

hms networks

ANNUAL REPORT 2014

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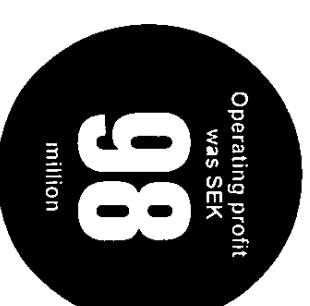
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COMPANIES HOUSE

Key figures

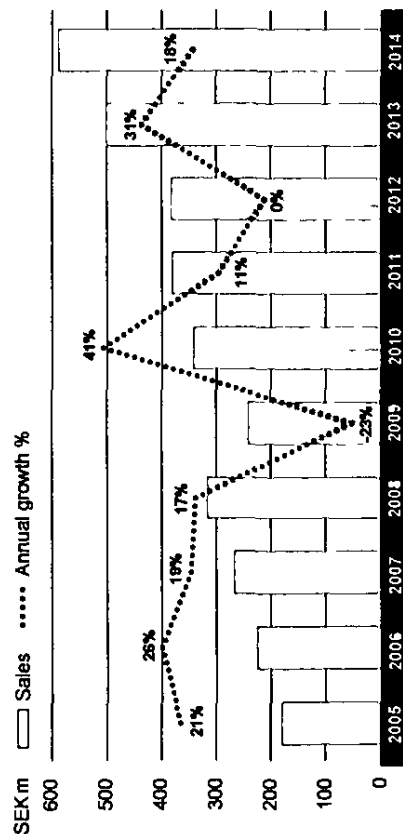
Financial data in summary (SEK m)	2014	2013	2012	2011	2010	2009
Net sales	589	501	382	384	345	245
Growth in net sales, %	18	31	-0.5	11	41	-23
Gross profit	367	314	229	232	208	143
Gross margin, %	62	63	60	61	60	58
Operating profit	98	87	64	72	84	31
Operating margin, %	17	17	17	19	24	13
Profit for the period	63	63	52	54	62	21
Orders received	611	516	424	388	342	258
Earnings per share, SEK	5.59	5.54	4.64	4.84	5.41	1.88
Dividend per share, SEK	2.50*	2.25	2.25	2.25	2.00	1.00
Total assets	832	771	418	391	392	339
Equity	423	378	342	299	286	240
Shareholders' equity per share, SEK	35	32	30	27	25	21
Equity/assets ratio, %	51	49	82	76	72	70
Net debt/equity ratio, %	54	65	-9	0	-5	13
Return on shareholders' equity, %	16	17	16	19	23	9
Return on capital employed, %	15	18	20	23	28	11
Investments in non-current assets	38	57	42	20	15	7
Cash flow from operating activities	93	89	83	46	75	31
Cash flow from operating activities per share, SEK	8.26	7.92	7.27	3.96	6.71	2.89
Average number of employees	352	338	241	213	164	153
Revenue per employee	17	15	16	18	21	16

* Board's proposal

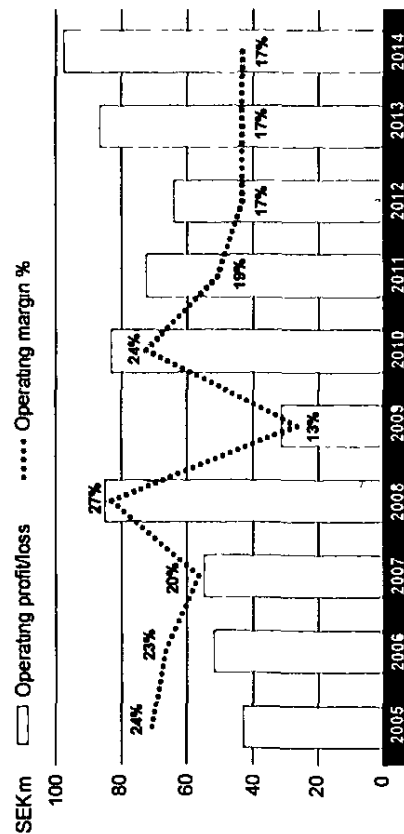


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Sales performance



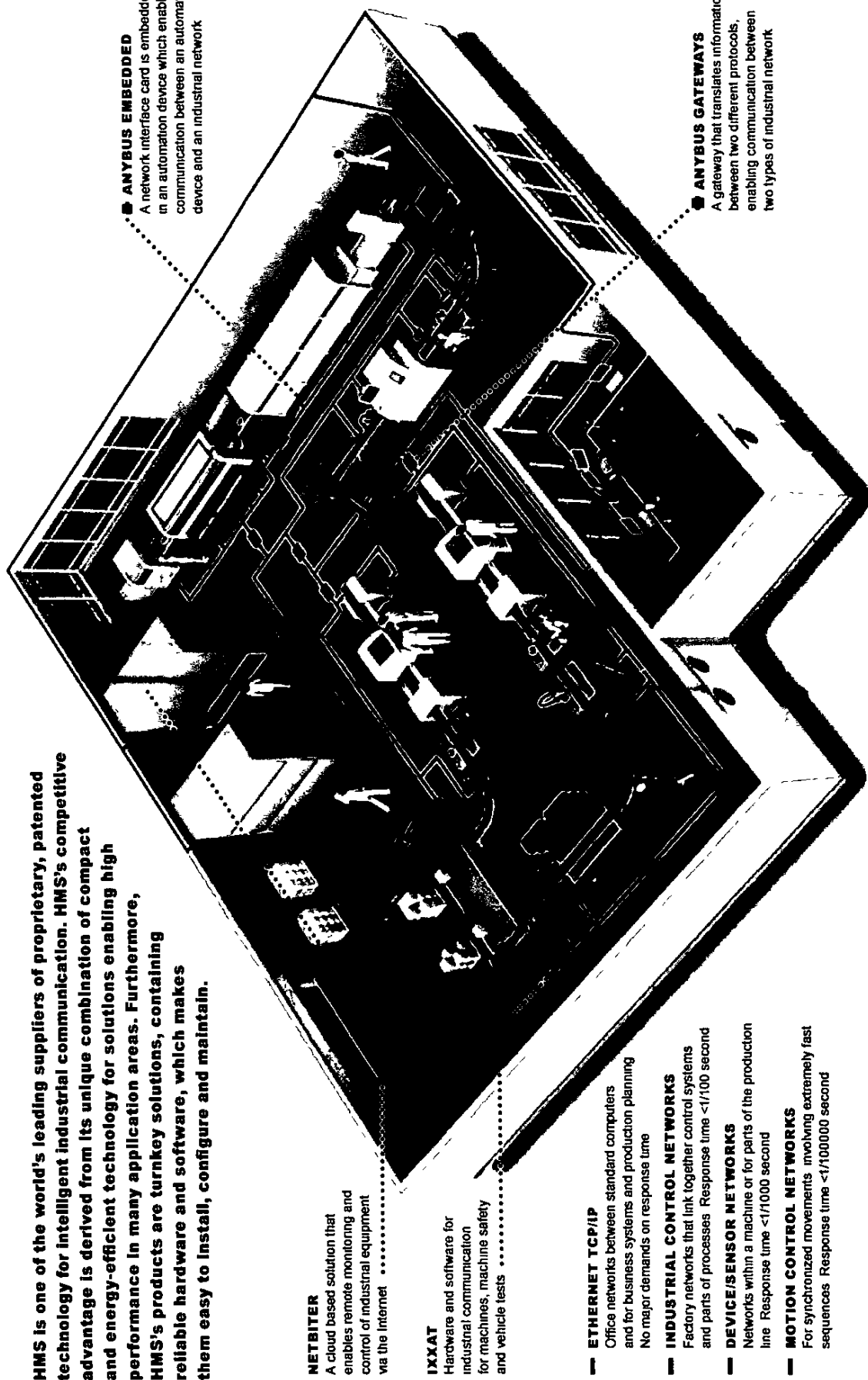
Earnings trend



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We make industrial communication possible

HMS is one of the world's leading suppliers of proprietary, patented technology for intelligent industrial communication. HMS's competitive advantage is derived from its unique combination of compact and energy-efficient technology for solutions enabling high performance in many application areas. Furthermore, HMS's products are turnkey solutions, containing reliable hardware and software, which makes them easy to install, configure and maintain.



NETBITER

A cloud based solution that enables remote monitoring and control of industrial equipment via the Internet

IXXAT

Hardware and software for industrial communication for machines, machine safety and vehicle tests

ETHERNET TCP/IP

Office networks between standard computers and for business systems and production planning. No major demands on response time

INDUSTRIAL CONTROL NETWORKS

Factory networks that link together control systems and parts of processes. Response time <1/100 second

DEVICE/SENSOR NETWORKS

Networks within a machine or for parts of the production line. Response time <1/1000 second

MOTION CONTROL NETWORKS

For synchronized movements involving extremely fast sequences. Response time <1/100000 second

ANYBUS EMBEDDED

A network interface card is embedded in an automation device which enables communication between an automation device and an industrial network

ANYBUS GATEWAYS

A gateway that translates information between two different protocols, enabling communication between two types of industrial network

Three brands – Anybus, IXXAT and Netbiter



Anybus

Anybus is based on HMS proprietary micro-processor technology for converting information between different network protocols and is aimed at the steadily growing market for industrial automation and industrial networks. Demand is driven by trends such as the Industrial Internet of Things (IIoT), and Industry 4.0, which places increasingly greater demands on the connectivity of machines and equipment. This creates a need for intelligent communication solutions.

Anybus Embedded

Anybus Embedded is a network interface card that is integrated into the design of many types of industrial automation equipment, such as robots, engine control modules and sensors. The equipment simply needs to be adapted to the communications standard in the Anybus network interface card in order to communicate with most industrial networks. This is possible because HMS technology takes care of the translation of the various network languages. This means that customers do not have to worry about the type of network system or network protocol their products will connect to, which simplifies the design process and enhances both competitiveness and flexibility.

Anybus Gateways

Anybus Gateways are based on the same technology, but they consist of independent devices that are installed between different network systems, or existing automation equipment, to enable communication regardless of network protocols. Gateways are designed for the end user in industry, or system integrators and system installers working with industrial tasks.



IXXAT

The HMS brand, IXXAT, represents high performance industrial communication solutions for machines, machine safety and vehicle tests.

IXXAT Communication Solutions for Machines

IXXAT's communication solutions for machines consist of hardware and software to connect industrial computers to machines and connect components like controllers, drives and sensors inside a machine. The term machine does not only apply to the machines used in factory automation environments, but also machines used in medical environments (e.g. X-ray machines), renewable energy (e.g. wind turbines), vehicles (e.g. heavy equipment) and buildings (e.g. elevators). Today, there is a large and continually increasing range of applications and related machines that need these types of communication solutions.

IXXAT Safety

Safety functions in machines are designed to protect people and environments from injury or damage. This is why safety technology has been used for decades already to prevent technical malfunctions and ensure personal safety when there is a shutdown. Nowadays, modern communication technology is increasing being used to supply these safety functions. Accordingly, machine builders are facing a strong demand from their customers, to install this safety technology in their embedded parts and components in various industrial applications. IXXAT Safety is a product and service range that offers integration of safety features in machines in a simple and effective manner.

IXXAT Automotive

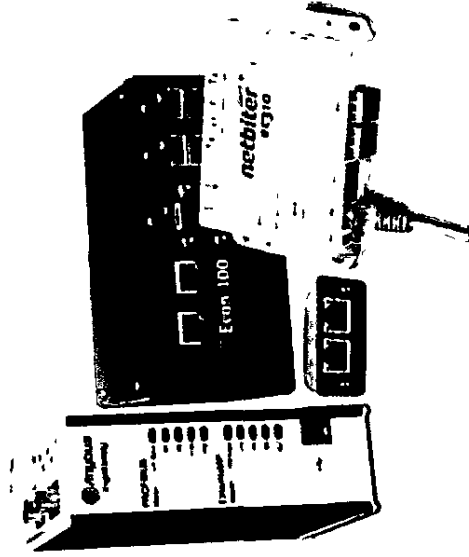
Compared to manufacturing industries in general, vehicle manufacturers use different types of communication technology and design methods to develop and test complex communication systems.

in their vehicles. IXXAT Automotive offers solutions that have been specially designed for development departments and test systems within the automotive industry. The uniqueness of the IXXAT Automotive offering is that communication interfaces for the vehicle and the industrial network have been integrated in a compact, cost-effective and flexible solution.



Netbiter Remote Management

Netbiter is an innovative communication solution that makes it possible to remotely monitor and control field equipment such as emergency power generators, pumps, water systems, tanks, wind turbines etc. Netbiter serves a young, growing market for industrial remote management, where there are many new and growing application areas for mission-critical systems, in renewable energy and social infrastructures etc.



2014 – a year of growth and renewal

In 2014, HMS continued to build an organization that is well positioned to take advantage of current and future growth potential. Thanks to a clearly defined ambition, we have achieved many of the goals set at the beginning of the year and we are again demonstrating good organic growth. The challenging market conditions which have affected both the global economy and the market for industrial communication in recent years continues. In 2014, therefore, following a number of years with a high recruitment rate, we have adjusted this expansion to be more in line with market growth.

We love growth

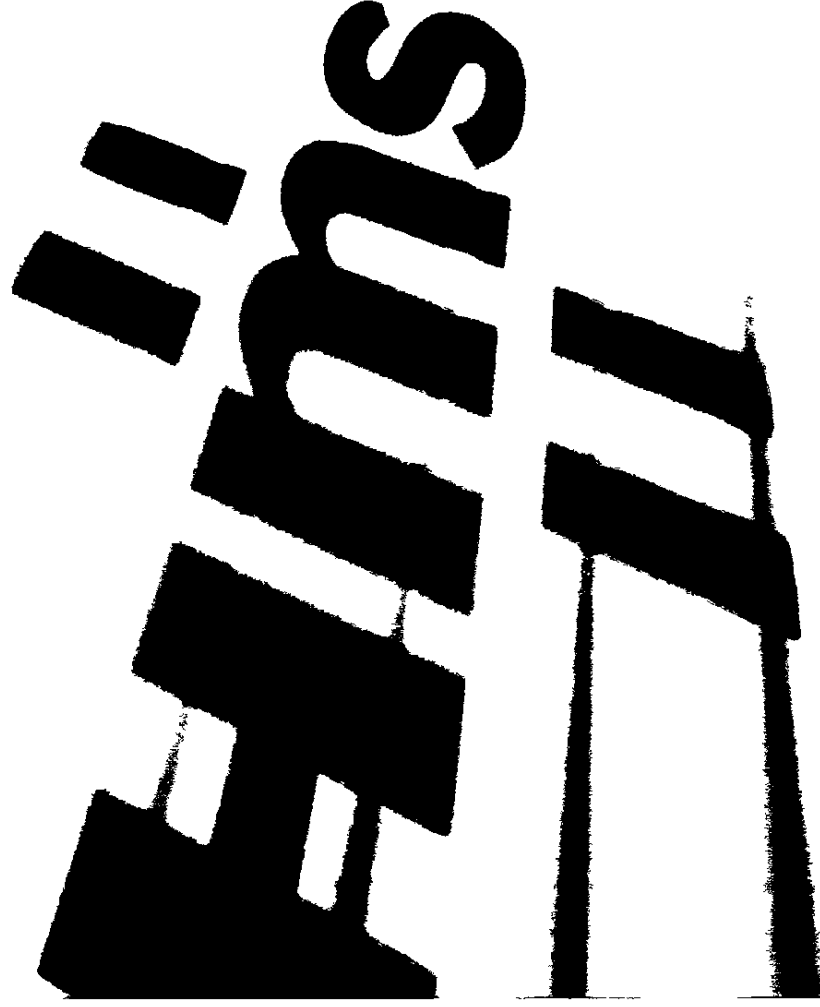
If we look back over the last five years, HMS has grown its sales by +19% per year and at the same time reported an operating margin of around 18% on average. We are therefore very close to our long-term target of 20% annual growth and 20% operating margin. Bearing in mind the challenging market environment in recent years, we can conclude that this is a positive development for the company.

After growing through acquisitions in 2013, we have once again generated organic growth in 2014. All of our product areas grew over the year, assisted by the tailwind from a weaker Swedish currency, which together meant total growth of 18%. More gratifying is that the acquired IXXAT operations (following the successful integration of HMS's global sales organization and the expanded customer base resulting from this) are reporting a double-digit percentage increase in sales.

We also succeeded in combining growth with a strong cash flow from operations and the Group has achieved an equity ratio of over 50%. This feels reassuring for the future.

Expansion and renewal of our product offering

Five years ago, our product sales were made up for the most part of our Anybus Embedded product group. This product group continues to grow, but today represents about half of our sales. The improved balance between our product groups is a result of a conscious effort to expand our product offering and grow our available market in industrial communication. Over the year we launched a number of new products in our Anybus, IXXAT and Netbiter brands and our belief is that we have an attractive and effective offering. We are also looking forward to our new venture in products for wireless communication technology, a result of the product acquisitions we completed in October 2014 from the Swiss u-blox AG.



“ Having grown through acquisitions in 2013, we have now returned to a positive organic growth of 18 % in 2014.

Quality and durability

Virtually all of our customers work with applications where communication is an essential part of their automation systems. These automation systems are present in everything from paper mills and breweries to emergency power generation in the event of power failures. Demanding applications place stringent requirements on HMS and on product reliability. That's how it is now, and we can expect the same a decade from now as well. We have a well-developed quality process and it is gratifying that in 2014 we can sum up the number of field returns from customers to less than 200 PPM (0.02 %). This is world class!

Exciting future for HMS

Technology developments are progressing rapidly. Within industrial data communication and automation, we see several new robust trends such as “Industrial Internet of Things (IIoT)” and “Industry 4.0” which are both based on the products becoming increasingly intelligent and the need to exchange information with their surroundings.

We see that this is opening up a plethora of new opportunities for HMS in the coming years as our focus and core competence is precisely “Connecting Devices”. We will continue to develop our technology and competence to consolidate our position as a leading player within our market segments going forward. New innovative products and services are now emerging as part of our internal HMS Labs initiative, and we believe that industrial communication will continue to be an exciting area of growth in the future.

Finally, on behalf of the company's management, I would like to extend a big thank you to all employees, customers, partners, suppliers and shareholders for a successful year for HMS. We look forward with confidence to a stimulating future and a continued journey of growth together.

Staffan Dahlström
President and CEO



Staffan Dahlström
President and CEO

HMS's strategies for profitable growth

HMS's mission

HMS's mission is based on the vision that all automation equipment should be possible to coordinate in intelligent networks. The mission is to provide industry with technology for intelligent communication, between various automation devices and networks, between several networks or between remote installations and operating centers

Organic growth – our main strategy

HMS strives to expand into related industrial areas and other steps in the value chain, primarily via Gateways and Remote Management. This will be done using the company's technology and by further solidifying its position in the market for embedded products

HMS will primarily expand via organic growth by strengthening its position and developing its range of products and services. Selective acquisitions may also be made if they are a valuable addition to HMS's technology or product portfolio, thus strengthening the company's offering to the market

Focused product development

HMS will develop products and solutions based on the latest technology and expertise in industrial networks, wireless communications and remote management. The cornerstone of all development work is to create significant value using leading technology in order to meet market needs, while maintaining the focus on quality and environmental aspects

Vision Mission Goal

The vision of HMS is that all industrial devices will be intelligent and networked. HMS shall be the market leading partner in the world of industrial communication

We provide reliable, flexible and easy-to-use communication and remote management solutions to the world of industrial communication

Average long-term annual growth of 20 percent. Operating margin higher than 20 percent. At least 98 percent of deliveries will be on time. Returns of delivered products will be less than 200 ppm (parts per million)

Strategic product areas

HMS will be providing products within the three brands Anybus, IXXAT and Netbiter. The product portfolio for each area will continue to be further developed and expanded, keeping pace with customer needs and technological developments in order to strengthen HMS's position as a leading supplier of proven, complete solutions for intelligent industrial communication

Optimal business models

HMS's operations follow optimal business models based on market conditions and customer needs. For embedded network cards, most business is via framework agreements (also called 'design wins') with manufacturers of automation equipment. This provides HMS with a strong foundation for growth. For Gateways, IXXAT and Remote Management, HMS manufactures and delivers products continually as orders are received from customers using our sales offices or distributors all over the world. The Netbiter Remote Management concept also includes a subscription service for providing customers with access to information

Sales and distribution

HMS has its own sales offices in strategically important markets (Central Europe, North America, Japan, Scandinavia, Great Britain, Italy, China and India) as well as a number of global key account managers. In other markets, sales are conducted via an effective network of exclusive distributors in over 50 countries

The HMS Partner Program is a new strategic sales channel that is in the start-up phase. It aims at increasing the sales for Gateways and Remote Management. The program is designed for system integrators who are responsible for connecting industrial networks and creating communications solutions for industry. By cooperating more closely with these key stakeholders, HMS can provide both product knowledge and training, as well as spread the company's experience and expertise to more industrial sectors

Full control over operations that add value

HMS provides high-quality turnkey solutions that are easy to install and use. This requires full control over the entire chain of value-adding operations, i.e. from product development, components supply, manufacturing and distribution,

to training and after-sales service. HMS uses its business management system (BMS) to ensure quality and continually improve its operations

Manufacturing occurs in-house in close cooperation with exclusive distributors in Europe and China. The production of prototypes, small series, certain customized products, quality control and final assembly are performed at HMS's own facilities in Halmstad, in close proximity to the development department

For several years already, HMS and its strategic suppliers have been certified according to the ISO 9001 quality management standard

Environment and sustainable development

All of HMS's operations comply with the company's environmental policy and apply its model for sustainable development – Eco Strategy Wheel – for all technology development, product development and manufacturing activities. HMS also adheres to the RoHS Directive adopted by the EU and the REACH regulations on the use of chemicals. HMS products are CE marked. Development work prioritizes solutions that contribute to sustainable development primarily via high productivity, energy efficiency and product lifespan

HMS's business models

HMS has designed its business models to fit each market and product line. For the Embedded market, most business occurs via framework agreements (i.e. design wins). The sales cycle is relatively long and the design phase is performed in close cooperation with the customer. After that, there is steady revenue over a long period of time. For other products, the business model is more traditional, with a short business cycle and manufacturing based on customer orders.

Embedded – Design Wins

For Anybus Embedded, the business model is based on framework agreements (i.e. design wins). A design-win typically involves a collaboration in excess of ten years, with a manufacturer of automation equipment. For this business model, there is a relatively long development period followed by steady long-term revenue, provided that the customer's product gains acceptance in the market.

In most cases, standard products are offered that are quick and easy to integrate. They are also suitable for many applications. For certain larger customers, fully customized hardware and software solutions are offered that meet specific requirements. This sometimes also involves issuing a manufacturing license so that the customer is able to manufacture the network interface card unassisted.

Gateways – more cooperation

Gateways and most of the IXXAT products are sold as independent products that are manufactured according to customer order. They are sold via a network of approximately 50 distributors, either directly to the end user or to system integrators, installers or machine builders who integrate networks and build communication solutions for industry.

Remote Management – products and service subscriptions

Netbiter Remote Management is sold as a gateway with associated subscription to the Netbiter Argos web service where customers can access their equipment online. Netbiter Argos offers this as a



free-of-charge standard solution, as well as a more advanced service with increased functionality via a paid subscription.

The revenue cycle for embedded network interface cards in automation equipment

Evaluation phase
The customer buys a test series of Anybus and evaluates HMS as a supplier. The time required before a decision is made is typically 2-12 months.

Design phase
The customer then adapts the product design to Anybus, which is a process that typically takes 6-18 months, depending on the launch plan.

Production year 1
The customer's product, containing an embedded Anybus, is launched, usually in several markets simultaneously. By the end of year 1, it has typically achieved 50 % of its market potential.

Production years 2-3
The product becomes increasingly established and for most cases, it reaches the entire market within about 3 years.

Production years 4-7
The customer's sales keep pace with the market for industrial automation.

Production years 8-10
Sales start to diminish and the customer initiates the launch of a new product generation with sales of spare parts and replacement cards.

Production
years 11 and later
After-market phase with sales of spare parts and replacement cards.

50% of the potential

100% of the potential

Stakeholder Groups

Customers

Manufacturers of automation equipment do not need to worry about adapting their products to suit the multitude of communications standards by using Anybus Embedded and IXXAT solutions. HMS takes care of the communication allowing the customer to concentrate on its core business.

For geographically dispersed installations, Netbiter Remote Management offers a web-based solution for remote monitoring and control, which means major savings in terms of technical support and maintenance, and improves the reliability and service life of the equipment.

Shareholders

HMS is an independent supplier of patented technology for intelligent industrial communication that improves industry's productivity, flexibility and energy efficiency. The company supplies proven, certified turnkey solutions that meet customer needs, including configuration tools, drive routines, training and support.

The HMS market is growing due to increased connectivity and demand for intelligent communication solutions. The company is continually expanding its portfolio of standard products and increasing its sales volumes, which results in economies of scale and good profitability. Over the last five years, HMS's growth has kept pace with or exceeded the market. HMS has an explicit dividend policy of up to 50 percent of the profit.

Employees

HMS offers its employees the opportunity of working with exciting technological developments in a modern, dynamic and growing organization that has a wide network of international contacts and excellent career opportunities. The company culture is modern and open, where shared values, learning and own responsibility are prioritized. HMS employees have many opportunities for shaping their work situation and developing their skills and role in the company.

Environment

HMS's products make industrial processes more flexible and energy efficient. HMS prioritizes the development of energy efficient, compact products with a long useful life that do not contain any materials or components that are hazardous to the environment. Sustainability efforts are comprised of careful evaluation of development and manufacturing processes, materials selection and supplier quality.

Many professional roles create dynamics

HMS is a growth and knowledge company with own operations at every stage of the process that adds value - from research and development, to purchasing, production, sales, marketing and customer support. This creates good dynamics with many professional roles interacting in a learning organization. In order to achieve common goals and growth, without sacrificing quality, you need a strong company culture and shared values, which in turn makes it possible to have short decision paths and employees that can take their own initiative.

Clear, shared values

HMS is a young, international, entrepreneurial company where there is high growth, exciting technological development and proximity to customers. This makes having shared values even more important, because it ensures that decisions and working methods are aligned with our long-term strategy. It also serves as our guiding star when performing daily tasks and interacting with customers, suppliers, colleagues and other stakeholders.





HMS has formulated these shared values as five principles – HMS High Five. They are basically self-explanatory. We will always prioritize our commitment to customers. We will grow and be innovative. We pursue our work with a long-term perspective. We believe in building relationships and being cost efficient.

Few decision levels and a dynamic work environment

HMS has a flat organization, with widespread delegation of responsibilities, few decision-making levels and quick decision paths. Employees at HMS are used to taking own responsibility, tackling new challenges and learning new skills.

This results in a dynamic work environment, where there are many opportunities for shaping and developing one's own professional career. It also creates a strong drive and commitment to continually improve, which is a critical success factor for a growth company that provides high value-added.

The right recruitment leads to growth and quality

HMS's growth strategy depends on it having employees with the right expertise. The task of recruiting development engineers is challenging for HMS and many other companies. HMS actively strives to profile the company 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 types of social media. This year, we added 25 new employees, of which 7 in Sweden and 18 abroad.

Feedback brings improvements

Employee surveys are regularly conducted. Status checks are carried out four times per year and a more comprehensive survey is conducted every 18 months. The aim is to monitor and measure how employees feel about the company's values, work environment, climate for cooperation and leadership, as well as at a departmental level for the company as a whole.

The surveys provide valuable insight and ideas on how HMS can become even better as an organization and employer. This year's survey revealed that, among others, a pleasant work environment and cooperation with colleagues are highly valued.

Work and career

HMS has a young workforce and it is a learning organization, which applies to our daily operations as well as our external and in-house training initiatives.

A large portion of development work is carried out jointly with customers, typically in an international network that provides new perspectives and personalized skill development.

At the company, there is a special foreign exchange program that provides engineers from the development department with the opportunity of working in one of the company's other offices around the world.

All new positions are filled in a transparent recruitment process and applications from within the company are encouraged. Newly hired employees also take part in an introduction program and career development discussions are held each year for all employees.

Health and lifestyle

In order to maintain good health and lifestyle, regular health check-ups, ergonomic reviews of workplaces as well as many different types of subsidized training courses are all offered. Group activities for fun and fitness are arranged on a regular basis. In 2014, sick leave stood at 2.84 (1.91) % and employee turnover for the Group was 6.5 %, while in Sweden it was 5.5 (4.6) %.



Sabina Lindén
Human Resources Manager

Committed employees



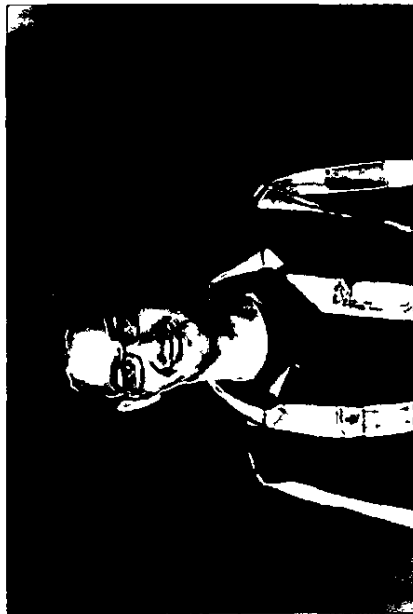
Josh Pearl Since starting my career as a Development Engineer with IXXAT Inc in 2005, I have transitioned through roles as Application Engineer and Sales Manager before becoming Engineering Manager for HMS North America in 2012. I have the pleasure of working with the HMS Inc Solution Center and Technical Services teams to develop customized products, provide pre-sales application support, and post-sales product support to our North American customers. My personal responsibilities include a variety of tasks such as *architecting customized solutions*, negotiating development contracts, optimizing the support workflow, and maintaining local IT. I am proud to be working at the forefront of industrial communications with such a talented and exciting group of colleagues.

Sandro Helic I have been working at HMS for 13 years, and it has been a great experience to witness how the company has constantly grown year on year. I work at the Supply Department at HMS where I am the coordinator of one of the groups. In my group, we conduct selective soldering of through-hole components. The job consists of the assembly, selective soldering and inspection of finished products. The job also includes responsibility for prototype runs and programming of new programs for prototype runs. In addition, I'm responsible for ensuring that today's plan of execution will be completed on time, that we comply with all procedures and production documentation, and for maintaining orderliness. I'm really looking forward to working on and helping the future growth of HMS.



Johan Gunnarsson I have been working as a development engineer at HMS since May 2009. My main task is to write the software used in our embedded Anybus products, both for the standard range and for bespoke orders. The work also includes information on preparing specifications and testing modules. In 2012, I was given the opportunity of working at our office in Chicago for six months. This proved extremely useful as I worked closer to our customers and gained a whole new perspective on how our products are used. Each new project brings new challenges, which means that you are constantly learning new things and are able to continue your own personal development. Combined with all the pleasant colleagues, this makes HMS an incredible place to work.





Klaus Angele I've worked as Software Developer at IXXAT since spring 2009. The last three years I am more and more involved in the development of our Safety Solutions. This specifically means FSoE (FailSafe over EtherCAT) software. We want to enable our customers to integrate "Safety" quickly and easily into their own products. Being a part of creating a rising product area at IXXAT is very satisfying for me. By working in small teams I can immensely benefit from my experienced colleagues. I like what I do because I'm always facing new challenges. There is a good feeling when problems are successfully solved and a product works well. I really enjoy working for a company with so many opportunities.



Niclas Eliasson A picture says a thousand words, they say. Over the past four years, I have been working with images and video for use in HMS marketing. This involves producing images for online use and for brochures, as well as for videos for our offices around the world. When it comes to product images, we rarely use ordinary photography and work instead in 3D. With the help of 3D surfaces, we are able to create photo-realistic images where you can easily control the lighting, camera angle and change the color of the product etc. It feels very stimulating to work with colleagues on marketing material that showcases our exciting products in the best possible way.



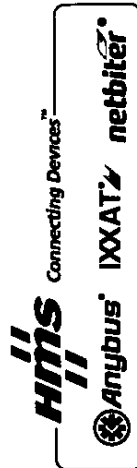
Annika Bengtsson I have been working as an economist at HMS since 1998, and over the years have held many different posts in accounting, financial statements and payroll. I have also worked for some years as a production planner. As the company has grown, the need to develop and provide internal support for our business system has grown, and this now represents the lion's share of my work duties. I also work on new projects and the implementation of systems that communicate with our business system. The best thing about HMS is that it is an exciting and challenging company to work for. Through all my years at HMS it has always been extremely enjoyable with a positive atmosphere resonating between old and new colleagues.

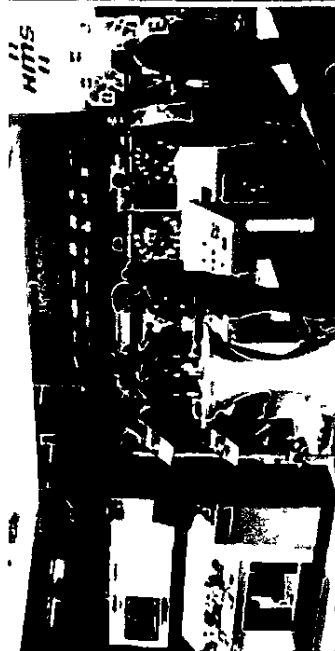
Communicating industrially

In 2014, work continued on consolidating a clear marketing strategy for HMS at a company level, and for Anybus, IXXAT and Netbiter at a brand/product level. This was clarified, not least on the Internet, with the launch of a company-specific website that presents HMS as the company behind the product offering. The HMS site, www.hms.se, thereby supplements the three existing sites for each product brand. As the product offering was expanded over the year, product marketing grew to cover new areas which helped to establish HMS in new industrial and geographical markets.

Clear brand definitions

Anybus, IXXAT and Netbiter have their own clear identities, but they also have a common denominator, i.e. industrial communication. Anybus provides the capacity to connect products to different industrial networks – “multi-network connectivity for fieldbus and industrial Ethernet”. IXXAT is designed to provide “communication solutions for machines, safety and automotive”, while Netbiter focuses on the “remote management of industrial equipment”.





Traditional and new markets

If you put the product range in the HMS product brands together, a turnkey offering emerges that is appealing to a growing number of industrial markets – partly because the HMS offering has been expanded, but also due in part to industrial communication growing in importance across the industry. HMS's marketing strategies were based on this in 2014, and a large number of marketing activities relating to existing and new markets were implemented during the year. The year included many product launches mainly directed at the largest market, factory automation, but also at the real estate and energy automation, emergency power, telecommunications and automotive sectors. Specific solutions for communication within

machines and engine control modules were also launched, which further expanded the market scenario.

Three million product milestone reached for Anybus

The flagship Anybus product reached a milestone in the fall. At the German industrial trade fair SPS/IPC/Drives, HMS presented a plaque to Bosch Rexroth as the recipient of the 3-millionth Anybus product delivered from HMS. Bosch is one of thousands of manufacturers of automation products that buys products from the Anybus CompactCom family, and the launch of the latest CompactCom technology which took place during the year, has allowed HMS to be able to address previously untapped market potential. By proactively promoting the new network solutions for industrial Ethernet that are available in a number of different product formats within the family, from traditional communication modules to fully integrated chip solutions, HMS has consolidated its position as market leader in embedded solutions for communication.

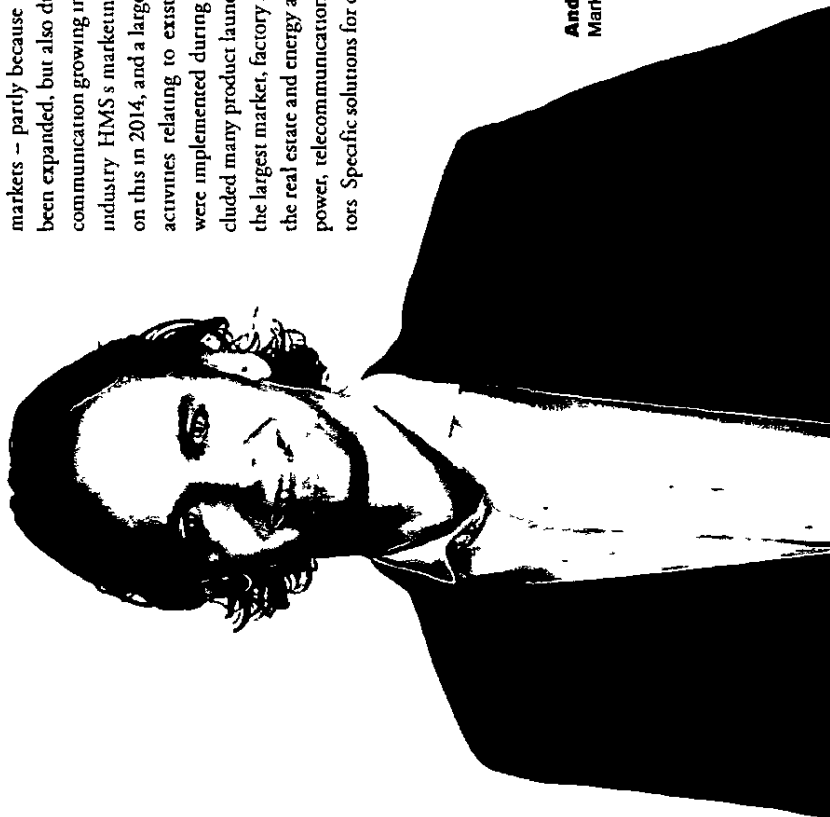
Within gateways, HMS has been able to consolidate its position as a market leader, mainly

through the launch of a modernized gateway offering that has a focus on system integrators in factory automation, but also through new initiatives aimed at related markets such as building automation, where HMS's new BACnet gateway has been well received. The launch of the Anybus Wireless Bridge for wireless connectivity has also helped to raise the profile of HMS as a company at the forefront of new technical solutions.

IXXAT – machines and safety in focus
A substantial part of the IXXAT offering is focused on machine builders and automation engineers and several market launches have reinforced this identity over the year. In 2014, new market areas have been able to be addressed in the incorporation of Anybus technology into certain products, such as IXXAT Econ 100. The competitive advantage is the mix of IXXAT's technology for the PC-based control of machine applications in combination with Anybus network connectivity.

Functional safety is becoming increasingly important to industrial communication and as such, it is a priority for manufacturers of automation products and machines. The HMS offering in this area is marketed under the IXXAT brand

Anders Hansson
Marketing Director



The driving forces for growth in industrial automation per geographic region



North and South America
A definite but slow recovery for HMS based on an increasing need for productivity as market conditions improve



Europe
Established manufacturing countries like Germany require increased flexibility at production sites



Asia
Considerable needs exist for automation-related equipment in the areas of energy, working environment and infrastructure

Middle East and Africa

Investments in alternative industries to diversify income sources together with investments in infrastructure create the right conditions for HMS to sell remote management solutions

and the IXXAT Safe T100 safety module recently received a strategically important certificate from TÜV (German Technical Inspection Association), which has opened the door for T100 integration into automation products across the industry

New approach gives a boost for Netbiter

Within Remote Management, marketing continues to focus on key segments such as power and telecommunications. In 2014, HMS was able to address the market with a new bundled offering that includes both products and services. The combination of the Netbiter Easy Connect 350 product and the new Remote Access solution has opened up selling opportunities particularly with regards to machine builders and PLC manufacturers in HMS's principal market of factory automation. Remote Access is also the name of one of the three services that were launched together with Netbiter in 2014, the others being View & Control and Manage & Analyze, clearly defined services that relate to what users are searching for within remote monitoring. This overall picture has contributed to the establishment of Netbiter on the market in 2014.

Technical Services in focus

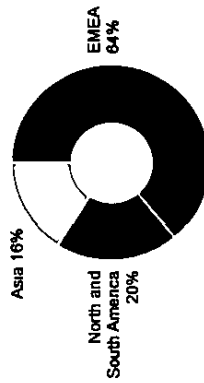
HMS has always looked to adopt an overall approach, i.e. not just offering a competitive technical solution, but taking responsibility for manufacturing and delivering high quality products to customers, along with generous warranties and free technical support.

Within the marketing side, a new global initiative is underway that is in line with the overall aim termed Technical Services where proactive customer support is combined with traditional technical support and training associated with the products. Customers should know that HMS is ready to help them so they can quickly and easily start using their HMS products. Furthermore, it should be clear that HMS is the company behind Anybus, IXXAT and Netbiter.

The products communicate – as does HMS

During the fall, HMS sales and marketing employees once again enjoyed a golden opportunity to communicate with the market face-to-face when HMS exhibited at several leading trade fairs internationally over the months of October and November. The results reveal that it is clear that

HMS product sales per geographic area



awareness of what HMS and its product offering represents is gradually improving. Evidence that the offering continues to be relevant is seen in the vast amount of requests that the HMS sales organization received at trade fairs from potential customers internationally, both within HMS's traditionally largest market, factory automation, and HMS's newer market segments such as remote monitoring, machine communication, power and energy supply, process and building automation.

Many visitors to these trade fairs are already familiar with HMS – either as a previous customer or after having taken note of the HMS marketing mix through various channels. About 700 articles on HMS and its product range appeared in the international press over the year. This fact, together with regular newsletters, modern websites and a clearly defined strategy for social media, helps with the fact that HMS communicates with the industrial market in an efficient manner – another important angle of industrial communication for HMS.

Central Europe

The HMS Central European Sales and Marketing Organization (CESMO) is serving the HMS markets in Germany, Austria, Switzerland and France. CESMO consists of 34 people mainly located in our offices in Karlsruhe (Germany) and Mulhouse (France).



With approximately 2000 active customers and more than 30% of the group revenue, CESMO is the biggest sales territory in the HMS group. CESMO is managed by Michael Volz, who has a sound technical background in industrial communication and a long history in managing the organization successfully.

Our local organization takes full responsibility for Sales, Technical Services and local Marketing activities in central Europe.

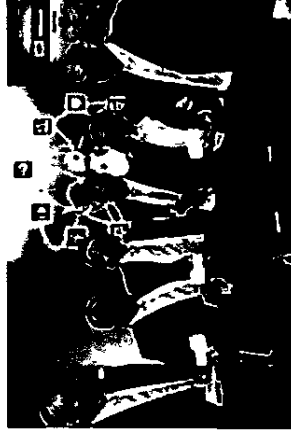
Germany is the main market. Here, CESMO serves its customers directly with own staff. Qualified distributors and system partners complement our direct sales activities in Austria, Switzerland and France. After the successful integration of IXXAT, we can show our customer a complete product portfolio with all three product lines: Anybus, IXXAT, and Netbiter. CESMO's sales team, could show an organic revenue growth of over 25% in 2014.

In 2014, a local solution center was successfully established in Karlsruhe. The local solution center fulfills individual customer requirements based on our standard products. The service offer includes modifications of the mechanical dimensions and electrical interfaces of our embedded products as well as implementation of proprietary customer protocols into our gateways. The customization services of the solution center help us to strengthen the relation to our customers.

CESMO has a strong focus on supporting customers during in-design and implementation of the HMS products. The local Technical Services

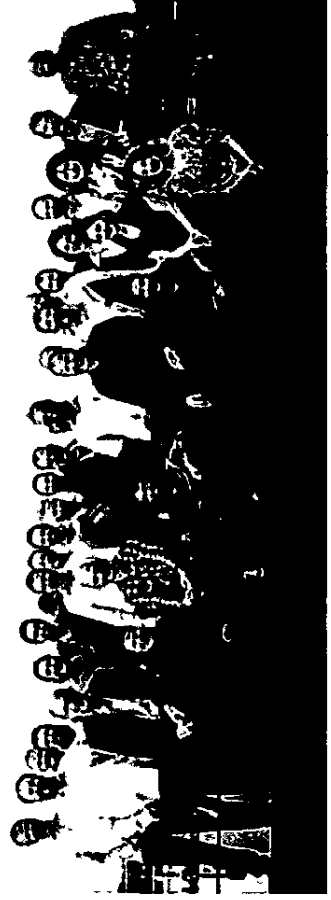
department together with qualified Field Application Engineers, is providing technical assistance to customers helping them to speed up their in-design and to concentrate on their core competences.

Germany is a major market of automation technology. Mega Trends such as "Industry 4.0" and "Industrial Internet of Things" are increasing the need for communication technology in all industrial sectors even further. Communication technology is the basis of the upcoming Industrial Internet of Things giving HMS a bright future for further growth in Central Europe.



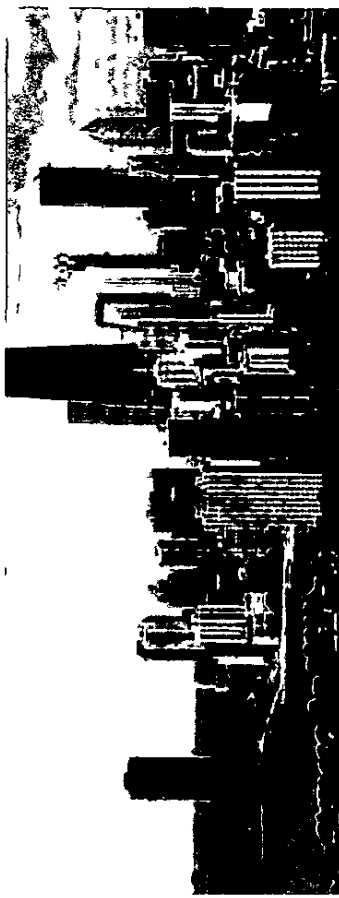
Bosch Rexroth, who is among the largest customers in Germany, has received the 3 millionth Anybus module for connecting their welding controllers to Profinet.

With a team of 34 people, our Central European Sales and Marketing Organization (CESMO) is serving the HMS markets in Germany, Austria, Switzerland and France.



North America

HMS Industrial Networks Inc. is headquartered in the heart of downtown Chicago. HMS Inc. also has a development and technology office in Bedford, north of Boston.



HMS Industrial Networks Inc. is headquartered in the heart of downtown Chicago. HMS Inc. also has a development and technology office in Bedford, north of Boston. HMS Inc. is responsible for sales, marketing, technical support, customer service, and custom solutions for customers in North America, Central America and South America (excluding Brazil).

HMS Inc. serves approximately 900 active customers with its staff of 25 people, and a distribution channel comprised of 200 distributor sales locations and 17 system partners. Having offices in North America allows HMS to provide product support and customer service to satisfy local market needs. Additionally, the Solution Center in Bedford customizes HMS products to implement customer-specific solutions. This allows HMS to offer customers a solution specific to their needs within industrial network connectivity, machine communication, wireless solutions, and remote management.

HMS Inc. encounters a broad range of industries in North America. The top industries include motor vehicle and transportation equipment, food and beverage, oil and gas production, chemicals, metals, machinery, computer and electronic products, electrical equipment and medical equipment.

Focus areas in North America for 2014

Move to Industrial Ethernet

The Anybus Embedded solutions help automation device manufacturers of products such as AC drive, weigh scale, energy and power management, motor protection, pneumatic and specialized sensing devices add connectivity to Industrial Communication technologies. North America has a large installed base of legacy manufacturing equipment. The Anybus Gateways allow the existing installed equipment to be migrated to new Industrial Ethernet based automation control systems.

Remote asset management and cloud computing

Wireless communications and cloud computing is a fast growing trend in many industries. The Netbiter Argos product allows customers to deploy smarter equipment they can manage remotely. This enables the equipment to become more productive with lower operating costs. Of particular focus for HMS is backup power generation equipment, oil and gas production and transportation equipment, industrial automation equipment, and water and waste water systems.

Machine Builders

IXXAT products allow customers who build specialized machinery to add advanced CAN and Industrial Ethernet technologies to their machines. Examples include medical automation, transportation, and semiconductor manufacturing.

Lastly, being part of the HMS group allows HMS Inc. to offer a global perspective to North American customers, which provides them with insight into global market trends and technologies so they can expand their business to other markets and geographic regions.



The employees at the offices in Chicago and Bedford work with the HMS markets in North America, Central America and South America.

Japan and Korea

HMS Japan in Shin-Yokohama just south of Tokyo, serves the Japanese and Korean market with industrial communication solutions.



In Japan, the business conditions for the Industrial market has been positive since 2013 and HMS benefits from this. Major Japanese Factory Automation equipment manufacturers have continued to be busy exporting products under positive exchange rate conditions. Additionally, domestic business has been recovering since 2014.

HMS is currently doing very good business with several Japanese robot manufacturers. Their business is improving as they export to the US, China and Asia. HMS Japan could expand our Anybus Embedded business to several Korean robot manufacturers in 2014.

The Anybus CompactCom 40-series has put us back on track with the drives manufacturers. We now see drives manufacturers choosing Anybus solutions for their high-end products. We can see a positive future with many potential projects in this field.

Visual sensor manufacturers are another major target group for the Anybus CompactCom 40-series. The Visual sensor-business is a new field for HMS Japan. The demand for "automatic visual inspection" is increasing in several areas. Safety is one of most important keywords for robot and drive manufacturers. They are evaluating IXXAT safety solutions, and we have already started talking to them about actual projects.

Anybus gateways are becoming well-known on the Japanese market as instant and easy-to-use solutions for connecting devices in a factory. At the same time Anybus gateways are good door-openers to other Anybus solution for new customers.

IXXAT and Netbiter were not promoted on the Japanese market until 2013. In 2014, we have started promoting these solutions in the same way as Anybus. Netbiter will hopefully get an impor-

tant Japanese certification in 2015 which will be a major business enabler. We are seeing potential customers for Netbiter within diesel generators and water treatment applications. The interest in IXXAT solutions is also increasing in Japan and we have started accelerating IXXAT and Netbiter with new staff.

In 2013, we hired new staff who is now up and running and have improved skills and experiences in 2014. We now run efficient marketing events and technical seminars for our customers. 14 years after starting HMS Japan, we now have 12 people in the team and a good organization to meet the challenges of 2015.



The Japanese team has its office in Shin-Yokohama near Tokyo

International Sales

HMS International Sales represents our newest sales offices across the globe as well as over 50 distributors worldwide. All highly competent sales teams whose commitment to our strategies have resulted in an overall 28% growth in 2014. Given the geographic diversity of our portfolio, the market trends are as varied as the number of countries involved.

The photos at the right show members of the International Sales team



HMS CHINA

This year marks HMS China's tenth anniversary. HMS China has a strong brand reputation, a wide product offering and offers a range of high quality products. We are proud to offer state-of-the-art HMS communication solutions to Chinese industrial customers, coupled with localized business and technical support.

Historically, HMS China has grown rapidly in line with China's industrial growth as well as HMS' global expansion figures. The Chinese market has been subject to rapid changes in the last decade and growth has been slowing down compared to a few years ago when the economy was dominated by investments in the mass production industry. The Chinese automation market has been dominated by the need for construction of factories and infrastructure.

Recently we've seen a growing interest in industrial networks from Domestic device manufacturers and machine OEMs to improve technical competences and product quality levels. So the demand for HMS solutions is increasing.

HMS INDIA

HMS India was founded in 2010 and although it has proven to be a tough market, business conditions in India are stable and improving. Overall, we gained positive business growth in India in 2014. Some of the verticals such as Food, Medical Machine Building, Energy (Oil & Gas) have not yet been affected by changing market conditions whereas Telecom has suffered due to a reduction in margins and strict monitoring by the authorities.

In 2014, HMS India was able to generate and convert a good amount of leads to actual business while competing against local brands and other low cost solutions. Although the present business of Netbiter is small, the rate of growth for this product line is encouraging. We also observed strong business coming in for IXXAT products. We can also offer local pre-sales and after sales support.



HMS ITALY

HMS Italy has shown positive results in general and continues to grow. HMS Italy is the market leader market leaders on embedded connectivity products and in 2014, we won several design awards with the introduction of the new Anybus CompactCom 40-series.

The product expansion with the IXXAT portfolio created many opportunities to enter new segments such as medical machine building and Automotive.

We have been actively promoting and distributing Netbiter products in 2014. With the release of EC310/350, we now see substantial results.

The Italian market is still suffering from a general uncertainty in industrial production which has mainly affected the domestic market. However, OEMs are still exporting and are successful in growing business. This has had a positive effect on our Gateway, IXXAT and Netbiter business.

HMS UK+EIRE

The UK and Eire industrial segment, has in spite of concerns for economic downturn, remained reasonably steady during the last 12 months. The UK shows great potential in the energy optimization market as well as automotive sectors thereby presenting good growth opportunities for Netbiter and IXXAT products. HMS UK+Eire's product sales have been impressive in all product areas and have achieved a substantial sales growth of 40% in 2014. Netbiter has again proven harder to sell than anticipated, but in spite of this, a sales increase of 52% was achieved primarily due to Netbiter successes in the increasing UK energy monitoring marketplace.

The UK+Eire office which opened in 2011, uses a mixture of distribution and direct sales which offers a solid geographic market presence.

Even though we are a relatively small office, we at HMS-UK+Eire feel part of a larger global sales team (HMS Industrial Networks AB), and that we are an important part of a large international company.

HMS NORDIC

HMS Nordic consists of Sweden, Norway, Finland, Denmark and Iceland. Typical segments for HMS products are food & beverage, the medical industry, machine and instrumentation.

Despite the slow economic growth in the Nordic countries, HMS sales rose by more than 25% during 2014 compared to 2013.

After the release of products in the Anybus CompactCom 40-series, we started to enter new business areas, such as "motion and control" and we see continued interest for our products in this area.

In 2014, HMS changed into direct selling of the IXXAT products. This strengthened HMS position as market leader in the Nordic countries. Furthermore, it opened up new markets for us through the benefit of the IXXAT products suitability for the marine and process industry. Thus, Norway has become an even more exciting market for HMS.

HMS CHANNELS

HMS Channel Sales is based in Sweden and cover the geographical areas where HMS does not have sales offices of its own. On these markets, we work with partners and distributors to offer HMS products on the local market.

HMS channel managers work with developing our business together with our distributors and partners and our technical services team in Sweden provide support, training and technical services to grow the local business made by distributors and partners.

Focus markets includes Brazil, Benelux, South Africa, Spain, Poland, Australia/New Zealand, South East Asia and Turkey. In addition, we also have distributors in 30 smaller markets and emerging countries.

Based on local market conditions, HMS targets different applications. In South Africa, for example, we see many applications within mining and energy. In Turkey, we see many applications for discrete manufacturing.

We focus on building long-term relations with our partners and distributors. Many of which have been working with HMS for more than ten years.

Faster, smarter and more flexible



MARKET

Ever-growing market for industrial network interface cards

The market for industrial network interface cards, which is the specific sub-market for the Anybus Embedded product line, is estimated to be worth approximately SEK 7.5 billion. Manufacturers of industrial automation equipment who make their own network cards represent the largest portion of the market, worth approximately SEK 6 billion. Other external suppliers, like HMS, share in the remaining portion, valued at approximately SEK 1.5 billion. This market is expected to continue growing by around 10 percent per year during the next few years.

HMS has a leading position in the market for external suppliers, with market share of nearly 20 percent. At the same time, there is considerable potential within the portion of the market where manufacturers of industrial automation equipment design their own solutions.

Demand for flexible communication solutions

The share of automated machines and production processes is growing within discrete manufacturing and process industries, in both mature markets and growth markets. With increased automation, the demand for communication solutions from manufacturers of industrial equipment increases. Communication is conducted across a range of industrial networks – where 15-20 networks make up the majority of the market. Manufacturers who want to operate on the global market must be able to offer their customers products that can connect to the majority of these networks in a flexible and efficient way.

Wide target group with same communication needs

The buyers of embedded network interface cards are primarily manufacturers of automation equipment for process and discrete manufacturing industries. They manufacture a wide variety of products that need to communicate in industrial networks, such as robots, engine control modules, sensors, pumps and fans. Although the target group covers a wide range of applications, they share a common denominator when it comes to communication, that is independent of the type of product. HMS benefits from this fact and offers communication solutions via Anybus Embedded that can be used by all types of automation products to connect to the desired industrial network.

Providing high value to customers Improves competitiveness

Manufacturers of automation equipment thereby improve their competitiveness in several ways. According to surveys, development costs are reduced by up to 70 percent, and this also significantly shortens the manufacturers' time to market launch. Thanks to the Plug'n'Play functionality that Anybus offers, a shorter delivery time to the end customer is also possible. It enables the manufacturer to quickly adapt the product to the end user's specified communication solution and choice of industrial network. With Anybus, manufacturers can offer their customers a completely flexible product that can easily be configured, adapted and changed according to the circumstances.

Customers all over the world

HMS has customers of all sizes in the embedded segment and they are located all over the world. The largest markets are mature markets with a high degree of automation – such as Germany, USA and Japan – but recently also growth markets such as China, India and Brazil. The Nordic market for embedded network interface cards is also attractive to HMS because of the strong tradition in the manufacturing of industrial equipment.

Competition and potential

HMS has a unique global position among the independent companies that focus on communication solutions in the Embedded segment, largely due to the company's extensive product portfolio that is primarily comprised of Anybus communication modules. Its closest competitor is the German company, Hilscher, which also develops and manufactures network interface cards. However, their offering is only comparable to a certain extent.

Looking at the total market for network interface cards, HMS's largest competitors are manufacturers of automation equipment who make their own embedded network interface cards. This internal development and manufacturing currently represents the majority of the total global volume of embedded network interface cards and HMS has still not realized the full potential of this market.

Repositioning increases available market

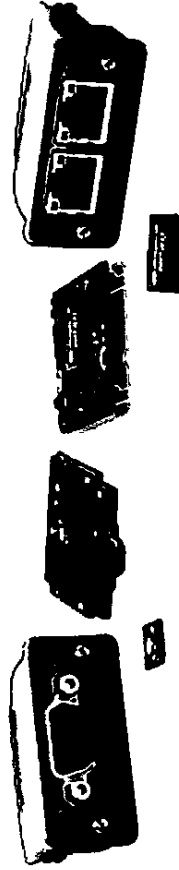
HMS feels that there is considerable potential in convincing more companies, which currently develop their own communication solutions, to instead purchase them from HMS. As a specialist in industrial communication, HMS can offer the best and most future-proof solutions so that these customers can focus on their own core technology instead. HMS is consequently repositioning itself in order to better reach this segment.

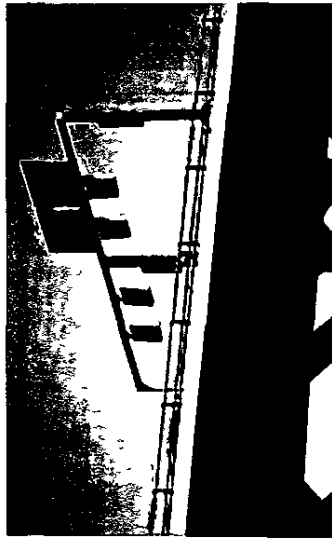
The new embedded offering, which was launched in 2014, profiles HMS more as a turnkey supplier, with a focus on two main dimensions. More product formats are offered, which gives customers more alternatives to use Anybus when they design their product. Additionally, function, performance and real-time properties through the core have significantly improved in the new offering – HMS's own network processor, Anybus NP40 – which is able to handle even the most demanding applications.

PRODUCT

Expansion of Anybus CompactCom

At the end of 2013, the first products belonging to the new embedded offer, "Anybus CompactCom 40-series" were delivered. The NP40-based prod-





"Manufacturers of automation equipment increase their competitiveness with Anybus embedded network interface cards, which, in principle, can enable an automation unit to communicate in all industrial network systems."

Christian Bergdahl
Product Marketing Manager Embedded

uct series includes the new concept, CBM, which expands CompactCom and makes it available in three formats – Chip, Brick and Module. The chip format makes it possible for manufacturers who have traditionally designed their own network solutions to now integrate an NP40-based Anybus solution into their design. The brick format is intended for customers with specific requirements on encapsulation for harsh industrial environments. The modular format remains intact allowing customers already using the CompactCom technology to migrate their products to the latest version of Anybus which now includes enhanced functionality, performance and real-time properties offered across the new 40 series.

Complete offering with focus on engine control modules

However, given its performance, the 40-series is particularly suitable for demanding industrial applications in the high volume segment, i.e. engine control and servo applications. Servo in particular, puts significantly higher demands on precision and speed. Now, thanks to the capacity of Anybus NP40 and new hardware and software solutions in the CompactCom 40-series, HMS is, for the first time, able to respond via a standard product.

Focus on Ethernet

Industrial Ethernet is capturing more and more market share among the industrial networks and the demand for communication solutions for these networks is increasing. A modern embedded solution thus requires a flexible Ethernet solution and HMS offers an innovative solution that is included as standard in the 40-series. It enables customers to, using the same hardware, download whatever Ethernet protocol they desire, such as Profinet, Ethernet/IP, EtherCAT, Modbus TCP/IP or Powerlink. In 2015, HMS will also be adding another industrial Ethernet network for Anybus CompactCom to further expand an already strong product offering.

CompactCom + IXXAT Safe T100 – a safe solution from HMS

The demand for communication solutions that meet the requirements for personal safety is increasing in industry. By connecting HMS's new safety module, IXXAT Safe T100 to Anybus CompactCom, customers get a safe solution for transmitting safety-critical information over the network, for example emergency stops and similar information. With this concept, HMS can offer customers safety solutions for their automation products without large-scale, expensive development investments. The first version of Safe T100 is designed for PROFIsafe, which is the leading

standard in Europe introduced by HMS in 2014. In 2015, the HMS offering will be extended to include solutions for CIP Safety which is dominant in North America and for FSoE. This means that both Anybus CompactCom and IXXAT Safe T100 will be adapted to be used for these security protocols.

TECHNOLOGY

Connectable turnkey solutions

Anybus embedded network cards are primarily sold as standard solutions, with complete system functionality for industrial networks – including the physical connection, hardware interfaces, configuration files and protocol functionality. The products make it possible to immediately connect to all leading field buses, industrial Ethernet systems and series, USB connected or wireless solutions. The products are certified for use with the various network standards and they meet CE, UL and RoHS standards. The customer can adapt both the card and casing as desired and fully customized products are also offered to larger customers.

Patented technology

Since the very start, HMS has focused on developing optimized microprocessor solutions for communication in industrial networks. The first solution, Anybus NP30, was launched in 2006. It was

an innovative combination of integrated memories, high performance and low power consumption in a small package. The new Anybus NP40 is based on the latest semiconductor technology and it offers even higher performance with the same low energy consumption as NP30. NP40 combines a powerful ARM® kernel with the flexibility of an FPGA device, so that even the hardware becomes programmable. That, in combination with HMS's unique, patent pending RTA (Real Time Accelerator) unit makes NP40 suitable for the most demanding real-time solutions.

New protocol stacks and network controllers

In 2013 and 2014, HMS developed a series of proprietary protocol stacks with accompanying network controllers in order to get the most out of all that NP40 has to offer. These technology blocks were developed entirely by HMS and they are all based on the same architecture so that they can more easily be maintained, expanded and used as the bases for new products or customizations. In 2015, a couple of areas will be analyzed and processed in more depth in order to expand the Anybus CompactCom offering over the next few years.

With NP40 and our own technology blocks combined, HMS is now able to offer the market's most complete industrial communication solution for a single microprocessor.

Market-leader for interconnecting networks

MARKET

Growing market for gateways

The use of industrial networks continues to increase in global industrial automation and this increases the need to interconnect various types of networks via gateways. The market for gateways is estimated to be worth slightly more than SEK 3 billion, with an annual growth rate of around 15 percent. HMS has a clearly-defined profile and market position through a well-recognized product range that primarily targets factory automation, which is the same arena as for Anybus Embedded.

An effective industrial solution

Industry must continuously streamline, upgrade and refine its production systems in a cost-efficient way in order to remain competitive. This fuels the demand for automated solutions, which, via industrial networks, connect various types of automation products. The control of industrial processes becomes increasingly effective as more and more products are able to communicate with each other in an intelligent way in industrial systems. Gateways contribute to this because they interconnect various types of networks and this creates flexibility for industry when production environments need to be created based on each industry's particular requirements.

Old meets new

An automation project in industry typically involves integrating modern equipment, which supports the latest communication technology,

using older, already installed equipment that still functions well. While the newer automation products typically communicate over industrial Ethernet, the older equipment in the installed base usually communicates over a fieldbus or serial communication. In this type of situation, a gateway, with two separate network interfaces (one for each network) is used to solve the problem and the automation engineer uses it to connect old with new. The demand for wireless communication is also increasing in the industry, opening up a market for gateways that can provide older equipment with a wireless connection. Typical applications include configuring and monitoring the system, but also on creating new networking solutions where wireless links replace traditional and expensive cable routing.

Anybus network technology provides wide market coverage

HMS's leading position in gateways has to do with the very essence of the Anybus technology, namely HMS's unique expertise on the roughly 20 industrial networks that are most used worldwide. Working from the basic idea, to merge two different Anybus network interfaces into pre-packaged gateways, HMS has created a very wide product range – now more than 300 products – that make it possible to connect virtually any industrial network that exists in factory automation. Thanks to this demand, Anybus Gateways are used and demanded by automation engineers from all over the world, mostly in factory automation but also in related areas such as building automation.

Because of the wide network coverage, HMS has a distinct position in the market for gateways and the company's perception is that none of its competitors currently has a product offering that is as extensive as HMS's. Competitors are primarily focusing on connections between a handful of industrial networks, typically in local or regional markets.

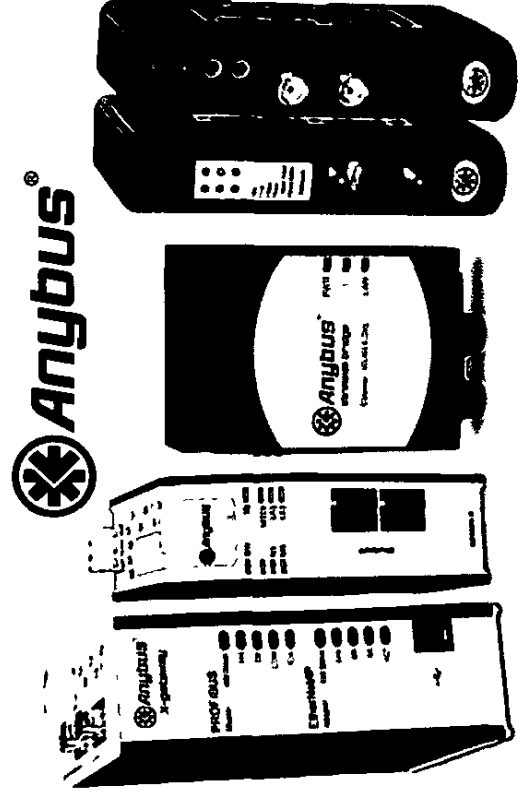
Increased local presence on all levels

Thanks to HMS's investments in its sales and distributor networks for gateways, the company has significantly increased its presence in recent years. Based on the uniqueness of each market, interaction with customers takes place through own sales reps or local distributors and partners representing Anybus Gateways. Even though HMS is a global company, it has a local presence which is a

key success factor for gateway sales, since customers typically need to solve their network connection issues rapidly. Maintaining a quick and effective sales and technical support team close to the customer is thus very important because it enables us to capture a greater market share locally.

Focus on the needs of system integrators

The largest target group for gateways is system integrators working in industrial automation. The trend of an increasingly higher level of interoperability and automation has created a growing market for specialized system integrators who assist with network and communication solutions. Just like machine builders and end customers, system integrators require turnkey solutions that they can quickly and easily configure in order to connect





"HMS's leading position in technology has to do with the very essence of the Anybus technology, namely HMS's unique expertise on the roughly 20 industrial networks that are most used worldwide."

Markus Bladh, Product Manager Gateways
Niklas Selander, Product Manager Gateways



networks and products, and also ensure a quick, safe transfer of data. Anybus Gateways meet these needs and they only require simple configuration at installation, which means that time-consuming programming by the user is not necessary. Anybus Gateways have also been tested and verified by leading manufacturers of network systems, such as Siemens, Rockwell Automation, Schneider Electric, Mitsubishi, ABB, Omron, Hitachi, Beckhoff, Phoenix Contact, Bosch Rexroth and others. This is yet another reason why HMS is perceived as a reliable and trustworthy supplier by customers.

PRODUCT

Communicator, X-gateway, and Wireless Bridge

Anybus Gateways primarily consist of three product families – Anybus Communicator, Anybus X-gateway and Anybus Wireless Bridge, all of which are leaders in their application areas. Common to all of them is the simplicity to implement via their simple configuration tools, without having to adapt any of the hardware or software

With Anybus Communicator, all types of automation products with either a serial interface or a CAN interface can connect to a fieldbus or industrial Ethernet. This increases the application area for products that would otherwise have been limited to certain applications. Communicator makes it possible to integrate and retain these products in modern network systems, which saves money for the user and extends the useful life of the product.

The Anybus X-gateway family establishes communication between two industrial networks, each of which might be either traditional fieldbuses like Profibus-DP, DeviceNet and CAN-open, or Ethernet-based networks like Ethernet/IP, EtherCAT or Modbus TCP/IP. In the true Anybus spirit, around twenty networks are covered and the product range supports more than 200 network combinations. Thus, together with the fact that the products are also designed and certified for challenging industrial conditions, means that X-gateway is a market-leading product family for connecting networks. A modernized version of X-gateway, which was updated to meet the demands of today's users, was launched in 2014. This then ensures that the product retains its leading position.

The range was expanded in 2014 to include a new program for wireless communication called Anybus Wireless Bridge. Based on market-leading technology, Wireless Bridge enables wireless connection for its automation products that communicate serially or over Industrial Ethernet. The products are ideal for installation in harsh environments or inaccessible areas.

In addition to the above, HMS launched a specific gateway in 2014 to support the popular BACnet network as a way of meeting the demand from the building automation industry.

TECHNOLOGY

New market requirements are impacting the technology

Several of the new requirements from the market are relevant to industrial communication and thus gateways. The market requires increasingly powerful solutions that can handle the load of network systems that are becoming larger and more complex all the time. Furthermore, there is a need for solutions with embedded functions for energy control and machine safety; environmental

solutions like green automation and energy efficient solutions with the latest silicon architecture.

Current research shows that the use of industrial networks plays a key role in improving energy efficiency on the factory floor. By providing automation products with network connectivity, Anybus Gateways make it possible to optimize the energy consumption for devices that typically do not have embedded network support – such as switches or compressors – via intelligent control from a PLC that is connected through a gateway. This saves energy, raises productivity and lowers costs. In certain gateways, HMS has also implemented support for the specific energy profile, PROFInergy, which has attracted attention in industry.

Automation and communication over industrial networks is becoming increasingly common even outside the realm of factory automation. This is creating constant needs for new connection solutions between networks that are used in such areas as building automation and power plants. All of this opens up new business opportunities for HMS and Anybus Gateways beyond the traditional market.

A turnkey solution for remote management

MARKET

Rapidly growing market

The market for remote control and monitoring of industrial machines and systems is still young and fragmented. It is therefore difficult a market that is difficult to assess, but several distinct driving forces indicate that it is growing at a rapid pace. We see a clear trend among leading automation companies where IoT solutions and the services that this type of technology provides, are part of the prioritized strategies for future growth. Rapid changes in technology and higher demands on both functionality and reliability in critical systems are quickly increasing the number of application areas. HMS is striving to make the turnkey solution Netbiter known throughout industry. At the same time, sales and marketing efforts for remote monitoring are focused on a number of vertical segments where there is particularly high potential, such as emergency power systems, building and factory automation and infrastructure systems.

Critical information is made available

The need for cost control, reliability and time savings is resulting in new technical solutions. With remote monitoring, it is no longer necessary to make unnecessary trips to remote facilities for the purpose of inspection.

In addition, an advanced solution for remote monitoring and control can provide the system owner with new, valuable information for streamlining operations and increasing the useful life of the investment. The requirements on reliability are increasing for mission-critical systems, which are driving the demand for intelligent control and monitoring systems that can be remotely monitored.

New technology opens up new application areas

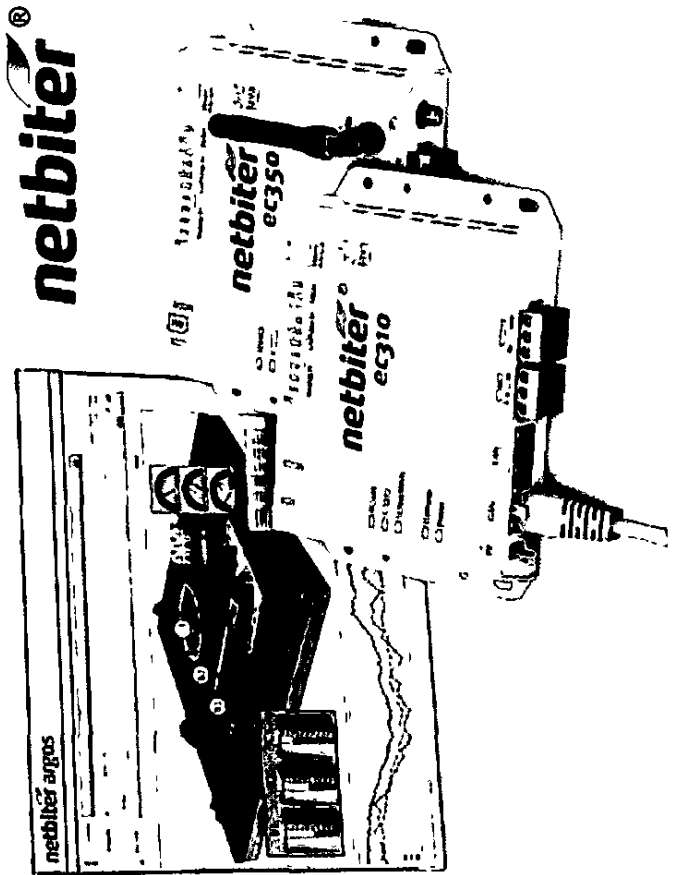
The Internet and expansion of mobile networks, has opened up new opportunities for remote monitoring and control of geographically dispersed equipment. The need for intelligent remotely controlled control and monitoring systems exists in many areas, such as traffic and transport, telecommunications base stations, emergency power systems, data centers, hospitals and banks. The energy sector is another growth area due to progressively more production of electricity using renewable energy sources like wind and water, as well as new advanced systems for energy distribution and management. All of these areas are potential growth areas for Netbiter Remote Management.

Target groups

By integrating Netbiter, manufacturers of industrial products and machines can gain a competitive advantage by preparing their products for remote monitoring in the systems where they will later become integrated. Machine builders require Remote Access for their industrial devices in order to run updates and standard service on the machines and systems used in factory automation, for example. System integrators often encounter situations where the end customer requires remote monitoring solutions for their specific industry. Consequently, there is business potential at all stages of the value chain.

Fragmented competition

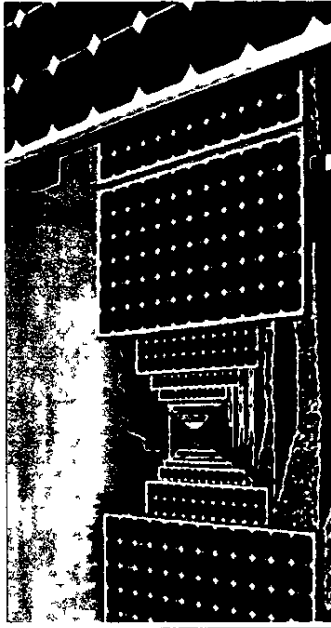
A number of suppliers offer subsystems and products in the category of remote management. However, HMS has assessed that no competitor is able to offer a turnkey solution that is as cost effective, quick and simple as Netbiter. Most of the other systems being sold today are customized solutions that have been designed for specific needs. In the application area of Remote Access, there are a few dominant players in the market, but HMS has identified opportunities for success by offering a solution that is secure and easy to use.





"With remote monitoring, it is no longer necessary to make unnecessary trips to remote facilities for the purpose of inspection."

Henrik Arfving
Product Manager Remote Management



PRODUCT

Netbiter – a simple, turnkey solution

Netbiter provides its users with a turnkey solution for collecting, storing, managing and graphically visualizing data, which helps improve operational reliability, while saving both time and costs. The solution consists of a specially adapted gateway, Netbiter EasyConnect, which, on the one hand connects to the device you want to monitor and on the other hand, enables remote contact with the device via Internet or mobile network.

The facility is automatically connected to Netbiter Argos data center, which collects, processes and visualizes data from all monitored parameters. The operator receives real-time information, along with trend analyses and automatically generated reports through the user-friendly and easy-to-grasp web interface in Netbiter Argos. As soon as any part of the industrial process strays beyond the pre-defined thresholds established by the user, Netbiter sends an alarm via email or SMS.

Remote Access also allows the user to create a remote connection directly to the control system and control equipment for remote programming or troubleshooting.

Savings and higher reliability

Netbiter Remote Management generates significant savings for system owners. Site visits can be better planned and reduced, leading to significant environmental benefits through fewer journeys and energy-efficient monitoring processes. At the same time, reliability and therefore availability improves in these installations that are often critical to businesses and society thanks to reliable monitoring and control of critical parameters, 24/7. This increases the useful life of the investment and reduces the total cost of ownership.

Back to the future

The Netbiter solution was originally designed as a generic solution for remote monitoring with application areas throughout industry. However, based on customer inquiries from various vertical markets, the solution has been trimmed to support the requirements within specific areas, such as emer-

gency power and telecommunications base stations, regarding both the technology and the packaged solution.

With the launch of Remote Access, HMS now also reaches customers in its traditional domestic market of factory automation. HMS's goal is to be able to capture market share relatively quickly due to its existing market and customer knowledge, which it has acquired through its many years of selling Anybus products to this market.

TECHNOLOGY

New Netbiter Gateway opens doors

The new generation of Netbiter gateways, the EC300 family, takes Netbiter to a new level. Compared to previous versions, capacity has been raised considerably, allowing new installation and communication options for applications in the field, while being prepared to meet the international market at the same time. For this new platform, support for communication with devices over the EtherNet/IP protocol and Remote Access function was launched during the year

Reliability with high functionality

The solution is standardized, as well as simple to implement and use. No particular software or programming is required. Options are available for wired or wireless connection and all the required components are included to achieve a safe, seamless and scalable solution. The system is web-based and no extra security (such as firewall settings or VPN tunnels) is required. Other important benefits that customers all over the world have appreciated are the solution's simplicity, reliability and functionality. The concept has also been praised for its flexible connectivity, powerful alarm function and for providing a graphic overview of data.

Industrial communication solutions

IXXAT®

IXXAT COMMUNICATION SOLUTIONS FOR MACHINES - SUITABLE FOR MANY MARKETS

Mature technology and products for a broad variety of markets

Data communication technology is becoming the central system of an ever-increasing number of machines. It is used for controlling the machine, handling human interaction with the machine, quality control and for service and maintenance purposes. The results are machines with more flexibility, higher throughput, more cost effectiveness and less maintenance required.

The trend coming from factory automation using data communication systems to control production lines still continues to be adopted in new applications and markets like renewable energy, medical, electric vehicles, battery systems, utility vehicles or agriculture machines.

Major data communication technologies used inside machines are Controller Area Network (CAN) and the Industrial Ethernet (e.g. EtherCAT). Both technologies are covered by IXXAT Communication Solutions for Machines.

Different technologies and a comprehensive selection of products

The wide range of different types of applications and machines requires different communication solutions. CAN makes it possible to build highly flexible, simple communication solutions at a low cost, but for the data and network connectivity is

limited. If the application requires large amounts of data, and very exact synchronization and/or larger networks, EtherCAT is a perfect alternative. The IXXAT team at HMS are experts in both!

Our products connect Industrial Computers to the system inside the machine for controlling the machine but also for service and maintenance purposes. By using infrastructure products like repeaters and gateways, the communication architecture both within and outside machines can be optimized. For customers, the result is a communications architecture with greater flexibility and higher performance.

Machine builders are the main targets

The customers are machine builders, system integrators and end users in many different markets. Machine builders or equipment manufacturers who develop and manufacture machines in large quantities each year are the primary target group. Once they have decided on IXXAT products and

integrated them into their machine design, they begin buying larger quantities once they start selling their machine. Examples include production machines such as packaging machines, wind turbines, X-ray systems, farming equipment, etc. Thanks to extensive R&D activities, IXXAT is also able to offer customized OEM products which meet specific customer requirements.

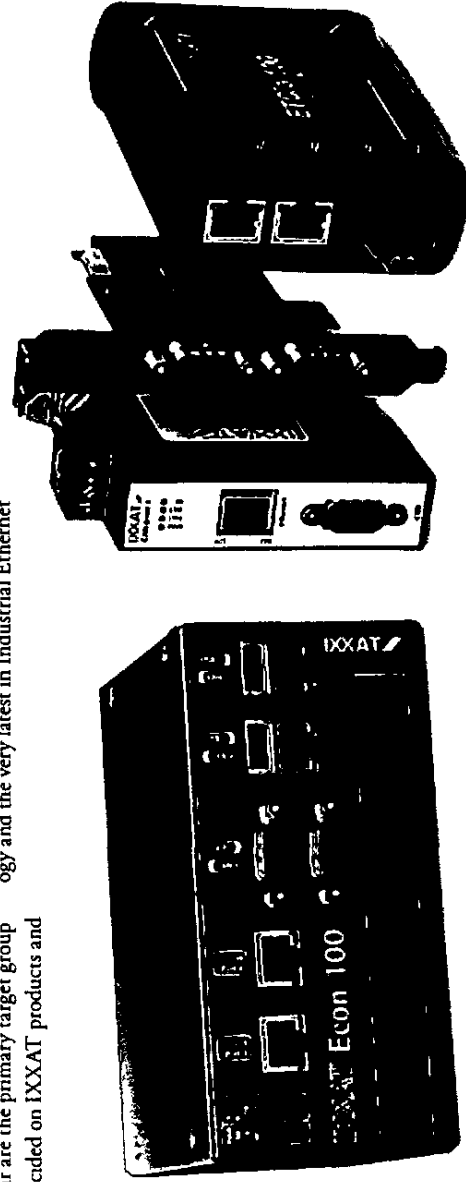
Competition and market position

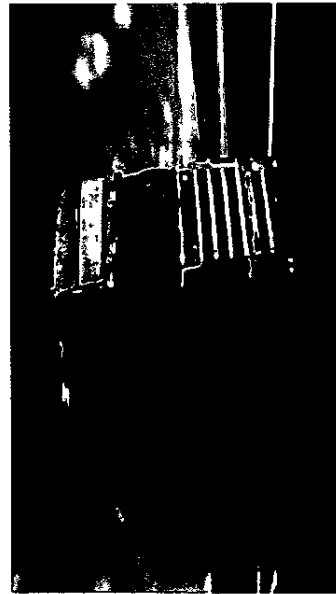
The IXXAT brand is very well known for high-quality, proven and reliable products based on CAN. Each year, more than 1,000 customers rely on these products. HMS is, through the IXXAT brand, one of the leading suppliers world-wide within the CAN field. Since we are also leading technology suppliers for the new Ethernet based technologies like EtherCAT, we are in an excellent position to offer both conventional CAN technology and the very latest in Industrial Ethernet.

IXXAT SAFETY - EXPERTISE AND PRODUCTS FOR A RAPIDLY INCREASING MARKET DEMAND

Rapidly increasing demand for safety

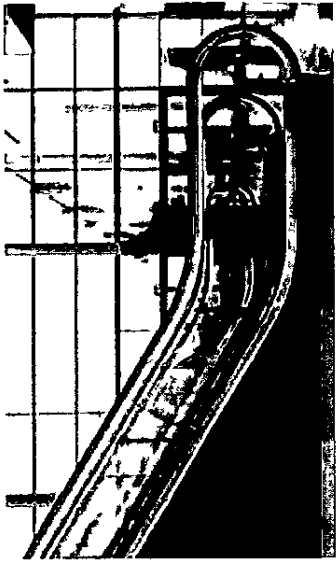
Safety mechanisms in machines are designed to protect people and the environment from harm. For this reason, safety technology has already been used for several decades to prevent malfunctions and ensure safe shutdowns. Historically this technology was implemented using dedicated cables and components with the drawback of low flexibility in case of a critical event. Machines would be stopped entirely whenever there was a safety-critical event, no matter the degree of severity, and then restarted, which is time-consuming and inefficient. Therefore a popular trend is to use modern communication technology for the trans-





"HMS is, through the IXXAT brand, one of the leading suppliers of the world-wide within the CAN field."

Thomas Wagershauser
Product Area Manager IXXAT



mission of safety-critical data and to integrate machine devices with safety functions, which will give much more flexibility. New regulations in Europe and other parts of the world put considerably higher demands on safety in machines which leads to increased demand for safety equipment among machine builders as well as end users of these machines.

Experts in safety

Working with safety technology and being able to implement a safety interface and safety features in embedded electronics, requires extensive knowledge in hardware and software development, along with the certification process for this technology. There are international standards like IEC61508 which define the rules and which have to be followed strictly. Acquiring the necessary knowledge and experience is difficult and takes a long time. Small and medium-sized companies in particular often lack the capital to build their own expertise, which is why they often seek help elsewhere.

IXXAT Safe T100 – Safety made easy
The IXXAT Safe T100 module developed during the last two years is a key product for the integration of safety in embedded electronics. With this module we have a unique offering. It provides all necessary safety features and is already certified by the German TÜV. A customer can easily integrate the module into the product's hardware with only minor modifications required and thus cut nearly two years from their R&D effort.

Unbeatable offering

IXXAT Safety offers hardware that makes it possible to implement personal safety into devices easily and efficiently. In addition, consulting services and safety software packages help customers to shorten time-to-market and to reduce risks. OEM customers with specific requirements, or who don't want to invest in own development can also obtain assistance with developing their own safety solutions, which HMS will then create for them.

With this total offering, HMS is ahead of the few existing potential competitors.

IXXAT AUTOMOTIVE – HIGHLY FLEXIBLE COMMUNICATION SOLUTIONS FOR AUTOMOTIVE DEVELOPMENT AND TEST

Specific solutions for the automotive industry

Gateways are required for the transfer of data between the different communication systems in a car, as well as for the exchange of data in the car's network and the automation network used in the test system at the factory. Signal simulation makes it possible to perform dedicated tests with a certain component of a car by simulating controllers which are not present or event which don't exist yet but which are relevant to operate the component for the test. Visualization of operational data, parameters or user-input using standard internet technologies enable the users to use PCs, tablets, or even smart phones for easily accessing and controlling the test system. IXXAT offers a scalable and highly integrated hardware platform with all relevant communication interfaces and powerful processing capacity for these systems and applications.

The uniqueness of the IXXAT Automotive offering is that communication interfaces for the vehicle and the industrial networks have been

integrated in a compact, cost-effective, easy-to-use and flexible solution.

An interesting market

Since many years, BMW and IXXAT have been working closely together in developing the IXXAT Automotive solution. Most test systems at BMW's factories and at several of its suppliers are already equipped with IXXAT Automotive products.

Features and possibilities that IXXAT Automotive offers are also of great interest to other car manufacturers like Daimler, Audi, Toyota, General Motors, and the suppliers to these companies. Once a car manufacturer has chosen the supplier of testing and development technology, it is mandatory for all sub-suppliers to also use the same technology for developing and testing the equipment that will be delivered to the vehicle. IXXAT Automotive with its products functions, ease of use and competitive prices, allows HMS to create interesting opportunities in this market.

Besides standard products, car manufacturers and suppliers also require OEM products with customized hardware and software. HMS can meet those needs with the engineering services that it offers.

QUALITY CONTROL

Full control of the manufacturing chain





HMS's operations in Sweden are certified according to the ISO 9001 2008 quality management standard, in accordance with the company's process oriented operations

HMS currently achieves delivery precision of 98 % on average and returns are less than 200 ppm. Although this is proof of both high performance and quality, but the goal is to become even better

In-house development

One important component of HMS's core competence is the company's product development. Of the 373 employees in total, 130 work on product development, which comprises the entire chain of events from specification of requirements and design, to hardware design, programming, system integration and verification

Industrialization

HMS's strategy is to maintain its production skills in-house in order to be able to influence product design and ensure that the products are suitable for highly efficient production

Production

Prototypes, pilot series and low-volume product series are manufactured at HMS's facilities in Halmstad. Final assembly of network adapters in assembly lines that are staffed by highly trained

Patrik Arvidsson
Supply Manager

operators also takes place here in order to ensure short lead times and high productivity

Volume production takes place at selected suppliers (EMS) in Europe and Asia based on the balance between the purchase cost, risk diversification and flexibility. More tasks are performed in-house at higher levels in the value chain

HMS has a high level of material traceability from the point when it receives a customer order, all the way back in the supply chain to the production method and design. Today, HMS systems track the component batches that have been installed in each module through barcode labeling of each individual module

Strategic component procurement

A network interface card consists of hundreds of sub-components. For HMS, component supply represents a strategic success factor, and the company has developed long term relationships with component manufacturers and distributors to ensure purchase prices, availability of components, component development and quality assurance. All strategic suppliers are regularly evaluated by HMS to ensure that their processes are qualitative and efficient

Optimized supply chain

Component supply is planned against forecast or customer orders. Production takes place based on customer orders or finished goods inventories. All HMS deliveries take place today directly from SLC (Supply Logistic Center) Halmstad to customers. In 2015, SLC Bedford in the US will be created for deliveries to North American customers

In order to achieve cost and environmentally efficient logistics solutions, HMS has a shipping partner agreement with a small number of shipping companies, as well as a common shipping portal for notification and tracking for customers. This helps the company achieve optimal volumes and set standards for quality and environmental performance

The challenge for us is to develop our supply chain in order to support our organic growth and the ability to absorb acquired product lines or businesses

High rating for HMS customer service

HMS has a high level of after sales service and the company is always working to improve it even further. A customer survey was conducted in 2014 and HMS received a very high service level rating for technical support (88 out of 100) and warranty administration (81 out of 100)



Eco strategy ensures environmental consideration throughout HMS

HMS cares about its impact on the environment and strives to achieve sustainability in product development efforts, manufacturing and all other business activities. HMS's main contribution is developing and manufacturing products that make energy conservation possible for its users, with the lowest possible environmental impact during the product's useful life. The Eco Strategy Wheel is HMS's model for considering the environmental aspects associated with developing, manufacturing, shipping and using HMS products. In other words, the entire product life cycle. The model is used for generating improvement suggestions as well as checks and follow-up on the Group's sustainability efforts.



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 engine control modules, pumps and fan systems

Intelligent remote control of equipment also results in energy savings, due to more efficient operations and fewer necessary site visits for the purpose of inspection and control. This is how HMS's products lead to higher energy efficiency and thus lower environmental impact

Product development and environmental aspects

During the product development process, HMS considers many environmental aspects. HMS uses energy efficient technology and low-energy components in its products NP30 and NP40, which are HMS microprocessors, have been designed using modern silicon geometry. This makes the components more powerful, as well as more energy-efficient

Products are designed so that they are easy to repair and upgrade on site. This helps achieve a maximum useful life, while avoiding unnecessary transportation. They are also designed and packaged to be as compact as possible to save on packaging material and reduce the transport volume

Packaging is designed to have the lowest possible environmental impact in terms of the materials used and to enable reuse and recycling

Controlled material selection

There are routines and work methods in place for selecting the right materials during the design phase. HMS complies with the EU Directive for limit values on electronic products, RoHS, when the company develops and manufactures its products. This means that no hazardous substances are used, such as lead or flame retardants. HMS also complies with the EU Directive REACH, for restricted use of chemicals

Green automation

More and more of HMS's products are now available with PROFInergy, which is an open standard solution for energy management and an example of green automation. This makes it possible to sig-



nificantly reduce the energy consumption of machines and processes by turning them off when they are in standby mode. It also offers factories a standardized way of shutting down equipment during short or long production breaks rather than keeping them in standby mode, which consumes electricity

Manufacturing – control and routines

It is also important to consider a number of important environmental aspects during manufacturing. Through careful control of production processes, it is possible to achieve efficient manufacturing with minimal use of materials, waste and energy consumption

The manufacturing process is designed to minimize each of the following emissions, the use of chemicals and human exposure to chemicals

There are established routines for waste management so that there is as much recycling as possible

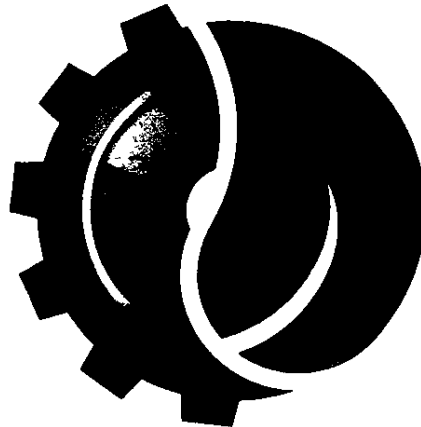
Evaluation of suppliers

HMS uses around 75 suppliers and 15 of them represent approximately 95% of all purchases. These strategic suppliers are being continually evaluated in terms of environmental certification, environmental performance and related policies, work environment and code of conduct

Emergency Power Stations

One of HMS customers is Skandinaviska Kraftprodukt. Their emergency power stations ensure that Sweden's Internet traffic never goes down. With the help of the HMS Netbiter solution, it is possible to monitor the emergency power stations and ensure that they can always be started when needed

"As we have an active environmental policy, this means less travel and consequently fewer emissions and lower costs for the customer," says Marcus Ahlström from Skandinaviska Kraftprodukt. "This also means greater peace of mind, as our customers can obtain reports and the status of operating modes, active alarms, fuel levels and more sent to them without traveling out to the site."



Katarina Lekander
Quality Manager

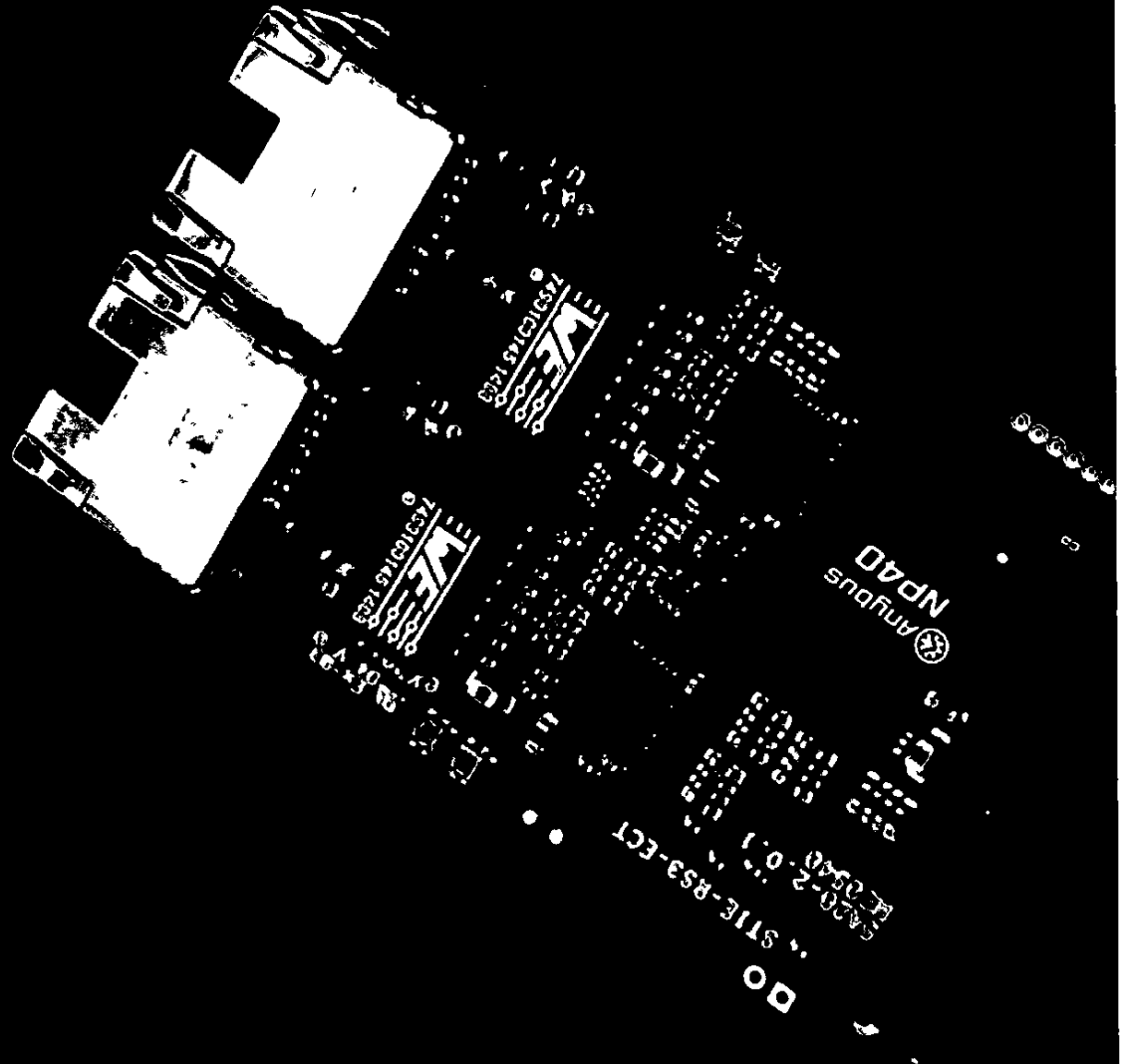
Trends shaping the future of industrial communication

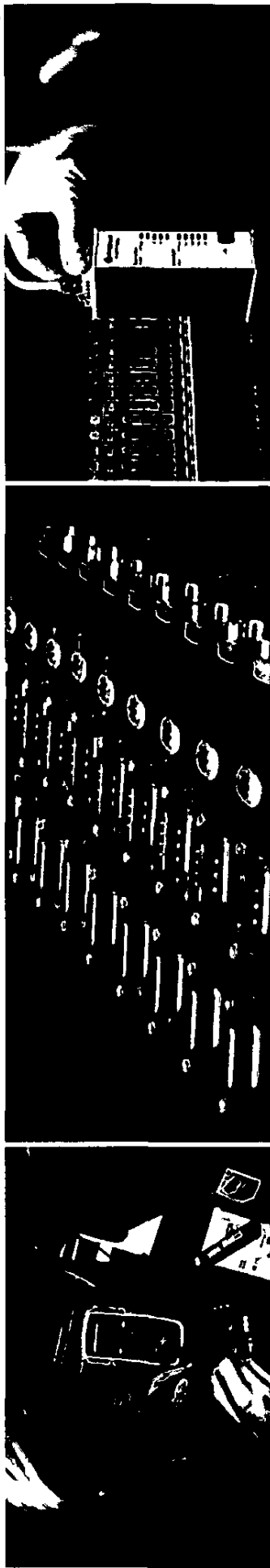
The industrial communication market is currently undergoing a data revolution which is being driven by trends such as Industry 4.0 and the Internet of Things (IoT).

Industry 4.0, also known as the fourth industrial revolution, is a term coined in Germany with reference to the computerization of the manufacturing industry where communication and IT systems automate production and create connected, intelligent factories. These plants are characterized by high flexibility, efficiency and productivity which is a direct result of adaptability and resource optimization.

Another driving force for Industry 4.0 is the demand for individualized products. The ultimate goal is the mass production of customized and individualized units with the same rate of efficiency as traditional mass production.

To achieve this, more data and information needs to be captured from the systems, machines and equipment in factories and be made available to IT systems. This data capture means that devices must be connected to the network and forms the very basis for the trend known as the Internet of Things (IoT). When you apply industrial requirements such as robustness, reliability, safety and industrial real-time systems, this is often called IIoT (Industrial Internet of Things).





IIoT presents new challenges and opportunities as new technology makes its entrance onto the factory floor. Wireless solutions and security solutions are some of these new technologies. IIoT also means that operators and decision makers gain instant access to information from the factory. But this information also needs to be managed. Cloud-based solutions are being introduced right now to handle and process data from smart applications.

These new ways of designing and building intelligent, industrial solutions are generating new opportunities and applications for HMS products and solutions. Our strong technical position in industrial real-time network serves as an excellent base for creating new innovative products and services for the emerging IIoT market.



Jörgen Palmhager
Chief Operating Officer

HMS Labs and Innovation

HMS Labs is our initiative for future growth and innovation in new areas of application. HMS Labs' focus is to leverage our strong position in industrial communication and combine it with the new opportunities that are arising for Industry 4.0 and IIoT. "Combinnovation" – combining existing technologies with new technologies and innovative ideas means that relevant solutions can be implemented without the need for extensive, basic development projects.

HMS Labs works as a cross-functional team and is responsible for managing and shaping new technologies, new applications and creative business models.

The HMS Labs approach is to transform new ideas into real business opportunities by analyzing customer needs and creating prototypes for innovative solutions while involving the end user at an early stage. The result is solutions and proof-of-concepts that are evaluated with customers in pilot projects and field trials.

HMS Labs is currently focused on two areas of application:

Smart connected factories

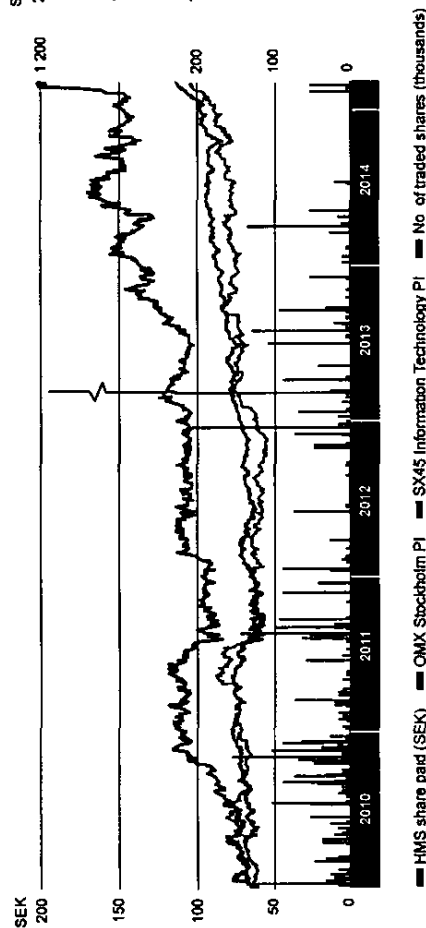
HMS Labs has ongoing partnerships with a number of customers and has developed prototypes designed to connect machines to IT systems. In addition to traditional Ethernet-based communication, we have also studied how wireless technologies such as Bluetooth Low Energy can be used in such applications.

Smart Energy Solutions

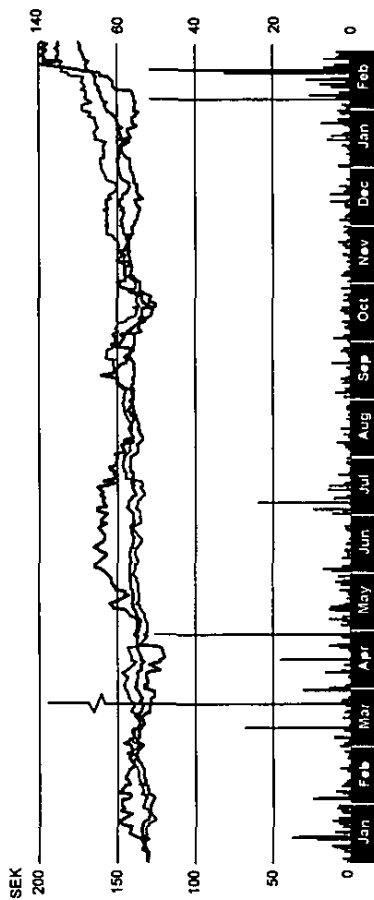
Communication technology for measuring, monitoring and controlling can transform an ordinary power grid into a truly "Smart Grid." HMS Labs has developed a prototype of a communication gateway that is being tested in pilot projects with virtual power plants and enterprises known as "Demand Response" companies.

The HMS share

The HMS share 2010–2014



The HMS share 2014



The HMS share has been listed on the NASDAQ OMX Stockholm Small Cap list, in the Information Technology sector, since 19 October 2007. The ISIN code is SE0002136242. Shares are traded under the HMS ticker. A trading lot is one share. (The shares have been traded on the NASDAQ OMX Stockholm, Mid Cap segment, since 2 February 2015)

Number of shares and share capital
HMS has a total of 11,322,400 shares. Share capital amounts to SEK 1,132,240. All shares have the same voting rights.

Price trend
In 2014 HMS's share price rose by 9 percent to SEK 149.00 (136.50). The OMX Industrial Index rose by 7 percent during the same period. The highest price paid during the year for HMS shares was SEK 169.00 and the lowest price paid was SEK 124.50. At year-end 2014, HMS's market capitalization was SEK 1,687 (1,546) million.

Trading volume

A total of 763,145 shares were traded during the year, valued at SEK 110 million, which corresponds to an annual turnover rate of 7 percent. On average, 3,153 shares valued at SEK 456 thousand were traded each trading day.

Dividend policy

HMS's policy is to pay annual dividends of approximately 50% of the net profit for the year.

Warrants and options

All HMS employees were invited to participate in an incentive program, which will involve saving in HMS shares during 2015.

Shareholders and shareholder structure

As of 31 December, HMS Networks AB (publ) had approximately 2,425 (2,484) shareholders. The ten largest shareholders represented 79.5 (78.7) percent of the voting rights and capital.

The following analysts monitor HMS on an ongoing basis:

Andreas Joelsson and Johanna Ahlqvist, SEB
Enskilda Equity Research

Key figures*

	2014	2013	2012	2011	2010	2009
Share price (final day of trading)	149 0	136 5	112 3	94 8	108 0	59 8
Volume-weighted average share price	144 6	112 8	102 7	99 8	87 2	58 7
Average sales per day (sek m)	0 5	1 2	0 5	0 7	1 1	0 5
Average number of shares traded per day	3,153	10,416	4,754	7,204	12,059	8,879
Number of shares including dilution**	11,322	11,322	11,254	11,169	11,158	11,121
Earnings per share including dilution**	5.59	5.54	4.64	4.83	5.40	1.81
Market capitalization (sek m)	1,687	1,546	1,271	1,057	1,205	667
Enterprise value, EV (Market cap + net debt, sek m)	1,915	1,789	1,240	1,056	1,189	697
P/E	26 7	24 6	24 2	19 6	20 0	33 0
Net debt/EBITDA	1 8	2 3	N/A	N/A	N/A	0 8
EV/EBITDA	15 2	17 1	16 6	12 8	12 8	17 7
EV/Net sales	3 2	3 6	3 2	2 8	3 5	2 9

* HMS's shares became listed in 2007

** As of 2014, the number of shares is calculated as the total number of outstanding shares. In the past, the number of shares was calculated as the total number of diluted shares

Share capital trend

Year	Transaction	Change in number of shares	Total number 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

Distribution according to shareholdings, 31 December 2014

Shareholding	No of shareholders	%
1 – 500	1,956	80.7%
501 – 1 000	219	9.0%
1 001 – 5 000	182	7.5%
5 001 – 10 000	26	1.1%
10 001 – 15 000	5	0.2%
15 001 – 20 000	5	0.2%
20 001 –	32	1.3%
Total	2,425	100.0%

HMS's largest shareholders, 31 December 2014

	No of shares	Share of votes and equity
Investment AB Latour	3,027,322	26.7%
Staffan Dahlström	1,617,073	14.3%
Swedbank Robur Fonder	1,146,500	10.1%
SEB Fonder	902,706	8.0%
Lannebo Fonder	778,669	6.9%
Fjärde AP-Fonden	498,054	4.4%
Handelsbanken Fonder	315,609	2.8%
Nordea småbolsfond	280,190	2.5%
AMF	231,414	2.0%
HMS Management *	204,190	1.8%
Deka Bank	140,200	1.2%
State Street Bank	140,000	1.2%
Avanza Pension	111,548	1.0%
Greenspecialisten AB	105,303	0.9%
Other	1,823,622	16.1%
Total	11,322,400	100.0%

* HMS management and board of directors

Chairman's comments

Developments in HMS's key markets continued to improve in 2014. HMS was able to report a slight growth in revenue and strong earnings for the year.

As Chairman of the Board, I have been able to identify several factors behind the company's stable performance. HMS continues to invest 20% of its sales in product development and it focuses on new technology platforms in order to increase its competitiveness and lay the foundation for long-term growth. We have followed our strategy and have striven to achieve our goals for long-term profitable growth by taking advantage of new business opportunities and doing our homework when it comes to technology, products and quality, in particular. The proof is not only in the figures, but also in the growing number of customers and their loyalty.

We are on the right track. Rapid technology and IT developments are quickly reaching many new areas of industry and society, which has a positive impact on the demand for HMS's products. This is especially evident from the growing interest in the company's technology, not least in interesting new development areas such as The Internet of Things and Industry 4.0. Internally, we are talking here about taking the next step in the company's development of HMS 2.0 to make it ready to take on the challenges in these new areas.

For a growth company in a rapidly growing sector, the Board of Directors plays an important role. We actively support the management team by listening and coaching on strategic matters. We also play an important role in the area of governance, by making sure that strategies are correctly formulated and followed up, and ensuring that there is both risk awareness and risk management.

The work performed by the Board basically follows a fixed annual cycle, with scheduled meetings and an allocation of tasks and responsibilities in accordance with the company's rules of procedure. Already at the first Board meeting held in conjunction with the AGM, we set the structure for the upcoming Board year.

“ *Going forward, the Board's challenges are to support and debate with the management team on issues within a number of strategically important focus areas.*



The Board members complement each other well. Several of them hold top management positions and they understand and have insight into the challenges faced by the HMS management team. Others are able to contribute valuable input about such areas as the stock market, company acquisitions, technology development and marketing based on their own experience in top managerial positions. The entire management team takes part in discussions about strategic issues and this mix results in exciting and valuable debates.

Each year, the work done by the Board is evaluated by having every member of the Board answer a number of questions, which I then compile and discuss with the entire Board. The results of these evaluations, which are also made available to the nomination committee, help ensure that the work done by the Board is efficient and they provide us with valuable feedback on whether the composition and competence of the Board is adequate. The summary for the year once again showed that the Board has performed its tasks well.

Besides the work carried out by the audit and remuneration committees, the development committee also made important contributions. It is responsible for monitoring important issues concerning product development, technology development and ensuring HMS has the right expertise.

Going forward, the Board's challenges are to support and debate with the management team on issues within a number of strategically important focus areas. We need to ensure HMS's long-term competitiveness in a changing and growing market by maintaining the right focus on product development, market expansion, customer needs and the

skills of our employees, in other words developing HMS 2.0 to meet the future.

It is also necessary to monitor and manage the various risks associated with our growing company and its increasingly global operations – HMS now has customers in more than 50 countries – as well as giving appropriate consideration to environmental requirements and sustainability. The Board continues to develop the working method that it has devised for identifying significant risks in the company's business and processes. This risk assessment will become an integral part of the company's work with strategies for future growth. At the same time, turbulent macroeconomic developments and evaluations of the various events affecting the company are being monitored.

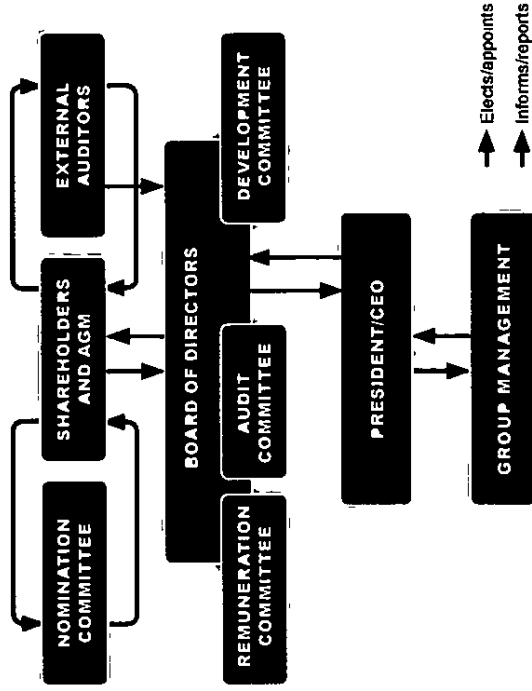
HMS is both a growth and knowledge company and its success depends on quick actions, goal-orientation and the right expertise. Those are difficult and important challenges that the Board have enormous respect for. As of this year's AGM, this stimulating work will take place without my participation. After a commitment to the company's Board that spans the last 17 years, it is now my intention to hand over responsibility as Chairman. These past 17 years have seen the company grow into a well-established company on NASDAQ OMX Stockholm. It has been an exciting, challenging and rewarding journey. For the onward journey, I would now like to wish all employees, board colleagues and management continued success and good luck.

Urban Jansson
Chairman

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 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 Annual General Meeting.

Shareholders and AGM

The shareholders exercise their right to decide on the company's affairs at the Annual General Meeting, which is the company's highest decision-making body. The Annual General Meeting (AGM) decides, among other things, on the adoption of the financial statements, balance sheets, appropriation of profits, discharge of responsibility for the Board, new Board members, new auditors and remuneration to the Chairman of the Board, other Board members and auditors. The meeting 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.se.

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 Official Gazette (Post- och Inrikes Tidningar).

Annual General Meeting 2014

The AGM was held on 25 April 2014 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 76% of the number of shares and votes. Those in attendance at the AGM were Chairman of the Board Urban Jansson and the following Board members: Henrik Johansson, Ray Mauritsson, Charlotte Brögren, Kersun Lindell and Karl Thedén. Also at the meeting were Jan Svensson, Chairman of the nomination committee and Olof Enerback from the firm of auditors Shareholders at the AGM decided:

- to issue dividends of SEK 2.25 per share, totaling SEK 25,475,400
- that the Board is to consist of six members without deputies

- to re-elect Urban Jansson as Chairman of the Board
- to re-elect Charlotte Brögren, Ray Mauritsson and Henrik Johansson as Board members
- Gunilla Wikman and Göran Sigfridsson have declined re-election
- the election of Kersun Lindell and Karl Thedén to the Board
- that remuneration to the Board would be SEK 1,050,000 for the next term, of which SEK 300,000 to the Chairman of the Board and SEK 150,000 to each of the remaining Board representatives
- the election of PwC as auditor, with Fredrik Göransson, Authorized Public Accountant, in charge



- on principles for appointing the nomination committee
- on guidelines for salaries and other remuneration to the CEO and other senior executives
- on the authority of the Board to issue new shares
- acquisitions of shares in HMS Networks AB in connection with a defined share savings program
- to set up an incentive program open to all employees of the Group

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 2014 AGM, there was a decision on the principles for establishing a 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 Board, along with representatives from the three 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. 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 three 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, a replacement will be appointed by the same shareholder that appointed the one departing, or if this shareholder no longer ranks among the three largest shareholders, by the shareholder who in terms of shareholding is next in line.

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 composition of the nominations 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 percentage of women in the company's Board of Directors amounted to 33 %.

External auditors

The 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. The auditors also report in person once a year to the entire Board about their audit and state their views about internal controls.

At the 2014 AGM, shareholders elected PwC as the audit firm, with Certified Accountant Fredrik Goransson as the auditor in charge until the date of the next AGM. In addition to the audit, PwC also provides advice concerning accounting and tax. This advice is not considered to be biased.

In 2014, total remuneration paid to HMS's auditors was SEK 1,423 (1,030) thousand. Further information regarding auditors' remuneration is available in Note 7.

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 CFO. 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, 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, year-end reports and the annual report. The Board



Members of the nomination committee and voting rights

Representative	Shareholder	Voting rights (% of total) as of 31 Dec 2014
Jan Svensson, Chairman	Investment AB Latour	26.7
Staffan Dahlström	Representing own holdings	14.3
Evert Carlsson	Swedbank Robur Fonder	10.1
Urban Jansson, Chairman of 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.

Board structure

The Board consists of six members. The Board members 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 ten percent or more of the shares or voting rights in the company. The nominations committee has, during a joint assessment of each member's relationship to the company, Group management and major shareholders, found that all of the members are independent in relation to the company and its management. All members are assessed as being independent in relation to the company's major shareholder. The unique expertise of each individual Board member and

the resulting competence of the entire Board is presented on pages 44-45.

The total amount of fees paid to the Board in 2014 was SEK 1,050 (1 100) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 26.

Chairman

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. He 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 April 25, 2014 Urban Jansson was re-elected as Chairman of the Board. The Chairman of the Board is not involved in the operational management of the company.

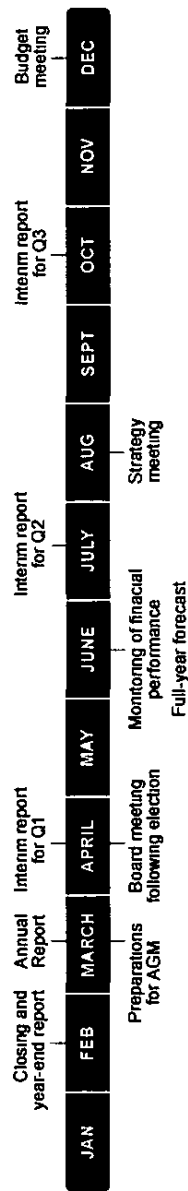
Work of the Board in 2014

During the period between the AGM on 25 April 2014 and the adoption of this annual report, the Board has held nine meetings at which the minutes were taken. 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 recommendations 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 persons holding similar positions in other companies. The Board decides on the principles for remuneration to senior executives and the CEO.

Board work follows a structure that includes certain standing items. It is depicted below:



The remuneration committee consists of the Chairman of the Board (Urban Jansson) and one other appointed Board member (Ray Mauritsson). Ray Mauritsson was elected as Chairman of the remuneration committee. Attendance was 100% at all of the meetings.

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 the Chairman of the Board (Urban Jansson) and one other appointed Board member (Kersun Lindell). Kersun Lindell was elected as Chairman of the audit committee. Attendance was 100% at all of 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 over the 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, Henrik Johansson and Karl

Thedeen). Charlotte Brogren was elected as Chairman of the development committee. Attendance was 100% at all of 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 con-

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

Group management is headed by the CEO and along with the following seven members: Chief Financial Officer, Chief Operating Officer, HR Manager, Marketing Director, General Manager NASMO, General Manager CESMO and General Manager for IXXAT. For additional information about the Group management team, please see pages 46-47.

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 about eight times a 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 2014, the total remuneration (including pension provisions) to the CEO amounted to SEK 2,473 (1,793) thousand. For more information about remuneration to the CEO and Group management team, see Note 26.

The Board's report on internal control

regarding financial reporting

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 (Page 8-9). 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.

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 maintaining 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.

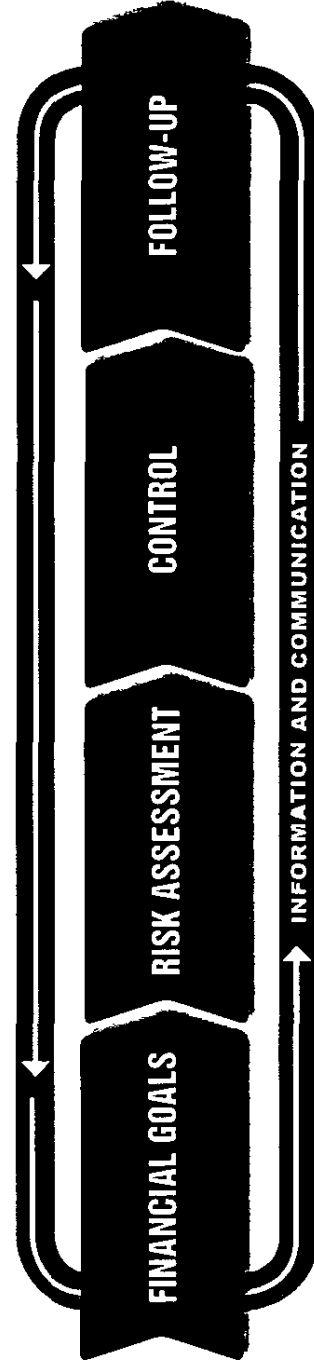
These guidelines, together with laws and other external regulations, are the components of the control environment. Every employee must follow these guidelines.

During 2014, 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 risk, currency risk, interest rate risk and customer credit risk. These are primarily dealt with via the accounting and finance functions, in accordance

OVERALL CONTROL ENVIRONMENT
Decision Paths • Responsibility/Authority • Values • Individual/Organization



1) Financial reporting relates to quarterly reports, financial reports, annual reports and internal reporting



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 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 finance and accounting department 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.

The accounting and control functions regularly perform reconciliations and checks of reported amounts, along with analyses of the income statements and balance sheets. The control function performs control activities at all levels of the company. 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 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 the Chairman of the Board and one additional Board member. The committee deals with 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 control outcomes 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 instruc-

tions. 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 monthly report, which contains information about 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



Auditor's report on the Corporate Governance Statement

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 <http://investors.hms.se>

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 of 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 finance department and management team carry out detailed monthly analyses of financial reports.

Rolling forecasts are another important component of Group-wide internal control. Sales are forecast at a product level by managers within the sales organization. Sales forecasts are consolidated and validated in connection with compiling the forecasts for the entire business. Comprehensive forecasts are compiled once per year. In addition to the comprehensive forecasts, a budget is also drawn up, which is presented to the Board for its approval in Q4. Besides the forecasts and budgets, Group management also works with overall strategic plans.

The audit committee follows up the financial reports and receives information from the com-

pany'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.

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.

For the same reason, the Board decided that the Audit Committee would consist of 2 Board members. This is a deviation from the Code, which stipulates that there should be 3 members.

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

- Internal Audit
- Number of members in the Audit Committee
- Compilation of the Nomination Committee

The reasons for these deviations are explained in this Corporate Governance Report.

Halmstad, 24 March 2015

Urban Jansson	Charlotte Brogren
Henrik Johansson	Kerstin Lindell
Ray Mauritsson	Karl Thedén

To the annual meeting of the shareholders of HMS Networks AB (publ) corporate identity number 556681-8954

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2014 on pages 37-43 and that it has been prepared in accordance with the Annual Accounts Act

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Halmstad 24 March 2015
Öhrings PricewaterhouseCoopers AB

Fredrik Göransson
Authorized Public Accountant

Board of directors



URBAN JANSSON

Born in 1945 Chairman of the Board 2007

Board member since 1999 Independent from the company and its main owners

Other assignments: Chairman of the Board of EAB Vice Chairman of Skandinaviska Enskilda Banken AB (publ)

Board member of Lindengruppen AB

Education: Advanced degree in banking from Skandinaviska Banken

Shareholding: 59,750 shares

CHARLOTTE BROGREN

Born in 1963 Board member since 2010 Independent from the company and its main owners

Other assignments: General Director of Vinnova and Chairman of the Board of Industrifonden, Board member of Q-Free AS and Gunnebo AB

Previous positions. Development Manager for ABB Robotics and executive positions within ABB's research organization

Education: PhD in Chemical Engineering from Lund University

Shareholding: 1,000 shares

HENRIK JOHANSSON

Born in 1966 Board member of HMS since April 2009

Independent from the company and its main owners

Other assignments: CEO of Arctos Equity Partner and Board member of Tele-Radio International Holding AB

Professional experience. Senior positions in Investment AB Latour, Brady Corporation and Trader Converting with extensive experience in international expansion activities

Education: M Sc in Industrial Economics from Chalmers University of Technology

Shareholding: 6,400 shares



KERSTIN LINDELL

Born in 1967 Board member of HMS since April 2014
Independent from the company and its main owners
Other assignments: CEO of Bona AB since 2007, member of the Board of Peab AB, Exel Composites Plc and Vice Chairman of the South Sweden Chamber of Commerce
Professional experience: Research and Development Manager at Akzo Nobel
Education: Master of Science in Chemical Engineering and Tech Fil lic in Polymer chemistry from Lund Institute of Technology and a Master of Business Administration from the University of Lund
Shareholding: 0 shares

RAY MAURITSSON

Born in 1962 Board member since 2007
Independent from the company and its main owners
Other assignments: CEO of Axis AB (publ)
Education: M Sc in Technical Physics and Executive MBA from Lund University
Shareholding: 5,000 shares

KARL THEDÉEN

Born in 1963 Board member of HMS since April 2014
Independent from the company and its main owners
Other assignments: CEO at Transmode AB (publ) since 2007 and a Board member of Latour Industries AB
Professional experience: Board member of Ericsson Network Technologies AB from 2004 to 2007 and Vice President of the Wireline Product Area, Ericsson AB from 2004 to 2006
Education: Master of Science in Systems Engineering at the Royal Institute of Technology in Stockholm
Shareholding: 700 shares

Group management



STAFFAN DAHLSTRÖM

Chief Executive Officer

Born in 1967 President and CEO of HMS Co-Founder of HMS since 1989 and prior Global Marketing and Sales Manager of HMS He has a degree in Computer Systems Engineering from Halmstad University and an Executive MBA from Lund School of Economics and Management
Shareholding 1,618,282 shares

ANDERS HANSSON

Marketing Director

Born in 1968 Marketing Director at HMS since 2010 Anders started as Product Manager at HMS in 2000, and has since held a number of positions in international sales and marketing, from head of HMS sales to key global customers and sales and marketing manager for HMS in France, for example Anders has a Master's Degree in Industrial Management and Economics from Halmstad University
Shareholding 7,452 shares

GUNNAR HÖGBERG

Chief Financial Officer

Born in 1956 CFO of HMS since August 2006 Gunnar has previously been the CFO at Roxtec AB, Kipling Holding AB (publ), CEO for Roxtec Inc and the Group Controller at Althin Medical AB (publ) Gunnar also has many years of accounting and auditing experience, such as Certified Public Accountant at Ernst & Young Gunnar has an M.Sc. in Business and Economics from Uppsala University
Shareholding 46,653 shares

KEVIN KNAKE

Executive Vice President, HMS Inc

Born in 1961, Executive Vice President at HMS Inc since January 2009 Kevin has many years of experience in research and development (R&D), R&D management and sales and operations management in industrial automation Kevin holds a bachelor's degree in Industrial Engineering and Computer Science from Central Michigan University
Shareholding 6,372 shares



SABINA LINDÉN

Human Resources Manager

Born in 1979 Human Resources Manager of HMS since April 2006 Sabina holds a bachelor's degree in vocational sociology from the University of Gothenburg
Shareholding 6,961 shares

JÖRGEN PALMHAGER

*Chief Operating Officer and
Chief Technology Officer*

Born in 1968 Chief Operating Officer at HMS since January 2007 Prior to that, Development Manager at HMS from 1992 until 2006 Jörgen has a B.Sc. in Computer Systems Engineering from Halmstad University
Shareholding 39,750 shares

CHRISTIAN SCHLEGEL

Managing Director, IXXAT Automation GmbH

Born in 1965 CEO of IXXAT Automation GmbH since 1998 Christian has many years experience in development and research management and has extensive expertise in industrial communication and embedded systems
Christian holds a bachelor's degree in mechanical engineering from Ravensburg-Weingarten University of Applied Sciences, Germany
Shareholding 3,118 shares

MICHAEL VOLZ

Managing Director, HMS GmbH

Born in 1957 Michael started at HMS in 2000 Michael founded the HMS office in Karlsruhe, Germany, and currently has management responsibility for the sales and marketing organization for Central Europe Michael holds a bachelor's degree in communications from the University of Dieburg, Germany Michael has many years of experience in industrial communication
Shareholding 6,788 shares

Glossary

ARM – a family of 32-bit processor kernels with RISC architecture, developed by ARM Ltd. ARM is the most widely used RISC based architecture for high performance solutions and low energy consumption

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

Design win – a framework agreement with an OEM company it enables a company to use Anybus in its products 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 against electrostatic discharge

FPGA – Field Programmable Gate Array, programmable semiconductor devices that are based around 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 connecting point between different networks where some form of 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 – HMS's network processor technology that is foundation for its new embedded concept

Network – a general term for a system with interconnected computers that can be designed in various 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)

High real time demands – involves knowing exactly when data arrives. There are high real time performance demands when the data is extremely time-critical and millisecond precision is required. Email has comparatively low real time demands, since not even second precision is required

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/EG 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 discreet manufacturing

Port – a computer interface to which a device can be connected. Personal computers (PCs) have different types of ports. Internally there are many ports to which hard drives, monitor cards and other devices can be connected. Externally there are ports for connecting modems, printers, mouse and other external devices

Process manufacturing – a branch of manufacturing that is associated with formulas and manufacturing recipes, such as quantities 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/EG) 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/EG) 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 physical interface through which information is transferred serially as in or out data (one bit at a time). It is often used for communication with terminals and modems. A single PC typically has 2-4 serial ports. Serial ports have a maximum data transfer capacity of 115.2 kbit/s and are therefore increasingly being replaced by USBs that support data transmission at 12 Mbit/s (version 1.0) and 480 Mbit/s (version 2.0)

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 connections or tunnels, between two points in a computer network



Financial statements

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Directors' report

Operations

HMS is the leading independent supplier of products for industrial communication. The products make it possible for industrial machines and devices to communicate with different industrial networks. The products also make monitoring and control via the web possible.

Development and manufacturing occurs at the head office in Halmstad, Sweden as well as in Weingarten, Germany. Local sales and support offices are located in China, Denmark, France, Germany, Italy, India, Japan, the UK and the USA. There are also distributors in more than 50 countries. HMS is listed on the NASDAQ-OMX Nordic Exchange and at year-end, the company had 371 employees.

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 18% and annual sales at a new record level, SEK 589 (501) million. Order intake for the year was SEK 611 (516) million, which is also a new record level along with its 18% growth.

IXXAT, which was acquired in 2013, has, via integration in the HMS global sales organization, obtained more customers, primarily in North America. Having increased its number of new customers and with increasing volumes in the existing customer base, IXXAT achieved 11% growth in 2014.

The year's volume growth and strong gross margin has enabled HMS, despite the much lower capitalized development costs and resulting higher overhead costs, to achieve an improved operating profit compared to last year.

During the year, HMS launched most of the new Anybus Embedded products that it had been developing over the last few

years. For Anybus® and IXXAT®, HMS received 180 new design-wins during the year. Accordingly, the company had a total of 1,241 (1,061) active design-wins at year-end, of which 929 (830) are in the production phase.

During the fourth quarter, the company acquired a wireless communication product line from u-blox AG. The line has been successfully transferred and integrated into HMS's Anybus Gateway product area.

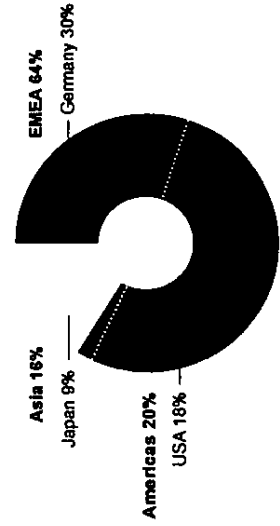
On 25 April 2014, HMS held its AGM. All of the proposals by the Board and nomination committee were adopted by the AGM. Urban Jansson was re-elected as Chairman of the Board. Ray Maurission, Henrik Johansson and Charlotte Brogren were re-elected as Board members. Kerstin Lindell and Karl Thedéen were newly elected as Board members.

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

Significant events in brief

- HMS and Nokia presented a joint solution for energy conservation in telecom base stations at a telecom fair in Turkey.
- HMS received an order for EUR 0.6 million from a world-leading German sensor manufacturer for a solution that links vibration sensors to industrial networks.
- It was discovered that order intake for the first six months of the year had been incorrectly reported by 11%. The correct figures

HMS Group's revenue distribution by market in 2014



for order intake in Q1 was SEK 19 million lower and for Q2 it was SEK 17 million lower than what had been previously reported. After the adjustment, growth in order intake for the first six months amounted to 12%.

- HMS acquired a product line for wireless communication from the Swiss company, u-blox AG.
- HMS received an order for EUR 0.5 million for Anybus Ethernet/IP technology pertaining to control systems for machine safety.
- HMS delivered its three millionth Anybus module to Bosch Rexroth.

Net sales

The Group's net sales increased by 18% and amounted to SEK 589.2 (501.1) million. Exchange rate fluctuations positively affected net sales during the year by SEK 25.4 million, compared to last year. Invoiced sales by region were as follows: EMEA 64 (64)%, Americas 20 (21)% and Asia 16 (15)%. The Group's largest markets are Germany, USA and Japan.

Profit (loss)

Operating profit after depreciation amounted to SEK 97.6 (86.6) million. Operating margin was 16.6 (17.3)%. Net financial income/expense amounted to SEK -11.8 (-5.2) million and profit after financial items amounted to SEK 85.8 (81.5) million. Tax expense was SEK -22.7 (-18.7) million and profit after tax amounted to SEK 63.1 (62.8) million.

Summary of results

	2014	2013
Net sales, SEK m	589.2	501.1
Operating profit, SEK m	97.6	86.6
Operating margin, %	16.6	17.3
Profit after financial items, SEK m	85.8	81.5
Profit for the year, SEK m	63.1	62.8
Earnings per share, SEK	5.59	5.54

Financial data in summary (SEK m)

	2014	2013	2012	2011	2010	2009
Net sales	589	501	382	384	345	245
Growth in net sales, %	18	31	-0.5	11	41	-23
Gross profit	367	314	229	232	208	143
Gross margin, %	62	63	60	61	60	58
Operating profit	98	87	64	72	84	31
Operating margin, %	17	17	17	19	24	13
Profit for the period	63	63	52	54	62	21
Orders received	611	516	424	388	342	258
Earnings per share, SEK	5.59	5.54	4.64	4.84	5.41	1.88
Dividend per share, SEK	2.50*	2.25	2.25	2.25	2.00	1.00
Total assets	832	771	418	391	392	339
Equity	423	378	342	299	286	240
Shareholders' equity per share, SEK	35	32	30	27	25	21
Equity/assets ratio, %	51	49	82	76	72	70
Net debt/equity ratio, %	54	65	-9	0	-5	13
Return on shareholders' equity, %	16	17	16	19	23	9
Return on capital employed, %	15	18	20	23	28	11
Investments in non-current assets	38	57	42	20	15	7
Cash flow from operating activities	93	89	83	46	75	31
Cash flow from operating activities per share, SEK	8.26	7.92	7.27	3.96	6.71	2.89
Average number of employees	352	338	241	213	164	153
Revenue per employee	17	15	16	18	21	16

* Board's proposal

Investments

Investments in items of property plant and equipment during the year amounted to SEK 6.0 (4.5) million and investments in intangible assets amounted to SEK 31.8 (52.4) million. Investments in intangible assets primarily consist of the capitalization of internal development of technology platforms. With the completion of several new basic technologies, a comparatively lower share of the Group's development costs were capitalized during the year.

Financial position

As of 31 December 2014, the Group had cash and cash equivalents of 17.6 (15.8) million, excluding unutilized credit of SEK 30.0 (30.5) million. Cash flow from operating activities amounted to SEK 93.3 (89.5) million. After net investments of SEK -38.0 (-324.6) million and new borrowings, amortization and dividends paid, totaling SEK -54.8 (219.4) million, the cash flow for the year amounted to SEK 0.5 (-15.7) million.

The Group's net debt amounted to SEK 227.8 (244.0) million. The net debt to equity ratio was 0.5 (0.6) times and the equity to assets ratio was 50.8 (49.0)%.

Group structure

HMS Networks AB (publ), CIN 556661-8954, is the Parent Company of the wholly-owned subsidiary, HMS Industrial Networks AB. HMS Industrial Networks AB is in turn the Parent Company of HMS Industrial Networks Inc, HMS Industrial Networks GmbH, HMS Electronics AB, HMS Industrial Networks S r l, HMS Industrial Networks K K, HMS Industrial Networks India Private Limited, HMS Industrial Networks Ltd, HMS Industrial Networks ApS, Intelcom Innovation AB, IXAT Automation GmbH and IXAT Sarl. IXAT Automation GmbH is a development center for the 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 Beijing and Mulhouse. The branch offices are responsible for sales, marketing and support in the Chinese and French markets, respectively.

Environmental impact and sustainable development

HMS cares about its impact on the environment and it strives to achieve sustainability in its product development efforts, manufacturing and all other business activities. HMS's main contribution is developing and manufacturing products that make energy conservation possible for its users, with the lowest possible environmental impact during the product's useful life. The Eco Strategy Wheel is HMS's model for considering the environmental aspects associated with developing, manufacturing, shipping and using HMS products. In other words, it considers the entire product life cycle. The model is used for generating improvement suggestions as well as checks and follow-up on the Group's sustainability efforts.

Since 2006, the HMS Group has used lead-free soldering in production processes in accordance with the RoHS Directive. The legal requirements mainly cover electronics in consumer products. However, HMS decided early on to phase out lead, mercury, hexavalent chromium, cadmium and flame retardant agents from its Anybus® products and production processes. The Group does not conduct any activities that require compulsory registration or permits.

Research and development

The Group expensed SEK 85.0 (52.0) million for research and development during the year. In addition, development costs of SEK 27.5 (52.6) million were capitalized, of which SEK 26.9 (43.0) million was work performed by the company for its own use and SEK 0.6 (9.6) million was customer-specific work. Total research and development expenses make up 19 (21)% 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.

Personnel

At year-end the Group had 371 (359) employees. The Group now has the resources in place for strengthening its market position over time even more.

Principles for remuneration to senior executives

At the inaugural Board meeting of 2014, a remuneration committee was appointed by the Board. The following principles, which were proposed by the company's remuneration committee, will be brought forth for approval at the 2015 AGM. Remuneration to the CEO and other members of the HMS Group management team consists of basic salary, short-term and long-term incentive schemes and pension. Other benefits and remuneration are awarded on the same terms that apply to other employees.

The aim of the HMS remuneration policy for Group management 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 established 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 individual bonus amount is 50% of basic salary in 2014.

The retirement age for the CEO is 65 years. The pension premium must equal 35% of the fixed monthly salary. For other senior executives, the ITP agreement is applied with a retirement age of 65.

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 information on the composition of the remuneration committee, see page 40.

Risks and uncertainty factors

Market-related risks

The company is exposed to market-related risks that are beyond the company's control. These risks are mainly connected with the business climate, competitive situation, world market demand and access to resources that are important for the Group's business.

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 can 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 can 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 fulfil 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 strived 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 64 (65)% in EUR, 24 (24)% in USD, 7 (6)% in JPY and 5 (5)% in SEK and other currencies. The currency composition of cost of goods sold is 72 (53)% in EUR, 19 (16)% in USD, 8 (30)% in SEK and 1 (1)% in JPY. The currency composition of operating expenses is approximately 40 (33)% in EUR, 9 (12)% in USD, 3 (5)% in JPY and 48 (50)% in SEK and 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, 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 share

HMS Networks AB is listed on Nasdaq OMX Stockholm Mid Cap in the Information Technology category. On average, 3,153 (10,416) shares were traded each day. The shares' volume-weighted average price in 2014 was SEK 144.6 (112.8). The total number of shares at the end of the period were 11,322,400, of which 31,000 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	97,947,593
Profit (loss) for the year	-48,410
Total non-restricted equity	97,899,183
The Board of Directors and CEO propose	
Dividends to shareholders of SEK 2.50/share	28,228,500
Came forward	69,670,683
	97,899,183

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, Sections 2-3 of the Swedish Companies Act (prudence rule).

Consolidated income statement

SEK thousands	Note	2014	2013
Net sales	5	589,212	501,145
Cost of goods and services sold		-222,366	-187,229
GROSS PROFIT		366,846	313,916
Selling expenses		-138,766	-128,346
Administrative expenses		-53,750	-48,442
Research and development expenses		-85,052	-52,018
Other operating income	10	9,809	2,828
Other operating expenses	10	-1,506	-1,290
OPERATING PROFIT	6, 7, 8, 26	97,582	86,647
Financial income	10, 30	37	203
Financial expenses	10, 31	-11,809	-5,357
Total income from financial investments		-11,772	-5,154
PROFIT BEFORE TAX		85,811	81,494
Income tax	9	-22,713	-18,744
PROFIT FOR THE YEAR		63,098	62,750
Earnings per share, SEK	11	5 59	5 54
Total number of outstanding shares, in thousands		11,291	11,307
Dividends per share, SEK	12	2 25	2 25

Consolidated statement of comprehensive income

SEK thousands	Note	2014	2013
Profit (loss) for the year		63,098	62,750
Other comprehensive income:			
Items that can later on be reclassified to profit and loss			
Cash flow hedges		-2,720	-1,751
Hedging of net investments		-13,029	-9,309
Exchange rate differences		18,395	10,004
Income tax attributable to components of other comprehensive income	22	3,465	2,433
Other comprehensive income for the year, net after tax		6,111	1,377
Total comprehensive income for the year		69,209	64,127

Consolidated balance sheet

SEK thousands	Note	2014-12-31	2013-12-31
ASSETS			
Non-current assets			
Intangible assets	13	237	277
Patents			96,062
Capitalized development work		108,374	390,844
Goodwill		400,752	64,064
Customers and technology platforms		64,408	79,001
Brands		84,060	630,249
Total intangible assets		657,830	630,249
Property, plant and equipment	14, 25	9,938	8,922
Plant and machinery		8,582	11,257
Equipment, installations and facilities		18,520	20,179
Total property, plant and equipment		18,520	20,179
Financial assets	22	1,328	724
Deferred tax asset		1,498	0
Other long-term receivables		2,826	724
Total financial assets		679,176	651,152
Total non-current assets		679,176	651,152
Current assets			
Inventories	17	53,953	35,971
Accounts receivable - trade	16, 35	69,494	53,985
Derivative instruments	15, 35	0	460
Other receivables	16	7,459	9,086
Prepaid expenses and accrued income	31	4,630	4,091
Cash and cash equivalents	18, 35	17,629	15,818
Total current assets		153,165	119,411
TOTAL ASSETS		832,341	770,563
EQUITY AND LIABILITIES			
Equity			
Share capital	19	1,132	1,132
Other contributed capital	19	125,641	125,641
Reserves		9,755	3,645
Retained earnings		286,070	247,139
Total equity		422,599	377,557
Non-current liabilities	21, 35	204,891	223,789
Borrowings		65,115	65,143
Deferred income tax liabilities	22	270,006	288,932
Total non-current liabilities		270,006	288,932
Current liabilities			
Borrowings	21, 35	40,497	36,058
Accounts payable - trade	35	40,695	28,342
Current tax liability		7,802	4,769
Derivative instruments	15, 35	2,260	0
Other liabilities	35	12,641	7,922
Accrued expenses and deferred income	32	33,475	24,979
Provisions	20	2,366	2,003
Total current liabilities		139,736	104,073
TOTAL EQUITY AND LIABILITIES		832,341	770,563

Consolidated cash flow statement

SEK thousands	Note	2014	2013	SEK thousands	Note	2014	2013
Operating activities				Financing activities			
Operating profit		97,582	86,647	Borrowings		7,375	261,109
Adjustment for items not included in cash flow				Repayment of debt		-36,778	-46,843
Depreciation		27,998	17,231	Increase/decrease current financial liabilities		0	34,488
Impairment of intangible assets		2,011	0	Repurchase of own shares		0	-3,895
Incentive program	8	1,238	744	Dividends paid to the parent company's shareholders	12	-25,405	-25,475
Exchange rate differences		-4,502	-1,070	Cash flow from financing activities		-54,808	219,383
Interest received		0	77				
Interest paid		-5,851	-5,357	CHANGE IN CASH AND CASH EQUIVALENTS		465	-15,672
Income tax paid		-19,034	-11,253				
Cash flow from operating activities before changes in working capital		99,442	87,019	Cash and cash equivalents at beginning of year	18	15,818	31,487
				Exchange rate differences in cash and cash equivalents		172	379
Change in working capital				Translation differences		1,174	-376
Change in inventories		-17,140	3,931	Cash and cash equivalents at year-end	18	17,629	15,818
Change in accounts receivables - trade		-13,370	-7,568				
Change in other current receivables		839	13,974				
Change in accounts payable - trade		12,186	758				
Change in other current liabilities		11,298	-8,615				
Cash flow from operating activities		93,255	89,499				
Investing activities							
Investments in PPE	14	-6,037	-4,493				
Investments in intangible assets	13	-31,773	-52,357				
Investments in subsidiaries	34	0	-267,326				
Changes in current financial investments		-172	-379				
Cash flow from investing activities		-37,982	-324,554				

Consolidated statement of change in equity

SEK thousands	Note	Share contributed capital	Other contributed capital	Reserves	Profit (loss) carried forward	Total equity
Opening balance on 1 January 2013		1,132	125,641	2,267	213,015	342,056
Comprehensive income						
Profit (loss) for the year					62,750	62,750
Other comprehensive income						
Cash flow hedges	15			-1,751		-1,751
Hedging of net investments	15			-9,309		-9,309
Exchange rate differences				10,004		10,004
Income tax attributable to components of other comprehensive income	9			2,433		2,433
Total comprehensive income		0	0	1,377	62,750	64,127
Transactions with shareholders						
Repurchase of own shares					-3,895	-3,895
Share-related remuneration					744	744
Dividend for 2012	12				-25,475	-25,475
Total transactions with shareholders, reported directly to equity		0	0	0	-28,626	-28,626
Closing balance 31 December 2013		1,132	125,641	3,644	247,139	377,557
Opening balance on 1 January 2014		1,132	125,641	3,644	247,139	377,557
Comprehensive income						
Profit (loss) for the year					63,098	63,098
Other comprehensive income						
Cash flow hedges	15			-2,720		-2,720
Exchange rate differences	15			-13,029		-13,029
Hedging of net investments				18,395		18,395
Income tax attributable to components of other comprehensive income	9			3,465		3,465
Total comprehensive income		0	0	6,111	63,098	69,209
Transactions with shareholders						
Repurchase of own shares						0
Share-related remuneration					1,238	1,238
Dividend for 2013	12				-25,405	-25,405
Total transactions with shareholders, reported directly to equity		0	0	0	-24,167	-24,167
Closing balance 31 December 2014		1,132	125,641	9,755	286,070	422,599

Parent company's income statement

SEK thousands	Note	2014	2013
Net sales	5	8,835	7,845
GROSS PROFIT		8,835	7,845
Administrative expenses	7, 8, 26	-8,834	-7,818
OPERATING PROFIT	1	1	27
Profit from financial investments			
Profit from participation in Group companies	28	0	50,000
Interest income and similar profit or loss items	29	0	9
Interest expenses and similar items	30	-1	-16
Total income from financial investments		-1	49,993
PROFIT AFTER FINANCIAL ITEMS		0	50,020
Tax on profit for the year		-48	-4
PROFIT FOR THE YEAR		-48	50,016

Parent company's balance sheet

SEK thousands	Note	2014-12-31	2013-12-31
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	27	244,039	244,039
Total financial assets		244,039	244,039
Total non-current assets		244,039	244,039
Current assets			
Current receivables			
Tax receivables		101	8
Other receivables		21	0
Prepaid expenses and accrued income	31	332	239
Total current receivables		454	247
Cash and bank balances		192	808
Total current assets		646	1 056
TOTAL ASSETS		244,685	245,095
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	19	1,132	1,132
Statutory reserve		19,446	19,446
Total restricted equity		20,578	20,578
Non-restricted equity			
Retained earnings		79,350	54,740
Share premium reserve		18,598	18,598
Profit (loss) for the year		-48	50,016
Total non-restricted equity		97,899	123,353
Total equity		118,477	143,931
Untaxed reserves			
		8	8
Current liabilities			
Accounts payable - trade		427	535
Liabilities to Group companies		122,888	99,321
Other liabilities		561	455
Accrued expenses and deferred income	32	2,323	844
Total current liabilities		126,200	101,155
TOTAL EQUITY AND LIABILITIES		244,685	245,095
PLEDGED ASSETS			
	24	244,039	244,039
CONTINGENT LIABILITIES			
	24	271,865	287,969

Parent company's cash flow statement

SEK thousands	Note	2014	2013
Operating activities			
Operating profit	1	27	
Interest paid	-1	-7	
Income tax paid	-141	102	
Cash flow from operating activities before changes in working capital	-141	122	
Change in working capital			
Change in other current receivables	-114	603	
Change in accounts payable - trade	-108	-742	
Change in other current liabilities	25,153	-20,489	
Cash flow from operating activities	24,789	-20,506	
Financing activities			
Repurchase of own shares	0	-3,895	
Dividend received	28	0	50,000
Dividend paid	-25,405	-25,475	
Cash flow from financing activities	-25,406	20,630	
CHANGE IN CASH AND CASH EQUIVALENTS	-617	124	
Cash and cash equivalents at beginning of year	808	684	
Cash and cash equivalents at year-end	192	808	

Parent company's statement of changes in equity

SEK thousands	Note	Restricted equity		Non-restricted equity		
		Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year
Opening balance on 1 January 2013		1,132	19,446	84,117	18,598	-7
Transfer of profit (loss) from 2012				-7		7
Repurchase of own shares				-3,895		-3,895
Dividend for 2012	12			-25,475		-25,475
Profit (loss) for the year						50,016
Closing balance on 31 December 2013		1,132	19,446	54,740	18,598	50,016
143,931						
SEK thousands	Note	Restricted equity		Non-restricted equity		
		Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year
Opening balance on 1 January 2014		1,132	19,446	54,740	18,598	50,016
Transfer of profit (loss) from 2013				50,016		-50,016
Dividend for 2013	12			-25,405		-25,405
Profit (loss) for the year						-48
Closing balance on 31 December 2014		1,132	19,446	79,350	18,598	-48
118,477						

Notes

All amounts in SEK thousands unless otherwise stated

Note 1 General information

The HMS Group is one of the world's leading suppliers of communication technology for industrial automation. The Group develops and manufactures flexible, innovative and reliable solutions to connect industrial products to networks and gateways, thus enabling inter-connection between various networks under the Anybus and IXXAT brands, as well as products for remote monitoring under the Netbiter brand. Nearly all development and most of the manufacturing takes place at the company's head office in Halmstad, Sweden and in Weingarten, Germany. Sales are conducted from the head office in Sweden and from the sales offices in Japan, China, Germany, the USA, Italy, France, India, UK and Denmark.

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 consolidated financial statements were approved for publication by the Board of Directors on 24 March 2015.

Note 2 Accounting policies

The most important accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis for preparation of financial statements

The consolidated financial statements of the HMS Group have been prepared in accordance with the Swedish Annual Accounts Act and RFR 1 Additional Accounting Regulations for Groups and the International Financial Reporting Standards (IFRS) that have been adopted by the EU. The annual report has been prepared in accordance with the cost method, with the exception of certain financial assets measured at fair value in other comprehensive income.

The parent company's financial statements have been prepared in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities. In cases where the parent company has applied different accounting policies than the Group, this is specifically stated in the respective sections below.

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.

2.1.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the Group
During the financial year, the Group did not apply any new or revised standard that has a significant impact on the Group's financial statements.

b) New standards, amendments and interpretations of existing standards that have not yet come into force and have not been early adopted by the Group

At the time when the consolidated financial statements for 31 December 2014 were prepared, several standards and interpretations applicable to the Group had been published, but had not yet come into force. None of these are expected to have a significant impact on the consolidated financial statements with the exception of the ones stated below.

IFRS 9 Financial Instruments deals with the classification, measurement and recognition of financial assets and liabilities. IFRS 9 replaces the parts of IAS 39 that have to do with the classification and valuation of financial instruments. IFRS 9 has three valuation categories: amortized cost, fair value via other comprehensive income and fair value via profit or loss. How an instrument is classified depends on the company's business model and characteristics of the instrument. Investments in equity instruments must be reported at fair value via profit or loss, but when they are first recognized, it is possible to measure the instrument at fair value via other comprehensive income. This means that there is no reclassification to profit or loss upon disposal of the instrument. IFRS 9 also introduces a new model for calculating the provision for credit losses based on expected credit losses. For financial liabilities, classification is unchanged and except when a liability is measured at fair value via profit or loss, measurement is based on the fair value

alternative. Value changes attributable to changes in own credit risk are then reported in other comprehensive income. IFRS 9 alters the requirement for application of hedge accounting in that the 80-125 criterion is replaced with a requirement on the economic relationship between hedging instruments and hedged items and the hedging ratio must be the same one used in risk management. Hedging documentation is also slightly changed compared to what was stated in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has not yet evaluated the effects of implementing the standard.

IFRS 15 Revenue from Contracts with Customers regulates how revenue recognition is done. IFRS 15 will provide the users of financial statements with more useful information about a company's revenue. The expanded disclosure requirements involve reporting on information about the type of revenue, the date of settlement and uncertainties associated with the recognition of revenue and cash flow for a company's customer contracts. According to IFRS 15, revenue is recognized when the control over the sold good or service passes to the customer and the customer is able to use or derive benefits from the good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction contracts, along with accompanying SIC and IFRIC. IFRS 15 comes into force on 1 January 2017. The Group has not yet evaluated that effects of implementing the standard.

None of the other IFRS or IFRIC interpretations that have still not come into force are expected to have a significant impact on the Group.

2.2 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all companies that are controlled by the Group. The Group controls 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 control 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 purchase method of accounting is used to report the Group's business combinations. 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 of the acquired company and the shares issued by the Group. The purchase price also includes the fair value of all assets or liabilities that result from an agreement on contingent payment. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value on the acquisition date.

The costs associated with acquisitions are expensed as incurred. If a business combination is carried out in several steps, the prior equity interests in the acquired company are remeasured at its fair value at the time of the acquisition. Any profit or loss that arises is reported in the income statement.

Any contingent consideration that will be paid by the Group is reported at fair value at the time of acquisition. Subsequent changes to the fair value of contingent consideration classified as an asset or liability are reported in accordance with IAS 39 Financial Instruments, either in the income statement or in other comprehensive income. Conditional consideration that is classified as equity is not remeasured and any adjustments to such amounts are also recognized in equity.

Intra-Group transactions, balance sheet items and unrealized gains and losses on transactions between Group companies are eliminated. The accounting policies of subsidiaries have been adjusted, where necessary, to ensure consistency with the policies applied by the Group.

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 Segment reporting

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 reporting 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 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. Such gains or losses are recognized in other comprehensive income.

Exchange profits and losses attributable to loans and liquid funds are reported in the income statement as financial revenues.

or expenses. Foreign exchange gains 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 are translated at the closing rate of exchange,
- b) income and expenses are translated at the average rate of exchange,
- c) all resulting exchange differences are recognized in other comprehensive income.

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. Exchange differences are reported in other comprehensive income.

2.5 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:

Machinery and equipment	3–7 years
Equipment, installations and facilities	3–7 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.

2.6 Intangible assets

a) Goodwill

Goodwill arises upon acquisition of a subsidiary. Goodwill is the amount that the purchase sum (along with 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) exceeds the fair value of the identifiable net assets that were acquired. If the amount is lower than the fair value of the acquired subsidiary's net assets, e.g. acquisition at a low price, the difference is reported directly to profit or loss.

Goodwill is tested for impairment on an annual basis, or more often if events or changed conditions indicate possible impairment. The carrying amount of goodwill is compared to the recoverable amount, which is equal to the value-in-use or fair value less selling expenses, whichever is higher. Impairment losses are immediately expensed and they are never reversed.

The Group's cash-generating units, which are expected to benefit from the company acquisition that generated the goodwill, are tested each year for impairment.

b) Customers and technology platforms

Customers and technology platforms have been acquired via business combination and they are measured at fair value on the acquisition date. Customers and technology platforms have a definite useful life and are measured at cost less accumulated amortization.

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

c) Brands

Brands have been acquired via business combination and they are measured at fair value on the acquisition date. Brands have an indefinite useful life and they are tested each year for impairment.

d) Capitalized development work

HMS's technology is based on internally developed solutions for connecting industrial equipment to networks, as well as gateways for the interconnection of different networks. The technology used in HMS's products is based on the patented Anybus technology. IXXAT products are built on complete system solutions, as well as hardware and software solutions in the areas of embedded subsystems.

Costs that are directly associated with the development of identifiable and unique circuits, strategic IP blocks, new product line platforms and costs up until the first protocol version for a specific network in a product line and that are controlled by the Group are recognized as intangible assets when the following criteria are fulfilled:

- 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 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 is calculated on the original cost and is based on the assessed useful life of the asset as follows:

Capitalized development work 5-7 years

2.7 Impairment

Assets with an indefinite useful life, such as goodwill, brands or intangible assets not yet ready for use, are not subject to amortization but they are tested annually for 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 separately identifiable cash flows. Capitalized development work is tested annually for impairment before it is ready to be put into use.

2.8 Financial instruments

2.8.1 Classification

The Group classifies its financial assets as follows: financial assets measured at fair value through profit or loss, loan receivables, accounts receivable and derivatives used as a hedge.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets valued at fair value through profit or loss
Financial assets valued at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired primarily for the purpose of selling it in the short-term. Derivatives are classified as held for trading if they have not been identified as hedging instruments. Assets in this category are classified as current assets if they are expected to be settled within 12 months. Otherwise, they are classified as non-current assets.

b) Loan receivables and accounts receivable

Accounts receivable and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, with the exception of items that mature more than 12 months after the balance sheet date. These are classified as non-current assets. Loan receivables and accounts receivable consist of 'Accounts receivable and other receivables' and 'Cash and cash equivalents' in the balance sheet (Note 2.10 and 2.11).

c) Derivative instruments and hedging

The Group utilizes derivatives to cover the risks associated with exchange rate fluctuations on future commercial cash flows (both external and internal) in a foreign currency. The holdings of derivative financial instruments consist of currency forwards.

Derivatives are reported in the balance sheet on the contract date. They are measured at fair value both initially and upon subsequent revaluation. All derivative instruments are classified as either current assets or current liabilities. Information about the fair value of various derivative financial instruments used for hedging is provided in Note 15.

When determining the fair value of a hedging instrument, the quoted rate of the currency on the closing date is used. At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial

assets. If there is objective evidence of impairment, the asset is written down to its fair value.

When the transaction is entered into, the relationship between the hedging instrument and the hedged item is documented, as well as the Group's objectives for risk management and its hedging strategy. 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 are effective in terms of counterbalancing changes in fair value or cash flows attributable to the hedged items.

Hedges are designed with the expectation that they will be effective. The effective part of changes in fair value of the hedging instrument is reported in other comprehensive income. The gain or loss attributable to any ineffective part is reported immediately under operating profit (loss) in the income statement. The accumulated amount in equity is reversed to the income statement in the periods when the hedged item affects earnings.

Accumulated gains or losses in equity will be retained in equity when the hedging instrument expires, is sold, or when the hedge no longer meets the hedge accounting criteria. These gains and losses are taken to profit or loss when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected, the accumulated profit or loss that was reported in equity is immediately moved to the income statement and reported in operating profit.

Hedging of net investments in foreign operations are reported in the same way as cash flow hedges. Accumulated gains and losses in equity are recognized in profit or loss when foreign operations are sold, either entirely or in part.

2.8.2 Reporting and valuation

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 instruments, except for financial assets reported at fair value via the income statement, are initially recognized at fair value plus transaction costs. Financial assets carried at fair value via the income statement are initially recognized at fair value, and associated transaction costs are reported in the income statement.

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. After initial recognition, financial assets held for trading and financial assets at fair value through profit or loss are reported at fair value. Loan receivables and accounts receivable are measured at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of any assets in the category 'financial assets at fair value through profit or loss' are reported in the income statement as 'Other operating income' or 'Other operating expenses' in the same period that the gain or loss arises.

2.8.3 Offsetting financial instruments

Financial assets and liabilities are offset and reported at a net sum in the balance sheet, only when there is a legally enforceable right to offset the amounts and an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legal right may not be dependent on future events and must be legally binding on the company and the counterparty both in the normal course of business and in the event of default, insolvency or bankruptcy.

2.9 Inventories

Inventories are measured 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.

2.10 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. If payment is expected within one year or less (or during the normal business cycle, if it is longer than one year), they are classified as current assets. If not, they are reported as non-current assets.

Accounts receivable are initially measured at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of accounts receivable is set up when there is objective evidence that the Group will not be able to collect all amounts that have fallen due according to the original terms that applied.

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, deposits held in bank accounts and other current investments with maturities of three months or less.

2 12 Share capital

Ordinary shares are classified as equity.

Transaction costs directly attributable to a new issue of ordinary 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 the retained earnings 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 retained earnings.

2 13 Provisions

Other provisions is comprised of hedging and translation reserves. The hedging reserve is comprised of unrealized gains and losses on futures, 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 14 Accounts payable-trade

Accounts payable are obligations to pay for goods or services acquired by suppliers as part of operating activities. Accounts payable 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.

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

2 15 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.

Bank overdrafts are reported as borrowings under 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 16 Current and deferred income tax

Tax expense for the period includes current tax and deferred tax. Income 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.

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.

In accordance with the balance sheet method, 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, deferred tax is not reported if it arises in conjunction with 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.

ity 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 laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or income 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 tax is calculated on taxable temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities should be offset in the balance sheet only if the entity has the legal right to settle on a net basis and they are levied by the same taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

2 17 Remuneration to employees

a) Pension commitments

The Group has both defined benefit and defined contribution plans. 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.

The pension obligations for salaried employees in Sweden are secured through insurance with Alectia, which is a defined benefit plan covering a number of employers. For the 2014 financial year, the company has not had access to sufficient information to enable it to report this plan as a defined benefit plan. The pension commitments are thus reported as a defined contribution plan.

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 2014, all permanent employees of the HMS Group were offered the opportunity to participate in an incentive program, 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 18 Provisions

Provisions for restructuring costs and legal claims 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. Provisions for restructuring include costs of layoffs and severance pay. No provision is made for future operating losses

Where there are a number of 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 19 Revenue recognition

Revenue is recognized at the fair value of the consideration received or to be received for goods and services sold as part of the Group's operating activities. Revenue is recognized after deductions for VAT, returns, rebates and discounts and after the elimination of intra-Group sales

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the company. The Group bases its estimates on historical outcomes, the type of customer, the type of transaction and the particular circumstances of each case

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

Revenue is recognized upon delivery of the products to the customer, in accordance with the sales conditions, at the point at which the material risks and benefits are transferred to the buyer

The Group also sells development services associated with industrial network technology. These services are invoiced based on time and material or as fixed price contracts. Revenue from time and material contracts is recognized at the contractual rates as labor hours are provided and direct expenses are incurred

For services provided as part of a fixed price contract, revenue is recognized on the balance sheet date in accordance with the percentage of completion method. Percentage of completion is determined by comparing the services already rendered to the total amount of services to be performed

Estimates are revised if any circumstances arise that could alter the original estimate of revenue, expenses or the percentage of

completion. These reassessments could result in an increase or decrease to the estimated revenue or costs and the effect is on revenue during the period when management became aware of such circumstances

Interest income is recognized using the effective interest method. When an item reported in loan receivables or accounts 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 20 Leasing

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

The Group leases certain items of property, plant and equipment. Leasing agreements for items of property, plant and equipment in which the Group essentially holds the financial risks and rewards associated with ownership, are classified as finance leases

Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Corresponding payment obligations, after deductions for financial expenses, are included in the balance sheet items 'Long-term borrowings' and 'Short-term borrowings'. The interest component of the financial expenses 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. Items of property, plant and equipment that are obtained through a finance lease agreement are depreciated over the asset's useful life or the term of the lease, whichever is shorter

2 21 Dividend

Dividends to the parent company's shareholders are reported as a liability in the consolidated financial statements in the same period that the dividend is approved by the parent company's shareholders

2.22 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 operating profit adjusted for items that did not involve actual cash receipts or payments.

Cash and cash equivalents include cash/bank balances and short-term financial investments with maturities of less than three months. All items within cash and cash equivalents can be converted into cash at relatively short notice.

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. The Group uses derivatives to hedge some of its risk exposure.

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.

a) Currency risk

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 minimized by hedging anticipated net cash flows in foreign currencies over the next twelve months. The Group's risk management policy states that 60% of the exposure

should be hedged for the next three months and 10 to 40% of the anticipated exposure should be hedged for the three to nine months thereafter.

Translation risk arises because the Group's equity amount is affected by currency rate fluctuations on its investments in subsidiaries, as well as loans in foreign currency. Currency exposure that has arisen from the net assets obtained during 2013 from the acquired business, primarily dealt with by borrowing in the currency concerned.

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 2014 would have been SEK 5 2 (8 3) 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 and financial assets 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 2014 would have been SEK 3 6 (3 4) 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 and financial assets 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 2014 would have been SEK 1 5 (1 0) 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 and financial assets measured at fair value through profit or loss.

b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk on the cash flows. 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 2014, 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 as of 31 December 2014 were 1% higher/lower with all other variables constant then the profit before tax for the financial year would have been SEK 2 5 (2 6) lower/higher. If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, profit before tax for the financial year would have been SEK 0 3 (0 3) million higher/lower due to increased/decreased interest expenses.

c) Credit risk

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.

a) 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 21 for an analysis of the Group's borrowings 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 of the Group's operational units 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.

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 10% of sales in cash, excess liquidity and unutilized credit facilities, which at year-end corresponded to approximately 8 (9)%.

According to the Group's financial policy, excess liquidity may be invested in interest-bearing securities with a maximum maturity of one year and an average maturity of six months. 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 mortgage 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.

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 tables 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 benefits for other stakeholders. It also strives to 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 Short-term borrowings and Long-term borrowings in the consolidated balance sheet) 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 2014 and 31 December 2013 were as follows:

	2014	2013
Total borrowings (Note 21)	245,388	259,848
Less cash and cash equivalents (Note 18)	-17,629	-15,818
Net debt	227,759	244,030
Total equity	422,599	377,557
Total capital	650,358	621,587
Net debt/equity ratio	54%	65%

	As of 31 December 2014	Between 3 months and 1 year	1 to 2 years	2 to 5 years	More than 5 years
Finance leases	-189	-568	-541	-992	
Derivatives	-1,209	-1,051			
Hedging of net investments	-10,698	-31,739	-41,656	-120,429	-48,240
Accounts payable - trade	-40,695				
	Per 31 december 2013	Between 3 months and 1 year	1 to 2 years	2 to 5 years	More than 5 years
Finance leases	-72	-215	-214		
Derivatives	7	453			
Hedging of net investments	-10,347	-31,969	-40,219	-115,983	-83,328
Accounts payable - trade	-28,342				

3.3 Accounting for derivative instruments and hedging activities
The Group has financial derivatives in the form of foreign exchange contracts that hedge purchases and sales in foreign currency.
Information concerning fair values for the various derivative instruments used for hedging is available in Note 15.

3.4 Calculation of fair value

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

- The quoted prices (not adjusted) on active markets for identical assets or liabilities (Level 1)
- Other observable data for the asset or liability than the quoted prices included in Level 1, either directly (i.e. as a price quotation) or indirectly (i.e. derived from price quotations) (Level 2)
- Data for assets or liabilities not based on observable market data (i.e. non-observable data) (Level 3)

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2014:

	Level 1	Level 2	Level 3	Total
Total assets	0	0	0	0
Liabilities				
Derivative instruments used for hedging		-2,260		-2,260
Total liabilities	0	-2,260	0	-2,260

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2013:

	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging		460		460
Total assets	0	460	0	460
Total liabilities	0	0	0	0

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

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 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. 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

Each year, in accordance with the accounting policies described in Note 2.7, the Group tests goodwill for impairment. The recoverable amount for the Group's cash-generating units is established by calculating the value-in-use. Various estimates must be made in order to make these calculations (Note 13). Reported goodwill amounted to SEK 400.8 (390.8) million.

The sensitivity analysis shows that an increased return requirement after tax of 11 percentage points (i.e. return of 20%) does not imply that there is a requirement for impairment.

b) Revenue recognition

The Group uses successive revenue recognition when reporting fixed-price agreements for sales of development services. Successive revenue recognition 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 2.6 b have been fulfilled and when the costs are expected to be covered and exceeded by future volume com-

mitments from customers. Twice 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 revenue is expected to be less than the carrying amount. In 2014, impairment testing resulted in a write-down of SEK 2,011 (0) thousand.

Note 5 Segment information

The HMS Group sells products primarily in five 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. The acquisition of IXXAT in 2013 did not impact the Group's segmentation.

Net sales per country	The Group		Parent company	
	2014	2013	2014	2013
Germany	176,505	141,699		
USA	103,899	91,436		
Japan	51,773	44,471		
Sweden	40,852	35,912	8,335	7,845
Finland	33,089	36,985		
Other countries	183,094	150,642		
Total	589,212	501,145	8,335	7,845

The carrying amounts for assets and investments in Sweden amount to 56 (54)% and in Germany to 41 (43)% of the Group's total assets. The carrying amounts for property, plant and equipment in Sweden amount to 53 (53)% and in Germany to 46 (47)% of the Group's total assets.

Revenue of approximately SEK 27,391 (31,280) thousand is derived from a single external customer. This revenue is attributable to Finland.

Note 6 Categorization by type of cost

	2014	2013
Cost of purchasing and handling materials	161,557	148,693
Costs for remuneration to employees (Note 8)	246,761	221,328
Depreciation, amortization and impairment (Note 13, 14)	30,384	18,158
Marketing costs	10,872	9,501
Freight costs	4,384	4,066
Other external costs	73,449	66,898
Capitalized development costs	-27,473	-52,609
Total costs for goods sold, sales, administration, research and development	499,934	416,035

Note 7 Remuneration to auditors

	The Group		Parent company	
	2014	2013	2014	2013
Remuneration to auditors				
PwC				
Audit assignment*	1,000	823	690	477
Tax advice	422	118	189	
Other services		89		75
Total	1,423	1,030	879	552

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

Note 8 Remuneration to employees

	The Group		Parent company	
	2014	2013	2014	2013
Salaries and other remuneration	184,347	185,099	3,031	2,501
Social security contributions	49,981	44,454	1,111	814
Pension costs	12,433	11,775	492	392
Total	246,761	221,328	4,634	3,707
Salaries in the parent company pertain to the CEO and Board of Directors				
	2014		2013	
Salaries, other remuneration and social security expenses	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	7,207	2,251 (853)	6,001	1,911 (728)
Senior executives	4,389	2,935 (1,252)	4,211	3,057 (1,395)
Other employees	172,752	57,228 (10,328)	154,887	51,261 (9,652)
The Group, total	184,347	62,414 (12,433)	165,099	56,229 (11,775)
	2014		2013	
	Average no of employees	Of which men	Average no of employees	Of which men
Sweden	190	142	184	140
Germany	104	84	101	84
The USA	23	15	16	12
France	2	2	2	2
Italy	5	4	5	4
Japan	10	7	11	7
China	8	7	8	7
The UK	4	3	4	3
Denmark	2	1	2	1
India	4	4	5	4
The Group, total	352	269	338	264
Gender distribution of the Group (incl subsidiaries) for Board members and other senior executives	2014		2013	
	No on closing date	Of which men	No on closing date	Of which men
Board members	6	4	6	4
CEO and other senior executives	8	7	8	7
The Group, total	14	11	14	11

Share-based remuneration

To promote long-term ownership commitment among employees, it is the Board's intention to present a proposal for a share incentive plan each year to the AGM. As of 31 December 2014, HMS had three share incentive plans. At the AGMs in 2012, 2013 and 2014 it was decided to introduce an incentive program that would be open to all permanent employees of the HMS Group.

In brief, each share-related incentive program works as follows: employees who choose to participate in the program, must make an initial investment HMS Networks shares during the investment period (1 January – 31 December of year 1). Then, during spring of year 5, they are allocated additional shares in HMS Networks, free-of-charge, for each invested share. This is done partly in the form of matching shares and partly in the form of performance shares. Employees who participate in the program 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 purchase of shares during the investment period. In order for the participants to be eligible to receive matching shares, they must be an employee of the Group during all of the qualification period (the period from the end of the investment period through 31 December of year 4) and the HMS shares they invest in during the investment period must be held for the entire qualification period.

Additionally, in order to be eligible to receive performance shares, HMS Networks AB (publ) must achieve certain financial goals pertaining to earnings per share during the qualification period. If the requirement on savings is fulfilled, a matching share is allocated for each share that is held. If both the savings and performance requirements are met, a matching share and a performance share are allocated for each share that is held.

In order to ensure delivery of shares in accordance with the incentive program, the AGM decided to acquire own shares for all programs.

Program 1

In accordance with a decision at the 2012 AGM, all permanent employees of the HMS Group were invited to participate in a share incentive plan in 2013. 60% chose to participate. The number of shares acquired as part of the plan was 24,939. In conjunction with this, the company acquired 31,000 own shares in 2013 in order to fulfill obligations pertaining to future matching and performance shares.

Program 2

In accordance with a decision at the 2013 AGM, all permanent employees of the HMS Group were invited to participate in a share incentive plan in 2014. 51% chose to participate. The number of shares acquired as part of the plan was 20,049.

Program 3

In accordance with a decision at the 2014 AGM, all permanent employees of the HMS Group were invited to participate in a share incentive plan. The registration period for participation was the month of December 2014 and approximately 47% chose to participate. With this incentive program, savings in HMS shares will be implemented during 2015.

The fair value of the services rendered is based on the share price for the matching shares and performance shares that are expected to be allocated. The share price is established on the date when the shares are allocated. The Group's costs for the share-related incentive program are reported in accordance with IFRS 2 Share-based payment (see also the description under accounting policies). For 2014, the Group's total employee benefit expense for the share incentive plan was SEK 1,790 (713) thousand, of which SEK 1,238 (543) thousand was reported to equity and SEK 552 (171) thousand was reported as a provision for future social security expenses.

Note 9 Income tax

	2014	2013
Current tax	21,692	13,962
Deferred tax (Note 22)	1,021	4,782
Tax	22,713	18,744

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:

	2014	2013
Profit before tax	85,811	81,494
Income tax calculated using the Swedish tax rate (22%)	18,878	17,929
Taxes, previous years' assessments	326	316
Tax effect of non-taxable income/non-deductible costs	407	308
Difference between tax rates of foreign subsidiaries	3,102	192
Tax expense	22,713	18,744
Weighted average tax rate	26.5%	23.0%

The increase in the weighted average tax rate is primarily due to a change in profitability for the Group's subsidiaries in different countries.

For cash flow hedges, the tax attributable to components of other comprehensive income is SEK 598 (385) thousand and for hedging of net investments it is SEK 2,866 (2,048) thousand.

Note 10 Exchange rate differences – net

Exchange differences were reported in the income statement as follows:

	2014	2013
Other operating income	9,809	2,828
Other operating expenses	-1,506	-1,290
Net financial items	-6,050	127
	2,253	1,665

Note 11 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.

	2014	2013
Profit attributable to parent company shareholders	63,098	62,750
Weighted average number of outstanding ordinary shares (000s)	11,291	11,307
Earnings per share (SEK per share)*	5.59	5.54

*Applies to both basic and diluted

Note 12 Dividend per share

The dividend paid in 2014 and 2013 was SEK 25,405 (25,475) thousand and dividends per share were SEK 2.25 (2.25) per share.

At the AGM on 28 April 2015 a proposal will be made to distribute SEK 28,229 thousand as dividends for the 2014 financial year, which corresponds to SEK 2.50 per share. The proposed dividend has not been reported as a liability in these financial statements.

Note 13 Intangible assets

	Patents	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Total
As of 1 January 2013						
Cost	448	87,228	236,071			323,745
Accumulated amortization and impairment	-130	-38,636				-38,766
Carrying amount	318	48,592	236,071	0	0	284,981
Financial year 2013						
Opening carrying amount	318	48,592	236,071			284,981
Purchases		52,609				52,609
Acquisition of subsidiaries			149,219	68,002	76,167	293,387
Exchange rate differences			5,555	2,320	2,835	10,711
Depreciation	-41	-5,140		-6,258		-11,438
Closing carrying amount	277	96,062	390,844	64,064	79,001	630,249
As of 31 December 2013						
Cost	448	139,838	385,290	68,002	76,167	669,744
Accumulated amortization and impairment/ rate effects	-171	-43,776	5,555	-3,937	2,835	-39,493
Carrying amount	277	96,062	390,844	64,064	79,001	630,249
Financial year 2014						
Opening carrying amount	277	96,062	390,844	64,064	79,001	630,249
Purchases		27,473		4,300		31,773
Exchange rate differences			9,908	3,773	5,058	18,740
Impairment		-2,011				-2,011
Depreciation	-41	-13,150		-7,730		-20,920
Closing carrying amount	237	108,374	400,752	64,408	84,060	657,830
As of 31 December 2014						
Cost	448	167,311	385,289	72,302	76,167	701,516
Accumulated amortization and impairment/ rate effects	-211	-58,937	15,463	-7,894	7,893	-43,686
Carrying amount	237	108,374	400,752	64,408	84,060	657,830

In the income statement, depreciation, amortization and impairment losses of SEK 20,920 (10,458) thousand are included in Costs of goods sold, and SEK 2,011 (0) in Research and development costs and SEK 0 (980) thousand in Selling expenses

Through the acquisition of HMS 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 236,071 thousand

In 2013, the German company, IXXAT Automation GmbH was acquired, which resulted in consolidated goodwill in the form of customers, 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

Capitalized development costs and brands are tested each year for impairment. During 2014, impairment testing resulted in a write-down of SEK 2,011 (0) thousand

a) Test of impairment for goodwill

The Group's goodwill has been evaluated in accordance with IAS 36. The recoverable amount for the cash generating unit has been based on its 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 existing structure of the assets. Acquisitions are not included

Note 14 Property, plant and equipment

	Plant and machinery	Equipment, installations and facilities	Total
As of 1 January 2013			
Cost	24,592	29,689	54,281
Accumulated depreciation	-15,530	-17,646	-33,176
Carrying amount	9,062	12,044	21,106
Financial year 2013			
Opening carrying amount	9,062	12,043	21,106
Exchange rate differences		-388	-388
Purchases	2,622	1,871	4,493
Increase through business combination		1,642	1,642
Depreciation	-2,762	-3,912	-6,674
Closing carrying amount	8,922	11,257	20,179
As of 31 December 2013			
Cost	27,214	32,815	60,029
Accumulated depreciation	-18,292	-21,558	-39,850
Carrying amount	8,922	11,257	20,179
Financial year 2014			
Opening carrying amount	8,922	11,257	20,179
Exchange rate differences		-244	-244
Purchases	4,147	1,890	6,037
Depreciation	-3,132	-4,320	-7,453
Closing carrying amount	9,938	8,582	18,520
As of 31 December 2014			
Cost	31,361	34,704	66,065
Accumulated depreciation, exchange rate effects	-21,423	-26,122	-47,546
Carrying amount	9,938	8,582	18,520

Depreciation costs of SEK 3,415 (3,398) thousand are included in the cost of goods sold, SEK 1,346 (1,092) thousand is included in selling costs, SEK 1,346 (1,092) thousand is included in administration costs and SEK 1,346 (1,092) thousand in research and development costs

Note 15 Derivative instruments

The Group	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging, forward contracts		2,260	460	
Total	0	2,260	460	0

Derivatives held for trading are classified as either current assets or current liabilities. All of the 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. During the period, the Group did not have any derivatives for trading.

(a) Forward contracts

The nominal amount of outstanding foreign exchange contracts as of 31 December 2014 was SEK 62,698 (57,237) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Profit and loss on forward contracts as of 31 December 2014, which is reported as equity, is reported in the income statement as operating profit for the periods when the hedged transaction affects earnings.

In 2014, realized foreign exchange contracts had a negative impact on operating profit equal to SEK 785 thousand. In 2013, the impact was positive, at SEK 2,021 thousand.

(b) Hedging of net investments in foreign operations

The Group's borrowings in EUR, which amount to SEK 237,888 (259,347) thousand have been identified as hedging of net investments for the acquisition of IXXAT. The Group's assessment is that the fair value corresponds to the carrying amount as of 31 December 2014. The exchange loss upon translation of the loan to SEK amounted to SEK 13,029 (9,309) thousand at the end of the accounting period and it is reported in other comprehensive income.

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 developments were also considered.

Assumptions about future margins are in line with the company's financial plan and historic performance.

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 has then been extrapolated based on an assumption of 2.0 (2.5)% annual growth, which is lower than the actual annual rate of growth. The long-term working capital requirement (excluding cash and cash equivalents) is estimated at 8 (8)% of the company's net sales. The return requirement, WACC, before tax was set at 10.6 (11.1)%.

The calculated recoverable amount 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.

Note 16 Accounts receivable and other receivables

	2014	2013
Accounts receivable - trade	69,853	54,152
Provision for doubtful debts	-359	-167
Accounts receivable - net	69,494	53,985
The fair value of accounts receivables and other receivables is as follows		
Accounts receivable - trade	69,494	53,985
Other receivables	7,459	9,086
Prepaid costs and accrued income, see Note 32	4,630	4,091
	81,583	67,162

As of 31 December 2014 the Group reported a loss concerning the reversal and impairment of accounts receivable amounting to SEK 474 (51) thousand. As of 31 December 2014, the provision for doubtful debts amounted to SEK 359 (167) thousand. The Group lacks a system for reporting external credit ratings but historically, it has had very low credit losses.

As of 31 December 2014, accounts receivable amounting to SEK 14,686 (10,121) thousand had fallen due and it was determined that a write-down requirement on that amount was not required. This amount concerns customers who have not previously had difficulties making payments.

An age analysis is presented in the table below

	2014	2013
1-15 days	10,252	7,718
15 days to 3 months	3,629	2,514
3 to 6 months	805	-111
	14,686	10,121

As of 31 December 2014, the Group reported accounts receivable for which there was a write-down requirement of SEK 353 (152) thousand.

As of 31 December 2014, the provision for doubtful debts amounted to SEK 359 (167) thousand. The assessment is that a portion of the receivables is expected to be paid.

An age analysis is presented in the table below

	2014	2013
Less than 3 months	0	77
3 to 6 months	0	0
more than 6 months	353	75
	353	152

Provisions for each reversal of the reserves for doubtful debts are included in the income statement under Selling expenses. 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

	2014	2013
EUR	36,289	32,879
USD	22,879	15,595
SEK	4,578	2,695
JPY	4,523	1,909
GBP	1,338	825
DKK	239	244
INR	7	6
Total	69,853	54,152

Note 17 Inventories

The Group	2014	2013
Raw materials and consumables	32,675	25,128
Work-in-progress	2,731	2,502
Finished goods	18,547	8,341
	53,953	35,971

Costs for impairment of inventories (obsolescence) that affected last year's profit are included in Cost of goods sold, with an earnings impact of SEK 1,650 (-654) thousand. The Group does not have sufficient financial information to calculate the proportion of material in cost of goods sold.

Note 18 Cash and cash equivalents

Included in cash equivalents in the balance sheet and the cash flow statement are

The Group	2014	2013
Cash and bank balances	17,629	15,818
	17,629	15,818

Note 19 Share capital and other contributed capital

	Number of shares (000s)	Share capital	Other contributed capital	Total
As of 1 January 2013	11,322	1,132	125,641	126,773
As of 31 December 2013	11,322	1,132	125,641	126,773
As of 31 December 2014	11,322	1,132	125,641	126,773

The total number of shares is 11,322,400 (11,322,400) with a quotient value of SEK 0.1 (0.1) per share. During 2013, the company repurchased 31,000 own shares on NASDAQ OMX Stockholm. The total amount paid for the shares was SEK 3,895 thousand. The shares are held as treasury shares.

Note 20 Allocations

	2014	2013
Provision for returned goods	2,366	2,003
Total	2,366	2,003

Note 21 Borrowings

	The Group	
	2014	2013
Long-term		
Bank loans	203,358	223,575
Liabilities pertaining to finance leases (Note 25)	1,533	214
Current	204,891	223,789
Bank loans	39,740	35,772
Liabilities pertaining to finance leases (Note 25)	757	286
Total borrowings	40,497	36,058
	245,388	259,847

	The Group	
	2014	2013
Exposure related to borrowing at the end of the reporting period		
3 months or less	10,124	9,015
Between 3 months and 1 year	30,373	27,044
1 to 2 years	40,822	35,986
2 to 5 years	116,492	107,316
More than 5 years	47,578	80,487
	245,388	259,847

The bank loan matures in 2021. Interest on the bank loan is variable, tied to EURIBOR. The average interest rate for 2014 was 2.14 (2.11)%. Shares in subsidiaries was provided as collateral for the bank loan (Note 24). Loan terms for the bank loan are based on the development of net debt and EBITDA.

Note 22 Deferred tax

Deferred tax assets	Other	Tax deficit	Total
As of 1 January 2013		852	852
Exchange rate differences		-127	-127
Reported in income statement		-1	-1
As of 31 December 2013	0	724	724
Exchange rate differences	355	145	500
Reported in income statement	104		104
As of 31 December 2014	459	869	1,328

Deferred tax liabilities	Untaxed reserves	Intangible assets	Currency hedging	Other	Total
As of 1 January 2013	22,618	62	487	0	23,168
Reported in income statement	5,178	-396			4,782
Reported in other comprehensive income			-2,433		-2,433
Consolidated goodwill attributable to acquired new subsidiary			38,204		38,204
Exchange rate differences		1,422			1,422
As of 31 December 2013	27,796	39,293	-1,946	0	65,143
Reported in income statement	2,919	-1,181		-613	1,125
Reported in other comprehensive income			-3,465	-225	-3,690
Exchange rate differences		2,537			2,537
As of 31 December 2014	30,716	40,648	-5,411	-838	65,115

Deferred tax assets are reported for tax loss carryforwards to the extent that it is probable that they can be utilized through future taxable profits. These loss carryforwards do not expire in the foreseeable future.

The deferred tax asset of SEK 869 (724) thousand pertains to loss carryforwards for the subsidiary in USA. Full utilization of this loss carryforward is expected. All deferred tax falls due more than 12 months in the future.

Note 23 Pension obligations

Pension benefits

For salaried employees in Sweden, the ITP 2 plan's defined benefit pension obligations for retirement pension and family pension have been secured through insurance with Alecta covering several employers. For some of the company's first employees, retirement pension obligations have been secured via insurance with Skandia. For a few people in the Group, fee-based solutions are in place. For the 2014 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. Pension plan ITP 2, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan.

The premium for the defined benefit retirement and family pension is individually calculated. It is based on such things as salary, previously earned pension and expected remaining period of service. For 2014, the fees for pension insurance with Alecta amounted to SEK 5,972 (5,575) thousand. The year's fees for pension insurance with Skandia amounted to SEK 2,595 (2,524) thousand. Expected fees for the next reporting period for ITP 2 insurance with Alecta are SEK 6,270 thousand. The Group accounts for an insignificant portion of the plan.

The collective consolidation level is comprised of the market value of Alecta's assets as a percentage of the pension obligations calculated in accordance with Alecta's actuarial methods and assumptions, which are not in accordance with IAS 19. The collective consolidation level should typically be allowed to fluctuate between 125 and 155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken to bring the consolidation level back to the normal interval. If the consolidation level is low, one measure might be to raise the set price for new subscription or expand existing benefits. If the consolidation level is high, one measure might be to introduce premium reductions. At year-end 2014, Alecta's surplus at the collective consolidation level was 143 (148)%.

For the foreign units, the pension obligations are classified as defined contribution plans and the amount reported in the income statement is SEK 3,540 (3,229) thousand.

Note 24 Pledged assets and contingent liabilities

The Group	2014	2013
Pledged assets		
Shares in subsidiaries	452,266	378,337
Contingent liabilities		
Contingent liabilities	none	none
Parent company		
Pledged assets		
Shares in subsidiaries	244,039	244,039
Contingent liabilities		
Security for subsidiaries	271,665	287,969

Note 25 Finance leases

The Group's property, plant and equipment includes leased items that are held in accordance with financial lease agreements.

Plant and machinery

	2014	2013
Cost – capitalized finance leases	13,501	11,337
Accumulated depreciation	-11,211	-10,836
Carrying amount	2,290	501

The present value of future payment obligations related to financial lease agreements is reported as a liability to credit institutions as follows:

	2014	2013
Within 1 year	757	286
1 to 5 years	1,533	214
Total future leasing payments	2,290	501

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.

	2014	2013
Total minimum leasing fees for the financial year	15,718	14,614
Total minimum leasing fees	15,718	14,614
Future contractual leasing payments		
Within 1 year	19,440	15,283
1 to 5 years	79,724	62,676
Total future leasing payments	99,164	77,959

Note 26 Remuneration to the Board of Directors and senior executives, etc

Remuneration to the Board and senior executives

A fee is paid to the Chairman of the Board and Board members in accordance with the AGM decision. There is no separate remuneration for committee work. Board fees do not pertain to employee representatives.

Remuneration to the CEO and other senior executives at HMS Industrial Networks AB (the operating company) is comprised of basic salary, variable remuneration, other benefits and pension. Other senior executives are the seven members of the Group management team that also includes the CEO.

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.

Remuneration and other benefits 2014	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2014	Board attendance
Chairman of the Board, Urban Jansson	300			300	100%
Board member, Ray Maunitsson	150			150	90%
Board member, Henrik Johansson	150			150	100%
Board member, Charlotte Brogren	150			150	100%
Board member Karl Thedéen	150			150	100%
Board member Kersin Lindell	150			150	100%
Total, Board	1,050	0	0	1,050	
CEO Staffan Dahliström	1,513	468	492	2,473	
Other senior executives (7)	7,152	1,413	1,613	10,178	
Total	9,714	1,881	2,105	13,701	

Remuneration and other benefits 2013	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2013	Board attendance
Chairman of the Board, Urban Jansson	300			300	100%
Board member Nicolas Hassbjer (Board member for 4 months)	50			50	100%
Board member, Ray Maunitsson	150			150	100%
Board member, Göran Sigfridsson	150			150	88%
Board member, Henrik Johansson	150			150	100%
Board member, Gunilla Wikman	150			150	88%
Board member, Charlotte Brogren	150			150	88%
Total, Board	1,400	0	0	1,400	
CEO Staffan Dahliström	1,401		392	1,793	
Other senior executives (7)	7,711		1,731	9,442	
Total	10,212	0	2,123	12,335	

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 2014 Urban Jansson 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 Maunitsson, Henrik Johansson and Charlotte Brogren. Göran Sigfridsson and Gunilla Wikman decided to resign from the Board and Kersin Lindell and Karl Thedéen were elected as new Board members.

Since the AGM of 25 April 2014 the Board has held 9 minutes meetings up to the adoption of this annual report.

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 2014 variable remuneration for the CEO represents 34 (0)% of basic salary and for other senior executives it was 19 (0)% Bonus may not exceed 50 (30)% of basic salary.

*Including other remuneration

Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pension plans. See section 2.17 and Note 23. Pension costs are costs that affect profit (loss) for the year.

Pensions

The retirement age for the CEO is 65 years. For other senior executive, the retirement age 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 2014 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 is comprised of the Chairman of the Board and one additional Board member.

Note 27 Participations in subsidiaries

Shares owned by parent company	Registered office	CIN	Share	No of shares	With quotient value	141231	131231
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244 039	244 039
Shares owned by subsidiary							
	Registered office	CIN	Share	Equity	Profit/loss		
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%	14,157	3,649		
HMS Industrial Networks Inc	Chicago, USA	5983-659-5	100%	2,889	796		
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%	7,921	0		
HMS Industrial Networks S r l	Milano, Italy	5260930960	100%	865	287		
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%	247	0		
HMS Industrial Networks K K	Tokyo, Japan	0200-01-060118	100%	1,733	311		
HMS Industrial Networks ApS	Copenhagen, Denmark	33363842	100%	346	32		
HMS Industrial Networks Ltd	Coventry, England	7521411	100%	531	176		
HMS Industrial Networks India Pvt. Ltd	Pune, India	138298	100%	263	52		
IXXAT Automation GmbH	Weingarten, Germany	29724241	100%	33,252	17,194		
IXXAT Sarl	Orsay Cedex, France	534 368 113	100%	103	1,086		

HMS Industrial Networks Limited (UK Company Number 07521411)

We hereby confirm that the consolidated accounts for the ultimate parent company HMS Networks AB (publ) for the year ended 31st December 2014 include the figures of the UK subsidiary, HMS Industrial Networks Limited (UK Company Number 07521411) for the year ended 31 December 2014. We confirm that the UK subsidiary is claiming exemption from UK audit under section 479A of the Companies Act 2006

Note 28 Earnings from participations in Group companies

Parent company	2014	2013
Dividend	0	50,000
Total	0	50,000

Note 29 Other interest income and similar items

	The Group		Parent company	
	2014	2013	2014	2013
Interest income	37	76		9
Exchange rate differences		127		
Total	37	203	0	9

Note 30 Other interest expenses and similar items

	The Group		Parent company	
	2014	2013	2014	2013
Interest expenses	-5,758	-5,357	-1	
Exchange rate differences	-6,050			-16
Total	-11,809	-5,357	-1	-16

Note 31 Prepaid costs and accrued income

	The Group		Parent company	
	2014	2013	2014	2013
Rents	222	2,079		
Accrued income	1,197	754		
Other items	3,211	1,258	332	239
Total	4,630	4,091	332	239

Note 32 Accrued expenses and deferred income

	The Group		Parent company	
	2014	2013	2014	2013
Accrued salaries	9,604	3,201		
Vacation pay	7,381	6,098	246	163
Social security contributions	8,672	7,928	375	324
Other items	7,817	7,752	1,702	357
Total	33,475	24,979	2,323	844

Note 33 Related parties

There have not been any related party transactions except for the ones specified in Note 26 Remuneration to the Board and senior executives

Note 34 Business combinations

On 31 January 2013, the Group acquired 100% of the share capital in the German company, IXXAT GmbH for EUR 32.0 million. Cash equivalents were used for the purchase sum.

IXXAT, with its main operations in the German city of Wengarten, is a leading supplier of communications technology for industrial automation, the machine industry and the automotive industry. IXXAT's high-tech products and service offering is an excellent addition to HMS's business and the company's strong position in the important German market helps fortify HMS's position in the world's leading market for industrial communication solutions.

The revenue from IXXAT included in the consolidated income statement since 31 January 2013 amounts to SEK 102,935 thousand. In 2013, IXXAT contributed with an operating profit of SEK 12,800 thousand.

If IXXAT would have been consolidated on 1 January 2013, the consolidated income statement would show revenue of SEK 509,175 thousand and a profit of SEK 62,860 thousand for the full year 2013.

After deducting the fair value of the acquired net assets, the remainder was Group goodwill for SEK 149,219 thousand.

Note 35 Financial instruments by category

Assets in the balance sheet	As of 31 December 2014	
	Loan receivables and accounts receivable	Total
Accounts receivable and other receivables, excluding interim receivables	73,719	73,719
Cash and cash equivalents	17,629	17,629
Total	91,348	91,348

Liabilities in the balance sheet	As of 31 December 2014	
	Other financial liabilities	Derivative instruments used for hedging
Borrowing (excluding liabilities pertaining to finance leases)	243,098	
Liabilities pertaining to finance leases	2,290	
Derivative instruments		2,260
Accounts payable and other payables excluding non-financial liabilities	43,754	
Total	289,142	2,260
		43,754
		291,402

As of 31 December 2013

Assets in the balance sheet	As of 31 December 2013	
	Loan receivables and accounts receivable	Derivative instruments used for hedging
Derivative instruments		460
Accounts receivable and other receivables, excluding interim receivables	57,572	
Cash and cash equivalents	15,818	
Total	73,390	460
		73,850

Liabilities in the balance sheet	As of 31 December 2013	
	Other financial liabilities	Total
Borrowing (excluding liabilities pertaining to finance leases)	259,347	259,347
Liabilities pertaining to finance leases	500	500
Accounts payable and other payables excluding non-financial liabilities	31,098	31,098
Total	290,945	290,945

Note 36 Subsequent events

No significant events have occurred subsequent to year-end, but prior to the signing of this annual report.

Note 37 Key financial figures

No of outstanding shares The number of registered shares, less repurchased shares that are held as treasury shares	Net debt Long-term and current financial liabilities less financial assets
Return on shareholders' equity Share of the profit after tax attributable to the parent company's shareholders in relation to average equity	Net debt/equity ratio Net debt divided by equity
Return on capital employed Share of the profit after financial income in relation to the average capital employed	P/E ratio Market price in relation to earnings per share
Return on total capital Share of the profit after financial expenses attributable to the parent company's shareholders in relation to the average total capital	Earnings per share Share of the profit after tax attributable to the parent company's shareholders in relation to the average number of outstanding shares
EBIT Operating income according to income statement excluding items affecting comparability	Earnings per share after dilution Share of the profit after tax attributable to the parent company's shareholders in relation to 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
EBITA Operating profit (loss) excluding amortization of intangible assets and items affecting comparability	Working capital Current assets less cash and cash equivalents and current liabilities
EBITDA Operating profit (loss) excluding depreciation of PPE, amortization of intangible assets and items affecting comparability	Operating margin Operating profit (loss) in relation to net sales
Equity per share Equity attributable to the Parent Company's shareholders divided by the number of outstanding shares at the end of the period	Equity/assets ratio Shareholders' equity in relation to total assets
Financial assets Long-term and short-term financial receivables plus cash and cash equivalents	Capital employed Total assets less non interest-bearing current liabilities, provisions, and total deferred tax liabilities

The Board of Directors and CEO affirm that the consolidated accounts 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 results. The Annual Report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the and Parent Company's financial position and results

The Board of Directors' report for the Group and Parent Company provides a true and fair overview on development of the Group's and Parent Company's operations, financial position and results and also describes material risks and uncertainties faced by the Parent Company and the companies that comprise the Group

The income statement and balance sheets will be brought forth at the Annual General Meeting on 28 April 2015 for adoption

Halmstad 24 March 2015

Urban Jansson
Chairman

Staffan Dahlström
CEO

Kerstin Lindell

Ray Maunittsson

Hennk Johansson

Karl Thedéen

Charlotte Brogren

Our audit report was submitted on 24 March 2015
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorized Public Accountant

Auditor's report

To the annual meeting of the shareholders of HMS Networks AB (publ), corporate identity number 556661-8954

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of HMS Networks AB (publ) for the year 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 51-83.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of HMS Networks AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Halmstad 24 March 2015

Områds PricewaterhouseCoopers AB

Fredrik Göransson

Authorized Public Accountant

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 28 April 2015 at the HMS offices, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 9 30 AM.

Right of participation 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 Wednesday 22 April 2015 and give notice of their intention to participate at the Meeting to the Company no later than Wednesday, 22 April 2015.

Registration must be communicated in one of the following ways by phone +46 (0)35-17 23 00, in writing HMS Networks AB c/o Computershare AB, Box 610, 18 216 Danderyd, or via the website www.hms.se/investors. The registration must include the following information: name, personal ID number/CIN, shareholding, address, daytime telephone number and, when applicable, information on assistants or deputies who will be attending. The notification 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 Industrial Network AB, c/o Computershare AB, Box 610, 182 16 Danderyd, well in advance of the AGM. The power of attorney form is available on the Company's website www.hms.se/investors 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 Securities Register Centre must temporarily re-register the shares in their own name to be able to participate at the Meeting. Such registration must be recorded with Euroclear Sweden no later than Wednesday 22 April 2015, which means that shareholders must notify their intentions on this matter to the nominee well in advance of the stated date.

Halmstad, March 2015
HMS Networks AB (publ)
The Board of Directors

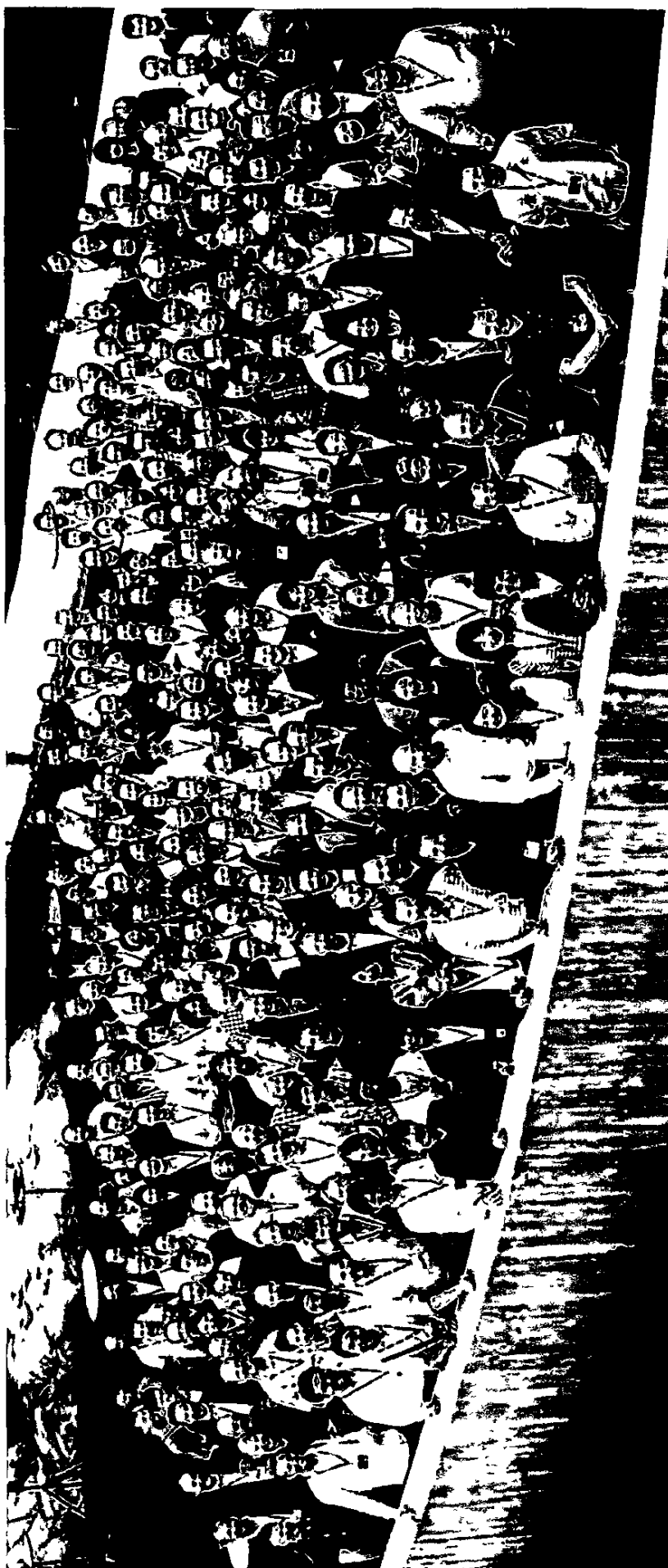
Shareholder information

Future reports

- Q1 interim report, 24 April 2015
- Q2 interim report, 23 July 2015
- Q3 interim report, 28 October 2015
- Year-end report, February 2016

All interim reports, annual reports and certain presentations are available on the HMS website www.hms.se/investors. A printed version of the annual report is only distributed to shareholders and investors who have requested one. The annual report can be ordered by mailing a complete address to ir@hms.se.

HMS



The world's no.1 choice for industrial communication

We provide reliable solutions to connect devices such as robots, control systems, motors and sensors to any industrial network

Our products and know-how enable customers to broaden their market and implement devices regardless of network environment. This makes our technology a must-have for any system integrator or manufacturer of industrial equipment wishing to operate globally.

Our long expertise, large installed base, and wide market coverage, make us the undisputed market leader of our field.

Get connected!

HmS

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