HMS NETWORKS
ANNUAL REPORT 2018

HMS — Hardware Meets Software™

HMS products make it possible for industrial machines and devices (hardware) to connect with control systems and the Internet (software). Our motto, Connecting Devices™, is the foundation for realizing the Industrial Internet of Things.

Hardware

Robots, backup generators, motor drives, pumps, measuring equipment and cooling systems are just a few examples the hardware HMS connects.

Software

HMS has been connecting machines to industrial control systems for more than 25 years. HMS technology is now being increasingly used to connect machines to cloud-based solutions, realizing the Industrial Internet of Things.

10 quick facts about HMS:

Founded in	1988
Sector	Industrial communication
Operations in	16 countries
Partners in	+50 countries
Major markets	Germany, US, Japan
Head office	Halmstad, Sweden
No. of employees	592
CEO	Staffan Dahlström
2018 sales	SEK 1,366 m
Brands	Anybus, Ixxat, Ewon, Intesis

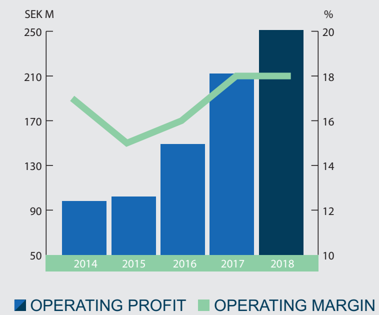
2018 in brief

In 2018, sales increased to SEK 1,366 (1,183) million and operating profit was SEK 251 (212) million. The number of employees increased to 592 (542).

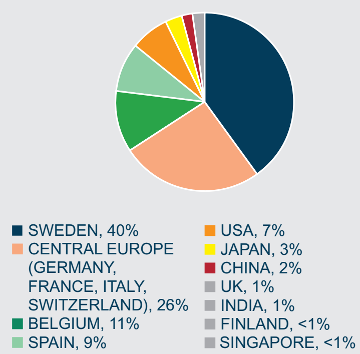
- **January:** HMS opens an office in Singapore to cover the rapidly expanding market in Southeast Asia.
- **February:** HMS presents its annual study of the industrial network market and concludes that modern Ethernet-based networks are now bigger than traditional fieldbuses.
- **April:** At the Annual General Meeting in Halmstad, two new board members are elected: Ulf Södergren, former CTO of ASSA ABLOY (publ) and Cecilia Wachtmeister, Executive Vice President Business & Group Functions, Kambi Group Plc (at present Vice President, Head of Group Sourcing & Procurement of Ericsson AB.)
- **June:** For the fourth year in a row, HMS's Ewon solutions are a winner of the 2018 Control Design Readers' Choice Awards . The readers of the US-based journal awarded Ewon first place in the Remote Access category.
- **July:** HMS aquires German company Beck IPC GmbH – a leading provider in the embedded communications market with solutions for embedded control, M2M communication and the Industrial Internet of Things, IIoT.
- **October/November:** During the fall trade fairs, HMS launches a number of solutions for IIoT. Under the theme "Hardware Meets Software™", HMS launches several new products for connecting industrial hardware to IoT software.

FINANCIAL INFORMATION IN BRIEF, SEKm	2018	2017	2016	2015	2014
Net sales	1,366	1,183	952	702	589
Growth in net sales, %	15	24	36	19	18
Operating profit	251	212	149	102	98
Operating margin, %	18	18	16	15	17
Profit (loss) for the year	171	143	100	60	63
Order intake	1,433	1,204	966	682	611
Earnings per share, basic, SEK	3.68	3.06	2.16	1.33	1.40
Earnings per share, diluted, SEK	3,65	3.04	2.16	1.33	1.39
Cash flow from operating activities	193	207	155	90	93
Average number of employees during the year	536	486	467	359	352

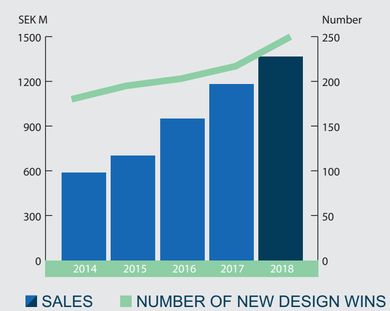
OPERATING PROFIT AND MARGIN



EMPLOYEES / COUNTRY



SALES GROWTH AND NUMBER OF DESIGN WINS



In total, HMS generated 250 new Design Wins during the year for our products, which brings the total number of active Design Wins to 1,693, a 6.5% year-on-year increase. (See page 8).

Contents

Continued growth and major investments for the future

MY PERSPECTIVE

– WHY INVEST IN HMS:

The world is becoming increasingly connected and HMS makes this possible. We have been connecting industrial equipment for more than 25 years and our motto Connecting Devices™, is today more relevant than ever. With a solid track record of growth and innovation and products at the cutting edge of technology, we have great opportunities to continue our growth journey.

2018 can be summarized as another year of successful growth, both organically and through the acquisition of German technology company Beck IPC. Our sales has increased by 15% and HMS is growing through business with both new and existing customers. In collaboration with partners and customers, we have developed innovative solutions that improve our customers' sustainability and productivity, all in line with our vision.

NEW OPPORTUNITIES WITH PARTNERS

In 2018, we started the HMS Solution Partner Program where we connect with companies that develop software solutions for IIoT. These companies have one thing in common – the need to retrieve hard-to-access data from industrial machines and devices, which is exactly what HMS hardware products do. The partner program is an example of how HMS brings to life its identity Hardware Meets Software™, and we believe that this initiative can become an important growth factor for HMS in the coming years.

INVESTMENTS FOR CONTINUED GROWTH

We continue to increase our market presence, not only by adding more resources to our major markets such as Germany, the US and Japan, but also through new initiatives such as our Singapore office, which was opened in 2018.

Although HMS has made major investments in product development, sales and marketing, our profitability continues to develop well, with an operating margin of 18%.

In terms of manufacturing, the year has been challenging due to very long delivery times in the electronic components market. Thanks to a strong internal focus and rapid build-up of a buffer stock, our customers have not been affected by any major delivery delays.

WORLD-CLASS QUALITY EFFORTS

A pillar of HMS's success is our long-term and solid product quality efforts. Many of the world's largest industrial companies use HMS products and solutions because they can rely on HMS products to function in demanding industrial environments, both now and in the future. The effects of our long-term quality efforts can be seen in the very low proportion of product returns from the field in 2018: 0.0366% (366 PPM). This is a world-class figure!

BECK – REINFORCEMENT WITHIN IIOT

During the year, HMS acquired 100% of German technology company Beck IPC GmbH. Beck's market-leading technology allows customers to easily and securely create new IIoT solutions, that support storing data both locally in the factory and in the cloud. The data can also be analyzed and visualized. The technology will be integrated into HMS's offering in the coming years and become an important part of our Industrial Internet of Things technology platform.

NEW TECHNOLOGIES

During the year, we worked on fifth-generation mobile telephony (5G) with several leading telecom companies. As a technology, 5G has excellent industrial communication capabilities and we believe that 5G will play an increasingly important role in industrial applications over the next 5 years. This applies both to critical applications associated with high demands for time synchronization and security and to applications where lots of data from sensors must be collected to enable statistical applications that simplify maintenance.

SUSTAINABILITY FOR THE FUTURE

During the year, we continued our sustainability efforts, which are based on the GRI Guidelines adopted by the UN. HMS sees this as a natural continuation of our long-standing commitment to sustainability. The strategy includes being a good employer and taking environmental responsibility, as well as using sustainable solutions in our production facilities and other operations. Our primary focus is to continue to develop solutions that help our customers reduce their resource utilization and energy consumption while increasing productivity. This is an area where HMS can really make a difference.

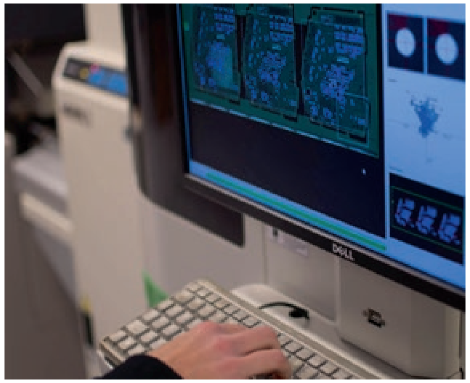
COMMON CORE VALUES IMPORTANT

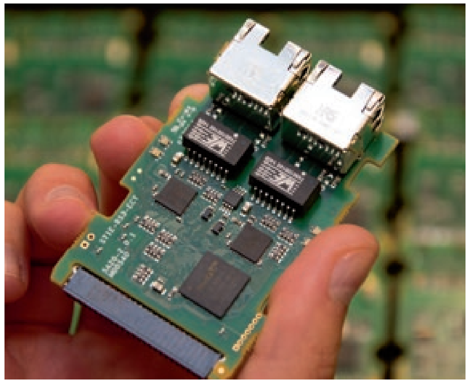
At the end of 2018, the HMS family included 592 (542) employees in 15 (14) countries. We spend a lot of time on the introduction, integration and training of employees. An important part of HMS's success is the corporate culture that exists within the company, summarized in our core values Hi 5: Customer Commitment, Growth & Innovation, Long-Term Perspective, Strong Relationships and Lean & Efficient.

These core values drive our business forward year after year and guide refinements and improvements.

Together with the company's management, I would like to extend my sincere thanks to all employees, customers, partners, suppliers and shareholders for another successful year. We look forward with confidence to an exciting future and a continued growth journey together.

Staffan Dahlström
President and CEO

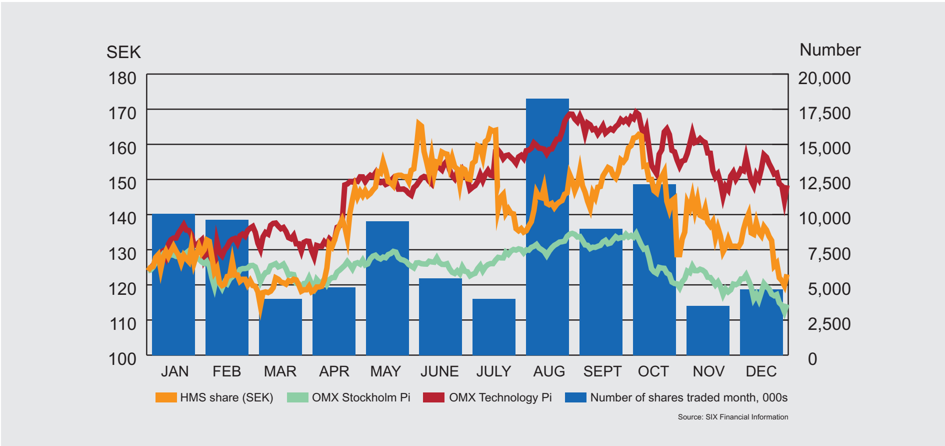




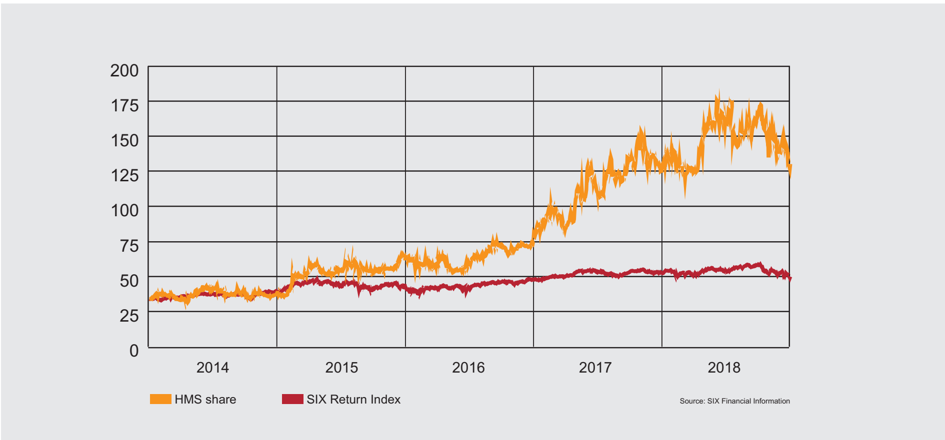
HMS stock

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

HMS STOCK PERFORMANCE 01/01/2018 THROUGH 31/12/2018



HMS STOCK YIELD 01/01/2014 THROUGH 31/12/2018



NUMBER OF SHARES AND SHARE CAPITAL

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

PRICE TREND

In 2018 HMS´s share price fell by 1 % to SEK 123 (124) per share. OMX Information Technology rose by 20 % during the same period and, in total, Nasdaq Stockholm fell by 8 %. The highest price paid during the year for HMS shares was SEK 171 in June 4, and the lowest price paid was SEK 111 in February 6. At year-end 2018, HMS's market capitalization was SEK 5,759 (5,806) million.

TRADING VOLUME

A total of 9.5 million shares were traded during the year, valued at SEK 1,330 (731) million, which corresponds to an annual turnover rate of 20 % (14). On average, 38,038 (25,168) shares were traded for a value of SEK 5,322 (2,913) thousand each trading day.

DIVIDEND POLICY

HMS's policy is to pay annual dividends of approximately 50 % of the net profit for the year. The dividend amount is adapted to the company's earnings level, financial position and future growth opportunities. For 2019, the Board and CEO propose dividends of SEK 1.80 (1.50) per share, which corresponds to approximately 49 % of net profit for the year. Over the last five years, average dividends have been nearly 48 % of net profit for the year. HMS stock has had an average yield of 1.44 % per year over the last five years.

WARRANTS AND OPTIONS

All HMS employees were invited to participate in an incentive program, which will involve saving in HMS shares during 2019.

SHAREHOLDERS AND SHAREHOLDER STRUCTURE

As of 31 December, HMS Networks AB (publ) had approximately 4,098 (4,149) shareholders. The ten largest shareholders represented 70.6 (74.2) % of the voting rights and capital.

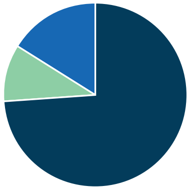
THE FOLLOWING ANALYSTS MONITOR HMS ON AN ONGOING BASIS:

Johanna Ahlqvist and Victor Höglund, SEB Enskilda Equity Research and Fredrik Lithell, Danske Bank.

SHAREHOLDERS, BASED ON HOLDINGS AS OF 31 DECEMBER 2018

Shareholding	Number of shareholders	%
1-500	2,689	65.6
501-1,000	560	13.7
1,001-5,000	600	14.6
5,001-10,000	101	2.5
10,001-15,000	35	0.9
15,001-20,000	27	0.7
20,001-	86	2.1
Total	4,098	100.0

OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2018



SHARE CAPITAL TREND

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

KEY FIGURES

KEY FIGURES	2018	2017	2016	2015	2014	2013
Share price (final day of trading)	123	124	76	61	37	34
Volume-weighted average share price	140	115	60	51	36	28
Average sales per day, SEK m	5.3	2.9	0.9	0.9	0.5	1.2
Average number of shares traded per day	38,038	25,168	14,876	18,064	12,612	41,664
No. of shares	46,819	46,819	46,819	45,290	45,290	45,290
Earnings per share, basic, SEK	3.68	3.06	2.16	1.33	1.40	1.39
Earnings per share, diluted, SEK	3.65	3.04	2.16	1.33	1.39	1.39
Market cap, SEK m	5,759	5,806	3,558	2,774	1,687	1,546
Enterprise value, EV (Market cap.+ net debt), SEK m	6,101	6,109	3 977	2,951	1,915	1,789
P/E	33.4	40.5	35.2	46.0	26.7	24.6
Net debt/EBITDA	1.1	1.2	2.2	1.3	1.8	2,3
EV/EBITDA	20.2	23.6	21.1	21.8	15.2	17.1
EV/Net sales	4.5	5.2	4.2	4.2	3.2	3.6

HMS'S LARGEST SHAREHOLDERS ON 31 DEC 2018

HMS'S LARGEST SHARE-HOLDERS ON 31 DEC 2018	No. of shares	Share of votes and equity
Investment AB Latour	12,109,288	25.9%
Staffan Dahlström	6,468,292	13.8%
Swedbank Robur fonder	4,341,996	9.3%
SEB Fonder	2,814,160	6.0%
Handelsbanken Fonder	1,572,066	3.4%
Livförsäkringsbolaget Skandia	1,469,383	3.1%
Lannebo fonder	1,434,891	3.1%
Fosielund Holding AB	989,999	2.1%
AMF Aktiefond Småbolag	925,656	2.0%
State Street Bank & Trust	923,314	2.0%
Tredje AP-Fonden	750,969	1.6%
BNP Paribas Sec Services Paris	735,869	1.6%
UN Joint Staff	692,376	1.5%
Öhman Sweden Micro Cap	544,521	1.2%
SEB S.A.	492,660	1.1%
JP Morgan Chase Bank	473,160	1.0%
Other	10,080,268	21.5%
Total	46,818,868	100.0%

MY PERSPECTIVE

– WHY INVEST IN HMS:

Over the past decade, HMS has grown by an average of over 20 % per year. The foundation of our business is a large base of Design Wins, which generate recurring business for HMS every year. In addition, HMS has high exposure to trends such as the Industrial Internet of Things and digitalization in general. The combination of a stable cash flow and favorable trends positions HMS well for continuing profitable growth.

Joakim Nideborn – CFO

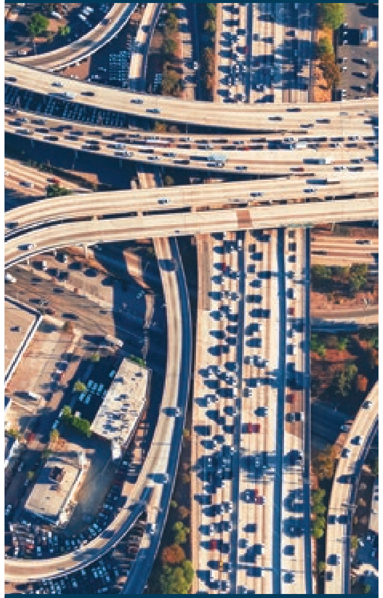
The devices of the future will be connected. And that's exactly what HMS does.

The Industrial Internet of Things (IIoT) means that industrial devices are getting connected to control systems and the Internet. This trend of increased connectivity gives HMS momentum, given that Connecting Devices™ is exactly what HMS does, and has been doing for decades.

So why is there a need to connect industrial devices? The driving force is to increase flexibility, efficiency and productivity, which has always permeated industrial automation. However, there are also strong trends in building automation, power generation, medical technology and more. IIoT makes it possible to gather data from the connected, industrial devices and feed it into IT systems, where it can be analyzed and presented. It provides operators and decision-makers with immediate insight into the industrial processes, enabling them to ensure that factory systems are functioning as intended, are correctly adapted, and that resources are used optimally. Furthermore, with IIoT, subcontractors are able to monitor delivered products and provide maintenance during the product life cycle, thus offering industrial companies a higher service level.

IIoT drives several other trends:

GLOBALIZATION & DIGITALIZATION



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

As a global company with a strong local presence, HMS has a definite advantage over competitors.

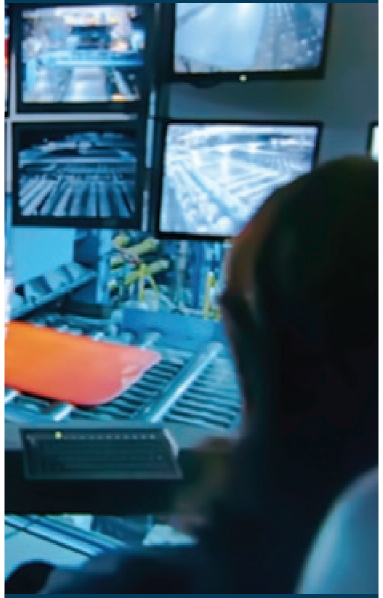
With exports accounting for more than 90% of HMS's sales, the company is firmly established in the international market and poised for additional growth.

CONNECTING THE NEW AND THE OLD

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

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

DEMAND FOR ACCESS TO INFORMATION



IIoT enables operators and decision-makers to get immediate access to information from industrial processes. This insight enables the optimization of process performance and resource usage.

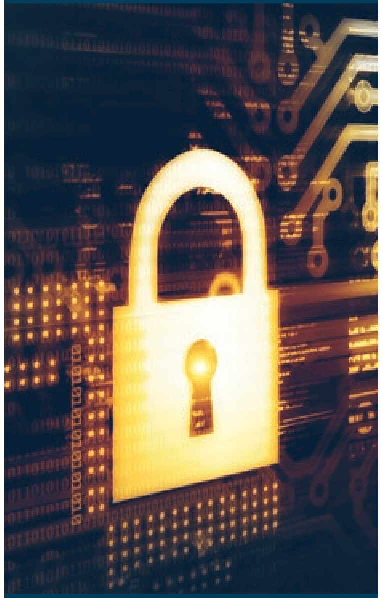
HMS is perfectly aligned with IIoT – offering products and solutions that connect industrial products to networks and make important data accessible in a secure way.

ENVIRONMENTAL AND ENERGY EFFICIENCY

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

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

FOCUS ON SECURITY



Connected devices go hand in hand with high demands for security.

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

GLOBAL MEGATRENDS DRIVING HMS

Business models — How HMS creates value

HMS products are sold to customers at all levels of the value chain – automation manufacturers, machine builders, system integrators, end users, and others. The business models vary depending on the customer, market and product line. There are roughly three business models for this: direct sales with framework agreements (called Design Wins), indirect sales via distribution/solution partners, and services and subscriptions.

1. FRAMEWORK AGREEMENTS AND DESIGN WINS

For Anybus Embedded and certain Ixxat products, the business model is based on direct sales with framework agreements, i.e. Design Wins. This is HMS's original business model and it is still an important foundation of our business. A Design Win typically involves a long-term collaboration with a manufacturer of automation equipment. The business model is based on the customer designing both hardware and software support for HMS technology into its product, and then ordering the product on an ongoing basis.

Direct contact with customers is important, which is why HMS's own sales and application engineers ensure that there is excellent collaboration both technically and commercially. And, although the sales cycle is relatively long, the upside is a steady stream of income over a long period of time, provided that the customer's automation product gains market acceptance.

For some major customers, customized hardware and software solutions are offered that meet specific specifications.

2. INDIRECT SALES

Anybus Gateways and most of the Ixxat and Ewon products are offered via HMS's network of qualified distributors. The business model is based on a network of around 300 independent distributors with great technical expertise in around 50 countries who ensure that HMS products are used in local projects. The target groups are primarily system integrators, installers and machine builders who are working to integrate networks, and design communications solutions, for various applications and end users in the industrial sector.

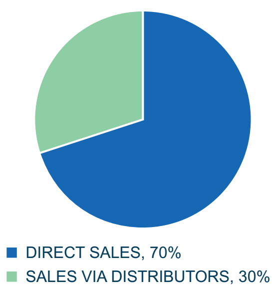
In this segment, HMS focuses on offering a wide variety of products, which are ready for easy configuration and installation – without wasting costly engineering resources on this task. With the sale of these products, local solution partners, or HMS's own application engineers, provide much-appreciated added value by offering programming and integration services.

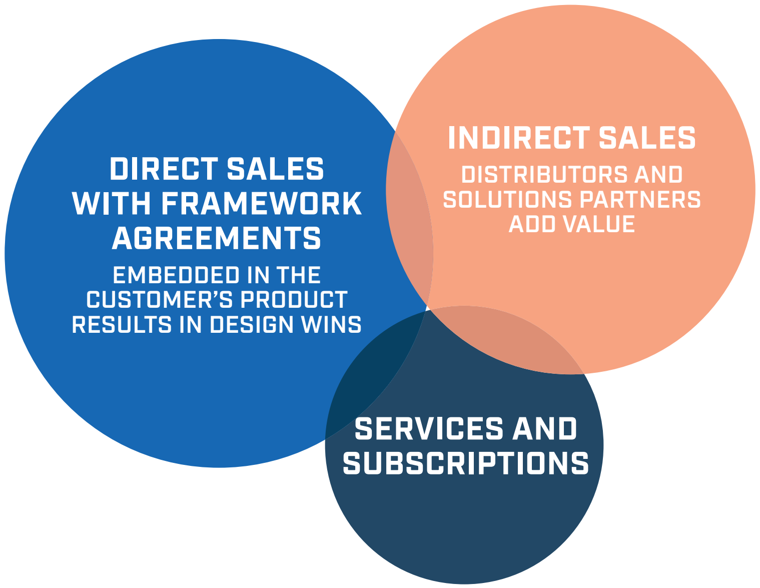
3. SERVICES AND SUBSCRIPTIONS

Ewon Remote Solutions are sold using another interesting model. First, HMS sells an Ewon product that enables remote connection to industrial equipment, typically machines. Afterwards, the customer subscribes to a web-based Ewon service through which both the customer and its approved users gain access to their equipment online. With a range of free basic services, along with more advanced paid services, customers are able to choose their preferred solution for each remote monitoring application.

All customers who purchase HMS products are also offered product-related technical services. These services are provided by HMS or HMS's partners, serving as a way for customers to ensure correct use of the products. For HMS, it is also another source of revenue for the company.

REVENUE DISTRIBUTION, 2018





WHAT'S EXPECTED AND WHAT WE DELIVER

EXPECTATIONS

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

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

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

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

SOCIETY
We need to create more sustainable development at the global level. Digitalization and smart industrial communications can help create more energy-efficient solutions, which also results in high demands for security. HMS is expected to take its responsibility as an employer and taxpayer.

OUR BUSINESS

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

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

STRATEGIES


VALUES – HMS HI 5
1 **Customer Commitment**
We will always prioritize our commitment to customers

2 **Growth and Innovation**
We will grow and be innovative

3 **Long-Term Perspective**
We pursue our work with a long-term perspective

4 **Strong Relationships**
We believe in building relationships

5 **Lean & Efficient**
We are efficient

WHAT WE CREATE

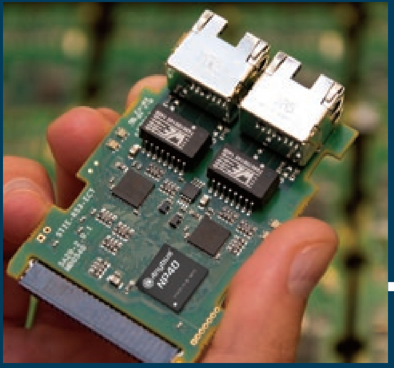
PRODUCTS FOR INDUSTRIAL COMMUNICATION
The core of HMS's mission is summed up in the motto, Connecting Devices™ – providing products for industrial communication.

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

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

GOALS
LONG-TERM GROWTH:	OPERATING MARGIN:
20 %	>20 %

- At least **99%** of deliveries must be made on time.
- Product returns must be less than **200 ppm** (parts per million).



VALUE FOR STAKEHOLDERS

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

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

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

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

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

20/20: Goals for profitable and sustainable growth

HMS's goal is to grow by 20 % each year while maintaining an operating margin of at least 20 %. In 2018, the growth was 15 % and the operating margin was 18 %. As the industrial world is becoming increasingly connected, HMS has excellent opportunities for continued growth into the future. The well-established brands, Anybus, Ixxat and Ewon, address different aspects of industrial communication in various markets and they are continually being expanded and developed with new products and solutions for industrial communication and IoT.

ORGANIC GROWTH AND SUPPLEMENTARY ACQUISITIONS

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

FOCUSED, SUSTAINABLE PRODUCT DEVELOPMENT

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

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

GLOBAL PLAYER WITH LOCAL PRESENCE

Local presence is one of the key factors for HMS as a global company. HMS currently has 15 own sales and marketing offices in key strategic markets. In addition, HMS has a well-established network of selected distributors in more than 50 countries. Thanks to this organization, HMS is able to ensure quick, efficient product sales as well as proactive Technical Services offered in the local language.

SUSTAINABLE VALUE CHAIN

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

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

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

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

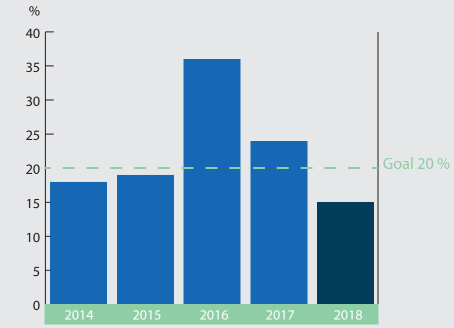
FINANCIAL OBJECTIVES

Long-term growth of
20 %

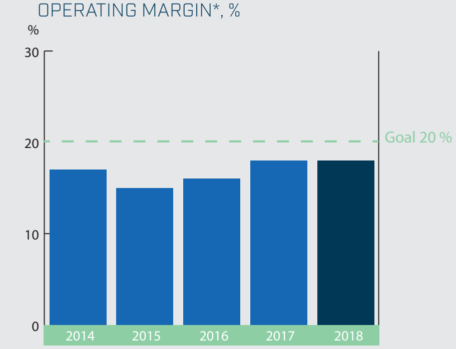
Operating margin
>20 %

OUTCOME

ANNUAL GROWTH, %



OPERATING MARGIN*, %



* after depreciation/amortization (EBIT)

Hello world!

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

HMS ORGANIZATION

HMS CORPORATE
HALMSTAD, SWEDEN
The head office for HMS's operations, with central functions like IT, accounting/finance, global sales and marketing.

BUSINESS UNIT ANYBUS
HALMSTAD, SVERIGE
Center for development of Anybus products.
Also includes a development center in Gothenburg, Sweden.
(BECK IPC products are developed in Wetzlar, Germany)

BUSINESS UNIT IXXAT
RAVENSBURG, GERMANY
Center for development of Ixxat products.

BUSINESS UNIT EWON
NIVELLES, BELGIUM
Center for development of Ewon products.
Some Ewon products are developed in Halmstad.

INTESIS
IGUALADA (BARCELONA), SPAIN
Center for development and sales of Intesis products.

MARKET UNIT CONTINENTAL EUROPE
KARLSRUHE, GERMANY
Center for HMS in Central Europe. Manages local sales, support and marketing and some customer-related development.
Includes country offices in Mulhouse, Milan and Basel.

MARKET UNIT AMERICAS
CHICAGO, USA
Center for HMS in North and South America. Manages local sales, support and marketing. In the US, HMS also has offices in Pittsburgh and Manchester.

MARKET UNIT ASIA
SHIN-YOKOHAMA, JAPAN
PUNE, INDIA
BEIJING, CHINA
SINGAPORE
Each entity manages local sales, support and marketing.
Halmstad is responsible for overall coordination of this market unit.

MARKET UNIT NORTHERN EUROPE AND THE REST OF THE WORLD
HALMSTAD, SWEDEN
Manages local sales, support and marketing in northern Europe, UK, and other selected countries that do not belong to one of the other market units. Coordinated from Halmstad.

MY PERSPECTIVE – WHY INVEST IN HMS:

On the European market, there are many ongoing initiatives to connect a large number of "Things" like controllers, actuators and sensors. This will generate strong growth for connectivity solutions like ours. New, upcoming technologies like 5G will drive this growth further and we are very well prepared and positioned with our IIoT solutions. Together with our partner network, we can offer complete, secure and flexible solutions that help major enterprises save money and be more sustainable.

Thilo Döring
General Manager, Market Unit Continental Europe

Economic conditions in North America continue to be favorable going into 2019, allowing for continued industrial poduction growth. HMS's reputation as an expert in industrial communication and IIoT has convinced many leading industrial enterprises to partner with HMS in implementing their digital transformation solutions. US industrial automation companies' application of IIoT technologies and healthy economic conditions will continue fueling growth for HMS in North America in 2019.

Kevin Knake
General Manager, Market Unit Americas

East and South Asia are the fastest growing economies globally and they are constantly using digitalization to enable higher productivity and improve sustainability. This requires proven communication and IIoT solutions. HMS is increasing its presence in Asia and and already has a strong reputation as a provider of digitalization solutions for the industrial sector. Combined with favorable economic conditions in the region, HMS has a good position for growth in Asia in the coming years.

Bartek S. Candell
General Manager, Market Unit Asia

HMS's strong product portfolio and market position combined with our strategy for continuously broadening our offer create the best possible platform for future success. New focus areas such as building automation and IIoT provide opportunities to grow beyond our well-established markets and will ensure future growth.

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

Anybus® BY HMS NETWORKS

Ewon® BY HMS NETWORKS

Ixxat® BY HMS NETWORKS

PRODUCT OFFERING

HMS = Hardware Meets Software™

HMS's products, solutions and expertise make devices and machines communicate in automation systems and Industrial IoT applications. This allows industrial data to be securely accessed, analyzed and displayed in real time. Exciting new opportunities are opened up as users can monitor, control and optimize industrial equipment, and proactively predict any potential malfunction.

Anybus® BY HMS NETWORKS Ixxat® BY HMS NETWORKS Ewon® BY HMS NETWORKS

Technology is evolving, and new, smart solutions are opening up entirely new opportunities for users. Device manufacturers and machine builders are now able to monitor their delivered products continuously over their life cycle to predict maintenance needs. Factory owners are able to analyze critical data from industrial processes to ensure that the processes work and that their equipment is being used optimally. These types of smart solutions rely on communication between industrial devices and IT/IoT systems. HMS products and solutions make it all possible.

INCREASING DEMAND FOR INDUSTRIAL COMMUNICATION AND IOT

HMS solutions for industrial communication and IIoT are used in millions of products and machines around the world. However, the need for communication is not only growing in HMS's traditional market of factory automation but also in the adjacent building automation, transportation, infrastructure and energy markets. This opens new doors for HMS.

Customers ask for sustainable, reliable, secure and intelligent industrial solutions, which often incorporate wireless technology, cloud connectivity and IIoT connectivity over IoT standards such as MQTT and OPC UA. HMS has an extensive offering that is easy and secure to use and holds a strong position in the growing global IIoT market.

CONNECTING NEW AND OLD EQUIPMENT

It's not just new industrial equipment that needs to be connected with the latest technology. Equally important is the ability to retrofit existing industrial equipment in factories to become part of modern innovative solutions. Thanks to an extensive expertise in fieldbus technology, industrial Ethernet, wireless networks and IIoT, HMS is able to offer and guide customers into cost-efficient solutions for connecting existing devices and machines to the latest communication and IIoT technologies. These demands often come from system integrators tasked with helping end users find a solution to connect existing equipment on the factory floor with new, modern equipment.

WHO ARE HMS'S CUSTOMERS?

HMS products are used by many different customer groups in the industrial sector. Device manufacturers, machine builders, system integrators and end users see HMS as a key supplier who helps ensure that their equipment is able to communicate globally. As all industrial segments are experiencing an increased need for communication and IIoT solutions, HMS is gaining market share in all customer groups.

BY HMS NETWORKS

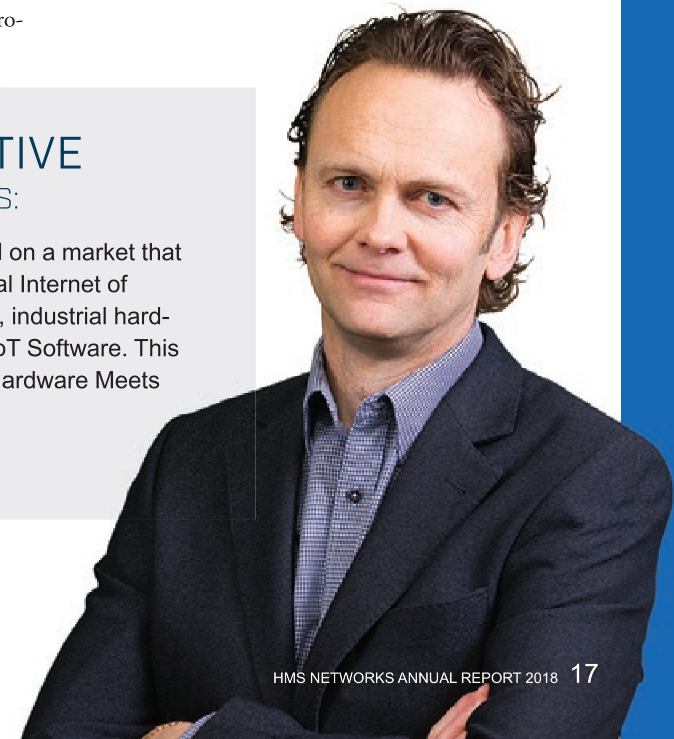
Our customers rely on HMS to help them connect their devices, and we know that they will not find a partner that can do it better. From innovating, designing, marketing and selling to producing, delivering and supporting, we take pride in saying all of this is done by HMS Networks. In 2019, we will highlight this fact by introducing a new set of product logotypes for our brands Anybus, Ixxat and Ewon – they all include the statement "BY HMS NETWORKS."

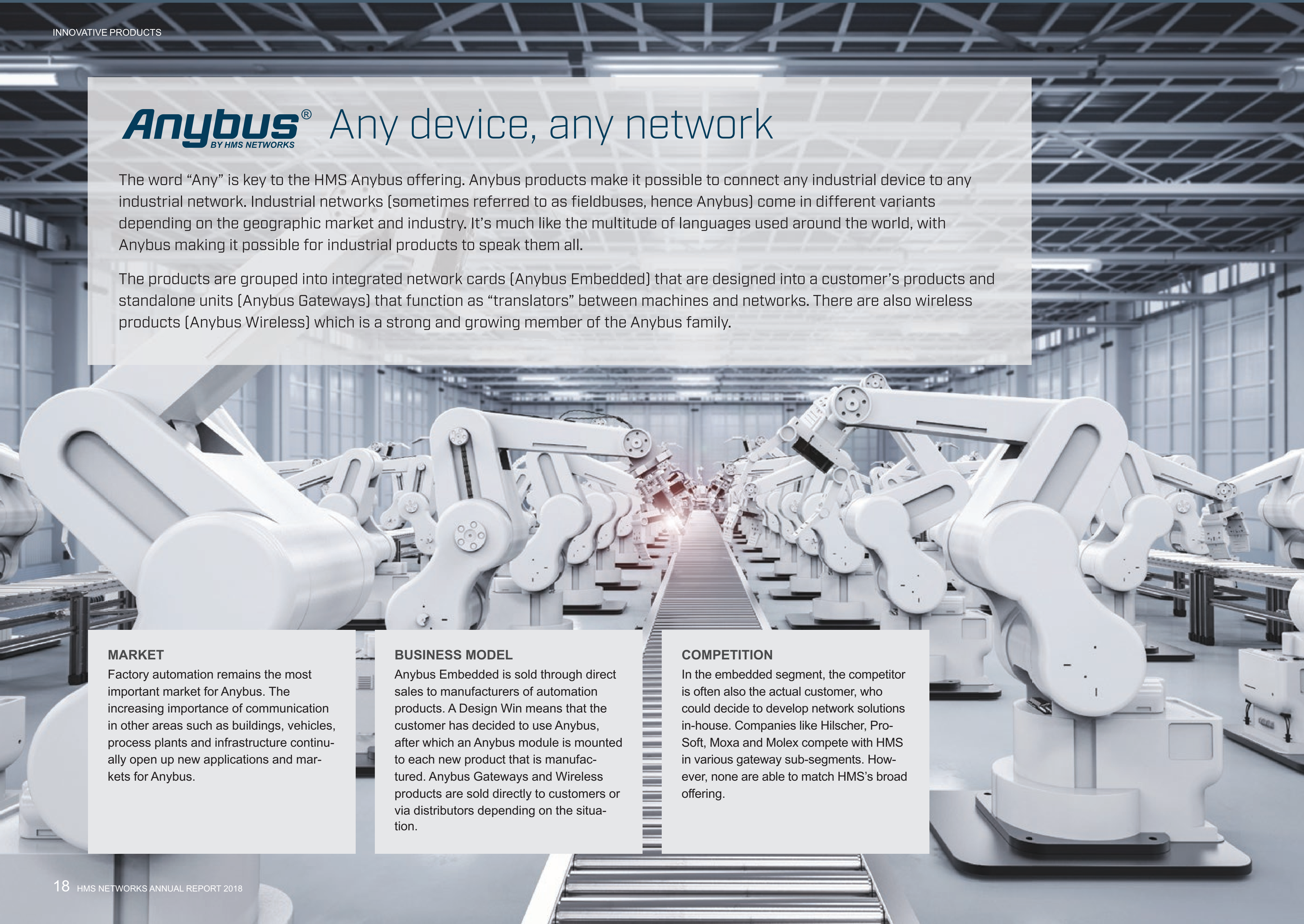
MY PERSPECTIVE

– WHY INVEST IN HMS:

HMS is perfectly positioned on a market that is growing with the Industrial Internet of Things. In IIoT applications, industrial hardware needs to connect to IoT Software. This is what HMS stands for – Hardware Meets Software™.

Anders Hansson – CMO





Anybus® BY HMS NETWORKS Any device, any network

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

The products are grouped into integrated network cards (Anybus Embedded) that are designed into a customer’s products and standalone units (Anybus Gateways) that function as “translators” between machines and networks. There are also wireless products (Anybus Wireless) which is a strong and growing member of the Anybus family.

MARKET

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

BUSINESS MODEL

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

COMPETITION

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

Beck + Anybus = True

In 2018, HMS acquired Beck IPC GmbH. The German company's technology and expertise in embedded control, M2M communication and IIoT is currently being merged into the Anybus offering, which will open up even more markets and business opportunities for Anybus.

ANYBUS EMBEDDED – INTEGRATED INTO THE CUSTOMER'S PRODUCT

Anybus Embedded network cards were the first products that HMS brought to market and they remain a very important business component. They still solve the same business issue – connecting industrial devices to any industrial network. Today's embedded products are primarily marketed under the name Anybus CompactCom. When a customer decides to use CompactCom, an integration process of approximately 7–10 months is initiated during which CompactCom is integrated into the design of the customer's product. This is called a Design Win. Anybus CompactCom makes it possible for customers to sell their products in different markets that use different networks. HMS is the leading independent company globally when it comes to embedded communica-tion solutions. In fact, the competition is typically also our customers, i.e. automation equipment manufacturers who consider designing their own embedded network cards. Currently, this type of in-house development and manufacturing represents most of the total global volume of embedded network cards. HMS sees considerable potential in convincing more companies that currently develop their own communication solutions to purchase them from HMS instead.

DID YOU KNOW? During 2018, the 5,000,000th Anybus module was delivered. The recipient was long-time customer ParkerHannifin.

DID YOU KNOW? The first industrial networks were called fieldbuses. That is how Anybus got its name.

ANYBUS GATEWAYS – INDEPENDENT "TRANSLATORS"

A gateway is an independent "translator" that enables automation devices and systems to communicate with industrial networks. Gateways consist of one or more Anybus Embedded cards and they typically function as problem-solvers on factory floors all over the world. They are pre-packaged solutions that can be used immediately to connect machines and networks. Gateways are typically used to connect older automation equipment with newer systems.

HMS currently offers more than 300 gateways that enable connection with virtually any industrial network. As a result, Anybus Gateways are in demand and used by automation engineers around the world, especially for factory automation, but also in related areas such as building automation.

HMS markets gateways under the name Anybus X-gateways™, which addresses communication between two networks, and under the name Anybus Communicator™, which is for communication between automation devices and an industrial network.

ANYBUS WIRELESS – WIRELESS COMMUNICATION

Wireless communication is a relatively new branch of the Anybus offering and it is rapidly taking off. Anybus Wireless Bolt™ and Wireless Bridge™ are used to give machines on the factory floor a solid wireless connection via Bluetooth or WLAN.

Wireless technology has existed for quite some time in the realm of consumer technology. However, the technology is relatively new in the industrial sector. HMS has noticed considerable interest in products such as Anybus Wireless Bolt, which can be mounted on a machine to provide wireless access. It provides users with access to a machine from distances of up to several hundred meters, eliminating the need for costly cables. They can also enable smartphones and tablets to communicate with the machine.

MY PERSPECTIVE

– WHY INVEST IN HMS:

We see great interest from the market in connecting industrial devices to IT systems for statistics and analysis. The Anybus products have traditionally been used to connect industrial devices with control systems on the factory floor, but the same technology can also be used to connect these devices to IT systems and the Internet. This opens up vast and exciting opportunites for Anybus.

Timo Van't Hoff
General Manager, Business Unit Anybus

Ixxat® BY HMS NETWORKS Making machines work on the inside

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

MARKET

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

BUSINESS MODEL

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

COMPETITION

CAN is a mature technology and other companies offer similar products. None, however, with such a complete portfolio and the level of technical expertise offered by HMS. IXXAT also offers unique solutions for automotive testing, functional safety and network connectvity.

YES, WE CAN!

Controller Area Network (CAN) is a communication standard that is often used inside automobiles, medical automation, machinery, ships and more. The HMS IXXAT team has extensive experience in CAN-based communication and is a pioneer in CAN for industrial applications. CAN is a mature, proven technology. Nevertheless, it has been installed in many new machines because CAN-based communication has many advantages, such as low cost, flexibility, reliability and energy efficiency. IXXAT products are also designed to meet the growing need for connecting CAN-based machines to the Internet (for IIoT solutions).

DID YOU KNOW? The car you drive, the elevator at your shopping mall, and the coffee machine you use at work are likely to use IXXAT communication technology.

Besides IXXAT solutions for classic CAN, most new IXXAT products are offered for the next generation CAN standard (CAN FD) and for industrial Ethernet systems like EtherCAT and PROFINET. All of this solidifies HMS's position for the future in this segment.

IXXAT's most important customers are machine builders, and common application areas include machine control, data collection and network extension.

IXXAT AUTOMOTIVE IS HELPING REALIZE THE NEXT GENERATION OF VEHICLES

Modern vehicles are more or less computers on wheels, which means that automobile manufacturers and their subcontractors are in need of rigorous digital test procedures. IXXAT Automotive solutions enable communication between communication devices in the tested vehicle and various computer-based test systems. Important technologies include CAN/CAN FD, LIN, FlexRay and Automotive Ethernet. Customers use IXXAT products to visualize and configure tests as well as to simulate various parts of the vehicle without needing to have an actual vehicle on location.

The strength of the IXXAT Automotive offering is rooted in close collaboration with customers. For example, most of the test systems in BMW factories are equipped with IXXAT products.

GREATER FOCUS ON SAFETY

Safety mechanisms in machines and factories are used to prevent personal injury and environmental damage as well as to minimize downtime.. With modern communication technology, safety data can be integrated into the same network as the standard machine communication. The implementation of such safety functions requires extensive knowledge of safety development and complex international standards like IEC 61508.
The IXXAT Safe product range enables customers to cut development time by up to two years.

IXXAT ENERGY: THE HUB BETWEEN POWER AND AUTOMATION

Smart grids are electricity grids that are automatically adjusted based on peaks, energy sources, time of day, etc. A great deal of communication is required between and inside smart meters, machines and power stations. IXXAT Energy solutions enable smart grids via communication within and between power systems, control rooms and automation equipment.

DID YOU KNOW? Business Unit IXXAT in Ravensburg is HMS's second- largest development center (after Halmstad), where more than 70 very experienced automation engineers are employed.

MY PERSPECTIVE

– WHY INVEST IN HMS:

Communication is becoming increasingly important for automation devices, especially with the coming of the Internet of Things. Many of the world's leading experts in various types of communication technologies work in the IXXAT team in Ravensburg and our knowledge is built into our products to solve communication problems for customers.

Christian Schlegel
General Manager, Business Unit IXXAT

Ewon® BY HMS NETWORKS Remote solutions for industrial applications

HMS's Ewon® brand provided IIoT solutions before the term IIoT even existed. Ewon solutions connect machines to the Internet, giving users access to the machine's data anytime and anywhere. You don't get more IoT than that.

MARKET

Ewon solutions typically enable remote access for Programmable Logic Controllers (PLCs), but there are many other application areas, such as backup power generators, UPSs, wind turbines, solar panels, telecom base stations, tanks, reservoirs, and more.

BUSINESS MODEL

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

COMPETITION

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

RAPIDLY GROWING MARKET

The market for remote access and monitoring of industrial machinery is still young and fragmented. However, fueled by the IIoT trend, it is growing rapidly. HMS has noticed a distinct trend where leading automation companies see remote access, remote monitoring and IIoT as a critical component of future growth.

FOUR SPECIFIC EWON REMOTE SOLUTIONS

All machine manufacturers are well aware that offering remote access to their machines will make it possibleit will be possible to lower maintenance costs and optimize uptime. Under the Ewon brand, HMS offers four methods of remote access and monitoring for industrial equipment – Remote Access, Remote Data, Remote Management and Remote Networks.

Ewon Cosy (Remote Access)

With an Ewon Cosy connected to a machine, it is possible to create a secure data tunnel to the machine via a cloud-based server, enabling remote programming and troubleshooting.. This drastically reduces the need for support, service and travel.

DID YOU KNOW? Ewon has been named the number one choice for remote access by Control Design Magazine in the U.S – Four years in a row!

Ewon Flexy (Remote Data)

Ewon Flexy (just like Cosy), is primarily intended for remote access. However, this product also enables advanced data services such as data collection from the field, alarm management, and more.

Flexy is often used for monitoring and preventive maintenance. It also supports all major communication protocols on the market and enables programming of customer-specific functions.

Ewon Netbiter/Argos (Remote Management)

Ewon Netbiter/Argos is a cloud-based solution that makes it possible for users to easily monitor equipment via a ready-made website (www.netbiter.net). The solution is often used to monitor field equipment such as backup generators, industrial machinery and pumps.

Ewon eFive (Remote Networks)

Ewon eFive is a solution for more permanent remote connections. This solution makes it possible for system integrators to create safe, industrial networks that connect one or more machines with a supervisory control and data acquisition (SCADA) system in a central control room. SCADA systems are designed for process monitoring and control.

DID YOU KNOW? Remote Solutions reduce the need for service trips, which is one of the biggest benefits that can also have a major global impact on CO_2 emissions.

MY PERSPECTIVE

– WHY INVEST IN HMS:

Our opportunities for future growth are excellent because we have an established brand in a rapidly growing market. Ewon's remote solutions not only reduce operating costs, they also add value by collecting and displaying key figures and parameters from machines that can be used for improved service and performance. Going forward, Ewon will continue to be a market-leading brand in remote solutions and IIoT.

Francis Vander Ghinst
General Manager, Business Unit Ewon

Intesis
Member of the HMS group

Connecting buildings

Modern buildings are like highly advanced networks with thousands of devices and machines that need to communicate. Intesis offers communications solutions designed for buildings. Building automation is a rapidly growing market where HMS has identified excellent growth opportunities for the future.

ABOUT INTESIS

Intesis is globally known for its unique technology and competence within connecting, for example, HVAC-equipment to building automation systems. The company is run as a separate entity within the Group with its own development and sales. Its offices are located in Igualada, which is near Barcelona, Spain. Approximately 57 employees work there with a focus on developing to develop communication solutions for both system integrators and property owners. Europe is the main market for Intesis, but the products are used in more than 100 countries throughout the world. Intesis has a solid history of innovation and successfully launching new concepts and new technologies in the market. Intesis was established in 2000 and over the last few years it has grown by more than 20% per year.

OFFERING

IntesisBox: A wide range of communication gateways for building automation. These gateways are similar to the Anybus gateways, but they are designed to provide communication between heat pumps, ventilation, air conditioning and other building-specific devices.

IntesisHome: A complete IoT solution for connecting air conditioning equipment to the Internet, thus enabling remote monitoring and control via a smartphone, tablet or computer.

HouseinHand: An app for iOS and Android that enables users to control their entire home via a smartphone. Via WiFi, the HouseinHand app connects to the KNX building automation network which makes it possible for users to control their lighting, blinds, AC, TV, audio, doors, cameras and more.

SUCCESSFUL INITIAL JOINT PROJECTS

Intesis is focused on building automation, while HMS's foundation is industrial automation. Internal collaboration has started and the first Anybus Factory-to-Building Gateways have been developed and released. These solutions make it possible for industrial equipment to connect with building automation systems. The gateways are based on Intesis technology and were launched in HMS's broader market channels in order to reach more customers. It will be possible to realize more synergies in the future.

MY PERSPECTIVE

– WHY INVEST IN HMS:

Buildings are currently one of the largest source of energy consumption in society and we have identified many opportunities for increasing both energy efficiency and living standards. At the same time, our communication and network technology also lowers costs.

Josep Cerón,
General Manager, Intesis

SUSTAINABILITY

Economic, environmental and social sustainability

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

This is the HMS Networks sustainability report for the 2018 fiscal year. The sustainability report includes the parent company HMS Networks AB (org. no. 556661-8954) and all units consolidated in the 2018 consolidated financial statement of HMS Networks AB, which are specified in note 33 in the consolidated financial statement. The sustainability report is prepared in accordance with the provisions of chapters 6 and 7 of the Swedish Annual Accounts Act, and with the Global Reporting Initiative's GRI Standards, Core option, and includes pages 3, 8–9, 28–35 and 105–111.

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

FOCUS AREAS

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

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

The sustainability aspects deemed most important are:

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

We maintain an ongoing dialog with our stakeholders – customers, employees, investors and owners – on what is important in order to obtain valuable feedback on how to carry out effective sustainability efforts. Please read more about our materiality assessment and HMS's approach to stakeholder engagement in our GRI appendix (on pages 105–111).

MY PERSPECTIVE

– WHY INVEST IN HMS:

More and more customers are turning to HMS to decrease energy consumption and reduce service trips. HMS can provide smart, sustainable products and services that help them become more sustainable. HMS engages in long-term sustainability efforts aimed at not only meeting our customers' requirements but also promoting and making progress on sustainability issues in our niche.

Katarina Lekander,
Quality and Sustainability Manager

UN Sustainable Development Goals

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

GOAL 3

HEALTH AND WELL-BEING
Investing in the health and well-being of employees

Read more on page 30.

GOAL 4

QUALITY EDUCATION
Prioritizing skills development and supporting training initiatives.

Read more on pages 30–31.

GOAL 5

GENDER EQUALITY
Ensuring equal rights, opportunities and conditions.

Read more on pages 30–31.

GOAL 8

DECENT WORK
AND ECONOMIC GROWTH
Promoting a long-term safe and secure work environment.

Read more on page 34–35.

GOAL 9

PROMOTING INNOVATION
Investing in research and development.

Read more on pages 32–33

GOAL 10

DIVERSITY
Efforts to increase diversity.

Read more on page 30–31.

GOAL 12

SUSTAINABLE CONSUMPTION AND PRODUCTION
Developing and manufacturing products that enable significant energy savings for our customers.

Read more on pages 32–33.

592 employees, 16 countries, 25 nationalities, 1 company

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

EMPLOYEE STRATEGIES – GOVERNANCE AND POLICIES

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

HMS offers its employees exciting personal and professional development in a modern, dynamic and growing organization 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 HI 5

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

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

AN ATTRACTIVE EMPLOYER

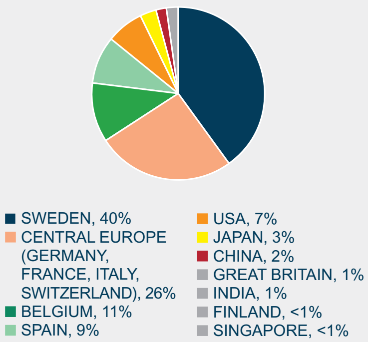
The latest employee survey revealed that the majority of our employees feel that HMS offers a world-class workplace. A pleasant work environment, robust gender and equality efforts and effective collaboration among colleagues were highly valued. More frequent surveys to "take the pulse" of the organization are carried out three times per year in order to get quick feedback. These surveys offer managers a way of obtaining feedback from employees via a portal that shows the department's results. This has proven to be an effective tool for facilitating meaningful discussions at the departmental level.

In 2018, we focused specifically on developing our managers and their leadership skills in order to meet the needs of our employees even better. We have also had a special focus on careers paths in order retain and develop our team memebers.

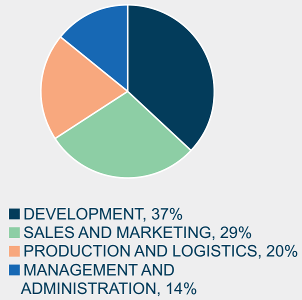
HEALTH AND LIFESTYLE

We have modern, functional offices at all or our workplaces around the world. Various initiatives are regularly taken to promote good health and a balanced lifestyle. Social and fitness activities are arranged on a regular basis. In 2018, sick leave at the company was 4.35 (4.34) % (which is considered to be low) and for the Group as a whole, employee turnover was 7,8 (6.8) % (the average for Sweden was 6,3 (7.2) %). We continually monitor absence due to illness and proactively take early initiatives to keep sick leave at a low level.

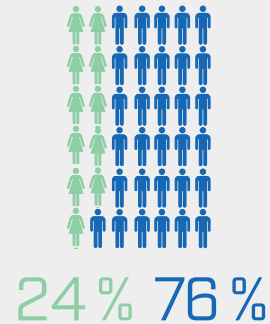
EMPLOYEES / COUNTRY



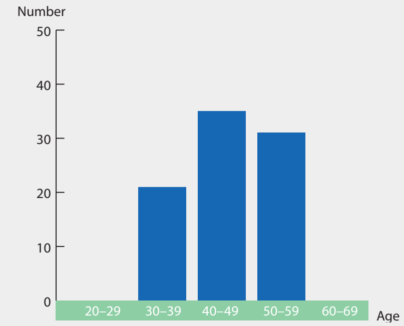
EMPLOYEES / FUNCTION



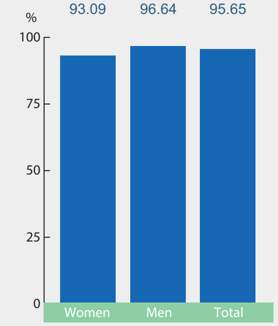
DISTRIBUTION WOMEN / MEN



MANAGERS / AGE DISTRIBUTION



ATTENDANCE 2018



THE RIGHT RECRUITMENT LEADS TO GROWTH AND QUALITY

HMS's growth strategy depends on it having employees with the right expertise. We actively strive to profile HMS in the labor market, with a special focus on technicians and engineers. For example, HMS participates in job fairs at universities and colleges, offers students opportunities for doing their thesis projects at HMS and promotes the company through various social media platforms. In 2018, we added a total of 87 (40) new employees to the Group, 30 (9) in Sweden and 57 (31) in other countries. We find it challenging to recruit as quickly as we would like to. However, we are satisfied that we succeed in recruiting the employees we need despite the tough competition.

EMPLOYEE DEVELOPMENT

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

A large portion of development work is carried out jointly with customers, typically in an international network that provides new perspectives and that results in personalized skills development. New employees participate in individually tailored, local orientation programs. In addition, all new HMS employees throughout the world participate in an orientation week held at the head office in Halmstad.

At HMS, there are many opportunities for shaping and developing one's own professional career. This year, we invested an average of 19 hours per employee on training. Furthermore, every employee has career development discussions with their manager each year. This creates a strong drive and commitment to continually improve, which is a critical success factor for long-term success. The company has s a special foreign exchange program that gives engineers from the development department the opportunity to work in one of the company's other offices around the world.

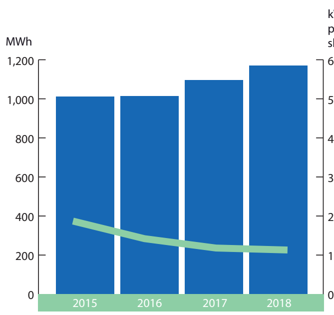
SOCIETY

Besides the taxes and fees that it pays in each market, HMS actively strives to strengthen its bonds with society that we succeed in recruiting the employees we need despite the tough competition. HMS also contributes by donating money to charities that are active on either a local or global level. For example, HMS in Halmstad has supported WOW, an organization that aims to promote a better integration of immigrant women in society. HMS also made a large donation to the UNHCR's important work to help refugees.

HMS products lower environmental impact

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

TOTAL ENERGY CONSUMPTION



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

Greenhouse gas emissions, metric tons CO_2E	2018	2017
Scope 1, direct greenhouse gas emissions	244	262
Scope 2, indirect greenhouse gas emissions from energy consumption	21	32
Scope 3, other indirect greenhouse gas emissions	323	294
Total greenhouse gas emissions	**588**	**588**
Greenhouse gas emissions for each unit (kg CO_2E)	0.57	0.63

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

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

SUSTAINABLE PRODUCTS

HMS actively works with the following areas:

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

SUSTAINABLE SOLUTIONS

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

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

HIGHER EFFICIENCY WITH DIGITIZATION

The industrial sector is in the midst of a communication and data revolution fueled by trends such as Industrie 4.0, the Industrial Internet of Things (IIoT) and Connected Manufacturing. There is a global impetus behind these trends based on the desire to reclaim manufacturing from low-cost countries, increase competitiveness and future-proof the country's exports of machinery and systems. Another powerful driving force is sustainability. The goals here include i improvements to the work environment and ergonomics, energy and resource optimization, flexible mass production, reduced environmental impact and a clearer understanding of our own impact.. The basis for creating smart industrial systems of the future is the information and data obtained from industrial systems. HMS products facilitate this by offering intelligent control functions, along with capturing and presenting data in an understandable way in the main analysis and decision systems. The growing amount of data collection and remotely connected systems lays the foundation for the creation of new services and businesses.

PRODUCT DEVELOPMENT

HMS's goal is to continually develop the capacity of products and solutions in a way that is compatible with their sustainability goals, so that they can easily be integrated into industrial systems and provide valuable functionality and information. With this is mind, HMS participates in various technical standardization organizations, thus ensuring that the company's products and solutions remain on the cutting edge in terms of functions such as energy management. In the area of industrial communication, technology is developing at a rapid pace, which puts high demands on the ability to offer more powerful, efficient products without compromising on environmental aspects. Since time to market is important, methods and platforms also play a critical role given that there is more to gain from a sustainability perspective when new, energy-efficient, smart solutions can start being used sooner.

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

FOCUS ON ENERGY EFFICIENCY

HMS strives to develop products and solutions that contribute to efficient energy consumption and resource-efficient production. By using automated processes and intelligent industrial communication, it is possible to achieve more efficient energy consumption for industrial equipment, such as motor drives, pumps and fan systems. HMS products for remote control and remote monitoring, along with its cloud solutions, can be utilized to address global challenges in sustainable development. Intelligent remote control of equipment also results in energy savings due to more efficient operations and fewer site visits required for inspection and control. This is how HMS's products lead to higher energy efficiency and thus lower environmental impact. In 2018, the savings potential in travel and lower carbon dioxide emissions increased by 30% compared to 2017 thanks to higher usage of Talk2M products.

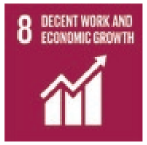
RECYCLING AND E-WASTE

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

Savings potential through use of Talk2M	2018	2017
Travel savings (km)	3,575,597,000	2,742,502,000
Lower carbon dioxide emissions (tons CO_2E)	456,246	349,943

HMS products lower the amount of travel by our customers. Travel savings for Talk2M are estimated at 3,575,597,000 km per year.

Sustainable business



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

A key factor for HMS is to conduct its business and take responsibility for our supply chain in an ethical way, given that our reputation is one of the company's most valuable assets. This is why we are so committed to maintaining our excellent reputation as a reliable communications partner and running our business in a responsible way.

HMS CODE OF CONDUCT

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

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

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

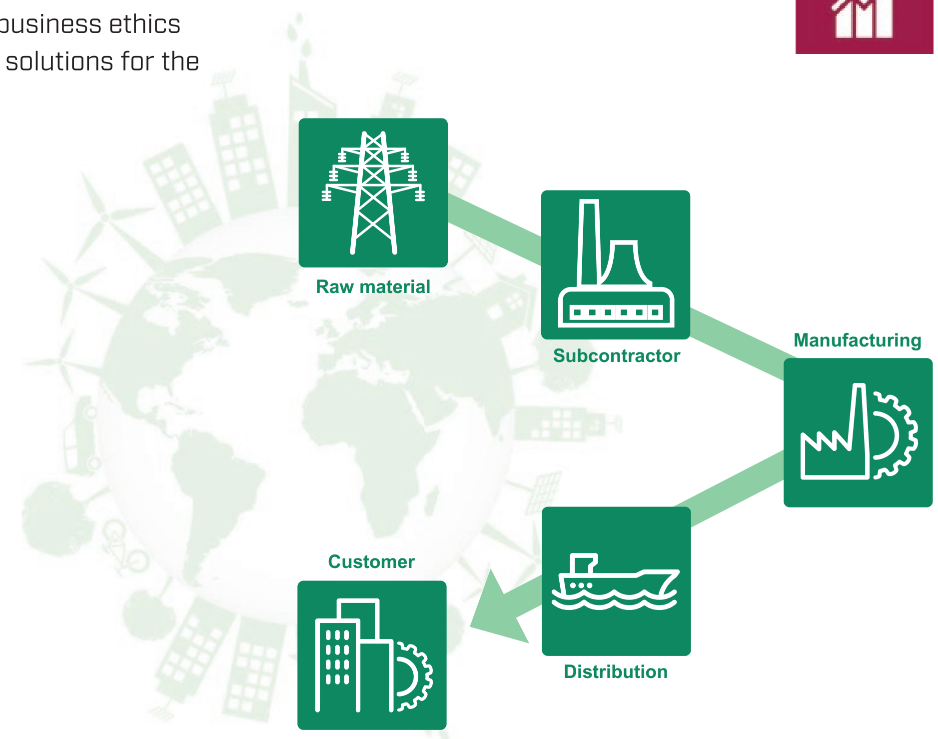
- being a responsible member of society
- respecting human rights
- ensuring health and safety
- striving for sustainable development
- preventing corruption

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

The Code of Conduct has been approved by the Corporate Management Team and Board of Directors. It has also been published on the company's website. The Code is available to all employees via the company intranet and it is covered during the oreintation of new employees. 91% of the employees in the HMS group were trained in the HMS Group Code of Conduct during 2018.

PROCESSING OF CUSTOMER DATA

HMS operations involve the processing of customer data generated in our systems when customers use our cloud services. We care deeply about respecting and protecting our customers' privacy. Privacy is managed by the HMS Customer Privacy Policy. Data privacy awareness training is required for all HMS data owners to ensure data protection and transparency. Using a certified management system for information safety (ISO 27001), we ar also assured that data is protected in the best possible way. Possible vulnerabilities in our systems are identified using penetration tests. To meet the new requirements of the EU GDPR, HMS has worked to strengthen personal data protection by adapting our systems and increasing information about the data that we store and process. HMS did not receive any complaints during 2018 in relation to customer privacy, nor were any leaks of customer data identified.



SUSTAINABLE DELIVERY CHAIN

We expect our suppliers to respect human rights and employee working conditions. They must also take responsibility for their environmental impact. However, components from a large number of manufacturers are used in the production process of HMS products. For this reason, HMS does not always have control over how the components are manufactured from an environmental, social and ethical perspective. Respect for human rights in all stages of our production is very important to HMS. There is also a risk that the electrical components contain conflict minerals. As a prerequisite for conducting business with HMS, we require that our business-critical suppliers have implemented a management system for their environmental and work environment initiatives. HMS selects and evaluates suppliers based on such criteria as quality, delivery, price and reliability. The company also considers environmental and social responsibility and commitment.

Installing HMS products at a client site in China.

Environment

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

Human rights

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

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

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

Supplier audits

Partners and suppliers are encouraged to apply business principles that are compatible with the principles contained in the HMS Code of Conduct. The HMS process for supplier evaluations, linked to human rights and social conditions, includes both site visits and self-evaluations. Audits focus on the code of conduct, work environment, heath, quality and safety.

For self-evaluation, HMS asks its suppliers to answer questions involving their code of conduct and submit their policy and instruction documents that cover this. At present, HMS's top spend material suppliers have good guidelines on how they run their business in an ethically, socially and/or environmentally correct way. They clearly state that they support, respect and prioritize these types of issues.

During the year, site visits were made to four of our Chinese suppliers of printed circuit boards and materials used in HMS products. The purpose was to check compliance with requirements and ensure that our products are being manufactured under fair conditions. This involved the inspection of work environment conditions and a review of documentation. Two Chinese material suppliers were also reviewed during the year on their compliance with REACH, RoHS and waste disposal regulations. No deviations were identified in the areas of environment or work environment.

Realizing social commitments

HMS maintains a close dialogue and long-term partnership with universities and schools. This resulted in collaboration on innovation and research and in the context of our core business activities, where students gained valuable work experience from projects and summer jobs at the company. In 2018, HMS has made a major effort to host more degree projects, bringing the total number of participating students during the year to 61. HMS also arranges visits at our offices in Halmstad. During the year, we held 7 visits that were open to students and the public. Each year, in collaboration with Halmstad University, HMS grants scholarships for the best thesis projects to outstanding students in computer science, electrical engineering and mechatronics.

HMS has various sponsorship programs to help the needy and reduce inequalities. We also provide opportunities and encourage local initiatives in the Group. For example, HMS has supported and contributed to ADA – a student society for female engineers. HMS also participates in WOW, a meeting place for women from different cultures, which aims to promote a better integration of immigrant women in Swedish society. The organizations that have received donations from HMS during the year include WOW, the Swedish Cancer Society, Save the Children and UNHCR.

Read more in the HMS GRI-APPENDIX on pages 104–109.

Auditor's statement on the statutory sustainability report

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

ENGAGEMENT AND RESPONSIBILITY
The board of directors is responsible for the statutory sustainability report for the year 2018 on pages 28–35 and for its preparation in accordance with the Annual Accounts Act.

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

OPINION
A statutory sustainability report has been prepared.

Halmstad, 22 March 2019
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant

CORPORATE GOVERNANCE

Chairman's comments

Sweden is known for its innovation successes and tradition of creating new, global companies based on unique expertise. HMS, with its SEK 1,366 million in sales and 592 employees in 16 countries, is yet another example of how entrepreneurship and advanced technical expertise creates value for customers throughout the world.

HMS has a unique position in a world where digitization is becoming ever-more present, thereby increasing the level of automation of industrial processes, lowering the maintenance costs of advanced machinery and creating new service offerings linked to digital technology. All of it is aimed at increasing productivity, safety and less consumption of resources for end users of HMS's products.

Well before Things (IoT) and Industri 4.0 became household names, HMS had already heavily invested in technology development such that it could be a leading player in the digitization of future industry. Efforts to ensure future success continue and accordingly, approximately one-third of HMS's employees work in product development and efforts to create new technology platforms. All of this is aimed at increasing the company's competitiveness and solidifying the foundation for long-term growth.

For a growth company in a rapidly growing sector, the Board of Directors plays an important role. They play an active role in supporting management on strategic decisions, ensuring that the strategy is clear, creating a good balance between risks and opportunities, gaining access to the right talent and ensuring that the established plans are followed. The work performed by the Board follows a fixed annual cycle, with scheduled meetings and an allocation of tasks and responsibilities in accordance with the company's rules of procedure.

Work done by the Board functions very well. In 2018, new expertise and experience was added when Cecilia Wachtmeister and Ulf Södergren joined the Board of Directors. Several of the Directors 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.

During the year, a Board evaluation was performed based on a model developed by the Latour Group. The results of these evaluations 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 year's summary once again showed that the work done by the Board is efficient and that there are solid, vibrant relationships among Board members and between the Board and management of HMS. The work in committees functions well. The audit and remuneration committees ensure that we work efficiently with both capital and personnel issues. The development committee monitors important issues having to do with product and technology development.

The Board's challenges going forward are to assist and debate strategically important focus areas with management. We need to ensure that HMS achieves long-term growth and remains competitive in a changing and growing market by keeping the right focus on product development, market expansion, customer focus and expertise. In short, we must continue developing HMS for the future.

Charlotte Brogren
Chairman of the Board

Corporate governance report

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

STRUCTURE FOR CORPORATE GOVERNANCE

HMS's shareholders are ultimately responsible for making decisions on corporate governance. The AGM elects the Board of Directors, the Chairman of the Board and the auditors. It also decides how the nomination committee with 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 general meeting of shareholders, which is the company's highest decision-making body. The Annual General Meeting (AGM) decides, among other things, on the adoption of the income statements and balance sheets, appropriation of profits, discharge of responsibility for the Board, election of Board members and auditors, as well as remuneration to the Chairman of the Board, other Board members and auditors. The AGM also decides on guidelines for remuneration to the management team.

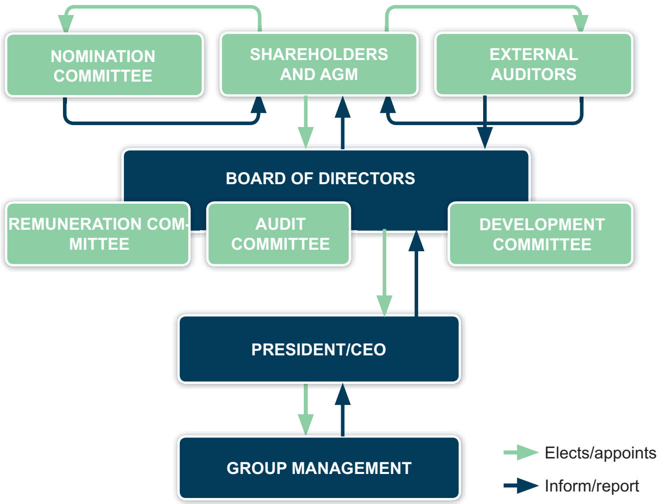
In addition, the AGM decides on any changes to the company's Articles of Association, new share issues and the introduction of any share-based incentive schemes. The Articles of Association is the fundamental governing document for the company. It stipulates the type of operations, the size of share capital, shareholders' right to attend the AGM and the agenda of the AGM. Any shareholder who wishes to have a particular item dealt with at the AGM must submit a written request to the Board well in advance so that the item can be included in the notice of the AGM. Information on the deadline for submitting such requests to the Board is available on the company's website. Information relevant to the AGM and the minutes from the AGM are available on the company's website: www.hms-networks.com.

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

ANNUAL GENERAL MEETING 2018

The AGM was held on 25 April 2018 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 70 (67) % of the number of shares and votes. The following were present at the AGM: Chairman Charlotte Brogren and Board members Ray Mauritsson, Fredrik Hansson, Anders Mörck and Tobias Persson. Cecilia Wachtmeister, newly elected to the Board of Directors also participated in the AGM. Also at the meeting were Evert Carlsson, representing the nomination committee and Fredrik Göransson from the firm of auditors. Shareholders at the AGM decided:

- to pay dividends to SEK 1.50 (1.00) per share. corresponding to a paid dividend of SEK 69,894 (46,717) thousand.
- that the Board of Directors shall consist of six Board Members without Deputies.
- to re-elect Charlotte Brogren as Chairman of the Board and to re-elect Anders Mörck, Ray Mauritsson and Fredrik Hansson as Directors.
- to newly elect Cecilia Wachtmeister and Ulf Södergren as Directors.
- that remuneration to the Board would be SEK 1,450 thousand for the next term, of which SEK 450 thousand to the Chairman of the Board and SEK 200 thousand to each of the other Board members.
- that remuneration for work in the audit committee would be SEK 50 thousand for each of the two members.
- the election of Öhrlings Pricewaterhouse-Coopers AB (PwC) as auditor, with Fredrik Göransson, Authorized Public Accountant, in charge.
- on guidelines for salary and other remuneration for the CEO and other senior executives.



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

NOMINATION COMMITTEE

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

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

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

The nomination committee appoints one of its members as chairman (however, neither the Chairman of the Board nor any other member of the Board of Directors may be elected as chairman of the nomination committee). Should any of the 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.

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

NOMINATION COMMITTEE FOR THE AGM 2019

Name/representing	Share of votes 2018-08-31
Jan Svensson, Investment AB Latour (publ.)	26 %
Staffan Dahlström, own holdings	14 %
Evert Carlsson, Swedbank Robur Fonder	9 %
Per Trygg, SEB Fonder	6 %
Charlotte Brogren, Chairman of the Board	<1 %

EXTERNAL AUDITORS

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

The auditors report verbally and in writing on an ongoing basis to the audit committee about how the audit has been carried out and give their views on the level of order and control in the company.

Auditors also report in person at least once per year to the entire Board about their audit and state their views about internal controls.

At the 2018 AGM, shareholders elected Öhrlings PricewaterhouseCoopers AB (PwC) as the audit firm, with Authorized Public Accountant Fredrik Göransson as the auditor in charge until the date of the next AGM. In addition to the audit, PwC also provides advisory services relating to financial reporting and taxes. This advice is not considered to be biased.

In 2018 total remuneration paid to HMS's auditors amounted to SEK 3,199 (3,825) thousand. Further information regarding auditors' remuneration is available in Note 8.

BOARD OF DIRECTORS

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

BASIS FOR BOARD WORK

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

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

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

BOARD STRUCTURE

The Board consists of six members elected by the AGM and one employee representative. 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 10 % or more of the shares or voting rights in the company. The nomination committee has, during a joint assessment of each member's relationship to the company, Group management and

AUDITOR

Fredrik Göransson
Authorized Public Accountant

Senior Auditor for HMS Networks AB since 2014.

Education: M.Sc. in Business and Economics, Authorized Public Accountant since 2003.

Assignment: Also serves as Senior Auditor for Bulten AB (publ), BUFAB AB (publ) and VBG Group AB (publ).

Born: 1973

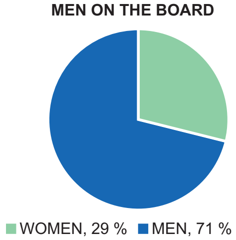
major shareholders, found that all members are independent in relation to the company and its management. Except for Anders Mörck, all the members have been assessed as being independent in relation to major shareholders. The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on page 46-47.

The total amount of fees paid to the Board in 2018 was SEK 1,450 (1,450) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 10.

DIVERSITY POLICY

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

DISTRIBUTION WOMEN/
MEN ON THE BOARD



experience, work background and business areas. The nomination committee has concluded that the Board of HMS Networks in this respect has an appropriate composition.

CHAIRMAN OF THE BOARD

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

At the AGM on 25 April 2018 Charlotte Brogren was elected as Chairman of the Board. The Chairman of the Board is not involved in the operational management of the company.

WORK OF THE BOARD IN 2018

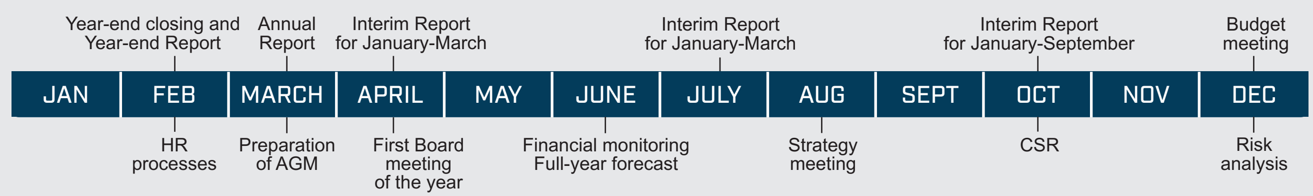
Since the AGM of 25 April 2018, the Board has held 10 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 25 April 2019. Both the CEO and CFO of HMS Networks AB participate in Board meetings, with the CEO serving as rapporteur and the 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 individuals holding similar positions in other companies. The Board decides on the principles for remuneration to senior executives and the CEO.

The remuneration committee consists of the Chairman of the Board (Charlotte Brogren) and

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



REMUNERATION TO GROUP MANAGMENT 2018, SEK THOUSANDS

	Basic salary*	Variable remuneration	Pension costs	Share-related remuneration	Total 2018
CEO	2,598	908	755	188	4,449
Group management, other (4 individuals)	5,742	1,486	885	157	8,270
Total	**8,340**	**2,394**	**1,640**	**345**	**12,719**

* Including other remuneration

one other Board member (Cecilia Wachtmeister) who was appointed by the Board. Charlotte Brogren was elected as Chairman of the remuneration committee. Attendance was 100 % at all 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 two Board members appointed by the Board (Anders Mörck and Fredrik Hansson). Anders Mörck was elected as Chairman of the audit committee. Attendance was 100 % at all the meetings.

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

DEVELOPMENT COMMITTEE

The Board appoints some of its members to serve on the development committee. This committee is meant to serve as a sounding board for the HMS management team on issues having to do with research and development, specific projects and the company's portfolio of development projects, the organizational structure of the R&D department and how it is managed, as well as the training and development of employees. Furthermore, the committee should serve as a resource when it comes to preparing and obtaining support for R&D initiatives that require a decision by the Board due to the strategic importance, investment decisions or collaboration with others. The committee should ensure that the HMS Board stays up to date on R&D issues relevant to the company and its future.

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

CEO AND GROUP MANAGEMENT

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

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

The Group management team is headed by the CEO and its other members are the four individuals who hold the following positions: Chief Financial Officer, Chief Technical Officer, Chief Commercial Officer and Chief Marketing Officer. For additional information about the Group management team, please see page 48.

The Group management team has overall responsibility for ensuring that the activities of the Group are in accordance with the strategy and long-term objectives stipulated by the Board. The Group management team meets approximately 10-15 times per year. These meetings deal with strategic issues that concern the entire Group. The meetings are led by the CEO, who makes decisions after consulting with the other members of the Group management team.

In 2018, the total remuneration (including pension provisions) to the CEO amounted to SEK 4,449 (4,519) thousand. For more information about remuneration to the CEO and Group management team, see Note 10.

Board's internal control report

HMS's work with internal controls has been designed to ensure that the company's financial reporting is correct and reliable[1)] and that its financial statements have been prepared in accordance with applicable laws and regulations, accounting standards and other requirements for listed companies. The work with internal controls provides value by clarifying roles and responsibilities, improving the efficiency of processes, increasing risk awareness and improving the reliability and quality of financial reporting and follow up.

DESCRIPTION

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

CONTROL ENVIRONMENT

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

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

HMS has established a Code of Conduct. It explains the desired behavior in different situations. In 2018, all employees participated in training at HMS on the Group's values and application of the Code of Conduct.

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.

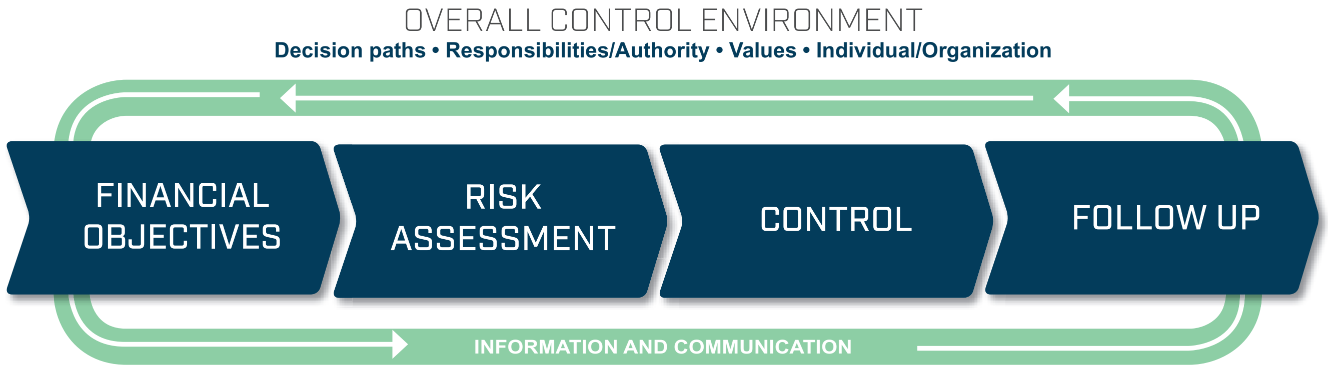
The purpose of HMS's internal control efforts is to ensure that the Group achieves it goals for financial reporting. A minimum requirement is for the control activities to address the key identified risks within the Group.

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 2018, in accordance with established guidelines, HMS continued its review of the existing internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The result of this effort will be an evaluation and verification of the governing documents and guidelines that form the basis of corporate governance.

RISK ASSESSMENT

Risk assessment stems from the Group's financial targets. The overall financial risks are liquidity & financing risk, currency risk, interest rate risk and customer credit risk. These are primarily dealt with via the accounting and finance functions, in accordance with the Group's financial policy. For more detailed information, please see Note 3. Through quantitative and qualitative risk analyses based on the Group's balance sheet and income statement, HMS identifies the key risks that could pose a threat to the company achieving its business objectives and financial targets. Risk assessment involves identifying the risks that could arise if the fundamental requirements on financial reporting (completeness, accuracy, valuation and presentation) by the Group are not fulfilled.



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

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 two Board members appointed by the Board. The committee deals with such things as critical auditing issues and monitors the effectiveness of internal controls and risk management concerning the financial reporting.

INFORMATION AND COMMUNICATION

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

The guidelines for financial reporting are communicated to all employees concerned within the Group via policies, manuals and work instructions. The information includes methods, instructions and practical checklists, descriptions of roles and responsibilities and a comprehensive schedule. The HMS Group's published financial statements for external reporting purposes are derived from all of its legal entities and they are prepared in accordance with standardized reporting routines.

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

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

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

Financial information is regularly published in the form of:

- Quarterly and year-end reports, which are published as press releases.
- Annual Report
- Press releases about important news and events that could have a significant impact on the share price.
- Presentations and teleconferences for financial analysts, investors and the media on the same day as the financial statements and quarterly

reports are published and in conjunction with the publication of other important information.

- Meetings with financial analysts and investors.

All reports, presentations and press releases are published simultaneously on the Group's website at: www.hms-networks.com.

FOLLOW UP

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

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

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

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

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

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

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

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

Halmstad, 20 March 2019

Charlotte Brogren Fredrik Hansson

Ray Mauritsson Anders Mörck

Ulf Södergren Cecilia Wachtmeister

Tobias Persson

Auditor's statement on the corporate governance report

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

ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the 2018 Corporate Governance Report on pages 39-45 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

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

OPINION

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

Halmstad, 22 mars 2019
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant

Board of Directors





	CHARLOTTE BROGREN	FREDRIK HANSSON	RAY MAURITSSON
Board position	Chairman of the Board	Board member	Board member
Special skills to contribute to HMS	Years of experience in automation and development.	Leadership, business development and internationalization with a strategic perspective in sales and marketing.	Several years of experience as the CEO of a fast-growing technology company.
Current employment	Chief Technology Officer (CTO) at Alimak Group AB (publ).	Active in own company.	CEO of Axis AB (publ).
Education	PhD in Chemical Engineering from Lund University.	Bachelor of Science, Economics and Finance from the University of North Alabama.	M.Sc. in Engineering Physics and Executive MBA from Lund University.
Year elected	2010	2015	2007
Born in	1963	1971	1962
Resident of	Stockholm	Karlskrona	Malmö
Other posts	Chairman of the Board for Industrifonden and Board member of Gunnebo AB.	Chairman of the board at Hedson Technologies International AB and board member of Nord-Lock International AB, Anocca AB, Scanbox Thermoproducts AB and Troax Group AB (publ).	None
Dependence	Independent from the company and its main owners.	Independent from the company and its main owners.	Independent from the company and its main owners.
Previous experience	Development Manager for ABB Robotics and executive positions within ABB's research organization as well as General Director of Vinnova.	CEO at Roxtec Group AB.	Various senior positions in TAC (now Scneider Electrics). Division Manager and other senior positions in Axis Communications.
Shareholding* (own and related parties)	5,500	2,400	20,000
Audit committee		X	
Remuneration committee	X (Chair)		
Development committee	X		X
Attendance at Board meetings	100 %	90 %	100 %
Remuneration 2018**	450,000	250,000	200,000

** Pertains to holding as of 31 December 2018*
*** Pertains to the period between AGM 2018 and AGM 2019.*




ANDERS MÖRCK	ULF SÖDERGREN	CECILIA WACHTMEISTER	TOBIAS PERSSON
Board member	Board member	Board member	Employee representative
Mergers and acquistions, company business values, stock exchange experience and financial management.	Innovation and industry processes.	Several years of complex system sales in the telecommuinication industry.	Employee of HMS.
CFO at Investment AB Latour (publ).	Board member.	Executive Vice President Business & Group Funcions at Kambi Plc.	Senior Development Engineer at HMS.
M.Sc. in Business and Economics, Växjö University.	M.Sc. in Mechanical Engineering from KTH and Bachelor in Economics from Stockholm University.	M.Sc. in Industrial Engineering from The Institute of Technology at Linköping University.	M.Sc. in Computer Systems Engineering. B.Sc. in Information and Communication Technology. B.Sc. in Electrical Engineering and university degree in mechatronics.
2016	2018	2018	2016
1963	1953	1966	1978
Gothenburg	Stockholm	Stockholm	Halmstad
Board member of Latour-Gruppen AB, Swegon AB, Hultafors Group AB, Latour Industries AB, Nord-Lock International AB and Aritco Group AB.	Board member of ÅF Pöyry AB (publ) and Mantex AB.	Board member of Kambi Group Plc.	Chairman of the Board at MedicWave AB (publ.) Partner of Lypson Intelligenta System HB.
Independent from the company. Not independent of the major shareholders.	Independent from the company and its main owners.	Independent from the company and its main owners.	Employee of HMS.
CFO at Bure Equity AB, Nilörngruppen AB and previously Authorized Public Accountant at Ernst & Young (now EY).	CTO of ASSA ABLOY AB (publ) and prior to that various positions within the ASSA ABLOY Group, such as Regional Manager and COO. Before that active within Electrolux and ABB.	Several years of experience in leading positions at Ericsson AB.	
4,000	10,000	3,000	1,477
X (chair)			
		X	
	X (Chair)		
90 %	80 %	90 %	100%
250,000	200,000	200,000	0

Group management







	STAFFAN DAHLSTRÖM	ANDERS HANSSON	HANS LARSSON	JOAKIM NIDEBORN	JÖRGEN PALMHAGER
Current position	Chief Executive Officer - CEO	Chief Marketing Officer - CMO	Chief Commercial Officer - CCO	Chief Financial Officer - CFO	Chief Technology Officer - CTO
Education	Degree in Computer Systems Engineering from Halmstad University and Executive MBA from Lund University, School of Economics and Management.	Master's Degree in Industrial Management and Economics from Halmstad University.	B.Sc. In Innovation Engineering from Halmstad University.	M.Sc. in Industrial Economics from Lund Institute of Technology.	B.Sc. in Computer Systems Engineering from Halmstad University.
Born in	1967	1968	1970	1983	1968
Nationality	Sweden	Sweden	Sweden	Sweden	Sweden
Other posts	Board member of Bemsiq AB and Clavister Holding AB (publ).	None	None	None	None
Previous experience	Sales and Marketing Manager at HMS.	Previous positions at HMS: Head of Global Key Account Management Team, Global Key Account Manager, Sales and Marketing Manager for France, Benelux, Spain and Portugal, Product Manager.	Vice President Life Science at Getinge AB, General Manager Sweden at GEA Food Solutions A/S.	CFO at Beijer Electronics Group AB, Management and Strategy Consultant at Axholmen Consulting and Celerant Consulting.	Developer, Project Manager, Development Manager and COO at HMS.
Shareholding (own and related parties)	6,486,608	33,944	480	567	240,029
Employed since	1989	2000	2017	2017	1992
Member of Group management team since:	2007	2010	2017	2017	2007

Extended management team

						
PATRIK ARVIDSSON	THILO DÖRING	MAGNUS HANSSON	KEVIN KNAKE	CHRISTIAN SCHLEGEL	FRANCIS VANDER GHINST	TIMO VAN'T HOFF
Global Supply Manager	General Manager, Market Unit Continental Europe	Global Systems and Security Manager	General Manager, Market Unit Americas	General Manager, Business Unit Ixxat	General Manager, Business Unit Ewon	General Manager, Business Unit Anybus
B.Sc. in Production and Quality Management from Chalmers University of Technology, Gothenburg.	B.Sc. in Computer Technology from University of Technology in Weilburg, Germany and Technical Business Administration from SGD in Darmstadt, Germany.	M.Sc. in Computer Systems Engineering from Halmstad University.	Bachelor's degree in Industrial Engineering and Computer Science from Central Michigan University, USA.	B.Sc. in Electrical Engineering from University of Applied Sciences, Ravensburg-Weingarten, Germany.	B.Sc. in Electrical Eng.from INRACI, Brussels, B.Sc. in Computer Science from IPL, Brussels. Exec. Master in Management, Solvay Business School/ULB, Belgium.	B.Sc. in Automotive Engineering from HTS Autoteckniek, Apeldoorn, The Netherlands. M.Sc. in Technology Management from Chalmers University of Technology, Gothenburg.
1969	1971	1975	1961	1965	1964	1971
Sweden	Germany	Sweden	USA	Germany	Belgium	Sweden, Netherlands
None	None	None	Chairman of ODVA Roundtable of EtherNet/IP	None	None	None
Distribution Manager at Retlog, Head of Planning at Svenska Foder, Section Manager for Mechanics at SP Tekniska Forskningsinstitut AB and the following positions at Nolato; COO Europe, Purchasing Manager, Site Manager and Logistics Manager.	Sales Manager at Mitsubishi Electric.	Development Manager at HMS.	Engineering Manager at Rockwell Automation, Micro Processor Systems Inc. and Pyramid Solutions Inc.	Development Manager for Ixxat.	Product Marketing Manager and Head of Sales for HMS Industrial Networks SA and IT Consultant and Partner for Object Solution.	CEO at Volvo Car Retail Solutions, Director Product Management and R&D at Marine Tank Management, Emerson Process Management, Manager Diagnostic & SWDL Tools, AB Volvo, and Consultant at Capgemini.
2011	2010	1997	2003	1991	2006	2017

Financial definitions

No. of outstanding shares
The number of registered shares, less repurchased shares that are held as treasury shares.

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

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

CAGR
Compound annual growth rate.

EBIT
Operating income according to income statement excluding items affecting comparability.

EBITA
Operating profit (loss) excluding amortization of intangible assets and items affecting comparability.

EBITDA
Operating profit (loss) excluding depreciation of PPE, amortization of intangible assets and items affecting comparability.

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

Financial assets
Long-term and short-term financial receivables plus cash and cash equivalents.

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

Cash flow from operating activities per share, SEK
Cash flow from operating activities as a percentage of the average number of outstanding shares.

Net debt
Long-term and short-term interest-bearing financial liabilities less financial assets.

Net debt/equity ratio
Net debt divided by equity.

P/E ratio
Market price as a percentage of earnings per share.

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

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

Working capital
Current assets less cash and cash equivalents and current liabilities

Operating margin
Operating profit (loss) as a percentage of net sales.

Equity/assets ratio
Shareholders' equity as a percentage of total assets.

Capital employed
Total assets less non-interest-bearing current liabilities, provisions, and total deferred tax liabilities.

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 Anybus embedded concept is offered.

Design win – a framework agreement with an OEM company. It enables a company to use Anybus in its products for as long as the products are manufactured.

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

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

ESD protection – Protection from electrostatic discharge.

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

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

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

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

NP40 – HMS's network processor technology that is foundation for its new embedded concept.

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

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

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

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

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

PPM – Parts per million.

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, in cannot be distilled back to its basic components.

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

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

RoHS – EU Directive (2002/95/EC) on the restriction of the use of certain hazardous substances in electrical or electronic equipment. The Directive has been in force since 1 July 2006. The banned substances are mercury, lead, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE). The government authority in charge of enforcing this in Sweden is the Swedish Chemicals Agency.

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

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

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

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

FINANCIAL STATEMENTS

CFO explains

Joakim Nideborn, CFO

COULD YOU EXPLAIN HMS'S FINANCIAL TARGETS?

HMS has 3 financial targets:

1. One is to have net sales growth of 20 % per year. We believe that 2/3 of that growth will be organic, and the remaining 1/3 will come from acquisitions. Over the last 10 years, the compound annual growth rate (CAGR) is 21 %.
2. HMS also has the target of operating margin (EBIT margin) of 20 %. Over the last 10 years, our operating margin has been, on average, 18 %.
3. Our third target is to distribute 50 % of the earnings per share as dividends. Over the last 10 years, we've distributed 47 % (on average) of the earnings per share as dividends.

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

HMS is has operations in several niches of industrial markets. It's difficult assessing how large these niches are. Based on our knowledge of the market however, we believe that HMS is the leading player in several of these niches.

When it comes to the market growth rate, HMS regards the following two expectations as important benchmarks: The first is an expectation that annual growth will be 6–7 % in the industrial automation market over the next five years (based on various industry reports). The second is an expectation that the market for Internet of Things (IIoT) will grow by around 20 % per year over the next five years.

The majority of HMS's business still lies in the industrial automation market, yet with higher penetration of the IIoT market.

WHAT IS HMS'S ACQUISITION STRATEGY

Although organic growth is still the number one priority for HMS, we believe that complementary acquisitions are advantageous when the conditions are right. HMS primarily seeks strong technology companies that have demonstrated strong growth and profitability and which work in line with the HMS motto, "Connecting Devices". Synergies can be found on both the technology and market side.

COULD YOU DESCRIBE THE HMS BUSINESS MODEL AND CUSTOMER TYPES?

HMS primarily works with two types of customers – OEMs, which are manufacturers of automation products, as well as system integrators.

On the OEM/Device Manufacturer side, HMS typically integrates its product into the customer's device or machine. We call those Design Wins, which means that the customer has decided on an HMS solution that will be embedded in their product and bill of materials. Such collaborations typically last for many years, their success of course depending on the customer selling their product, so that HMS can also sell its own. The sales process with OEMs is an advisory process where HMS has its own sales force in 15 countries around the world.

The customer category – system integrators – typically work with integrating various types of systems. They also often assist with connecting and integrating a piece of machinery in a production line. And, they use HMS products to make that possible. Besides its own sales force, HMS has a wide distribution network in more than 50 countries.

Although HMS works with several verticals, the end customer is seldom a direct customer of HMS.

COULD YOU DESCRIBE HMS'S COMPETITIVE ADVANTAGES?

HMS is a well-known player in an industrial sector that has existed for many years. It works with several industry giants and it currently has 1,693 active design wins. HMS is also able to adapt its products to customer requirements, which often leads to lasting relationships.

An important part of HMS's offering is making its products future-proof. HMS not only ensures that the customer's products work today, but also that they meet the requirements of tomorrow.

Quality is another competitive advantage. Return of HMS products is just 366 ppm (parts per million), which is world-class quality.

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

We've been asked this question often since our IPO in 2007. Part of the success of our Anybus brand (58% of revenue) is based on the fact that there are a myriad of industrial communications protocols and many industry-specific requirements in our customers' applications. Over the last 10 years, we've seen the number of various networks consolidate to around 5–7 that are most popular for new installations. We don't predict that there will be just one standard for all applications. However, if that were to happen, HMS would still be relied upon for connecting devices to that particular network, plus all the retrofitting to other legacy networks already installed in millions of industrial applications.

COULD YOU SAY SOMETHING ABOUT THE FUTURE FOR HMS?

We do not make short-term forecasts. However, over the long term, we believe that industrial communication will remain an interesting market that will continue growing. We have a solid, established customer base that is widely spread across many verticals and geographic markets. We have mature product lines that provide stability and healthy earnings. We also have new technology for Industrial IoT, wireless communication and other exciting things for the years to come.

Overall, we're confident in our ability to meet our ambitious goals of 20 % growth and 20 % EBIT.

Contents

Directors' report

Operations

HMS is the leading independent supplier of products for industrial communication. The products enable various types of machines to connect to industrial networks and systems. Millions of robots, motors, generators and other business-critical equipment around the world rely on HMS technology for industrial communication.

Product development and some manufacturing take place at the company's head office in Halmstad (Sweden) as well as in Ravensburg and Wetzlar (Germany), Nivelles (Belgium) and Igualada (Spain). Sales offices are located in Japan, China, Germany, USA, Italy, France, Belgium, Singapore, India, England, Spain, Denmark and Finland. There are also distributors in more than 50 countries. HMS has nearly 600 employees and it produces network interface cards and gateways for linking different networks under the Anybus, IXXAT and Intesis brands, along with products for remote monitoring/controlling under the eWON brand. HMS is listed on the NASDAQ-OMX Nordic Exchange in the Mid Cap, Information Technology category.

Seasonality

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

SIGNIFICANT EVENTS

HMS ended the year with growth at 15 (24) % and annual sales at a new record level, SEK 1,366 (1,183) million. Order intake for the year was SEK 1,433 (1,204) million, which corresponds to a growth rate of 19 (25) %.

In July 2018, HMS acquired 100 % of the shares in the German company, Beck IPC, which is a leading technology supplier in the market for embedded systems, offering solutions for embedded control systems, M2M communication and Industrial Internet of Things, IIoT. The company has 23 employees and sales for the full year 2018 were nearly SEK 73 million.

Geographically, all the markets have showed solid growth during the year, while the Japanese market's growth rate weakened somewhat during the last six months of the year compared to the other markets.

All three brands, Anybus, eWON and IXXAT, along with the company's subsidiary, Intesis, demonstrated strong growth. The stable, upward trend in the number of new Design Wins also continued in 2018. In total, HMS had 177 (217) new Design Wins during the year. It also added 73 older active Design Wins from the acquisition of Beck IPC. It brings the total number of active Design Wins to 1,693 (1,590), which is an increase of 6.5 % compared to last year. Of these Design Wins, 1,304 (1,192) are in production and 389 (398) are expected to enter production in the coming years.

Efforts to launch products in accordance with HMS's strategy for Industrial Internet of Things (IIoT) continued in 2018, resulting in new products focused on efficient data collection and data transfer for IIoT applications. The focus on IIoT has, during the year, involved a higher level of investment in sales, marketing and development.

On 25 April 2018, HMS held its AGM. All the proposals by the Board and nomination committee were adopted by the AGM. Charlotte Brogren was re-elected as Chairman of the Board and Ray Mauritsson, Fredrik Hansson and Anders Mörck were re-elected as Directors. Henrik Johansson and Kerstin Lindell declined re-election and both Cecilia Wachtmeister and Ulf Södergren were newly elected as Directors.

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

On 31 December 2017, the Share Savings Plan from 2014 was concluded and in 2018, a total of 138,907 shares (of which 68,853 were performance shares), were distributed free-of-charge to the remaining participants. For this distribution, the company used shares that were held in treasury

Based on the authorization from the Annual General Meeting, the Board of Directors decided during the year to purchase own shares. The purpose of the repurchase is to ensure that HMS is able to fulfill its commitment to deliver shares in accordance with the company's Share Savings Plan. In total, 70,000 shares were acquired for nearly SEK 11 million during the third quarter of the year. The total holding of own shares at the end of the period was 292,825.

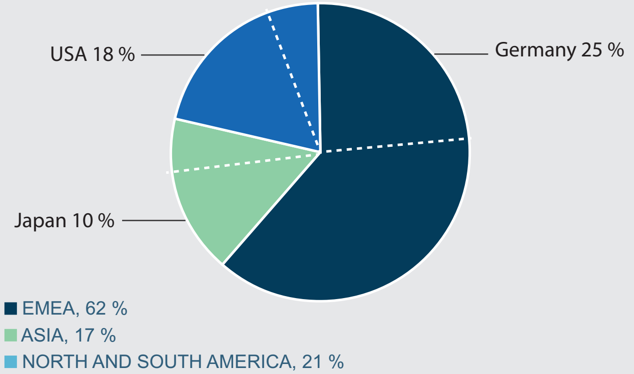
Significant events subsequent to year-end

In the first quarter of 2019, HMS acquired 74.9 percent of the shares in the German company, WEBfactory GmbH, which is a leading supplier of web-based software solutions for Industrial Internet of Things, IIoT. WEBfactory GmbH, together with its wholly-owned subsidiary in Romania, has 27 employees and expected sales of EUR 2.5 million in 2019. The acquisition is expected to be concluded on 1 April 2019 and it will have a limited impact on HMS's earnings per share in 2019.

Net sales

The Group's net sales increased by 15 (24) % and amounted to SEK 1,366 (1,183) million. Exchange rate fluctuations positively affected net sales during the year by SEK 65 million, compared to last year.

HMS Group's revenue distribution by market in 2018



Summary of performance

	2018	2017
Net sales, SEK m	1,366	1,183
Operating income before depreciation (EBITDA), SEK m	302	259
Operating margin before depreciation (EBITDA), %	22	22
Operating income after depreciation (EBIT), SEK m	251	212
Operating margin after depreciation (EBIT), %	18	18
Profit after financial items, SEK m	232	195
Profit (loss) for the year, SEK m	171	143
Earnings per share, basic, SEK	3.68	3.06
Earnings per share, diluted, SEK	3.65	3.04

Invoiced sales by region were as follows: EMEA (Europe, Middle East and Africa) 62 (61) %, North and South America 21 (21) % and Asia 17 (17) %. The Group's largest markets are Germany, USA and Japan.

Profit (loss)

Operating profit before depreciation and amortization (EBITDA) amounted to SEK 302 (259) million, which corresponds to an operating margin of 22 (22)%. Operating profit after depreciation and amortization (EBIT) amounted to SEK 251 (212) million, which corresponds to an operating margin of 18 (18) %. Net financial income/expense amounted to SEK -20 (-17) million and profit after financial items amounted to SEK 232 (195) million. Tax expense was SEK -61 (-52) million and profit after tax amounted to SEK 171 (143) million.

Investments

The year's investments in property, plant and equipment, along with intangible assets, amounted to SEK 30 (32) million. In addition, the acquisition of Beck IPC also impacted investing activities by SEK 26 million. Investments in financial assets amounted to SEK 6 (-) million for the 5 % share in the Taiwanese company, WoMaster Ltd. Investments in intangible assets primarily consist of the costs associated with development of new technology platforms. Amortization of capitalized development costs amounted to SEK 24 (24) million and impairment losses were SEK 0 (4) million.

Financial position

As of 31 December 2018, the Group had cash and cash equivalents of 59 (91) million, excluding unutilized credit facilities of SEK 158 (127) million. The Group's net debt amounted to SEK 342 (304) million and net debt in relation to EBITDA was 1.13 (1.17). The net debt to equity ratio was 0.4 (0.4) times and the equity to assets ratio was 54 (50) %.

Since 2017, the company has had a financing agreement with the existing bank. The agreement concerns a revolving facility of EUR 45 million with a duration of three years, with the possibility of extending it one plus one year.

In total, amortization of the Group's bank loans was for a net amount of SEK 56 (128) million, of which SEK 31 million was payment of financial liabilities associated with the acquisition of Beck IPC. Repurchase of own shares was SEK 42 (8) million (of which SEK 32 million of the 2017 repurchase was paid out in January 2018). There was also a dividend payment of SEK 1.50 (1.00) per share, for a total of SEK 70 (47) million.

Cash flow from operating activities amounted to SEK 193 (207) million. After net investments of SEK -62 (-25) million and new borrowings, amortization, repurchase of own shares and dividends paid, totaling SEK -166 (-190) million, the cash flow for the year amounted to SEK -35 (-8) million.

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 Beck IPC, GmbH, eWON K.K., FAR s.p.r.l., Intesis Software SLU, HMS Industrial Networks ApS, HMS Industrial Networks GmbH, HMS Industrial Networks Inc, HMS Industrial Networks India Private Limited, HMS Industrial Networks K.K., HMS Industrial Networks Ltd, HMS Industrial Networks S.r.l., HMS Industrial Networks SA,HMS Technology Center Ravensburg GmbH, Intellicom Innovation AB (dormant) and HMS Electronics AB (dormant). HMS Technology Center Ravensburg GmbH, Beck IPC GmbH, HMS Industrial Networks SA and Intesis Sofware SLU comprise the development center for the HMS Group while the other subsidiaries are responsible for sales, marketing and support in their respective geographic markets.

Foreign branch offices

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

SUSTAINABILITY

Sustainability report

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, HMS Networks AB (publ) has elected to prepare its sustainability report as a separate report from the Annual Report. The sustainability report is provided on pages 28-35 of this printed document.

Research and development

The Group expensed SEK 162 (140) million for research and development during the year. In addition, capitalized development costs were SEK 24 (10) million, of which SEK 7 (-) million has been acquired. Total costs for research and development expenses make up 14 (13) % of sales. The Group's policy is to only capitalize major projects for developing its own integrated circuits and new platforms for products intended for use in embedded systems. Development of additional products or applications based on these are not capitalized. Customer-specific projects are capitalized when it has been determined as likely that the development costs will be covered by future volume commitments.

Employees

At year-end, the number of employees for the Group was 592 (542).

Principles for remuneration to senior executives (Group Management)

At the first Board meeting on 25 April 2018, a remuneration committee was appointed by the Board. In 2018, the following principles were applied, which were proposed to the company's remuneration committee and which will be brought forth for approval at the 2019 AGM. Remuneration to the CEO and other senior executives consists of basic salary, short-term and long-term incentive schemes and pension. In the context, other senior executives are the four members of the Group management team that also includes the CEO. Other benefits and remuneration are awarded on the same terms that apply to other employees.

The aim of the HMS remuneration policy for senior executives is to offer remuneration that promotes the retention and recruitment of qualified expertise to HMS. Basic salary is established on the basis that it, in combination with both short and long-term incentives, will be competitive. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is 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 amount is 50 % of basic salary in 2018.

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

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

For information on the composition of the remuneration committee, see page 42.

RISKS AND UNCERTAINTY FACTORS

Market-related risks

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

Business cycle

The company's products are primarily used in industry. Industry is affected by the general economic situation and investment levels, which in turn may be affected by a number of factors beyond the company's control, such as interest rates, currency exchange rates, inflation, deflation, political uncertainty, taxes, stock market trends, unemployment and other factors that impact the economic outlook. These factors could impact the Group's profit and overall financial situation.

Competitors

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

Operational risks

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

Suppliers

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

Customers

The Group's sales are to professional firms. It is of the utmost importance for HMS to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that HMS is able to develop and market new products that are both accepted by the market and fulfill customer requirements. HMS must also have the capacity for improving its existing products. If major changes should occur in the purchasing patterns of the Group's largest customers, this would affect the company's profitability. However, because HMS has such a large number of customers, its dependence on any individual customer is limited. Nevertheless, if the Group were to encounter difficulty in maintaining its relations with one or more customers, this could negatively affect the company's business, earnings and financial position.

Employees

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

Acquisitions

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

Risk related to new products

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

Product safety

When manufacturing and selling industrial products, there is an associated risk of warranty claims and product liability. Therefore, HMS typically designs its products according to detailed technical specifications in order to meet the requirements of industry. Even though the company tests its products thoroughly to ensure that they meet the relevant specifications, the activities in this area could nevertheless be associated with an increased risk of warranty claims and product liability. When HMS carries out detailed studies on product safety, it relies on both internal and external analyses to

ensure that its products correspond to the agreed product specifications. Even though the Group considers that these measures are sufficient in each individual case, it cannot guarantee that warranty claims or product liability suits will not occur, despite its efforts to prevent this from happening.
The purchasing and ordering of components from subcontractors also carries a risk that issues in the supplied components are only discovered at a later stage of production or after the product has been sold. In these types of situations, it can be difficult to pinpoint where the problem occurred and obtaining compensation for lost revenue and the costs associated with warranty claims and product liability suits from the supplier who was responsible for the problem can also be difficult.

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

Legal risks

Legislation and regulation

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

Intellectual property rights

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

Disputes

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

Financial risks

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

Currency exposure

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

The currency composition of operating income is approximately 61 % in EUR, 23 % in USD, 8 % in JPY and 8 % in other currencies. The currency composition of cost of goods sold is approximately 58 % in EUR, 28 % in USD, 1 % in JPY and 13 % in other currencies. The currency composition of operating expenses is approximately 44 % in EUR, 12 % in USD, 4 % in JPY and 40 % in other currencies. The Group's policy is to minimize currency exposure by entering into forward exchange agreements.

FUTURE OUTLOOK

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

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

HMS stock

HMS Networks AB (publ) is listed on the NASDAQ OMX Stockholm Mid Cap list, in the Information Technology sector. On average, 38,038 (25,168) shares were traded each day. The shares' volume-weighted average price in 2018 was SEK 139.91 (114.81). The total number of shares was at the time of completion of this annual report 46,818,868, of which 202,999 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	17,305
Profit for the year	163,817
SEK t	**181,122**
The Board of Directors proposes the following appropriation of profits:	
Distributing dividends to shareholders of SEK 1.80/share*	83,909
Carried forward	97,213
SEK t	**181,122**

* The dividend is calculated on the total number of outstanding shares as of 2019-03-20.

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

Consolidated income statement

SEK t	Note	2018	2017
Net sales	5	1,365,804	1,183,290
Cost of goods and services sold		-531,807	-461,625
GROSS PROFIT		**833,997**	**721,665**
Selling expenses		-310,427	-267,845
Administrative expenses		-111,487	-103,246
Research and development expenses		-162,233	-140,269
Other operating income	6	6,352	2,469
Other operating expenses	6	-4,852	-424
OPERATING PROFIT	7, 8, 9, 10, 11	**251,351**	**212,350**
Financial income	6, 12	51	768
Financial expenses	6, 13	-19,587	-17,957
Total income from financial investments		**-19,536**	**-17,189**
PROFIT BEFORE TAX		**231,815**	**195,161**
Income tax	14	-60,577	-52,416
PROFIT FOR THE YEAR		**171,238**	**142,745**
Profit attributable to:			
HMS Network AB's shareholders		171,238	142,745
Total		**171,238**	**142,745**
Earnings per share, basic, SEK	15	3.68	3.06
Earnings per share, diluted, SEK	15	3.65	3.04
Average number of shares, basic, 000s	15	45,540	46,661
Average number of shares, diluted, 000s	15	46,859	46,879
Paid dividends per share, SEK	16	1.50	1.00

Consolidated statement of comprehensive income

SEK t	Note	2018	2017
Profit for the year		171,238	142,745
Other comprehensive income:			
Items that can later be reclassified to profit and loss			
Cash flow hedges		-206	-555
Hedging of net investments		-10,424	-7,360
Exchange differences arising from translation of foreign operations		47,726	26,661
Income tax attributable to the items above	17	2,275	1,741
Other comprehensive income for the year, after tax		**39,371**	**20,487**
Total comprehensive income for the year		**210,609**	**163,232**
Total comprehensive income for the year attributable to:			
HMS Network AB's shareholders		210,609	163,232
Total		**210,609**	**163,232**

Consolidated balance sheet

SEK t	Note	2018-12-31	2017-12-31
ASSETS			
Non-current assets			
Intangible assets	18		
Capitalized development work		100,060	100,532
Goodwill		840,855	759,460
Customer relations and technology platforms		53,891	62,890
Brands		100,524	97,650
Total intangible assets		**1,095,330**	**1,020,532**
Property, plant and equipment	19, 20		
Buildings and land		3,500	3,366
Plant and machinery		35,141	33,287
Equipment, installations and facilities		12,913	12,576
Construction-in-progress		228	91
Total property, plant and equipment		**51,782**	**49,320**
Financial assets			
Deferred tax asset	17	3,638	1,301
Other long-term receivables		7,423	1,178
Total financial assets		**11,061**	**2,479**
Total non-current assets		**1,158,173**	**1,072,331**
Current assets	21		
Inventories	22	157,465	117,145
Accounts receivable - trade	23	160,574	132,863
Current tax assets		0	697
Derivative instruments	24	2,357	28
Other receivables		24,061	6,912
Prepaid expenses and accrued income	25	15,223	17,309
Cash and cash equivalents	26	58,951	90,982
Total current assets		**418,631**	**365,936**
TOTAL ASSETS		**1,576,804**	**1,438,267**

SEK t	Note	2018-12-31	2017-12-31
EQUITY AND LIABILITIES			
Equity			
Share capital	27	1,170	1,170
Other contributed capital	27	218,318	218,318
Reserves		83,319	43,948
Retained earnings including profit for the year		554,099	457,859
Total equity		**856,907**	**721,295**
Non-current liabilities	21		
Non-current interest-bearing liabilities	28	377,597	390,755
Deferred tax liability	17	76,278	83,621
Total non-current liabilities		**453,875**	**474,376**
Current liabilities	21		
Current interest-bearing liabilities	28	23,829	3,775
Accounts payable - trade		104,610	98,708
Current tax liability		14,235	21,324
Derivative instruments	24	3,109	574
Other liabilities		32,974	47,489
Accrued expenses and deferred income	29	85,712	69,014
Other provisions	30	1,554	1,712
Total current liabilities		**266,023**	**242,596**
TOTAL EQUITY AND LIABILITIES		**1,576,804**	**1,438,267**

Consolidated cash flow statement

SEK t	Note	2018	2017
Cash flow from operating activities			
Profit before tax		231,815	195,161
Adjustment for items not included in cash flow:			
Depreciation/amortization		50,672	43,351
Share Savings Plan	9	5,449	7,818
Unrealized exchange differences		10,553	9,798
Other provisions		-2,705	-1,078
Impairment of inventories		13,449	188
Other non-cash items on the income statement and other		1,750	4,537
Income tax paid		-78,783	-58,518
Cash flow from operating activities before changes in working capital		**232,200**	**201,256**
Change in working capital			
Change in inventories		-42,843	-30,253
Change in accounts receivables - trade		-10,414	-11,413
Change in other current receivables		12,062	-115
Change in accounts payable - trade		-1,700	34,115
Change in other current liabilities		3,444	13,537
Cash flow from operating activities		**192,749**	**207,127**

SEK t	Note	2018	2017
Investing activities			
Investments in intangible assets	18	-16,523	-9,711
Investments in PPE	19	-13,434	-15,358
Investments in subsidiaries	31	-25,609	0
Change in non-current financial assets		-6,164	-65
Changes in current financial investments		0	59
Cash flow from investing activities		**-61,730**	**-25,075**
Financing activities			
Borrowings		102,254	360,037
Loan amortization		-158,420	-495,685
Repurchase of own shares		-42,223	-7,827
Dividends paid to the Parent Company's shareholders	16	-69,894	-46,717
Cash flow from financing activities		**-166,330**	**-190,193**
CHANGE IN CASH AND CASH EQUIVALENTS		**-35,311**	**-8,141**
Cash and cash equivalents at beginning of year	26	90,982	99,036
Exchange rate differences in cash and cash equivalents		3,280	87
Cash and cash equivalents at year-end	26	**58,951**	**90,982**
Interest paid and received			
Interest paid		-5,817	-7,712
Interest received		52	0

Change in liabilities associated with financing activities

SEK t	Closing balance 2017	Cash flow	Not impacting cash flow	Closing balance 2018
Bank loans	347,783	-20,968	8,703	335,518
Total	**347,783**	-20,968	8,703	**335,518**

Consolidated statement of changes in equity

SEK t	Note	Share capital	Other con-tributed capital	Reserves	Retained earnings including profit for the year	Total equity
Opening balance on 1 January 2017 as per the adopted balance sheet		**1,170**	**218,318**	**23,461**	**383,495**	**636,444**
Comprehensive income						
Profit for the year					142,745	142,745
Other comprehensive income:						
Cash flow hedges				-555		-555
Hedging of net investments	24			-7,360		-7,360
Exchange rate differences				26,661		26,661
Income tax attributable to components of other comprehensive income	14			1,741		1,741
Total comprehensive income		**0**	**0**	**20,487**	**142,745**	**163,232**
Transactions with shareholders in their capacity as owner:						
Costs for share-based remuneration					7,818	7,818
Repurchase of own shares					-39,482	-39,482
Dividend (SEK 1.00 per share)	16				-46,717	-46,717
Total transactions with shareholders, reported directly to equity		**0**	**0**	**0**	**-78,381**	**-78,381**
Closing balance 31 December 2017		**1,170**	**218,318**	**43,948**	**457,859**	**721,295**

SEK t	Note	Share capital	Other con-tributed capital	Reserves	Retained earnings including profit for the year	Total equity
Opening balance on 1 January 2018 as per the adopted balance sheet		**1,170**	**218,318**	**43,948**	**457,859**	**721,295**
Comprehensive income						
Profit for the year					171,238	171,238
Other comprehensive income:						
Cash flow hedges				-206		-206
Hedging of net investments	24			-10,424		-10,424
Exchange rate differences				47,726		47,726
Income tax attributable to components of other comprehensive income	14			2,275		2,275
Total comprehensive income		**0**	**0**	**39,371**	**171,238**	**210,609**
Transactions with shareholders in their capacity as owner:						
Costs for share-based remuneration					5,449	5,449
Repurchase of own shares					-10,553	-10,553
Dividend (SEK 1.50 per share)	16				-69,894	-69,894
Total transactions with shareholders, reported directly to equity		**0**	**0**	**0**	**-74,998**	**-74,998**
Closing balance 31 December 2018		**1,170**	**218,318**	**83,319**	**554,099**	**856,907**

Parent company's income statement

SEK t	Note	2018	2017
Net sales	5	17,314	15,680
GROSS PROFIT		**17,314**	**15,680**
Administrative expenses	8, 9, 10, 11	-17,314	-15,665
OPERATING PROFIT		**0**	**15**
Profit from participation in subsidiaries	32	164,679	0
Interest income and similar items		563	0
Interest expenses and similar items		-832	0
Total income from financial items		**164,410**	**0**
PROFIT AFTER FINANCIAL ITEMS		**164,410**	**15**
Tax on profit for the year	14	-593	-12
PROFIT FOR THE YEAR		**163,817**	**3**

Parent company's balance sheet

SEK t	Note	2018-12-31	2017-12-31
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	33, 34	337,324	337,324
Total financial assets		**337,324**	**337,324**
Total non-current assets		**337,324**	**337,324**
Current assets			
Current receivables			
Receivables from Group companies		64,415	0
Current tax asset		263	193
Other receivables		63	37
Prepaid expenses and accrued income	25	168	0
Total current receivables		**64,909**	**230**
Cash and bank balances		**1,307**	**299**
Total current assets		**66,216**	**529**
TOTAL ASSETS		**403,541**	**337,853**

SEK t	Note	2018-12-31	2017-12-31
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	27	1,170	1,170
Statutory reserve		19,446	19,446
Total restricted equity		**20,616**	**20,616**
Non-restricted equity	35		
Retained earnings		-80,244	0
Share premium reserve		97,549	97,549
Profit for the year		163,817	3
Total non-restricted equity		**181,122**	**97,552**
Total equity		**201,738**	**118,168**
Current liabilities			
Accounts payable - trade		256	1,147
Liabilities to Group companies		195,780	182,660
Other liabilities		1,723	33,045
Accrued expenses and deferred income	29	4,044	2,832
Total current liabilities		**201,803**	**219,685**
TOTAL EQUITY AND LIABILITIES		**403,541**	**337,853**

Parent company's cash flow statement

SEK t	Note	2018	2017
Operating activities			
Profit before tax		164,410	15
Income tax paid		-523	76
Cash flow from operating activities before change in working capital		**163,887**	**91**
Change in working capital			
Change in other current receivables		-141	218
Change in accounts payable - trade		-891	1,097
Change in other current liabilities		1,561	1,477
Cash flow from operating activities		**164,415**	**2,883**
Investing activities			
Cash flow from investing activities		**0**	**0**
Financing activities			
Repurchase of own shares		-42,223	-7,827
Dividend paid		-69,894	-46,717
Change in interest-bearing items, internal		-51,291	51,463
Cash flow from financing activities		**-163,408**	**-3,081**
CHANGE IN CASH AND CASH EQUIVALENTS		**1,007**	**-107**
Cash and cash equivalents at beginning of year		299	406
Cash and cash equivalents at year-end		1,307	299
Interest paid and received			
Interest paid		-6	-2
Interest received		563	0

Parent company's statement of changes in equity

		Restricted equity		Non-restricted equity			
SEK t	Note	Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit for the year	Total
Opening balance on 1 January 2017		**1,170**	**19,446**	**22,083**	**111,275**	**49,931**	**203,905**
Transfer of profit (loss) from 2016				49,931		-49,931	0
Repurchase of own shares				-25,757	-13,725		-39,482
Costs for share-based remuneration				460			460
Dividend (SEK 1.00 per share)	16			-46,717			-46,717
Profit for the year						3	3
Closing balance as of 31 December 2017		**1,170**	**19,446**	**0**	**97,549**	**3**	**118,168**

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

Notes

All amounts in SEK thousands unless otherwise stated

Note 1 General information

The HMS Group is a world-leading independent supplier of solutions for industrial communication. The Group develops and manufactures solutions that connect automation products and systems to industrial networks and IIOT under the Anybus®, Ixxat® and Ewon® brands. Communication solutions for building automation are offered via the subsidiary, Intesis. Product development and manufacturing take place at the head office in Halmstad (Sweden), in Ravensburg and Wetzlar (Germany), Nivelle (Belgium) and Igualada (Spain). Local sales and support are managed by our sales offices in Japan, China, Germany, USA, Italy, France, India, Singapore, England, Belgium, Spain, Sweden, Finland and Denmark, as well as via a wide network of distributors.

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

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on 20 March 2019.

Note 2 Summary of important accounting policies

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

2.1 BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

Shares and participating interests in subsidiaries are accounted for using the historical cost, after deduction of possible impairments. Received dividends are accounted for as financial income. Dividends that exceed the subsidiary's comprehensive income for the period, or implies that the book value of the holding's net value in the consolidated financial statement falls short of the book value of the shares, indicate an impairment need. When there is indication that shares and participating interests in subsidiaries have decreased in value, a calculation of the recovery value is made. If this value is less than the carrying amount an impairment is made. Impairments are presented in section Profit/loss from shares in group and associated companies. Shareholder's contribution is recognized in the equity of the receiver and as shares and participating interests of the shareholder, if impairments are not required. Group contributions are reported using the so-called alternative rule, according to RFR 2, IAS 27 p.2. The alternative rule means that group contributions, both received and paid, are recognized as appropriations in the income statement.

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

2.1.1 New standards and amendments

a) New and amended standards adopted by the Group

Below, are the new and amended statements, along with interpretations that have been published and that must be applied by the Group for the first time for the financial year that starts on 1 January 2018.

Standard	IFRS 9 *Financial instruments*
Significant requirements	IFRS 9 replaces the parts of IAS 39 that have to do with the classification and valuation of financial instruments. IFRS 9 retains a mixed measurement model, but simplifies it in certain ways. There are three valuation categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument is classified depends on the company's business model and characteristics of the instrument. Investments in debt instruments are measured at amortized cost if: a) the purpose of the holding is to obtain contractual cash flows and b) the contractual cash flows only consist of interest and amortization. All other debt and equity instruments, including investments in complex instruments, are measured at fair value. All changes in the fair value of financial assets are reported in profit or loss, with the exception of investments in equity instruments not held for trading, for which there is an alternative of reporting changes in fair value through other comprehensive income. This means that there is no reclassification to profit or loss upon disposal of the instrument. For financial liabilities measured at fair value, the portion of the change in value that is attributable to changes in own credit risk is reported in other comprehensive income. The new hedge accounting model in IFRS 9 enables the company to better reflect its applied risk management strategies. In general, it is now easier to qualify for hedge accounting. The new standard expands the disclosure requirements and implements certain changes in presentation. IFRS 9 also introduces a new model for calculating the provision for credit losses based on expected credit losses. The new impairment model is a three-stage model that is based on changes in the credit quality of the financial assets. The various stages govern how a company measures and reports impairment losses and how it must apply the effective interest rate method. For financial assets without a significant financing component, such as ordinary accounts receivable and lease receivables, there are simplification rules whereby the company can report a reserve for the entire duration of the receivable directly. Accordingly, it does not need to report when a significant impairment of creditworthiness has occurred.
Impact	The Group has analyzed the effects of IFRS 9 and determined that the new rules do not have a significant impact on the consolidated financial statements. HMS has determined that its current hedging practices meet the requirements for hedge accounting with application of IFRS 9 and that there has not been any financial impact on the transition date for hedging that is in place on the transition date. HMS has updated documentation having to do with hedging in accordance with IFRS 9. HMS applies the simplified approach, which means that the provision for doubtful debts will equal the total expected loss over the entire remaining life of the asset. The company has determined that this will not have any significant impact, since bad debt losses have historically been very low and the future outlook is that credit risk will remain low. According, there have not been any transitional effects from implementation of this accounting standard. The Group applies the standard retroactively from 1 January 2018.
Effective as of	1 January 2018

Standard	IFRS 15 *Revenue from contracts with customers*
Significant require-ments	IFRS 15 is the new standard for revenue recognition. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts, along with the accompanying interpretations (SIC and IFRIC). Revenue is recognized when the customer obtains control of the goods or services sold - a principle which replaces the previous principle that revenue is recognized when the risks and benefits have been transferred to the buyer. The basic principle of IFRS 15 is that a company recognizes revenue in the way that best reflects the transfer of the promised product or service to the customer. This is done using a five-step model: Step 1: identify the contract with the customer Step 2: identify the various performance obligations in the contract Step 3: establish the transaction price Step 4: allocate the transaction price to the performance obligations Step 5: recognize revenue when a performance obligation has been fulfilled The biggest changes compared to the prior rules are: • Distinct goods or services in integrated contracts must be reported as separate obligations and any discounts must, as a rule, be allocated to the separate obligations. • If the transaction price includes variable remuneration (e.g. performance bonuses, discounts, royalties, etc.) revenue may be recognized earlier compared to the current rules. They must be estimated and included in the transaction price to the extent that it is highly unlikely that they will need to be reversed. • The point in time for recognizing revenue may vary: certain revenue that is currently recognized when a contract has been completed may need to be allocated over the duration of the contract. The reverse may also apply. • There are new, specific rules for such things as licenses, warranties, advance payments that are non-refundable and consignment agreements. • The standard also requires more extensive disclosures. The changes in reporting may, in turn impact the Group's business systems, processes and controls, compensation and bonuses, agreements, tax planning and communication with investors. A company chooses between the full restrospective approach or a prospective approach with additional disclosures.
Impact	The Group has analyzed the effects of the transition to IFRS 15, which has revealed that the Group's prior revenue recognition polices are, in all material respects, aligned with IFRS 15. IFRS 15 has not resulted in a significant impact on the Group's earnings and position, other than more extensive disclosures on revenue. Because there is no material impact from the new standard, neither has there been any recalculation of prior periods. The Group applies the new accounting policies retroactively as of 1 January 2018. The Group's accounting policies for the comparison year are thoroughly documented in the Annual Report for 2017.
Effective as of	1 January 2018

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

Stated below are the new and revised standards and interpretations that have been published, but which enter into force after 31 December 2018.

These new standards and interpretations are expected to impact the consolidated financial statements as follows:

Standard	IFRS 16 *Leases*
Significant require-ments	IFRS 16 will primarily impact accounting for the lessee and will result in essentially all leases being reported in the balance sheet. The standard makes no differentiation between operating leases and finance leases. An asset (the right to use a leased asset) and a financial liability associated with the obligation to pay leasing fees is reported. Short-term leases and lease agreements where the underlying asset has a low value are exempted.
Impact	During the last year, the Group reviewed all of its lease agreements based on the new rules in IFRS 16. The standard will primarily affect the presentation of the Group's operating leases. As of the closing date, the Group had non-cancellable operating leases amounting to SEK 126 million, see Note 20. Of these obligations, approximately SEK 20 million is attributable to short-term leases and lease where the underlying asset has a low value. They will be expensed linearly over the leasing period. For the remaining lease commitments, the Group expects to report rights-of-use amounting to approximately SEK 100 million as of 1 January 2019, lease liabilities of approximately SEK 100 million and deferred taxes of SEK 0.1 million. The equity impact is expected to be insignificant. The Group expects that profit after tax will increase by approximately SEK 1 million in 2019 due to application of the new rules. EBITDA is expected to increase by approximately SEK 27 million. The change results from the fact that costs for operating leases were previously included in EBITDA but amortization of the right-of-use and interest on the lease liability are not included in that KPI. Cash flow from operating activities will also increase and cash flow from financing activities will decrease by approximately SEK 25 million because amortization of the lease liability is classified as cash flow from financing activities. For its first-time application of IFRS 16, the Group uses the following practical solutions allowed in the standard: • The marginal lending rate is used as the discount rate, i.e. the interest that each subsidiary would have paid for financing via loans during the the corresponding period and with equivalent collateral • The same discount rate is used on leasing portfolios with similar characteristics whenever possible • Operating leases with a remaining lease term of less than 12 months as of 1 January 2018 are reported as short-term leases • Direct acquisition costs for rights-of-use are excluded at the transition, and • Historical information is used when assessing the duration of a lease in instances where there is an option to extend or cancel the lease.
Effective as of	1 January 2019 The Group will apply the standard as of 1 January 2019. The Group intends to apply the simplified transition method and it will not recalculate comparison figures. Rights-of-use are valued at an amount corresponding to the lease liability (adjusted for prepaid and accrued leasing fees).

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.

CONT. NOTE 2 Accounting policies

2.2 CONSOLIDATED FINANCIAL STATEMENTS

a) Subsidiaries

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

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

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

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

b) Divestment of a subsidiary

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

2.3 REPORTING OF SEGMENTS

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

b) Transactions and balance sheet items

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

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

c) Group companies

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

a) assets and liabilities for each balance sheet are translated at the closing rate;
b) income and expenses for each income statement are translated at the average exchange rate, and
c) all resulting exchange differences are recognized in other comprehensive income.

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

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

2.5 REVENUE RECOGNITION

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

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

2.6 CURRENT AND DEFERRED INCOME TAX

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

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

Deferred tax is reported in the consolidated financial statements on all differences arising between the tax base and the carrying amounts of assets and liabilities (temporary differences). However, a deferred tax liability is not reported if it arises in conjunction with the initial recognition of goodwill. Furthermore, deferred tax is not recognized if it arises from a transaction associated with the initial recognition of an asset or liability that is not a business combination and which, at the time of the transaction, has no effect on either reported profit or taxable profit.

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

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

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

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

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

2.7 LEASING

Leasing of items of property, plant and equipment in which the Group as lessee essentially holds the financial risks and rewards associated with ownership, are classified as finance leases (Note 20). At the start of the lease term, finance leases are capitalized at the lower of the leased asset's fair value and the present value of the minimum lease payments. Corresponding payment obligations, after deductions for financial expenses, are included in the balance sheet items, long-term borrowings and short-term borrowings. Each lease payment is allocated between interest and reduction of the principal. Interest is recognized in the income statement over the leasing period so that the amount of the expense in each reporting period corresponds to a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment that are obtained through a finance lease agreement are depreciated over asset's useful life or the term of the lease (whichever is shorter), provided that it cannot, with reasonable certainty be established that there is transfer of ownership to the lessee at the end of the lease period.

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

2.8 BUSINESS COMBINATIONS

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

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

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

The costs associated with acquisitions are expensed as incurred.

Goodwill is the amount that the

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

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

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

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

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

2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

2.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are reported in both the balance sheet and cash flow statement. They include cash in hand and deposits held in bank accounts.

Utilized overdraft facility is recognized as borrowings in current liabilities.

2.11 ACCOUNTS RECEIVABLES - TRADE

Accounts receivable are amounts to be paid by customers for goods or services provided by the company as part of its operating activities. Accounts receivable primarily fall due for payment within 30-60

CONT. NOTE 2 Accounting policies

days and all accounts receivable have thus been classified as current assets.

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

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

2.12 INVENTORIES

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

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS

2.13.1 Classification

As of 1 January 2018, the Group classifies its financial assets in the following categories:

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

The classification of investments in debt instruments results from the Group's business model for managing financial assets and the contractual terms for the assets' cash flows.

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

2.13.2 Valuation

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

a) Investments in debt instruments

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

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

- *Amortized cost:* Assets held for the purpose of collecting contractual cash flows and where the cash flows only consist of principal and interest, are reported at amortized cost. Interest income from such financial assets is reported as financial income by applying the effective interest method. Gains and losses arising from removal from the balance sheet are recognized in earnings. Impairment losses are reported as a separate item in the income statement.
- *Fair value through other comprehensive income:* Financial assets that are held for the purpose of collecting contractual cash flows and for sale of the assets, where the assets' cash flows only consist of capital amount and interest, and not an identified asset measured at fair value, are measured at fair value through other comprehensive income. Changes in the carrying amount are reported in other comprehensive income except for impairment losses, interest income and exchange rate differences, which are reported in the income statement. When the financial asset is removed from the balance sheet, the accumulated gains or losses, which were previously reported in other comprehensive income, are reclassified from equity to the income statement. Interest income from these financial assets is reported as financial income by applying the effective interest method. Impairment losses are reported as a separate item in the income statement.
- *Fair value through profit or loss*: Assets that do not meet the requirements for being reported at amortized cost or fair value via other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt instrument that is measured at fair value through profit or loss and which is not part of a hedging arrangement is reported at the net amount in the income statement in the period that the gain or loss arises.

b) Investments in equity instruments

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

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

c) Impairment

As of 1 January 2018, the Group measures its future expected credit losses related to investments in debt instruments at amortized cost or fair value with changes in other comprehensive income, based on whether or not there has been a significant increase in credit risk. The Group reports a provision for such expected credit losses at each reporting date.

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

d) Accounting policies applied through 31 December 2017

The Group has applied IFRS 9 retroactively as of 1 January 2018 and in accordance with the standard, comparison figures have not been restated.

Classification

Through 31 December 2017, the Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loan receivables and accounts receivable, and
- derivatives used as a hedge.

The classification depended on the purpose behind the acquisition of the financial asset. Management determined the classification of its financial assets at initial recognition.

Reporting and valuation

The principles for valuation at the first reporting date did not change with the transition to IFRS 9.

Financial assets and liabilities were removed from the balance sheet when the rights to receive cash flows from the instruments had expired or had been transferred and the Group had substantially transferred all risks and rewards of ownership.

Loan receivables and accounts receivable were subsequently measured at amortized cost using the effective interest method.

Financial assets measured at fair value via profit or loss were reported at fair value after the acquisition date. Gains and losses resulting from changes in fair value were reported in the income statement as other income and expenses.

Derivatives were reported in the balance sheet on the contract date. They were measured at fair value both initially and upon subsequent revaluation at the end of each reporting period. The Group's applied policies and measurement of derivative instruments did not change with the transition to IFRS 9.

Impairment

At each balance sheet date, the Group assessed whether there was objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or group of financial assets that had become impaired and were thus written down occurred only when there was objective evidence of the impairment based on one or more events having occurred after the asset was reported the first time (a loss event) and when the event (or events) had an impact on the expected future cash flow for the financial asset or group of financial assets that could be reliably estimated. If there was objective evidence of impairment, the asset was written down to its fair value.

Offsetting

Financial assets and liabilities were offset and reported at a net sum in the balance sheet, only when there was 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 could not be dependent on future events and it had to 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.

2.14 DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

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

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

Information about the fair value of various derivative financial instruments used for hedging is provided in Note 24. All derivative instruments are classified as either current assets or current liabilities.

2.14.1 Cash flow hedging

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

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

The Group typically only identifies the change in fair value of the futures contract's spot price as a hedging instrument. Gains and losses attributable to the effective portion of the change in the spot price are reported in the hedging reserve, which is a component of equity. The change in the forward points attributable to the hedged item is reported in other comprehensive income.

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

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

2.14.2 Hedging of net investments

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

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

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

2.15 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.

CONT. NOTE 2 Accounting policies

Depreciation is based on original cost and the estimated useful life of the asset as follows:

Buildings	15–50 years
Plant and machinery	3-5 years
Equipment, installations and facilities	3-5 years

The residual value and useful life of assets are tested at the end of every reporting period and adjusted if necessary. In cases where the carrying amount exceeds the estimated recoverable amount, the asset is immediately written down to its recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and they are reported under 'other operating income' or 'other operating expenses'.

2.16 INTANGIBLE ASSETS

a) Goodwill

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

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

Impairment losses are immediately expensed and they are never reversed.

b) Brands

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

c) Customer relations and technology platforms

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

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

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 and testing of identifiable and unique integrated 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 if 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 research phase are not capitalized.

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

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

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

2.17 ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

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

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

2.18 BORROWING AND BORROWING COSTS

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

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

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

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

2.19 PROVISIONS

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

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

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

2.20 REMUNERATION TO EMPLOYEES

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

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

a) Pension commitments

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

The pension obligations for salaried employees in Sweden are secured through insurance with Alecta, which is a defined benefit plan covering a number of employers. For the 2018 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 2018, all permanent employees of the HMS Group were offered the opportunity to participate in a Share Savings Plan, where payment is made in shares and where the Group receives services from employees as consideration for the Group's own equity instruments.

Fair value for the services that entitle employees to allotment of shares are expensed in the income statement as personnel costs, with the corresponding posting to equity under retained earnings in the balance sheet. The total amount to be expensed is based on the fair value of the allocated shares, which is established on the date they are allocated. Non-market vesting conditions are included in assumptions about the number of shares expected to vest. The total expense is recognized over the vesting period, which is the period during which all the specified vesting conditions are to be fulfilled. At the end of each reporting period, the Group revises its estimates of the number of shares expected to vest based on the non-market vesting conditions. Any deviation from the original assessments that are discovered during the reassessment, are recognized in the income statement with a corresponding adjustment to equity.

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

2.21 SHARE CAPITAL

Ordinary shares are classified as equity.

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

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

2.22 PROVISIONS

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

2.23 DIVIDENDS

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

2.24 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 and bank balances.

NOTE 3 Financial risk management

3.1 FINANCIAL RISK FACTORS

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

Risk management is carried out by a central finance department according to policies approved by the Board of Directors. The head

CONT. NOTE 3 Financial risk management

of the Group's financial function identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors has provided written policies for overall risk management and for specific areas such as currency risk, interest rate risk, credit risk, use of derivatives and non-derivative financial instruments and investment of excess liquidity.

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

a) Derivative instruments

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

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

Hedging reserve

The Group's hedging reserve is reported in the Consolidated statement of changes in equity (page 64) and they relate to the following hedging instruments:

	Spot price of currency futures
Balance on 1 January 2017	**-86**
Change in the fair value of hedging instruments reported in OCI	-555
Deferred tax	122
Balance on 31 December 2017	**-519**
The year's change in fair value of hedging instruments reported in OCI	-206
Deferred tax	44
Balance on 31 December 2018	**-681**

Ineffective portion of hedge accounting

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

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

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

There were no ineffective portions in currency futures contracts in 2018 or 2017.

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

b) Currency risk

Exposure

The Group's risk exposure to foreign currency at the end of the reporting period, in SEK thousands, was as shown below.

Instruments used by the Group

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

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

- the first future quarter's exposure is hedged between 60-80%
- the second future quarter's exposure is hedged between 50-70%
- the third future quarter's exposure is hedged between 40-60%
- the fourth future quarter's exposure is hedged between 30-50%
- the fifth future quarter's exposure is hedged between 0-40%
- the sixth future quarter's exposure is hedged between 0-30%

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

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

Exposure	31 December 2018			31 December 2017		
	EUR	USD	JPY	EUR	USD	JPY
Accounts receivable - trade	95,689	42,550	12,106	75,942	31,290	14,477
Bank loans	-280,517	-	-	-227,783	-	-
Additional consideration	-41,101	-	-	-19,699	-	-
Accounts payable - trade	-48,516	-36,678	-1,579	-54,215	-25,754	-1,473
Currency futures (cash flow hedges)	191,423	58,073	69,720	13,358	11,382	3,318

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

Hedging of net investments in foreign operations

In conjunction with prior years' acquisitions of the subsidiaries HMS Industrial Networks SA (previously eWON SA) and Intesis Software SLU, a bank loan in EUR was acquired for EUR 23 million. In 2018, the Group increased its existing bank credit in EUR, corresponding to EUR 4.2 million. This loan, which was acquired for the purpose of financing the acquisition of the German company, Beck IPC GmbH, together with the prior loans (totaling EUR 29.2 million) has been identified as an item that hedges net investments in the subsidiaries mentioned above. There was no ineffective portion to be reported from hedges of net investments in foreign operations.

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

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

Derivative instruments – currency futures	2018	2017
Carrying amount (asset)	2,357	28
Nominal amount	191,423	3,318
Maturity	March 2019 – March 2020 –	March 2018 – June 2018
Hedge ratio*	1:1	1:1
Change in the forward rate for outstanding hedging instruments since 1 January	2,788	-1,599
Value change in the hedged item for determining effectiveness	2,788	-1,599
Weighed average for forward rates during the year	SEK 10.3463:1EUR	SEK 0.0804:1JPY

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

Derivative instruments – currency futures	2018	2017
Carrying amount (liability)	3,109	574
Nominal amount	127,793	24,741
Maturity	March 2019 – March 2020 –	March 2018 – June 2018
Hedge ratio*	1:1	1:1
Change in the forward rate for outstanding hedging instruments since 1 January	-2,994	1,043
Value change in the hedged item for determining effectiveness	-2,994	1,043
Weighed average for forward rates during the year	SEK 8.4806:1USD, SEK 0.0797:1JPY	SEK 9.5926:1EUR SEK 8.3506:1USD

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

Net investment in foreign operations	2018	2017
Carrying amount (bank loans)	300,039	246,243
Carrying amount in EUR	29,200	25,000
Hedge ratio	1:1	1:1
Change in the loan's carrying amount due to changes in the exchange rate since 1 January	-10,424	-7,360
Change in the value of the hedged item for determining effectiveness	-10,424	-7,360
Weighed average for currency rates during the year	SEK 10.3058:1EUR	SEK 9.7058:1EUR

Sensitivity analysis

If the SEK had weakened/strengthened by 5 % against the EUR with all other variables held constant, the operating profit/loss as of 31 December 2018 would have been SEK 14.7 (10.8) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5 % against the USD with all other variables held constant, the operating profit/loss as of 31 December 2018 would have been SEK 4.5 (4.5) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5 % against the JPY with all other variables held constant, the operating profit/loss as of 31 December 2018 would have been SEK 4.2 (3.5) million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable, financial assets and liabilities measured at fair value through profit or loss.

c) Interest rate risk

The Group's primary interest rate risk arises from long-term borrowings with variable interest rates, which expose the Group to interest rate risk on the cash flow. The Group's financial policy states that interest expenses should be as low as possible. In order to minimize the Group's interest expenses, interest rate derivatives may be utilized. For 2018 and 2017, it was assessed that the use of interest rate derivatives would not decrease the Group's interest expenses.

If interest rates on borrowings in EUR during 2018 had been 1 % higher/lower with all other variables constant then the profit before tax for the financial year would have been SEK 2.8 (2.5) million higher/lower.

If the SEK had weakened/strengthened by 5 % against the EUR during 2018 with all other variables held constant, profit before tax for the financial year would have been SEK 0.2 (0.2) million higher/lower due to increased/decreased interest expenses.

If interest rates on borrowings in EUR as of 31 December 2018 rise/fall by 1 % in 2019, profit before tax for 2019 will be SEK 2.8 million higher/lower.

If, compared to 31 December 2018, the SEK weakens/strengthens by 5 % against the EUR during the coming year, with all other variables held constant, profit before tax for 2019 will be SEK 0.2 million higher/lower due to increased/decreased interest expenses.

d) Credit risk

Credit risk arises from holdings in cash and cash equivalents, deriv-

CONT. NOTE 3 Financial risk management

ative instruments, deposits with banks and credit institutions as well as other credit exposures, including outstanding receivables. See Note 23 for more information about the Group's outstanding receivables.

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

Impairment of financial assets

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

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

Cash and cash equivalents also lie within the application area for impairment in accordance with IFRS 9. However, it has been assessed that the amount of possible impairment is insignificant.

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

The company has determined that transition to IFRS 9 will not have any significant impact, since bad debt losses have historically been very low and the future outlook is that credit risk will remain low. See Note 23 for more information about the Group's reported credit losses.

e) Financing and liquidity risk

Financing risk is the risk that maturing loans cannot be refinanced without difficulty or added expense and that this situation would make it difficult for the Group to fulfill its payment obligations. Liquidity risk is the risk of difficulties in fulfilling obligations that are associated with financial liabilities. See Note 28 for an analysis of the Group's interest-bearing liabilities, classified according to the time remaining until maturity as of the closing date.

Cash flow forecasts are drawn up by the Group's operating companies and aggregated by Group finance. The Group carefully monitors rolling forecasts of its liquidity reserve (which consists of unused lines of credit and cash equivalents) to ensure that the Group has sufficient cash to meet the needs of its operating activities. At the same time, the Group must maintain a sufficient margin in its granted unused credit so that it does not breach any of its credit limits or loan terms. This is done centrally for all subsidiaries belonging to the Group in accordance with the practices and limits established for the Group. 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 8 % of sales in cash, excess liquidity including unutilized credit facilities, which at year-end corresponded to approximately 7 (10) %.

According to the Group's financial policy, excess liquidity may be invested in interest-bearing securities with a maximum maturity of one year. Counterparty risk is managed through regulations in the financial policy regarding the long-term rating of issuers. The policy states that investments may be made in Swedish corporate bonds with a Standard & Poor's rating of at least BBB+, Swedish commer-

Analysis of maturity

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

As of 31 December 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Finance leases	-907	-2,615	-2,904	-8,004	-10,550	-24,979
Derivative instruments	-396	-178				-574
Bank loans*	-1,317	-3,830	-27,360	-351,399		-383,906
Accounts payable - trade	-98,708					-98,708
Total	**-101,328**	**-6,623**	**-30,264**	**-359,403**	**-10,550**	**-508,167**

* Incl. additional consideration.

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

cial papers with a rating of at least K1, Swedish mortgage institutions and the Swedish State. All borrowing is done in consultation with the Parent Company's finance function.

Analysis of maturity for financial liabilities
The table on page 78 analyzes the Group's non-derivative financial liabilities and net-settled derivatives that are financial liabilities, grouped according to the time remaining as of the balance sheet date until the contractual maturity date. The amounts reported in the analysis of maturity table are the contractual, undiscounted cash flows.

3.2 MANAGING CAPITAL RISKS

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

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

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

The Group evaluates its capital structure by calculating and monitoring the net debt/equity ratio. This key figure is calculated as net liabilities divided by total equity. The net debt is calculated as the total borrowings (including 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 2018 and 31 December 2017 were as follows:

	2018	2017
Interest-bearing liabilities (Note 28)	401,426	394,530
Less cash and cash equivalents (Note 26)	-58,951	-90,982
Net debt	**342,475**	**303,548**
Total equity	856,907	721,295
Total capital	**1,199,382**	**1,024,843**
Net debt/equity ratio	40 %	42 %

3.3 CALCULATION OF FAIR VALUE

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

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

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

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

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

	Note	Level 1	Level 2	Level 3	Total
Long-term securities holdings				5,313	5,313
Derivative instruments used for hedging	24		2,357		2,357
Total assets		**0**	**2,357**	**5,313**	**7,670**
Derivative instruments used for hedging	24		-3,109		-3,109
Other (contingent consideration)	28			-41,102	-41,102
Total liabilities		**0**	**-3,109**	**-41,102**	**-44,211**

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2017:

	Note	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging	24		28		28
Total assets		**0**	**28**	**0**	**28**
Derivative instruments used for hedging	24		-574		-574
Other (contingent consideration)	28			-19,134	-19,134
Total liabilities		**0**	**-574**	**-19,134**	**-19,708**

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

NOTE 4 Important estimates and assessments for accounting purposes

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

Estimates and assessments are evaluated continuously and they are based on past experience and other factors, including expectations of future events considered reasonable under the prevailing conditions.

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

a) Test of impairment for goodwill and brands
Each year, in accordance with the accounting policies described in Note 2.9, the Group tests goodwill and brands with an indefinite useful life for impairment. The recoverable amount for the Group's cash-generating units (for the Group excl. Intesis and for Intesis separately) has been determined by calculating value-in-use. Various estimates must be made in order to make these calculations (Note 18). For the Group excl. Intesis, the reported value of goodwill amounts to SEK 713 (637) million. The amount for Intesis alone is SEK 128 (122) million and the total is SEK 841 (760) million.

CONT. NOTE 4 Important estimates and assessments for accounting purposes

The carrying amount for brands with an indefinite useful life is SEK 91 (87) million.

Sensitivity analyses reveal that the return requirement after tax (9.5 %) could increase to 21.5 % (for the Group excl. Intesis) and 20.6 % (Intesis) without needing to recognize impairment losses.

b) Revenue recognition

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

c) Capitalized development costs

The company capitalizes costs associated with the development of identifiable and unique integrated circuits when the criteria described in Section 2.16 d have been fulfilled and when the costs are expected to be covered and exceeded by future volume commitments from customers. Four times per year, the Group determines whether its products, for which a carrying amount has been recorded, are in the process of being sold, or are expected to be sold. The Group records impairment loss on products for which the future economic benefits are expected to be less than the carrying amount. In 2018, this impairment testing resulted in a write-down of SEK 0 (4) million.

d) Contingent consideration

In conjunction with the acquisition of Intesis, there was an agreement on contingent consideration. The additional consideration, which amounts to EUR 2 million is contingent on sales growth and earnings during the period 2016-2018. Based on the company's performance during that period, management has determined that the full amount of contingent consideration will be paid in 2019.

In conjunction with the acquisition of Beck, there was also an agreement on contingent consideration. The additional consideration, which amounts to EUR 2 million is contingent on Beck achieving certain defined financial targets during the period 2018-2020. Based on how the company performed during the first six months after the acquisition, and the forecast for the next two years, management's assessment is that the entire amount of additional consideration will be paid out. Should Beck perform below expectations, a lower level of additional consideration could be paid than the amount reported as a liability on 31 December 2018. In that case, the difference would be recognized in profit or loss.

NOTE 5 Revenue from contracts with customers

5.1 PRODUCTS

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

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

5.2 LICENSES

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

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

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

5.3 CLOUD SERVICES

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

5.4 DEVELOPMENT SERVICES

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

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

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

5.5 CATEGORIZATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Net sales per country	The Group		Parent Company*	
	2018	2017	2018	2017
Germany	347,397	286,594		
USA	241,397	222,801		
Japan	135,971	115,278		
France	72,883	64,035		
Italy	71,416	59,562		
Sweden	59,999	71,761	17,314	15,680
China	51,222	45,266		
Other countries	385,520	317,993		
Total	**1,365,804**	**1,183,290**	**17,314**	**15,680**

*The Parent company's net sales amounted to SEK 17,314 (15,680) thousand, of which 100 % were sales to Group companies. Purchases from Group companies amounted to SEK 0 (0) thousand.

Revenue of approximately SEK 52,931 (51,984) thousand is derived from a single external customer in USA.

The products for industrial communication are sold under the Anybus®, Ixxat® and Ewon® brands. Communication solutions for building automation are offered via the subsidiary, Intesis. The breakdown of net sales by brand is shown in the table below. All HMS brands are based on common technologies and they are marketed and sold through the shared sales channels. For this reason, complete segment accounting is not reported.

Net sales per brand	2018	2017
Anybus	791,547*	700,404
Ixxat	165,941	152,534
Ewon	263,734	230,793
Intesis	98,385	73,598
Other	46,197	25,960
Total	1,365,804	1,183,290

*Including net sales of SEK 30,364 thousand from the acquired company, Beck IPC.

5.6 CONTRACT ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Current contract assets attributable to development services	4,373	5,696
Impairment reserve	0	0
Total contract assets	**4,373**	**5,696**
Contract liabilities – license and service agreements	6,882	0
Total current contract liabilities	**6,882**	**0**

5.6.1 SIGNIFICANT CHANGES IN CONTRACT LIABILITIES

Contract assets have declined because the Group completed a large portion of its fixed-price assignments, which were ongoing last year. No impairment reserve for contract assets has been reported in conjunction with the transition to IFRS 9.

Contract liabilities for license and service agreements have not been recalculated for 2017 in conjunction with the transition to IFRS 15 because the effects have been deemed insignificant.

5.6.2 REMAINING NON-CURRENT DEVELOPMENT AGREEMENTS

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

	31 December 2018	31 December 2017
The total amount of the transaction price that was allocated to long-term development contracts that are unfulfilled or partially unfulfilled as of 31 December	15,343	7,910

Management expects that 93 % of the transaction price that has been allocated to unfulfilled contracts as of 31 December 2018 will be recognized as revenue during the next financial year (SEK 14,257 thousand). The remaining 7 % (SEK 1,086 thousand) will be recognized in 2020.

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

5.7 REPORTING

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

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

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

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

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

NOTE 6 Exchange rate differences – net

Exchange differences were reported in the income statement as follows:

	2018	2017
Other operating income/expenses	1,500	2,045
Net financial items	-13,771	-9,797
Total	**-12,271**	**-7,752**

NOTE 7 Categorization by type of cost

	2018	2017
Cost of purchasing and handling materials	425,517	360,998
Costs for remuneration to employees (Note 9)	453,848	391,828
Depreciation, amortization and impairment (Note 18, 19)	50,673	49,969
Marketing costs	27,675	24,380
Freight costs	8,018	6,947
Other external costs	166,745	148,574
Capitalized development costs (Note 18)	-16,523	-9,711
Total costs for goods sold, sales, administration, research and development	**1,115,953**	**972,985**

NOTE 8 Remuneration to auditors

Remuneration to auditors	The Group		Parent Company	
	2018	2017	2018	2017
PwC				
Audit assignment*	2,058	2,027	1,166	1,186
of which PwC Sweden	1,455	1,361	1,166	1,122
Audit activities other than the audit assignment	163	9	0	0
of which PwC Sweden	0	0	0	0
Tax advice	880	1,783	21	91
of which PwC Sweden	434	959	21	91
Other services	98	6	0	0
of which PwC Sweden	0	6	0	0
Total	**3,199**	**3,825**	**1,187**	**1,276**

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

NOTE 9 Remuneration to employees

	The Group		Parent Company	
	2018	2017	2018	2017
Salaries and other remuneration *	350,875	300,342	4,956	5,093
Social security contributions	84,368	73,336	1,740	1,775
Pension costs	18,605	18,150	755	723
Total	**453,848**	**391,828**	**7,452**	**7,591**

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

Salaries, other remuneration and social security expenses	2018			2017		
	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	17,977	3,170	(941)	15,735	3,383	(1,059)
Other employees	332,898	99,803	(17,664)	284,607	88,103	(17,091)
The Group, total	**350,875**	**102,973**	**(18,605)**	**300,342**	**91,486**	**(18,150)**

Average no. of employees	2018		2017	
	Average no. employees	Of which men	Average no. of employees	Of which men
Sweden	207	149	194	141
Germany	138	104	116	91
Belgium	57	46	52	41
Spain	52	38	40	30
USA	43	32	39	29
Japan	18	15	13	11
China	10	9	10	9
Italy	6	5	6	5
India	6	6	6	6
Great Britain	5	4	5	4
France	3	3	3	3
Switzerland	1	1	1	1
Czech Republic	1	1	0	0
Denmark	1	0	1	0
The Group, total	**548**	**413**	**486**	**371**

Share-based remuneration

To promote long-term ownership commitment among employees, it is the Board's intention to present a proposal for a Share Savings Plan each year to the AGM. At the AGMs from 2012 through 2018 it was decided to implement a Share Savings Plan that would be open to all permanent employees of the HMS Group. As of 31 December 2018, HMS had four ongoing Share Savings Plans and three that had been concluded.

In brief, each Share Savings Plan works as follows: employees who choose to participate in the program, must make an initial investment in HMS 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, 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 the entire program 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 earning per share during the qualification period (the period from the end of the investment period through 31 December of year 4). 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 Share Savings Plans, the AGM decided to acquire own shares for all plans.

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 Savings Plan are reported in accordance with IFRS 2 Share-based payment (see also the description under accounting policies).

In 2018, the Group's total employee benefit expenses for the Share Savings Plan amounted to SEK 8,143 (12,620) thousand, of which SEK 5,812 (7,818) thousand was reported under equity and SEK 2,331 (4,803) thousand was reported as a provision for future social security expenses.

CONT. NOTE 9 Remuneration to employees

Gender distribution of the Group (incl. subsidiaries) for Board members and President/CEOs	2018 No. on closing date	2018 Of which men	2017 No. on closing date	2017 Of which men
Board members and CEO	12	10	12	10
The Group, total	**12**	**10**	**12**	**10**

Program number	Investment year (AGM decision)	Share of participating employees	Number saved of shares	Total number allocated (of which performance shares)	Fair value
1	2013 (2012)	*60 %*	*(concluded)*	112,468 (22,636)	27.58
2	2014 (2013)	*51 %*	*(concluded)*	138,907 (68,853)	34.25
3	2015 (2014)	47 %	*(concluded)*	89,826 (44,913)	38.00
4	2016 (2015)	54 %	48,796		61.25
5	2017 (2016)	43 %	34,975		75.63
6	2018 (2017)	52 %	*33,163*		125.00
7	2019 (2018)	46 %	*(not yet started)*		125.80

Shares held in treasury related to share-based compensation

Year	Repurchase	Dividend	Balance
2013	124,000		124,000
2017	350,200	112,468	361,732
2018	70,000	138,907	292,825
2019*	-	89,826	202,999

* Calculated on the number of share as of 2019-03-20.

NOTE 10 Remuneration to the Board of Directors and senior executives, etc

Remuneration to the Board and senior executives

Remuneration to the Chairman and Board members is in accordance with the general meeting of shareholders' decision. 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. In the context of this note, other senior executives are the four 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.

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 2018 Charlotte Brogren was re-elected as Chairman of the Board. The following individuals were also re-elected at the AGM to serve on the Board of Directors: Ray Mauritsson, Fredrik Hansson and Anders Mörck. Cecilia Wachtmeister and Ulf Södergren were elected as new members of the Board of Directors. Since the AGM of 25 April 2018, the Board has held 10 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 25 April 2019.

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 2018, variable remuneration for the CEO corresponded to 36 (49) % of basic salary and for other senior executives it was 26 (31) %.

CONT. NOTE 10 Remuneration to the Board of Directors and senior executives, etc

Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pension plans. See section 2.20 and Note 11. Pension costs are costs that affect profit (loss) for the year.

Pensions

The retirement age for the CEO and other senior executives is 65 years.

Severance pay

The notification period for termination of employment of the CEO is 6 months for both sides. If the company initiates dismissal, severance pay amounting to 12 months' salary in addition to regular salary will be paid. In the case of notice of termination from the CEO's side, no severance payment is made.

The notification period for termination of employment of the other senior executives is 6 months for both sides.

Decisions on remuneration

During the year, the remuneration committee submitted a proposal to the Board on principles for remuneration to senior executives. The proposal specifies proportions between fixed and variable remuneration and the size of possible salary increases. Furthermore, the remuneration committee has proposed criteria for assessing the outcome of variable remuneration, allocation and size in the form of financial instruments, etc., as well as pension conditions and severance pay. The committee also assessed the feasibility of giving remuneration to other Board members who provide consulting services to the Group.

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2018 financial year was decided by the Board based on the recommendations of the remuneration committee. Remuneration for other senior executives was decided by the CEO after consultation with the remuneration committee.

The remuneration committee consists of the Chairman of the Board and one other appointed Board member who is appointed by the Board.

Remuneration and other benefits 2018	Basic salary*/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2018	Board attendance
Chairman of the Board, Charlotte Brogren	450				450	100 %
Board member, Ray Mauritsson	200				200	100 %
Board member, Cecilia Wachtmeister	200				200	90 %
Board member, Fredrik Hansson	250				250	90 %
Board member, Anders Mörck	250				250	90 %
Board member, Ulf Södergren	200				200	80 %
Total, Board	**1,550**	**0**	**0**	**0**	**1,550**	
CEO Staffan Dahlström	2,598	908	755	188	4,449	
Other senior executives** (4)	5,742	1,486	885	157	8,270	
Total	**9,890**	**2,394**	**1,640**	**345**	**14,269**	

Remuneration and other benefits 2017	Basic salary*/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2017	Board attendance
Chairman of the Board, Charlotte Brogren	450				450	100 %
Board member, Ray Mauritsson	200				200	100 %
Board member, Henrik Johansson	200				200	85 %
Board member, Fredrik Hansson	200				200	100 %
Board member, Anders Mörck	200				200	100 %
Board member, Kerstin Lindell	200				200	100 %
Total, Board	**1,450**	**0**	**0**	**0**	**1,450**	
CEO Staffan Dahlström	2,472	1,171	723	153	4,519	
Other senior executives** (4)	5,038	1,527	2,340	97	9,002	
Total	**8,960**	**2,698**	**3,063**	**250**	**14,971**	

* Including other remuneration
** Pertains to others in the Group management team

NOTE 11 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 2018 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. The fees for pension insurance with Alecta amounted to SEK 10,247 (7,904) thousand for the year. The year's fees for pension insurance with Skandia amounted to SEK 3,128 (4,392) 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 175 %. If Alecta's collective consolidation level falls below 125 % or exceeds 175 %, 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 2018, Alecta's surplus at the collective consolidation level was 142 (154) %.

The Group has a defined benefit pension obligation in Belgium that amounts to SEK 2,466 (2,068) thousand. Otherwise, for foreign entities, pension obligations are classified as defined contribution plans and the amount reported in the income statement is SEK 6,621 (6,112) thousand.

NOTE 12 Financial income

	2018	2017
Interest income	52	0
Exchange rate differences	0	768
Total	**52**	**768**

NOTE 13 Financial expenses

	2018	2017
Interest expenses and other banking costs	-5,817	-7,392
Exchange rate differences	-13,771	-10,565
Total	**-19,588**	**-17,957**

NOTE 14 Income tax

	The Group		Parent Company	
	2018	2017	2018	2017
Current tax	-69,797	-55,055	-593	-12
Deferred tax (Note 17)	9,220	2,639	0	0
Total tax	**-60,577**	**-52,416**	**-593**	**-12**

The following shows how income tax on the Group's profit before tax differs from the theoretical amounts that would have arisen if the weighted average tax rate had been applied to the profit of consolidated companies:

	The Group		Parent Company	
	2018	2017	2018	2017
Profit before tax	231,815	195,161	164,410	15
Tax calculated using the Swedish tax rate (22 %)	-50,999	-42,935	-36,170	-3
Tax effect of items which are non-deductible/non-taxable	12,478	2,406	36,135	-80
Adjustment relating to prior years	-4,800	40	-558	71
Difference in foreign tax rates	-16,850	-9,941	-	-
Revaluation of deferred tax - change in tax rate	-300	-1,986	-	-
Tax effect on deficit	-105	-	-	-
			-	-
Tax expense	**-60,577**	**-52,416**	**-593**	**-12**
Weighted average tax rate	26.1 %	26.9 %		

Income tax relating to components of other comprehensive income for the Group amounted to, for cash flow hedges SEK -44 (-122) thousand and for hedging of net investments to SEK -2,231 (-1,619) thousand.

NOTE 15 Earnings per share

Earnings per share is calculated by dividing the amount of profit reported in the income statement that is attributable to the parent company's shareholders by the weighted average number of outstanding ordinary shares during the period.

Earnings per share, basic and diluted	2018	2017
Profit attributable to parent company shareholders	171,238	142,745
Weighted average number of outstanding ordinary shares (thousands)	46,540	46,661
Earnings per share (SEK per share)	3.68	3.06
Earnings per share, diluted (SEK per share)	3.65	3.04

Average number of shares, basic and diluted (thousands)	2018	2017
Average number of shares used to calculate earnings per share, basic	46,540	46,661
Adjustment for calculation of earnings per share, diluted:		
Shares in Share Savings Plans	319	218
Average number of shares, diluted	**46,859**	**46,879**

NOTE 16 Dividend per share

In 2018, the dividend paid was SEK 69,894 thousand (SEK 1.50 per share). In 2017, the dividend paid was SEK 46,717 thousand (SEK 1.00 per share).

At the AGM on 25 April 2019 a proposal will be made to distribute SEK 83,909 thousand* as dividends for the 2018 financial year, which corresponds to SEK 1.80 per share. The proposed dividend has not been reported as a liability in these financial statements.

* The dividend is calculated on the total number of outstanding shares as of 2019-03-20.

NOTE 17 Deferred tax

Deferred tax assets	Pensions	Currency hedging	Other	Total
As of 1 January 2017	**719**	**0**	**721**	**1,440**
Reclassification from deferred tax liabilities		-2		-2
Reported in income statement	-129	2	596	469
Reported in other comprehensive income		1,741		1,741
Exchange rate differences	21		-42	-21
As of 31 December 2017	**612**	**1,741**	**1,274**	**3,628**
Reported in income statement	91	-49	2,176	2,218
Reported in other comprehensive income		2,275		2,275
Exchange rate differences	26	-2	129	154
As of 31 December 2018	**729**	**3,964**	**3,580**	**8,274**

Deferred tax liabilities	Tax allocation reserves	Property, plant and equipment and intangible assets	Currency hedging	Other	Total
As of 1 January 2017	**17,182**	**69,183**	**2**	**1,754**	**88,121**
Reclassification to deferred tax assets			-2		-2
Reported in income statement	1,463	-4,094		461	-2,170
Reclassified to current tax				-1,395	-1,395
Exchange rate differences		985		408	1,393
As of 31 December 2017	**18,645**	**66,074**	**0**	**1,228**	**85,948**
Reported in income statement	-75	-4,470		-2,457	-7,002
Reported in other comprehensive income	-509	169			-340
Exchange rate differences		1,835		474	2,309
As of 31 December 2018	**18,062**	**63,608**	**0**	**-755**	**80,914**

NOTE 18 Intangible assets

	Patents	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Total
As of 1 January 2017						
Cost	448	215,493	722,258	97,674	88,496	1,124,368
Accumulated amortization and impairment/ exchange rate effects	-448	-97,772	22,175	-25,642	7,603	-94,084
Carrying amount	**0**	**117,721**	**744,433**	**72,031**	**96,099**	**1,030,285**
Financial year 2017						
Opening carrying amount	0	117,721	744,433	72,031	96,099	1,030,285
Investments		9,711				9,711
Acquisition of subsidiaries						
Exchange rate differences		-22	15,025	1,836	2,813	19,653
Impairment		-3,660				-3,660
Depreciation/amortization		-23,218		-10,977	-1,261	-35,456
Closing carrying amount	**0**	**100,532**	**759,460**	**62,890**	**97,650**	**1,020,532**
As of 31 December 2017						
Cost	448	225,204	722,258	97,674	88,496	1,134,079
Accumulated amortization and impairment/ exchange rate effects	-448	-124,672	37,202	-34,783	9,154	-113,547
Carrying amount	**0**	**100,532**	**759,460**	**62,890**	**97,650**	**1,020,532**
Financial year 2018						
Opening carrying amount	0	100,532	759,460	62,890	97,680	1,020,532
Investments		16,523				16,523
Net investments from company acquisitions		7,117				7,117
Acquisition of subsidiaries			59,071			59,071
Exchange rate differences		39	22,324	2,638	4,217	29,217
Impairment						
Depreciation/amortization		-24,151		-11,637	-1,343	-37,131
Closing carrying amount	**0**	**100,060**	**840,855**	**53,891**	**100,524**	**1,095,330**
As of 31 December 2018						
Cost	448	248,844	781,329	97,674	88,496	1,216,790
Accumulated amortization and impairment/ exchange rate effects	-448	-148,784	59,526	-43,783	12,028	-121,461
Carrying amount	**0**	**100,060**	**840,855**	**53,891**	**100,524**	**1,095,330**

The income statement includes depreciation, amortization and impairment losses of SEK 34,368 (31,913) thousand for Cost of goods sold, SEK 2,764 (3,543) thousand for Selling expenses.

Through the acquisition of HMS Industrial Networks AB in 2004, the Group acquired expertise that has provided synergy effects in the form of management and financing opportunities. This has resulted in enhanced growth prospects, which is reflected in goodwill for an amount of SEK 236 million.

In 2013, the German company, Ixxat (HMS Technology Center Ravensburg) was acquired, which resulted in consolidated goodwill in the form of customer relations, technology platforms and brands. The new business also brought synergies to the Group in the form of complementary technology and a broader market, with a goodwill value of SEK 149 million.

In 2016, the Belgian company, eWON (HMS Industrial Networks SA) was acquired, which resulted in consolidated goodwill in the form of customer relations, technology platforms and brands. Acquisition of the new company gave rise to goodwill attributable to the employees, market position and expected synergies with existing operations amounting to SEK 220 million.

In 2016, the Spanish company, Intesis Software SLU was acquired, which resulted in consolidated goodwill in the form of customer relations, technology platforms and brands. Acquisition of the new company gave rise to goodwill attributable to employee know-how and Intesis' market position in the building automation segment amounting to SEK 117 million.

In 2018, the German company, Beck IPC GmbH was acquired, which generated goodwill in the form of staff know-how, along with synergies in the form of complementary technology for a preliminary value of SEK 58 million.

Capitalized development costs and brands are tested for impairment each year. In 2018, impairment testing resulted in a write-down of SEK 0 (4) million.

a) Test of impairment for goodwill and brands

The Group's goodwill has been evaluated in accordance with IAS 36. The Group's goodwill is attributable to the following two cash-generating units (SEK m):

The Group, excl. Intesis	713
Intesis	128
Total consolidated goodwill	**841**

CONT. NOTE 18 Intangible assets

The recoverable amount for the cash generating units has been based on their value-in-use. This has included estimates for growth, profit margin, tied-up capital, investment requirement and risk premium. The principles behind these assumptions were unchanged compared with the previous year.

Financial forecasts are based on the company's budget for the coming year and its five-year financial plan. The company's market assessment for each period is also considered. Estimates of future cash flows are based on the Group's existing structure. Acquisitions are not included.

The company's assumptions about future growth are based on prior experience, external sources of information and its long-term business plan. For this assumption, expected market growth and price development were also considered. Assumptions about future margins are consistent with the company's financial plan and its historic performance, except for Intesis, where the future margins have been adjusted downwards to reflect the expected costs for the future expansion of the business. Investments during the period are based on the company's internal investment plan and are expected to equal the replacement need.

These estimates form the basis for calculating value-in-use and the cash flow forecast for a period covering the fixed budget and the company's five-year financial plan. Cash flow was then extrapolated using an assumed annual growth rate of 2.0 (2.0) %, which is lower than the actual annual growth rate. The need for working capital (excluding cash) is, over the long term, estimated at 9 (8) % for the Group excluding Intesis and 15 (15) % for Intesis separate to the company's net sales. The weighted average cost of capital (WACC) after tax is 9.5 (9.6) % for the Group excl. Intesis and 9.5 (9.6) % for Intesis separately.

All product groups are based on common technologies and they are marketed and sold through the shared sales channels. For this reason, complete segment accounting is not reported.

The calculated recoverable amount 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 19 Property, plant and equipment

	Buildings & Land	Plant & machinery	Equipment, installations and facilities	Construction-in-progress	Total
As of 1 January 2017					
Cost					
Accumulated cost	3,340	52,413	39,068	496	95,317
Accumulated depreciation/amortization	-49	-28,636	-27,655		-56,340
Carrying amount	**3,291**	**23,777**	**11,413**	**496**	**38,977**
Financial year 2017					
Opening carrying amount	3,291	23,777	11,413	496	38,977
Investments		12,771	8,872	584	22,227
Reclassifications		2,873	-1,843	-994	0
Sales and disposals			-1,816		-1,816
Exchange rate differences	97	598	85	5	785
Depreciation/amortization	-22	-6,696	-4,135		-10,853
Closing carrying amount	**3,366**	**33,287**	**12,576**	**91**	**49,320**
As of 31 December 2017					
Accumulated cost	3,437	68,619	44,366	91	116,513
Accumulated depreciation/amortization, exchange rate effects	-71	-35,332	-31,790		-67,193
Carrying amount	**3,366**	**33,287**	**12,576**	**91**	**49,320**
Financial year 2018					
Opening carrying amount	3,366	33,287	12,576	91	49,320
Investments		9,169	3,995	273	13,434
Net investments via company acquisitions	15		1,181		1,196
Reclassifications		134	6	-140	0
Sales and disposals					0
Exchange rate differences	144	949	277	4	1,374
Depreciation/amortization	-25	-8,398	-5,119		-13,542
Closing carrying amount	**3,500**	**35,141**	**12,913**	**228**	**51,782**
As of 31 December 2018					
Accumulated cost	3,452	77,922	49,545	224	131,143
Accumulated depreciation/amortization, exchange rate effects	48	-42,781	-36,632	4	-79,361
Carrying amount	**3,500**	**35,141**	**12,913**	**228**	**51,782**

Depreciation costs of SEK 5,403 (3,823) thousand are included in cost of goods sold, SEK 2,713 (2,343) thousand in selling expenses, SEK 2,713 (2,343) thousand in administration costs and SEK 2,713 (2,343) thousand in research and development costs.

CONT. NOTE 19 Property, plant and equipment

Included in machinery and equipment are leased items that the Group holds through finance lease agreements for the following amounts (see Note 20 for more information):

Assets held through a finance lease agreement	2018	2017
Opening carrying amount	22,484	18,442
Investments for the year	0	6,831
Depreciation/amortization for the year	-3,904	-3,339
Translation differences	868	551
Closing carrying amount	**19,448**	**22,484**

NOTE 20 Finance leases

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

Plant and machinery	2018	2017
Cost - capitalized finance leases	44,661	44,661
Accumulated depreciation/amortization	-25,213	-22,177
Carrying amount	**19,448**	**22,484**

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

	2018	2017
Within 1 year	3,004	3,522
Between 1 and 5 years	11,171	10,907
More than 5 years	8,166	10,550
Total future leasing payments	**22,341**	**24,979**

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.

Operating leases	2018	2017
Total minimum leasing fees for the financial year	36,078	28,944
Total minimum leasing fees	**36,078**	**28,944**

Future contractual leasing payments	2018	2017
Within 1 year	37,048	33,111
Between 1 and 5 years	88,828	101,517
Total future leasing payments	**125,876**	**134,628**

NOTE 21 Financial assets and financial liabilities

Financial assets	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss,	Financial assets measured at fair value through other comprehensive income	Total
2018				
Non-current assets				
Deposits	2,110			2,110
Long-term securities holdings		5,313		5,313
Total non-current assets	**2,110**	**5,313**	**0**	**7,423**
Current assets				
Accounts receivable - trade	160,574			160,574
Contract assets	4,373			4,373
Derivative instruments (used for hedging)			2,357	2,357
Cash and cash equivalents	58,951			58,951
Total current assets	**223,898**	**0**	**2,357**	**226,255**
Total financial assets	**226,008**	**5,313**	**2,357**	**233,678**
2017				
Non-current assets				
Deposits	1,178			1,178
Total non-current assets	**1,178**	**0**	**0**	**1,178**
Current assets				
Accounts receivable - trade	132,863			132,863
Contract assets	5,696			5,696
Derivative instruments (used for hedging)			28	28
Cash and cash equivalents	90,982			90,982
Total current assets	**229,541**	**0**	**28**	**229,569**
Total financial assets	**230,719**	**0**	**28**	**230,747**

CONT. NOTE 21 Financial assets and financial liabilities

Financial liabilities	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
2018				
Non-current liabilities				
Bank loans	335,243			335,243
Liabilities pertaining to finance leases	19,337			19,337
Additional consideration		20,551		20,551
Total non-current liabilities	**354,580**	**20,551**	**0**	**375,131**
Current liabilities				
Bank loans	274			274
Liabilities pertaining to finance leases	3,004			3,004
Additional consideration		20,551		20,551
Accounts payable - trade	104,610			104,610
Derivative instruments (used for hedging)			3,109	3,109
Total current liabilities	**107,888**	**20,551**	**3,109**	**131,548**
Total financial liabilities	**462,468**	**41,102**	**3,109**	**506,679**
2017				
Non-current liabilities				
Bank loans	347,530			347,530
Liabilities pertaining to finance leases	21,458			21,458
Additional consideration		19,699		19,699
Total non-current liabilities	**368,988**	**19,699**	**0**	**388,687**
Current liabilities				
Bank loans	253			**253**
Liabilities pertaining to finance leases	3,521			**3,521**
Accounts payable - trade	98,708			**98,708**
Derivative instruments (used for hedging)			**574**	**574**
Total current liabilities	**102,482**	**0**	**574**	**103,056**
Total financial liabilities	**471,470**	**19,699**	**574**	**491,743**

NOTE 22 Inventories

The Group	2018	2017
Raw materials and consumables	103,301	78,428
Work-in-progress	4,888	4,228
Finished goods	49,276	34,489
Total	**157,465**	**117,145**

Costs for impairment of inventories (obsolescence) that affected the year's profit are included in cost of goods sold and negatively impacted earnings by SEK 13,449 (188) thousand. The Group does not have sufficient financial information to calculate the proportion of material in cost of goods sold.

NOTE 23 Accounts receivable and contract assets

	2018	2017
Accounts receivable - trade	161,627	134,833
Provision for doubtful debts	-1,053	-1,970
Accounts receivable – net	**160,574**	**132,863**

Accounts receivable are amounts attributable to customers for goods sold or services provided as part of operating activities. Accounts receivable primarily fall due for payment within 30-60 days and all accounts receivable have thus been classified as current assets. Accounts receivable are initially reported at the transaction price. The Groups accounting policies for impairment and calculating the provision for doubtful debts is explained in Note 3.1 d).

The fair value of accounts receivables and contract assets is as follows:	2018	2017
Accounts receivable - trade	160,574	132,863
Contract receivables, see Note 5	4,373	5,696
Total	**164,947**	**138,559**

During the year, the Group reported a gain concerning reversal of a previously recognized impairment loss of SEK 782 (-1,530) thousand. As of 31 December 2018, the provision for doubtful debts amounted to SEK 1,053 (1,970) thousand.

CONT. NOTE 23 Accounts receivable and contract assets

As of 31 December 2018, accounts receivable amounting to SEK 28,325 (30,879) thousand had fallen due. An aging analysis is provided below:

	2018	2017
1 to 15 days	18,131	19,366
15 days to 3 months	9,186	9,324
3 to 6 months	107	568
More than 6 months	902	1,621
Total	**28,325**	**30,879**

In the amount for accounts receivable overdue by more than 6 months, a provision to doubtful debts has been made for SEK 902 (1,621) thousand.

No provision to doubtful debts has been made for the remaining overdue accounts receivables since they are expected to be paid in full.

Provisions for each reversal of the reserves for doubtful debts are included under Selling expenses in the income statement. Amounts reported in the provision are typically written off when the Group no longer expects to receive any additional payments.

Other categories of accounts receivable and other receivables do not include assets for which there is a write-down requirement.

Carrying amounts (by currency) for the Group's accounts receivable are as follows:

	2018	2017
EUR	95,689	75,942
USD	42,550	31,290
JPY	12,106	14,477
SEK	4,997	8,325
CNY	3,712	2,490
GBP	2,097	1,688
DKK	476	621
Total	**161,627**	**134,833**

NOTE 24 Derivatives

	2018	2017
Currency futures contracts – asset	2,357	28
Currency futures contracts – liability	-3,109	-574

Derivatives held for trading are classified as either current assets or current liabilities. The entire fair value of a derivative instrument that constitutes a hedge instrument is classified as a non-current asset or non-current liability if the hedged item's remaining term is longer than 12 months, and as a current asset or current liability if the hedged item's remaining term is less than 12 months. All the Groups derivative instruments have terms that are less than 12 months in duration. During the period, the Group did not have any derivatives for trading.

The Groups accounting policies for cash flow hedges are explained in Note 2.14.1.

(a) Currency futures contracts

The nominal amount of outstanding currency futures contracts as of 31 December 2018 was SEK 319,215 (28,059) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Gains and losses on currency forward contracts as of 31 December 2018, which are a component of equity, are reported in the income statement as operating profit in the periods when the hedged transaction affects earnings.

In 2018, realized currency futures contracts had a negative impact on operating profit of SEK 4,852 (positive impact of 36) thousand.

(b) Hedging of net investments in foreign operations

The Group's borrowings in EUR amounting to SEK 300,039 (246,243) thousand are identified as a hedging of net investments pertaining to the acquisition of subsidiaries. The Group's assessment is that the fair value corresponds to the carrying amount as of 31 December 2018. The exchange loss on translation of the borrowings into SEK amounted to SEK -10,424 (-7,360) thousand at the end of the reporting period and it has been recognized in other comprehensive income.

NOTE 25 Prepaid expenses and accrued income

	The Group		Parent Company	
	2018	2017	2018	2017
Rents	3,276	2,983	0	0
Contract receivables, see Note 5	4,373	5,696	0	0
Other items	7,574	8,629	168	0
Total	**15,223**	**17,309**	**168**	**0**

NOTE 26 Cash and cash equivalents

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

The Group	2018	2017
Cash and bank balances	58,951	90,982
Total	**58,951**	**90,982**

The Group has a granted, unutilized overdraft facility of SEK 30,000 (30,000) thousand.

NOTE 27 Share capital and other contributed capital

	Number of shares (000s)	Share capital (SEK t)	Other contributed capital (SEK t)	Total (SEK t)
As of 1 January 2017	46,819	1,170	218,318	219,488
As of 31 December 2017	46,819	1,170	218,318	219,488
As of 31 December 2018	**46,819**	**1,170**	**218,318**	**219,488**

The total number of shares is 46,818,868 (46,818,868) with a quotient value of SEK 0.02 (0.02) per share. The company repurchased 350,200 own shares on NASDAQ OMX Stockholm in 2017 for a total of SEK 39,482 thousand. In total, 70,000 shares were acquired for nearly SEK 10,553 thousand during the third quarter of 2018. The shares are held as treasury shares. In 2017, 112,468 shares were distributed for a cost amount of SEK -3,532 thousand and in 2018, 138,907 shares were distributed for a cost amount of -15,301 thousand. During the second quarter of 2017 a 4:1 stock split was carried out.

NOTE 28 Interest-bearing liabilities

	2018	2017
Non-current interest-bearing liabilities		
Bank loans	335,244	347,530
Liability for contingent consideration	20,551	19,699
Liability pertaining to finance leases (Note 20)	19,337	21,458
Defined benefit pension plan	2,466	2,068
Total	**377,597**	**390,755**
Current interest-bearing liabilities		
Bank loans	274	253
Liability for contingent consideration	20,551	0
Liability pertaining to finance leases (Note 20)	3,004	3,522
Total	**23,829**	**3,775**
Total interest-bearing liabilities	**401,426**	**394,530**

The Group's maturity structure for interest-bearing liabilities at the end of the reporting period is as follows:

	2018	2017
3 months or less	885	969
Between 3 months and 1 year	22,944	2,806
Between 1 and 2 years	26,727	23,138
Between 2 and 5 years	340,238	354,999
More than 5 years	10,632	12,619
Total	**401,426**	**394,530**

In 2017, a renewed financing agreement was signed with the company's existing bank. The agreement concerns a revolving facility of EUR 45 million with a duration of three years, with the possibility of extending it one plus one year. In conjunction with borrowing in the form of renewed loans in that agreement, all prior loans were settled. All of the renewed loans require no amortization. At year-end, unutilized credit facilities amounted to SEK 158 (126) million. The interest rates on bank loans are variable and tied to EURIBOR. The average interest rate in 2018 was 1.15 (1.32) %. Shares in subsidiaries was provided as collateral for bank loans (Note 33).

Loan terms for the bank loan are based on the development of net debt and EBITDA.

CONT. NOTE 28 Interest-bearing liabilities

The carrying amount of the Group's interest-bearing liabilities corresponds to their fair value either because the interest rate on these liabilities is in line with current market rates or because the liabilities are short-term.

The non-current liability for contingent consideration is related to the acquisition of Beck IPC in 2018. See Note 31 for more information. The current liability for contingent consideration is related to the acquisition of Intesis in 2016.

Management continually revalues liabilities associated with conditional consideration to their estimated fair value based on the acquired company's performance, established budgets, business plans and projections. This means that the fair value is substantially based on unobservable inputs (Level 3 as defined in IFRS 13).

See Note 4 d) for a description of each item of conditional consideration, along with management's assessment of the fair value.

NOTE 29 Accrued expenses and deferred income

	The Group		Parent Company	
	2018	2017	2018	2017
Accrued salaries	27,547	21,558	1,079	772
Vacation pay	17,425	14,240	512	356
Social security contributions	17,930	15,438	1,439	1,004
Deferred income	6,882	0	0	0
Other items	15,928	17,778	1,013	700
Total	**85,712**	**69,014**	**4,043**	**2,832**

NOTE 30 Provisions

	2018	2017
Warranty provision	1,554	1,712
Total	**1,554**	**1,712**

NOTE 31 Business combinations

On 17 July 2018, the HMS Group acquired 100% of the share capital in the German company, Beck IPC GmbH. Beck IPC was founded in 1992 and its head office is located in Wetzlar, Germany. Beck IPC is a leading technology supplier in the market for embedded systems, offering solutions for embedded control systems, M2M communication and Industrial Internet of Things, IIoT. The base technology, IPC@CHIP®, is the core of the company's product offering to industrial OEM users. Another component of Beck IPC's portfolio is com.tom® – a comprehensive series of gateways with associated cloud portals for IIoT applications in the area of factory and process automation.

The acquisition price amounted to EUR 5 million on a debt-free basis and the earnings' based conditional consideration is EUR 2 million, to be paid out in 2020 if Beck IPC achieves its financial targets. The acquisition was financed with existing credit of EUR 4 million.

The acquisition has generated preliminary goodwill of approximately SEK 58 million. The acquired company has been included in the consolidated income statement and balance sheet since 17 July 2018. As of the acquisition date, Beck has contributed to the Group's sales by SEK 30 million. The acquisition's contribution to operating profit, including the acquisition costs, amounts to SEK 2 million. If the acquisition had occurred at the start of the financial year, the contribution to net sales would have been SEK 73 million and the contribution to operating profit, including the acquisition costs, would have been SEK -12 million.

The acquisition analysis is preliminary, pending the allocation of goodwill to specific assets and an assessment of the company's tax situation. According to the preliminary acquisition analysis, the purchase price and acquired net assets are as follows:

Purchase price:	
Cash and cash equivalents	**23,194**
Contingent consideration	20,654
Total purchase price	**43,848**

The assets and liabilities recognized in conjunction with the acquisition are as follows:	**Fair value**
Goodwill / Intangible assets	57,985
Intangible assets	7,167
Other fixed assets	1,198
Current assets	15,129
Cash and cash equivalents	382
Non-current interest-bearing liabilities	-1,580
Current liabilities	-36,433
Acquired net assets	**43,848**

Purchase price – cash outflow	**2018**
Cash purchase price	23,194
Acquired cash and cash equivalents	-382
Net outflow of cash and cash equivalents	**22,812**

Important estimates
For information on the contingent consideration associated with the acquisition of Beck IPC GmbH and the prior acquisition of Intesis Software SLU, please see Note 4 d).

There were no business combinations during the 2017 financial year.

NOTE 32 Earnings from participations in Group companies

	Parent Company	
	2018	2017
Anticipated dividends	164,679	0
Total	**164,679**	**0**

NOTE 33 Shares in subsidiaries

Shares owned by Parent Company	Registered office	CIN	Share	No. of shares	With quotient value	181231	171231
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100 %	6,540	100	244,039	244,039
HMS Industrial Networks SA	Nivelles, Belgium	450350907	33 %	431	100	93,285	93,285

Shares owned by subsidiary	Registered office	CIN.	Share
Beck IPC GmbH*	Wetzlar, Germany	00340136310005	100 %
eWON KK	Tokyo, Japan	3-0100-0115-6936	100 %
FAR Sprl	Nivelles, Belgium	0462.305.661	100 %
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100 %
Intesis Software SLU	Igualada, Spain	B62202460	100 %
HMS Electronics AB	Halmstad, Sweden	556463-9374	100 %
HMS Industrial Networks ApS	Copenhagen, Denmark	33363842	100 %
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100 %
HMS Industrial Networks Inc	Chicago, USA	5983-659-5	100 %
HMS Industrial Networks India Pvt. Ltd.	Pune, India	138298	100 %
HMS Industrial Networks K.K	Tokyo, Japan	0200-01-060118	100 %
HMS Industrial Networks Ltd.	Coventry, England	7521411	100 %
HMS Industrial Networks S.r.l.	Milan, Italy	5260930960	100 %
HMS Industrial Networks SA	Nivelles, Belgium	450350907	67 %
HMS Technology Center Ravensburg GmbH	Ravensburg, Germany	29724241	100 %

* Beck IPC GmbH was acquired on 17 July 2018.

HMS Industrial Networks Ltd. (CIN: 07521411)
We hereby confirm that these consolidated financial statements contain figures for the UK subsidiary HMS Industrial Networks Limited (CIN; 07521411) for the year ending 31 December 2018. We confirm that the UK subsidiary claims exemption from the UK audit in accordance with section 479A of the UK Companies Act 2006.

HMS Technology Center Ravensburg GmbH (CIN: 551905)
We hereby confirm that these consolidated financial statements contain figures for the German subsidiary HMS Technology Center Ravensburg GmbH (CIN: 551905) for the year ending 31 December 2018. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Handelsgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on 31 December 2018.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38

NOTE 34 Pledged assets and contingent liabilities

The Group	2018	2017
Pledged assets		
Shares in subsidiaries	861,129	757,790
Contingent liabilities	none	none

Parent Company	2018	2017
Pledged assets		
Shares in subsidiaries	337,324	337,324
Contingent liabilities		
Security for subsidiaries	364,488	376,543

NOTE 35 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	17,305
Profit for the year	163,817
SEK t	**181,122**
The Board of Directors proposes the following appropriation of profits:	
Distributing dividends to shareholders of SEK 1.80/share*	83,909
Carried forward	97,213
SEK t	**181,122**

* The dividend is calculated on the total number of outstanding shares as of 2019-03-20.

NOTE 36 Related parties

There have not been any related party transactions except for the ones specified in Note 10 Remuneration to the Board and senior executives. The Parent Company's related party transactions consist of sales to, and purchases from, Group companies, which are reported in Note 5.5.

NOTE 37 Subsequent events

In the first quarter of 2019, HMS acquired 74.9 percent of the shares in the German company, WEBfactory GmbH, which is a leading supplier of web-based software solutions for Industrial Internet of Things, IIoT. WEBfactory GmbH, together with its wholly-owned subsidiary in Romania, has 27 employees and expected sales of EUR 2.5 million in 2019. The acquisition is expected to be concluded on 1 April 2019 and it will have a limited impact on HMS's earnings per share in 2019.

NOTE 38 New accounting policies 2019

This note covers the new and amended accounting policies that the Group applies as of 1 January 2019, IFRS 16 Leases.

38.1 IFRS 16 LEASES

The Group's leasing activities and reporting of leases

The Group leases various buildings, facilities, machinery and cars. Lease agreements are normally for a fixed period, but there may be an option to extend the agreement. The terms are negotiated separately for each agreement and many terms and conditions exist. Lease agreements do not contain any special terms or restrictions that would result in the agreement being canceled if the terms are not met. However, leased assets may not be used as collateral for loans.

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

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

- fixed fees (including fees that are inherently fixed), less incentive claims
- variable lease fees that are based on an index or a price
- the guaranteed residual value that the lessee expects to pay to the lessor
- the exercise price for a call option, if it is reasonably certain that the lessee will exercise the option, and
- penalty for terminating the lease, if duration of the lease reflects the assumption that the lessee will utilize that option.

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

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

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

Payments for short-term agreements and lease agreements with insignificant value are expensed on a straight-line basis in the income statement. Short-term agreements are those with a lease term of 12 months or less. Agreements of insignificant value (around USD 5 thousand or less) consist of IT equipment and various office equipment.

The estimated effect on the consolidated financial statements resulting from the transition to IFRS 16 is explained in Note 2.1.1 b).

Options to extend or cancel agreements

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

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

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a true and fair view of the Group's financial financial position and performance. The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a true and fair view of the parent company's financial position and performance. The Board of Directors' report for the Group and parent company provides a true and fair erview of the Group's and parent company's business, financial position and financial performance and also describes material risks and uncertainties faced by the parent company and the companies that comprise the Group.

The income statement and balance sheet will bepresented for adoption at the Annual General Meeting on 25 April 2019.

Halmstad 20 March 2019

Charlotte Brogren *Chairman of the Board*	Staffan Dahlström *CEO*	Cecilia Wachtmeister *Board member*	Ray Mauritsson *Board member*
Fredrik Hansson *Board member*	Anders Mörck *Board member*	Ulf Södergren *Board member*	Tobias Persson *Employee representative*

Our audit report was submitted on 22 March 2019
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorized Public Accountant

Audit report

To the general meeting of shareholders of HMS Networks AB (publ) CIN: 556661-8954

Report on the Annual Report and Consolidated Financial Statements

Opinion

We have conducted an audit of the annual report and consolidated financial statements of HMS Networks AB (publ) for the year 2018. The company's annual report and consolidated financial statements are provided on pages 56–100 of this document.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Parent Company's financial position as at 31 December 2018 and of its financial performance and cash flow for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance and cash flow for the year in accordance with the International Financial Reporting Standards (IFRS) that have been adopted by the EU. The Board of Directors' report is consistent with the other parts of the annual report and the consolidated financial statements.

We therefore recommend that the general meeting of shareholders should adopt the income statements and balance sheets for the Parent Company and the Group.

Our opinions in this report on the financial statements and consolidated financial statements are consistent with the content in the supplementary report that has been submitted to the Parent Company's and Group's Audit Committee in accordance with Article 11 of Regulation (EU) 537/2014 (audit legislation).

Basis for opinion

We conducted the audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing practices in Sweden. Our responsibility as per these standards is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements. This means that, based on best knowledge and belief, no prohibited services, as stipulated in Article 5.1 of Regulation (EU) 537/2014, have been provided to the audited company or, where applicable, its Parent Company or its controlling company within the EU.

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

Our audit work

Focus and scope of the audit

We designed our audit by establishing the level of materiality and assessing the risk of material misstatement in the financial statements. We gave extra consideration to the areas in which the CEO and the Board made subjective judgments, for example, significant accounting estimates made on the basis of assumptions and projections about future events, which by their nature are uncertain. As with all audits, we also considered the risk of the Board or CEO overriding internal controls, and among other things, considered whether there is evidence of systematic deviations resulting in a risk of material misstatement due to fraud.

We adapted our audit to ensure that it would be effective, with the aim of being able to express an opinion on the financial statements as a whole, taking into account the Group's structure, accounting processes and controls, and the industry in which it operates.

When we designed our Group audit strategy and Group audit plan, we assessed the degree of auditing required by the Group audit team and other auditors from the PwC network. As a result of the Group's decentralized financial organization, a substantial amount of the financial reporting occurs in entities outside Sweden. This means that a significant portion of the audit must be performed by auditors operating in the PwC network in other countries.

When we assessed the degree of auditing required at each entity, we considered the group's geographic distribution, the size of each entity, as well as the specific risk profile of each entity. With that in mind, we assessed that, in addition to the Parent Company in Sweden, a full audit would be performed on the financial information prepared by two major subsidiaries (in two foreign countries).

For entities where we assessed that it was not necessary to conduct a full audit, specifically defined procedures were performed on a total of four entities and the Group team performed these procedures on two of them. For other entities, which were assessed as being individually immaterial as regards the consolidated audit, the Group audit team performed analytical procedures at Group level.

In cases where the entity's auditors carry out work that is essential to our audit of the Group, we evaluate, in our capacity as Group auditors, the need and degree of involvement in the work of the entity auditors in order to determine whether sufficient audit evidence has been obtained as the basis for our opinion on the consolidated audit report. With that in mind, the Group audit team regularly meets with the entity auditors and significant subsidiaries.

Materiality

The scope and focus of the audit was impacted by our assessment of materiality. An audit is designed to achieve a reasonable degree of assurance about whether the financial statements are free from material misstatement. Errors may occur as a result of fraud or error. They are regarded as material if individually or collectively, they can reasonably be expected to influence the economic decisions that users make based on the financial statements.

Based on professional judgment, we established certain quantitative materiality thresholds, including ones for the financial statements as a whole. We used these thresholds, along with qualitative assessments, to establish the scope and focus of the audit, along with the nature of the audit procedures, timing and scope, along with assessing the effect of individual and cumulative errors in the financial statements as a whole.

Particularly important areas

Areas that are particularly important to the audit are those which, according to our professional assessment, are the most significant for the audit of the financial statements for the current period. These areas were dealt with as part of both the audit, and our overall assessment of the financial statements. However, we do not provide separate opinions on these areas.

Particularly important area	How our audit took into consideration this particularly important area
Test of impairment on goodwill As of 31 December 2018, goodwill amounted to SEK 841 million, which corresponds to 53 % of the Group's total assets. As described in Note 18, the Group's goodwill is associated with two separate cash generating units, HMS Networks excluding Intesis and Intesis separately. In accordance with IAS 36, the Group tests annually whether there is an impairment of goodwill. Impairment is determined by considering each cash-generating unit's recoverable amount compared to its carrying amount. The recoverable amount was determined by management, by calculating the operations' ability to generate cash flow in the future. Impairment testing is essential for our audit because goodwill represents significant amounts in the balance sheet. Furthermore with a test of impairment, management must make significant estimates and assumptions about the future. Based on management's impairment test, the Board has concluded that no impairment of goodwill exists as of 31 December 2018. The most significant assumptions used in the impairment test are described in Note 18.	Our audit procedures included an assessment of the mathematical accuracy of the cash flow calculation, along with a reconciliation of cash flow forecasts against the budget for 2018 that was adopted by the Board and the business plan for 2020–2021. We have evaluated and assessed that the company's valuation is consistent with accepted valuation techniques. We have tested the reasonableness of the assumptions that have the greatest impact on the impairment test, which include sustainable growth, sustainable operating margin and discount rate. By making our own sensitivity analyses, we have challenged management's assumptions and tested the existing safety margins to assess the risk that impairment could occur. We have also evaluated whether the Company has provided enough information in the annual report about the assumptions which, should they change, could lead to impairment of goodwill in the future.

Other information besides what is shown in the financial statements and consolidated financial statements

This document contains other information besides the financial statements and consolidated financial statements and it is found on pages 1–38 and on pages 46– 55 and 104–113. The Board and the CEO are responsible for this other information.

Our opinion on the financial statements and consolidated financial statements does not include this other information, and we make no statement of assurance regarding this other information.

In connection with our audit of the financial statements, it is our responsibility to read the information identified above and consider whether the information is substantially incompatible with the financial statements and consolidated financial statements. During this review, we also take into account knowledge we obtained during the audit and we assess whether the information in general seems to contain material misstatements.

If, based on the work that has been conducted on this information, we conclude that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in that regard.

The Board of Directors' and CEO's responsibilities

The Board and the CEO are responsible for preparing financial statements and consolidated financial statements that provide a true and fair view in accordance with the Annual Accounts Act and with regard to the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Annual Accounts Act. The Board of Directors and CEO are also responsible for any internal control they deem necessary for preparing financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Board and CEO are responsible for assessing the ability of the Company and Group to continue operations. They must disclose, when applicable, any circumstances that may affect the ability to continue operations and apply the assumption of continued operations. However, the assumption of continued operations is not applied if the Board and CEO intend to liquidate the company, cease operations, or if they have no realistic alternatives than either of these two options.

The Audit Committee must monitor the company's financial reporting without it impacting the Board's responsibilities and tasks in general.

Auditor's responsibility

Our goal is to achieve a reasonable degree of assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to submit an audit report containing our opinions. Reasonable assurance is a high degree of assurance. However, it does not guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if one exists. Errors may occur due to fraud or error, and they are deemed material if, individually or together they can reasonably be expected to influence the economic decisions that users make based on the financial statements and consolidated financial statements.

A more detailed description (in Swedish) of our responsibility for the audit of the financial statements and consolidated financial statements is available on the website of the Swedish Inspectorate of Auditors: www.revisorsinspektionen.se/revisornsansvar. This description is a part of the audit report.

Report on other requirements in accordance with legislation and other regulations

Opinion

In addition to our audit of the financial statements and consolidated financial statements, we have performed an audit of the Board's and Managing Director's administration of HMS Networks AB (publ) for the year 2018 and the proposed appropriation of the profit or loss.

We recommend to the general meeting of shareholders that the appropriation of profit should be in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the CEO should be discharged from liability for the fiscal year.

Basis for opinion

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements.

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

The Board of Directors' and CEO's responsibilities

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. With proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the demands that the nature of operations, scope and risks place on the size of the Parent Company's and Group's equity, consolidation requirements, liquidity and position in general.

The Board is responsible for the company's organization and management of its affairs. This includes, for example, assessment of the company's and Group's financial situation on an ongoing basis and ensuring that the company is organized such that there are adequate controls on its bookkeeping, fund management and other financial matters. The CEO is responsible for ongoing management that is in accordance with the Board's guidelines and instructions, including taking the actions necessary to ensure that the company's accounting complies with law and that assets are managed in a satisfactory manner.

Auditor's responsibility

Our goal regarding the audit of the administration, and therefore our opinion, is to obtain audit evidence that with a reasonable degree of certainty enables us to determine whether any Board member or the CEO in any material respect:

- has undertaken any action or been guilty of any omission, which could give rise to liability to the Company,
- or in any other way acted in contravention of the Swedish Companies Act, Annual Accounts Act or the Articles of Association.

Our goal regarding the audit of the proposed appropriation of the profit or loss, and thus our statement on this, is to, with a reasonable degree of certainty, assess whether the proposal is consistent with the Swedish Companies Act.

Reasonable certainty is a high degree of certainty, but no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that could give rise to a liability to the Company or that a proposal for the appropriation of the profit or loss is not consistent with the Swedish Companies Act.

A more detailed description (in Swedish) of our responsibility for the audit of the administration is available on the website of the Swedish Inspectorate of Auditors: www.revisorsinspektionen.se/revisornsansvar. This description is a part of the audit report.

Öhrlings PricewaterhouseCoopers AB, 113 21 Stockholm, was elected as auditor for HMS Networks AB (publ) at the AGM on 26 April 2018 and it has been the company's auditor since14 January 2004. HMS Networks AB (publ) became a listed company on 19 October 2007.

Halmstad, 22 March 2019
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorized Public Accountant

FINANCIAL DATA IN SUMMARY (SEK M)	2018	2017	2016	2015	2014
Net sales	1,366	1,183	952	702	589
Growth in net sales, %	15	24	36	19	18
Gross profit	834	722	581	430	367
Gross margin, %	61	61	61	61	62
Operating income before depreciation (EBITDA)	301	259	188	136	126
Operating margin before depreciation (EBITDA), %	22	22	20	19	21
Operating income after depreciation/amortization (EBIT)	251	212	149	102	98
Operating margin after depreciation/amortization (EBIT), %	18	18	16	15	17
Profit for the year	171	143	100	60	63
Order intake	1,433	1,204	966	682	611
Earnings per share, basic, SEK	3.68	3.06	2.16	1.33	1.40
Earnings per share, diluted, SEK	3.65	3.04	2.16	1.33	1.39
Dividend per share, SEK* **	1.80	1.50	1.00	0.63	0.63
Total assets	1,577	1,438	1,406	831	832
Equity	857	721	636	455	423
Equity per share, SEK**	17.06	14.65	12.09	9.77	8.79
Equity/assets ratio, %	54	50	45	55	51
Net debt/equity ratio %	40	42	66	39	54
Return on shareholders' equity, %	22	21	18	14	16
Return on capital employed, %	21	19	15	15	15
Investments in non-current assets	30	32	39	25	38
Cash flow from operating activities	193	207	155	90	93
Cash flow from operating activities per share, SEK**	4.14	4.44	3.35	1.99	2.06
Average number of employees	536	489	467	359	352
Sales per employee	2.6	2.4	2.0	1.9	1.7

* Board's proposal

** Key figures have been recalculated based on the 4:1 stock split that occured in the second quarter of 2017.

HMS NETWORKS GRI APPENDIX 2018

Information, methods and assumptions used for sustainability information presented in the annual report

HMS Networks GRI Appendix 2018

The HMS Sustainability Report for 2018 is in accordance with the Global Reporting Initiative (GR). The report has been prepared in accordance with GRI Standards: Core option and it is presented each year as an attachment to the Annual Report. The Sustainability Report has not been audited by a third party.

GRI INDEX

The following list refers to the GRI disclosures that HMS reports. All disclosures are from GRI Standards version 2016.
AR = Annual Report; GRI = GRI Appendix

GENERAL DISCLOSURES

GRI Standards	Disclosure	Page number(s)
GRI 102: General Disclosures		
Organizational Profile		
102-1	Name of the organization	28
102-2	Activities, brands, products, and services	16–25
102-3	Location of headquarters	13
102-4	Location of operations	12–13
102-5	Ownership and legal form	4–5
102-6	Markets served	8–17
102-7	Scale of the organization	1, 5, 12
102-8	Information on employees and other workers	110
102-9	Supply chain	34–35
102-10	Significant changes to the organization and its supply chain	1
102-11	Precautionary Principle or approach	109
102-12	External initiatives	29, 34
102-13	Membership of associations	110
Strategy		
102-14	Statement from senior decision-maker	2–3
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	34–35
Governance		
102-18	Governance structure	38–49
Stakeholder engagement		
102-40	List of stakeholder groups	107–108
102-41	Collective bargaining agreements	107–108
102-42	Identifying and selecting stakeholders	107–108
102-43	Approach to stakeholder engagement	107–108
102-44	Key topics and concerns raised	107–108

GRI Standards	Disclosure	Page number(s)
Reporting practice		
102-45	Entities included in the consolidated financial statements	28
102-46	Defining report content and topic Boundaries	107-108
102-47	List of material topics	108
102-48	Restatements of information	107
102-49	Changes in reporting	106
102-50	Reporting period	107
102-51	Date of most recent report	106
102-52	Reporting cycle	106
102-53	Contact point for questions regarding the report	111
102-54	Claims of reporting in accordance with the GRI Standards	106
102-55	GRI-index	106-107
102-56	External assurance	106

TOPIC-SPECIFIC DISCLOSURES

GRI Standards		Disclosure	Page number(s)
Indirect economic impacts			
GRI 103: Management approach	103-1, 103-2, 103-3	Entities included in the consolidated financial statements	33
GRI 203: Indirect economic impacts	203-2	Defining report content and topic Boundaries	33
Anti-corruption			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	107–109
GRI 205: Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures	34–35, 109

GRI Standards		Disclosure	Page number(s)
Energy			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	32–33, 107–109
GRI 302: Energy	302-1	Energy consumption within of the organization	32–33
	302-3	Energy intensity	32–33
Emissions			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	34–35, 107–109
GRI 305: Emissions	305-1	Direct (Scope 1) GHG emissions	34–35, 109–110
	305-2	Energy indirect (Scope 2) GHG emissions	34–35, 109–110
	305-3	Other indirect (Scope 3) GHG emissions	34–35, 109–110
	305-4	GHG emissions intensity	34
Waste			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	32, 107–109
GRI 306: Waste	306-2	Waste by type and disposal method	109
Education			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	30–31, 107–108,111
GRI 404: Education	404-1	Average hours of training per year per employee	111
	404-3	Percentage of employees receiving regular performance and career development reviews	111
Supplier social assessment			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	107–108,111
GRI 414: Supplier social assessment	414-1	New suppliers that were screened using social criteria	111
Customer Privacy			
GRI 103: Management approach	103-1, 103-2, 103-3	Management approach	34
GRI 418: Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	34

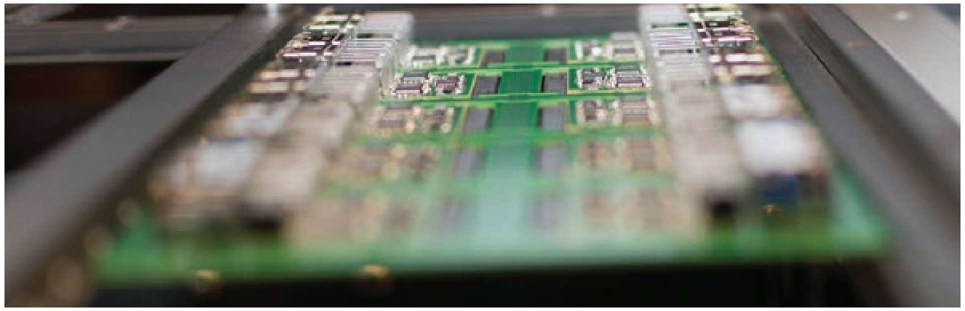
BOUNDARIES

All identified material sustainability topics impact our organization. Some of the aspects have an impact beyond HMS's organizational boundaries, such as supplier assessment. In the Sustainability Report, the effect of each sustainability topic both within and outside the company is reported. After several years of reporting in accordance with GRI G4, this is the first year that HMS reports in accordance with the GRI Standards. Our systems for measuring all indicators are being continuously developed. During the year we began to include data for new suppliers that were screened using social criteria (GRI 414-1) and data for employees that have received information on HMS anti-corruption policies and procedures (GRI 205-2).

STAKEHOLDER ENGAGEMENT

HMS is in continual contact with all of our stakeholders in order to obtain valuable input for HMS's future development. The purpose is to identify the sustainability aspects that our customers, employees, investors and owners consider to be most important.

The determination of key stakeholders for HMS is based on mutual dependency and the proximity between these groups and the company. Key stakeholder groups with mutual and close relationships with the company and its activities can be mainly found across the value chain, which consists of Suppliers, Employees and Customers. Another key group with a strong relationship to the company is Owners and investors. In 2016, HMS conducted key stakeholder dialogues based on prioritized sustainability aspects to identify the sustainability aspects that HMS's customers, employees, investors and owners consider to be most material. The input to the process was an initial prioritization of sustainability aspects by the HMS Group management team.



Key stakeholders	Forum for engagement	Important issues
Owners and investors	Contacts and meetings	Long-term profitable growth. Risk management and transparency. Read more on page 57-58 [ref to Directors' report]
Employees	Continual dialog, surveys and performance reviews.	Environmental impact from products and services. Skills development. Transport and energy efficiency. Monitoring suppliers on human rights issues. Read more on pages 30–31, 32–33, 35
Customers	Ongoing dialogue and surveys.	Solve specific challenges within industrial communication. Compliance with EU environmental laws. Reporting on conflict minerals. Transparency.
Suppliers	Ongoing dialogue and purchasing requirements. Site visits.	Stable, mutual successful, long-term business. Clearly stated requirements. Read more on page 35

The table shows HMS's key stakeholders and the forum for engagement.

MATERIALITY ASSESSMENT

This materiality assessment is based on HMS's strategy and engagement with stakeholders. HMS prioritizes sustainability aspects that:

- Directly impact our success
- Directly impact our stakeholders
- Are fundamental to our ability to operate
- HMS can control

This approach enables HMS to set relevant goals, and to track and improve performance.

HMS material sustainability aspects	
Economic	Higher productivity and indirect economic impacts from the use of HMS products
Environmental	Energy consumption, emissions and electronic waste
Social	Training of employees, supplier assessments, anti-corruption and customer privacy

MATERIAL SUSTAINABILITY RISKS

Section	Material sustainability risks	Risk management
Environment	HMS operates in an industry where changes in directives and regulations can increase fees, which in turn can increase material and production costs. Failure to comply with laws and environmental requirements for purchased materials can also increase costs and harm our reputation, which would impact the HMS brand.	We have an environmental policy that governs long-term investments, construction material choices, distribution, supplier choices, recycling of electronics and chemicals management. Read more on page 32.
Employees and social matters	HMS employees are its greatest asset. Their knowledge, commitment and efforts are crucial for us to succeed with our strategy, achieve our goals and continue to develop. If we lose our commitment to our employees, this may lead to decreased job satisfaction and even illness. In turn, this may result in loss of skills for HMS. With a weaker employer brand, we risk not being able to attract the skills we need for the future. As a result, continuous investments in the well-being of our employees is a must for us.	Our work environment, equality and pay-setting efforts are governed by our common ethics policy, summarized in "HMS Hi 5". Read more on pages 30–31.
Human rights and anti-corruption	HMS operates in a value chain where there is a risk that suppliers and/or customers may violate human rights, requirements for social conditions and environmental regulations and conduct business in unethical ways. A key factor for HMS is to conduct business in a responsible and ethical way and take responsibility for our value chain, since not doing so could put the HMS brand at risk and in turn affect the Company financially.	We govern work with our Code of Conduct. Read more on page 34.

ECONOMIC

The HMS Code of Conduct is a statement about what the company stands for and its commitment to high standards and ethically correct conduct. Line managers familiarize employees with the HMS Code of Conduct, promote its provisions and monitor compliance with it within their organizations and in interactions with their counterparties. All employees carry out mandatory e-learning training sessions on anti-corruption principles and policies.

HMS actively works to prevent corruption. The organization's anti-corruption policies and procedures are communicated during Basecamps. The policies are continuously communicated during orientation programs and some countries include the Code of Conduct as an appendix in the employee contract.

Percentage of employees that have received information of HMS anti-corruption policies and procedures (%)	2016	2017	2018
Board of Directors			
Percentage to whom anti-corruption policies have been communicated	100%	100%	100%
Percentage that received training in anti-corruption	100%	0%	86%
Employees			
Percentage that anti-corruption policies has been communicated to	100%	0%	98%
Total percentage who received training on anti-corruption	0%	0%	91%
Employees Europe			91%
Employees Americas			86%
Employees Asia			95%

ENVIRONMENTAL

HMS continually strives to lower our internal impact and we apply a precautionary approach, for more information see Material Sustainability risks on page 108. Energy, emissions, and environmental compliance are identified as material aspects considering climate change as a global challenge. One of our material aspects is electronic waste. Our production generates waste consisting of electronic waste which is sent for recycling. By recycling e-waste, metal recycling is maximized from the available raw metals. The table below shows the amount of electronic waste that has been recycled between 2015–2018. During the year we began to include data for non-hazardous waste.

In 2018, electricity consumption from HMS's three business units was 1,17 MWh and the percentage of renewable energy was 85.3 %. The market-based renewable energy used in Halmstad (BU Anybus) is 100 % hydropower (from Nissan and Ätran in Halland, and some from Småland). The market-based renewable energy used in Ravensburg (BU IXXAT) is 59.1% energy funded under the German Renewable Energy Sources Act (EEG), which includes the most renewable electricity sources, such as wind power, photovoltaics, biomass, hydroelectricity, and geothermal energy. The remaining 40,9 % used in Ravensburg is from other renewable energy sources. Most of the 10.8% renewable energy used in Nivelles (BU Ewon) comes from biomass and wind farms. There is also some part from hydroelectricity and a small part from solar panels. Information about the electricity consumption is provided by electricity providers. Electricity consumption has increased by 6,8%, which is mainly due to larger premises in Halmstad.

However, energy consumption in relation to the number of delivered products has fallen by 40% since 2016, which is due to how efficiently energy is being used during the manufacturing of our products. During the reporting year, we have seen energy efficiency result from new production machines in the Halmstad factory. These include the installation of a new reflow oven during the previous year. This oven is,used for reflow soldering of surface mount electronic components to printed circuit boards (PCB).

Energy consumption from heating/cooling is not reported because we do not have access to this data. Consumption from heating and cooling is included in the rent.

Emission of greenhouse gases from HMS's

Recycling of electronic waste (ton)	2018	2017	2016	2015
Non-hazardous waste	17.44			
Hazardous waste	0.9	1.94	2.14	1.8

HMS recycles paper, iron, metals, e-waste and plastic. Information provided by the waste disposal contractor. Only data for Halmstad.

Scope	Activity
Scope 1	Fuel for vehicles used for business travel
Scope 2	Electricity
Scope 3	Transports of materials and products

The table shows activities that have been included in the calculation of HMS's greenhouse gas emissions.

three business units is classified as Scope 1, 2 or 3 in accordance with the Greenhouse Gas Protocol.

Direct emissions in Scope 1 include fuel for vehicles used for business travel. HMS initiates projects for smarter and more effective use of resources to reduce HMS energy consumption per unit shipped. Emissions from our vehicles decreased by 7 % from 2017 to 2018 due to updated emission factors for diesel and gas. The indirect energy consumption in Scope 2 comes from electricity. We aim for all business units to use renewable energy and therefore shift to renewable energy in HMS facilities when feasible. In 2018, emissions from electricity consumption fell when the energy mix in Belgium became greener. Scope 3 covers incoming shipments of materials transported to Sweden (which are done in the company's own transport account). For HMS, incoming transport is key as this is the major source of HMS's greenhouse gas emissions. HMS initiate projects for smarter and more effective use of resources to reduce HMS's emissions of greenhouse gases. Emissions from transport of incoming materials increased by 10% from 2017 to 2018 for two reasons. One is due to updated emission factors for air cargo. The other is because of a small increase in express deliveries during the year to manage the component situation and deliveries to customers. HMS aims to reduce its carbon dioxide intensity by improving its use of resources. This in turn will be done by initiating projects for smarter and more effective use of resources. Emissions have been calculated using the CEMAsys tool for climate and energy reporting. The CEMAsys carbon footprint module is based on the GHG Protocol and it includes an extensive database covering worldwide emission factors.

MEMBERSHIPS

HMS is a member of several associations in order to build understanding and promote innovation and business development. The memberships considered to be of strategic importance are listed here.

Membership
• Association for High Technology Distribution
• CLPA – CC-Link Partner Association
• Control System Integrators Association
• ETG – EtherCAT Technology Group
• ODVA (an HMS employee is Chairman)
• PI – Profibus International
• Rockwell Automation Global Encompass Partner
• Schneider Electric CAPP - Collaborative Automation Partner Program
• VDMA (The Mechanical Engineering Industry Association)
• OPC Foundation
• 5G-ACIA – 5G Alliance for Connected Industries and Automation
• CAN in Automation (CiA)

SOCIAL

All employees are entitled to join a union. 40% of employees were covered by collective bargaining agreements at the end of 2018. The table shows the total number of employees for each type of employment contract as of 31 December. HMS doesn't have any seasonal variations in the number of employees.

Number of employees	2016		2017		2018	
	Women	Men	Women	Men	Women	Men
Total number of employees	**110**	**385**	**128**	**414**	**143**	**449**
Number of permanent employees	**110**	**385**	**128**	**414**	**143**	**449**
- Full time	89	365	106	394	131	436
- Part time	21	20	22	20	12	13
Number of temporary **employees**	**4**	**4**	**2**	**4**	**0**	**3**
Europe						
Total number of employees					**128**	**385**
Number of permanent **employees**					**128**	**385**
- Full time					117	372
- Part time					11	13
Number of temporary **employees**					**0**	**3**
Asia						
Total number of employees					**4**	**31**
Number of permanent **employees**					**4**	**31**
- Full time					4	31
- Part time					0	0
Number of temporary **employees**					**0**	**0**
North and South America						
Total number of employees					**11**	**33**
Number of permanent **employees**					**11**	**33**
- Full time					10	33
- Part time					1	0
Number of temporary **employees**					**0**	**0**

The table shows the total number of employees per employment contract as per 31/12.

HMS continuously strives to create an attractive workplace for all employees, and the company promotes a high-performing organization by continuously developing and training our employees. The percentage of employees that had performance reviews in 2018 was 92%. The main reason for the remaining 8% is that new employees did not have performance reviews during their first year of employment.

Number of employees	2016		2017	2018	
	Women	Men	Total	Women	Men
Total share of all employees who had performance reviews during the year	**93%**	**97%**	**93%**	**92%**	**92%**
Corporate management				*NA*	**94%**
Managers				93%	92%
Employees				92%	91%

Human rights are a vital part of HMS's Code of Conduct and a part of the evaluation of partners and supplier assessment. By seeking to improve good governance throughout supply chains, we act in our own interest as well as in the interest of our stakeholders and society at large. HMS engages with responsible suppliers, distributors and partners that support the HMS Code of Conduct.

Percentage of new suppliers that were screened using social criteria Total number of:	2017	2018
New key suppliers with which HMS signed a contract	*NA*	0
New suppliers that were screened using human rights criteria	*NA*	*NA*

CONTACT

For more information on the Sustainability Report and our sustainability efforts, please contact Katarina Lekander, Global Quality and Sustainability Manager at HMS, kal@hms.se.

Welcome to the AGM

The shareholders of HMS Networks AB (publ) are hereby invited to the Annual General Meeting, which will be held 10.30 a.m on Thursday, April 25 2019 at the HMS head office, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 9.30 AM.

Right to participate in 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, 17 April 2019 and give notice of their intention to participate at the Meeting to the Company no later than Wednesday, 17 April 2019.

Registration must be communicated in one of the following ways: by phone: +46 (0)35-17 29 00, in writing: Computershare AB, “HMS Industrial Network AB Annual General Meeting”, Box 610, 182 16 Danderyd, or via the website: www.hms-networks.com. 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 registration must include, where applicable, complete authorization documents such as registration certificate, power of attorney, or equivalent.

Proxies

If a shareholder is represented by a proxy, the proxy must be issued with a power of attorney dated for this day. If the power of attorney is issued by a legal entity, a certified copy of the registration certificate, or other document demonstrating the signatory’s authority to sign for the legal entity, must be included. The power of attorney and any registration certificate may not be more than one year old. The power of attorney (original) and registration certificate should be sent to Computershare AB, “HMS Industrial Network AB Annual General Meeting”, 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-networks.com and at the Company’s head office.

Nominee-registered shares

Shareholders whose shares are registered in the name of a nominee through a bank orcentral securities depository must temporarily re-register the shares in their own name to be able to participate in the AGM. Such registration must be recieved by Euroclear Sweden no later than 17 April 2019, which means that shareholders must notify nominees of their intentions well in advance of the stated date.

Halmstad, March 2019
HMS Networks AB (publ)
The Board of Directors

Follow HMS – www.hms-networks.com

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

- **April 25, 2019** — **Q1 Report 2019**
- **April 25, 2019** — **Annual General Meeting**
- **July 16, 2019** — **Q2 Report 2019**
- **October 22, 2019** — **Q3 Report 2019**
- **February, 2020** — **Year-end Report 2019**

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https://www.youtube.com/user/HMSIndustrialNetwork

HMS – technological leader within industrial communication and IIoT

HMS develops and manufactures software and hardware for industrial communication. Our products connect automation devices such as robots, sensors, control systems and motors to different industrial networks and IoT-applications.

HMS solution connects millions of devices around the world and enables our customers to widen their market and improve their business. Our long expertise, large installed base, and wide market coverage, make us the undisputed market leader of our field.

Get connected!

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