANY

Parent company's income statement

SEK t	Note	2019	2018
Net sales	5	16,224	17,314
GROSS PROFIT		16,224	17,314
Administrative expenses	8, 9, 10, 11	-16,224	-17,314
OPERATING PROFIT		0	0
Profit from participation in subsidiaries	34	179,123	164,679
Interest income and similar items		4,806	563
Interest expenses and similar items		-2,551	-832
Total income from financial items		181,378	164,410
PROFIT AFTER FINANCIAL ITEMS		181,378	164,410
Tax on profit for the year	14	-588	-593
PROFIT FOR THE YEAR		180,791	163,817

Parent company's balance sheet

SEK t	Note	2019-12-31	2018-12-31
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	35.36	337,324	337,324
Total financial assets		337,324	337,324
Total non-current assets		337,324	337,324
Current assets			
Current receivables			
Receivables from Group companies		95,794	64,415
Current tax asset		97	263
Other receivables		83	63
Prepaid expenses and accrued income	27	67	168
Total current receivables		96,041	64,909
Cash and bank balances		526	1,307
Total current assets		96,567	66,216
TOTAL ASSETS		433,891	403,541

SEK t	Note	2019-12-31	2018-12-31
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	29	1,170	1,170
Statutory reserve		19,446	19,446
Total restricted equity		20,616	20,616
Non-restricted equity			
Retained earnings	37	-202	-80,244
Share premium reserve		97,549	97,549
Profit for the year		180,791	163,817
Total non-restricted equity		278,138	181,122
Total equity		298,754	201,738
Current liabilities			
Accounts payable - trade		65	256
Liabilities to Group companies		128,069	195,780
Other liabilities		1,063	1,723
Accrued expenses and deferred income	31	5,940	4,044
Total current liabilities		135,137	201,803
TOTAL EQUITY AND LIABILITIES		433,891	403,541

THE PARENT COMPANY

Parent company's cash flow statement

SEK t	Note	2019	2018
Operating activities			
Profit after financial items		181,379	164,410
Adjustments for items that do not affect cash flow:			
Share Savings Plan		134	199
Income tax paid		-422	-863
Cash flow from operating activities before change in working capital		181,091	163,945
Change in working capital			
Change in other current receivables		82	-194
Change in accounts payable - trade		-191	-891
Change in other current liabilities		1,236	1,561
Cash flow from operating activities		182,217	164,421
Investing activities			
Cash flow from investing activities		-	-
Financing activities			
Repurchase of own shares		-	-42,223
Dividend paid		-83,909	-69,894
Change in interest-bearing items, internal		-99,090	-51,296
Cash flow from financing activities		-182,998	-163,413
CHANGE IN CASH AND CASH EQUIVALENTS		-781	1,008
Cash and cash equivalents at beginning of year		1,307	299
Cash and cash equivalents at year-end		526	1,307
Interest paid and received			
Interest paid		0	-6
Interest received		1,386	563

Parent company's statement of changes in equity

SEK t	Note	Restricted equity		Non-restricted equity			Profit for the year	Total
		Share capital	Statutory reserve	Retained earnings	Share premium reserve			
Opening balance on 1 January 2018		1,170	19,446	0	97,549	3	118,168	
Transfer of profit (loss) from 2017		-	-	3	-	-3	-	
Repurchase of own shares		-	-	-10,553	-	-	-10,553	
Costs for share-based remuneration		-	-	199	-	-	199	
Dividend (SEK 1.50 per share)	16	-	-	-69,894	-	-	-69,894	
Profit for the year		-	-	-	-	163,817	163,817	
Closing balance as of 31 December 2018		1,170	19,446	-80,244	97,549	163,817	201,738	

SEK t	Note	Restricted equity		Non-restricted equity			Profit for the year	Total
		Share capital	Statutory reserve	Retained earnings	Share premium reserve			
Opening balance on 1 January 2019		1,170	19,446	-80,244	97,549	163,817	201,738	
Transfer of profit (loss) from 2018		-	-	163,817	-	-163,817	-	
Costs for share-based remuneration		-	-	134	-	-	134	
Dividend (SEK 1.80 per share)	16	-	-	-83,909	-	-	-83,909	
Profit for the year		-	-	-	-	180,791	180,791	
Closing balance as of 31 December 2019		1,170	19,446	-201	97,549	180,791	298,754	

Notes

All amounts in SEK thousands unless otherwise stated

Note 1 General information

The HMS Group is a market-leading supplier of solutions for industrial communication and Industrial Internet of Things, IIoT. HMS develops and manufactures products sold under the Anybus®, Ixxat®, Ewon® och Intesis™ brands. Product development and manufacturing take place at the head office in Halmstad (Sweden), in Ravensburg, Wetzlar and Buchen (Germany), Nivelles (Belgium) and Igualada (Spain). Local sales and support are managed by our sales offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, Netherlands, India, UK, Sweden, South Korea and United Arab Emirates (UAE), as well as via a wide network of distributors and partners across the globe.

The Parent Company, HMS Networks AB (publ), is a listed Swedish limited liability company based in Halmstad, Sweden. The head office address is Stationsgatan 37, Halmstad, Sweden. The company is listed on the NASDAQ OMX Nordic Exchange in the Mid Cap, Information Technology category.

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on 19 March 2020.

Note 2 Summary of important accounting policies

This note contains a summary of the important accounting policies applied in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements cover HMS Networks AB and its subsidiaries.

2.1 BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the HMS Group have been prepared in accordance with the Swedish Annual Accounts Act and RFR 1 Supplementary Accounting Rules for Groups and the International Financial Reporting Standards (IFRS) and interpretations from the IFRS Interpretations Committee (IFRS CC) that have been adopted by the EU.

The annual report has been prepared in accordance with the cost method, except for certain financial assets and liabilities measured at fair value in other comprehensive income.

The Parent Company applies the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. RFR

2 amounts to that parent companies, in groups that willingly have chosen to apply IFRS/IAS in their consolidated financial statement, shall, as the main rule, apply the IFRS/IAS that are applied in the Group. Hence, the Parent Company applies the principles that are applied in the consolidated financial statement and which are presented in note 2 in the consolidated financial statement, with the exceptions accounted for below. The principles have been consistently applied for all presented years, unless otherwise stated.

The Parent Company recognizes revenue that consists of Group-wide services that have been provided and invoiced costs.

Shares and participating interests in subsidiaries are accounted for using the historical cost, after deduction of possible impairments. Received dividends are accounted for as financial income. Dividends that exceed the subsidiary's comprehensive income for the period, or implies that the book value of the holding's net value in the consolidated financial statement falls short of the book value of the shares, indicate an impairment need. When there is indication that shares and participating interests in subsidiaries have decreased in value, a calculation of the recovery value is made. If this value is less than the carrying amount an impairment is made. Impairments are presented in section Profit/loss from shares in group and associated companies.

Shareholder's contribution is recognized in the equity of the receiver and as shares and participating interests of the shareholder, if impairments are not required. Group contributions are reported

using the so-called alternative rule, according to RFR 2, IAS 27 p.2. The alternative rule means that group contributions, both received and paid, are recognized as appropriations in the income statement.

Preparing financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the management team to make certain judgments in the process of applying the accounting policies. Note disclosures are provided for areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, which is detailed in Note 4.

2.1.1 New standards and amendments

a) New and amended standards adopted by the Group

The new and amended statements are presented on page 68, along with interpretations that have been published and that must be applied by the Group for the first time for the financial year that starts on 1 January 2019.

b) New standards and Interpretations that have not yet been adopted by the Group

A number of new standards and interpretations enter into force for the financial year starting after 1 January 2019, but which have not been applied when preparing these financial statements. These new standards and interpretations are not expected to have a material impact on the Group's financial statements in current or future periods, nor on future transactions. See the table, below.

Standard	Definition of Material – Amendments to IAS 1 and IAS 8
Significant requirements	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: • that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. • clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need
Effective as of	1 January 2020
Standard	Definition of Business – Amendments to IFRS 3
Significant requirements	To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income. It excludes returns in the form of lower costs and other economic benefits. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions
Effective as of	1 January 2020

NOTES

CONT. NOTE 2 Accounting policies

Standard	IFRS 16 Leases																																																			
Significant requirements	<p>IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.</p> <p>The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.</p> <p>Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p>																																																			
Effect	<p>The Group applies the standard retroactively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are described in Note 2.7.</p> <p>With the transition to IFRS 16, the Group reports its leasing liabilities attributable to lease agreements that had previously been classified as operating leases in accordance with the rules in IAS 17 Leases. These liabilities have been measured at the present value of the remaining lease fees. For this calculation the lessee's incremental borrowing rate as of 1 January 2019 was used. The lessee's weighted average incremental borrowing rate that was applied for these leasing liabilities as of 1 January 2019 was 1.8%.</p> <p>For lease agreements previously classified as finance leases, the company recognises the carrying amounts of the lease asset and lease liability immediately prior to the transition as the carrying amount of the right-of-use and the lease liability at the transition date. The measurement principles of IFRS 16 are applied only after that date. This resulted in measurement adjustments totaling SEK 456 thousand. The remeasurement of lease liability was recognised as an adjustment to the attributable right-of-use immediately after the transition date.</p> <p>In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:</p> <ul style="list-style-type: none">• The same discount rate was used on leased assets with similar characteristics• Operating leases with a remaining lease term of less than 12 months as of 1 January 2019 were reported as short-term leases• Later assessments were used when assessing the duration of a lease in instances where there is an option to extend or cancel the lease. <table><tr><th colspan="3">Measurement of lease liabilities</th></tr><tr><td>Operating lease commitments disclosed as of 31 December 2018</td><td></td><td>125,876</td></tr><tr><td>Discounted using the lessee's incremental borrowing rate at the transition date</td><td></td><td>-3,901</td></tr><tr><td>Add: liabilities for finance leases as of 31 December 2018</td><td></td><td>22,341</td></tr><tr><td>(Lease): short-term leases and low-value leases that have not been reported as a liability</td><td></td><td>-6,705</td></tr><tr><td>(Lease): adjustments related to other management of options to extend or terminate agreements</td><td></td><td>-14,075</td></tr><tr><td>Lease liability recognized as of 1 January 2019</td><td></td><td>123,537</td></tr><tr><td>Of which are:</td><td></td><td></td></tr><tr><td>Current lease liabilities</td><td></td><td>29,978</td></tr><tr><td>Non-current lease liabilities</td><td></td><td>93,559</td></tr><tr><td></td><td></td><td>123,537</td></tr></table> <p>Measurements of rights-of-use assets</p> <p>Rights-of-use assets have been measured at the value of the lease liability, with an adjustment for any prepaid or accrued leasing fees reported in the balance sheet as of 31 December 2018.</p> <p>Adjustments recognized in the balance sheet 1 January 2019</p> <table><tr><th colspan="3">Effect of change in accounting policy on the balance sheet as of 1 January 2019</th></tr><tr><td>Property, plant and equipment</td><td>decrease of</td><td>SEK 19,448 thousand</td></tr><tr><td>Rights-of-use assets</td><td>increase of</td><td>SEK 121,036 thousand</td></tr><tr><td>Deferred tax assets</td><td>increase of</td><td>SEK 112 thousand</td></tr><tr><td>Interest-bearing liabilities</td><td>decrease of</td><td>SEK 22,341 thousand</td></tr><tr><td>Lease liabilities</td><td>increase of</td><td>SEK 123,537 thousand</td></tr></table>	Measurement of lease liabilities			Operating lease commitments disclosed as of 31 December 2018		125,876	Discounted using the lessee's incremental borrowing rate at the transition date		-3,901	Add: liabilities for finance leases as of 31 December 2018		22,341	(Lease): short-term leases and low-value leases that have not been reported as a liability		-6,705	(Lease): adjustments related to other management of options to extend or terminate agreements		-14,075	Lease liability recognized as of 1 January 2019		123,537	Of which are:			Current lease liabilities		29,978	Non-current lease liabilities		93,559			123,537	Effect of change in accounting policy on the balance sheet as of 1 January 2019			Property, plant and equipment	decrease of	SEK 19,448 thousand	Rights-of-use assets	increase of	SEK 121,036 thousand	Deferred tax assets	increase of	SEK 112 thousand	Interest-bearing liabilities	decrease of	SEK 22,341 thousand	Lease liabilities	increase of	SEK 123,537 thousand
Measurement of lease liabilities																																																				
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Effective as of	1 January 2019																																																			

2.2 CONSOLIDATED FINANCIAL STATEMENTS

a) Subsidiaries

Subsidiaries are all companies that are controlled by the Group. The Group has a controlling interest over a company when it is exposed to or entitled to a variable return from its holding in the company and it is able to affect the return via its controlling interest over the company. Subsidiaries are fully consolidated as of the date when the Group obtains a controlling influence. They are no longer consolidated as of the date when the Group no longer has a controlling influence.

The acquisition method is used for reporting the Group's business combinations (see Note 2.8).

Intra-Group transactions, balance sheet items and unrealized gains and losses on transactions between Group companies are eliminated. Intra-Group losses could be an indication of impairment that requires recognition in the consolidated financial statements. The accounting policies of subsidiaries have been adjusted, where necessary, to ensure consistency with the policies applied by the Group.

Non-controlling interest in subsidiaries' earnings and equity are presented separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and the balance sheet.

b) Divestment of a subsidiary

When the Group no longer has a controlling interest, each remaining holding is measured at fair value as of the point in time when the loss of control occurred. The change in carrying amount is reported in the income statement. Fair value is used as the first reported value and provides the basis for future reporting of the remaining holding as an associated company, joint venture or financial asset. All amounts concerning the divested unit that were previously reported in other comprehensive income are reported as if the Group had directly divested the attributable assets or liabilities. This could mean that amounts previously recognized in other comprehensive income are reclassified and recognized in profit or loss instead.

2.3 REPORTING OF SEGMENTS

Segment disclosures must be presented from the management's perspective, i.e. in the same way that they are presented for internal reporting purposes. The point of departure for identifying reportable segments is the internal reporting used by the highest-ranking executive decision-maker. Management has analyzed the internal report-

ing and concluded that the Group's highest-ranking executive decision-maker, the Group management team, regularly analyses the sales reports, quality reports, consolidated income statement and cash flow statement. This reporting is based on the fact that the common technology platform, development process, manufacturing process, market strategy and sales resources do not motivate further segmentation of the business. Therefore, there is no follow-up on the profit of any particular segment of the business.

2.4 TRANSLATION OF FOREIGN CURRENCY

a) Functional currency and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The consolidated financial statements are presented in Swedish kronor (SEK), which is the Parent Company's functional currency and the Group's reporting currency.

b) Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction dates or the date when items were remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of closing day rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. However, this does not apply to transactions that fulfill the requirements for hedge accounting of cash flows or net investments. Such gains or losses are recognized in other comprehensive income.

Foreign exchange gains and losses attributable to loans and cash equivalents are reported in the income statement as financial revenue or financial expenses. Exchange profits and losses attributable to the purchasing of raw materials and products are reported in the income statement as cost of goods sold. Other foreign exchange gains and losses are reported in the income statement as 'Other operating income' and 'Other operating expenses' respectively.

c) Group companies

The profit or loss and financial position of all Group entities (none of which has the functional currency of a hyperinflationary economy) that have a different functional currency than their reporting currency, are translated into the Group's reporting currency as follows:

a) assets and liabilities for each balance sheet are translated at the closing rate;

b) income and expenses for each income statement are translated at the average exchange rate, and

c) all resulting exchange differences are recognized in other comprehensive income.

Recognized in the consolidated financial statement (in other comprehensive income), are exchange rate differences attributable to the translation of a net investment in a foreign operation, along with exchange rate differences attributable to loans or other financial instruments designated as hedges for such investments. Accumulated gains and losses in equity are recognized in profit or loss when foreign operations are sold, either entirely or in part.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 REVENUE RECOGNITION

The specific accounting policies for the Group's revenue from contracts with customers are explained in Note 5.

Interest income is recognized using the effective interest method. When the value of a receivable becomes impaired, the carrying amount is lowered to the recoverable amount, which is equal to the estimated future cash flows discounted at the original effective interest rate for the instrument. The discounting effect then continues to be dissolved as interest income. Interest income on impaired loan receivables is recognized using the original effective interest rate.

2.6 CURRENT AND DEFERRED INCOME TAX

Tax expense for the period is comprised of current tax calculated on net taxable income for the period using the current tax rates. Current tax expense is then adjusted by changes in deferred tax assets and tax liabilities attributable to temporary differences and unutilized loss carryforwards.

Current tax expense is calculated using the tax regulations that have been decided or announced at year-end in the countries where the Parent Company and its subsidiaries have operations and generate taxable income.

Deferred tax is reported in the consolidated financial statements on all differences arising between the tax base and the carrying amounts of assets and liabilities (temporary differences). However, a deferred tax liability is not reported if it arises in conjunction with

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the initial recognition of goodwill. Furthermore, deferred tax is not recognized if it arises from a transaction associated with the initial recognition of an asset or liability that is not a business combination and which, at the time of the transaction, has no effect on either reported profit or taxable profit.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes attributable to temporary differences associated with investments in subsidiaries are recognized only to the extent that the Parent Company is able to control the reversal of the temporary differences and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to settle the current tax assets and tax liabilities on a net basis and the tax liabilities relate to taxes levied by the same taxation authority and relate to either the same taxable entity or different taxable entities that intend to realize the asset and settle the liability at the same time.

Current and deferred tax is recognized in the income statement, except when the tax relates to items reported in other comprehensive income or directly in equity. In such cases the tax is also recognized in other comprehensive income and equity respectively.

2.7 LEASING

As mentioned in Note 2.1.1 a) above, the Group has changed its accounting policies for leasing. The new policy is described below (Note 2.7.1) and the effect of the transition in Note 2.1.1 a).

Through 31 December 2018, leasing of items of property, plant and equipment in which the Group as lessee essentially holds the financial risks and rewards associated with ownership, were classified as finance leases (Note 20). At the start of the lease term, finance leases were capitalized at the lower of the leased asset's fair value and the present value of the minimum lease payments. Corresponding payment obligations (after deductions for financial expenses) were included in the balance sheet items: long-term borrowings and short-term borrowings. Each lease payment was

allocated between interest and reduction of the principal. Interest was recognized in the income statement over the leasing period so that the amount of the expense in each reporting period corresponded to a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment that were obtained through a finance lease agreement were depreciated over the asset's useful life or the term of the lease (whichever is shorter), provided that it could not, with reasonable certainty be established that there was a transfer of ownership to the lessee at the end of the lease period.

Leases in which a significant portion of the risks and rewards associated with ownership were retained by the lessor were classified as operating leases (Note 20). Payments made during the leasing period were expensed in the income statement linearly over the leasing period.

2.7.1 IFRS 16 Leases

a) The Group's leasing activities and reporting of leases

The Group leases buildings, facilities, machinery and automobiles (see Note 21). Depreciation of leased assets is typically over a fixed period, but there may be an option to extend the agreement. The terms are negotiated separately for each agreement and many terms and conditions exist. Lease agreements do not contain any special terms or restrictions that would result in the agreement being canceled if the terms are not met. However, leased assets may not be used as collateral for loans.

Lease agreements are recognized as right-of-use assets with a corresponding liability as of date when the leased asset is available for use by the Group. Each lease payment is divided into amortization of the debt and financial expense. Interest is recognized in the income statement over the leasing period so that the amount of the expense in each reporting period corresponds to a constant periodic rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated on a straight-line basis over the useful life of the asset or the length of the lease, whichever is shorter. If the Group is reasonably certain of exercising a call option, the right-of-use asset is depreciated over the useful life of the underlying asset.

Assets and liabilities that arise from the lease agreement are initially reported at present value. The lease liabilities include the present value of the following lease payments:

- fixed fees (including fees that are inherently fixed), less incentive claims
- variable lease fees that are based on an index or a price

- the guaranteed residual value that the lessee expects to pay to the lessor

- the exercise price for a call option, if it is reasonably certain that the lessee will exercise the option, and
- penalty for terminating the lease, if duration of the lease reflects the assumption that the lessee will utilize that option.

The lease payments are discounted using the implicit interest rate if such can be established. Otherwise, the incremental borrowing rate is used.

The Group is exposed to potential future increases in variable lease payments based on an index or interest rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or interest rate occur, the lease liability is revalued and adjusted to the right-of-use asset.

Right-of-use assets are measured at cost, which includes the following:

- the amount that the lease liability was originally valued at
- lease fees paid at or before the inception of the lease, less a deduction for any benefits received in conjunction with signing the lease
- initial direct expenditure, and
- expenditure associated with returning the asset to the condition specified in the lease agreement.

Payments for short-term agreements and lease agreements with insignificant value are expensed on a straight-line basis in the income statement. Short-term agreements are those with a lease term of 12 months or less. Agreements of insignificant value consist of IT equipment and various office equipment.

b) Options to extend or cancel agreements

Options to extend or cancel agreements exist in several of the Group's lease agreements, primarily those for buildings. The options are used to obtain maximum flexibility in managing agreements. Most of the options to extend or cancel an agreement may only be utilized by the Group and not the lessor.

When the length of a lease agreement is established, management takes into consideration all available information that provides an economic incentive to utilize an extension option or not utilize an option to cancel an agreement. Opportunities to extend an agreement only add to the duration of an agreement if it is reasonable to assume that the agreement will be extended (or not canceled). The assessment is re-evaluated if significant events arise, or a change in circumstances, which impact the original assessment and also if

the change is within the lessor's control.

2.8 BUSINESS COMBINATIONS

The acquisition method is used for reporting the Group's business combinations, regardless of whether the acquisition consists of equity interests or other assets. The purchase price for the acquisition of a subsidiary is the fair value of

- the transferred assets
- liabilities that the Group incurs to former owners
- shares issued by the Group
- assets or liabilities that result from an agreement on contingent consideration
- previously held equity interest in the acquired company

Identifiable acquired assets, assumed liabilities and assumed contingent liabilities assumed in a business combination are measured, with very few exceptions, initially at fair value on the acquisition date. For each acquisition, i.e. acquisition by acquisition, the Group determines whether the non-controlling interest in the acquired company should be reported at fair value or at the holding's proportionate share of the carrying amount of the acquired company's identifiable net assets.

The costs associated with acquisitions are expensed as incurred.

Goodwill is the amount that the

- purchase sum,
- any non-controlling interest in the acquired company and
- the fair value as of the acquisition date of any previously held equity interest in the acquired company (if the business combination was done in stages)

exceeds the fair value of the identifiable net assets that were acquired. If the amount is lower than the fair value of the acquired net assets, e.g. acquisition at a low price, the difference is reported directly to profit or loss.

In cases where all or part of the purchase sum is deferred, future payments are discounted to their present value at the acquisition date whenever the discounting effect is significant. The discount rate is the company's marginal lending rate, which is the interest rate the entity would have paid for financing through loans during the same period and with similar terms and conditions.

Contingent consideration is classified either as equity or financial liability. Amounts classified as financial liabilities are revalued each period at fair value. Any gains and losses from revaluation are recognized in earnings.

If a business combination is carried out in several steps, the prior equity interests in the acquired company are remeasured at the fair value at the time of the acquisition. Any profit or loss that arises from revaluation is reported in the income statement.

2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and intangible assets with an indefinite useful life or intangible assets not ready for use, are not amortized. They are however, tested annually for impairment, or more often whenever there is an indication of impairment. Assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less selling expenses or its value-in-use, whichever is higher.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are essentially independent cash flows (cash generating units). At each reporting date, an assessment is made regarding possible reversal of impairment loss on assets (other than goodwill) that have previously become impaired.

Capitalized development work is tested annually for impairment before it is ready to be put into use.

2.10 ITEMS AFFECTING COMPARABILITY

Items affecting comparability are reported separately in the income statement when doing so is necessary in order to explain the Group's profit or loss. Items affecting comparability are significant revenue and expense items that are reported separately due to their nature or the amounts.

In 2019, the Group reported restructuring costs of SEK 22.0 million related to a cost reduction program that had been implemented. The Group has also reported non-taxable operating income of SEK 19.7 million associated with settlement of the contractual contingent consideration for the Beck IPC acquisition. The revenue is reported as other operating income in the income statement. There has been a positive impact on tax expense for the year from tax credits attributable to last year totaling SEK 15.6 million. Because the revenue and expenses are significant and nonrecurring, they are reported as items affecting comparability in the income statement.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are reported in both the balance sheet

and cash flow statement. They include cash in hand and deposits held in bank accounts.

Utilized overdraft facility is recognized as borrowings in current liabilities.

2.12 ACCOUNTS RECEIVABLES - TRADE

Accounts receivable are amounts to be paid by customers for goods or services provided by the company as part of its operating activities. Accounts receivable primarily fall due for payment within 30-60 days and all accounts receivable have thus been classified as current assets.

Accounts receivable are initially reported at the transaction price. However, accounts receivable that have a significant financing component are measured at fair value. The Group has accounts receivable for the purpose of collecting contractual cash flows and it thus measures them at subsequent reporting occasions at amortized cost using the effective interest method.

See Note 3.1 d) for a description of the Group's impairment policies.

2.13 INVENTORIES

Inventories are recognized at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) principle. Raw materials are measured at cost. Finished goods are measured at standard cost. The cost of finished goods and work-in-progress consists of raw materials/components, direct labor, and other direct and indirect directly attributable manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inter-company profit from sales between Group companies is eliminated.

2.14 INVESTMENTS AND OTHER FINANCIAL ASSETS

2.14.1 Classification

The Group classifies its financial assets in the following categories:

- Financial assets measured at fair value through other comprehensive income
- financial assets measured at fair value through profit or loss, and
- financial assets measured at amortized cost.

The classification of investments in debt instruments results from the

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Group's business model for managing financial assets and the contractual terms for the assets' cash flows.

The Group reclassifies debt instruments only when the Group's business model for the instrument changes.

2.14.2 Recognition and derecognition in the balance sheet

Purchases and sales of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are removed from the balance sheet when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership.

2.14.3 Valuation

Financial assets are initially measured at fair value plus (provided that the asset is not measured at fair value through profit or loss) transaction costs that are directly attributable to the purchase. Transaction costs for financial assets that are reported at fair value through profit or loss are expensed in the income statement.

a) Investments in debt instruments

The Group's investments in debt instruments that are reported among assets in the balance sheet consist of other long-term receivables, accounts receivable, other receivables and cash/cash equivalents, all of which are classified in the category: amortized cost.

Subsequent valuation of debt instruments is based on the Group's business model for management of the asset, along with the type of cash flow the asset generates. The Group classifies its investments in debt instruments in three measurement categories:

- **Amortized cost:** Assets held for the purpose of collecting contractual cash flows and where the cash flows only consist of principal and interest, are reported at amortized cost. Interest income from such financial assets is reported as financial income by applying the effective interest method. Gains and losses arising from removal from the balance sheet are recognized in earnings. Impairment losses are reported as a separate item in the income statement.
- **Fair value through other comprehensive income:** Financial assets that are held for the purpose of collecting contractual cash flows and for sale of the assets, where the assets' cash flows only consist of capital amount and interest, and not an identified asset mea-

sured at fair value, are measured at fair value through other comprehensive income. Changes in the carrying amount are reported in other comprehensive income except for impairment losses, interest income and exchange rate differences, which are reported in the income statement. When the financial asset is removed from the balance sheet, the accumulated gains or losses, which were previously reported in other comprehensive income, are reclassified from equity to the income statement. Interest income from these financial assets is reported at financial income by applying the effective interest method. Impairment losses are reported as a separate item in the income statement.

- **Fair value through profit or loss:** Assets that do not meet the requirements for being reported at amortized cost or fair value via other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt instrument that is measured at fair value through profit or loss and which is not part of a hedging arrangement is reported at the net amount in the income statement in the period that the gain or loss arises.

b) Investments in equity instruments

The Group measures all of its equity instruments at fair value. In cases where Group management has elected to report fair value changes in equity instruments via other comprehensive income, there will not be any subsequent reclassification of fair value changes to the income statement when the instrument is removed from the balance sheet. Dividends from such investments are reported in the income statement as other income when the Group's right to obtain payment has been established.

Changes in the fair value of financial assets that are reported at fair value through profit or loss are included in "other gains/losses" in the income statement. Impairment losses (and reversal of impairment losses) on equity instruments reported at fair value via other comprehensive income are not reported separately from other changes in fair value.

c) Impairment

The Group measures its future expected credit losses related to investments in debt instruments at amortized cost or fair value with changes in other comprehensive income, based on whether or not there has been a significant increase in credit risk. The Group reports a provision for such expected credit losses at each reporting date. See Note 3.1 d) for a description of the Group's impairment policies.

2.15 DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are reported in the balance sheet on the contract date. They are measured at fair value both at the first reporting date and upon subsequent revaluation at the end of each reporting period.

When determining the fair value of a hedging instrument, the quoted rate of the currency on the closing date is used.

The method of recognizing the resulting gain or loss arising on revaluation depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group identifies derivatives as:

- hedging of a specific risk linked to the cash flows from a recognized asset or liability or a highly probable forecast transaction (cash flow hedge), or
- hedge of a net investment in a foreign operation (net investment hedges).

When the transaction is entered into, the Group documents the relationship between the hedging instrument and the hedged item, as well as the Group's objectives for risk management and its risk strategy for the hedge. The Group also documents its assessment, both at the start of the hedging period and on an ongoing basis, of how the derivative instruments used in the hedging transaction have been and will continue to be effective in terms of counterbalancing changes in fair value or cash flows attributable to the hedged items.

Information about the fair value of various derivative financial instruments used for hedging is provided in Note 26. All derivative instruments are classified as either current assets or current liabilities.

2.15.1 Cash flow hedging

The Group uses currency futures contracts to manage the risks of changes in exchange rates for very probable forecast transactions, both externally and internally, in foreign currency. The holdings of derivative financial instruments consist of currency futures.

Hedges are designed with the expectation that they will be effective. The effective portion of the fair value change in a derivative instrument, which is identified as a cash flow hedge and qualifies for hedge accounting is recognized in other comprehensive income in the hedging reserve in equity. The ineffective portion of the value change is immediately recognized as other income or other expenses in the income statement.

The Group typically only identifies the change in fair value of the futures contract's spot price as a hedging instrument. Gains and

losses attributable to the effective portion of the change in the spot price are reported in other comprehensive income in the hedging reserve, which is a component of equity. The change in the forward points attributable to the hedged item is reported in other comprehensive income.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects earnings. They are reported in operating profit or loss where the income or expenses arising from the associated hedged item are recognized.

When a hedging instrument expires or is sold or when the hedge no longer fulfills the criteria for hedge accounting and accumulated gains or losses for the hedged item exist in equity, these gains/losses remain in equity and are taken up as income/expense when the forecast transactions are ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gains or losses that have been retained in equity must be immediately recognized in the income statement.

2.15.2 Hedging of net investments

The Group hedges net investments in EUR. Hedging of net investments in foreign operations are reported in a similar way as cash flow hedges.

The portion of the gain or loss on the hedging instrument relating to the effective hedge is recognized in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as other income or other expenses.

Accumulated gains and losses in equity are reclassified to the income statement when foreign operations are sold, either entirely or in part.

2.16 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are reported at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are expensed in the same period that they incurred.

Depreciation is based on original cost and the estimated useful

life of the asset as follows:

Buildings	10-50 years
Machinery and equipment	3-5 years
Equipment, installations and facilities	3-5 years

The residual value and useful life of assets are tested at the end of every reporting period and adjusted if necessary. In cases where the carrying amount exceeds the estimated recoverable amount, the asset is immediately written down to its recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and they are reported under 'other operating income' or 'other operating expenses'.

2.17 INTANGIBLE ASSETS

a) Goodwill

Goodwill is calculated in accordance with the principles explained in Note 2.8. Goodwill resulting from business combinations is included in intangible assets. Goodwill is not amortized, but is tested for impairment on an annual basis, or more often if events or changed conditions indicate possible impairment. Goodwill is recognized at cost less accumulated impairment losses. When a unit is sold, the carrying amount of goodwill is included in the resulting gain/loss.

For the purpose of impairment testing, goodwill that was acquired in a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the acquisition. Each unit or group of units to which goodwill has been allocated correspond to the lowest level in the Group at which the goodwill is monitored as part of internal governance.

Impairment losses are immediately expensed and they are never reversed.

b) Brands

Brands have been acquired via business combination and they are measured at fair value on the acquisition date. Brands with an indefinite useful life are tested each year for impairment. Brands with a finite useful life are amortized over the estimated useful life of 10 years.

c) Customer relations and technology platforms

Customer relations and technology platforms have been acquired via business combinations and they are recognized at fair value on the acquisition date. Customer relations and technology platforms have a finite useful life and are recognized at cost less accumulated

amortization and any impairment losses.

Amortization is on a straight-line basis to allocate the cost over the estimated useful life of 3-10 years.

d) Capitalized development work

HMS's technology is based on internally developed solutions (including but not limited to) for connecting industrial equipment to various networks, distributing information between operations and IT environment and to provide smart industrial data and information solutions. HMS has made several acquisitions over the last few years, which have given the company a more complete, yet also more complex offering. In order to gain economy of scale, one part of the product strategy is to develop and maintain different product platforms to be able to share a common framework across the different technological offerings.

The expenses directly attributable to activities focused on developing new, unique platforms, products, software, technology or patents, and that are also controlled by the Group, are recognized as intangible assets when the following criteria have been met:

- the development project is related to a new product, a new product generation or a technology platform package that is used as a basic technology in several products,
- it is technically possible to complete the above development project so that the development results can be used,
- the company's intention is to complete the development project and to either use it or sell it,
- it is likely that the development results can be used or sold,
- it can be shown how the development results generate probable future economic benefits,
- there is access to adequate technical, financial and other resources to complete development and to either use or sell the development results, and
- the expenditure attributable to the project during its development can be estimated in a reliable way.

Customer-specific projects are capitalized when it has been determined as likely that the development costs will be covered by future volume commitments.

Costs include the employee costs for internal work with development, external expenses and a reasonable share of the indirect costs.

Intangible assets resulting from development work are reported at cost. In cases where the carrying amount exceeds the estimated

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recoverable amount, the asset is immediately written down to its recoverable amount.

The development of new product platforms is capitalized during the development phase. Maintenance of software and expansions of existing products and product lines are treated as adjustments of the core product and are not capitalized. Projects in the development phase are not capitalized.

Development costs that were previously expensed are not capitalized as assets in later periods.

Advances attributable to external development are reported as intangible assets provided that the company has control over the asset.

Amortization of capitalized development costs begins as soon as the asset is ready for use. Amortization is calculated on the original cost and is based on the assessed useful life of the asset, which is a maximum of 7 years.

2.18 ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payables are obligations to pay for goods or services acquired by suppliers as part of operating activities. The amounts are not hedged and they are usually paid within 30 days.

Accounts payables and other liabilities are classified as current liabilities if they fall due for payment within 1 year or sooner (or over a normal business cycle if this is longer). Otherwise, they are reported as non-current liabilities.

The liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 BORROWING AND BORROWING COSTS

Borrowing is initially reported at fair value net after transaction costs. Afterwards, borrowing costs are reported at amortized cost and any difference between received amount (net after transaction costs) and the repayment amount is reported in profit or loss allocated over the loan period, applying the effective interest method.

Borrowings are removed from the balance sheet when the obligations have been settled, canceled or in some other manner extinguished. The difference between the carrying amount of a financial liability (or part of financial liability) that has been extinguished or transferred to another party and the consideration paid, including transferred assets which are not cash or liabilities assumed, is recognized in earnings.

Bank overdraft facility utilized are reported as borrowings among current liabilities in the balance sheet.

The company does not have any major development projects that would necessitate capitalization of borrowing costs. All borrowings costs are thus expensed as incurred.

2.20 PROVISIONS

Provisions for legal claims, guarantees and restoration measures are recognized when the Group has a legal or informal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. No provision is made for future operating losses.

When there are several similar obligations, an assessment is made of the likelihood that an outflow of resources will be required to settle the obligations. That assessment covers the entire group of similar obligations. A provision is made for the entire group of similar obligations even if the likelihood of an outflow of resources to settle a particular item in that group is low.

The returns and warranty provision is based on a routine developed specifically for the company.

2.21 REMUNERATION TO EMPLOYEES

Liabilities for wages and salaries, including non-monetary benefits and compensated absences that are expected to be settled within 12 months after the fiscal year-end, are recognized as current liabilities at the undiscounted amount that is expected to be paid when the liabilities are settled. The expense is recognized at the rate that employees perform the services.

Liabilities for long-term paid absence are not expected to be regulated in full within 12 months after the end of the reporting period in which the employees perform the services that are eligible for compensation. They are reported as non-current liabilities.

a) Pension commitments

The Group companies have various plans for post-employment benefits, defined benefit and defined contribution pensions. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate legal entity. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Some of the pension obligations for salaried employees in Sweden are secured through insurance with Alecta and Skandia, which are defined benefit plans covering a number of employers. For the 2019 financial year, the company has not had access to sufficient information to enable it to report these plans as defined benefit plans. The pension commitments are thus reported as a defined contribution plans.

Otherwise, for foreign entities, pension obligations are classified as defined contribution plans.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they fall due for payment.

b) Share-based remuneration

The Group's incentive program aims to facilitate recruitment and stimulate long-term commitment from employees regarding the Group's profit and business development.

During 2019, all permanent employees of the HMS Group were offered the opportunity to participate in a Share Savings Plan, where payment is made in shares and where the Group receives services from employees as consideration for the Group's own equity instruments.

Fair value for the services that entitle employees to allotment of shares are expensed in the income statement as personnel costs, with the corresponding posting to equity under retained earnings in the balance sheet. The total amount to be expensed is based on the fair value of the allocated shares, which is established on the date they are allocated. Non-market vesting conditions are included in assumptions about the number of shares expected to vest. The total expense is recognized over the vesting period, which is the period during which all the specified vesting conditions are to be fulfilled.

At the end of each reporting period, the Group revises its estimates of the number of shares expected to vest based on the non-market vesting conditions. Any deviation from the original assessments that are discovered during the reassessment, are recognized in the income statement with a corresponding adjustment to equity.

Social security contributions that arise from the allocation of shares are regarded as an integral part of the allocation and the cost is treated as a cash-settled share-based compensation, which means that social security contributions are calculated based on the

fair value of the shares at each reporting date.

2.22 SHARE CAPITAL

Ordinary shares are classified as equity.

Transaction costs directly attributable to a new issue of shares or options are recognized, net after tax, in equity as a deduction from the emission proceeds.

When any of the Group companies purchase Parent Company shares (repurchase of own shares), the purchase sum that was paid, including any directly attributable transaction costs (net after tax), reduces equity until its shares are canceled or sold. If these ordinary shares are later sold, the received amount (net after any directly attributable transaction costs and tax effects) is reported in equity.

2.23 PROVISIONS

Other provisions in equity are comprised of hedging and translation reserves. The hedging reserve is comprised of unrealized gains and losses on futures, along with hedging of net investments, which are recognized in profit or loss in the periods that the hedged transactions impact profit or loss. The translation reserve is comprised of exchange differences arising when the income statements and balance sheets of all the Group companies are translated to the Group's reporting currency.

2.24 DIVIDENDS

Dividends are recognized as revenue when the right to receive payment has been established. This applies even if the dividends are paid out of profits arising before the date of acquisition. However, it may be necessary to test the investment for impairment.

2.25 CASH FLOW STATEMENT

The consolidated cash flow statement has been prepared in accordance with the indirect method. The year's change in the cash balance is apportioned between operating, investing and financing activities. The starting point for the indirect method is profit before tax adjusted for items that did not involve actual cash receipts or payments. Cash and cash equivalents include cash and bank balances.

NOTE 3 Financial risk management

3.1 FINANCIAL RISK FACTORS

The Group's business activities are associated with a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and financing/liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial results.

Risk management is carried out by a central finance department according to policies approved by the Board of Directors. The head of the Group's financial function identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors has provided written policies for overall risk management and for specific areas such as currency risk, interest rate risk, credit risk, use of derivatives and non-derivative financial instruments and investment of excess liquidity.

When the criteria for hedge accounting have been fulfilled, hedge accounting is applied to eliminate the effect of differences between the reported amounts for the hedging instrument and the hedged item. The Group uses derivatives to hedge some of its risk exposure.

a) Derivative instruments

The Group has financial derivatives in the form of currency futures contracts that hedge purchases and sales in foreign currency. Derivatives are only used for commercial hedging purposes and not as speculative investments.

Information about the fair value of various derivative financial instruments used for hedging is provided in Note 3.3.

Hedging reserve

The Group's hedging reserve is reported in the Consolidated statement of changes in equity (page 63) and they relate to the following hedging instruments:

	Spot price of currency futures
Balance on 1 January 2018	-519
Change in the fair value of hedging instruments reported in OCI	-206
Deferred tax	44
Balance on 31 December 2018	-681
The year's change in fair value of hedging instruments reported in OCI	3,582
Deferred tax	-766
Balance on 31 December 2019	2,135

Ineffective portion of hedge accounting

Hedge effectiveness is a forward-looking evaluation that is made when the hedge agreement is entered into. The hedged item and the hedging instrument are continually evaluated to ensure that the requirements for effectiveness are met.

When the Group hedges transactions in foreign currency, the critical conditions in the hedging instrument exactly match the conditions for the hedged item. Accordingly, a quantitative evaluation of effectiveness of the hedge is thus ensured.

When hedging transaction in foreign currency, an ineffective portion can arise if the timing of the forecast transaction changes compared to what was initially estimated.

Risk	Exposure arises from	Measurement	Management
Market risk — currency risk	Future business transactions Recognized financial assets and financial assets that are not denominated in SEK	Cash flow forecasts Sensitivity analysis	Currency futures contracts
Market risk — interest rate risk	Long-term borrowings with a variable interest rate	Sensitivity analysis	Interest rate derivatives, when they are expected to lower the Group's interest expense
Credit risk	Cash and cash equivalents, accounts receivable and derivatives	Aging analysis Credit rating	Credit limits
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecast	Access to binding credit facilities and credit

NOTES

CONT. NOTE 3 Financial risk management

There were no ineffective portions in currency futures contracts in 2019 or 2018.

b) Currency risk

Exposure

The Group's risk exposure to the most important foreign currencies at the end of the reporting period, in SEK thousands, was as follows:

Exposure	31 December 2019		
	EUR	USD	JPY
Accounts receivable - trade	90,747	35,377	7,331
Bank loans	-289,840	-	-
Additional consideration	-10,434	-	-
Accounts payable - trade	-37,814	-25,482	-852
Currency futures (cash flow hedges)	164,288	36,253	54,185

Exposure	31 December 2018		
	EUR	USD	JPY
Accounts receivable - trade	95,689	42,550	12,106
Bank loans	-280,517	-	-
Additional consideration	-41,101	-	-
Accounts payable - trade	-48,516	-36,678	-1,579
Currency futures (cash flow hedges)	191,423	58,073	69,720

Instruments used by the Group

The Group operates internationally and is exposed to currency risks arising from currency exposure to, primarily, the USD, EUR and JPY. The Group's currency risks comprise the transaction risk from future commercial transactions in foreign currencies, as well as the translation risk of recognized assets and liabilities and net investments in foreign subsidiaries.

Transaction risk is lowered by the Group's use of currency futures to manage its exposure to currency risk. The Group's risk management policy means that:

- the first future quarter's exposure is hedged between 60-80%

- the second future quarter's exposure is hedged between 50-70%
- the third future quarter's exposure is hedged between 40-60%
- the fourth future quarter's exposure is hedged between 30-50%
- the fifth future quarter's exposure is hedged between 0-40%
- the sixth future quarter's exposure is hedged between 0-30%

The Group identifies the spot price of futures contracts. The spot price is based on relevant spot prices in the spot market. The differences between contracted forward rates and the rate on the spot market are defined as forward points.

The change in future points of a futures contract attributable to the hedged item are reported in reserve for hedging costs.

Translation risk arises because the Group's equity amount is affected by currency rate fluctuations on its investments in subsidiaries in foreign currency. Currency exposure that has arisen from the net assets obtained from the businesses acquired by the Group are primarily dealt with by borrowing in the currency concerned.

Hedging of net investments in foreign operations

In conjunction with the prior acquisitions of HMS Industrial Networks SA and Intesis Software SLU, a bank loan was obtained for EUR 23 million, which was increased by EUR 4.2 million in order to help finance last year's acquisition of Beck IPC GmbH.

In 2019, the Group amortized EUR 2 million of its prior acquisition loan and increased existing credit in EUR corresponding to EUR 2.4 million. This loan, which was acquired for the purpose of financing the acquisition of the German company, WEBfactory GmbH and the Dutch company, Raster Products B.V., together with the prior loans (totaling EUR 27.6 million) has been identified as an item that hedges net investments in the subsidiaries mentioned above. There was no ineffective portion to be reported from hedges of net investments in foreign operations.

Hedge accounting's impact on the Group's financial position and earnings

The effects of the hedge accounting of currency risks' impact on the Group's financial position and earnings are reported in the following tables:

Derivative instruments - currency futures	2019	2018
Carrying amount (asset)	4,042	2,357
Nominal amount	210,938	191,423
Maturity	March 2020 - April 2021	March 2019 - March 2020
Hedge ratio*	1:1	1:1
Change in value for outstanding hedging instruments since 1 January	3,806	2,357
Value change in the hedged item for determining effectiveness	-3,806	-2,357
Weighted average for forward rates during the year	SEK10.5004:1EUR, SEK8.8646:1USD, SEK0.0679:1JPY	SEK10.3463:1EUR

*Currency futures contracts are in the same currency as the highly probable forecast future transactions, which is why the hedge ratio is 1:1

Derivative instruments - currency futures	2019	2018
Carrying amount (liability)	-1,212	-3,109
Nominal amount	43,767	127,793
Maturity	March 2020 - April 2021	March 2019 - March 2020
Hedge ratio*	1:1	1:1
Change in value for outstanding hedging instruments since 1 January	-834	-3,109
Value change in the hedged item for determining effectiveness	834	3,109
Weighted average for forward rates during the year	SEK10.5004:1EUR, SEK8.8646:1USD, SEK0.0679:1JPY	SEK8.4806:1USD, SEK0.0797:1JPY

*Currency futures contracts are in the same currency as the highly probable forecast future transactions, which is why the hedge ratio is 1:1

Net investment in foreign operations	2019	2018
Carrying amount (bank loans)	286,166	300,039
Carrying amount in EUR	27,619	29,200
Hedge ratio	1:1	1:1
Change in the loan's carrying amount due to changes in the exchange rate since 1 January	-2,073	-10,424
Change in the value of the hedged item for determining effectiveness	-2,073	-10,424
Weighted average for currency rates during the year	SEK10.5884:1EUR	SEK10.3058:1EUR

Sensitivity analysis

If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, the operating profit/loss as of 31 December 2019 would have been SEK 17.7 (14.7) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the USD with all other variables held constant, the operating profit/loss as of 31 December 2019 would have been SEK 5.9 (4.5) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the JPY with all other variables held constant, the operating profit/loss as of 31 December 2019 would have been SEK 3.5 (4.2) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

c) Interest rate risk

The Group's primary interest rate risk arises from long-term borrowings with variable interest rates, which expose the Group to interest rate risk on the cash flow. The Group's financial policy states that interest expenses should be as low as possible. In order to minimize

the Group's interest expenses, interest rate derivatives may be utilized. For 2019 and 2018, it was assessed that the use of interest rate derivatives would not decrease the Group's interest expenses.

If interest rates on borrowings in EUR during 2019 had been one percentage point higher/lower with all other variables constant then the profit before tax for the financial year would have been SEK 3.0 (2.8) million higher/lower.

If the SEK had weakened/strengthened by 5% against the EUR during 2019 with all other variables held constant, profit before tax for the financial year would have been SEK 0.2 (0.2) million higher/lower due to increased/decreased interest expenses.

If interest rates on borrowings in EUR as of 31 December 2019 rise/fall by 1% in 2020, profit before tax for 2020 will be SEK 2.9 million higher/lower.

If, compared to 31 December 2019, the SEK weakens/strengthens by 5% against the EUR during the coming year, with all other variables held constant, profit before tax for 2020 will be SEK 0.2 million higher/lower due to increased/decreased interest expenses.

d) Credit risk

Credit risk arises from holdings in cash and cash equivalents, derivative instruments, deposits with banks and credit institutions and other credit exposures, including outstanding receivables. See Note 25 for more information about the Group's outstanding receivables.

Credit risk is dealt with at the Group level, except for credit risk associated with overdue accounts receivable. Each Group company is responsible for monitoring and analyzing credit risk for each customer before offering the standard terms for payment and delivery. There are clear guidelines in the Group's credit policy for when to grant credit to customers and when security is required. The Group management team has concluded that there is no significant credit risk associated with any particular customer, counterparty or geographical region.

Impairment of financial assets

The Group has two types of financial assets that lie within the application area for the model for expected credit losses:

- Accounts receivable attributable to the sale of goods sold and services provided, and
- Contract receivables attributable to development contracts

Cash and cash equivalents also lie within the application area for impairment in accordance with IFRS 9. However, it has been

assessed that the amount of possible impairment is insignificant.

The Group applies the simplified method for calculating its expected credit losses. With this method, expected credit losses during the entire duration of the receivable are used as the starting point for accounts receivable and contract assets. To measure the expected credit losses, accounts receivable and contract assets are grouped based on allocated credit risk characteristics and the number of days that payment is overdue. The Group applies future-oriented variables for expected credit losses. On each closing date, the company assesses whether the credit risk for a financial instrument has increased significantly since initial recognition. For this assessment, the company must use the change in the risk of a default during the expected duration rather than the change in expected credit losses.

The company has determined that transition to IFRS 9 will not have any significant impact, since bad debt losses have historically been very low and the future outlook is that credit risk will remain low. See Note 25 for more information about the Group's reported credit losses.

e) Financing and liquidity risk

Financing risk is the risk that maturing loans cannot be refinanced without difficulty or added expense and that this situation would make it difficult for the Group to fulfill its payment obligations. Liquidity risk is the risk of difficulties in fulfilling obligations that are associated with financial liabilities. See note 30 for an analysis of the Group's interest-bearing liabilities, classified according to the time remaining until maturity as of the closing date.

Cash flow forecasts are drawn up by the Group's operating companies and aggregated by Group finance. The Group carefully monitors rolling forecasts of its liquidity reserve (which consists of unused lines of credit and cash equivalents) to ensure that the Group has sufficient cash to meet the needs of its operating activities. At the same time, the Group must maintain a sufficient margin in its granted unused credit so that it does not breach any of its credit limits or loan terms. This is done centrally for all subsidiaries belonging to the Group in accordance with the practices and limits established for the company. Liquidity management also involves calculating the expected cash flows in major currencies and determining the amount of various liquid assets thus required, monitoring solvency in relation to internal and external supervisory requirements and drawing up plans for debt financing.

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CONT. NOTE 9 Financial risk management

Financing risk arises when, at a given point in time, it becomes difficult obtaining financing. To minimize the costs of the Group's borrowings and financing, the finance function must provide credit facilities that adequately meet the Group's need for working capital credit. HMS's goal is to always have access to approximately 8% of sales in cash, excess liquidity including unutilized credit facilities, which at year-end corresponded to approximately 15 (7) %.

According to the Group's financial policy, excess liquidity may be invested in interest-bearing securities with a maximum maturity of one year. Counterparty risk is managed through regulations in the financial policy regarding the long-term rating of issuers. The policy states that investments may be made in Swedish corporate bonds with a Standard & Poor's rating of at least BBB+, Swedish commercial papers with a rating of at least K1, Swedish mortgage institutions and the Swedish State. All borrowing is done in consultation with the Parent Company's finance function.

Analysis of maturity for financial liabilities

The table below analyzes the Group's non-derivative financial liabilities and net-settled derivatives that are financial liabilities, grouped according to the time remaining as of the balance sheet date until the contractual maturity date. The amounts reported in the analysis of maturity table are the contractual, undiscounted cash flows.

3.2 MANAGING CAPITAL RISKS

The Group's objective with regard to capital structure is to

- safeguard the Group's ability to continue operations, so that it can continue to generate returns for shareholders and value to other stakeholders, and
- maintain an optimal capital structure in order to keep the cost of capital down.

To maintain or adjust the capital structure, the Group can change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

The Group evaluates its capital structure by calculating and monitoring the net debt/equity ratio. This key figure is calculated as net liabilities divided by total equity. The net debt is calculated as the total borrowings (including current interest-bearing liabilities and non-current interest-bearing liabilities in the consolidated balance sheet) and short-term and long-term lease liabilities less cash and cash equivalents. Total capital is calculated as equity in the consolidated balance sheet plus net debt.

The net debt/equity ratios on 31 December 2019 and 31 December 2018 were as follows:

	2019	2018
Interest-bearing liabilities (Note 30)	340,594	401,426
Lease liabilities (Note 21)	112,568	-
Less cash and cash equivalents (Note 28)	-51,241	-58,951
Net debt	401,921	342,475
Total equity	1,010,363	856,907
Total capital	1,412,304	1,199,382
Net debt/equity ratio	40%	40%

Analysis of maturity

As of 31 December 2019	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Accounts payable - trade	-75,893	-	-	-	-	-75,893
Derivative instruments	-746	-466	-	-	-	-1,212
Bank loans*	-1,354	-3,689	-14,691	-328,741	-	-348,475
Lease liabilities	-7,630	-22,891	-26,760	-42,162	-13,125	-112,568
Total	-85,623	-27,046	-41,451	-370,903	-13,125	-538,148

As of 31 December 2018	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Accounts payable - trade	-104,610	-	-	-	-	-104,610
Derivative instruments	-925	-2,184	-	-	-	-3,109
Bank loans*	-1,150	-23,915	-25,099	-340,438	-	-390,603
Finance leases	-817	-2,187	-5,598	-5,573	-8,166	-22,341
Total	-107,502	-28,286	-30,698	-346,011	-8,166	-520,663

* Incl. additional consideration.

* Amortization and interest in foreign currency have been calculated based on the closing exchange rates in effect and interest rates in effect at the time.

3.3 CALCULATION OF FAIR VALUE

The financial instruments measured at fair value, based on how the classification in the fair value hierarchy was made, are shown in the table below. The various levels are defined as follows:

Level 1: The fair value of financial instruments that are traded on an active market (such as listed derivatives and equity securities) is based on listed market prices as of the closing date. The listed market price used for the Group's financial assets is the current bid rate.

Level 2: The fair value of financial assets that are not traded on an active market (e.g. OTC derivatives) is established using valuation techniques which, to the greatest extent possible, are based on market information and company-specific information is used as little as possible. All important input required for fair value valuation of an instrument is observable.

Level 3: Instances where one or more important inputs are not based on observable market information. This applies, for example, to unlisted instruments.

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2019:

	Level 1	Level 2	Level 3	Total
Long-term securities holdings	-	-	5,313	5,313
Derivative instruments used for hedging (Note 26)	-	4,042	-	4,042
Total assets	-	4,042	5,313	9,355
Derivative instruments used for hedging (Note 26)	-	-1,212	-	-1,212
Other (contingent consideration) (Note 30)	-	-	-10,434	-10,434
Total liabilities	-	-1,212	-10,434	-11,646

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2018:

	Level 1	Level 2	Level 3	Total
Long-term securities holdings	-	-	5,313	5,313
Derivative instruments used for hedging (Note 26)	-	2,357	-	2,357
Total assets	-	2,357	5,313	7,670
Derivative instruments used for hedging (Note 26)	-	-3,109	-	-3,109
Other (contingent consideration) (Note 30)	-	-	-41,102	-41,102
Total liabilities	-	-3,109	-41,102	-44,211

The fair value of derivative instruments is determined using market prices for the currency on the closing date.

NOTE 4 Important estimates and assessments for accounting purposes

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that result from these, by definition, will rarely equate to the actual result. Management also makes estimates when applying the Group's accounting policies.

Estimates and assessments are evaluated continuously and they are based on past experience and other factors, including

expectations of future events considered reasonable under the prevailing conditions.

The estimates and assumptions that involve a considerable risk of needing to make significant adjustments to the carrying amounts of assets and liabilities during the next financial year are shown below.

a) Test of impairment for goodwill and brands

Each year, in accordance with the accounting policies described in Note 2.9, the Group tests goodwill and brands with an indefinite useful life for impairment. The recoverable amount for the Group's cash-generating units (for the Group excl. Intesis and WEBfactory and for Intesis and WEBfactory separately) has been determined by calculating value-in-use. Various estimates must be made in order to make these calculations (Note 18). For the Group excl. Intesis and WEBfactory, the reported value of goodwill amounts to SEK 717.0 (712.9) million. The amount for Intesis alone is SEK 129.9 (127.9) million and the amount for WEBfactory alone is SEK 28.9 million. The total is SEK 875.8 (840.9) million. The carrying amount for brands with an indefinite useful life is SEK 92.2 (91.0) million.

Sensitivity analyses reveal that the return requirement after tax could increase from 10.1% to 21.3% (for the Group excl. Intesis and WEBfactory). From 10.1% to 25.0% for Intesis and from 12.5% to 13.2% for WEBfactory, without needing to recognize impairment losses.

b) Revenue recognition

The Group uses the percentage of completion method for reporting fixed-price agreements for sales of development services. The percentage of completion method means that the Group must assess services already performed by the closing date as a proportion of the total services to be performed.

c) Capitalized development costs

The company capitalizes costs associated with the development of identifiable and unique integrated circuits when the criteria described in Section 2.17 d) have been fulfilled and when the costs are expected to be covered and exceeded by future revenue. Four times per year, the Group determines whether its products, for which a carrying amount has been recorded, are in the process of being sold, or are expected to be sold. The Group records impairment loss on products for which the future economic benefits are expected to be less than the carrying amount. In 2019, this impairment testing

resulted in a write-down of SEK 1.2 (0) million.

d) Contingent consideration

In conjunction with the acquisition of Beck IPC GmbH in 2018, there was an agreement on contingent consideration. The additional consideration, which amounted to EUR 2.0 million, was contingent on Beck achieving certain defined financial targets during the period 2018-2020. Based on an agreement between the parties, the conditional consideration was settled in 2019. That event resulted in a gain of SEK 19.7 million that has been reported as part of other operating income.

In conjunction with the acquisition of WEBfactory GmbH, there was also an agreement on contingent consideration. The additional consideration, which amounts to EUR 1.5 million, is contingent on sales growth during 2020. Based on how the company performed during the first nine months after the acquisition, and the forecast for the next two years, management's assessment is that two-thirds of the amount of additional consideration will be paid out. Should WEBfactory perform below expectations, a lower level of additional consideration could be paid than the amount reported as a liability on 31 December 2019. In that case, the difference would be recognized in profit or loss.

e) Leasing

When the length of a lease agreement is established, management takes into consideration all available information that provides an economic incentive to utilize an extension option or not utilize an option to cancel an agreement. Opportunities to extend an agreement only add to the duration of an agreement if it is reasonable certain that the agreement will be extended (or not canceled). The leasing period is re-evaluated if an option is exercised (or not exercised) or if the Group will have to exercise the option (or not exercise it). If the assessment is reasonably certain, it will only be re-evaluated if significant events arise, or a change in circumstances, which impact the original assessment and also if the change is within the lessor's control.

f) Recognition of deferred tax assets on loss carryforwards

Included in deferred tax assets is SEK 2.3 million, which is the loss carryforward for Beck IPC GmbH. The Group has assessed that the loss carryforwards will be able to be used against future taxable profit. The assessment is based on a business plan and budget that has been decided for the subsidiary. The subsidiary is expected to

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CONT. NOTE 4 Important estimates and assessments for accounting purposes

generate future taxable profit from 2020 and onwards. The loss carryforwards can be rolled forward and they do not have any expiration date.

g) Inventory obsolescence

When assessing inventory obsolescence, an impairment loss is recorded based on an obsolescence calculation model, which is based on the most recent delivery receipt date for inventory. It is the management's assessment that the applied calculation model reflects actual obsolescence. A supplementary manual write-down for obsolescence may also be recorded for products where management has assessed that there is an additional write-down requirement.

NOTE 5 Revenue from contracts with customers

5.1 PRODUCTS

The Group manufactures and sells products to connect industrial equipment to networks and gateways to enable the interconnection of different networks, as well as products for remote monitoring. The products for industrial communication are sold under the Anybus®, Ixxat®, Ewon® och Intesis™ brands. Communication solutions for building automation are offered via the subsidiary, Intesis.

The revenue from product sales is recognized at the point in time when control over the product is transferred to the customer. This typically occurs when the product has been delivered to the customer and ownership rights have been transferred.

Product sales amount to approximately 95% of the Group's total sales.

5.2 LICENSES

Agreements with the Group's customers could also include a software license. The software is considered to be a separate performance obligation in cases where the software is not an integral part of the product and is essential to its function. Licenses that are identified as separate performance obligations are either "right to use", which means that the revenue for the licenses is recognized at a specific point in time, i.e. when the customer gains control over the software, or as "right to access" for which revenue is recognized

over time.

"Right to use" means that the customer is entitled to use an intellectual property right as designed at a certain point in time. "Right to access" means that the customer is entitled to use an intellectual property right as designed throughout the license period. To identify a license as "right to access" all of the following three criteria must be met:

- the licensor runs activities that have a significant impact on the intellectual property right,
- the right exposes the customer to the effects of these activities and
- the activities do not consist of a separate good or service.

The Group sells both "right to use" and "right to access" licenses.

5.3 CLOUD SERVICES

Certain agreements include, besides products and licenses, also cloud services. In most cases, cloud services can be separated from the products. The service is then reported as a separate performance obligation. Revenue from the delivered services is recognized over time, in the period when the services are provided. If it is not possible to separate the service from the product, the entire performance obligation will then be recognized over time at the rate that performance is fulfilled.

5.4 DEVELOPMENT SERVICES

The Group also sells development services associated with industrial network technology. Revenue from the delivered services is recognized in the period that the services were provided in cases where the Group does not have any alternative use for the work and is entitled to payment for work provided at any given time. If the Group is not entitled to payment for the work that was provided at any given time, revenue is then recognized at a specific point in time, i.e. when the customer obtains control over the service. The assessment is made for each contract, individually.

In cases where the Group is entitled to payment for work provided at any given time, revenue is recognized over time. For fixed-price contracts, revenue recognition is based on the percentage of the total agreed service that was delivered during the financial year. Revenue is recognized based on the percentage of completion as of the closing date. Percentage of completion is determined by comparing the services already rendered to the total amount of services to be performed.

Most revenue from development services is recognized over time.

Estimates that are made concerning revenue, expenses or percentage of completion for a project are revised if the conditions or circumstances change. Increases or decreases in assessed revenue or expenses that are due to a revised estimate are recognized in profit or loss in the period when the Group management team became aware of the circumstances giving rise to the revised estimate.

5.5 CATEGORIZATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The HMS Group sells products and services primarily in seven countries, as shown in the following table. These countries are not considered to be geographic segments. For information about the Group's segments, see Note 2.3. Categorization is based on the country that a product or service is delivered to.

Net sales per country	The Group		Parent Company*	
	2019	2018	2019	2018
Germany	413,401	347,397	0	-
USA	265,585	241,397	0	-
Japan	136,905	135,971	0	-
France	87,152	72,883	0	-
Italy	76,784	71,416	0	-
China	62,085	51,222	0	-
Sweden	58,947	59,999	16,224	17,314
Other countries	418,459	385,520	0	-
Total	1,518,709	1,365,804	16,224	17,314

*The Parent company's net sales amounted to SEK 16,224 (17,314) thousand, of which 100% were sales to Group companies. Purchases from Group companies amounted to SEK 0 (0) thousand.

Revenue of approximately SEK 58,361 (52,931) thousand is derived from a single external customer in USA.

The products for industrial communication and IIoT are sold under the Anybus®, Ixxat® and Ewon® brands. Communication solutions for building automation are sold under the Intesis™ brand. The breakdown of net sales by brand is shown in the table below. All HMS brands are based on common technologies and they are marketed and sold through the shared sales channels. For this reason,

complete segment accounting is not reported.

Net sales per brand	2019	2018
Anybus	873,011	791,547
Ixxat	176,319	165,941
Ewon	291,965	263,734
Intesis	117,378	98,385
Other	60,015	46,197
Total	1,518,708	1,365,804

5.6 CONTRACT ASSETS AND LIABILITIES

The Group reports the following revenue-related contract assets and liabilities:

	31 December 2019	31 December 2018
Current contract assets attributable to development services	2,873	4,373
Impairment reserve	-	-
Total contract assets	2,873	4,373
Contract liabilities – license and service agreements	8,576	6,882
Total current contract liabilities	8,576	6,882

5.6.1 Significant changes in contract liabilities

Contract assets have declined because the Group completed a large portion of its fixed-price assignments, which were ongoing last year. There has not been any loss reserve recognized for contract assets.

5.6.2 Remaining non-current development agreements

The table below shows the performance obligations that are unfilled on long-term development contracts at a fixed price.

	31 December 2019	31 December 2018
The total amount of the transaction price that was allocated to long-term development contracts that are unfilled or partially unfilled as of 31 December	7,757	15,343

Management expects that 100% of the transaction price that has been allocated to unfilled contracts as of 31 December 2019 will be recognized as revenue during the next financial year (SEK 7,757 thousand).

All other contracts for development services have an original expected duration of at most 1 year or they are invoiced based on the time spent, in accordance with what is stated in IFRS 15, disclosures have not been provided on the transaction price for these unfilled obligations.

5.7 REPORTING

In instances where an agreement contains several separate performance obligations, the transaction price is allocated to each performance obligation based on their independent sales prices. Management assesses the independent sales price at the start of the contract based on observable prices for the same type of products to be delivered and services that will be performed under similar conditions for similar customers. If observable prices are not available, management must estimate the price using a suitable method, such as the cost-plus approach, if the Group offers a discount, it is allocated to all of the performance obligations on the basis of their relative independent sales prices.

For fixed-price agreements, the customer pays the agreed price at the agreed payment due dates. If the services that the Group delivered exceed the payment, a contract asset is recognized. If the payments exceed the delivered services, a contract liability is recognized.

If the agreement is based on price per hour or price for material, revenue is recognized to the extent that the Group is entitled to invoice the customer.

Even though, as an exception, payment terms could be extended, they will never exceed 12 months. The transaction price is therefore not adjusted for effects of significant financing components.

The Group's obligation to issue a refund for defective products in accordance with normal warranty rules is reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group does not have any agreements where extended warranties have been offered to customers.

NOTE 6 Other operating income and expenses

Other operating income	2019	2018
Gain on settlement of contingent consideration*	19,721	-
Exchange rate differences	73	6,352
Total	19,794	6,352
Other operating expenses	2019	2018
Realized forward exchange agreements	-13,739	-4,852
Exchange rate differences	-6,567	0
Total	-20,306	-4,852

* Pertains to Beck IPC GmbH

NOTE 7 Categorization by type of cost

	2019	2018
Cost of purchasing and handling materials	460,558	425,517
Costs for remuneration to employees (Note 9)	547,715	453,848
Depreciation, amortization and impairment (Note 18, 19)	59,118	50,673
Marketing costs	30,379	27,675
Freight costs	9,016	8,018
Restructuring costs*	22,000	-
Other external costs	187,794	166,745
Capitalized development costs (Note 18)	-41,608	-16,523
Total costs for goods sold, sales administration, research and development	1,275,072	1,115,953

* The restructuring costs for 2019 are allocated as follows: Cost of goods sold SEK 5,555 thousand, Selling and marketing expenses SEK 9,354 thousand, Administrative costs SEK 3,494 thousand and Research and development costs SEK 3,137 thousand.

NOTE 8 Remuneration to auditors

Remuneration to auditors	The Group		Parent Company	
	2019	2018	2019	2018
PwC				
Audit assignment*	1,796	2,058	618	1,166
of which PwC Sweden	1,143	1,455	618	1,166
Audit activities other than the audit assignment	-	163	-	-
of which PwC Sweden	-	-	-	-
Tax advice	391	880	23	21
of which PwC Sweden	23	434	23	21
Other services	119	98	52	-
of which PwC Sweden	90	-	52	-
Total	2,305	3,199	683	1,187

* The audit assignment is the fee for conducting the statutory audit, i.e. work necessary for providing an audit report, and any audit advice provided in connection with the audit engagement.

NOTE 9 Remuneration to employees

	The Group		Parent Company	
	2019	2018	2019	2018
Salaries and other remuneration *	423,548	350,875	5,502	4,956
Social security contributions	99,237	84,368	1,914	1,740
Pension costs	24,930	18,605	763	755
Total	547,715	453,848	8,179	7,452

* Salaries in the parent company pertain to the CEO and Board of Directors.

	2019			2018		
	Salaries and other remuneration	Social security expenses (of which pension expenses)		Salaries and other remuneration	Social security expenses (of which pension expenses)	
Board members and CEO	19,259	3,638	(972)	17,977	3,170	(941)
Other employees	404,289	120,529	(23,958)	332,898	99,803	(17,664)
The Group, total	423,548	124,167	(24,930)	350,875	102,973	(18,605)

	2019		2018	
	Average no. employees	Of which men	Average no. employees	Of which men
Sweden	228	169	201	145
Germany	151	117	135	102
Belgium	60	47	56	45
Spain	60	44	51	37
USA	45	35	42	31
Japan	19	14	18	15
China	12	9	10	9
Holland	8	6	-	-
Romania	8	6	-	-
India	6	6	6	6
Great Britain	6	5	5	4
France	5	5	3	3
Italy	5	4	6	5
Singapore	2	2	-	-
Switzerland	1	1	1	1
Czech Republic	1	1	1	1
Denmark	-	-	1	-
The Group, total	617	471	536	404

Share-based remuneration

To promote long-term ownership commitment among employees, it is the Board's intention to present a proposal for a Share Savings Plan each year to the AGM. Ever since the 2012, the AGMs have decided to implement a Share Savings Plan that would be open to all permanent employees of the HMS Group.

In brief, each Share Savings Plan works as follows: employees who choose to participate in the plan must make an initial investment in HMS shares during the investment period (1 January – 31 December of year 1). The shares must then be held during the qualification period (years 2-4). Then, during spring of year 5, they are distributed, free-of-charge, a maximum of two additional shares for each invested share. During the period 2013-2018, the Share Savings plan has consisted of both matching shares, which were issued in equal numbers as the amount of shares saved and performance shares, based on achievement of financial targets. As of 2019, the plan consists only of performance shares. However, no changes have been made to the possible outcome of distributing a maximum of two additional shares for each invested share. Employees who participate in the plan must set aside at least 1% of their annual gross salary and at most 3%, except for a few key employees, who may set aside up to 6% of their gross salary for the purpose of saving shares during the investment period.

In order for the participants in the remaining prior plans from 2017 and 2018 to be eligible to receive matching shares, they must be an employee of the Group during the entire span of the plan and they must hold the saved HMS shares during the entire qualification period.

For all of the plans, a requirement on receiving performance shares is, besides the requirements on employment and holding, that HMS achieves certain financial targets on profit per share during the qualification period. The financial targets are based on average annual growth for the Group's profit per share, calculated in accordance with CAGR (Compound Annual Growth Rate) during the qualification period. Performance shares are awarded on a straight-line basis in the interval between 0-20% and maximum allocation occurs if there is a higher profit per share during the qualification period than 20% CAGR. Maximum outcome would thus be issuance of one performance share for the 2017 and 2018 plans (and one matching share) and two performance shares for the 2019 plan. A prerequisite for allocation of performance shares is that average growth for the year must be positive.

In order to ensure allocation of shares in accordance with the Share Savings Plans, the AGM decided to acquire own shares for all plans.

The Group's costs for the Share Savings Plan are reported in accordance with IFRS 2 Share-based payment (see also the description under accounting policies).

CONT. NOTE 9 Remuneration to employees

Gender distribution of the Group (incl. subsidiaries) for Board members and President/CEOs	2019		2018	
	No. on closing date	Of which men	No. on	Of which men
Board members and CEO	13	11	12	10
The Group, total	13	11	12	10

Program number	Investment year (AGM decision)	Share of participating employees	Number saved of shares	Total number allocated (of which performance shares)	Fair value
1	2013 (2012)	60%	(concluded)	112,468 (22,636)	27.58
2	2014 (2013)	51%	(concluded)	138,907 (68,853)	34.25
3	2015 (2014)	47%	(concluded)	89,826 (44,913)	38.00
4	2016 (2015)	54%	(concluded)	88,083 (44,002)	61.25
5	2017 (2016)	43%	34,975	-	75.63
6	2018 (2017)	52%	33,163	-	125.00
7	2019 (2018)	46%	31,957	-	125.80
8	2020 (2019)	41%	(not yet started)	-	178.00

Shares held in treasury related to share-based compensation			
Year	Repurchase	Allocation	Balance
2013	124,000	-	124,000
2017	350,200	-112,468	361,732
2018	70,000	-138,907	292,825
2019	-	-89,826	202,999
2020*	40,000	-88,083	154,916

* Calculated on the total number of outstanding shares as of 2020-03-19.

NOTE 10 Remuneration to the Board of Directors and senior executives, etc

Remuneration to the Board and senior executives

Remuneration to the Chairman and Board members is in accordance with the general meeting of shareholders' decision. Board fees do not pertain to employee representatives.

Remuneration to the CEO and other senior executives is comprised of basic salary, variable remuneration, other benefits and pension. In the context of this note, other senior executives are the five members of the Group management team that also includes the CEO. During 2018 and the first four months of 2019, there were 4 other senior executives.

The distribution between basic salary and variable remuneration shall be proportionate to the executive's responsibilities and authority. For the CEO and other senior executives, variable remuneration may not exceed 50% of basic salary. Variable remuneration is based on performance in relation to targets. Pension benefits and other benefits for the CEO and other senior executives are a part of the total remuneration package.

Variable remuneration for the financial year consists of expensed bonus, which is paid out in the coming year.

For details of how the bonus is calculated, see below.

At the AGM on 25 April 2019 Charlotte Brogren was re-elected as Chairman of the Board. The following individuals were also re-elected at the AGM to serve on the Board of Directors: Ray Mauritsson, Fredrik Hansson, Anders Mörrck, Cecilia Wachtmeister and Ulf Södergren. Since the AGM of 25 April 2019, the Board has held 10 minutes meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 23 April 2020.

Variable remuneration

Variable remuneration for the CEO and other senior executives is based primarily on growth along with profitability goals set by the Board. In addition to that, other personal goals may be established. For 2019, variable remuneration for the CEO corresponded to 23 (36) % of basic salary and for other senior executives it was 14 (26) %.

Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pension plans. See section 2.21 and Note 11. Pension costs are costs that affect profit (loss) for the year.

Pensions

The retirement age for the CEO and other senior executives is 65 years.

Severance pay

The notification period for termination of employment of the CEO is 6 months for both sides. If the company initiates dismissal, severance pay amounting to 12 months' salary in addition to regular salary will be paid. In the case of notice of termination from the CEO's side, no severance payment is made.

The notification period for termination of employment of the other senior executives is 6 months for both sides.

Decisions on remuneration

During the year, the remuneration committee submitted a proposal to the Board on principles for remuneration to senior executives. The proposal specifies proportions between fixed and variable remuneration and the size of possible salary increases. Furthermore, the remuneration committee has proposed criteria for assessing the outcome of variable remuneration, allocation and size in the form of financial instruments, etc., as well as pension conditions and severance pay. The committee also assessed the feasibility of giving remuneration to other Board members who provide consulting services to the Group.

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2019 financial year was decided by the Board based on the recommendations of the remuneration committee. Remuneration for other senior executives was decided by the CEO after consultation with the remuneration committee.

The remuneration committee consists of the Chairman of the Board and one other appointed Board member who is appointed by the Board.

Remuneration and other benefits 2019	Basic salary*/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2019	Board attendance
Chairman of the Board, Charlotte Brogren	500	-	-	-	500	100%
Board member, Ray Mauritsson	225	-	-	-	225	100%
Board member, Cecilia Wachtmeister	225	-	-	-	225	100%
Board member, Fredrik Hansson	275	-	-	-	275	100%
Board member, Anders Morck	325	-	-	-	325	100%
Board member, Ulf Sodergren	225	-	-	-	225	90%
Total, Board	1,775	-	-	-	1,775	
CEO Staffan Dahlstrom	3,067	660	763	164	4,654	
Other senior executives** (5)	8,388	1,201	2,500	148	12,237	
Total	13,230	1,861	3,263	312	18,667	

Remuneration and other benefits 2018	Basic salary*/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2018	Board attendance
Chairman of the Board, Charlotte Brogren	450	-	-	-	450	100%
Board member, Ray Mauntsson	200	-	-	-	200	100%
Board member, Cecilia Wachtmeister	200	-	-	-	200	90%
Board member, Fredrik Hansson	250	-	-	-	250	90%
Board member, Anders Morck	250	-	-	-	250	90%
Board member, Ulf Sodergren	200	-	-	-	200	80%
Total, Board	1,550	-	-	-	1,550	
CEO Staffan Dahlstrom	2,598	908	755	188	4,449	
Other senior executives** (4)	5,742	1,486	885	157	8,270	
Total	9,890	2,394	1,640	345	14,269	

* Including other remuneration

** Pertains to others in the Group management team

NOTE 11 Pension obligations

Pension benefits

Most employees in the Group have a premium-based pension solution and in Sweden, it follows the ITP 1 plan. Other employees in Sweden have the ITP 2 plan, which is a defined benefit pension plan. The premium is individually calculated and based on such things as salary, previously earned pension and expected remaining period of service. For the 2019 financial year, the company did not have access to information in order to report its proportionate share of the ITP plan's obligations, plan assets and costs, which meant that it was not possible to report this as a defined benefit plan. This defined benefit pension plan is therefore reported as a defined contribution plan. The Group has a defined benefit pension obligation in Belgium that amounts to SEK 5,321 (2,466) thousand, see Note 30. The year's fees for pension insurance amounted to SEK 24,930 (18,605) thousand.

NOTE 12 Financial income

	2019	2018
Interest income	101	51
Total	101	51

NOTE 13 Financial expenses

	2019	2018
Interest expenses and other banking costs	-7,599	-5,817
Exchange rate differences	-7,511	-13,770
Total	-15,110	-19,587

NOTE 14 Income tax

	The Group		Parent Company	
	2019	2018	2019	2018
Current tax	-27,255	-69,797	-588	-593
Deferred tax (Note 17)	4,097	9,220	-	-
Total tax	-23,158	-60,577	-588	-593

The following shows how income tax on the Group's profit before tax differs from the theoretical amounts that would have arisen if the weighted average tax rate had been applied to the profit of consolidated companies:

	The Group		Parent Company	
	2019	2018	2019	2018
Profit before tax	228,115	231,815	181,378	164,410
Tax calculated using the Swedish tax rate (21.4%)	-48,817	-50,999	-38,815	-36,170
Tax effect of items which are non-deductible/non-taxable	30,548	12,478	38,227	36,135
Adjustment relating to prior years	6,410	-4,800	-	-558
Difference in foreign tax rates	-9,007	-16,850	-	-
Revaluation of deferred tax - change in the foreign tax rate	700	-300	-	-
Loss carry-forwards used this year	-2,282	-	-	-
Tax effect of loss carry-forward	-710	-105	-	-
Tax expense	-23,158	-60,577	-588	-593
Weighted average tax rate	10.2%	26.1%		

Income tax relating to components of other comprehensive income for the Group amounted to, for cash flow hedges SEK 766 (-44) thousand and for hedging of net investments to SEK -444 (-2,231) thousand.

The low tax rate is primarily attributable to one of the Belgian subsidiary's products having received a significant tax exemption, which has had a positive impact on tax by SEK 18,830 thousand (of which SEK 10,307 thousand is related to 2018 and SEK 8,523 thousand to 2019). There was also a positive impact on tax of approximately SEK 9,522 thousand associated with conditional consideration transactions.

NOTE 15 Earnings per share

Earnings per share is calculated by dividing the amount of profit reported in the income statement that is attributable to the parent company's shareholders by the weighted average number of outstanding ordinary shares during the period.

Earnings per share, basic and diluted	2019	2018
Profit attributable to parent company shareholders	206,260	171,238
Weighted average number of outstanding ordinary shares (thousands)	46,598	46,540
Earnings per share, basic (SEK per share)	4.43	3.68
Earnings per share, diluted (SEK per share)	4.40	3.65

Average number of shares, basic and diluted (thousands)	2019	2018
Average number of shares used to calculate earnings per share, basic	46,598	46,540
Adjustment for calculation of earnings per share, diluted:		
Shares in Share Savings Plans	246	319
Average number of shares, diluted	46,844	46,859

NOTE 18 Dividend per share

In 2019, the dividend paid was SEK 83,909 thousand (SEK 1.80 per share). In 2018, the dividend paid was SEK 69,894 thousand (SEK 1.50 per share).

At the AGM on 23 April 2020 a proposal will be made to distribute SEK 88,862 thousand* as dividends for the 2019 financial year, which corresponds to SEK 1.90 per share. The proposed dividend has not been reported as a liability in these financial statements.

* The dividend is calculated on the total number of outstanding shares as of 2020-03-19

NOTE 17 Deferred tax

Deferred tax assets	Loss carry forwards	Pensions	Currency hedging	Other	Total
As of 1 January 2018	-	612	1,741	1,274	3,628
Reported in income statement	-	91	-49	2,176	2,218
Reported in other comprehensive income	-	-	2,275	-	2,275
Exchange rate differences	-	26	-2	129	154
As of 31 December 2018	-	729	3,964	3,580	8,274
Adjustment transition to IFRS 16	-	-	-	112	112
As of 1 January 2019	-	729	3,964	3,692	8,386
Reclassification from deferred tax liabilities	-	-	-	3,673	3,673
Reported in income statement	-3,055	598	-	1,107	-1,350
Reported in other comprehensive income	-	-	-323	-	-323
Added via acquisition	5,226	-	-	-	5,226
Exchange rate differences	98	2	-	84	184
As of 31 December 2019	2,269	1,330	3,642	8,556	15,797

Deferred tax liabilities	Tax allocation reserve	Property, plant and equipment and intangible assets	Other	Total
As of 1 January 2018	18,645	66,074	1,228	85,948
Reported in income statement	-75	-4,470	-2,457	-7,002
Reported in other comprehensive income	-509	169	-	-340
Exchange rate differences	-	1,835	474	2,309
As of 31 December 2018	18,062	63,608	-755	80,914
Reclassification to deferred tax assets	-	-	3,673	3,673
Reported in income statement	118	-4,130	-1,435	-5,447
Added via acquisition	-	8,031	-	8,031
Exchange rate differences	-	532	972	1,504
As of 31 December 2019	18,179	68,041	2,455	88,675

NOTE 1B Intangible assets

	Patents	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Total
As of 1 January 2018						
Accumulated cost	448	225,204	722,258	97,674	88,496	1,134,079
Accumulated amortization and impairment/ exchange rate effects	-448	-124,672	37,202	-34,783	9,154	-113,547
Carrying amount	-	100,532	759,460	62,890	97,650	1,020,532
Financial year 2018						
Opening carrying amount	-	100,532	759,460	62,890	97,680	1,020,532
Investments	-	16,523	-	-	-	16,523
Net investments from company acquisitions	-	7,117	-	-	-	7,117
Acquisition of subsidiaries	-	-	59,071	-	-	59,071
Exchange rate differences	-	39	22,324	2,638	4,217	29,217
Depreciation/amortization	-	-24,151	-	-11,637	-1,343	-37,131
Closing carrying amount	-	100,060	840,855	53,891	100,524	1,095,330
As of 31 December 2018						
Accumulated cost	448	248,844	781,329	97,674	88,496	1,216,790
Accumulated amortization and impairment/ exchange rate effects	-448	-148,784	59,526	-43,783	12,028	-121,461
Carrying amount	-	100,060	840,855	53,891	100,524	1,095,330
Financial year 2019						
Opening carrying amount	-	100,060	840,855	53,891	100,524	1,095,330
Investments	-202	41,608	-	-	-	41,406
Net investments from company acquisitions	-	11,190	-	-	-	11,190
Acquisition of subsidiaries	-	-	36,901	19,939	-	56,840
Reclassification of final acquisition analysis	-	-	-10,847	7,866	-	-2,981
Exchange rate differences	-	-70	8,939	301	1,569	10,739
Impairment	-	-1,174	-	-	-	-1,174
Depreciation/amortization	202	-27,792	-	-16,519	-1,387	-45,496
Closing carrying amount	-	123,822	875,848	65,478	100,706	1,165,854
As of 31 December 2019						
Accumulated cost	246	301,642	807,383	124,701	88,496	1,322,467
Accumulated amortization and impairment/ exchange rate effects	-246	-177,820	68,465	-59,223	12,210	-156,614
Carrying amount	-	123,822	875,848	65,478	100,706	1,165,854

The income statement includes depreciation, amortization and impairment losses of SEK 40,324 (34,368) thousand for Cost of goods sold, SEK 5,622 (2,764) thousand for Selling expenses.

Through the acquisition of HMS Industrial Networks AB in 2004, the Group acquired expertise that has provided synergy effects in the form of management and financing opportunities. This has resulted in enhanced growth prospects, which is reflected in goodwill for an amount of SEK 236,070 thousand.

In 2013, the German company, Ixat (HMS Technology Center Ravensburg) was acquired, which resulted in consolidated goodwill in the form of customer relations, technology platforms and brands. The new business also brought synergies to the Group in the form of complementary technology and a broader market, with a goodwill value of SEK 149,219 thousand.

In 2016, the Belgian company, Ewon (HMS Industrial Networks SA) was acquired, which resulted in consolidated goodwill in the form of customer relations and brands. Acquisition of the new company gave rise to goodwill attributable to the employees, market position and expected synergies with existing operations amounting to SEK 219,641 thousand.

In 2016, the Spanish company, Intesis Software SLU was acquired, which resulted in consolidated goodwill in the form of customer relations and brands. Acquisition of the new company gave rise to goodwill attributable to employee know-how and Intesis' market position in the building automation segment amounting to SEK 117,328 thousand.

In 2018, the German company, Beck IPC GmbH was acquired, which resulted in consolidated goodwill in the form of customer relations and technology platforms. Acquisition of the new company gave rise to goodwill attributable to expected synergies with existing operations amounting to SEK 47,136 thousand. In 2019, goodwill was allocated in accordance with the final acquisition analysis. See Note 33.

In 2019, the German company, WEBfactory GmbH and the Dutch company, Raster Products B.V. were acquired. The acquisition of WEBfactory generated a surplus in the form of complementary technology and customer relations, along with goodwill of SEK 29,013 thousand associated with the company's market position in IIoT and the expected synergies with existing operations. The acquisition of Raster generated goodwill attributable to the company's geographic market position of SEK 7,888 thousand.

Capitalized development costs are tested regularly for impair-

ment. In 2019, impairment testing resulted in a write-down of SEK 1,174 (0) thousand.

a) Test of impairment for goodwill and brands

The Group's goodwill has been evaluated in accordance with IAS 36. The Group's goodwill is attributable to the following three cash-generating units:

	2019	2018
Intesis	129,911	127,940
WEBfactory	28,934	-
Rest of The Group	717,003	712,915
Total consolidated goodwill	875,848	840,855

The recoverable amount for the cash generating units has been based on their value-in-use. This has included estimates for growth, profit margin, tied-up capital, investment requirement and risk premium. The principles behind these assumptions were unchanged compared with the previous year.

Financial forecasts are based on the company's budget for the coming year and its five-year financial plan. The company's market assessment for each period is also considered. Estimates of future cash flows are based on the Group's existing structure. Acquisitions are not included.

The company's assumptions about future growth are based on prior experience, external sources of information and its long-term business plan. For this assumption, expected market growth and price development were also considered. Assumptions about future margins are consistent with the company's financial plan and its historic performance, except for Intesis, where the future margins have been adjusted downwards to reflect the expected costs for the future expansion of the business. Investments during the period are based on the company's internal investment plan and are expected to equal the replacement need.

These estimates form the basis for calculating value-in-use and the cash flow forecast for a period covering the fixed budget and the company's five-year financial plan. Cash flow was then extrapolated using an assumed annual growth rate of 2.0 (2.0) %, which is lower than the actual annual growth rate. The need for working capital

(excluding cash) is, over the long term, estimated at 8 (9) % for the Group excluding Intesis and WEBfactory and 15 (15) % for Intesis and 10% for WEBfactory, separate to the company's net sales. The weighted average cost of capital (WACC) after tax is 10.1 (9.5) % for the Group excl. Intesis and WEBfactory and 10.1 (9.5) % for Intesis and 12.5% for WEBfactory separately.

All product groups are based on common technologies and they are marketed and sold through the shared sales channels. For this reason, complete segment accounting is not reported.

The calculated recoverable amount for the Group and Intesis exceeds the carrying amount with a good margin. The management team has concluded that no reasonably significant adjustments are required to the assumptions that were made when testing for impairment of its cash generating units such that the recoverable amount would fall below the carrying amount. For WEBfactory, a future growth rate on a par with the outcome for 2019 would mean that goodwill would need to be written down by SEK 28,934 thousand.

Furthermore, a write-down would be realized by approx. SEK 7,800 thousand if applied WACC changes from 12.5% to 14.5%.

NOTE 19 Property, plant and equipment

	Buildings & Land	Plant & machinery	Equipment, installations and facilities	Construction-in-progress	Total
As of 1 January 2018					
Accumulated cost	3,437	68,619	44,366	91	116,513
Accumulated depreciation/amortization	-71	-35,332	-31,790	-	-67,193
Carrying amount	3,366	33,287	12,576	91	49,320
Financial year 2018					
Opening carrying amount	3,366	33,287	12,576	91	49,320
Investments	-	9,169	3,995	273	13,434
Increase via company acquisitions	15	-	1,181	-	1,196
Reclassifications	-	134	6	-140	-
Sales and disposals	-	-	-	-	-
Exchange rate differences	144	949	277	4	1,374
Depreciation/amortization	-25	-8,398	-5,119	-	-13,542
Closing carrying amount	3,500	35,141	12,913	228	51,782
As of 31 December 2018					
Accumulated cost	3,452	77,922	49,545	224	131,143
Accumulated depreciation/amortization, exchange rate effects	48	-42,781	-36,632	4	-79,361
Carrying amount	3,500	35,141	12,913	228	51,782
Financial year 2019					
Opening carrying amount	3,500	35,141	12,913	228	51,782
Adjustment due to changed accounting policy	-	-19,448	-	-	-19,448
Investments	1,529	7,262	15,919	-	24,710
Increase via company acquisitions	-	-	668	-	668
Reclassifications	-13	32	13	-32	-
Sales and disposals	-	-	-355	-	-355
Exchange rate differences	32	14	30	3	79
Depreciation/amortization	-25	-5,578	-6,845	-	-12,448
Closing carrying amount	5,023	17,423	22,343	199	44,988
As of 31 December 2019					
Accumulated cost	4,968	65,768	65,790	192	136,718
Accumulated depreciation/amortization, exchange rate effects	55	-48,345	-43,447	7	-91,730
Carrying amount	5,023	17,423	22,343	199	44,988

Depreciation costs of SEK 6,667 (5,403) thousand are included in cost of goods sold, SEK 1,927 (2,713) thousand in selling expenses, SEK 1,927 (2,713) thousand in administration costs and SEK 1,927 (2,713) thousand in research and development costs

As of 31 December 2018, machinery and equipment, that the Group held through finance lease agreements, were as follows:

Leased assets	2019	2018
Opening carrying amount	-	22,484
Investments for the year	-	-
Depreciation/amortization for the year	-	-3,904
Translation differences	-	868
Closing carrying amount	-	19,448

As of 2019, non-current assets under lease are reported as a separate item in the balance sheet. See Note 21. See Note 2.1.1 a) for more information on changed accounting policies.

NOTE 20 Finance leases

As of 31 December 2018, machinery and equipment, that the Group held through finance lease agreements, were as follows:

Plant and machinery	2019	2018
Cost - capitalized finance leases	-	44,661
Accumulated depreciation/amortization	-	-25,213
Carrying amount	-	19,448

As of 31 December 2018, the Group leased certain items of property, plant and equipment through finance leases. Financial lease liabilities were included in interest-bearing liabilities through 31 December 2018. However, they were reclassified to lease liabilities on 1 January 2019 in conjunction with implementation of the new leasing standard. See Note 2.1.1 a) for more information on the changed accounting policy for leasing.

The present value of future payment obligations related to financial lease agreements is as follows:

	2019	2018
Within 1 year	-	3,004
Between 1 and 5 years	-	11,171
More than 5 years	-	8,166
Total future leasing payments	-	22,341

Obligations pertaining to operating leases

The Group leases a number of office, production and warehouse facilities. It also leases a variety of office machines. The leasing period typically varies between 3 and 5 years and most lease agreements can be extended at the end of the leasing period for a fee that corresponds to a market-based fee.

As of 1 January 2019, the Group has recognized right-of-use assets associated with these agreements, except for short-term leases and lease where the underlying asset has a low value. See Note 2.1.1 a) and Note 21 for more information.

	2019	2018
Total minimum fees for the financial year	-	36,078
Total minimum fees	-	36,078
Future contractual leasing payments	2019	2018
Within 1 year	-	37,048
Between 1 and 5 years	-	88,828
Total future leasing payments	-	125,876

NOTE 21 Leases

The following amounts associated with leases are reported in the balance sheet:

Right-of-use assets	2019	1 January 2019
Property	99,259	108,778
Equipment	671	1,597
Vehicles	11,500	10,662
Total	111,430	121,036
Lease liabilities	2019	1 January 2019
Current	30,521	29,978
Non-current	82,047	93,559
Total	112,568	123,537

Last year, only leasing assets and leasing liabilities associated with finance leases were reported in accordance with IAS 17 Leases. The assets were reported as a component of property, plant and equipment. The liabilities were reported as a component of the Group's borrowings. See Note 2.1.1 a) for adjustments reported as part of the transition to IFRS 16 on 1 January 2019.

The following amounts associated with leases are reported in the income statement:

Depreciation of right-of-use assets	2019	2018
Property	-23,839	-
Equipment	-234	-
Vehicles	-5,424	-
Total	-29,497	-

Additional right-of-use assets in 2019 amounted to SEK 24,378 thousand. Interest expenses attributable to leasing agreements amounted to SEK - 2,335 thousand. Expenses attributable to short-term leases for which the underlying asset is of low value amounted to SEK -1,329 thousand. The total cash flow associated with leases in 2019 was SEK -32,153 thousand.

NOTE 22 Fixed assets, by country

Total fixed assets, by country	2019	2018
Germany	230,915 38%	133,441 31%
Spain	159,929 26%	144,298 33%
Sweden	155,196 26%	115,411 27%
Belgium	48,866 8%	39,991 9%
Other countries	10,563 2%	1,056 <1%
Total	605,269	434,197

Fixed assets distributed by country comprise intangible and tangible fixed assets with the exception of goodwill attributable to the Group (excluding Intesis and WEBfactory), see Note 18.

NOTE 23 financial assets and financial liabilities

Financial assets	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
2019				
Non-current assets				
Deposits	4,020	-	-	4,020
Long-term securities holdings	-	5,313	-	5,313
Total non-current assets	4020	5,313	-	9,333
Current assets				
Accounts receivable - trade	142,854	-	-	142,854
Contract assets	2,873	-	-	2,873
Derivative instruments (used for hedging)	-	-	4,042	4,042
Cash and cash equivalents	51,241	-	-	51,241
Total current assets	196,968	-	4,042	201,010
Total financial assets	200,988	5,313	4,042	210,343
2018				
Non-current assets				
Deposits	2,110	-	-	2,110
Long-term securities holdings	-	5,313	-	5,313
Total non-current assets	2,110	5,313	-	7,423
Current assets				
Accounts receivable - trade	160,574	-	-	160,574
Contract assets	4,373	-	-	4,373
Derivative instruments (used for hedging)	-	-	2,357	2,357
Cash and cash equivalents	58,951	-	-	58,951
Total current assets	223,898	-	2,357	226,255
Total financial assets	226,008	5,313	2,357	233,678

Financial liabilities	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
2019				
Non-current liabilities				
Bank loans	323,644	-	-	323,644
Lease liabilities	82,047	-	-	82,047
Additional consideration	-	10,434	-	10,434
Total non-current liabilities	405,691	10,434	-	416,125
Current liabilities				
Bank loans	1,195	-	-	1,195
Lease liabilities	30,521	-	-	30,521
Accounts payable - trade	75,893	-	-	75,893
Derivative instruments (used for hedging)	-	-	1,212	1,212
Total current liabilities	107,609	-	1,212	108,821
Total financial liabilities	513,300	10,434	1,212	524,946
2018				
Non-current liabilities				
Bank loans	335,243	-	-	335,243
Lease liabilities	19,337	-	-	19,337
Additional consideration	-	20,551	-	20,551
Total non-current liabilities	354,580	20,551	-	375,131
Current liabilities				
Bank loans	274	-	-	274
Lease liabilities	3,004	-	-	3,004
Additional consideration	-	20,551	-	20,551
Accounts payable - trade	104,610	-	-	104,610
Derivative instruments (used for hedging)	-	-	3,109	3,109
Total current liabilities	107,888	20,551	3,109	131,548
Total financial liabilities	462,468	41,102	3,109	506,679

NOTE 24 Inventories

The Group	2019	2018
Raw materials and consumables	102,044	103,301
Work-in-progress	3,799	4,888
Finished goods	52,956	49,276
Total	158,799	157,465

Costs for impairment of inventories (obsolescence) that affected the year's profit are included in cost of goods sold and negatively impacted earnings by SEK 1,511 (13,449) thousand. The Group does not have sufficient financial information to calculate the proportion of material in cost of goods sold.

NOTE 25 Accounts receivable and contract assets

	2019	2018
Accounts receivable - trade	144,408	161,627
Provision for doubtful debts	-1,554	-1,053
Accounts receivable - net	142,854	160,574

Accounts receivable are amounts attributable to customers for goods sold or services provided as part of operating activities. Accounts receivable primarily fall due for payment within 30-60 days and all accounts receivable have thus been classified as current assets. Accounts receivable are initially reported at the transaction price. The Groups accounting policies for impairment and calculating the provision for doubtful debts is explained in Note 3.1 d).

The fair value of accounts receivables and contract assets is as follows:	2019	2018
Accounts receivable - trade	142,854	160,574
Contract receivables, see Note 5	2,873	4,373
Total	145,727	164,947

During the year, the Group reported a loss concerning the impairment of accounts receivable amounting to SEK -583 (782) thousand. As of 31 December 2019, the provision for doubtful debts amounted to SEK 1,554 (1,053) thousand.

As of 31 December 2019, accounts receivable amounting to SEK 32,868 (28,325) thousand had fallen due. An aging analysis is provided below:

	2019	2018
1 to 15 days	20,914	18,131
15 days to 3 months	10,050	9,186
3 to 6 months	854	107
More than 6 months	1,039	902
Total	32,868	28,325

In the amount for accounts receivable overdue by more than 6 months, a provision to doubtful debts has been made for SEK 1,039 (902) thousand.

No provision to doubtful debts has been made for the remaining overdue accounts receivables since they are expected to be paid in full.

Provisions for each reversal of the reserves for doubtful debts are included under Selling expenses in the income statement. Amounts reported in the provision are typically written off when the Group no longer expects to receive any additional payments.

Other categories of accounts receivable and other receivables do not include assets for which there is a write-down requirement.

Carrying amounts (by currency) for the Group's accounts receivable are as follows:

	2019	2018
EUR	90,747	95,689
USD	35,377	42,550
JPY	7,331	12,106
SEK	4,540	4,997
CNY	4,323	3,712
GBP	1,805	2,097
DKK	287	476
Total	144,468	161,627

NOTE 26 Derivatives

	2019	2018
Currency futures contracts – asset	4,042	2,357
Currency futures contracts – liability	-1,212	-3,109

Derivatives held for trading are classified as either current assets or current liabilities. The entire fair value of a derivative instrument that constitutes a hedge instrument is classified as a non-current asset or non-current liability if the hedged item's remaining term is longer than 12 months, and as a current asset or current liability if the hedged item's remaining term is less than 12 months. All the Group's derivative instruments have terms that are less than 12 months in duration. During the period, the Group did not have any derivatives for trading.

The Group's accounting policies for cash flow hedges are explained in Note 2.15.1.

(a) Currency futures contracts

The nominal amount of outstanding currency futures contracts as of 31 December 2019 was SEK 254,705 (319,215) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Gains and losses on currency forward contracts as of 31 December 2019, which are a component of equity, are reported in the income statement as operating profit in the periods when the hedged transaction affects earnings.

In 2019, realized currency futures contracts had a negative impact on operating profit of SEK -13,739 (-4,852) thousand.

(b) Hedging of net investments in foreign operations

The Group's borrowings in EUR amounting to SEK 288,166 (300,039) thousand are identified as a hedging of net investments pertaining to the acquisition of subsidiaries. The Group's assessment is that the fair value corresponds to the carrying amount as of 31 December 2019. The exchange loss on translation of the borrowings into SEK amounted to SEK -2,073 (-10,424) thousand at the end of the reporting period and it has been recognized in other comprehensive income.

NOTE 27 Prepaid expenses and accrued income

	The Group		Parent Company	
	2019	2018	2019	2018
Rents	3,132	3,276	-	-
Contract receivables, see Note 5	2,873	4,373	-	-
Other items	11,600	7,574	63	168
Total	17,605	15,223	63	168

NOTE 28 Cash and cash equivalents

Included in cash equivalents in the balance sheet and the cash flow statement are:

The Group	2019	2018
Cash and bank balances	51,241	58,951
Total	51,241	58,951

The Group has a granted, unutilized overdraft facility of SEK 30,000 (30,000) thousand.

NOTE 29 Share capital and other contributed capital

	Number of shares (000s)	Share capital (SEK t)	Other contributed capital (SEK t)	Total (SEK t)
As of 1 January 2018	46,819	1,170	218,318	219,488
As of 31 December 2018	46,819	1,170	218,318	219,488
As of 31 December 2019	46,819	1,170	218,318	219,488

The total number of shares is 46,818,868 (46,818,868) with a quotient value of SEK 0.02 (0.02) per share.

NOTE 30 Interest-bearing liabilities

	2019	2018
Non-current interest-bearing liabilities		
Bank loans	323,644	335,244
Liability for contingent consideration	10,434	20,551
Liability pertaining to finance leases (Note 20)	-	19,337
Defined benefit pension plan	5,321	2,466
Total	339,399	377,597
Current interest-bearing liabilities		
Bank loans	1,195	274
Liability for contingent consideration	-	20,551
Liability pertaining to finance leases (Note 20)	-	3,004
Total	1,195	23,829
Total interest-bearing liabilities	340,594	401,426

The Group's maturity structure for interest-bearing liabilities at the end of the reporting period is as follows:

	2019	2018
3 months or less	391	885
Between 3 months and 1 year	804	22,944
Between 1 and 2 years	10,912	26,727
Between 2 and 5 years	323,166	340,238
More than 5 years	5,321	10,632
Total	340,594	401,426

During the year, the financing agreement with the existing bank was extended. The agreement applies to a revolving facility of EUR 45 million which runs until September 2022. At year-end, unutilized credit facilities amounted to SEK 176 (158) million. The interest rates on bank loans are variable and tied to EURIBOR and STIBOR. The average interest rate in 2019 was 1.15 (1.15) %. Shares in subsidiaries was provided as collateral for bank loans (Note 36).

Loan terms for the bank loan are based on the development of net debt and EBITDA.

The carrying amount of the Group's interest-bearing liabilities corresponds to their fair value either because the interest rate on these liabilities is in line with current market rates or because the liabilities

are short-term.

The non-current liability for contingent consideration is related to the acquisition of WEBFactory GmbH in 2019. See Note 33 for more information. Management continually revalues liabilities associated with conditional consideration to their estimated fair value based on the acquired company's performance, established budgets, business plans and projections. This means that the fair value is substantially based on unobservable inputs (Level 3 as defined in IFRS 13).

See Note 4 d) for a description of each item of conditional consideration, along with management's assessment of the fair value.

NOTE 31 Accrued expenses and deferred income

	The Group		Parent Company	
	2019	2018	2019	2018
Accrued salaries	24,343	27,547	1,279	1,079
Vacation pay	16,630	17,425	459	512
Social security contributions	19,219	17,930	1,203	1,439
Deferred income	4,958	6,882	-	-
Other items	20,318	15,928	2,909	1,013
Total	85,468	85,712	5,940	4,043

NOTE 32 Provisions

	2019	2018
Restructuring reserve	9,947	-
Warranty provision	1,082	1,554
Total	11,029	1,554

Restructuring costs

In 2019, HMS implemented an action plan for adjusting its costs to a weaker market. It impacted 43 employees of the Group. The total restructuring costs amounted to SEK 21,541 thousand. All of that amount was recognized in the income statement during the financial year. The remaining provision of SEK 9,947 thousand is expected to be utilized during the next 12 months.

Warranty costs

A provision has been made to assess the warranty costs for goods that were sold under warranty and where the warranty period had not yet expired as of the end of the financial year. The warranties are expected to be settled during the next financial year.

NOTE 33 Business combinations

Acquisition of WEBfactory GmbH

On 1 April 2019, HMS acquired 74.9% of the shares in the German company, WEBfactory GmbH, which is a leading supplier of web-based software solutions for Industrial Internet of Things, IIoT. WEBfactory was founded in 1994 as a system integrator for SCADA and the company released its first proprietary software in 2000. Currently, WEBfactory is an established software company with customers all over the world. It is most known for its i4 software suite, which addresses IIoT-related customer challenges like data collection, analysis and visualization.

The acquisition price amounted to EUR 3.2 million on a debt-free basis and conditional consideration for a maximum of EUR 1.5 million, to be paid out in 2021 if WEBfactory achieves certain defined financial targets. The acquisition was financed with existing credit.

The acquisition has generated goodwill of SEK 43,189 thousand (including minority share of 25.1%). The acquired company has been included in the HMS consolidated income statement and balance sheet since 1 April 2019. During the first nine months, WEBfactory contributed to the Group's sales by SEK 14,645 thousand. The acquisition's contribution to operating profit, including amortization on acquired overvalues and acquisition costs, amounts to SEK -8,902 thousand. If the acquisition had occurred at the start of the financial year, the contribution to net sales would have been SEK 21,830 thousand and the contribution to operating profit, including amortization on acquired overvalues and acquisition costs, would have been SEK -8,403 thousand.

The acquisition analysis is based on valuations that have been made of the identifiable assets. According to the acquisition analysis (including minority share of 25.1%), the purchase price, acquired net assets and goodwill are as follows:

Purchase price:	
Cash and cash equivalents	23,250
Contingent consideration	13,977
Total purchase price	37,227

The assets and liabilities recognized in conjunction with the acquisition are as follows:	Fair value
Intangible assets	
- Intellectual property rights	19,061
- Customer relations	12,170
- Deferred tax liabilities	-5,782
Property, plant and equipment	148
Current assets	4,869
Cash and cash equivalents	338
Non-current interest-bearing liabilities	-19,171
Current liabilities	-3,419
Total identifiable net assets	8,214
Goodwill*	29,013
Acquired net assets	37,227

*Goodwill is associated with the company's market position in IIoT and the expected synergies with existing operations. None of the reported goodwill is expected to be deductible for tax purposes.

Purchase price – cash outflow	2019
Cash purchase price	12,921
Acquired cash and cash equivalents	-338
Net outflow of cash and cash equivalents	12,583

CONT. NOTE 33 Business combinations

Acquisition of Raster Products B.V.

On 2 May 2019, the Group acquired all of the shares in the Dutch company, Raster Products B.V. For several years, the company has been the main distributor of HMS Ewon products in the Netherlands.

The acquisition price amounted to EUR 1.1 million on a debt-free basis and it was financed using existing credit.

The acquisition has generated goodwill of SEK 7,888 thousand. The acquired company has been included in the HMS consolidated income statement and balance sheet since 1 May 2019. Raster Products has, for the first eight months, not had any significant impact on the Groups sales and earnings.

The acquisition analysis is based on valuations that have been made of the identifiable intangible assets. According to the acquisition analysis, the purchase price, acquired net assets and goodwill are as follows:

Purchase price:	
Cash and cash equivalents	11,832
Total purchase price	11,832

The assets and liabilities recognized in conjunction with the acquisition are as follows:		Fair value
Property, plant and equipment		524
Current assets		6,449
Cash and cash equivalents		65
Current liabilities		-3,094
Total identifiable net assets		3,944
Goodwill*		7,888
Acquired net assets		11,832

*Goodwill is associated with the company's market position. None of the reported goodwill is expected to be deductible for tax purposes.

Purchase price – cash outflow		2019
Cash purchase price		11,832
Acquired cash and cash equivalents		-65
Net outflow of cash and cash equivalents		11,767

Acquisition analysis of Beck IPC

The preliminary acquisition analysis from the 2018 acquisition of Beck IPC was finalized in 2019. The acquisition was made on 17 July 2018 and finalization was possible given that a full year had elapsed since the acquisition date.

According to the final acquisition analysis, the purchase price, acquired net assets and goodwill are as follows:

Purchase price:	
Cash and cash equivalents	23,195
Contingent consideration	20,654
Total purchase price	43,849

The assets and liabilities recognized in conjunction with the acquisition are as follows:		Fair value
Intangible assets		
- Intellectual property rights		12,262
- Customer relations		2,770
- Deferred tax liabilities		-2,245
Property, plant and equipment		1,198
Deferred tax assets		5,226
Inventories		7,147
Accounts receivable and other receivables		7,973
Cash and cash equivalents		384
Non-current interest-bearing liabilities		-1,580
Accounts payable and other liabilities		-36,424
Total identifiable net assets		-3,288
Goodwill*		47,136
Acquired net assets		43,849

*Goodwill is attributable to the expected synergies with existing operations. None of the reported goodwill is expected to be deductible for tax purposes.

Important estimates

For information on the contingent consideration associated with the acquisition of WEBfactory and the prior acquisition of Beck IPC GmbH, please see Note 4 d).

NOTE 34 Earnings from participations in Group companies

	Parent Company	
	2019	2018
Dividend from subsidiary	179,123	164,679
Total	179,123	164,679

NOTE 35 Shares in subsidiaries

Shares owned by Parent Company	Registered office	CIN	Share	No. of shares	With quotient value	191231	181231
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244,039	244,039
HMS Industrial Networks SA	Nivelles, Belgium	450350907	34.5%	431	100	93,285	93,285

Shares owned by subsidiary	Registered office	CIN	Share
Beck IPC GmbH	Wetzlar, Germany	00340136310005	100%
Ewon K.K.	Tokyo, Japan	3-0100-0115-6936	100%
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%
Intesis Software SLU	Igualada, Spain	B62202460	100%
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%
HMS Industrial Networks Inc*	Chicago, USA	5983-659-5	100%
HMS Industrial Networks India Pvt. Ltd	Pune, India	138298	100%
HMS Industrial Networks K.K.	Tokyo, Japan	0200-01-060118	100%
HMS Industrial Networks Ltd.	Coventry, England	07521411	100%
HMS Industrial Networks S.r.l	Milan, Italy	5260930960	100%
HMS Industrial Networks SA	Nivelles, Belgium	450350907	65.5%
HMS Technology Center Ravensburg GmbH	Ravensburg, Germany	HRB 551905	100%
Raster Products B.V.*	Dreumel, Netherlands	11060009	100%
WEBfactory Business Center Eastern Europe SRL**	Sibiu, Romania	J32/121/2002	74.9%
WEBfactory GmbH**	Buchen, Germany	HRB460672	74.9%

* Raster Products B.V. was acquired on 2 May 2019. ** WEBfactory Business Center Eastern Europe SRL and WEBfactory GmbH were acquired on 1 April 2019
FAR SpA and HMS Industrial Networks ApS were liquidated during the year.

HMS Industrial Networks Ltd. (CIN: 07521411)

We hereby confirm that these consolidated financial statements contain figures for the UK subsidiary HMS Industrial Networks Limited (CIN: 07521411) for the year ending 31 December 2019. We confirm that the UK subsidiary claims exemption from the UK audit in accordance with section 479A of the UK Companies Act 2006.

HMS Technology Center Ravensburg GmbH (CIN: HRB 551905)

We hereby confirm that these consolidated financial statements contain figures for the German subsidiary HMS Technology Center Ravensburg GmbH (CIN: HRB 551905) for the year ending 31 December 2019. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Han-

delgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on 31 December 2019.

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NOTE 36 Pledged assets and contingent liabilities

The Group	2019	2018
Pledged assets		
Shares in subsidiaries	1,016,678	861,129
Contingent liabilities	none	none
Parent Company	2019	2018
Pledged assets		
Shares in subsidiaries	337,324	337,324
Contingent liabilities		
Security for subsidiaries	353,521	364,488

NOTE 37 Proposed distribution of profit in the Parent Company

The following profits are at the disposal of the AGM:

Profit brought forward and other non-restricted reserves	97,347
Profit for the year	180,791
SEK t	278,138

The Board of Directors proposes the following appropriation of profits:

Distributing dividends to shareholders of SEK 1.90/share*	88,662
Carried forward	189,476
SEK t	278,138

* The dividend is calculated on the total number of outstanding shares as of 2020-03-19.

NOTE 38 Related parties

There have not been any related party transactions except for the ones specified in Note 10 Remuneration to the Board and senior executives. The Parent Company's related party transactions consist of sales to, and purchases from, Group companies, which are reported in Note 5.5.

NOTE 39 Subsequent events

The recent COVID-19 pandemic has led to a higher level of uncertainty and the impact this will have on the Group's operations is very difficult to predict. No other significant events have occurred subsequent to the end of the period, but prior to the signing of this annual report.

BOARD'S AFFIRMATION AND SIGNATURES

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a true and fair view of the Group's financial position and performance. The Annual Report has been prepared in accordance with generally accepted accounting principles and

provides a true and fair view of the parent company's financial position and performance. The Board of Directors' report for the Group and parent company provides a true and fair review of the Group's and parent company's business, financial position and financial performance and also describes material risks and uncertainties faced by the parent company and the companies that comprise the Group.

The income statement and balance sheet will be presented for adoption at the Annual General Meeting on 23 April 2020.

Halmstad 19 March 2020

Charlotte Brogren
Chairman of the Board

Staffan Dahlström
CEO

Cecilia Wachtmeister
Board member

Ray Mauritsson
Board member

Fredrik Hansson
Board member

Anders Möck
Board member

Ulf Södergren
Board member

Tobias Persson
Employee representative

Our audit report was submitted on 19 March 2020
Ohrings PricewaterhouseCoopers AB

Fredrik Göransson
Authorized Public Accountant

Audit report

To the general meeting of shareholders of HMS Networks AB (publ) CIN: 556661-8954

Report on the Annual Report and Consolidated Financial Statements

Opinion

We have conducted an audit of the annual report and consolidated financial statements of HMS Networks AB (publ) for the year 2019. The company's annual report and consolidated financial statements are provided on pages 54-102 of this document.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Parent Company's financial position as at 31 December 2019 and of its financial performance and cash flow for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance and cash flow for the year in accordance with the International Financial Reporting Standards (IFRS) that have been adopted by the EU. The Board of Directors' report is consistent with the other parts of the annual report and the consolidated financial statements.

We therefore recommend that the general meeting of shareholders should adopt the income statements and balance sheets for the Parent Company and the Group.

Our opinions in this report on the financial statements and consolidated financial statements are consistent with the content in the supplementary report that has been submitted to the Parent Company's and Group's Audit Committee in accordance with Article 11 of Regulation (EU) 537/2014 (audit legislation).

Basis for opinion

We conducted the audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing practices in Sweden. Our responsibility as per these standards is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements. This means that, based on best knowledge and belief, no prohibited services, as stipulated in Article 5.1 of Regulation (EU) 537/2014, have been provided to the audited

company or, where applicable, its Parent Company or its controlling company within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our opinion.

Our audit work

Focus and scope of the audit

We designed our audit by establishing the level of materiality and assessing the risk of material misstatement in the financial statements. We gave extra consideration to the areas in which the CEO and the Board made subjective judgments, for example, significant accounting estimates made on the basis of assumptions and projections about future events, which by their nature are uncertain. As with all audits, we also considered the risk of the Board or CEO overriding internal controls, and among other things, considered whether there is evidence of systematic deviations resulting in a risk of material misstatement due to fraud.

We adapted our audit to ensure that it would be effective, with the aim of being able to express an opinion on the financial statements as a whole, taking into account the Group's structure, accounting processes and controls, and the industry in which it operates.

When we designed our Group audit strategy and Group audit plan, we assessed the degree of auditing required by the Group audit team and other auditors from the PwC network. As a result of the Group's decentralized financial organization, a substantial amount of the financial reporting occurs in entities outside Sweden. This means that a significant portion of the audit must be performed by auditors operating in the PwC network in other countries.

When we assessed the degree of auditing required at each entity, we considered the group's geographic distribution, the size of each entity, as well as the specific risk profile of each entity. With that in mind, we assessed that, in addition to the Parent Company in Sweden, a full audit would be performed on the financial information prepared by two major subsidiaries (in two foreign countries).

For entities where we assessed that it was not necessary to conduct a full audit, specifically defined procedures were performed on a total of four entities and the Group team performed

these procedures on two of them. For other entities, which were assessed as being individually immaterial as regards the consolidated audit, the Group audit team performed analytical procedures at Group level.

In cases where the entity's auditors carry out work that is essential to our audit of the Group, we evaluate, in our capacity as Group auditors, the need and degree of involvement in the work of the entity auditors in order to determine whether sufficient audit evidence has been obtained as the basis for our opinion on the consolidated audit report. With that in mind, the Group audit team regularly meets with the entity auditors and significant subsidiaries.

Materiality

The scope and focus of the audit was impacted by our assessment of materiality. An audit is designed to achieve a reasonable degree of assurance about whether the financial statements are free from material misstatement. Errors may occur as a result of fraud or error. They are regarded as material if individually or collectively, they can reasonably be expected to influence the economic decisions that users make based on the financial statements.

Based on professional judgment, we established certain quantitative materiality thresholds, including ones for the financial statements as a whole. We used these thresholds, along with qualitative assessments, to establish the scope and focus of the audit, along with the nature of the audit procedures, timing and scope, along with assessing the effect of individual and cumulative errors in the financial statements as a whole.

Particularly important areas

Areas that are particularly important to the audit are those which, according to our professional assessment, are the most significant for the audit of the financial statements for the current period. These areas were dealt with as part of both the audit, and our overall assessment of the financial statements. However, we do not provide separate opinions on these areas.

Particularly important area	How our audit took into consideration this particularly important area
<p>Test of impairment on goodwill</p> <p>As of 31 December 2019, goodwill amounted to SEK 876 million, which corresponds to 50% of the Group's total assets. As described in Note 18, the Group's goodwill is associated with two separate cash generating units; Intesis, Webfactory and rest of the Group.</p> <p>In accordance with IAS 36, the Group tests annually whether there is an impairment of goodwill. Impairment is determined by considering each cash-generating unit's recoverable amount compared to its carrying amount. The recoverable amount was determined by management, by calculating the operations' ability to generate cash flow in the future.</p> <p>Impairment testing is essential for our audit because goodwill represents significant amounts in the balance sheet. Furthermore with a test of impairment, management must make significant estimates and assumptions about the future.</p> <p>Based on management's impairment test, the Board has concluded that no impairment of goodwill exists as of 31 December 2019. The most significant assumptions used in the impairment test are described in Note 18.</p>	<p>Our audit procedures included an assessment of the mathematical accuracy of the cash flow calculation, along with a reconciliation of cash flow forecasts against the budget for 2020 that was adopted by the Board and the business plan for 2021-2022.</p> <p>We have evaluated and assessed that the company's valuation is consistent with accepted valuation techniques.</p> <p>We have tested the reasonableness of the assumptions that have the greatest impact on the impairment test, which include sustainable growth, sustainable operating margin and discount rate.</p> <p>By making our own sensitivity analyses, we have challenged management's assumptions and tested the existing safety margins to assess the risk that impairment could occur.</p> <p>We have also evaluated whether the Company has provided enough information in the annual report about the assumptions which, should they change, could lead to impairment of goodwill in the future.</p>

Other information besides what is shown in the financial statements and consolidated financial statements

This document contains other information besides the financial statements and consolidated financial statements and it is found on pages 1–36 and on pages 44–53 and 106–115. The Board and the CEO are responsible for this other information.

Our opinion on the financial statements and consolidated financial statements does not include this other information, and we make no statement of assurance regarding this other information.

In connection with our audit of the financial statements, it is our responsibility to read the information identified above and consider whether the information is substantially incompatible with the financial statements and consolidated financial statements. During this review, we also take into account knowledge we obtained during the audit and we assess whether the information in general seems to contain material misstatements.

If, based on the work that has been conducted on this information, we conclude that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in that regard.

The Board of Directors' and CEO's responsibilities

The Board and the CEO are responsible for preparing financial statements and consolidated financial statements that provide a true and fair view in accordance with the Annual Accounts Act and with regard to the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Annual Accounts Act. The Board of Directors and CEO are also responsible for any internal control they deem necessary for preparing financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Board and CEO are responsible for assessing the ability of the Company and Group to continue operations. They must disclose, when applicable, any circumstances that may affect the ability to continue operations and apply the assumption of continued operations. However, the assumption of continued operations is not applied if the Board and CEO intend to liquidate the company, cease operations, or if they have no realistic alternatives than either of these two options.

The Audit Committee must monitor the company's financial

reporting without it impacting the Board's responsibilities and tasks in general.

Auditor's responsibility

Our goal is to achieve a reasonable degree of assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to submit an audit report containing our opinions. Reasonable assurance is a high degree of assurance. However, it does not guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if one exists. Errors may occur due to fraud or error, and they are deemed material if, individually or together they can reasonably be expected to influence the economic decisions that users make based on the financial statements and consolidated financial statements.

A more detailed description (in Swedish) of our responsibility for the audit of the financial statements and consolidated financial statements is available on the website of the Swedish Inspectorate

of Auditors: www.revisorsinspektionen.se/revisorsansvar. This description is a part of the audit report.

Report on other requirements in accordance with legislation and other regulations

Opinion

In addition to our audit of the financial statements and consolidated financial statements, we have performed an audit of the Board's and Managing Director's administration of HMS Networks AB (publ) for the year 2019 and the proposed appropriation of the profit or loss.

We recommend to the general meeting of shareholders that the appropriation of profit should be in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the CEO should be discharged from liability for the fiscal year.

Basis for opinion

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our opinion.

The Board of Directors' and CEO's responsibilities

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. With proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the demands that the nature of operations, scope and risks place on the size of the Parent Company's and Group's equity, consolidation requirements, liquidity and position in general.

The Board is responsible for the company's organization and management of its affairs. This includes, for example, assessment of the company's and Group's financial situation on an ongoing basis and ensuring that the company is organized such that there are adequate controls on its bookkeeping, fund management and other financial matters. The CEO is responsible for ongoing man-

agement that is in accordance with the Board's guidelines and instructions, including taking the actions necessary to ensure that the company's accounting complies with law and that assets are managed in a satisfactory manner.

Auditor's responsibility

Our goal regarding the audit of the administration, and therefore our opinion, is to obtain audit evidence that with a reasonable degree of certainty enables us to determine whether any Board member or the CEO in any material respect:

- has undertaken any action or been guilty of any omission, which could give rise to liability to the Company,
- or in any other way acted in contravention of the Swedish Companies Act, Annual Accounts Act or the Articles of Association

Our goal regarding the audit of the proposed appropriation of the profit or loss, and thus our statement on this, is to, with a reasonable degree of certainty, assess whether the proposal is consistent with the Swedish Companies Act.

Reasonable certainty is a high degree of certainty, but no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that could give rise to a liability to the Company or that a proposal for the appropriation of the profit or loss is not consistent with the Swedish Companies Act.

A more detailed description (in Swedish) of our responsibility for the audit of the administration is available on the website of the Swedish Inspectorate of Auditors: www.revisorsinspektionen.se/revisorsansvar. This description is a part of the audit report.

Öhrings PricewaterhouseCoopers AB, 113 21 Stockholm, was elected as auditor for HMS Networks AB (publ) at the AGM on 25 April 2019 and it has been the company's auditor since 14 January 2004. HMS Networks AB (publ) became a listed company on 19 October 2007.

Halmstad, 19 March 2020
Öhrings PricewaterhouseCoopers AB

Fredrik Goransson
Authorized Public Accountant

MULTI-YEAR OVERVIEW

FINANCIAL DATA IN SUMMARY (SEK M)	2019	2018	2017	2016	2015
Net sales	1,519	1,366	1,183	952	702
Growth in net sales, %	11	15	24	36	19
Gross profit	928	834	722	581	430
Gross margin, %	61	61	61	61	61
Operating income before depreciation (EBITDA)	334	301	259	188	136
Operating margin before depreciation (EBITDA), %	22	22	22	20	19
Operating income after depreciation/amortization (EBIT)	243	251	212	149	102
Operating margin after depreciation/amortization (EBIT), %	16	18	18	16	15
Profit for the year	205	171	143	100	60
Order intake	1,470	1,433	1,204	966	682
Earnings per share, basic, SEK	4.43	3.68	3.06	2.16	1.33
Earnings per share, diluted, SEK	4.40	3.65	3.04	2.16	1.33
Dividend per share, SEK**	1.90*	1.80	1.50	1.00	0.63
Total assets	1,758	1,577	1,438	1,408	831
Equity	1,010	857	721	636	455
Equity per share, SEK**	19.87	17.06	14.65	12.09	9.77
Equity/assets ratio, %	58	54	50	45	55
Net debt/equity ratio %	40	40	42	66	39
Return on shareholders' equity, %	22	22	21	18	14
Return on capital employed, %	17	21	19	15	15
Investments in non-current assets	66	30	32	39	25
Cash flow from operating activities	254	193	207	155	90
Cash flow from operating activities per share, SEK**	5.45	4.14	4.44	3.35	1.99
Average number of employees	617	536	489	467	359
Sales per employee	2.5	2.6	2.4	2.0	1.9

* Board's proposal

** Key figures have been recalculated based on the 4:1 stock split that occurred in the second quarter of 2017

HMS NETWORKS GRI APPENDIX 2019

Information on the methods and assumptions used for sustainability
information presented in the annual report

HMS Networks GRI Appendix 2019

The HMS Sustainability Report for 2019 is in accordance with the Global Reporting Initiative (GRI). The report has been prepared in accordance with GRI Standards: Core option and it is presented each year as an attachment to the Annual Report. The Sustainability Report has not been audited by a third party.

GRI INDEX

The following list refers to the GRI disclosures that HMS reports. All disclosures are from GRI Standards version 2016.

AR = Annual Report, GRI = GRI Appendix

GENERAL DISCLOSURES

GRI Standards	Disclosure	Page number(s)
GRI 102: General Disclosures		
Organizational Profile		
102-1	Name of the organization	26
102-2	Activities, brands, products, and services	16-23
102-3	Location of headquarters	12
102-4	Location of operations	12-13
102-5	Ownership and legal form	4-5
102-6	Markets served	8-17
102-7	Scale of the organization	1, 5, 12
102-8	Information on employees and other workers	112
102-9	Supply chain	32-33
102-10	Significant changes to the organization and its supply chain	1
102-11	Precautionary Principle or approach	111
102-12	External initiatives	27, 32
102-13	Membership of associations	112
Strategy		
102-14	Statement from senior decision-maker	2-3
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	32-33
Governance		
102-18	Governance structure	37-47
Stakeholder engagement		
102-40	List of stakeholder groups	109-110
102-41	Collective bargaining agreements	112
102-42	Identifying and selecting stakeholders	109-110
102-43	Approach to stakeholder engagement	109-110
102-44	Key topics and concerns raised	109-110

GRI Standards	Disclosure	Page number(s)
Reporting practice		
102-45	Entities included in the consolidated financial statements	26
102-46	Defining report content and topic Boundaries	109
102-47	List of material topics	110
102-48	Restatements of information	109
102-49	Changes in reporting	108
102-50	Reporting period	109
102-51	Date of most recent report	108
102-52	Reporting cycle	108
102-53	Contact point for questions regarding the report	113
102-54	Claims of reporting in accordance with the GRI Standards	108
102-55	GRI-index	108-109
102-56	External assurance	108

TOPIC-SPECIFIC DISCLOSURES

GRI Standards	Disclosure	Page number(s)
Indirect economic impacts		
GRI 103: Management approach	103-1, 103-2, 103-3	Entities included in the consolidated financial statements
GRI 203: Indirect economic impacts	203-2	Defining report content and topic Boundaries
Anti-corruption		
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach
GRI 205: Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures

GRI Standards	Disclosure	Page number(s)
Energy		
GRI 103: Management approach	103-1, 103-2, 103-3	30-31, 109-111
GRI 302: Energy	302-1	30-31
	302-3	30-31
Emissions		
GRI 103: Management approach	103-1, 103-2, 103-3	32-33, 109-111
GRI 305: Emissions	305-1	32-33, 111-112
	305-2	32-33, 111-112
	305-3	32-33, 111-112
	305-4	32
Waste		
GRI 103: Management approach	103-1, 103-2, 103-3	30, 109-111
GRI 306: Waste	306-2	111
Education		
GRI 103: Management approach	103-1, 103-2, 103-3	28-29, 109-110, 112
GRI 404: Education	404-1	113
	404-3	113
Supplier social assessment		
GRI 103: Management approach	103-1, 103-2, 103-3	109-110, 113
GRI 414: Supplier social assessment	414-1	113
Customer Privacy		
GRI 103: Management approach	103-1, 103-2, 103-3	32
GRI 418: Customer Privacy	418-1	32



BOUNDARIES

All identified material sustainability topics impact our organization. Some of the aspects have an impact beyond HMS's organizational boundaries, such as supplier assessment. In the Sustainability Report, the effect of each sustainability topic both within and outside the company is reported. After several years of reporting in accordance with GRI G4, this is the second year that HMS reports in accordance with the GRI Standards. Our systems for measuring all indicators are being continuously developed. For example we include data for new suppliers that were screened using social criteria (GRI 414-1) and data have been presented for employees that have received information on HMS anti-corruption policies and procedures (GRI 205-2).

STAKEHOLDER ENGAGEMENT

HMS is in continual contact with all of our stakeholders in order to obtain valuable input for HMS's future development. The purpose is to identify the sustainability aspects that our customers, employees, investors and owners consider to be most important.

The determination of key stakeholders for HMS is based on mutual dependency and the proximity between these groups and the company. Key stakeholder groups with mutual and close relationships with the company and its activities can be mainly found across the value chain, which consists of Suppliers, Employees and Customers. Another key group with a strong relationship to the company is Owners and investors. In 2016, HMS conducted key stakeholder dialogues based on prioritized sustainability aspects to identify the sustainability aspects that HMS's customers, employees, investors and owners consider to be most material. The input to the process was an initial prioritization of sustainability aspects by the HMS Group management team.



Key stakeholders	Forum for engagement	Important issues
Owners and Investors	Contacts and meetings	Long-term profitable growth. Risk management and transparency. Read more on page 57-58 [ref to Directors' report]
Employees	Continual dialog, surveys and performance reviews.	Environmental impact from products and services. Skills development. Safe and good working environment. Transport and energy efficiency. Monitoring suppliers on human rights issues. Read more on pages 28-31, 33
Customers	Ongoing dialogue and surveys.	Solve specific challenges within industrial communication. Compliance with EU environmental laws. Reporting on conflict minerals. Transparency.
Suppliers	Ongoing dialogue and purchasing requirements. Site visits.	Stable, mutual successful, long-term business. Clearly stated requirements and understanding and willingness to follow our supplier Code of Conduct. Read more on page 33

The table shows HMS's key stakeholders and the forum for engagement

MATERIALITY ASSESSMENT

This materiality assessment is based on HMS's strategy and engagement with stakeholders. HMS prioritizes sustainability aspects that:

- Directly impact our success
- Directly impact our stakeholders
- Are fundamental to our ability to operate
- HMS can control

This approach enables HMS to set relevant goals, and to track and improve performance.

HMS material sustainability aspects	
Economic	Higher productivity and indirect economic impacts from the use of HMS products
Environmental	Energy consumption, emissions and electronic waste
Social	Training of employees, supplier assessments, anti-corruption and customer privacy

MATERIAL SUSTAINABILITY RISKS

Section	Material sustainability risks	Risk management
Environment	HMS operates in an industry where changes in directives and regulations can increase fees, which in turn can increase material and production costs. Failure to comply with laws and environmental requirements for purchased materials can also increase costs and harm our reputation, which would impact the HMS brand.	We have an environmental policy that governs long-term investments, construction material choices, distribution, supplier choices, recycling of electronics and chemicals management. Read more on page 30.
Employees and social matters	HMS employees are its greatest asset. Their knowledge, commitment and efforts are crucial for us to succeed with our strategy, achieve our goals and continue to develop. If we lose our commitment to our employees, this may lead to decreased job satisfaction and even illness. In turn, this may result in loss of skills for HMS. With a weaker employer brand, we risk not being able to attract the skills we need for the future. As a result, continuous investments in the well-being of our employees is a must for us.	Our work environment, equality and pay-setting efforts are governed by our common ethics policy, summarized in 'HMS Hi 5'. Read more on pages 28-30.
Human rights and anti-corruption	HMS operates in a value chain where there is a risk that suppliers and/or customers may violate human rights, requirements for social conditions and environmental regulations and conduct business in unethical ways. A key factor for HMS is to conduct business in a responsible and ethical way and take responsibility for our value chain, since not doing so could put the HMS brand at risk and in turn affect the Company financially.	We govern work with our Code of Conduct. Read more on page 32.

ECONOMIC

The HMS Code of Conduct is a statement about what the company stands for and its commitment to high standards and ethically correct conduct. Line managers familiarize employees with the HMS Code of Conduct, promote its provisions and moni-

tor compliance with it within their organizations and in interactions with their counterparties. All employees carry out mandatory e-learning training sessions on anti-corruption principles and policies. HMS actively works to prevent corruption. The

Percentage of employees that have received information of HMS anti-corruption policies and procedures (%)	2019	2018	2017
Board of Directors			
Percentage to whom anti-corruption policies have been communicated	100%	100%	100%
Percentage that received training in anti-corruption	0%	86%	0%
Employees			
Percentage that anti-corruption policies has been communicated to	12%	98%	0%
Total percentage who received training on anti-corruption	5%	91%	0%
Employees Europe		91%	
Employees Americas		86%	
Employees Asia		95%	

organization's anti-corruption policies and procedures are communicated during Basiccamps. The policies are continuously communicated during orientation programs and some countries include the Code of Conduct as an appendix in the employee contract.

ENVIRONMENTAL

HMS continually strives to lower our internal impact and we apply a precautionary approach, for more information see Material Sustainability risks on page 108. Energy, emissions, and environmental compliance are identified as material aspects considering climate change as a global challenge. One of our material aspects is electronic waste. Our

production generates waste consisting of electronic waste which is sent for recycling. By recycling e-waste, metal recycling is maximized from the available raw metals. The table below shows the amount of electronic waste that has been recycled between 2015–2018. During the year we began to include data for non-hazardous waste.

In 2019, electricity consumption from HMS's three business units was 1,174 MWh and the percentage of renewable energy was 85.4%. The market-based renewable energy used in Halmstad (BU Anybus) is 52.6% solarpower (from Skedalahed in Halmstad). The remaining 47.4% is hydropower (from Nissan and Åtran in Halland, and some from Småland). The market-based re-

Recycling of electronic waste (ton)	2019	2018	2017	2016
Non-hazardous waste	15.55	17.44		
Hazardous waste	0.81	0.9	1.94	2.14

HMS recycles paper, iron, metals, e-waste and plastic. Information provided by the waste disposal contractor. Only data for Halmstad.



newable energy used in Ravensburg (BU Ixxat) is 49.9% energy funded under the German Renewable Energy Sources Act (EEG), which includes the most renewable electricity sources, such as wind power, photovoltaics, biomass, hydroelectricity, and geothermal energy. The remaining 50.1% used in Ravensburg is from other renewable energy sources. Most of the 10.6% renewable energy used in Nivelles (BU Ewon) comes from biomass and wind farms. There is also some part from hydroelectricity and a small part from solar panels. During 2020 the company will switch to a 100 % renewable energi. Information about the electricity consumption is provided by electricity providers. Electricity consumption has

only increased by 0.5 %. Energy consumption in relation to the number of delivered products has fallen by 20% since 2016, which is due to how efficiently energy is being used during the manufacturing of our products. Energy consumption from heating/cooling is not reported because we do not have access to this data. Consumption from heating and cooling is included in the rent.

Emission of greenhouse gases from HMS's three business units is classified as Scope 1, 2 or 3 in accordance with the Greenhouse Gas Protocol.

Direct emissions in Scope 1 include fuel for vehicles used for business travel. HMS initiates projects for smarter and more effective use of re-

Scope	Activity
Scope 1	Fuel for vehicles used for business travel
Scope 2	Electricity
Scope 3	Transports of materials and products

The table shows activities that have been included in the calculation of HMS's greenhouse gas emissions

GRI APPENDIX

sources to reduce HMS energy consumption per unit shipped. Due to the fact that we bought more cars in the Belgium company, our emissions increased slightly, though less than 1%.

The indirect energy consumption in Scope 2 comes from electricity. We aim for all business units to use renewable energy and therefore shift to renewable energy in HMS facilities when feasible. In 2019, emissions from electricity consumption increased as the emission factors for Belgium changed.

Scope 3 covers incoming shipments of materials transported to Sweden (which are done in the company's own transport account). For HMS, incoming transport is key as this is the major source of HMS's greenhouse gas emissions. HMS initiate projects for smarter and more effective use of resources to reduce HMS's emissions of greenhouse gases. Emissions from transport of incoming materials increased by 19% from

2018 to 2019. The increase is mainly due to larger volumes of goods as product sales have increased.

Emissions have been calculated using the CEMAsys tool for climate and energy reporting. The CEMAsys carbon footprint module is based on the GHG Protocol and it includes an extensive database covering worldwide emission factors.

MEMBERSHIPS

HMS is a member of several associations in order to build understanding and promote innovation and business development. The memberships considered to be of strategic importance are listed here.

Membership
• Association for High Technology Distribution
• CLPA – CC-Link Partner Association
• Control System Integrators Association
• ETG – EtherCAT Technology Group
• ODVA (an HMS employee is Chairman of the Technical Review Board)
• PI – Profibus International
• Rockwell Automation Global Encompass Partner
• Schneider Electric CAPP - Collaborative Automation Partner Program
• VDMA (The Mechanical Engineering Industry Association)
• OPC Foundation
• 5G-ACIA – 5G Alliance for Connected Industries and Automation
• CAN in Automation (CiA)

SOCIAL

All employees are entitled to join a union. 40% of the Groups' employees, all employed in Sweden, were covered by collective bargaining agreements at the end of 2019. The table shows the total number of employees for each type of employment contract as of 31 December. HMS doesn't have any seasonal variations in the number of employees.

Number of employees	2017		2018		2019	
	Women	Men	Women	Men	Women	Men
Total number of employees	128	414	143	449	148	476
Number of permanent employees	128	414	143	449	145	476
- Full time	106	394	131	436	140	451
- Part time	22	20	12	13	5	53
Number of temporary employees	2	4	-	3	3	-
Europe						
Total number of employees	-	-	128	385	129	404
Number of permanent employees	-	-	128	385	126	404
- Full time	-	-	117	372	122	389
- Part time	-	-	11	13	4	15
Number of temporary employees	-	-	-	3	3	-
Asia						
Total number of employees	-	-	4	31	9	34
Number of permanent employees	-	-	4	31	9	34
- Full time	-	-	4	31	9	34
- Part time	-	-	-	-	-	-
Number of temporary employees	-	-	-	-	-	-
North and South America						
Total number of employees	-	-	11	33	10	38
Number of permanent employees	-	-	11	33	10	38
- Full time	-	-	10	33	9	38
- Part time	-	-	1	-	1	38
Number of temporary employees	-	-	-	-	-	-

The table shows the total number of employees per employment contract as per 31/12.

HMS continuously strives to create an attractive workplace for all employees, and the company promotes a high-performing organization by continuously developing and training our employees. The percentage of employees that had perfor-

mance reviews in 2019 was 87%. The main reason for the remaining 13% is that new employees did not have performance reviews during their first year of employment.

Number of employees	2017	2018		2019	
	Total	Women	Men	Women	Men
Total share of all employees who had performance reviews during the year	93%	92%	92%	86%	87%
Corporate management	-	-	94%	-	100%
Managers	-	93%	92%	83%	79%
Employees	-	92%	91%	86%	88%

Human rights are a vital part of HMS's Code of Conduct and a part of the evaluation of partners and supplier assessment. By seeking to improve good governance throughout supply chains, we

act in our own interest as well as in the interest of our stakeholders and society at large. HMS engages with responsible suppliers, distributors and partners that support the HMS Code of Conduct.

Percentage of new suppliers that were screened using social criteria			
Total number of:		2018	2019
New key suppliers with which HMS signed a contract		-	1
New suppliers that were screened using human rights criteria		-	-

CONTACT

For more information on the Sustainability Report and our sustainability efforts, please contact Magnus Hansson, Global Systems and Security Manager på HMS, mah@hms.se.

WELCOME TO THE ANNUAL GENERAL MEETING

Welcome to the AGM

The shareholders of HMS Networks AB (publ) are hereby invited to the Annual General Meeting, which will be held 10.30 a.m on Thursday, April 23 2019 at the HMS head office, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 10.00 a.m.

Right to participate in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden on Friday, 17 April 2020 and give notice of their intention to participate at the Meeting to the Company no later than Friday, 17 April 2020.

Registration must be communicated in one of the following ways: by phone: +46 (0)35-17 29 00, in writing: HMS Networks AB, "HMS Networks AB:s Annual General Meeting", Box 4126, SE-300 04 Halmstad, or via the website: www.hms-networks.com. The registration must include the following information: name, personal ID number/CIN, shareholding, address, day-time telephone number and, when applicable, information on assistants or deputies who will be attending.

The registration must include, where applicable, complete authorization documents such as registration certificate, power of attorney, or equivalent.

Proxies

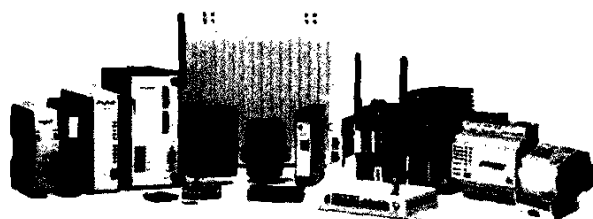
If a shareholder is represented by a proxy, the proxy must be issued with a power of attorney dated for this day. If the power of attorney is issued by a legal entity, a certified copy of the registration certificate, or other document demonstrating the signatory's authority to sign for the legal entity, must be included. The power of attorney and any registration certificate may not be more than one year old. The power of attorney (original) and registration certificate should be sent to HMS Networks AB, "HMS Networks AB:s Annual General Meeting", Box 4126, SE-300 04 Halmstad, well in advance of the AGM. The power of attorney form is available on the Company's website: www.hms-networks.com and at the Company's head office.

Nominee-registered shares

Shareholders whose shares are registered in the name of a nominee through a bank or central securities depository must temporarily re-register the shares in their own name to be able to participate in the AGM. Such registration must be received by Euroclear Sweden no later than 17 April 2020, which means that shareholders must notify nominees of their intentions well in advance of the stated date.

Halmstad, March 2020
HMS Networks AB (publ)
The Board of Directors





Follow HMS at www.hms-networks.com

All interim reports, annual reports and certain presentations are available on the HMS website www.hms-networks.com/ir. A printed version of the annual report can be ordered by emailing ir@hms.se. Please make sure to include a complete delivery address.

Important reporting dates:

April 23, 2020	Q1 Report 2020
April 23, 2020	Annual General Meeting
July 15, 2020	Q2 Report 2020
October 23, 2020	Q3 Report 2020
February, 2021	Year-end Report 2020



<https://www.facebook.com/HMSIndustrialNetworks>



<https://twitter.com/hmsnetworks>



<https://www.linkedin.com/company/hms-industrial-networks>



<https://www.youtube.com/user/HMSIndustrialNetwork>

NOTE 34 Earnings from participations in Group companies

	Parent Company	
	2019	2018
Dividend from subsidiary	179,123	164,679
Total	179,123	164,679

NOTE 35 Shares in subsidiaries

Shares owned by Parent Company	Registered office	CIN	Share	No. of shares	With quotient value	191231	181231
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244,039	244,039
HMS Industrial Networks SA	Nivelles, Belgium	450350907	34.5%	431	100	93,285	93,285

Shares owned by subsidiary	Registered office	CIN	Share
Beck IPC GmbH	Wetzlar, Germany	00340136310005	100%
Ewon K.K	Tokyo, Japan	3-0100-0115-6936	100%
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%
Intesis Software SLU	Igualada, Spain	B62202460	100%
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%
HMS Industrial Networks Inc*	Chicago, USA	5983-659-5	100%
HMS Industrial Networks India Pvt. Ltd.	Pune, India	138298	100%
HMS Industrial Networks K.K	Tokyo, Japan	0200-01-060118	100%
HMS Industrial Networks Ltd	Coventry, England	07521411	100%
HMS Industrial Networks S.r.l.	Milan, Italy	5260930960	100%
HMS Industrial Networks SA	Nivelles, Belgium	450350907	65.5%
HMS Technology Center Ravensburg GmbH	Ravensburg, Germany	HRB 551905	100%
Raster Products B.V.*	Dreumel, Netherlands	11060009	100%
WEBfactory Business Center Eastern Europe SRL **	Sibiu, Romania	J32/121/2002	74.9%
WEBfactory GmbH**	Buchen, Germany	HRB460672	74.9%

* Raster Products B.V. was acquired on 2 May 2019, ** WEBfactory Business Center Eastern Europe SRL and WEBfactory GmbH were acquired on 1 April 2019.
FAR Spri and HMS Industrial Networks ApS were liquidated during the year.

HMS Industrial Networks Ltd. (CIN: 07521411)

We hereby confirm that these consolidated financial statements contain figures for the UK subsidiary HMS Industrial Networks Limited (CIN: 07521411) for the year ending 31 December 2019. We confirm that the UK subsidiary claims exemption from the UK audit in accordance with section 479A of the UK Companies Act 2006.

HMS Technology Center Ravensburg GmbH (CIN: HRB 551905)

We hereby confirm that these consolidated financial statements contain figures for the German subsidiary HMS Technology Center Ravensburg GmbH (CIN: HRB 551905) for the year ending 31 December 2019. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Han-

delgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on 31 December 2019.

HMS – The leader within industrial communication and IIoT

HMS develops and manufactures software and hardware for industrial communication. Our products connect devices such as robots, sensors, control systems, HVAC units and motors to different industrial networks, building automation systems and IIoT-applications.

HMS solutions connect millions of devices around the world and enable our customers to widen their market and improve their business. Our long expertise, large installed base, and wide market coverage, make us the undisputed market leader of our field.

Get connected!



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