

hms networks

ANNUAL REPORT 2013



“New Product Innovation Award” to HMS

**Order intake
increased to
SEK 516 million**

**More than one thousand
design wins provides
a strong customer base**

**The acquisition
of IXXAT**

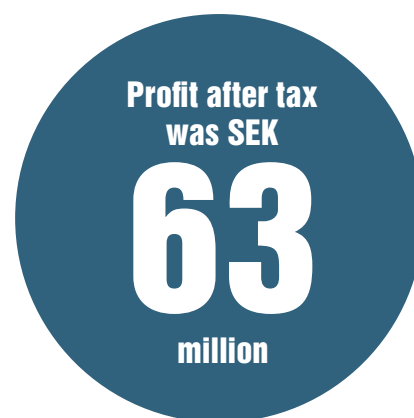
**brings new technology
platforms and exciting new
market areas**

**Skilled employees
boost our competitive-
ness and company
culture**

**HMS products help
bring about energy
savings and contribute
to a better environment**

**We added 97 new
employees in 2013**





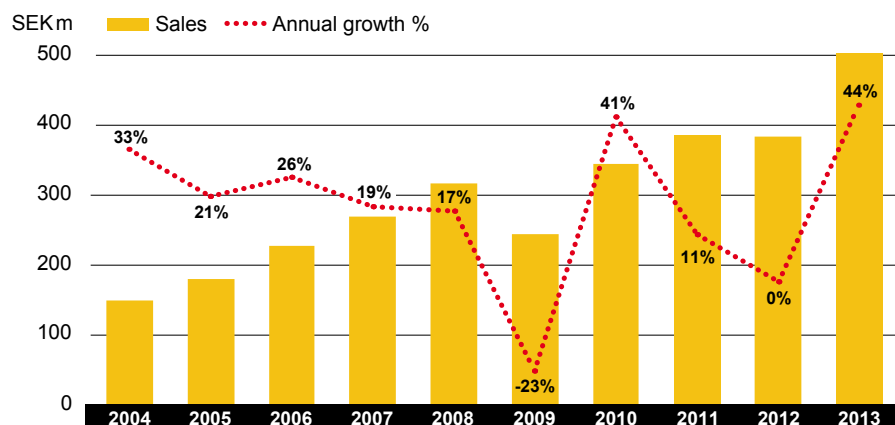
Key figures

Financial data in summary (SEK m)	2013	2012	2011	2010	2009	2008
Net sales	501	382	384	345	245	317
Growth in net sales, %	31	-0.5	11	41	-23	17
Gross profit	314	229	232	208	143	182
Gross margin, %	63	60	61	60	58	57
Operating profit	87	64	72	84	31	85
Operating margin, %	17	17	19	24	13	27
Profit for the period	63	52	54	62	21	59
Order intake	516	424	388	342	258	313
Earnings per share before dilution, SEK	5.54	4.64	4.84	5.41	1.88	5.43
Dividend per share, SEK	2.25*	2.25	2.25	2.00	1.00	1.50
Total assets	771	418	391	392	339	390
Equity	378	342	299	286	240	224
Shareholders' equity per share before dilution, SEK	32	30	27	26	22	21
Equity/assets ratio, %	49	82	76	72	70	57
Net debt/equity ratio %	65	0	0	-5	13	19
Return on shareholders' equity, %	17	16	19	23	9	29
Return on capital employed, %	19	20	23	28	11	27
Investments in non-current assets	57	42	20	15	7	7
Cash flow from operating activities	89	83	46	75	31	68
Cash flow from operating activities per share before dilution, SEK	7.90	7.27	4.13	6.71	2.89	6.52
Average number of employees	338	241	213	164	153	154
Revenue per employee	1.5	1.6	1.8	2.1	1.6	2.1

* Board's proposal

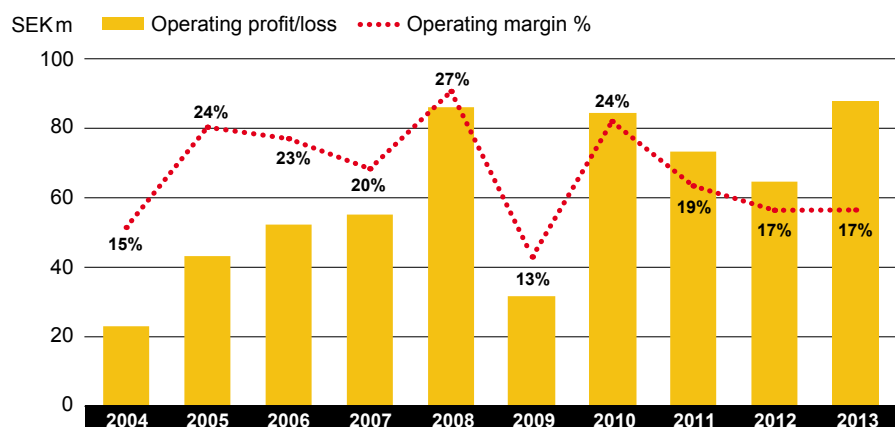


Sales performance



Of the Group's sales, approximately 95% is to markets outside Sweden. The year's growth is primarily derived from IXXAT Automation GmbH, which was acquired during the year. The market for embedded network cards and gateways improved during the latter half of the year, while the Remote Management product group is still demonstrating weak growth.

Earning trend



A stronger gross margin, along with the year's higher volume, contributed to an improved result. In addition, the business that was acquired during the year also made a positive contribution. Altogether, this meant that we were able to maintain operating margin at the same level as last year.

Contents

3 2013 in brief

See the year's most important events and figures in summary.

4 HMS in brief

HMS is one of the world's leading suppliers of communication technology for industrial automation. We simplify communication between different automation networks.



6 CEO's comments

CEO Staffan Dahlström gives his views on HMS's position going forward.

8 Strategies for profitable growth

HMS's main focus is on organic growth. The financial objectives are unchanged with an average annual growth of 20 percent and an operating margin of more than 20 percent. The chosen strategies are presented.

10 Business models

HMS has developed well-defined business models for each of its product groups. The basis for each is built on being involved at an early stage of development for customers' products and systems.

11 HMS stakeholders

Shareholder, customer or employee? Read more about what HMS can offer you.



12 Organization and employees

Employees have many opportunities to influence their careers in HMS's expanding organization. Read more about the corporate culture and HMS's core values.

16 Market

How automated can it get? The market has distinct driving forces that create business opportunities and facilitate continued growth for HMS.

20 Technology

HMS's products allow machines or devices to communicate with one or more other systems even if each use different language standards. In simple terms, HMS's solution is an automatic language converter.

30 Environmental efforts

HMS's products help bring about energy savings and thus a better environment via the central control or interconnection of several intelligent systems which leads to resource optimization.

32 Value chain

HMS has control of the entire process.

34 The HMS share

Information on HMS share price and trading volume in 2013.

36 Chairman's comments

Chairman of the Board, Urban Jansson, gives his views on HMS and the role that the Board plays helping the company achieve its goals.

37 Corporate Governance Report

41 The Board's report on internal control concerning financial reporting

44 Board

46 Group management

48 Glossary

49 Directors' report

55 Financial statements

63 Notes

84 Auditor's report

85 Welcome to the AGM



2013 in brief

- **Bosch Rexroth AG renews a volume commitment pertaining to Anybus products worth approximately SEK 9 million for 2013.**
- **Crouzet chooses Nethiter Remote Management for monitoring of its Millenium 3 PLCs.**
- **HMS acquires the German company, IXXAT Automation GmbH.**
- **Frost & Sullivan honors HMS with the 2013 “New Product Innovation Award” for the company’s NP40 network processor.**



At a ceremony in London, HMS Industrial Networks AB was awarded the “2013 European Industrial Communication Processors New Product Innovation Award”. The winners are picked by the independent analysis firm, Frost & Sullivan, and HMS won the award for its new network processor, Anybus NP40, which was assessed as being “best in test” in a global comparison study.

Proven solutions for intelligent

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

NETBITER

Specially adapted gateway that enables remote monitoring and control of industrial equipment via Internet.

■ ANYBUS

A network interface card is built into an automation device to enable communication between the automation device and industrial network, regardless of the protocol.

■ GATEWAYS

A gateway consists of two interconnected network interface cards that translate information between two different protocols, thus enabling communication between two types of industrial networks.

IXXAT

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

■ ETHERNET TCP/IP

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

■ INDUSTRIAL CONTROL NETWORKS

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

■ DEVICE/SENSOR NETWORKS

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

■ MOTION CONTROL NETWORKS

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

industrial communication

HMS HAS FOUR PRODUCT LINES UNDER THREE BRANDS



The Anybus brand is based on HMS's proprietary microprocessor technology that is used to convert information between different network protocols. Anybus enables communication within and between industrial networks, independent of network systems and network protocols. Anybus meets the needs of a steadily growing market for industrial automation and industrial networks. Demand is driven by the requirements on productivity and energy efficiency in global industry. At the same time, the plethora of network protocols creates a need for intelligent communication solutions.

Anybus® Embedded

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

Anybus® Gateways

Anybus Gateways are based on the same technology, but they consist of independent communication ports comprised of two interconnected network interface cards that are installed in different network systems, or existing automation equipment, to enable communication regardless of network protocols – just like Anybus Embedded. Gateways are designed for the end user in industry, or system integrators and system installers working with industrial tasks.



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

IXXAT Communication Solutions for Machines

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

a large and continually increasing range of applications and related machinery that need these types of communication solutions.

IXXAT Safety

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

IXXAT Automotive

Compared to manufacturing industries in general, vehicle manufacturers use different types of communication technology and design methods to develop and test complex communication systems in their vehicles. IXXAT Automotive offers solutions that have been specially designed for development departments and test systems within the automotive industry. The product range offers two systems: communication gateways and a signal simulation. Both systems contain powerful hardware and all necessary communication interfaces and computing capacity that is required for the software solutions used. The uniqueness of the IXXAT Automotive offering is that communication interfaces for the vehicle and the industrial network have been integrated in a compact, cost-effective and flexible solution.



Netbiter® Remote Management

Netbiter Remote Management is an innovative communications solution that provides web-based network communication between geo-

graphically dispersed industrial equipment and the operator, for the purpose of remote monitoring and control of operations. Netbiter serves a young, growing market for industrial remote management, where there are many new and growing application areas for mission-critical systems, renewable energy and social infrastructures.



Continued growth

through innovation and customer focus

At the start of 2013

we acquired the German company, IXXAT Automation, which made HMS a **larger, more powerful** competitor in the market for industrial communication. With 350 employees in ten countries, we are now a leader in our niche in terms of both product offering and technology. We are perceived as a **long-term, reliable partner** by thousands of demanding industrial customers worldwide.

To reflect our global presence, we also set up an **international management group** during the year, which was an important step in HMS's development.

Staffan Dahlström
President and CEO



If we look back at the year gone by, the market was uneasy at the start of the year. During the latter part of 2013, however, we began noticing some positive signals, and increasingly, customers were starting to show more optimism. Several of our new products were favorably received and in 2013, our Anybus Embedded products added 146 (119) new design wins. That means that we now have 1,061 active customers in the design or production phase for our Embedded products. This guarantees higher volumes in the future and it shows that our offering continues to be in demand.

Sales of IXXAT products were slow at the start of the year, not least due to company-internal issues related to the integration with HMS. But during the latter part of the year, IXXAT's sales started to take off, reaching satisfactory levels during the second half of the year.

Gateway sales increased due to the demand for proven solutions that make communication within and between networks possible, independent of network protocols.

“ Significant investments have been made in developing an entirely new technology platform.

Innovation and Technology

During the year, the first products from our new generation of Anybus Embedded products were launched. Significant investments have been made in developing an entirely new technology platform.

With this technology, we are now very strong in the area that has provided the foundation for HMS's profitability and growth for many years.

But we aren't satisfied with just further developing our products. Instead, during the year, we started up an internal innovation group, HMS Labs, that works with entirely new technology and application areas for industrial communication. Long-term, this could open up opportunities for new, exciting products and services in areas where we are not currently active.

The market is growing with new technology

In a world that is becoming increasingly complex, HMS is helping its customers solve their communication problems in order to improve their productivity, quality and use of resources. Major investments in the future are now being made, primarily in USA and Germany, where industrial high-tech production technology is being advanced to new levels. Reliable communication for these systems is a key factor. Industrial technologies and IT technologies as well, continue to merge into new solutions. In 2013, Industrial Internet of Things (IIoT), and how all things in the future will be able to communicate with each other, has become one of the hottest areas in the communication market. Given that, and HMS's motto "Connecting Devices", which we've had for several years now, we are well positioned for the future.

In that area, we've noticed that there is considerable interest in our Netbiter solutions, but because it is new technology, sales still haven't taken off. However, since we have several pilot installations and supply agreements we still regard this as a promising area for future years.

Our initiatives in the area of Safety – functional safety – continued during the year. HMS's products for functional safety will be marketed under the IXXAT brand and we expect considerable interest from the market to, over time, use our solutions as the demand for functional safety in advanced production systems continues to rise.

Good long-term prospects

Even though the world economy still looks uncertain over the short term, all indications are for continued long-term market growth. The driving forces for growth remain – ever-increasing requirements on quality, productivity and energy efficiency in the globally competitive industry. At HMS, we currently have an effective and efficient organization and our focus for 2014 is that the expansion of recent years in product development and sales will create new growth.

“ There are growth opportunities in several of our focus areas, not least Netbiter Remote Management and IXXAT Safety.

There are growth opportunities in several of our focus areas, not least Netbiter Remote Management and IXXAT Safety. Our main focus is to continue with our successful organic growth strategy, but we will also be looking for new acquisitions that can help HMS enter new industrial markets, or give us access to complementary technology and products.

This past year has been one of intensive product development, excellent cooperation on the task of integrating IXXAT's organization with HMS, continued focus on world-class quality and working more closely with our customers. All employees at HMS have made fantastic contributions to this effort. I'm eagerly looking forward to a new, stimulating fiscal year, in which all of us join forces to equip HMS for continued growth and developing exciting new applications that will enable our communications technology to gain additional momentum.

Staffan Dahlström
President and CEO, HMS Networks AB

HMS's strategies for profitable growth

HMS's mission

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

Organic growth – our main strategy

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

HMS will primarily expand via organic growth by strengthening its position and developing its range of products and services.

Selective acquisitions may also be made if they are a valuable addition to HMS's technology or product portfolio, thus strengthening the company's offering to the market.

Focused product development

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

Strategic product areas

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

Vision

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

Mission

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

Optimal business models

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

Sales and distribution

HMS has its own sales offices in strategically important key markets, as well as a number of Global Key Account Managers working from the Halmstad office. In other markets, sales are conducted via an effective network of exclusive distributors in over 50 countries.

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

Full control over operations that add value

HMS provides high-quality turnkey solutions that are easy to install and use. This requires full control over the entire chain of value-adding operations, i.e. from product development, components supply, manufacturing and distribution, to training and after-sales service. HMS uses its business management system (BMS) to ensure quality and continually improve its operations.

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

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

Environment and sustainable development

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

Goal

**Average long-term annual growth of 20 percent.
Operating margin higher than 20 percent.**

**At least 98 percent of deliveries will be on time.
Returns of delivered products will be less than 300 ppm (parts per million).**

HMS's business models

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

Embedded – Design Wins

For Anybus Embedded, the business model is based on framework agreements (i.e. design wins) with manufacturers of automation equipment. A growing number of design wins provides HMS with a stronger customer base, higher volumes and steady revenue over a long period of time.

A design win typically involves cooperation over a period of about 10 years, with an initial development and design phase that is carried out in close cooperation with the customer. This is followed by the manufacturing phase, and invoicing based on orders, once the customer's product has been established right through to the end of the product life cycle. For this business model, there is a relatively long development period followed by steady long-term revenue, provided that the customer's product is successful in the market.

In most cases, standard products are offered that are quick and easy to integrate. They are also suitable for many applications. This helps the customer reach a wider market much faster.

For certain larger customers, fully customized hardware and software solutions are offered that meet specific requirements. This sometimes also involves issuing a manufacturing license so that the customer is able to manufacture the network interface card unassisted.

Gateways – more cooperation

Gateways and most IXXAT products are sold as independent communication ports and manufacturing is based on customer orders. They are sold via a network of approximately 60 distributors, either directly to the end user or to system integrators, installers or machine builders who integrate networks and build communication solutions for industry.

HMS recently added to its business model by introducing the HMS Partner Program. It aims at increasing sales in key markets via cooperation with system integrators.

Remote Management – products and service subscriptions

Netbiter Remote Management is primarily sold as independent communication ports, i.e. gateways with the accompanying software for information management.

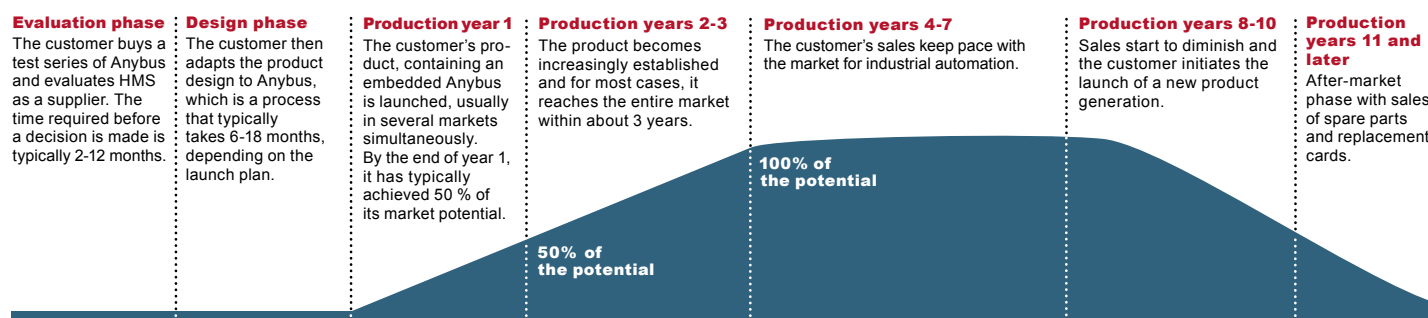
Access to collected information is provided via subscriptions to a web service. The company offers this as a free-of-charge standard solution, as well as a more advanced service with increased functionality via a paid subscription.

For Remote Management, the HMS Partner Program is also an important new sales channel that is expected to generate new business.



The HMS Partner Program strives to increase cooperation with system integrators, who serve as an important link to the end users in industry. By cooperating directly with them on major customer projects, HMS can provide product knowledge and training, while simultaneously spreading the company's expertise to more customer segments.

The revenue cycle for embedded network interface cards in automation equipment



HMS stakeholders

Our overall goals should be relevant and shared by all of our stakeholders Customers, Shareholders and Employees. We all strive to involve our stakeholders and communicate with them in order to understand their expectations and priorities. Together, we will strive to achieve the company's and our stakeholders' goals.

READ MORE
Employees 12
Market 16 • Eco strategy 30
The HMS share 34

Customers

Manufacturers of automation equipment don't need to worry about adapting their products to the multitude of communications standards when they integrate the HMS network interface card, Anybus Embedded, into their products. This simplifies their development and design efforts significantly and simultaneously boosts competitiveness by making their offering more flexible.

Anybus Gateways solve the interface dilemma by making it possible to connect several industrial networks, regardless of the protocols or protocol generations being used. This simplifies the task of integrating industrial networks considerably, because HMS gateways take care of translating the languages between networks or parts of a network.

For operators of equipment at different geographic locations, Netbiter Remote Management provides a web-based solution for remote monitoring and control, including intelligent data and information management. This results in significant cost-savings for service and maintenance, while increasing the reliability and useful life of the equipment.

Shareholders

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

HMS's markets are growing due to industrial automation and the demand for intelligent communications solutions and monitoring systems in more and more areas.



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

Employees


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

Environment

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

Entrepreneurial spirit

*and many professional roles
create good dynamics*

A woman with dark hair, wearing a white button-down shirt and a grey and white plaid blazer, stands in the center of the frame. She is smiling slightly and looking towards the camera. The background is a blurred industrial setting with various pieces of machinery and equipment.

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

Sabina Lindén
Human Resources Manager

Clear, shared values

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

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

Few decision levels and a dynamic work environment

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

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

The right recruitment leads to growth and quality

HMS's growth strategy depends on it having employees with the right expertise. The task of recruiting development engineers is challenging for HMS and many other companies. HMS actively strives to profile the company in the labor market, with a special focus on technicians and engineers. For example, HMS participates in job fairs at universities and colleges, offers students opportunities for doing their thesis projects at HMS and promotes the company through various types of social media. This year, we added 17 new employees, of which 12 in Sweden and 5 in other countries, plus around 80 new employees through the acquisition of IXXAT.

Feedback brings improvements

Employee surveys are regularly conducted. Status checks are carried out four times per year and a more comprehensive survey is conducted every 18 months. The aim is to follow up on and measure how employees feel about the company's values, work environment, climate for cooperation and leadership, both in the employee's own department, as well as in general at the company.

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

Work and career

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

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

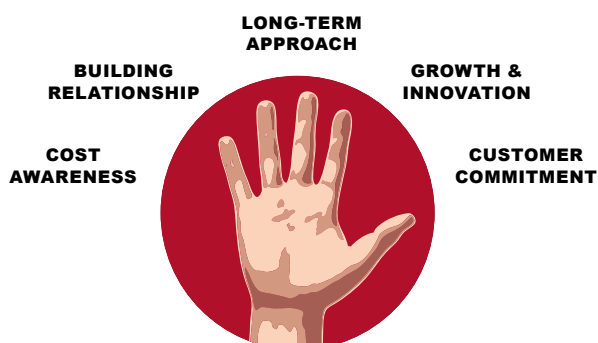
At the company, there is a special foreign exchange program that provides engineers from the development department with the opportunity of working in one of the company's other offices around the world.

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

Health and lifestyle

In order to promote a healthy and good lifestyle, the company offers regular health check-ups, ergonomic workplace adaptations and many types of subsidized fitness activities. During 2013, sick leave was 2 (2.64)% and employee turnover for the Group was 6.1%, while in Sweden it was 4.6 (2.5)%.

HMS has formulated its shared values as five principles – HMS High Five



HMS – an innovative technology

With stimulating work tasks, a flat organization and shared values as its guiding stars, HMS strives to be an ultra modern employer. Below, some of our employees share their thoughts on working at HMS.



Ken Gullberg: I've worked as Operations Controller at HMS since fall 2011. My tasks include production costing, calculating and monitoring KPIs, monitoring production costs and cost accounting for development projects. I suppose you could say that the fifth finger of HMS's High Five (cost efficiency) is my area. In conjunction with preparing the financial reports, I analyze and report supply-related deviations to my colleagues in the accounting department. The best thing about HMS is the company's entrepreneurial, "Go-Go-Go spirit", along with its world-class technical expertise and high level of ambition when it comes to intra-group service. That applies between different departments, as well as between our offices throughout the world.

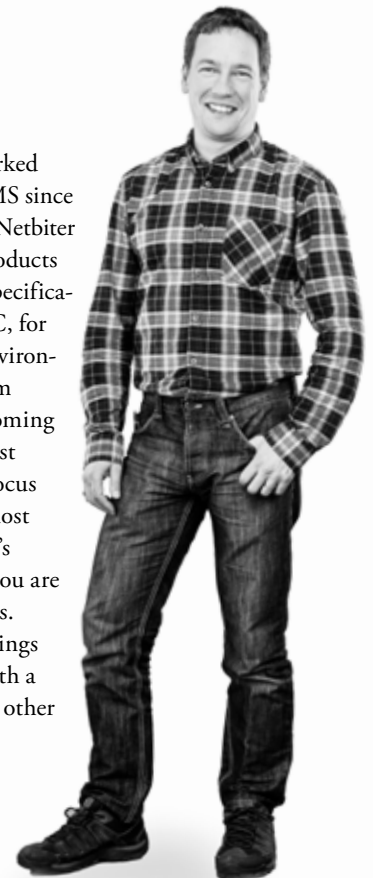


Anders Adin: I started at HMS during fall 2012 and I work as a Testing Engineer. I participate in development projects, testing that our products meet the specifications. In practices, this means knowing which functions the product must fulfill and then, in the best possible way, verifying that these have actually been implemented. The most fun aspect, and also most challenging part of my job, involves constantly learning about new functionalities and getting an overview of our products and how they are used. HMS has become a large company, but it's maintained the spirit of a small company.

Agnieszka Burkiewicz: I work as an Applications Engineer at HMS and I've been with the company for 1.5 years. My role at HMS is to serve as a link between the development department and the sales department. I primarily provide FAE (Field Application Engineer) services, support, and training for customers, distributors and colleagues at Remote Management. I like what I do very much because I'm always facing new challenges and learning new things. I frequently get to meet new people and help them solve various types of problems. HMS cares very much about its staff and their well-being, which means that the work climate here is very positive. That, along with all the wonderful, dedicated colleagues, makes HMS a fun, stimulating workplace.

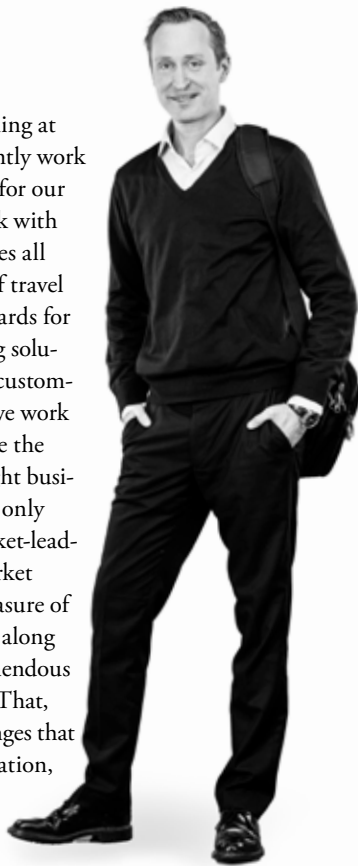


Hans Carlsson: I've worked as a Software Developer at HMS since 2000. I mostly work with our Netbiter solution, both our standard products and adaptations to customer specifications. I write code, usually in C, for applications in Linux-based environments. We work in small scrum teams, where we plan the upcoming week's work based on a clear list of priorities. It gives us good focus and drive in order to get the most important things done first. It's rewarding when you see that you are actually making good progress. There are a lot of exciting things going on with Netbiter – with a new hardware platform and other opportunities.



company with a strong drive

Peter Greenfort: I started working at HMS in December 2010 and I currently work as the Sales and Marketing Manager for our international sales department. I work with many skilled colleagues from countries all over the world, which involves a lot of travel and planning. HMS sets world standards for industrial communication by offering solutions that provide very high value to customers. Accordingly, it's important that we work with the right sales focus and dedicate the right resources in order to win the right business. For HMS as a company, it's not only important that we maintain our market-leading position, but also expand our market share on a global basis. I have the pleasure of meeting new people every day. They, along with my skilled colleagues, are a tremendous source of motivation and inspiration. That, together with all the interesting challenges that exist within an international organization, makes HMS stand out as an exciting employer.



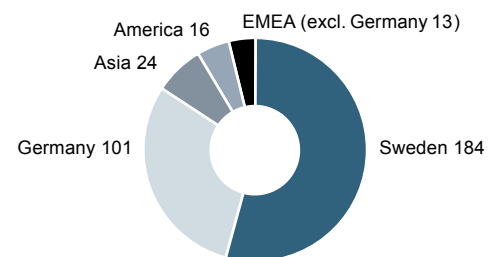
Elaine Hobbs: I had been working for three years as Controller for IXXAT Inc. when HMS acquired us at the beginning of 2013. On 5 November 2013, I officially became an employee of HMS Inc., as Controller for NASMO (North American Sales and Marketing Organization). Even though my responsibilities are essentially the same as before, the acquisition has involved new challenges and opportunities for me. I genuinely enjoy working with all of the friendly people here at HMS and I look forward to an exciting year in 2014.



Andreas Martinsson: I've worked as a developer at HMS since spring 2012. My work mainly involves designing the software for our products. What I like about being a developer is constantly facing new technical challenges – i.e. the type of problem solving where you learn new, exciting things. Being a part of creating the future technology for our products and making sure that the quality remains at a high level is also immensely satisfying. It's also really fun to work for a growing organization, where there are so many opportunities.

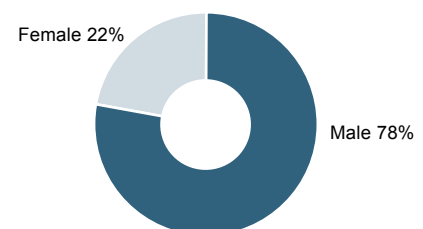


Employees per region



The Full Time Employees per region in December 2013. 338 (359 persons in total). Figures based on FTE rounded up to integer.

Gender distribution



The market is growing

for communication solutions

Our core competence

in industrial communications and network protocols have established the company as a **world-leading supplier of communications solutions** for factory automation in particular. The need for this type of communication is spreading to other markets, like construction automation, process automation, power and energy, and the transport and infrastructure segments, which is **opening new doors for HMS**.

With Remote Management, HMS has been able to further expand its activities to these **growing markets**, where there is a healthy demand for remote monitoring.

Anders Hansson
Director of Marketing



In 2013, HMS's market activities took on a new and exciting dimension when IXXAT was integrated into the organization at the beginning of the year. A number of activities got underway aimed at positioning and differentiating the brands from each other in order to ensure that HMS's entire offering remained distinct – both within HMS and outwardly to the market. This new context also resulted in our putting more focus on marketing HMS more clearly as the company behind the brands Anybus, IXXAT and Netbiter.

Marketing of the new offering

For HMS, the most important part of the marketing season typically occurs during the fall. That was the case in 2013 as well, when HMS participated in several of the leading international trade fairs during October and November. It was perfect timing to promote our message of “the new HMS” to our traditional and new markets. Our new marketing campaign was presented at numerous trade fairs and other events in India, China, Japan, Sweden, USA, Germany and other countries.

HMS's offering in 2014 addresses a wider audience and a wider variety of applications on the market than it did in the past. Accordingly, the marketing efforts during the year will include a mix of activities directed at both established and new segments. However, the main focus going forward will continue to be on manufacturers of automation products and machines.

Repositioning of Anybus

HMS will be repositioning within the Embedded segment. The new generation of Anybus CompactCom products, which HMS started delivering at year-end, makes it possible for HMS to profile itself as a complete supplier of embedded communication solutions. New Anybus technology is now being made available in a variety of product formats – from traditional communication modules, to fully integrated chip solutions that the customer designs into its product's PCB. This covers several user requirements and thereby addresses prior unrealized market potential.

For around ten years, HMS has held a market-leading position for gateways, with a wide offering of products. The main target group for Anybus Gateways is system integrators, who use the products to link together different industrial networks. During the year, a number of new and upgraded Anybus Gateways will be released to the market. For each, focus is on the user, which will help further strengthen the Anybus brand and maintain HMS's leading position.



Clear brand definitions

Together, Anybus, IXXAT and Netbiter comprise the most complete offering ever from HMS. These brands have their own identities, but they also have a common denominator, i.e. industrial communication. Anybus provides multi-network connectivity for fieldbus and industrial Ethernet. IXXAT provides communication solutions for machines, safety and automotive. Netbiter provides remote management of industrial equipment.

Months later, we can see that our message of “the new HMS” has attracted considerable attention globally and that awareness of the new offering from HMS has increased. Evidence of that is the large number of inquiries from potential customers received by our sales organization at international trade fairs. The inquiries have been both within HMS's today largest market segment, factory automation, and its newer market segments, such as remote monitoring of industrial processes and automation products, machine communication, power and energy, process and building automation.

The driving forces for growth in industrial automation per geographic region



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



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

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



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



On the factory floor, there are many different types of machines and systems from a variety of suppliers. HMS products make it possible for these machines and networks to communicate with each other.



IXXAT and safety in focus

The IXXAT offering puts the focus on machine builders in a new way for HMS. A number of new products from IXXAT, along with targeted marketing towards the machine building segment will strengthen the image of HMS as a supplier to this market as well.

Functional safety is becoming increasingly important to industrial communication and as such, it's a priority for manufacturers of automation products and machines. HMS is investing in this area as part of the IXXAT brand. Additionally, via the newly launched safety module, IXXAT Safe T100, HMS is one of the first on the market with an economic, user-friendly product that provides a solution to a widespread, complicated and costly problem.

New approach to remote management for Netbiter

In the area of Remote Management, targeted investments are made with Netbiter aimed at important segments like power and telecommunications. In addition to that, new interesting Netbiter solutions open doors to new vertical segments and new geographic markets.

Through a combination of the newly launched product, Netbiter EasyConnect 350, and new technical solutions from HMS for remote connection to industrial equipment (i.e. Remote Access), new opportunities open up for HMS to market Netbiter to application areas within the company's main market, factory automation.

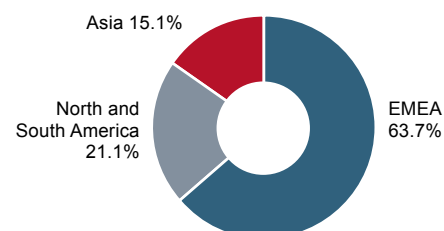
The focus area is machine manufacturers need to, for various reasons (such as service, control or upgrading) remotely access machines via the PLC used to control the machine in industry. This is where HMS believes that the new Netbiter technology has the potential to quickly capture market share – partly via the new solution itself, but also via HMS's good access to the target group thanks to existing business and market knowledge.

Still an overall approach – now applied to technical support

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

On the market side, we are taking new steps to support our overall approach efforts. In addition to HMS's successful technical support function, steps are now being taken to set up proactive technical services around the products. Customers will feel that HMS is ready to help them so they can quickly and easily start using their HMS products. Furthermore, it should be clear that HMS is the company behind Anybus, IXXAT and Netbiter.

HMS product sales per geographic area



Leading technology

with high performance

Technology development has long been the foundation for HMS's business. We have some of the **world's leading experts** in industrial communication systems working at our development centers in Halmstad and Gothenburg in Sweden, and Weingarten in Germany. For us, it's important that we not only focus on our technology, but also **user-friendliness and creating value for customers**. After 25 years as a technology company, we've established ourselves as **a trustworthy, reliable partner** for a large number of industrial companies around the world.

Jörgen Palmhager
Chief Operating Officer

Faster, smarter and more flexible

Anybus® Embedded



MARKET

Ever-growing market for industrial network interface cards

The market for industrial network interface cards, which is the specific sub-market for the Anybus Embedded product line, is estimated to be worth approximately SEK 7.5 billion. Manufacturers of industrial automation equipment who make their own network cards represent the largest portion of the market, worth approximately SEK 6.0 billion. Other external suppliers, like HMS, share in the remaining portion, valued at approximately SEK 1.5 billion. This market is expected to continue growing by around 10 percent per year during the next few years.

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

Demand for flexible communication solutions

The share of automated machinery and production processes is growing within discrete manufacturing and process industries, in both mature markets and growth markets. With increased automation, the demand for communication solutions from manufacturers of

industrial equipment increases. Communication is conducted across different industrial networks – fieldbuses or industrial Ethernet – where 15–20 networks make up the majority of the market. Manufacturers who want to serve the global market must be able to offer their customers products that can connect to the majority of these networks in a flexible and efficient way. One of the cornerstones of HMS's business is just that, i.e. knowledge regarding the diversity of industrial networks.

Wide target group with same communication needs

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

Providing high value to customers improves competitiveness

Manufacturers of automation equipment increase their competitiveness with Anybus

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

Customers all over the world

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

Competition and potential

HMS has a unique global position among the independent companies that focus on commu-

nication solutions in the Embedded segment, largely due to the company's wide product portfolio that is primarily comprised of Anybus communication modules. Its closest competitor is the German company, Hilscher, which also develops and manufactures network interface cards. However, their offering is only comparable to a certain extent.

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

Repositioning increases available market

HMS feels that there is considerable potential in convincing more companies, which currently develop their own communication solutions, to instead purchase them from HMS. As a specialist in industrial communication, HMS can offer the best and most future-proof solu-

tions so that these customers can focus on their own core technology instead. HMS is thus repositioning itself in order to better reach this segment.

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

PRODUCT

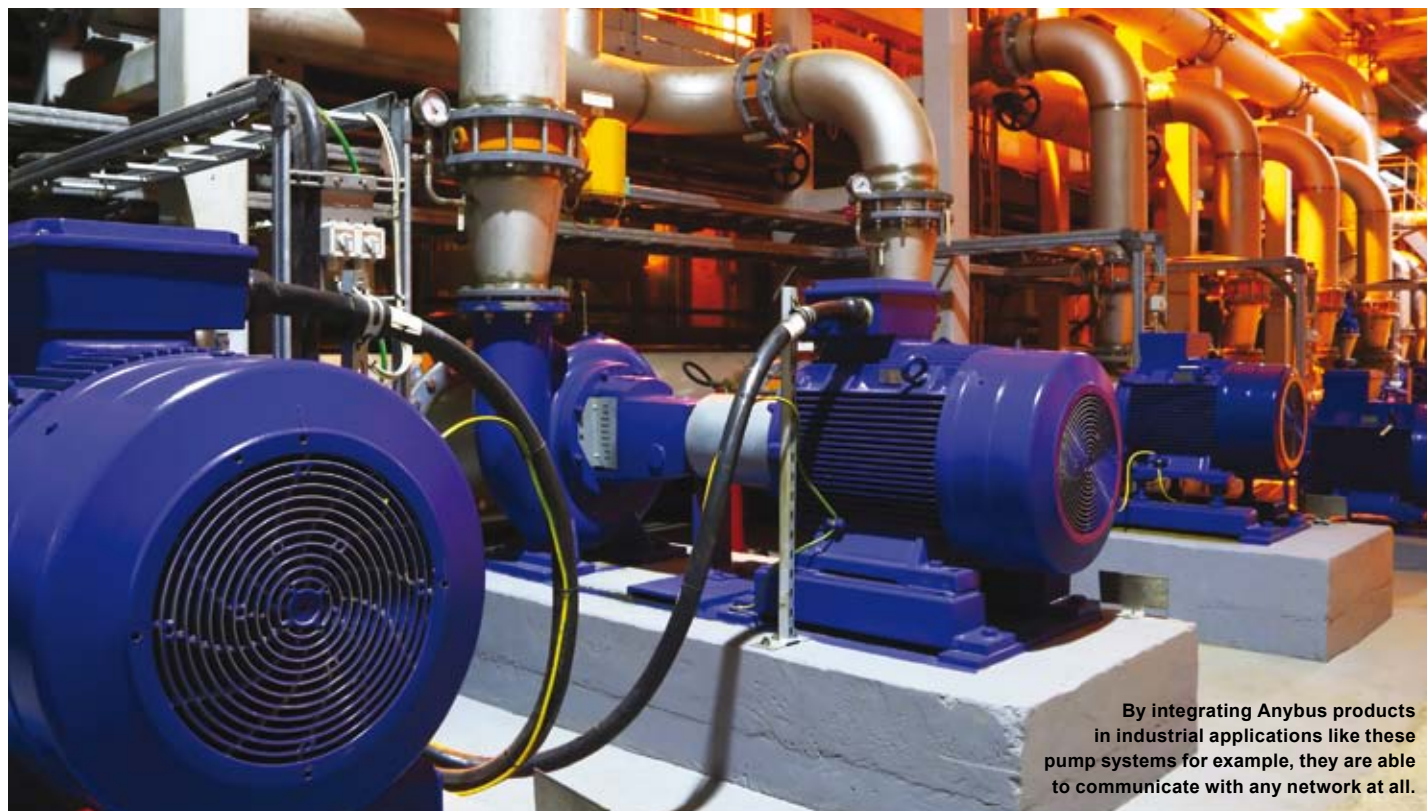
Expansion of Anybus CompactCom

At the end of 2013, the first products belonging to the new embedded offer, CompactCom 40-series were delivered. The NP40-based product series includes the new concept,

CBM, which expands CompactCom and makes it available in three formats – Chip, Brick and Module. The chip format makes it possible for manufacturers who have traditionally designed their own network solutions to now integrate an NP40-based Anybus solution into their design. The brick format is intended for customers with specific requirements on encapsulation for harsh industrial environments. The module format has been kept intact, but now includes the improved functionality, performance and real-time features which are offered throughout the new 40-series.

Complete offering with focus on drives

Just like prior Anybus embedded solutions, CompactCom covers the basic communication needs existing on the market and can therefore be used by all types of automation products. However, given its performance, the 40-series is particularly suitable for demanding industrial applications in the high volume segment, i.e. drive- and servo applications. Servo in particular, puts significantly higher demands on precision and speed. Thanks to the capacity of Anybus NP40 and new hardware



By integrating Anybus products in industrial applications like these pump systems for example, they are able to communicate with any network at all.



More and more machines on the factory floor require network connectivity, particularly to Industrial Ethernet.

and software solutions in the CompactCom 40-series, HMS is, for the first time, able to respond to these demands via a standard product.

Focus on Ethernet

Industrial Ethernet is capturing more and more market share among the industrial networks and the demand for communication solutions for these networks is increasing. A modern embedded solution thus requires a flexible Ethernet solution and HMS offers an innovative solution that is included as standard in the 40-series. It enables customers to, using the same hardware, download whatever Ethernet protocol they desire, such as Profinet, Ethernet/IP, EtherCAT, Modbus TCP/IP or Powerlink.

CompactCom + IXXAT Safe T100 – a safe solution from HMS

The demand for communication solutions that meet the requirements for personal safety is increasing in industry. By connecting HMS's new safety module, IXXAT Safe T100 to Anybus CompactCom, customers get a safe solution for transmitting safety-critical information over the network, for example emergency stops and similar information. Safe T100 is an independent module that takes care of all safety-critical functions, while tried and tested Anybus technology is used for network access. With this concept, HMS can thus offer customers safety solutions for their automation products without large-scale, expensive development efforts. The first version of Safe T100 is designed for PROFIsafe, which is the leading standard in Europe.

TECHNOLOGY

Connectable turnkey solutions

Anybus Embedded network cards are primarily sold as standard solutions, with complete system functionality for industrial networks – including the physical connection, hardware interfaces, configuration files and protocol functionality. The products make it possible to immediately connect to all leading fieldbuses, industrial Ethernet systems and serial, USB connected or wireless solutions. The products are certified for the various network standards and they fulfill CE, UL and RoHS standards for full interoperability. HMS's wide range of standard embedded products are grouped by product family – Anybus-CompactCom, Anybus-IC, Anybus-S and Anybus-M – based on the application area and technical requirements. The customer can adapt both the card and casing as desired and fully customized products are also offered to larger customers.

Patented technology

For many years, HMS has focused on developing optimized microprocessor solutions for communication in industrial networks. The first solution, Anybus NP30, was launched in 2006. It was an innovative combination of integrated memories, high performance and low power consumption in a small package. The new Anybus NP40 is based on the latest semiconductor technology and it offers even

higher performance with the same low energy consumption as NP30. NP40 combines a powerful ARM® kernel with the flexibility of an FPGA device, so that even the hardware becomes programmable. That, in combination with HMS's unique, patent pending RTA (Real Time Accelerator) unit makes NP40 suitable for the most demanding real-time solutions.

New protocol stacks and network controllers

In 2013, HMS developed a series of own protocol stacks with accompanying network controllers in order to get the most out of all that NP40 offers. These technology blocks were developed entirely by HMS and they are all based on the same architecture so that they can more easily be maintained, expanded and used as the bases for new products or customizations.

With NP40 and our own technology blocks combined, HMS is now able to offer the market's most complete industrial communication solution for a single microprocessor. By fully taking advantage of the flexibility that NP40 offers, a single chip can be programmed to different network standards. This applies to the hardware and protocol alike, without having to sacrifice performance or functionality. It is a major advantage for such reasons as the trend of an increasing number of communication solutions being based on industrial Ethernet, rather than conventional fieldbuses.



Christian Bergdahl
Product Marketing Manager,
Embedded

Leader for interconnecting networks



MARKET

Growing market for gateways

The use of industrial networks continues to increase in global industry and this increases the need to interconnect various types of networks via gateways. The market for gateways is estimated to be worth slightly more than SEK 3 billion, with an annual growth rate of around 15 percent. In a market that is very fragmented, HMS has a distinct position thanks to its well-known product program that primarily targets factory automation – the same arena addressed by Anybus Embedded.

An effective solution for industry

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

this creates flexibility for the industry when production environments need to be created based on each industry's particular requirements.

Old meets new

An automation project in industry typically involves integrating modern equipment, which supports the latest communication technology, with older, already installed equipment that still functions well. While the newer automation products typically communicate over industrial Ethernet, the older equipment in the installed base usually communicates over a

fieldbus or serial communication. In this type of situation, a gateway, with two separate network interfaces (one for each network) is used to solve the problem and the automation engineer uses it to connect old with new.

Anybus network technology provides wide market coverage

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

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



Markus Bladh (left)
Product Manager, Gateways

Niklas Selander
Product Manager, Gateways

Increased local presence on all levels

Thanks to HMS's investments in its sales and distributor networks for gateways, the company has significantly increased its presence in recent years. Based on the uniqueness of each market, interaction with customers is through own sales reps or local distributors and partners representing Anybus Gateways. Accordingly, HMS acts as a global company, with a local presence and that is a key success factor for gateway sales, since customers typically need to solve their network connection issues quickly. Maintaining a quick and effective sales and technical support team is thus very important in order to capture more market share locally.

Focus on the needs of system integrators

The largest target group for gateways is system integrators working for industry. The trend of an increasingly higher level of interoperability and automation has created a growing market for specialized system integrators who assist the industry with network and communication solutions. Integrators help fuel growth at the local level and HMS has the long-term ambition of increasing its cooperation with them via partner programs, training activities, etc.

Just like machine builders and end customers, system integrators require turnkey solutions that they can quickly and easily configure in order to connect networks and products, and also ensure a quick, safe transfer of data. Anybus Gateways meet these needs and they only require simple configuration at installation, which means that time-consuming programming by the user isn't necessary. Anybus Gateways have also been tested and verified by leading manufacturers of industrial network systems, such as Siemens, Rockwell Automation, Schneider Electric, Mitsubishi, ABB,

Omron, Hitachi, Beckhoff, Phoenix Contact, Bosch Rexroth and others. This is yet another reason why HMS is perceived as a reliable and trustworthy supplier by the customers.

PRODUCT

Communicator and X-gateway

Anybus Gateways primarily consist of two product families – Anybus Communicator and Anybus X-gateway, both of which are leaders in their application areas. Both Communicator and X-gateway are easy to implement via their simple configuration tools, without needing to adapt any of the hardware or software.

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

The Anybus X-gateway family establishes communication between two industrial networks, each of which might be either traditional fieldbuses like Profibus-DP, DeviceNet and CANopen, or Ethernet-based networks like Ethernet/IP, EtherCAT or Modbus TCP/IP. In the true Anybus spirit, around twenty networks are covered and the product range supports more than 200 network combinations. The products are also designed and certified for tough industrial conditions and all of this makes X-gateway a market-leading product family for connecting networks.

TECHNOLOGY

New market requirements are impacting the technology

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

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

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

Current research shows that industrial networks play a key role in improving energy efficiency on the factory floor. HMS is providing more and more solutions for green automation, such as embedded network cards that support PROFIenergy. HMS Gateways facilitate optimal energy consumption in equipment that typically lacks an embedded network card – such as circuit breakers or compressors – through intelligent control via a connected PLC. This saves energy, raises productivity and lowers costs.



Turnkey solutions for industrial remote

Netbiter® Remote Management



Target groups

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

Fragmented competition

A number of suppliers offer subsystems and products in the category of remote management. However, HMS has assessed that no competitor is able to offer a turnkey solution that is as cost effective, quick and simple as Netbiter. Most of the other systems being sold today are customized solutions that have been designed for specific needs. In the Remote Access application area, there are only a few dominant players in the market. It is a market that HMS has not yet addressed, but one that will be of interest to the company going forward.

PRODUCT

Netbiter – a simple, turnkey solution

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

The facility is automatically connected to the Netbiter Argos data center, which collects, processes and visualizes data from all moni-

Henrik Arleving
Product Line Manager
Remote Management

MARKET

Rapidly growing market

The market for remote management of industrial machines and systems is still young and fragmented. It is therefore a market that is difficult to assess, but several distinct driving forces indicate that it is growing at a rapid pace. Rapid changes in technology and higher demands on both functionality and reliability in critical systems are quickly increasing the number of application areas. HMS is striving to make the turnkey solution Netbiter known throughout industry. At the same time, sales and marketing efforts for remote management are focused on a number of vertical segments where there is particularly high potential, such as emergency power systems, building and factory automation and infrastructure systems.

Critical information is made available

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

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

New technology opens up new application areas

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



management

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

Savings and higher reliability

Netbiter Remote Management generates significant savings for system owners. Fewer site visits are necessary and they can be planned more efficiently. The solution also benefits the environment, due to reduced travel and energy efficient monitoring processes. At the same time, thanks to a 24/7 monitoring and control of critical parameters, reliability and thus availability are improved in installations often critical to business and society.

Back to the future

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

specific areas, such as emergency power and telecommunications base stations, regarding both the technology and the packaged solution.

HMS's traditional home market, factory automation, has not been addressed with specific initiatives – until now. In 2014, HMS will be launching a modern Remote Access solution that addresses an existing application niche that HMS has not focused on before now. Netbiter Remote Access enables machine builders, for example, to remotely upgrade machines through a Netbiter Gateway that is connected to the machine's PLC control system already at the time of delivery. HMS's goal is to be able to capture market share relatively quickly due to its existing market and customer knowledge, which it has acquired through many years of selling Anybus products to this market.

TECHNOLOGY

New Netbiter Gateway opens doors

At the end of 2013, a new Netbiter EasyConnect 350 was launched. It is a gateway that takes Netbiter to a new level. Compared to

prior versions, capacity is significantly improved, which enables new installation and communication possibilities with products and applications in the field. It is also ready for the international market, not least due to the support for communication over 3G, which is becoming a requirement in many markets. Netbiter EC350 will also be a central component of HMS's new Remote Access offering within the Netbiter solution.

Reliability with high functionality

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



Industrial communication solutions



IXXAT COMMUNICATION SOLUTIONS FOR MACHINES – SUITABLE FOR MANY MARKETS

Mature technology and products for a broad variety of markets

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

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

Major data communication technologies used inside machines are Controller Area Network (CAN) which is a communication technology used in automobiles for over two decades and the new upcoming industrial Ethernet technologies EtherCAT and Powerlink. All three technologies are covered by IXXAT Communication Solutions for Machines.

Different technologies and a comprehensive selection of products

The wide range of different types of applications and machines requires different communication solutions. CAN makes it possible to

build highly flexible, simple communication solutions at a low cost, but for a limited amount of data and network connectivity. If the application requires large amounts of data, and very exact synchronization and/or larger networks, EtherCAT or Powerlink are perfect alternatives. We are experts in all of them!

Industrial Computers usually don't provide the necessary communication interfaces for a connection to the system inside a machine. Communication interfaces are also required for service and maintenance. This enables the service equipment, which uses specially designed analysis tools or IXXAT analysis tool, to connect to the machine. Using infrastructure products like repeaters and gateways, the communication architecture both within and outside machines can be optimized. For customers, the result is a communications architecture with greater flexibility and higher performance.

Machine builders are the main targeted customers

The customers are machine builders, system integrators and end users in many different markets. Machine builders or equipment manufacturers who develop and manufacture machines in large quantities each year are the primary target group. Once they have decided on IXXAT products and integrated them into their machine design, they begin buying larger quantities once they start selling their machine, examples of which include: production machines like packaging machines, semiconductor manufacturing machines, wind turbines, X-ray systems, farming equipment, etc. Thanks to extensive R&D activities, customers IXXAT

is also able to offer customized OEM products which meet specific customer requirements.

Other target groups are system builders acting as resellers of the IXXAT products and end users who need the products for service and maintenance purposes.

Competition and market position

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

IXXAT SAFETY – EXPERTISE AND PRODUCTS FOR AN RAPIDLY INCREASING MARKET DEMAND

Rapidly increasing demand for safety

Safety mechanisms in machines are designed to protect people and the environment from harm. For this reason, safety technology has already been used for several decades to prevent malfunctions and ensure safe shutdowns. Historically this technology was implemented using dedicated cables and components with the drawback of low flexibility in case of a critical event. Machines would be stopped entirely whenever there was a safety-critical event, no matter the degree of severity, and then restarted, which is time-consuming and inefficient. Therefore a popular trend is to use modern communication technology for the transmission of safety-critical data and to integrate machine devices with safety functions, which will give much more flexibility. A machine might not have to be stopped completely but only partly, or slowed down, while the fault is localized and taken care of. New regulations in Europe and other parts of the world put considerably higher demands on safety in machines which leads to increased demand for safety equipment among machine builders as well as end users of these machines.

with high performance

Experts in safety

Working with the safety technology and being able to implement a safety interface and safety features in embedded electronics requires extensive knowledge in hardware and software development, along with the certification process for this technology. There are international standards like IEC61508 which define the rules and which have to be obeyed strictly. Acquiring the necessary knowledge and experience is difficult and takes a long time. SMEs in particular often lack the capital to invest in building up their own expertise, which is why they often seek help elsewhere. The engineering expertise in IXXAT is of great value for HMS in the safety knowledge field, both for product development purposes but also for offering engineering and consulting services to customers.

IXXAT Safe T100 – Safety made easy

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

Synergy with Anybus Embedded

Since the hardware also requires a communication interface for one of the fieldbuses or Industrial Ethernet, the customer might also have a need for Anybus Embedded products. HMS is an expert in communication and safety solutions, with all the necessary products, technologies and services in its portfolio. This is why HMS is the perfect partner.

Unbeatable offering

IXXAT Safety offers hardware that makes it possible to implement personal safety into devices very easily and efficiently. In addition consulting services and safety software packages help customers to shorten time-to-market

and to reduce risks. OEM customers with specific requirements, or who don't want to invest in own development can also obtain assistance with developing their own safety solutions, which HMS will then create for them.

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

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

Specific solutions for the automotive industry

Gateways are required for the transfer of data between the different communication systems in a car, as well as for the exchange of data in the car's network and the automation network used in the test system at the factory. Signal simulation makes it possible to simulate controllers that don't even exist yet. When parts of a car are tested with their controllers, they must be loaded with data and reactions from other controllers so that the test will be correct. This is how non-existent controllers can be simulated using simulated signals. IXXAT offers the various communication interfaces and the necessary processing capacity for these systems. The hardware itself is a relatively flex-

ible, integrated, customized hardware that is also suitable for quickly and easily developing customized products for customers who require special functions and communication interfaces.

The uniqueness of the IXXAT Automotive offering is that communication interfaces for the vehicle and the industrial network have been integrated in a compact, cost-effective and flexible solution.

BMW relies on IXXAT

Most test systems at BMW's factory and at several of its suppliers are already equipped with IXXAT Automotive for BMW's communication system, Flexray. For several years already, software development has been a client-driven cooperative effort between IXXAT and BMW. Today, the change is still mostly influenced by BMW, but other car manufacturer's requirements are certainly also being monitored.

An interesting market

Features and possibilities that IXXAT Automotive offers, and which BMW has benefited from, are also of great interest to other car manufactures, like Daimler, Audi, Toyota, General Motors, and the suppliers to these companies. Once a car manufacturer has chosen the supplier of testing and development technology, it is necessary for all sub-suppliers to also use the same technology for developing and testing the equipment that will be delivered to the vehicle. IXXAT Automotive creates opportunities for HMS to attract new customers because of their products functions, ease of implementation and competitive prices.

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



Thomas Wagershauser
Product Area Manager, IXXAT

Eco Strategy

ensures environmental consideration throughout HMS

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

Katarina Lekander
Quality manager



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.

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

Product development and environmental aspects

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

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

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

Controlled material selection

There are routines and work methods in place for selecting the right materials during the design phase. Symbols are used to display the environmental category of all items.

HMS complies with the EU Directive on electronic products, RoHS, when it develops and manufactures its products. This means that no hazardous substances are used, such as lead or flame retardants. HMS also complies with the EU Directive REACH, for restricted use of chemicals.

Green automation

More and more of HMS's products are now available with PROFlenergy, which is an open standard solution for energy management, i.e. green automation. This makes it possible to significantly reduce the energy consumption of machines and processes by turning them off when they are in standby mode. It also offers factories a standardized way of shutting down equipment during short or long production breaks rather than keeping them in standby mode, which consumes electricity.

Evaluation of suppliers

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

Manufacturing – control and routines

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

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

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

Eco Strategy Wheel

Quality control vital to HMS

In a short period of time, HMS has become a world-leading supplier of complete communications solutions for industrial networks. The company offers more than 1,000 network products for a large number of application areas and network systems. One important factor behind HMS's growing, loyal customer base is that the company delivers reliable turnkey solutions with high delivery precision and quality. This requires precise control and quality management of the entire value chain.

Quality control pays off

HMS products must be easy to install and they must work flawlessly in various types of automation equipment and industrial applications. To ensure the highest possible quality, all processes in the value chain are carefully controlled and coordinated – from design, development and manufacturing to sales, distribution, information, training and support.

HMS's quality policy is all about continual improvements and it provides the basis for how the company works with systematic process control and quality control throughout the entire value chain.

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

HMS currently achieves delivery precision of 98% on average and returns are less than

200 ppm. Although this is proof of both high performance and quality, HMS aims to become even better.

Evaluated by leading automation companies

HMS is regularly evaluated by leading automation companies like Motoman Robotics, Pilz, Socomec, Yaskawa, Emerson and ABB.

These systematic evaluations cover ISO 9001 quality management standards and specific requirements having to do with customers, products, processes or other special issues. Requirements span everything from manufacturing and development processes, product quality and overall delivery/cooperation performance to reaction times, delivery precision, information and customer support.

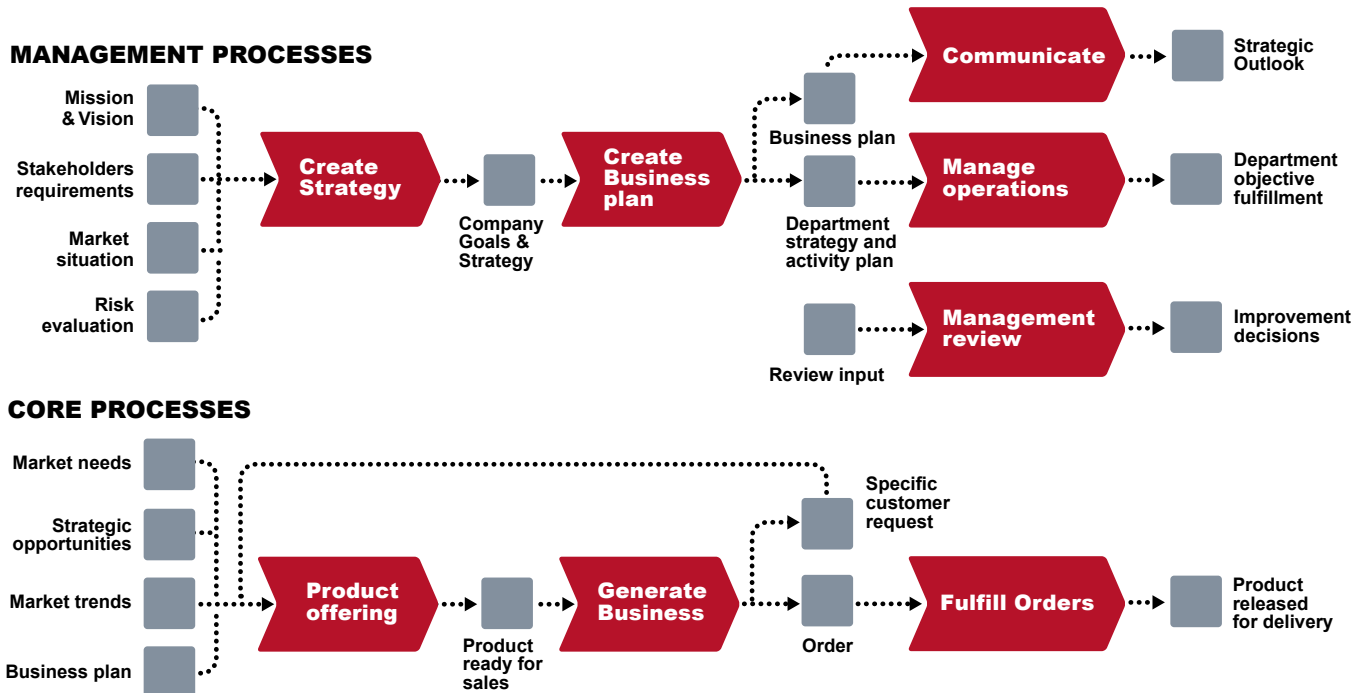
The results of these evaluations are used when designing measures to continually improve.

Continual improvement with BMS

HMS uses its business management system (BMS) to assure the quality of its processes. The aim is to ensure that focus is on the customer and continual improvement in all cross-functional processes.

The BMS gives the company an overall grasp of its processes and how they interact, aspects that are important from the customer perspective, and how employees and tasks add value and enhance quality. Process maps help in identifying and evaluating improvement measures.

The BMS was introduced in 2010 and since then, process and work flows have been documented/clarified. This has resulted in updated process descriptions and activity support.



The process maps in the BMS provide a concrete and simplified picture of how value is created, i.e. how activities move between different roles and the interfaces that arise when activities are handed off. This is often where most improvements can be made and the schematic presentation of the process flows makes them easier to identify.

In-house development

One important component of HMS's core competence is the company's technology and product development. All development efforts are performed in-house at the head office Halmstad, the development office in Gothenburg and in Weingarten, Germany. Of the 350 employees in total, 130 work with development, which comprises the entire chain of events from specification of requirements and design, to hardware design, programming, system integration and verification.

Many development projects are performed in close cooperation with the customer, which contributes to ever-increasing industrial expertise and the ability to develop products that meet customers' commercial needs and requirements.

Industry-wide improvements

For many years, HMS has been involved in many of the sector's international organizations and other forums that strive to develop and diversify industrial communications standards. One example is the US based organization, ODVA, which is responsible for the specification and development of four different industrial networks that are all CIP-based (Common Industrial Protocol). HMS is a member of the organization's Technical Review Board and it is also active in several work groups that develop proposals for specification improvements in different areas. This type of involvement enables the company to influence and remain up to date on important technology issues.

Controlled production

Prototypes, pilot series and shorter product series are manufactured at HMS's facilities in Halmstad. This is where final assembly occurs for most network interface cards using the company's specially developed assembly lines, which have been optimized for short lead times and high productivity.

High volume manufacturing is also performed by selected suppliers in Europe and Asia to achieve economies of scale and optimal balance in price, quality and flexibility. More tasks are performed in-house at higher levels in the value chain. For example, most final assembly and all delivery processing occurs at the Halmstad facilities in order to ensure control and quality.

Strategic component procurement

A network interface card consists of hundreds of sub-components. Strategic component procurement is thus an important success factor for HMS and the company has developed long-term relationships with component manufacturers and market-leading suppliers to ensure access to high quality components. All strategic suppliers are ISO certified and regularly evaluated by HMS to ensure that their processes are qualitative and efficient.

Optimized supply chain

Manufacturing and inventory are planned based on optimal order size and accurate forecasts. A new, simplified forecast tool is now being used at all HMS offices. It quickly and accurately captures market fluctuations, with a particular focus on volume-critical projects.

In order to achieve cost-effective, environmentally efficient logistics solutions, HMS has shipping partnership agreements in place with a few freight companies. This helps the company achieve optimal volumes and set standards for quality and environmental performance.

For larger customers, an EDI connection is used to automatically process orders and generate forecasts, invoices and order confirmations. This results in efficient administrative flows.

For its major contract manufacturers, HMS has a system in place to reuse customized and ESD protected boxes for shipping and storage purposes.

HMS has a high level of material traceability from the point when it receives a customer order, all the way back in the supply chain to the production method and design.

Sales

Sales are conducted through our own sales organization and sales offices that are located in ten countries, as well as selected regional distributors in around 50 countries.

The company recently introduced the HMS Partner Program, which aims to capture sales opportunities and increase sales particularly for gateways and remote management solutions. The program is primarily for system integrators all over the world who assist industries and other system owners with connecting equipment in order to achieve a higher level of automation. Besides increasing sales, the pro-

gram is also designed to further improve the quality of installation, commissioning and support for HMS products.

High rating for HMS customer service

HMS has a high level of after sales service and the company is always working to improve it even further. A customer survey was conducted in 2013 and HMS received a very high service level rating for technical support (88 out of 100) and warranty administration (81 out of 100).

Every return is carefully analyzed to avoid repeat problems. This includes reporting back to the customer about corrective measures that have been implemented. The company has gathered customers' service expectations for warranty administration. In 2013, it took HMS seven calendar days, on average, to process warranty returns.

HMS also increased the warranty period for Gateways and Remote Management products from 12 to 36 months. This is proof of the company's continual improvements in quality and service.

Training and support

Training and good technical support are important quality aspects for retaining a world-leading position. This applies both externally to customers and distributors, as well as internally, in a growing, learning organization.

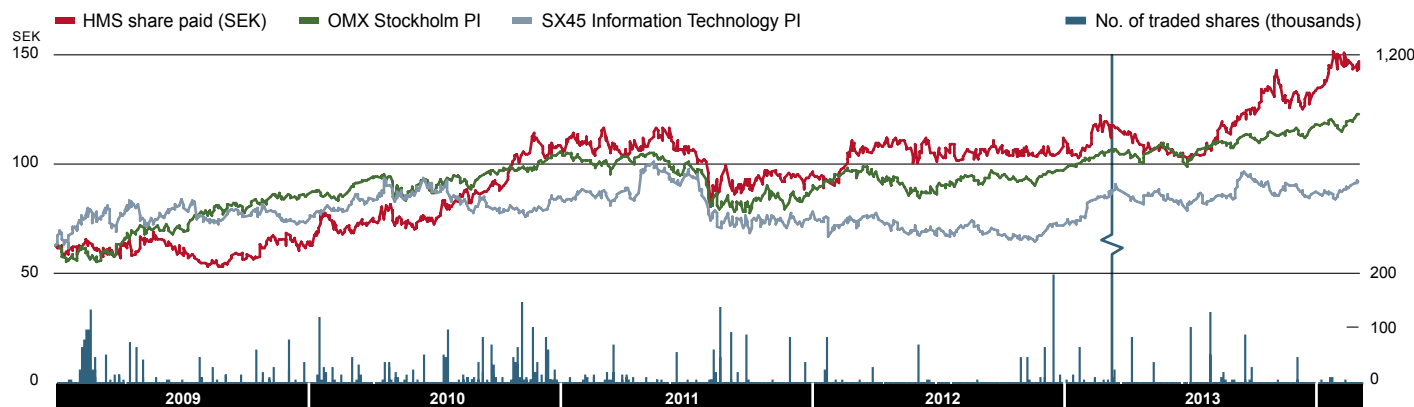
HMS continually develops and implements effective training programs as part of the HMS Academy concept. For customers, system integrators, distributors and HMS employees, the concept makes it easier to present and install HMS products and solutions.

During the year, the number of courses and seminars offered was significantly increased. This applies to webinars as well as training provided at HMS's facilities or at the customer's site. Trainings are offered free-of-charge via HMS's websites: anybus.com, ixat.com and netbiter.com.

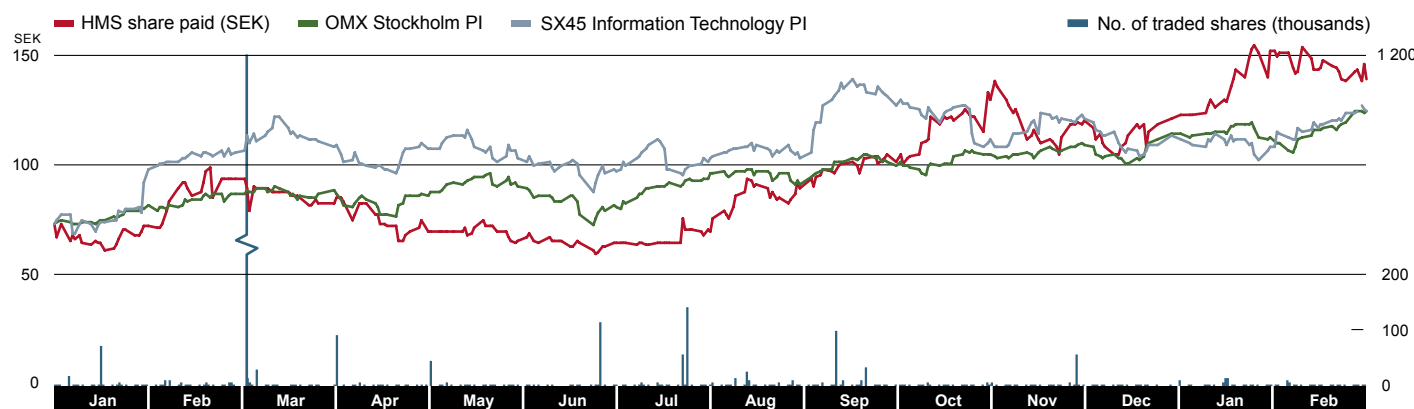
Yet another of HMS's strengths is its local presence, particularly when it comes to local technical support. Free support in the local language, which HMS provides from its various sales and marketing offices, is highly appreciated and it is an important component of HMS's total offering to the customer.

The HMS share

The HMS share 2009–2013



The HMS share 2013



The HMS share has been listed on the NASDAQ OMX Stockholm Small Cap list, in the Information Technology sector, since 19 October 2007. The ISIN code is SE0002136242. Shares are traded under the HMS ticker. A trading lot is 1 share.

Number of shares and share capital

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

Price trend

In 2013 HMS's share price rose by 22 percent to SEK 136.50 (112.25). The OMX Industrial Index rose by 12 percent during the same period. The highest price paid during the year for HMS shares was SEK 144.75 and the lowest price paid was SEK 101.25. At year-end 2013, HMS's market capitalization was SEK 1,546 (1,271) million.

Trading volume

A total of 2,603,949 shares were traded during the year, valued at SEK 294 million, which corresponds to an annual turnover rate of 23 percent. On average, 10,416 shares valued at SEK 1,175 thousand were traded each trading day.

Dividend policy

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

Warrants and options

All HMS employees were invited to participate in an incentive program, which will involve saving in HMS shares during 2014.

Shareholders and shareholder structure

As of 31 December 2013, HMS Networks AB (publ) had approximately 2,484 (2,546) shareholders. The ten largest shareholders represented 78.7 per cent (77.8) of the voting rights and capital.

The following analysts monitor HMS on an ongoing basis:

Andreas Joelsson, SEB Enskilda, Equity Research and Håkan Wranne, Swedbank Markets.

Key figures*

	2013	2012	2011	2010	2009
Share price (final day of trading)	136.5	112.3	94.8	108.0	59.8
Volume-weighted average share price	112.8	102.7	99.8	87.2	58.7
Average sales per day (SEK m)	1.2	0.5	0.7	1.1	0.5
Average number of shares traded per day	10,416	4,754	7,204	12,059	8,879
Number of shares (including dilution)	11,322	11,254	11,169	11,158	11,121
Earnings per share (including dilution)	5.54	4.64	4.83	5.40	1.81
Market capitalization (SEK m)	1,546	1,271	1,057	1,205	667
Enterprise value, EV (Market cap.+ net debt, SEK m)	1,789	1,240	1,056	1,189	697
P/E	24.6	24.2	19.6	20.0	33.0
Net debt/EBITDA	2	N/A	N/A	N/A	0.8
EV/EBITDA	17.1	16.6	12.8	12.8	17.7
EV/Net sales	3.6	3.2	2.8	3.5	2.9

* HMS's shares became listed in 2007

Share capital trend

Year	Transaction	Change in number of shares	Total number of shares	Change in share capital (SEK)	Total share capital (SEK)
2004	Company formed	100,000	100,000	100,000	100,000
2004	New share issue	900,000	1,000,000	900,000	1,000,000
2005	New share issue	22,100	1,022,100	22,100	1,022,100
2006	New share issue	1,900	1,024,000	1,900	1,024,000
2007	Warrants	33,165	1,057,165	33,165	1,057,165
2007	Split 10:1	9,514,485	10,571,650	0	1,057,165
2009	Warrants	581,250	11,152,900	58,125	1,115,290
2012	Warrants	169,500	11,322,400	16,950	1,132,240

HMS's largest shareholders, 31 December 2012

	No. of shares	Share of votes and equity
Investment AB Latour	3,027,322	26.7%
Staffan Dahlström	1,617,073	14.3%
Swedbank Robur fonder	1,146,500	10.1%
SEB Fonder	909,368	8.0%
Lannebo Fonder	742,976	6.6%
Fjärde AP-Fonden	481,657	4.3%
Handelsbanken Fonder	302,665	2.7%
Nordea småbolagsfond	257,352	2.3%
AMF	211,414	1.9%
HMS Management*	204,190	1.8%
Deka Bank	140,200	1.2%
SSB	140,000	1.2%
DNB Sweden Micro Cap	123,957	1.1%
Greenspecialisten AB	121,427	1.1%
Avanza Pension	107,753	1.0%
Other	1,788,546	15.8%
Total	11,322,400	100.0%

* HMS management and board of directors

Distribution according to shareholdings, 31 December 2013

Shareholding	No. of shareholders	%
1 – 500	1,992	80.2%
501 – 1,000	227	9.1%
1,001 – 5,000	183	7.4%
5,001 – 10,000	38	1.5%
10,001 – 15,000	5	0.2%
15,001 – 20,000	5	0.2%
20,001 –	34	1.4%
Total	2,484	100.0%

Chairman's comments

The situation in HMS's most important markets improved late in 2013 and we reported a slight growth in revenue and strong earnings for the year.

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

We are on the right track. Rapid technology and IT developments are quickly reaching many new areas of industry and society, which has a positive impact on the demand for HMS's products. This is evident particularly in the growing interest in the company's technology. For example, our new solutions for Remote Management are now receiving greater attention even outside our core area of industrial automation.

Early in 2013, HMS took a historic step by acquiring IXXAT Automation GmbH. As a supplier of communications technology for industrial automation used in the machine and

automotive industries, IXXAT is a good strategic fit with HMS. However, an acquisition of this size always involves challenges and during the year, the Board and management put a great deal of effort into realizing the potential synergies that we have identified.

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

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

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

The members of the Board complement each other well. Several members 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 on the stock market, company acquisitions, technology development and marketing based on their own experience in top managerial positions. The entire management team takes part in discussions about strategic issues and this mix results in exciting and valuable debates.

Each year, the work done by the Board is evaluated by having every member of the Board answer certain questions, which I then compile and discuss with the entire Board. The results of these evaluations, which are also made available to the nomination committee, help ensure that the work done by the Board is efficient. It also provides valuable feedback on whether the composition and competence of the Board is adequate. The summary

for the year once again showed that the Board has performed its tasks well.

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

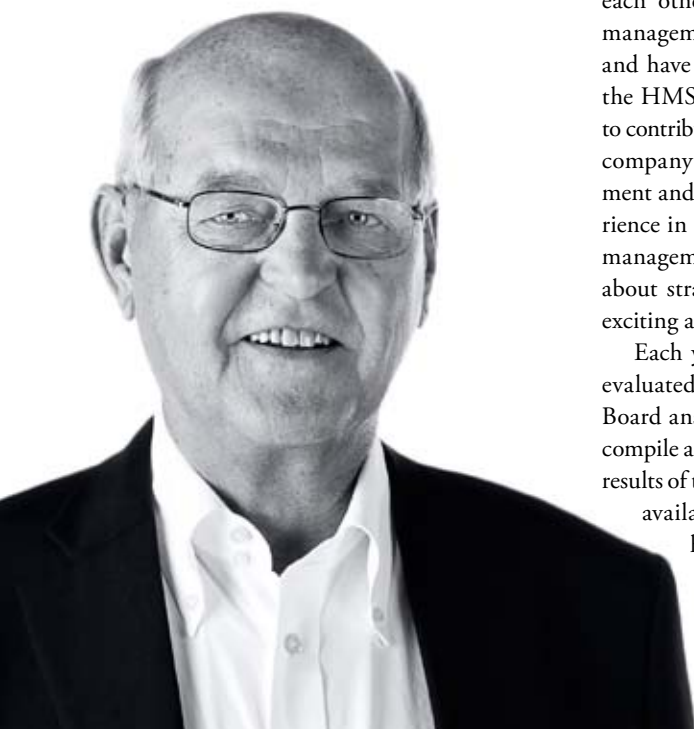
During the year, a change was made to the composition of the Board of Directors, since Nicolas Hassbjer decided not to put his name forward for re-election. Over a period of 25 years, Nicolas has founded, developed and guided HMS from the company's origin (a thesis project) to an international listed group of affiliated companies. Nicolas's contribution cannot be underestimated. We are all grateful for his efforts over the years and wish him the best of luck with his new endeavors and pursuits.

Going forward, the Board's challenges are to support and debate with the management team on issues within a number of strategically important focus areas. We need to ensure that HMS remains competitive in a changing and growing market by keeping the right focus on product development, market expansion, customer needs and the skills of our employees.

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

HMS is both a growth and knowledge company and its success depends on quick actions, goal-orientation and the right expertise. Those are difficult and important challenges that we have enormous respect for. It is, however, very stimulating to be a part of it all and assist HMS in meeting its goals and continuing on this successful journey.

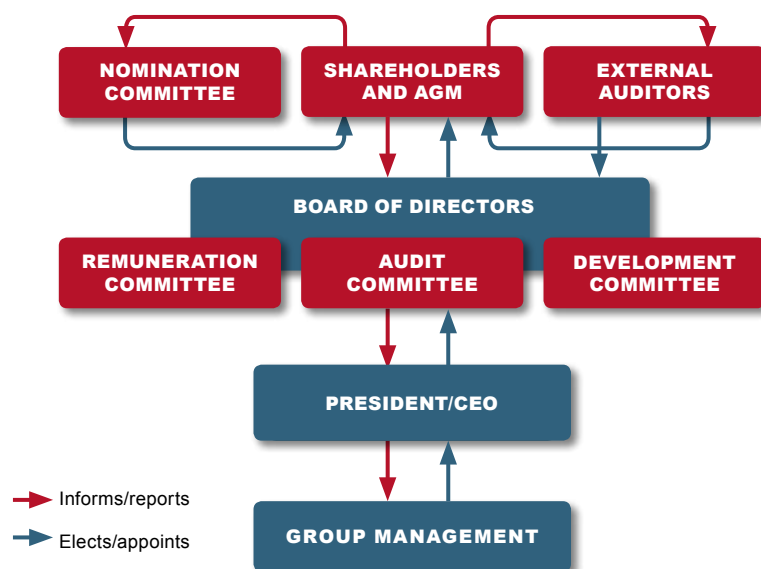
Urban Jansson
Chairman



Corporate governance report

HMS's Board and management team work to ensure that the company lives up to the requirements that NASDAQ OMX, shareholders and other stakeholders have on the company. The Board also monitors all issues having to do with the recommendations and requirements from the company's stakeholders. HMS complies with the directives in the Swedish Code of Corporate Governance.

Corporate governance at HMS is primarily exercised at the Annual General Meeting and through the work done by the Board. In a broader perspective, corporate governance also applies to management, its duties and the Group's control and reporting functions.



Structure for corporate governance

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

Shareholders and AGM

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

In addition, the AGM decides on any changes to the company's Articles of Association, new share issues and the introduction of any share-based incentive 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.se.

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

Annual General Meeting 2013

The AGM was held on 19 April 2013 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 66% of the number of shares and votes. Those in attendance at the AGM were Chairman of the Board Urban Jansson and the following Board members: Nicolas Hassbjer, Göran Sigfridsson, Henrik Johansson, Ray Mauritsson, Charlotte Brogren and Gunilla Wikman. Also at the meeting were Jan Svensson, Chairman of the nomination committee and Olof Enerbäck from the firm of auditors. Shareholders at the AGM decided:

- to issue dividends of SEK 2.25 per share, totaling SEK 25,475,400
- that the Board would consist of seven members

- to reelect all of the Board members, with the exception of Nicolas Hassbjer, who declines re-election
- to re-elect Urban Jansson as Chairman of the Board
- that remuneration to the Board would be SEK 1,050,000 for the next term, of which SEK 300,000 to the Chairman of the Board and SEK 150,000 to each Board member who is not employed by the company
- on principles for appointing the nomination committee
- on guidelines for remuneration and other conditions of employment for the CEO and other senior executives
- on the authority of the Board to issue new shares
- acquisition of shares in HMS Networks AB
- to set up an incentive program open to all employees of the Group.

Nomination committee

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

At the 2013 AGM, there was a decision on the principles for establishing a nomination committee at HMS Networks AB. In accord-



” *Information and communication about risks, controls and control outcomes throughout the HMS Group help ensure that the right business decisions are made.*



ance with the nomination committee's proposal, the shareholders at the AGM decided that the nomination committee would consist of the Chairman of Board, along with representatives from the largest shareholders (as of 31 August) up until the next AGM is held or, when necessary, until such time as a new nomination committee has been appointed.

The nomination committee appoints one of its members as chairman (however, neither the Chairman of the Board nor any other member of the Board of Directors may be elected as chairman of the nomination committee). Should any of the three largest shareholders decline their right to appoint a representative, the right is transferred to the shareholder with the next largest shareholding on the specific date. If a member leaves the nomination committee in advance then, if appropriate, a replacement will be appointed by the same shareholder that appointed the one departing, or if this shareholder no longer ranks among the three largest shareholders, by the shareholder who in terms of shareholding is next in line.

The composition of the nominations committee will be published on the company's website no later than six months before the next AGM.

The nomination committee strives to achieve gender balance on the Board of Directors. The Board of Directors currently has 33% women serving on it.

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.

External auditors

Auditors are currently appointed to serve for a period of four years, which ensures continuity and depth of the audit work. 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 twice a year to the entire Board about their audit and state their views about internal controls.

At the 2013 AGM, shareholders elected PwC as the audit firm, with Certified Accountant Olof Ennerbäck as the auditor in charge until the date of the next AGM. In addition to the audit, PwC also provides advice concerning auditing and tax. This advice is not considered to be biased.

In 2013 total remuneration paid to HMS's auditors amounted to SEK 806 (1,245) thousand. Further information regarding auditors' remuneration is available in Note 7.

Board of Directors

The Board is responsible for how the company is organized and for administration of the company's affairs on behalf of the owners. The Board assesses the company's financial situation on an ongoing basis and makes sure that it is organized such that there are adequate controls on its bookkeeping, fund management and other financial matters. The Board sets policies and instructions for how this is to be achieved. It also adopts rules of procedure for

the Board and instructions for the 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, 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.



Members of the nomination committee and voting rights

Representative	Shareholder	Voting rights (% of total) as of 31 Dec 2012
Jan Svensson, Chairman	Investment AB Latour	26.7
Staffan Dahlström	Representing Staffan Dahlström and own holdings	14.3
Evert Carlsson	Swedbank Robur Fonder	10.1
Urban Jansson, Chairman of the board		

Board structure

The Board consists of six members. The Board members have extensive professional experience and are, or have at some time, been CEOs and/or senior executives in large companies and many are also Board members in large companies. Some of the company's Board members have served on the Board for quite some time and they are well acquainted with the company's operations.

The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control ten percent or more of the shares or voting rights in the company. The nominations committee has, during a joint assessment of each member's relationship to the company, Group management and major shareholders, found that all of the members are independent in relation to the company and its management. All members except one are assessed as being independent in relation to the company's major shareholder (Henrik Johansson, who represents Investment AB Latour, which controls 26.7% of the shares and

votes). The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on pages 44-45.

The total of amount of fees paid to the Board in 2013 was SEK 1,050 (1,200) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 26.

Chairman

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

At the AGM on 19 April 2013 Urban Jansson was re-elected as Chairman of the Board. The Chairman of the Board is not involved in the operational management of the company.

Work of the Board in 2013

During the period between the AGM on 19 April 2013 and the adoption of this annual report, the Board has held eight meetings at which the minutes were taken. Both the CEO and CFO of HMS Networks AB participate in Board meetings, with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board's rules of procedure. This includes discussion of the company's business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board's work consists of regular follow-up on financial matters, strategic product development, providing recommendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

Remuneration committee

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

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



The remuneration committee consists of the Chairman of the Board (Urban Jansson) and one other appointed Board members (Ray Mauritsson). Ray Mauritsson was elected as Chairman of the remuneration committee.

Audit committee

The Board nominates an audit committee, which monitors the financial reporting by examining all critical audit issues and other conditions that might affect the content and quality of the financial statements. The committee also monitors the effectiveness of the company's and Group's internal controls, risk management systems and the external auditors' impartiality and independence. The audit committee evaluates the audit work and assists the nomination committee in the selection of auditor. The committee also makes decisions regarding all purchases of consulting services (not related to the audit) from the company's auditor.

The audit committee consists of the Chairman of the Board (Urban Jansson) and one other appointed Board members (Gunilla Wikman). Gunilla Wikman was elected as Chairman of the audit committee.

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

Development committee

The Board appoints some of its members to serve on the development committee. This committee is meant to serve as a sounding

board for the HMS management team on issues having to do with research and development, specific projects and the company's portfolio of development projects, the organizational structure of the R&D department and how it is managed, as well as the training and development of employees. Furthermore, the committee should serve as a resource when it comes to preparing and obtaining support for R&D initiatives that require a decision by the Board due to the strategic importance, investment decisions or collaboration with others. The committee should ensure that the HMS Board stays up to date on R&D issues relevant to the company and its future. The development committee consists of three appointed Board members (Charlotte Brogren, Henrik Johansson and Göran Sigfridsson). Charlotte Brogren was elected as Chairman of the development committee.

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.

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

The Group management team has overall responsibility for ensuring that the activities of the Group are in accordance with the strategy and long-term objectives stipulated by the Board. The Group management team meets four 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 2013, the total remuneration (including pension provisions) to the CEO amounted to SEK 1,920 (1,920) thousand. For more information about remuneration to the CEO and Group management team, see Note 26.

Board's internal control report concerning financial reporting

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

Description

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

Control environment

The foundation for internal controls consists of the overall control environment that has been established by the Board and management team. This is built on an organization with clear decision-making paths where authority and responsibility are defined with clear instructions. It is also built on a corporate cul-

ture with common values and individual awareness of each person's role in maintaining good internal control.

The Group strives to ensure that the entire organization lives by these values (page 13). There is much emphasis on making sure that these core values guide all behavior, both internally and externally. HMS has established a Code of Conduct. It explains the desired behavior in different situations.

The Board has overall responsibility for the internal controls concerning financial reporting. The Board has established written rules of procedure that clarify the Board's responsibilities and how work should be allocated within the committees. The Board has also appointed an audit committee, which is primarily responsible for ensuring the reliability of financial reporting and adequacy of internal controls. It also interacts with the company's auditors for that same purpose. Furthermore, the Board has drawn up instructions pertaining to financial reporting for both the CEO and the Board of HMS. Responsibility for maintaining an effective control environment and the ongoing work concerning internal controls is delegated to the CEO who in turn delegates function-specific responsibility to managers at different levels throughout the Group.

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

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

During 2013, in accordance with established guidelines, HMS continued its review of the existing internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The result of this effort will be an evaluation and verification of the governing documents and guidelines that form the basis of corporate governance.

Risk assessment

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



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



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

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

Control activities

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

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

The accounting and control functions regularly perform reconciliations and checks of reported amounts, along with analyses of the income statements and balance sheets. The control function performs control activities at all levels of the company. The function ana-

lyzes and follows up on any budget deviations, makes forecasts, monitors significant fluctuations over defined periods and reports findings to the rest of the company, thus minimizing the risk of errors in the financial reporting.

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

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

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

Information and communication

Information and communication about risks, controls and control outcomes throughout the HMS Group help ensure that the right business

decisions are made. The Group strives to make certain that the information and communication routes for the internal controls pertaining to financial reporting work as intended and are known throughout the Group.

The guidelines for financial reporting are communicated to all employees concerned within the Group via policies, manuals and work 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 monthly 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: <http://investors.hms.se>.

Follow up

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

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

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

Rolling forecasts are another important component of Group-wide internal control. Product level sales forecasts are made quarterly with a 12-month horizon by managers from the sales organization. Sales forecasts are consolidated and validated in connection with compiling the forecasts for the entire business. Comprehensive forecasts are compiled twice per year. In addition to the comprehensive forecasts, a budget is also drawn up, which is presented to the Board for its approval in Q4. Besides the forecasts and budgets, Group management also works with overall strategic plans.

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

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.

Auditor's report on the Corporate Governance Statement

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2013 on pages 37-43 and that it has been prepared in accordance with the Annual Accounts Act.

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

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

Halmstad 26 March 2014
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Board of directors



URBAN JANSSON

Born in 1945. Chairman of the Board 2007. Board member since 1999.

Independent from the company and its main owners.

Other assignments: Chairman of the Board of EAB. Vice Chairman of Skandinaviska Enskilda Banken AB (publ) and Svedbergs. Board member of Lindéngruppen AB and Clas Ohlson AB (publ).

Education: Advanced degree in banking from Skandinaviska Banken. Shareholding: 59,750 shares.



CHARLOTTE BROGREN

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

Other assignments: General Director of Vinnova and Chairman of the Board of Industrifonden, Board member of Q-Free AS and Gunnebo AB. Professional experience: Head of Development and Group Vice President of ABB Robotics until September 2009. Prior to that, she worked in senior positions within ABB's research organization.

Education: PhD in Chemical Engineering from Lund University. Shareholding: 1,000 shares.



RAY MAURITSSON

Born in 1962. Board member since 2007. Independent from the company and its main owners.

Other assignments: CEO of Axis AB (publ). Education: M.Sc.in Technical Physics and Executive MBA from Lund University. Shareholding: 5,000 shares.

**GÖRAN SIGFRIDSSON**

Born in 1948. Board member since 2008. Independent from the company and its main owners.

Other assignments: Runs own management consulting company, SimaCon AB.

Other Board assignments: Board member of Borgestad Industries ASA, Scan Coin AB, Energy Converting Wind Sweden AB and GeoSignage Sverige AB.

Professional experience: Senior positions in industrial automation and former President of Beijer Electronics AB (publ) from 1981 to 2008.

Education: M.Sc. in Electronics.

Shareholding: 1,000 shares.

**HENRIK JOHANSSON**

Born in 1966. Board member of HMS since April 2009. Not independent of the company's major shareholders.

Other assignments: CEO of Latour Industries AB.

Chairman of the Board of Nord-Lock International AB, LSAB Group AB, REAC AB, Specma Seals AB, Kabona AB and AVT Group AB. Board member of Hultafor AB.

Professional experience: Senior positions at Tradex Converting and Brady Corporation and extensive experience of globally expanding businesses.

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

Shareholding: 6,400 shares.

**GUNILLA WIKMAN**

Born in 1959. Board member since 2010.

Independent from the company and its main owners.

Other assignments: Business and leadership development consultant at Ekman & Partners, Communications Consultant at Carrara Communication.

Other Board assignments: Vice Chairman of The Swedish Equestrian Federation, Board Member of AMF Fonder, SJ AB, Flyinge AB Ceba AB and Oatly AB.

Professional experience: Information manager at Swedish Match, financial journalist at Veckans affärer and SVT, information manager at Bankstöds nämnden, Information Manager at Riksbanken, Corporate Information Manager at SEB.

Education: M.Sc. in Business and Economics
Shareholding: 0 shares.

Group management



STAFFAN DAHLSTRÖM

Chief Executive Officer

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

Shareholding: 1,617,073 shares.

ANDERS HANSSON

Marketing Director

Born in 1968. Marketing Director at HMS since 2010. Anders started working at HMS in 2000 and since then he has held a number of positions in international sales and marketing, such as Product Manager, Sales and Marketing Manager for HMS France and Head of HMS Global Key Account Management. Anders has a Master's Degree in Industrial Management and Economics from Halmstad University.

Shareholding: 7,247 shares.

GUNNAR HÖGBERG

Chief Financial Officer

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

Shareholding: 46,566 shares.

KEVIN KNAKE

Executive Vice President, HMS Inc.

Born 1961, Executive Vice President of HMS Inc since January 2009. Kevin has many years of experience in R&D, R&D management, and sales and business management working in the industrial automation field. Kevin has B.Sc. in Industrial Engineering and Computer Science from Central Michigan University.

Shareholding: 6,264 shares.

**SABINA LINDÉN**

Human Resources Manager

Born in 1979. Human Resources Manager since April 2006. Sabina has a B.Sc. in workplace-oriented sociology from the University of Gothenburg.

Shareholding: 6 731 shares.

**JÖRGEN PALMHAGER**

Chief Operating Officer

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

Shareholding: 39,750 shares.

**CHRISTIAN SCHLEGEL**

*Managing Director,
IXXAT Automation*

Born in 1965. Managing Director at IXXAT Automation GmbH since 1998. Christian started working at the Steinbeis Transfer Center for Process Automation in 1991 as hardware and software engineer, later he became the R&D Manager. Christian has a Diploma in Electrical Engineering from University of Applied Sciences Ravensburg-Weingarten.

Shareholding: 3,479 shares.

**MICHAEL VOLZ**

Managing Director, HMS GmbH

Born in 1957. Michael started at HMS in 2000. Since 2013, he has, for example, had management responsibility for the sales and marketing organization for Central Europe. Michael has a B.Sc. in Communication Technology from University of Dieburg in Germany. Michael has many years of experience in industrial communication.

Shareholding: 5,352 shares.

Glossary

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

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

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

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

ESD protection – Protection against electrostatic discharge.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VPN – virtual private network is a technology used for creating strong connections, or tunnels, between two points in a computer network.

Financial statements

50	Directors' report
55	Consolidated income statement
55	Consolidated statement of comprehensive income
56	Consolidated balance sheet
58	Consolidated cash flow statement
59	Consolidated statement of change in equity
60	Parent company's income statement
61	Parent company's balance sheet
62	Parent company's cash flow statement
62	Parent company's statement of changes in equity
63	Note 1 General information
63	Note 2 Accounting policies
68	Note 3 Financial risk management
71	Note 4 Important estimates and assessments for accounting purposes
71	Note 5 Segment information
71	Note 6 Categorization by type of cost
71	Note 7 Remuneration to auditors
72	Note 8 Remuneration to employees
73	Note 9 Income tax
73	Note 10 Exchange rate differences – net
73	Note 11 Earnings per share
73	Note 12 Dividend per share
74	Note 13 Intangible assets
75	Note 14 Property, plant and equipment
75	Note 15 Derivative instruments
76	Note 16 Accounts receivable and other receivables
76	Note 17 Inventories
76	Note 18 Cash and cash equivalents
76	Note 19 Share capital and other contributed capital
77	Note 20 Allocations
77	Note 21 Borrowings
77	Note 22 Deferred tax
78	Note 23 Pension obligations
78	Note 24 Pledged securities and contingent liabilities
78	Note 25 Finance leases
78	Note 26 Remuneration to the Board of directors and senior executives, etc
80	Note 27 Sick leave
80	Note 28 Participations in subsidiaries
80	Note 29 Earnings from participations in Group companies
80	Note 30 Other interest income and similar items
80	Note 31 Other interest expenses and similar items
81	Note 32 Prepaid costs and accrued income
81	Note 33 Accrued expenses and deferred income
81	Note 34 Related parties
81	Note 35 Business combinations
82	Note 36 Financial instruments by category
82	Note 37 Events after the closing date
82	Note 38 Key financial figures
84	Audit report



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Directors' report

Operations

HMS was founded in 1988 and it is one of the world's leading suppliers of industrial communication technology for industrial automation. The Group develops and manufactures flexible, reliable solutions for connecting industrial products to networks and gateways, thus enabling interconnection between various networks. The Group also develops, markets and sells products for remote management under the Netbiter® brand.

HMS's patented Anybus® technology has received many industrial awards and is used the world over in products from many of the world's leading automation companies. Sales are conducted from the head office in Halmstad and through the company's sales offices in Chicago, Tokyo, Beijing, Karlsruhe, Milan, Mulhouse, Pune, Coventry and Copenhagen.

IXXAT Automation was acquired by HMS in 2013. It is a company that was founded in 1987 and it offers complete system solutions as well as hardware and software solutions in the areas of embedded subsystems. The company's technology platforms, based on the communication protocols CAN, Industrial Ethernet, FlexRay and "safety" are important additions to HMS's existing products. IXXAT currently has most of its operations in Weingarten, Germany.

Seasonality

The business is not subject to any significant seasonal variations.

Significant events

At the start of 2013, the German company, IXXAT Automation was acquired, which made HMS a larger, more powerful competitor in the market for industrial communication. IXXAT's strong position in the important German market provides HMS with a wider customer base and a more commanding presence. The acquisition also makes it possible for HMS to launch its products in new market segments, such as medical equipment and automotive.

There was a strong inflow during the year of new design wins, which creates good conditions for even more growth over time. At year end, the total number of active design wins was 1,061 (979). Of that number, 830 (787) are in the production phase. The average revenue per design win in the production phase amounted to SEK 0.33 (0.48) million.

On 19 April 2013, HMS held its AGM. All of the proposals by the Board and nomination committee were adopted by the AGM. Urban Jansson was re-elected as Chairman of the Board. Ray Mauritsson, Göran Sigfridsson, Henrik Johansson, Gunilla Wikman and Charlotte Brogren were re-elected as Board members.

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

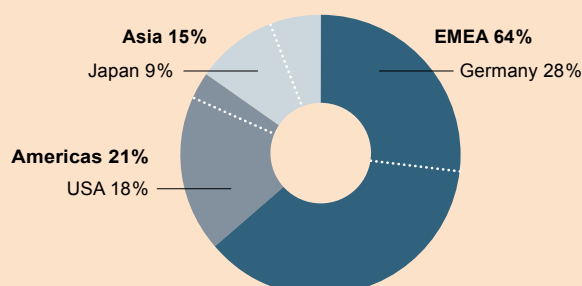
Significant events in brief:

- Bosch Rexroth AG renews a volume commitment pertaining to Anybus products worth approximately SEK 9 million for 2013.
- Crouzet chooses Netbiter Remote Management for monitoring of its Millenium 3 PLCs.
- HMS acquires the German company, IXXAT Automation GmbH.
- Frost & Sullivan honors HMS with the "2013 New Product Innovation Award" for the company's NP40 network processor.
- The AGM was held on 19 April 2013 at the company's office in Halmstad.

Net sales

The Group's net sales increased by 31% and amounted to SEK 501.1 (381.8) million. Exchange rate fluctuations negatively affected net sales during the year by SEK 15 million. Invoiced sales by region were as follows: EMEA 64 (61)%, North and South America 21 (22)% and Asia 15 (17)%. The Group's largest markets are Germany, USA and Japan.

HMS Group's revenue distribution by market in 2013



Summary of results

	2013	2012
Net sales, SEK m	501.1	381.8
Operating profit, SEK m	86.6	63.7
Operating margin, %	17.3	16.7
Profit after financial items, SEK m	81.5	65.2
Profit for the year, SEK m	62.8	52.2
Earnings per share, SEK	5.54	4.64

Financial data in summary (sek m)	2013	2012	2011	2010	2009	2008
Net sales	501	382	384	345	245	317
Growth in net sales, %	31	-0.5	11	41	-23	17
Gross profit	314	229	232	208	143	182
Gross margin, %	63	60	61	60	58	57
Operating profit	87	64	72	84	31	85
Operating margin, %	17	17	19	24	13	27
Profit for the period	63	52	54	62	21	59
Order intake	516	424	388	342	258	313
Earnings per share before dilution, SEK	5.54	4.64	4.84	5.41	1.88	5.43
Dividend per share, SEK	2.25*	2.25	2.25	2.00	1.00	1.50
Total assets	771	418	391	392	339	390
Equity	378	342	299	286	240	224
Shareholders' equity per share before dilution, SEK	32	30	27	26	22	21
Equity/assets ratio, %	49	82	76	72	70	57
Net debt/equity ratio %	65	0	0	-5	13	19
Return on shareholders' equity, %	17	16	19	23	9	29
Return on capital employed, %	19	20	23	28	11	27
Investments in non-current assets	57	42	20	15	7	7
Cash flow from operating activities	89	83	46	75	31	68
Cash flow from operating activities per share before dilution, SEK	7.90	7.27	4.13	6.71	2.89	6.52
Average number of employees	338	241	213	164	153	154
Revenue per employee	1.5	1.6	1.8	2.1	1.6	2.1

* Board's proposal

Profit (loss)

Operating profit after depreciation amounted to SEK 86.6 (63.7) million. Operating margin was 17.3 (16.7)%. Net financial income/expense amounted to SEK -5.2 (1.5) million and profit after financial items amounted to SEK 81.5 (65.2) million. Tax expense was SEK -18.7 (-13.0) million and profit after tax amounted to SEK 62.8 (52.2) million.

Investments

Investments in items of property plant and equipment during the period amounted to SEK 4.5 (12.3) million and investments in intangible assets amounted to SEK 52.6 (30.7) million during 2013. Investments in intangible assets were the capitalization of development costs associated with in-house projects. The acquisition of IXXAT has resulted in consolidated goodwill of approximately SEK 293 million, of which approximately SEK 144 million has been allocated to technology platforms, brand and customers that were part of the acquisition. The acquisition increased the Group's goodwill by SEK 149 million.

Financial position

As of 31 December 2013, the Group had cash and cash equivalents of 15.8 (31.5) million, excluding unutilized credit of SEK 30.5 (30.5) million. Cash flow from operating activities amounted to SEK 89.5 (83.1) million. After net investments of SEK -324.6 (-43.4) million and new borrowings, amortization, repurchase of own shares and dividends paid, totaling SEK 219.4 (-33.9) million, the cash flow for the year amounted to SEK -15.7 (5.7) million.

The Group's net debt amounted to SEK -244.0 (30.7) million. The net debt to equity ratio was 0.6 (-0.1) times and the equity to assets ratio was 49.0 (81.9)%.

Group structure

HMS Networks AB (publ), CIN 556661-8954, is the parent company of the wholly-owned subsidiary, HMS Industrial Networks AB. HMS Industrial Networks AB is in turn the parent company of HMS Industrial Networks Inc, HMS Industrial Networks GmbH, HMS Electronics AB, HMS Industrial Networks SAS, HMS Industrial Networks S.r.l., HMS Industrial Networks K.K., HMS Industrial Networks India Private Limited, HMS Industrial Networks Ltd, HMS Industrial Networks ApS, Intellicom Innovation AB, IXXAT Holding GmbH, IXXAT Automation GmbH, IXXAT Sarl and IXXAT Inc.

Representative offices abroad

The Group has a foreign branch, which is called a Registered Representative Office, in Beijing. The office offers sales, marketing and support to the Chinese market.

Environmental impact and sustainable development

HMS cares about its impact on the environment and it strives to achieve sustainability in its product development efforts, manufacturing and all other business activities. HMS's main contribution is developing and manufacturing products that make energy conservation

possible for its users, with the lowest possible environmental impact during the product's useful life. The Eco Strategy Wheel is HMS's model for considering the environmental aspects associated with developing, manufacturing, shipping and using HMS products. In other words, it considers the entire product life cycle. The model is used for generating improvement suggestions as well as checks and follow-up on the Group's sustainability efforts.

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

Research and development

The Group expensed SEK 52.0 (34.6) million for research and development during the year. In addition, development costs of SEK 52.6 (30.3) million were capitalized, of which SEK 43.0 (16.8) million was work performed by the company for its own use and SEK 9.6 (13.5) million was customer-specific work. Total research and development expenses make up 21 (17)% 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 the development costs are covered by future volume commitments.

Personnel

At year-end the Group had 359 (265) employees. The Group now has the resources in place for strengthening its market position over time even more.

Principles for remuneration to senior executives

At the first Board meeting of 2013, a remuneration committee was appointed by the Board. The following principles, which were proposed to the company's remuneration committee, will be brought forth for approval at the 2014 AGM. Remuneration to the CEO and other members of the HMS Group management team consists of basic salary, short-term and long-term incentive schemes and pension. Other benefits and remuneration are awarded on the same terms that apply to other employees.

The aim of the HMS remuneration policy for Group management is to offer remuneration that promotes the retention and recruitment of qualified expertise to HMS Networks AB. Basic salary is established on the basis that it, in combination with both short and long-term incentives, must be competitive. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is established by the Board based on the proposal from the remuneration committee. Remuneration to other senior executives is decided by the CEO after approval by the remuneration committee.

Short-term incentive schemes to the CEO and senior executives are based on the financial targets for the Group. Incentive schemes must be primarily based on growth and profitability. In addition to that, other personal goals may be established. For the CEO and other senior executives, the highest possible individual bonus amount is 30% of basic salary in 2013.

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

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

For information on the composition of the remuneration committee, see pages 39–40.

Risks and uncertainty factors

Market-related risks

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

Business cycle

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

Competitors

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

Operational risks

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

Suppliers

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

Customers

The Group's sales are to professional firms. It is of the utmost importance for HMS to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that HMS is able to develop and market new products that are both accepted by the market and 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.

Defects in products

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 defects 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 defect 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 defect can also be difficult.

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

*Legal risks**Legislation and regulation*

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

Intellectual property rights

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

way that infringes or in any other way poses a threat to the company's intellectual property rights. If the intellectual property rights cannot be protected, regardless of the reason, the Group's business could be affected in a negative way.

Disputes

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

Financial risks

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

Currency exposure

Assets and liabilities in foreign currencies are revalued at each closing. Hedging contracts are also revalued at each balance sheet date and there is also an effect when they are settled. The revaluation of balance sheet items associated with operations and the result from settlement of any hedging contracts are reported in either Other operating income or Other operating expenses. 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 expenses items. The currency composition of operating income is approximately 65% in EUR, 24% in USD, 6% in JPY and 5% in SEK and other currencies. The currency composition of cost of goods sold is: 53% in EUR, 30% in SEK, 16% in USD, 1% in JPY. The currency composition of operating expenses is: 33% in EUR, 12% in USD, 5% in JPY and 50% in SEK and other currencies. The Group's policy is to minimize currency exposure by entering into forward exchange agreements.

Future outlook

Long-term growth of the Group is dependent upon the following factors: a steady inflow of design wins, a wider range of products, development of new product generations, more customer focus and expansion of HMS's sales channels in accordance with the established strategy.

The acquisition of IXXAT is an important addition to HMS's business and it strengthens HMS's position in the German market. HMS will also be able to broaden the market opportunities for IXXAT's product offering to new geographic markets where HMS is already established.

Over the short-term, the global market for HMS's products is expected to remain weak. The effects of the weak market, as well as

the currency impact, are difficult to assess but over the long term, we anticipate that the market for industrial data communication and remote monitoring will be an important growth area. HMS's long-term goals remain the same: long-term growth averaging 20% per year and an operating margin that exceeds 20%.

HMS shares

HMS Networks AB is listed on Nasdaq OMX Stockholm Small Cap in the Information Technology category. On average, 10,416 (4,754) shares were traded each day. The shares' volume-weighted average price in 2013 was SEK 112.8 (102.73). The total number of shares at the end of the period was 11,322,400. All shares have the same voting rights.

Ownership structure as of 31 December 2013

Shareholder	Number of shares	Share of capital and voting rights
Investment AB Latour	3,027,322	26.7%
Staffan Dahlström	1,617,073	14.3%
Swedbank Robur fonder	1,146,500	10.1%
SEB Fonder	909,368	8.0%
Lannebo Fonder	742,976	6.6%
Other	3,879,161	34.3%
Total	11,322,400	100%

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

Profit brought forward and other non-restricted reserves	73,337,222
Profit (loss) for the year	50,016,021
Total equity	123,353,243

The Board of Directors and CEO propose:

Distributing dividends to shareholders of SEK 2.25 per share	25,475,400
Carried forward	97,877,843
	123,353,243

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

Consolidated income statement

SEK thousands	Note	2013	2012
Net sales	5	501,145	381,804
Cost of goods and services sold		-187,229	-152,433
GROSS PROFIT		313,916	229,371
Selling expenses		-128,346	-105,962
Administrative expenses		-48,442	-32,997
Research and development expenses		-52,018	-26,476
Other operating income	10	2,828	3,960
Other operating expenses	10	-1,290	-4,169
OPERATING PROFIT	6, 7, 8, 26, 27	86,647	63,726
Financial income	10, 30	203	1,926
Financial expenses	10, 31	-5,357	-456
Total income from financial investments		-5,154	1,470
PROFIT BEFORE TAX		81,494	65,197
Income tax	9	-18,744	-13,024
PROFIT FOR THE YEAR		62,750	52,173
Earnings per share before dilution, SEK	11	5.54	4.64
Earnings per share, diluted, SEK	11	5.54	4.64
Average number of shares, basic, thousands		11,322	11,252
Average number of shares, diluted, thousands		11,322	11,254
Dividends per share, SEK	12	2.25	2.25

Consolidated statement of comprehensive income

SEK thousands	Note	2013	2012
Profit (loss) for the year		62,750	52,173
Other comprehensive income			
Cash flow hedges		-1,751	2,205
Exchange rate differences		10,004	-480
Hedging of net investments		-9,309	0
Income tax attributable to components of other comprehensive income	9	2,433	-580
Other comprehensive income for the year, net after tax		1,377	1,145
Total comprehensive income for the year		64,127	53,318

Consolidated balance sheet

SEK thousands	Note	2013-12-31	2012-12-31
ASSETS			
Non-current assets			
Intangible assets	13		
Patents		277	318
Capitalized development work		96,062	48,592
Goodwill		390,844	236,071
Customers and technology platforms		64,064	0
Brands		79,001	0
Total intangible assets		630,249	284,981
Property, plant and equipment	14, 25		
Plant and machinery		8,922	9,062
Equipment, tools and other installations		11,257	12,044
Total property, plant and equipment		20,179	21,106
Deferred tax asset	22	724	852
Total non-current assets		651,152	306,939
Current assets			
Inventories	17	35,971	26,843
Accounts receivable - trade	16, 36	53,985	35,501
Derivatives	15, 36	460	2,211
Other receivables	16, 36	9,086	6,606
Prepaid expenses and accrued income	32	4,091	8,028
Cash and cash equivalents	18, 36	15,818	31,487
Total current assets		119,411	110,676
TOTAL ASSETS		770,563	417,615

SEK thousands	Note	2013-12-31	2012-12-31
EQUITY AND LIABILITIES			
Equity			
Share capital	19	1,132	1,132
Other contributed capital	19	125,641	125,641
Reserves		3,645	2,267
Retained earnings		247,139	213,015
Total equity		377,557	342,056
Non-current liabilities			
Borrowings	21, 36	223,789	501
Deferred income tax liabilities	22	65,143	23,168
Total non-current liabilities		288,932	23,669
Current liabilities			
Borrowings	21, 36	36,058	286
Accounts payable - trade	36	28,342	25,462
Income tax liabilities		4,769	1,685
Other liabilities	36	7,922	5,045
Accrued expenses and deferred income	33	24,979	18,391
Provisions	20	2,003	1,021
Total current liabilities		104,073	51,890
TOTAL EQUITY AND LIABILITIES		770,563	417,615

Consolidated cash flow statement

SEK thousands	Note	2013	2012
Operating activities			
Operating profit		86,647	63,726
Adjustment for items not included in cash flow:			
Depreciation		17,231	10,710
Impairment of intangible assets		0	411
Profit (loss) from the sale of PPE	14	0	-47
Incentive program	8	744	0
Cash flow hedging		-1,751	2,205
Exchange rate differences		-1,070	1,719
Interest received	30	77	89
Interest paid	31	-5,357	-456
Income tax paid		-11,253	-10,721
Cash flow from operating activities before changes in operating capital		85,268	67,636
Change in working capital			
Change in inventories		3,931	8,801
Change in accounts receivables - trade		-7,568	8,582
Change in other current receivables		15,725	-5,841
Change in accounts payable - trade		758	3,192
Change in other current liabilities		-8,615	720
Cash flow from operating activities		89,499	83,090
Investing activities			
Investments in PPE	14	-4,493	-12,282
Investments in intangible assets	13	-52,357	-30,709
Investments in subsidiaries	35	-267,326	0
Sales of PPE	14	0	114
Changes in current financial investments		-379	-547
Cash flow from investing activities		-324,554	-43,424
Financing activities			
Proceeds from issue of warrants		0	15,289
Borrowings		261,109	0
Repayment of debt		-46,843	-24,118
Increase of current financial liabilities		34,488	0
Repurchase of own shares		-3,895	0
Dividends paid to the parent company's shareholders	12	-25,475	-25,094
Cash flow from financing activities		219,383	-33,923
CHANGE IN CASH AND CASH EQUIVALENTS		-15,672	5,743
Cash and cash equivalents at beginning of year	18	31,487	26,573
Exchange rate differences in cash and cash equivalents		379	547
Translation differences		-376	-1,375
Cash and cash equivalents at year-end	18	15,818	31,487

Consolidated statement of change in equity

SEK thousands	Note	Share capital	Other contributed capital	Reserves	Profit (loss) carried forward	Total equity
Opening balance on 1 January 2012		1,115	110,369	1,122	185,936	298,543
Comprehensive income						
Profit (loss) for the year					52,173	52,173
Other comprehensive income						
Cash flow hedges	15			2,205		2,205
Exchange rate differences				-480		-480
Income tax related to components in other comprehensive income	9			-580		-580
Total comprehensive income		0	0	1,145	52,173	53,318
Transactions with shareholders						
Employee incentive program:						
Payment of issued shares	19	17	15,272			15,289
Dividend for 2011	12				-25,094	-25,094
Total contribution from and dividend to shareholders		17	15,272	0	-25,094	-9,805
Closing balance on 31 December 2012		1,132	125,641	2,267	213,015	342,056

SEK thousands	Note	Share capital	Other contributed capital	Reserves	Profit (loss) carried forward	Total equity
Opening balance on 1 January 2013		1,132	125,641	2,267	213,015	342,056
Comprehensive income						
Profit (loss) for the year					62,750	62,750
Other comprehensive income:						
Cash flow hedges	15			-1,751		-1,751
Exchange rate differences				10,004		10,004
Hedging of net investments	15			-9,309		-9,309
Income tax attributable to components of other comprehensive income	9			2,433		2,433
Total comprehensive income		0	0	1,377	62,750	64,127
Transactions with shareholders						
Repurchase of own shares					-3,895	-3,895
Share-related remuneration					744	744
Dividend for 2012	12				-25,475	-25,475
Total transactions with shareholders		0	0	0	-28,626	-28,626
Closing balance on 31 December 2013		1,132	125,641	3,644	247,139	377,557

Parent company's income statement

SEK thousands	Note	2013	2012
Net sales	5	7,845	7,995
GROSS PROFIT		7,845	7,995
Administrative expenses	7, 8, 26	-7,818	-7,642
OPERATING PROFIT		27	353
Profit from financial investments			
Profit from participations in Group companies	29	50,000	0
Interest income and similar items	30	9	
Interest expenses and similar items	31	-16	-353
Total income from financial investments		49,993	-353
PROFIT AFTER FINANCIAL ITEMS		50,020	0
Tax on profit for the year		-4	-7
PROFIT (LOSS) FOR THE YEAR		50,016	-7

Parent company's balance sheet

SEK thousands	Note	2013-12-31	2012-12-31
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	28	244,039	244,039
Total financial assets		244,039	244,039
Total non-current assets		244,039	244,039
Current assets			
Current receivables			
Tax receivables		8	114
Other receivables		239	842
Total current receivables		247	955
Cash and bank balances		808	684
Total current assets		1,056	1,639
TOTAL ASSETS		245,095	245,678
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	19	1,132	1,132
Statutory reserve		19,446	19,446
Total restricted equity		20,578	20,578
Non-restricted equity			
Retained earnings		54,740	84,117
Share premium reserve		18,598	18,598
Profit (loss) for the year		50,016	-7
Total non-restricted equity		123,353	102,707
Total equity		143,931	123,285
Untaxed reserves		8	8
Current liabilities			
Borrowings	21	0	0
Accounts payable - trade		535	1,277
Liabilities to Group companies		99,321	120,073
Other liabilities		455	301
Accrued expenses and deferred income	33	844	734
Total current liabilities		101,155	122,385
TOTAL EQUITY AND LIABILITIES		245,095	245,678
PLEDGED ASSETS	24	244,039	244,039
CONTINGENT LIABILITIES	24	287,969	30,000

Parent company's cash flow statement

SEK thousands	Note	2013	2012
Operating activities			
Operating profit		27	353
Interest paid	31	-7	-353
Income tax paid		102	-21
Cash flow from operating activities before changes in working capital		122	-21
Change in working capital			
Change in other current receivables		603	-497
Change in accounts payable - trade		-742	752
Change in other current liabilities		-20,489	34,356
Cash flow from operating activities		-20,506	34,589
Financing activities			
Proceeds from issue of warrants		0	15,289
Repayment of debt		0	-24,118
Repurchase of own shares		-3,895	0
Dividend received	30	50,000	0
Dividend paid		-25,475	-25,094
Cash flow from financing activities		20,630	-33,923
CHANGE IN CASH AND CASH EQUIVALENTS		124	666
Cash and cash equivalents at beginning of year		684	18
Cash and cash equivalents at year-end		808	684

Parent company's statement of changes in equity

SEK thousands	Restricted equity		Non-restricted equity			Total
	Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year	
Opening balance on 1 January 2012	1,115	19,446	109,219	3,326	-8	133,097
Transfer of profit (loss) from 2011			-8		8	0
Employee incentive program:						
Payment of issued shares	17			15,272		15,289
Dividend for 2011			-25,094			-25,094
Profit (loss) for the year					-7	-7
Closing balance on 31 December 2012	1,132	19,446	84,117	18,598	-7	123,285

SEK thousands	Note	Restricted equity		Non-restricted equity			Total
		Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year	
Opening balance on 1 January 2013		1,132	19,446	84,117	18,598	-7	123,285
Transfer of profit (loss) from 2012				-7		7	0
Repurchase of own shares				-3,895			-3,895
Dividend for 2012	12			-25,475			-25,475
Profit (loss) for the year						50,016	50,016
Closing balance on 31 December 2013		1,132	19,446	54,740	18,598	50,016	143,931

Notes

All amounts in SEK thousands unless otherwise stated

Note 1 General information

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

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

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on 17 March 2014.

Note 2 Accounting policies

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

2.1 Basis for preparation of financial statements

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

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

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

2.1.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the Group

Stated below, is the standard that the Group will be applying for the first time for the financial year starting on 1 January 2013 and which has a significant impact on the consolidated financial statements:

IFRS 13 Fair Value Measurement aims to make measurements at fair value more consistent and less complex by providing in the standard an exact definition and common source of information on IFRS fair value measurements and associated information.

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

At the time when the consolidated financial statements for 31 December 2013 were prepared, several standards and interpretations applicable to the Group had been published, but had not yet come into force. None of these are expected to have a significant impact on the consolidated financial statements with the exception of the ones stated below:

IFRS 9 Financial instruments deals with the classification, measurement and recognition of financial assets and liabilities. IFRS 9 replaces the parts of IAS 39 that have to do with the classification and valuation of financial instruments. IFRS 9 has two valuation categories: valuation at fair value or valuation at amortized cost. Classification is determined at initial recognition based on the company's business model and the characteristics of the contractual cash flows. The most significant change relates to liabilities, which are identified at fair value. For these, the portion of the actual change in fair value that is attributable to own credit risk must be reported in other comprehensive income instead of profit or loss, unless this causes inconsistency in reporting. The Group will evaluate the effects of the remaining phases pertaining to IFRS 9 when they are concluded by the IASB.

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

2.2 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. This typically occurs via a shareholding of more than half the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has a controlling influence over another company. The Group also assesses whether it has a controlling influence even though its shareholding is less than half of the voting rights. This can occur when it nevertheless is able to govern the financial and operational strategies via de facto control. De facto control may occur under circumstances where the proportion of the Group's voting rights in relation to the size and distribution of other shareholders' voting rights give the Group the ability to control financial and operational strategies.

Subsidiaries are fully consolidated as of the date when the Group obtains a controlling influence. They are no longer consolidated as of the date when the Group no longer has a controlling influence.

The purchase method is used for reporting the Group's business combinations. The purchase price for the acquisition of a subsidiary is the fair value of the transferred assets, liabilities that the Group incurs to former owners of the acquired company and the shares issued by the Group. The purchase price also includes the fair value

of all assets or liabilities that result from an agreement on contingent payment. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value on the acquisition date. The costs associated with acquisitions are expensed as incurred. If a business combination is carried out in several steps, the prior equity interests in the acquired company are remeasured at the fair value at the time of the acquisition. Any profit or loss that arises is reported in the income statement.

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

Goodwill is initially measured as the amount by which the total purchase price exceeds the fair value of identifiable assets acquired and liabilities assumed. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is reported directly to the income statement.

Intra-Group transactions, balance sheet items and the income and expenses from transactions between Group companies are eliminated. Gains and losses that arise from intra-Group transactions that are reported as assets are also eliminated. The accounting policies of subsidiaries have been adjusted, where necessary, to ensure consistency with the policies applied by the Group.

b) Divestment of a subsidiary

When the Group no longer has a controlling interest, each remaining holding is measured at fair value as of the point in time when the loss of control occurred. The change in carrying amount is reported in the income statement. The 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 Group's reporting currency.

b) Transactions and balance sheet items

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

Exchange profits and losses attributable to loans and liquid funds are reported in the income statement as financial revenues or expenses. 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 are translated at the closing rate of exchange
- b) income and expenses are translated at the average rate of exchange
- c) all resulting exchange differences are recognized in other comprehensive income.

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

2.5 Property, plant and equipment

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

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

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

Machinery and equipment	3–7 years
Equipment and other installations	3–7 years

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

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

2.6 Intangible assets

a) Goodwill

Goodwill arises from the acquisition of subsidiaries, associated companies and joint ventures. Goodwill is the amount that the consideration exceeds the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company.

Goodwill is tested for impairment on an annual basis, or more often if events or changed conditions indicate possible impairment. The carrying amount of goodwill is compared to the recoverable amount, which is equal to the value-in-use or fair value less selling expenses, whichever is higher. Impairment losses are immediately expensed and they are never reversed. The Group's cash-generating units that are expected to benefit from the company acquisition that generated the goodwill are tested each year for impairment.

b) Development work

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

Costs that are directly associated with the development of identifiable and unique 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 the development costs are covered by future volume commitments.

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

Intangible assets resulting from development work are reported at cost. In cases where the carrying amount exceeds the estimated recoverable amount, the asset is immediately written down to its recoverable amount.

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

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

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

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

Capitalized development work	5–7 years
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2.7 Impairment

Assets with an indefinite useful life, such as goodwill or intangible assets not yet ready for use, are not subject to amortization but they are tested annually for impairment. Assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less selling expenses or its value-in-use, whichever is higher.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Capitalized development work is tested annually for impairment before it is ready to be put into use.

2.8 Financial instruments

2.8.1 Classification

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

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

a) Financial assets valued at fair value through profit or loss

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

b) Accounts receivable

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

c) Derivative instruments and hedging

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

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

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

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

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

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

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

2.8.2 Reporting and valuation

Purchases and sales of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial instruments, except for financial assets reported at fair value via the income statement, are initially recognized at fair value plus transaction costs. Financial assets carried at fair value via the income statement are initially recognized at fair value, and associated transaction costs are reported in the income statement.

Financial assets are removed from the balance sheet when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership. Financial assets that can be sold and financial assets valued at fair value via the income statement are reported at fair value after the acquisition date. Loan receivables and accounts receivable are measured at amortized cost using the effective interest method.

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

2.8.3 Offsetting financial instruments

Financial assets and liabilities are offset and reported at a net sum in the balance sheet, only when there is a legally enforceable right to set off the amounts and an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.9 Inventories

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

2.10 Accounts receivables - trade

Accounts receivable are amounts to be paid by customers for goods or services provided by the company as part of its operating activities. If payment is expected within one year or less (or during the normal business cycle, if it is longer than one year), they are classified as current assets. If not, they are reported as non-current assets.

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

2.11 Cash and cash equivalents

Cash and cash equivalents are reported in both the balance sheet and cash flow statement. They include cash in hand, deposits held in bank accounts and other current investments with maturities of three months or less.

2.12 Provisions

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

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

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

2.13 Accounts payable

Accounts payables are obligations to pay for goods or services acquired by suppliers as part of operating activities. Accounts payables are classified as current liabilities if they fall due for payment within 1 year or sooner (or over a normal business cycle if this is longer). Otherwise, they are reported as non-current liabilities.

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

2.14 Income tax

Tax expense for the period includes current tax and deferred tax. Income tax is recognized in the income statement, except when the tax relates to items reported in other comprehensive income or directly in equity. In such cases the tax is also recognized in other comprehensive income and equity respectively.

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

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

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date

and are expected to apply when the related deferred income tax asset is realized or income tax liability is settled.

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

Deferred tax is calculated on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.15 Remuneration to employees

a) Pension commitments

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

Pension commitments for salaried employees in Sweden are secured through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3, this is a defined benefit plan, which covers a number of employers. For the financial year 2013 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 to leading positions and stimulate long-term commitment from employees regarding the Group's profit and business development. Warrants have been issued at market rates and thereafter transferred to the employees. The warrants give the owner the right to acquire shares at a predetermined price. The payments that HMS receives when warrants are transferred are reported in equity. The Group does not incur any costs when an employee exercises warrants, because the employee pays market price for them. New shares are issued when warrants are exercised. As of 31 December 2013, the Group did not have any outstanding option plans.

During 2013, all permanent employees of the HMS Group were offered the opportunity to participate in an incentive program, where

payment is made in shares and where the Group receives services from employees as consideration for the Group's own equity instruments. Fair value for the services that entitle employees to allotment of shares are expensed in the income statement as personnel costs, with the corresponding posting to equity under retained earnings in the balance sheet. The total amount to be expensed is based on the fair value of the allocated shares, which is established on the date they are allocated. Non-market vesting conditions are included in assumptions about the number of shares expected to vest. The total expense is recognized over the vesting period, which is the period during which all the specified vesting conditions are to be fulfilled. At the end of each reporting period, the Group revises its estimates of the number of shares expected to vest based on the non-market vesting conditions. Any deviation from the original assessments that are discovered during the reassessment, are recognized in the income statement with a corresponding adjustment to equity. Social security contributions that arise from the allocation of shares are regarded as an integral part of the allocation and the cost is treated as a cash-settled share-based compensation, which means that social security contributions are calculated based on the fair value of the shares at each reporting date.

2.16 Revenue recognition

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

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the company.

It is not possible to reliably measure an amount of revenue until all contingencies relating to the sale have been satisfied or expired. The Group bases its estimates on historical outcomes, the type of customer, the type of transaction and the particular circumstances of each case.

The Group manufactures and sells products to connect industrial equipment to networks and gateways to enable the interconnection of different networks, as well as products for remote monitoring.

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

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

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

Estimates are revised if any circumstances arise that could alter the original estimate of revenue, expenses or the percentage of completion. These reassessments could result in an increase or decrease

to the estimated revenue or costs and the effect is on revenue during the period when management became aware of such circumstances.

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

2.17 Leasing

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

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

Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Corresponding payment obligations, after deductions for financial expenses, are included in the balance sheet items 'Long-term borrowings' and 'Short-term borrowings'. The interest component of the financial expenses is recognized in the income statement over the leasing period so that the amount of the expense in each reporting period corresponds to a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment that are obtained through a finance lease agreement are depreciated over the asset's useful life or the term of the lease, whichever is shorter.

2.18 Dividends

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

2.19 Borrowing and borrowing costs

Borrowing is originally reported at fair value, net of transaction costs. Afterwards it is reported at amortized cost and any difference between the amount received (net of transaction costs) and the amount to be repaid, is reported in the income statement and allocated over the remaining loan period, applying the effective interest method.

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

2.20 Cash flow statement

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

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

Note 3 Financial risk management

3.1 Financial risk factors

The Group's business activities are associated with a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and financing/liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial results. The Group uses derivative financial instruments to hedge certain risk exposures and it applies hedge accounting in accordance with IAS 39.

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

a) Currency risk

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

Transaction risk is minimized by hedging anticipated net cash flows in foreign currencies over the next twelve months. The Group's risk management policy states that 60% of the exposure should be hedged for the next three months and 10% to 40% of the anticipated exposure should be hedged for the three to nine months thereafter.

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

If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, the operating profit/loss for the year would have been SEK 8.3 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the USD with all other variables held constant, the operating profit/loss for the year would have been SEK 3.4 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses

that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the JPY with all other variables held constant, the operating profit/loss for the year would have been SEK 1.0 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk on the cash flows. The Group's financing 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 2013, 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 on 31 December 2013 were 1% higher/lower with all other variables constant then the profit before tax for the financial year would have been SEK 2.6 (0.1) million lower/higher. If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, profit before tax for the financial year would have been SEK 0.3 million higher/lower due to increased/decreased interest expenses.

c) Credit risk

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

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

d) Financing and liquidity risk

Financing risk is the risk that maturing loans cannot be refinanced without difficulty or added expense and that this situation would make it difficult for the Group to fulfill its payment obligations. Liquidity risk is the risk of difficulties in fulfilling obligations that are associated with financial liabilities. See Note 21 for an analysis of the Group's borrowings, classified according to the time remaining until maturity as of the closing date.

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

Financing risk arises when, at a given point in time, it becomes difficult obtaining financing. To minimize the costs of the Group's borrowings and financing, the finance function must provide credit facilities that adequately meet the Group's need for working capital credit. HMS's goal is to always have access to cash equivalents, excess liquidity and unused credit facilities totaling approximately 10% of its sales.

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

3.2 Managing capital risks

The Group's objective with regard to capital structure is to safeguard the Group's ability to continue operations, so that it can continue to generate returns for shareholders and benefits for other stakeholders. It also strives to maintain an optimal capital structure in order to keep the cost of capital down.

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

The Group evaluates its capital structure by calculating and monitoring the net debt/equity ratio. This ratio is calculated as net debt divided by the 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 2013 and 31 December 2012 were as follows:

	2013	2012
Total borrowings (Note 21)	259,848	787
Less cash and cash equivalents (Note 18)	-15,818	-31,487
Net debt	244,030	-30,700
Total equity	377,557	342,056
Total capital	621,587	311,356
Net debt/equity ratio	65%	0%

3.3 Accounting for derivative instruments and hedging activities

The Group has financial derivatives in the form of foreign exchange contracts that hedge purchases and sales in foreign currency.

Information concerning fair values for the various derivative instruments used for hedging is available in Note 15.

3.4 Calculation of fair value

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

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

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

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

As of 31 December 2013	Less than 3 months	Between 3 months and 1 year	1 to 2 years	2 to 5 years	More than 5 years
Finance leases	-72	-215	-214		
Derivatives	26,012	31,224			
Hedging of net investments	-10,347	-31,969	-40,219	-115,983	-83,328
Accounts payable - trade	-28,342				

As of 31 December 2012	Less than 3 months	Between 3 months and 1 year	1 to 2 years	2 to 5 years	More than 5 years
Finance leases	-72	-215	-286	-214	
Derivatives	15,722	21,846			
Accounts payable - trade	-25,462				

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Derivative instruments used for hedging		2,211		2,211
Total assets	0	2,211	0	2,211

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

Note 4 Important estimates and assessments for accounting purposes

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

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that result from these, by definition, will rarely equate to the actual result. The estimates and assumptions that involve a considerable risk of needing to make significant adjustments to the carrying amounts of assets and liabilities during the next financial year are shown below.

a) Test of impairment for goodwill

Each year, in accordance with the accounting policies described in Note 2.7, the Group tests goodwill for impairment. The recoverable amount for the Group's cash-generating units is established by calculating the value-in-use. Various estimates must be made in order to make these calculations (Note 13). Reported goodwill amounts to SEK 390.8 (236.1) million.

The sensitivity analysis shows that an increased return requirement after tax of 6 percentage points (i.e. return of 16%) does not imply that there is a requirement for impairment.

b) Revenue recognition

The Group uses successive revenue recognition when reporting fixed-price agreements for sales of development services. Successive revenue recognition means that the Group must assess services already performed by the closing date as a proportion of the total services to be performed.

c) Capitalized development costs

The company capitalizes costs associated with the development of identifiable and unique integrated circuits when the criteria described in Section 2.6 b have been fulfilled and when the costs are expected to be covered and exceeded by future volume commitments from customers. Twice per year, the Group determines whether its products, for which a carrying amount has been recorded, are in the process of being sold, or are expected to be sold. The Group records impairment loss on products for which the future revenue is expected to be less than the carrying amount. During 2013, this impairment test did not result in a write-down (2012: SEK -411 thousand).

Note 5 Segment information

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

Net sales per country	The Group		Parent company	
	2013	2012	2013	2012
Germany	141,699	86,681		
USA	91,436	70,352		
Japan	44,471	44,468		
Finland	36,985	33,179		
Sweden	35,912	34,312	7,845	7,995
Other countries	150,642	112,812		
Total	501,145	381,804	7,845	7,995

The carrying amounts for assets and investments in Sweden amount to 54 (91)% of the Group's total assets and in Germany, the corresponding figure is 43 (1)%. The carrying amount of non-current assets in Sweden amounts to 53 (99)% and in Germany 47 (0)% of the Group's total non-current assets. Revenue of approximately SEK 31,280 (23,035) thousand is derived from a single external customer. This revenue is attributable to Finland.

Note 6 Categorization by type of cost

	2013	2012
Cost of purchasing and handling materials	148,693	113,845
Costs for remuneration to employees (Note 8)	221,328	150,118
Depreciation and Amortization (Note 13, 14)	18,158	10,985
Marketing costs	9,501	7,009
Freight costs	4,066	2,761
Other external costs	14,289	33,150
Total costs for goods sold, sales, administration, research and development	416,035	317,868

Note 7 Remuneration to auditors

	The Group		Parent company	
	2013	2012	2013	2012
PwC				
Audit assignment	823	531	477	474
Tax advice	118	98	0	98
Other services	89	581	75	581
Total	1,030	1,210	552	1,153
Other auditors				
Other services	92	35	92	35
Total	92	35	92	35
The Group, total	1,122	1,245	644	1,188

Note 8 Remuneration to employees

	The Group		Parent company	
	2013	2012	2013	2012
Salaries and other remuneration	165,099	108,532	2,501	2,592
Social security contributions	44,454	34,081	814	861
Pension costs	11,775	7,505	392	528
Total	221,328	150,118	3,707	3,981

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

	2013		2012	
	Salaries and other remuneration	Social security expenses (of which pension expenses)	Salaries and other remuneration	Social security expenses (of which pension expenses)
Salaries, other remuneration and social security expenses				
Board members and CEO	6 001	1 911 (728)	3 624	1 769 (815)
Senior executives	4 211	3 057 (1 395)	4 028	2 815 (1 247)
Other employees	154 887	51 261 (9 652)	100 880	37 002 (5 443)
The Group, total	165 099	56 229 (11 775)	108 532	41 586 (7 505)

	2013		2012	
	Average no. of employees	Of which men	Average no. of employees	Of which men
Average no. of employees				
Sweden	184	140	173	130
Germany	101	84	20	15
USA	16	12	13	10
France	2	2	3	2
Italy	5	4	4	3
Japan	11	7	11	7
China	8	7	7	6
Great Britain	4	3	3	3
Denmark	2	1	1	1
India	5	4	4	4
The Group, total	338	264	239	181

	2013		2012	
	No. on closing date	Of which men	No. on closing date	Of which men
The Group's gender distribution (incl. subsidiaries) for Board members and other senior executives				
Board members	6	4	7	5
CEO and other senior executives	8	7	7	6
The Group, total	14	11	14	11

Share-based remuneration

At the AGM on 19 April 2012 it was decided to introduce an incentive program that would be open to all permanent employees of the HMS Networks Group. The Group has not had any share-related incentive programs in the past.

In brief, the share-related incentive program works as follows: employees who choose to participate in the program, must make an initial investment HMS Networks shares during the period 1 January – 31 December 2013. Then, during spring 2017, they are allocated additional shares in HMS Networks, free-of-charge, for each invested share. This is done partly in the form of matching shares and partly in the form of performance shares. Employees who participate in the program must set aside at least 1% of their annual gross salary and at most 3%, except for a few key employees, who may set aside up to 6% of their gross salary for the purchase of shares during the savings

period. In order for the participants to be eligible to receive matching shares, they must be an employee of the Group during the entire qualification period (1 January 2013 – 31 December 2016) and they must retain the shares that they purchased in HMS Networks during the period 1 January 2013 – 31 December 2013 throughout 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 period 2014-2016. In order to receive performance shares, cumulative earnings per share during the period must be between SEK 18.3 and SEK 24. If the requirement on savings is fulfilled, a matching share is allocated for each share that is held. If both the savings and performance requirements are met, a matching share and a performance share are allocated for each share that is held.

In order to ensure delivery of shares in accordance with the incentive program, the 2013 AGM decided to acquire own shares.

At the end of the registration periods on 31 December 2012 and 31 March 2013 respectively, a total of 209 employees had signed up to participate in the share-related incentive program. During 2013, employees who were still employed at year-end had purchased 24,442 shares and thus the maximum number of shares, which, free-of-charge, may be allocated as part of the program, i.e. both matching and performance shares, amounts to a total of 48,884 shares.

The fair value of the services that are performed is based on the share price for the matching shares and the performance shares that are expected to be allocated. The share price is established on the date when the shares are allocated. The Group's costs for the share-related incentive program are reported in accordance with IFRS 2 Share-based payment (see also the description under accounting policies). In 2013, the Group's total employee benefit expenses for the share-based incentive program amounted to SEK 713,186 thousand, of which SEK 542,677 thousand was reported under equity and SEK 170,509 thousand was reported as a provision for future social security expenses.

At the AGM on 19 April 2013, it was decided to introduce a similar share-based incentive program with savings during the period 1 January – 31 December 2014. A total of 177 employees signed up to participate in the program, which corresponds to 50% of the Group's employees.

Note 9 Income tax

	2013	2012
Current tax	13,962	11,046
Deferred tax (Note 22)	4,782	1,978
Tax	18,744	13,024

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:

	2013	2012
Profit before tax	81,494	65,197
Income tax calculated using Swedish tax rates	17,929	17,147
Taxes, previous years' assessments	316	0
Non-taxable income, non-deductible costs	308	334
Difference between tax rates of foreign subsidiaries	192	-153
Revaluation of deferred tax – change in the Swedish tax rate	0	-4,304
Tax expense	18,744	13,024
Weighted average tax rate	23.0%	20.0%

Tax attributable to components of other comprehensive income for cash flow hedges amounts to SEK 385 thousand and for hedges of net investments, the corresponding amount is SEK 2,048 thousand.

Note 10 Exchange rate differences – net

Exchange rate differences were reported in the income statement as follows:

	2013	2012
Cost of goods sold	-1,241	2,987
Other operating income	2,828	3,960
Other operating expenses	-1,290	-4,169
Net financial items	127	1,837
	424	4,615

Note 11 Earnings per share

a) Before dilution

Earnings per share before dilution 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.

	2013	2012
Profit attributable to parent company shareholders	62,750	52,173
Weighted average number of outstanding ordinary shares (000s)	11,322	11,252
Earnings per share before dilution (SEK per share)	5.54	4.64

(b) After dilution

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilutive effect of all potential ordinary shares. The parent company has established a warrants scheme for staff, which constituted the sole potential dilutive effect in 2012. For the share options, an estimate is made of the number of shares that could have been acquired at fair value (estimated as the year's average market price for parent company shares), for an amount equivalent to the monetary value of the subscription rights associated with the outstanding share options. The number of shares estimated as above is compared with the number of shares that would have been issued on the assumption that the warrants are utilized.

	2013	2012
Weighted average number of outstanding ordinary shares (000s)	11,322	11,252
Adjustments for share options (000s)	0	2
Weighted average no. of ordinary shares used to calculate EPS after dilution (000s)	11,322	11,254
Earnings per share (EPS) after dilution (SEK per share)	5.54	4.64

Note 12 Dividend per share

The dividend paid in 2013 was SEK 25,475 thousand and dividends per share were SEK 2.25 per share. In 2012, the dividend paid was SEK 25,094 thousand and dividends per share were SEK 2.25 per share.

At the AGM on 25 April 2014 a proposal will be made to distribute SEK 25,475 thousand as dividends for the 2013 financial year, which corresponds to SEK 2.25 per share. The proposed dividend has not been reported as a liability in these financial statements.

Note 13 Intangible assets

	Patents	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Total
As of 1 January 2012						
Cost	448	56,519	236,071	,		293,036
Accumulated amortization and impairment	-90	-33,523		,		-33,612
Carrying amount	358	22,996	236,071	0		259,424
Financial year 2012						
Opening carrying amount	358	22,996	236,071			259,424
Purchases		30,709				30,709
Impairment		-411		,		-411
Depreciation	-41	-4,703		,		-4,743
Closing carrying amount	318	48,592	236,071	0		284,981
As of 31 December 2012						
Cost	448	87,228	236,071	,		323,745
Accumulated amortization and impairment	-130	-38,636		,		-38,766
Carrying amount	318	48,592	236,071	0		284,981
Financial year 2013						
Opening carrying amount	318	48,592	236,071	,		284,981
Purchases		52,609		,		52,609
Acquisition of subsidiaries			149,219	68,002	76,167	293,387
Exchange rate differences			5,555	2,320	2,835	10,711
Depreciation	-41	-5,140		-6,258		-11,438
Closing carrying amount	277	96,062	390,844	64,064	79,001	630,249
As of 31 December 2013						
Cost	448	139,838	385,290	68,002	76,167	669,744
Accumulated amortization and impairment/ rate effects	-171	-43,776	5,555	-3,937	2,836	-39,493
Carrying amount	277	96,062	390,844	64,064	79,001	630,249

In the income statement, amortization and impairment losses of SEK 10,458 (4,743) thousand are included in Cost of goods sold and SEK 980 (0) thousand in Selling expenses.

Through the acquisition of HMS Networks AB in 2004, the Group acquired expertise that has provided synergy effects in the form of management and financing opportunities. This has resulted in enhanced growth prospects, which is reflected in goodwill for an amount of SEK 236,071 thousand.

In 2013, the German company, IXXAT Automation GmbH was acquired, which resulted in consolidated goodwill in the form of customers, technology platforms and brand. The new business also brought synergies in the form of complementary technology and a broader market, with a goodwill value of SEK 149,219 thousand.

Patents, capitalized development costs and brands are tested for impairment each year. During 2013, this impairment test did not result in a write-down (2012: SEK 411) thousand.

a) Test of impairment for goodwill

The Group's goodwill has been evaluated in accordance with IAS 36. The recoverable amount for the cash generating unit has been based on its value-in-use. This has included estimates for growth, profit margin, tied-up capital, investment requirement and risk premium. The principles behind these assumptions were unchanged compared with the previous year.

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

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 in line with the company's financial plan and historic performance.

Investments during the period are based on the company's internal investment plan and are expected to equal the replacement need.

These estimates form the basis for calculating value-in-use and the cash flow forecast for a period covering the fixed budget and the company's five-year financial plan. Cash flow after that has then been extrapolated based on an assumption of 2.5 (2.5)% annual growth, which is lower than the actual annual growth rate. The need for

operating capital (not including cash) is assumed, long term, to equal 8 (8)% of the company's net sales. The return requirement, WACC, before tax was set at 11.1 (10.9)%.

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 14 Property, plant and equipment

	Plant and machinery	Equipment, tools and other installations	Total
As of 1 January 2012			
Cost	18,130	25,363	43,493
Accumulated depreciation	-13,383	-14,765	-28,147
Carrying amount	4,747	10,600	15,348
Financial year 2012			
Opening carrying amount	4,747	10,600	15,347
Exchange rate differences		-199	-199
Purchases	6,577	5,704	12,282
Sales and disposals	-115	-1,179	-1,294
Depreciation	-2,262	-3,992	-6,254
Sales and disposals	115	1,111	1,226
Closing carrying amount	9,062	12,044	21,106
As of 31 December 2012			
Cost	24,592	29,689	54,281
Accumulated depreciation	-15,530	-17,646	-33,176
Carrying amount	9,062	12,044	21,106
Financial year 2013			
Opening carrying amount	9,062	12,043	21,106
Exchange rate differences	0	-388	-388
Purchases	2,622	1,871	4,493
Increase through business combination	0	1,642	1,642
Depreciation	-2,762	-3,912	-6,674
Closing carrying amount	8,922	11,257	20,179
As of 31 December 2013			
Cost	27,214	32,815	60,029
Accumulated depreciation	-18,292	-21,558	-39,850
Carrying amount	8,922	11,257	20,179

Depreciation costs of SEK 3,398 (2,618) thousand are included in costs of goods sold, and SEK 1,092 (1,212) thousand is included in selling costs, SEK 1,092 (1,212) thousand is included in administration costs and SEK 1,092 (1,212) in research and development costs.

Note 15 Derivative instruments

The Group	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts				
– cash flow hedges	460		2,211	
Total	460	0	2,211	0

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

a) Forward contracts

The nominal amount of outstanding foreign exchange contracts as of 31 December 2013 was SEK 57,237 (37,567) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Profit and loss on forward contracts as of 31 December 2013, which is reported as equity, is reported in the income statement as operating profit for the periods when the hedged transaction affects earnings.

The value of derivatives had a positive effect on profit for 2013 equal to SEK 2,021 (3,565) thousand.

b) Hedging of net investments in foreign operations

The Group's borrowings in EUR of 259,347 thousand are identified as a hedging of net investments pertaining to the acquisition of IXXAT. The Group's assessment is that the fair value corresponds to the carrying amount as of 31 December 2013. The exchange loss on translation of the borrowings into SEK amounts to 9,309 thousand for the reporting period and it has been recognized in other comprehensive income.

Note 16 Accounts receivable and other receivables

	2013	2012
Accounts receivable – trade	54,152	35,544
Provision for doubtful debts	-167	-43
Accounts receivable – net	53,985	35,501

The fair value of accounts receivables and other receivables is as follows:

	2013	2012
Accounts receivable – trade	53,985	35,501
Other receivables	9,086	6,606
Prepaid costs and accrued income, see Note 32	4,091	8,028
	67,162	50,135

As of 31 December 2013, the Group reported a loss pertaining to a reversal and impairment of accounts receivable amounting to SEK 51 thousand (in 2012, a gain was reported of SEK 78 thousand). As of 31 December 2013, the provision for doubtful debts amounted to SEK 167 (43) thousand.

As of 31 December 2013, accounts receivable amounting to SEK 10,121 (8,042) thousand had fallen due and it was determined that a write-down requirement on that amount was not required. This amount concerns customers that have not previously had difficulties making payments.

An age analysis is presented in the table below.

	2013	2012
1–15 dagar	7,718	5,622
15 dagar till 3 månader	2,514	2,084
3 till 6 månader	-111	336
	10,121	8,042

As of 31 December 2013, the Group reported accounts receivable for which there was a write-down requirement of SEK 152 (43) thousand.

As of 31 December 2013, the provision for doubtful debts amounted to SEK 167 (43) thousand. The assessment is that a portion of the receivables is expected to be paid.

An age analysis is presented in the table below.

	2013	2012
Less than 3 months	77	0
3 to 6 months	0	0
More than 6 months	75	43
	152	43

Note 19 Share capital and other contributed capital

	Number of shares (000s)	Share capital	Other contributed capital	Total
As of 1 January 2012	11,153	1,115	110,368	111,483
New share issue when warrants were exercised	170	17	15,273	15,290
As of 31 December 2012	11,323	1,132	125,641	126,773
As of 1 January 2013	11,323	1,132	125,641	126,773
As of 31 December 2013	11,323	1,132	125,641	126,773

The total number of shares is 11,322,400 (11,322,400) with a quotient value of SEK 0.1 (0.1) per share.

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:

	2013	2012
EUR	32,879	19,161
USD	15,595	9,541
JPY	1,909	4,005
SEK	2,695	2,202
GBP	825	461
DKK	244	167
INR	6	7
Total	54,152	35,544

Note 17 Inventories

The Group	2013	2012
Raw materials and consumables	25,128	22,651
Work-in-progress	2,502	273
Finished goods	8,341	3,920
	35,971	26,843

Costs for impairment of inventories (obsolescence) that affected the year's profit are included in cost of goods sold and they negatively impacted earnings by SEK 654 (2012: positive impact 131) thousand. The Group does not have sufficient financial information to calculate the proportion of material in cost of goods sold.

Note 18 Cash and cash equivalents

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

The Group	2013	2012
Cash and bank balances	15,818	31,487
Short-term bank deposits	0	0
	15,818	31,487

Note 20 Allocations

	2013	2012
Provision for returned goods	2,003	1,021
Total	2,003	1,021

Note 21 Borrowings

	The Group		Parent company	
	2013	2012	2013	2012
Long-term				
Bank loans	223,575	0	0	0
Leasing, see Note 25	214	501		
	223,789	501	0	0
Current				
Bank loans	35,772	0	0	0
Leasing, see Note 25	286	286		
Total borrowings	259,847	787	0	0
Payment due within one year	36,058	286	0	0
Payment due within 2 to 5 years	223,789	501	0	0
	259,847	787	0	0

The bank loan has a variable interest rate that is tied to EURIBOR. The average rate in 2013 was 2.11%.

Total borrowings includes bank loans and other loans against movable property for SEK 0 (11,500) thousand.

Note 22 Deferred tax

Deferred tax assets	Intangible assets	Futures	Deficit deduction	Total
As of 1 January 2012			770	770
Exchange rate differences			82	82
As of 31 December 2012	0	0	852	852
Reported in income statement			-127	-127
Exchange rate differences			-1	-1
As of 31 December 2013	0	0	724	724
Deferred tax liabilities	Untaxed reserves	Intangible assets	Futures	Total
As of 1 January 2012	20,609	93	2	20,705
Reported in income statement	2,009	-31	0	1,978
Reported in other comprehensive income			485	485
As of 31 December 2012	22,618	62	487	23,168
Reported in income statement	5,178	-396		4,782
Reported in other comprehensive income			-2,433	-2,433
Consolidated goodwill attributable to acquired new subsidiary		38,204		38,204
Exchange rate differences		1,422		1,422
As of 31 December 2013	27,796	39,293	-1,946	65,143

Deferred tax assets are reported for tax loss carryforwards to the extent that it is probable that they can be utilized through future taxable profits. These loss carryforwards do not expire in the foreseeable future. The deferred tax receivable amounting to SEK 724 (852)

thousand refers to a deficit deduction by the subsidiary in USA. Full utilization of this loss carryforward is expected. All deferred tax falls due more than twelve months in the future.

Note 23 Pension obligations

Pension benefits

For salaried employees in Sweden, the ITP 2 plan's defined benefit pension obligations for retirement pension and family pension have been secured through insurance with Alecta. 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. According to a statement from the Swedish Financial Reporting Board, UFR 3 Classification of ITP plans financed by insurance in Alecta, this is a defined benefit plan, which covers a number of employers. For the 2013 financial year, the company did not have access to information in order to report its proportionate share of the plan's obligations, plan assets and costs, which meant that it was not possible to report this as a defined benefit plan. Pension plan ITP 2, which is secured through insurance with Alecta, is therefore reported as a defined contribution plan.

The premium for the defined benefit retirement and family pension is individually calculated. It is based on such things as salary, previously earned pension and expected remaining period of service. For 2013, the fees for pension insurance with Alecta amounted to SEK 5,575 (4,659) thousand. The year's fees for pension insurance with Skandia amounted to SEK 2,524 (2,194) thousand. Expected fees for the next reporting period for ITP 2 insurance with Alecta are SEK 5,774 thousand. The Group accounts for an insignificant portion of the plan.

The collective consolidation level is comprised of the market value of Alecta's assets as a percentage of the pension obligations calculated in accordance with Alecta's actuarial methods and assumptions, which are not in accordance with IAS 19. The collective consolidation level should typically be allowed to fluctuate between 125 and 155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken to bring the consolidation level back to the normal interval. If the consolidation level is low, one measure might be to raise the set price for new subscription or expand existing benefits. If the consolidation level is high, one measure might be to introduce premium reductions. At year-end 2013, Alecta's surplus at the collective consolidation level was 148 (129) percent.

For the foreign units, the pension obligations are classified as defined contribution plans and the amount reported in the income statement is SEK 3,229 (2,637) thousand.

Note 24 Pledged securities and contingent liabilities

Group – Pledged assets	2013	2012
Chattel mortgages	0	11,500
Shares in subsidiaries	527,371	250,092
Contingent liabilities		
Contingent liabilities	0	0
Parent company – Pledged assets	2013	2012
Shares in subsidiaries	244,039	244,039
Contingent liabilities		
Security for subsidiaries	287,969	30,000

Note 25 Finance leases

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

Plant and machinery	2013	2012
Accumulated cost	11,337	11,337
Accumulated depreciation	-10,836	-10,550
Carrying amount	501	787

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

	2013	2012
Within 1 year	286	286
1 to 5 years	214	501
Total future leasing payments	501	787

Operating leases

Operating leases primarily pertain to office and manufacturing facilities and office machinery.

	2013	2012
Total minimum leasing fees for the financial year	14,614	12,947
Total minimum leasing fees for the financial year	14,614	12,947

Future contractual leasing payments

	2013	2012
Within 1 year	15,283	13,541
1 to 5 years	62,676	55,530
Total future leasing payments	77,959	69,071

Note 26 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 AGM decision. There is no separate remuneration for committee work. Board fees do not pertain to employee representatives.

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

The distribution between basic salary and variable remuneration shall be proportionate to the executive's responsibilities and authority. For the CEO and other senior executives, variable remuneration may not exceed 30% of basic salary. Variable remuneration is based on performance in relation to targets. Pension benefits and other benefits for the CEO and other senior executives are a part of the total remuneration package.

Remuneration and other benefits 2013	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2013	Option holdings	Board attendance
Chairman of the Board, Urban Jansson	300			300		100%
Board member, Nicolas Hassbjer (Board member for 4 months)	50			50		100%
Board member, Ray Mauritsson	150			150		100%
Board member, Göran Sigfridsson	150			150		88%
Board member, Henrik Johansson	150			150		100%
Board member, Gunilla Wikman	150			150		88%
Board member, Charlotte Brogren	150			150		88%
Total, Board	1,100	0	0	1,100	0	
CEO Staffan Dahlström	1,401		392	1,793		
Other senior executives (total of 7)	4,211		1,395	5,606		
Total	6,712	0	1,787	8,499	0	
Remuneration and other benefits 2012	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2012	Option holdings	Board attendance
Chairman of the Board, Urban Jansson	300			300		88%
Board member, Nicolas Hassbjer	150			150		100%
Board member, Ray Mauritsson	150			150		100%
Board member, Göran Sigfridsson	150			150		100%
Board member, Henrik Johansson	150			150		100%
Board member, Gunilla Wikman	150			150		88%
Board member, Charlotte Brogren	150			150		100%
Total, Board	1,200	0	0	1,200	0	
CEO Staffan Dahlström	1,392		528	1,920		
Other senior executives (total of 5)	4,028		1,247	5,275		
Total	6,620	0	1,775	8,395	0	

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.

Options held refers to the number of warrants held by each individual/group. Each warrant entitles the holder to acquire one share in HMS Networks AB (publ). For further information about the HMS warrants scheme, see Note 2.

At the AGM on 19 April 2013 Urban Jansson was re-elected as Chairman of the Board. The following individuals were also re-elected at the AGM to serve on the Board of Directors: Ray Mauritsson, Göran Sigfridsson, Henrik Johansson, Gunilla Wikman and Charlotte Brogren.

Since the AGM of 19 April 2013 the Board has held 8 minutes meetings up to the adoption of this annual report.

Variable remuneration

Variable remuneration for the CEO and other senior executives is based primarily on growth and operating profit as determined by the Board. For 2013 variable remuneration for the CEO represents 0 (0)% of basic salary and for other senior executives it was also 0 (0)%. Bonus may not exceed 30 (30)% of basic salary.

Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pension plans. See section 2.15. Pension costs are costs that affect profit (loss) for the year.

Pensions

The retirement age for the CEO is 65 years. For other senior executive, the retirement age is 65 years.

Severance pay

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

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

Decisions on remuneration

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

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2013 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.

Note 27 Sick leave

	2013	2012
Total sick leave	1.91%	2.64%
- sick leave for men	1.90%	2.71%
- sick leave for women	1.91%	2.41%
- employees 29 years and younger	2.41%	2.22%
- employees 30–49 years	1.63%	2.76%
- employees 50 years and above	3.01%	2.33%

Sick leave is shown for the Swedish subsidiaries.

Note 28 Participations in subsidiaries

Shares owned by parent company	Registered office	CIN	Share	Number of shares	With quotient value	13-12-31	12-12-31
HMS Industrial Networks AB	Halmstad, Sverige	556529-9251	100%	6 540	100	244 039	244 039
Aktier ägda av dotterbolag	Registered office	CIN	Share	Equity	Profit (loss)		
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%	9 718	2 287		
HMS Industrial Networks Inc	Chicago, USA	5983-659-5	100%	1 652	967		
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%	7 921	-11		
HMS Industrial Networks SAS	Mulhouse, France	489154476	100%	979	-68		
HMS Industrial Networks S.r.l.	Milano, Italy	5260930960	100%	909	286		
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%	247	0		
HMS Industrial Networks K.K	Tokyo, Japan	0200-01-060118	100%	1 342	264		
HMS Industrial Networks ApS	Copenhagen, Denmark	33363842	100%	293	71		
HMS Industrial Networks Ltd.	Coventry, England	7521411	100%	302	121		
HMS Industrial Networks India Pvt. Ltd.	Pune, India	138298	100%	171	-76		
IXXAT Holding GmbH	Weingarten, Tyskland	723620	100%	266 516	13 931		
IXXAT Automation GmbH	Weingarten, Germany	29724241	100%	23 560	-823		
IXXAT Sarl	Orsay Cedex, France	534 368 113	100%	-473	481		
IXXAT Inc.	Bedford, USA	003274-8220	100%	2 318	-624		

Note 29 Earnings from participations in Group companies

Parent company	2013	2012
Dividend	50,000	0
Total	50,000	0

Note 30 Other interest income and similar items

	The Group		Parent company	
	2013	2012	2013	2012
Interest income	76	89	9	0
Exchange rate differences	127	1,837	0	0
Total	203	1,926	9	0

Note 31 Other interest expenses and similar items

	The Group		Parent company	
	2013	2012	2013	2012
Interest income	-5,357	-456	0	-353
Exchange rate differences	0	0	-16	0
Total	-5,357	-456	-16	-353

Note 32 Prepaid costs and accrued income

	The Group	
	2013	2012
Rents	2,079	2,141
Accrued income	754	2,972
Other items	1,258	2,914
Total	4,091	8,028

Note 33 Accrued expenses and deferred income

	The Group		Parent company	
	2013	2012	2013	2012
Accrued salaries	3,201	2,334		
Vacation pay	6,098	5,396	163	116
Social security contributions	7,928	6,633	324	339
Other items	7,752	4,029	357	279
Total	24,979	18,391	844	734

Note 34 Related parties

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

Note 35 Business combinations

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

Purchase sum on 31 January 2013	253,849
Total purchase sum paid	253,849
Cash and cash equivalents	7,500
Intangible assets	
- Customers and technology platforms	68,002
- Brands	76,167
- Deferred tax liabilities	-38,204
Property, plant and equipment	1,642
Inventories	13,059
Accounts receivable and other receivables	58,117
Accounts payable and other liabilities	-22,471
Borrowings	-20,977
Deferred tax liabilities	-38,204
Total identifiable net assets	104,630
Goodwill	149,219
	0

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

Acquisition-related costs of SEK 1,247 thousand have been included in administrative cost in the consolidated income statement for 2013.

The fair value for accounts receivable and other receivables is SEK 58,117 thousand and it includes accounts receivable for a value of SEK 10,915 thousand. The contractual gross amount of overdue accounts receivables is SEK 192 thousand.

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

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

Note 36 Financial instruments by category

	As of 31 December 2013		
	Accounts receivable – trade	Derivative instruments used for hedging	Total
Assets in the balance sheet			
Derivative instruments		460	460
Accounts receivable and other receivables, excluding interim receivables	63,071		63,071
Cash and cash equivalents	15,818		15,818
Total	78,889	460	79,349
		Other financial liabilities	Total
Liabilities in the balance sheet			
Borrowing (excluding liabilities pertaining to finance leases)		259 347	259 347
Accounts payable and other payables excluding financial liabilities		36 264	36 264
Total		295 611	295 611
	As of 31 December 2012		
	Accounts receivable – trade	Derivative instruments used for hedging	Total
Assets in the balance sheet			
Derivative instruments		2,211	2,211
Accounts receivable and other receivables, excluding interim receivables	42,107		42,107
Cash and cash equivalents	31,487		31,487
Total	73,594	2,211	75,805
		Other financial liabilities	Total
Liabilities in the balance sheet			
Borrowing (excluding liabilities pertaining to finance leases)		0	0
Accounts payable and other payables excluding financial liabilities		30,507	30,507
Total		30,507	30,507

Note 37 Events after the closing date

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

Note 38 Key financial figures

Return on shareholders' equity Share of profit after tax attributable to the parent company's shareholders in relation to the average shareholders' equity.

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

Return on total capital Share of the profit after financial expenses attributable to the parent company's shareholders in relation to the average total capital.

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.

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

Net debt Long-term and current financial liabilities less financial assets.

Net debt/equity ratio Net debt in relation to shareholders' equity.

P/E ratio Market price in relation to earnings per share.

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

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

Operating margin Operating profit (loss) in relation to net sales.

Equity/assets ratio Shareholders' equity in relation to total assets.

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

The Board of Directors and CEO affirm that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a true and fair view of the Group's financial position and results. The Annual Report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the and Parent Company's financial position and results.

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

The income statement and balance sheets will be brought forth at the Annual General Meeting on 25 April 2014 for adoption.

Halmstad 17 March 2014

Urban Jansson
Chairman

Staffan Dahlström
CEO

Göran Sigfridsson

Ray Mauritsson

Henrik Johansson

Gunilla Wikman

Charlotte Brogren

Our audit report was submitted on 26 March 2014
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of HMS Networks AB (publ) for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 50-83.

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

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International

Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Report on other legal and regulatory requirements

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

Responsibilities of the Board of Directors and the Managing Director

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

Auditor's responsibility

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

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

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

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

Opinions

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

Halmstad 26 March 2014
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Notice of the AGM for HMS Networks AB (publ)

The shareholders of HMS Networks AB (publ) are hereby invited to the Annual General Meeting, which will be held at 10.30 AM on Thursday 25 April 2014 at the HMS head office, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 9.30 AM.

Right of participation in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden (the former VPC AB – the Swedish Central Securities Depository) on Friday 17 April 2014 and give notice of their intention to participate at the Meeting to the Company no later than 4 PM on Monday 17 April 2013.

The registration must be communicated in one of the following ways: by phone: +46 (0)35-17 29 00, in writing: HMS Networks AB (publ), Box 4126, 300 04 Halmstad, by fax: +46 (0)35-17 29 09 or by email: ir@hms.se. The registration must include the following information: name, personal ID number/CIN, shareholding, address, daytime telephone number and, when applicable, information on assistants or deputies who will be attending. The notification must include, where applicable, complete authorization documents such as registration certificate, power of attorney, or equivalent.

Proxies

If a shareholder is represented by a proxy, the proxy must be issued with a power of attorney dated for this day. If the power of attorney is issued by a legal entity, a certified copy of the registration certificate, or other document demonstrating the signatory's authority to sign for the legal entity, must be included. The power of attorney and any registration certificate may not be more than one year old. The power of attorney (original), and registration certificate should be sent to the Company at the above stated address well in advance. The form is available on the Company's website: <http://investors.hms.se> and at the Company's head office.

Nominee registered shares

Shareholders whose shares are registered in the name of a nominee through a bank or Securities Register Centre must temporarily re-register the shares in their own name to be able to participate at the Meeting. Such registration must be done at Euroclear Sweden no later than Friday 17 April 2013, which means that shareholders must notify their intentions on this matter to the nominee well in advance of the stated date.

Halmstad, March 2014
HMS Networks AB (publ)
The Board of Directors

Shareholder information

Future reports

- Q1 interim report 24 April 2014
- Q2 interim report 16 July 2014
- Q3 interim report 28 October 2014
- Year-end report, February 2015

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





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

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

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

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