

# HMS Networks

## Annual Report 2020

The HMS logo is centered in the image. It consists of the letters 'Hms' in a bold, blue, sans-serif font. Above and below the letters are two parallel red diagonal lines. A stream of glowing orange binary code (0s and 1s) flows from the bottom left towards the logo, creating a sense of digital connectivity.

**Hms**

HARDWARE MEETS SOFTWARE™



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

## HMS — Hardware Meets Software™

HMS stands for Hardware Meets Software. We create products that enable industrial equipment to communicate and share information. This increases productivity and sustainability for our customers.



The HMS logo is centered on the page. It features the letters 'Hms' in a bold, dark blue, sans-serif font. Above and below the letters are two parallel red diagonal lines. The background of the entire page is a collage of industrial and technological imagery, including a robotic arm on the left, a person's hands using a tablet on the right, and a large, stylized binary code (0s and 1s) that flows from the bottom left towards the center.

# Hms

### 10 quick facts about HMS:

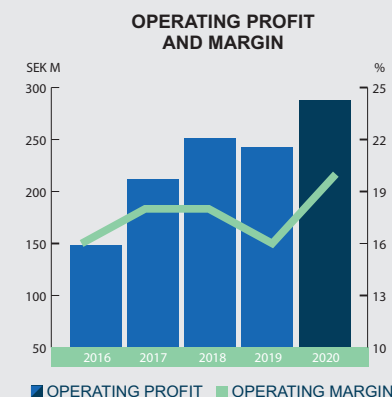
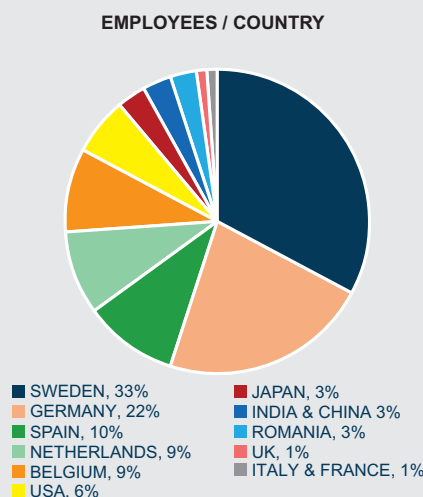
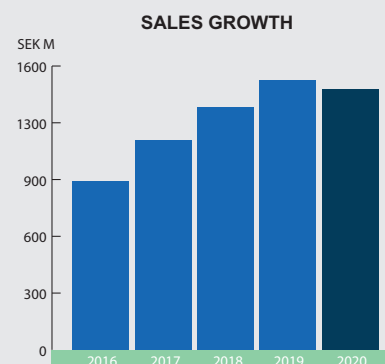
<b>Founded in</b>	1988
<b>Sector</b>	Industrial ICT (Information and Communication Technology)
<b>Operations in</b>	16 countries
<b>Employees</b>	+700
<b>Major markets</b>	Germany, US, Japan
<b>Head office</b>	Halmstad, Sweden
<b>CEO</b>	Staffan Dahlström
<b>2020 sales</b>	SEK 1,467 million
<b>2020 operating profit</b>	SEK 288 million
<b>Product brands</b>	Anybus, Ewon, Intesis, Ixxat (WEBfactory, Procentec)

# 2020 in brief

In 2020, HMS sales amounted to SEK 1,467 [1,519] million and operating profit was SEK 288 [243] million. The average number of employees during the year was 614 [617].

- January: Intesis, part of the HMS Group since 2016, becomes HMS's 4th Business Unit and is thereby enabled to use the HMS Sales and Marketing organization worldwide.
- March: The Corona virus causes shutdowns across the world and most HMS staff go into home office mode. Manufacturing and supply chain continue to operate.
- April: HMS implements short-time work for employees in Sweden and Germany and cancels dividend to shareholders.
- June: For the 6th time in a row, Ewon is named the number one choice for Remote Access by the readers of the American business magazine Control Design.
- October: HMS acquires 70% of all shares in the Dutch company Procentec B.V. Headquartered in Rotterdam, Procentec is a world leader in solutions and services for diagnostics and monitoring of industrial networks.
- October: HMS acquires the remaining 25.1% of WEBfactory GmbH and becomes the sole owner.
- October: In the financial report for Q3, HMS presents decreased growth but increased profitability. New financial targets for 2025 are also communicated, which include a growth target for net sales exceeding "π" billion (SEK 3.14 billion) with an operating margin target of 20%.
- December: Despite the pandemic, HMS ends the year strongly and is back to growth with a 17% sales increase in Q4 (compared to Q4, 2019).

FINANCIAL INFORMATION IN BRIEF, SEK m	2020	2019	2018	2017	2016
Net sales	1,467	1,519	1,366	1,183	952
Growth in net sales, %	-3	11	15	24	36
Operating profit	288	243	251	212	149
Operating margin, %	20	16	18	18	16
Profit for the year	220	205	171	143	100
Net profit margin, %	15.0	13.5	12.5	12.1	10.6
Order intake	1,447	1,470	1,433	1,204	966
Earnings per share, basic, SEK	4.79	4.43	3.68	3.06	2.16
Earnings per share, diluted, SEK	4.77	4.40	3.65	3.04	2.16
Cash flow from operating activities	370	254	193	207	155
Average number of employees during the year	614	617	536	486	467



# Contents

<b>CEO COMMENTS</b> .....	2
<b>HMS STOCK</b> .....	4
<b>HMS PLAYING FIELD — INDUSTRIAL ICT</b> .....	6
<b>BUSINESS MODEL AND VALUE CREATION</b> .....	8
<b>STRATEGIES AND GOALS</b> .....	10
<b>THE HMS WORLD</b> .....	12
<b>PRODUCT OFFERING</b> .....	15
Anybus® .....	18
Ewon® .....	19
Intesis® .....	20
Ixxat® .....	21
WEBfactory and Procentec .....	22
<b>SUSTAINABILITY</b> .....	24
Sustainability in focus .....	26
Climate and energy framework .....	27
Minimizing climate impact in our operations .....	28
HMS products lower environmental impact .....	29
Business ethics and social responsibility .....	30
Examples of social commitments .....	31
Personal and professional development .....	32
Auditor's report .....	34
<b>CORPORATE GOVERNANCE</b> .....	35
Chairman's comments .....	36
Corporate governance report .....	37
Board's internal control report .....	41
Board of Directors .....	44
Group management .....	46
Extended management team .....	47
<b>FINANCIAL DEFINITIONS</b> .....	48
<b>GLOSSARY</b> .....	49
<b>FINANCIAL STATEMENTS</b> .....	50
<b>CFO'S COMMENTS</b> .....	52
<b>DIRECTORS' REPORT</b> .....	54
<b>NOTES</b> .....	67
<b>BOARD'S AFFIRMATION</b> .....	102
<b>AUDIT REPORT</b> .....	103
<b>MULTI-YEAR OVERVIEW</b> .....	106
<b>HMS NETWORKS GRI APPENDIX 2020</b> .....	107
<b>NOTICE OF AGM</b> .....	114



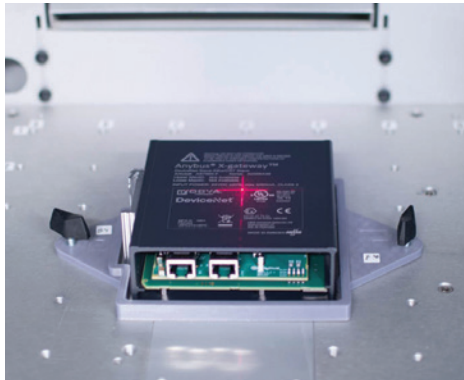
# 2020: Corona adjustments and investments for the future

2020 has been dominated by great uncertainty and turbulence due to Covid-19. Despite a weaker demand from many of our customers, we can conclude that our business has been relatively spared and we have been able to take important steps in planning for the future. We have also seen promising results from the ongoing digital transformation in our operations around the world.



“In 2020, we have accelerated our digitalization efforts, working even more with digital meetings and tools, both externally with customers and internally.”





*Manufacturing and supply chain at HMS has continued to operate during the Corona pandemic, while most office work, meetings and sales and marketing activities have turned digital.*

### SECURED SUPPLY CHAIN & DIGITAL WORK

We started seeing a weaker demand already at the end of 2019, and it weakened further in the spring of 2020 with the Covid-19 pandemic and its repercussions on our customers and markets. However, we saw a gradual improvement in demand during the fall of 2020, and the year ended relatively strong. In summary, it has been a turbulent year, but we still feel confident for the future.

Despite dramatic shutdowns in certain markets during the year, we have managed to secure our supply chain and continue to deliver world-class quality. Challenges regarding logistics and component supply have been handled in an efficient manner. We have also strengthened our gross margins, primarily through increased focus on purchasing and efficiency in our production chain, but also through changing prices and discounts for our customers and partners.

In 2020, we have accelerated our digitalization efforts, working even more with digital meetings and tools, both externally with customers and internally. This change has worked well, even though we are looking forward to getting back to more face-to-face meetings and a more creative atmosphere. We will certainly have a mix of both in the future and we will apply a higher degree of flexibility the pandemic is behind us.

### TIME FOR A NEW STRATEGY

In 2020, our management team has defined the company's long-term strategy, HMS2025, which was presented in November. New financial targets have been set for 2025, including a growth target to exceed "π" billion (SEK 3.14 billion) of net sales and an operating margin target of 20%.

To achieve these ambitious goals, we will have an increased focus on acquisitions, resulting in a slightly adjusted dividend policy. The new policy that 30-50% of the annual earnings per share will be distributed to shareholders, gives the company greater flexibility to finance future acquisitions. Additionally, the HMS2025 strategy contains new ambitions when it comes to focus markets, sustainability, growth, employee and customer satisfaction.

### ACQUISITIONS

On October 1, HMS acquired 70% of Dutch Procentec BV. The remaining 30% is owned by three senior executives in the company. Procentec offers hardware and software solutions and services for network monitoring and diagnostics in industrial end user processes. We see great opportunities to develop this business internationally, and offer more services to predict

and prevent operational issues in our customers' networks, which are crucial to achieve the desired level of productivity and quality.

During the year, we also acquired the remaining part of German WEBfactory GmbH. As a 100% owner, we can now increase the level of integration and further explore usage of WEBfactory's software products together with other products from HMS. We see great opportunities for new business that combines hardware and software.

### TRENDS THAT DRIVE OUR BUSINESS

The Corona pandemic has led to an increased focus on digitalization, remote solutions and automation – which is good for HMS. A more connected and sustainable world is exactly what we aim for. We see positive business trends regarding remote connectivity solutions in small-scale projects in direct contact with primarily machine builders, but also continued challenges regarding larger digitalization projects as they often become very complex since both existing systems are updated and new investments are made in other functions.

5G is another very interesting technology niche where HMS has taken a position as thought leader. During the year, our innovation team HMS Labs collaborated with Ericsson to present new solutions where customers can evaluate and test 5G

communication in an industrial environment. Wireless 5G communication opens up great opportunities for the industry, enabling gains in terms of increased security and performance.

### A CHALLENGING YEAR

Although our industry and our company have been relatively spared by the Corona pandemic, our thoughts are with colleagues who lost relatives and friends during the pandemic, and all those affected by shutdowns which limit people's freedom and everyday life. At the time of writing, we see signs of hope that we are now approaching the end of this challenging time and that life hopefully soon can return to normal again.

Together with the company's management team, I would like to thank all employees, customers, partners, suppliers and shareholders for a successful year for HMS on several levels, despite the circumstances. 2020 was a year during which we adapted to a new situation while at the same time built for the future. We look forward with confidence to the coming years and a continued growth journey together.

*Staffan Dahlström*  
President and CEO

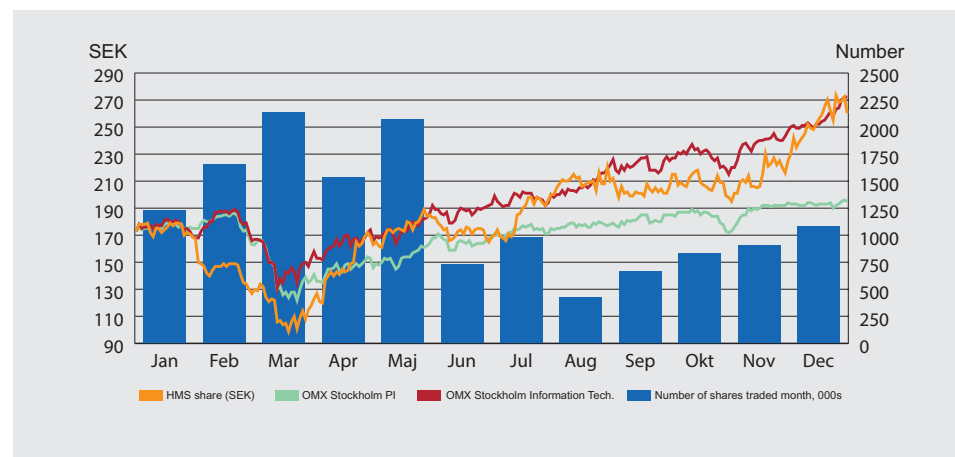


# The HMS Networks share

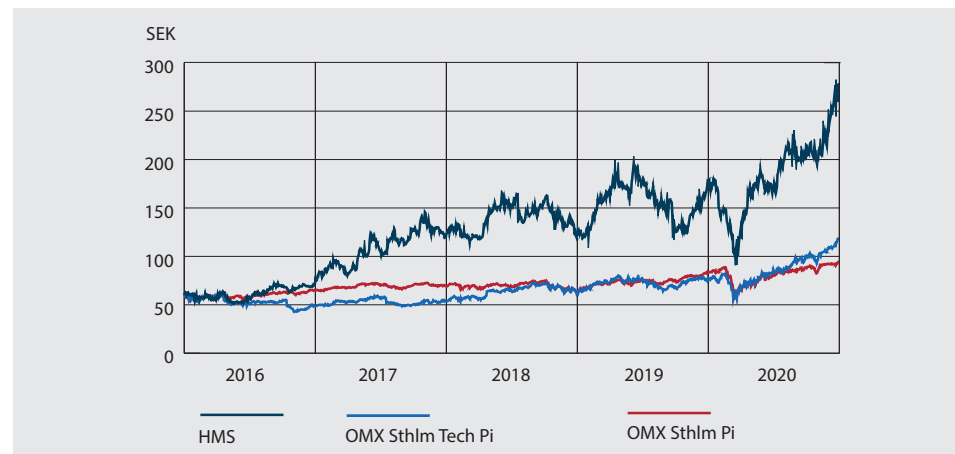
HMS has been listed on the NASDAQ OMX Stockholm Mid Cap list, in the Information Technology sector, since October 19, 2007.

The ISIN code of the stock is SE0009997018. Shares are traded under the HMS ticker. A trading lot is 1 share.

## HMS SHARE PERFORMANCE 2020



## HMS SHARE PERFORMANCE 2016 – 2020



## NUMBER OF SHARES AND SHARE CAPITAL

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

## PRICE TREND

In 2020, HMS's share price increased by 50% to SEK 260 (173) per share. OMX Information Technology index increased by 57% during the same period and, in total, Nasdaq Stockholm index increased by 13%. The highest price paid during the year for HMS shares was SEK 279,50 on December 29, and the lowest price paid was SEK 96 in March 19. At year-end 2020, HMS's market capitalization was SEK 12,173 (8,090) million.

## TRADING VOLUME

A total of 14.3 million shares were traded during the year, valued at SEK 2,477 (1,541) million, which corresponds to an annual turnover rate of 30% (22). On average, 56,603 (41,061) shares were traded for a value of SEK 9,828 (6,188) thousand each trading day.

## DIVIDEND POLICY

HMS's policy is to pay annual dividends in the interval between 30-50% of earnings per share. The dividend proposal is based on the company's earnings level, financial position and future growth opportunities. For 2021, the Board propose a dividend of SEK 2.00 (-) per share, which corresponds to approximately 42% of the earnings

per share. HMS share has had an average yield of 1.08% per year over the last five years.

## SHAREHOLDERS AND SHAREHOLDER STRUCTURE

As of December 31, HMS Networks AB (publ) had 5,204 (4,568) shareholders. The ten largest shareholders represented 72.3% (73.9) of the voting rights and capital.

## CONTINUOUS ANALYSIS

Analysts following HMS on a continuous basis: Viktor Högberg, Danske Bank  
Fredrik Stenkil, Nordea  
Joachim Gunell, DNB

## SHAREHOLDERS, BASED ON HOLDINGS AS OF DECEMBER 31, 2020

Shareholding	Number of shareholders
1-500	3,986
501-1,000	469
1,001-5,000	526
5,001-10,000	86
10,001-15,000	33
15,001-20,000	19
20,001-	85
Total	5,204



## SHARE CAPITAL TREND

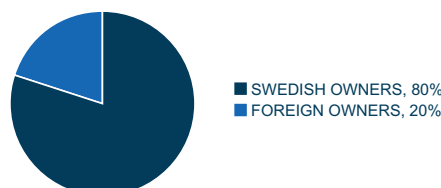
Year	Transaction	Change in no. of shares	Total no. of shares	Change in share capital, SEK	Total share capital, SEK
2004	Mother company formed	100,000	100,000	100,000	100,000
2004	New share issue	900,000	1,000,000	900,000	1,000,000
2005	New share issue	22,100	1,022,100	22,100	1,022,100
2006	New share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

## KEY FIGURES

	2020	2019	2018	2017	2016
Share price (last trading day)	260	173	123	124	76
Volume-weighted average share price	174	151	140	115	60
Average sales per day, SEK m	9,8	6,2	5,3	2,9	0,9
Average number of shares traded per day	56 603	41,061	38,038	25,168	14,876
No. of shares (thousand)	46 819	46,819	46,819	46,819	46,818
Earnings per share, basic, SEK	4,79	4,43	3,68	3,06	2,16
Earnings per share, diluted, SEK	4,77	4,40	3,65	3,04	2,16
Market cap, SEK m	12 173	8,090	5,759	5,806	3,558
Enterprise value, EV (Market cap + net debt), SEK m*	12 371	8,492	6,101	6,109	3,977
P/E	54,3	39,0	33,4	40,5	35,2
Net debt /EBITDA <sup>1</sup>	0,5	1,2	1,1	1,2	2,2
EV/EBITDA	30,8	25,5	20,2	23,6	21,1
EV/Net sales	8,4	5,6	4,5	5,2	4,2

<sup>1</sup> In accordance with IFRS16, leasing liabilities are reported in the net debt from 2019 onwards.

## OWNERSHIP STRUCTURE AS OF DECEMBER 31, 2020



## HMS'S 10 LARGEST SHARE-HOLDERS ON DEC 31, 2020

	No. of shares	Share of votes and equity
Investment AB Latour	12,109,288	25.9%
Staffan Dahlström	6,091,459	13.0%
SEB fonder	4,128,046	8.8%
Swedbank Robur fonder	3,198,482	6.8%
AMF Försäkring och Fonder	2,263,181	4.8%
Handelsbanken Fonder	2,025,299	4.3%
State Street Bank & Trust	1,525,836	3.3%
Livförsäkringsbolaget Skandia	1,190,383	2.5%
SEB AB, Luxembourg branch	736,894	1.6%
Cliens Fonder	588,385	1.3%
Other	12,961,615	27.7%
<b>Total</b>	<b>46,818,868</b>	<b>100%</b>

## CFO COMMENT ON 2020: LOWER VOLUMES BUT GOOD PROFITABILITY

In 2020, we saw lower sales volumes due to the Covid-19 pandemic, but also decreased costs for travelling and events. This resulted in a healthy profit of 288 MSEK. The “new normal” with more remote work and digital activities will speed up the need for digitalization and automation which is likely to have positive effects on our business in the long run.

Joakim Nideborn – CFO





# A new playing field for HMS – The Industrial ICT Arena

In 2020, HMS presented has a new strategy for sustainable growth during the next five years. The new strategy widens our playing field and put us in the Industrial ICT Arena. ICT stands for Information and Communication Technology and comprises three main areas: **Control**, **Information** and **Infrastructure**. It is within these areas HMS aim to expand in the future, both organically and through acquisitions.

## Control

**Current share of HMS business:** 70%

**Predicted annual market growth:** 4-6%

**Primary HMS Brands:** Anybus, Intesis, Ixxat

Control refers to control-centric communication between devices, machines and systems in industrial automation. This is a core market for HMS and most of our revenue comes from this area. Industry 4.0 is a strong driving trend.



### Key Business Area:

Multi-network connectivity for automation products

### Key Business Area:

Network-to-network integration in factories

### Key Business Area:

Multi-network connectivity for HVAC equipment

### Other key initiatives:

Protocol conversion in buildings



## 5G OPENS NEW DOORS

"We see a lot of opportunities within the Infrastructure part of our playing field. Apart from our Ixxat CAN portfolio and the new network diagnostics offering from Procentec, there is also a lot of potential within 5G. With 5G in a factory, users benefit from a robust wireless network, which meets industrial demands in terms of communication speeds and security – along with all the flexibility and mobility that comes with wireless. During 2020, we have developed the first industrial 5G routers for commercial use and we can today offer starter kits allowing users to get going with 5G in an industrial environment."

Jörgen Palmhager  
CTO



## Information

**Current share of HMS business:** 20%

**Predicted annual market growth:** 10-15%

**Primary HMS Brands:** Ewon and WEBfactory

Within information, data from industrial equipment and processes is provided securely to operators for improved insight and decision-making, remotely as well as on premise. HMS is market leading in remote access and data connectivity for machines.



### Key Business Area:

Remote access and data for PLC-based machines

### Other key initiatives:

Smart grid connectivity  
Monitoring of equipment

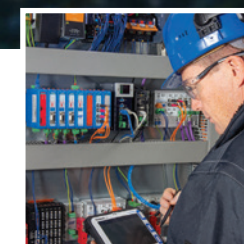
## Infrastructure

**Current share of HMS business:** 10%

**Predicted annual market growth:** 5-7%

**Primary HMS Brands:** Ixxat and Procentec

Infrastructure refers to the systems and networks used for industrial communication. Within CAN, HMS is one of the market leaders through the Ixxat offering, and Procentec is global leader within network diagnostics. In addition, HMS is an early adopter and thought leader in 5G solutions for Factory Automation.



### Key Business Area:

Network diagnostics in Factory Automation

### Key Business Area:

Connectivity for CAN & embedded control

### Other key initiatives:

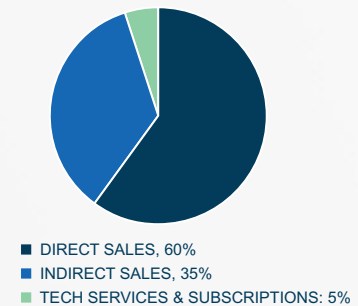
5G connectivity solutions



# How HMS generates revenue

HMS products are sold to customers in all parts of the value chain – device manufacturers, machine builders, system integrators and end users. The business models vary depending on the customer, market and product offering. HMS typically has three ways to generate revenue: direct sales targeting Design Wins, indirect sales via distribution/solution partners, and technical services and subscriptions.

REVENUE DISTRIBUTION



## 1. DIRECT SALES

This is when HMS is in direct contact with the customer targeting a so called “Design Win.” This means that the customer integrates support for HMS solutions into their product, and then order HMS products on a recurring basis. A Design Win typically involves a long-term collaboration with a manufacturer of automation equipment. The sales cycle is relatively long, but the upside is a steady stream of income over a long period of time, when the customer’s automation product gains market acceptance.

For some customers, HMS offers customized hardware and software solutions that meet customer-specific requirements. HMS also has a specific Key Account setup for selected customers.

## 2. INDIRECT SALES

A part of HMS’s portfolio such as gateways and routers is suitable for indirect sales through partners. HMS has a world-wide network of around 300 independent distributors with great technical expertise covering approximately 50 countries. With great knowledge of the local markets, they ensure the availability of HMS’s products in local projects. The target groups are primarily local system integrators, installers and machine builders who are supplying their solutions and integration services to end-user installations in factories.

## 3. TECH SERVICES AND SUBSCRIPTIONS

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

When HMS sells an information-centric product, such as for remote connectivity to industrial equipment, the customer is also offered to subscribe to a cloud-based service. With this, both the HMS machine builder customer and its approved users at the end user site can get gain access to the equipment online.

## INDIRECT SALES DISTRIBUTORS AND SOLUTION PARTNERS ADD VALUE

## SERVICES AND SUBSCRIPTIONS

## DIRECT SALES EMBEDDED IN THE CUSTOMER'S PRODUCT — SO CALLED DESIGN WINS

## GOING DIGITAL

“During 2020, we have taken important steps into digitalizing our interface with customers and partners. The Corona pandemic has forced sales meetings and customer interaction to be more or less 100% digital. During the year, we have put important systems in place such as a Marketing Automation system and a digital Marketplace where our distributors can manage their business with us online. The pandemic has accelerated our digitalization journey. In fact, the number of sales leads has never been higher than in 2020.”

Hans Larsson  
CCO



## HMS Vision & Mission

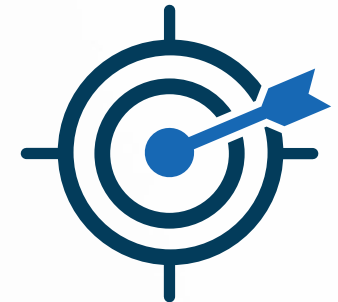


### VISION

To become the World's greatest Industrial ICT company.

(ICT = Information & Communication Technology.)

We enable valuable data and insights from industrial equipment allowing our customers to increase productivity and sustainability.



### MISSION

STRATEGIES AND GOALS

# Focus areas and goals

HMS has set up three focus areas for 2025: Environment, Staff & Customers and Growth & Profitability. Each area has specific goals.

## ENVIRONMENT

Make HMS a CO<sub>2</sub> net positive company by 2025

## STAFF & CUSTOMERS

Happy & high-performing employees generate loyal customers

## GROWTH & PROFITABILITY

Continue our sustainable and profitable growth



## HMS THREE FOCUS AREAS TOWARDS 2025

### 1. ENVIRONMENT

HMS aims to be a net positive CO<sub>2</sub> company by 2025. This means that we will save more CO<sub>2</sub> than our footprint. Several factors will contribute to reaching this objective.

Firstly, by enabling efficient control of industrial equipment and processes, HMS's products contribute to the general reduction of energy usage in factories.

Secondly, by providing remote access to industrial machines and their data, HMS enables remote troubleshooting which reduces the need for on-site travelling for our customers and their service teams.

HMS's own operations are also important and we do what we can to reduce our carbon footprint and waste.

Read more about HMS's environmental work and the quest to become CO<sub>2</sub> net positive in the Sustainability Report starting on page 27.

### 2. STAFF AND CUSTOMERS

At HMS, we believe that happy & high-performing employees are essential for generating loyal customers, who in turn are the foundation for successful business. Here, HMS wants to have a Net Promoter Score (NPS) of >25, both internally related to the staff and externally with customers. When it comes to staff development and well-being, HMS has several employee satisfaction initiatives in place related to important topics such as health, training, education and employee incentive programs.

Read more about HMS's work with employee engagement on page 32.

### 3. GROWTH AND PROFITABILITY

HMS has a track record of continuous growth and profitability ever since the company was founded in the late 1980's. The strong growth journey has turned HMS into a company which encompasses several market-leading and complementary product brands, all of which are offered to the global market. We want to continue our sustainable and profitable growth also in the coming years, targeting to reach a turnover of more than π billion (3.14) with an operating margin of 20% in 2025. The strategic plan outlines that half of the growth will be organic, and the other half will come through mergers and acquisitions.

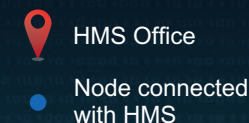
*\* Net Promoter Score is based on the question: "How likely are you to recommend this company to a friend or colleague? The result is graded -100 to 100.*





# The World according to HMS

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



## Head Office

### HMS CORPORATE HALMSTAD, SWEDEN

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

## Business Units

### BUSINESS UNIT ANYBUS HALMSTAD, SWEDEN

Center for development of Anybus products.

### BUSINESS UNIT IXXAT RAVENSBURG, GERMANY

Center for development of Ixxat products.

### BUSINESS UNIT EWON NIVELLES, BELGIUM

Center for development of Ewon products.

### BUSINESS UNIT INTESIS IGUALADA (BARCELONA), SPAIN

Center for development of Intesis products.

## Additional development site

### WETZLAR, GERMANY

HMS Technology Center Wetzlar, a key technology and platform development site within HMS.

## Members of the HMS Group

### PROCENTEC

Rotterdam, The Netherlands. Also offices in Delft (Netherlands), Karlsruhe, Gera, Nuremberg (Germany), Manchester (UK) and Brescia (Italy)

### WEBFACTORY

Buchen (Germany), Sibiu (Romania).

## Market Units

### MARKET UNIT CONTINENTAL EUROPE KARLSRUHE, GERMANY

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

### MARKET UNIT AMERICAS CHICAGO, USA

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

### MARKET UNIT ASIA PACIFIC

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

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

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



## HMS REGIONAL MANAGERS' VIEW ABOUT THEIR MARKETS

### CONTINENTAL EUROPE

We see an increasing interest in new innovations and technologies as users are looking for ways to improve productivity and efficiency. The smart factories of the future will require automated and flexible production lines, secure communications, cloud computing, autonomous vehicles, artificial intelligence and machine learning. The same is true for smart, connected buildings. These will need cloud management of heating, cooling and lighting. HMS products and solutions enable smart factories and smart buildings to support these trends, and therefore, we see a bright future ahead.

*Thilo Döring*  
General Manager, Market Unit Continental Europe



### AMERICAS

Due to impacts of recent trade wars and covid-19, companies are reconsidering their supply chains and are looking to manufacture more locally. This requires investments into industrial automation and digital transformation to be competitive compared to lower cost regions. Furthermore, the pandemic has highlighted the need for remote operations and has accelerated the trend toward digitalization. Our customers are looking for smart edge devices and cloud solutions to provide the information and insights needed to optimize their operations. HMS expects to see continued strong demand for our products in 2021 across the entire region.

*Kevin Knake*  
General Manager, Market Unit Americas



### ASIA PACIFIC

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

*Bartek S. Candell*  
General Manager, Market Unit Asia Pacific



### NORTH & REST OF THE WORLD

Despite the challenges of the Corona pandemic and Brexit, we saw a good development on our major markets and strengthened our presence with more than 10 new partners throughout the Market Unit area. We and our customers believe in a slow but steady market recovery during 2021. There will be an increased need to automate and digitalize industrial processes post-Corona, and that will provide new opportunities during 2021 and in the years to come.

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





**Anybus**<sup>®</sup>  
BY HMS NETWORKS

**Ewon**<sup>®</sup>  
BY HMS NETWORKS

**Intesis**<sup>®</sup>  
BY HMS NETWORKS

**Ixxat**<sup>®</sup>  
BY HMS NETWORKS



**WEBfactory**<sup>®</sup>  
Member of the HMS group

**PROCENEC**  
Member of the HMS group.





# PRODUCT OFFERING

# Hardware Meets Software™ with HMS products

HMS stands for Hardware Meets Software™. Our technology enables industrial hardware to communicate and share information with automation software and IoT systems.





**Anybus®**  
BY HMS NETWORKS

**Ewon®**  
BY HMS NETWORKS

**Intesis®**  
BY HMS NETWORKS

**Ixxat®**  
BY HMS NETWORKS

## HARDWARE MEETS SOFTWARE

By allowing hardware to meet software, HMS enables valuable data and insights from industrial equipment allowing our customers to increase productivity and sustainability.

That all sounds good, but in order to understand the essence of the value that HMS provides within Industrial ICT we need to dig one level deeper. The identity statement “Hardware meets Software” is important for HMS and our customers in different ways.

The first “micro” dimension of Hardware meets Software is found in HMS very products. HMS’ ability to combine hardware and software components into highly reliable industrial products for industrial communication is well-known in the industry and has been a key success factor for HMS in our growth journey. In addition to the software that resides in the products, HMS also develops user-oriented configuration tools for these products to make it as easy as possible for customers to install and use the products.

The second “macro” dimension of Hardware meets Software addresses the fact that HMS’ products enable industrial hardware – devices and machines – to be connected to industrial software, for control, information and infrastructural purposes.

## VALUE PROPOSITION IN INDUSTRIAL ICT

**In control-centric applications,** HMS’ solutions enable devices and machines to be connected to, and communicate in, automation systems via fieldbuses and industrial Ethernet networks on premise in factories. By getting connected with HMS, customers can obtain perfectly synced and controlled real-time automation solutions in their manufacturing systems. Furthermore, customers often want to connect existing well-working equipment to new in retrofitting solutions. Also here HMS is an enabler.

**In information-centric applications,** HMS solutions enable industrial hardware to meet IoT software in Industrial IoT applications. Here, HMS solutions make sure that both operators and decision-makers get the manufacturing data and insights needed to be able to make the best decisions possible. HMS products are used in IIoT applications on premise as well as in distributed applications in which industrial hardware are connected to software solutions that often are cloud-based. An important topic in this sector is security. Based upon many years of industrial experience, HMS is a frontrunner with state-of-the-art solutions that meet the security standards for internet connected equipment.

**In infrastructure projects** HMS makes sure that customers can choose the right infrastructure and connectivity for their application, thanks to a wide range of wired as well as wireless solutions covering including cellular 3G/4G and as recently launched now also 5G.

HMS also offers market-leading products and services for network diagnostics, monitoring and trouble-shooting. With this, customers can prevent undesired manufacturing halts and create ease of mind for their engineers.

Finally, in addition to contributing to increased productivity, we are proud of the fact that HMS’s solutions help customers with their sustainability agendas by saving time and resources – partly through more efficient control of factories, and partly by enabling insight into the status of devices and machines in the field which opens up for predictive maintenance.

*Anders Hansson – CMO*





HMS PRODUCT OFFERING

**Anybus**<sup>®</sup>  
BY HMS NETWORKS

SHARE OF HMS SALES: 54%

# Connecting any device, machine and network

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

## OFFERING

### Anybus Embedded:

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

### Anybus Gateways:

More than 300 stand-alone gateways for communication between all popular industrial networks.

### Anybus Wireless:

Connects networks, machines and devices wirelessly over Bluetooth, WLAN or cellular networks

### Anybus Edge:

Connects industrial equipment to the Internet.

**Timo Van't Hoff**  
General Manager  
Business Unit Anybus

## MARKET

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

## BUSINESS MODEL

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

## COMPETITION

In the embedded segment, the main competitor to our offering can be the target customer, since they could decide to develop their network communication solutions in-house. Companies like Hilscher, ProSoft, Moxa and Molex compete with HMS in various sub-segments. However, none are able to match HMS's broad offering.





HMS PRODUCT OFFERING

SHARE OF HMS SALES: 21%

# Remote solutions for industrial applications

Ewon® provided IIoT solutions before the term IIoT even existed. With Ewon solutions, machines are accessible in a secure way over the Internet, giving users access to the machine's data anytime and anywhere. In 2020, Ewon was voted the number one choice for Remote Access by the readers of Control Design Magazine — for the 6th year in a row!

## OFFERING

### Ewon Cosy:

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

### Ewon Flexy:

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

### Ewon Talk2M:

A secure global, industrial cloud solution for remote access and data transmission to and from connected machines.

**Francis Vander Ghinst**  
General Manager  
Business Unit Ewon

## MARKET

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

## BUSINESS MODEL

Ewon products are primarily sold to machine builders through a network of distributors. Customers can subscribe to various services primarily on the Talk2M cloud, after having purchased the hardware products.

## COMPETITION

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





SHARE OF HMS SALES: 8%

## Connecting buildings

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

### OFFERING

Intesis offer gateways which act as translators between air-conditioning units, thermostats, lighting ballasts, etc. and building management systems running on building automation protocols such as KNX, BACnet or Modbus. The communication is configured with our software Intesis MAPS. Additionally, Intesis is known for the market leading ability to design specific AC interfaces for the major vendors of air conditioning equipment. Today, Intesis covers more than 100 AC brands.

### MARKET

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

### BUSINESS MODEL

Depending on the situation, Intesis products are sold either through HMS' international network of distributors or directly by HMS staff. Customers typically buy Intesis hardware, but are offered cloud connectivity to the connected equipment, as well as associated user-oriented apps.

### COMPETITION

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

**David Garcés**  
General Manager  
Business Unit Intesis





SHARE OF HMS SALES: 11%

# Making machines work on the inside

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

## OFFERING

### Industry:

Connectivity solutions for machines and development of hardware, software and associated services.

### Energy:

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

### Safety:

Solutions for easy implementation of safety communication.

### Automotive:

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

**Alexander Hess**  
General Manager  
Business Unit Ixxat

## MARKET

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

## BUSINESS MODEL

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

## COMPETITION

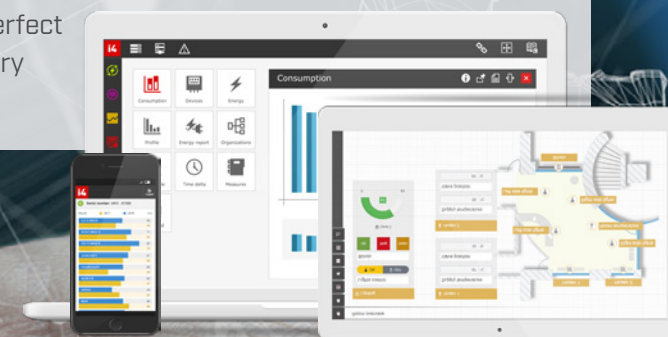
CAN is a mature technology and other companies offer similar products. None, however, with such a complete portfolio and the level of technical expertise offered by Ixxat. Additionally, unique solutions are offered for automotive testing, functional safety and network connectivity.





## Displaying machine information online

Member of the HMS group since 2019, WEBfactory was fully acquired by HMS in 2020. WEBfactory offers software which is used for displaying information from industrial equipment in easy-to-use web interfaces. This is a perfect fit for many other HMS products which handle data on the factory floor. These can be connected to WEBfactory solutions making machine data available online.



### OFFERING

WEBfactory's i4 products connect machines, plants, buildings, and infrastructure with the digital world. All relevant data is captured exactly where and when it is generated: On sensor level, in PLC controls, and on the MES/ERP system level (Manufacturing Execution System/Enterprise Resource Planning). The i4 products process the collected data to obtain valuable information almost in real time. Users benefit from important features such as visualisation and control of processes, but also analysis and prediction of events.

**Stefan Hauck**  
General Manager  
WEBfactory

### MARKET

Customers use WEBfactory products in many verticals such as production monitoring, building automation, intralogistics, process industry, energy and infrastructure, and various applications related to the industrial Internet of Things.

### BUSINESS MODEL

WEBfactory products are sold mostly as software licenses and as software-as-a-service subscription. Additionally, customers buy service level agreements on a yearly basis to get access to support and software updates. Consulting services add another component to the business model.

### COMPETITION

Some markets such as SCADA are very saturated — also building automation, and there is a lot of competition related to IIoT. The benefit of WEBfactory software is not always just a single product, but a combination of different products which makes it unique in the market.





# PROCENTEC

Member of the HMS group.

## Keeping industrial networks running

Procentec joined HMS in October 2020 and is thereby the latest addition to the HMS Family. While HMS products traditionally mainly target makers of industrial equipment, Procentec addresses the end user market offering diagnostics and monitoring tools to factories and production sites, along with associated services.

### OFFERING

Procentec products change the way diagnostics and monitoring are done in factory networks. The products include both hardware and software which measure, signalize and connect the different parts of an installation and ensure that it operates effectively. Key products such as ComBricks, Atlas and Osiris make the engineer's life easier, increasing the factory's output by minimizing costly downtime. Their solutions are industry sector and supplier independent, making them applicable in almost all set ups.

### MARKET

Procentec's main market is factory automation, but the solutions are industry-sector and supplier independent, making them applicable in almost all industrial automation installations.

### BUSINESS MODEL

Procentec products and solutions are sold via a network of distributors in 50 countries.

As a "member of the HMS Group" Procentec collaborates with the HMS organization but uses its own sales channels.

### COMPETITION

Within the market area of network diagnostics, there is limited competition with a similar global reach as Procentec. There is a more competitive market in Central Europe, but not much competition in the rest of the World.

**Pieter Barendrecht**  
General Manager  
Procentec







SUSTAINABILITY REPORT

Sustainability in focus	26
Climate and energy framework	27
Minimizing climate impact in our operations	28
HMS products lower environmental impact	29
Business ethics and social responsibility	30
Examples of social commitments	31
Personal and professional development	32
Auditor's report	34

*This is the HMS Networks sustainability report for the 2020 fiscal year. The sustainability report includes the parent company HMS Networks AB (org. no. 556661-8954) and all units consolidated in the 2020 consolidated financial statement of HMS Networks AB, which are specified in note 38 in the consolidated financial statement. The sustainability report has been approved by the board of directors and is prepared in accordance with the provisions of chapters 6 and 7 of the Swedish Annual Accounts Act, and with the Global Reporting Initiative's GRI Standards, Core option, and includes pages 3, 8–9, 24–34 and 107–113.*

SUSTAINABILITY

# Sustainability in focus

As a part of the new strategy for 2025, HMS has defined three sustainability focus areas grounded in the UN's 17 Sustainable Development Goals (SDGs): Environment, responsible business and employee engagement.

The UN 2030 Agenda for Sustainable Development consists of 17 global sustainability goals aimed at eradicating extreme poverty, reducing inequalities and injustices in the world, resolving the climate crisis and promoting peace and justice. Some of the UN's sustainability goals can be directly linked to HMS's business operations, and HMS takes responsibility to steer the development of the operations in a sustainable direction, protecting the Earth's resources.



During 2020, HMS has taken a new approach to our sustainability report, targeting to become more transparent and target-driven. One step in that direction is to collect more data from the global operations to visualize performance and impact in several dimensions. This is an ongoing work and all stakeholders are invited to follow HMS's journey over the coming years.

## Environment

Minimizing climate impact in our operations

*More on pages 27-29*

## Responsible business

Business ethics and social responsibility

*More on pages 30-31*

## Employee engagement

Personal and professional development

*More on pages 32-33*

## Our primary environmental goal: CO<sub>2</sub> Net Positive in 2025

"The environment is one of our three focus areas in our 2025 strategy. As a company, we can offer a lot of sustainability gains for our customers as they can use our products to reduce service trips and also optimize energy consumption. But we can also do a lot in our own operations to reach our goal of becoming CO<sub>2</sub> net positive in 2025."

*Staffan Dahlström, President and CEO*












Sustainability in focus • Climate and energy framework • Minimizing climate impact in our operations • HMS products lower environmental impact • Business ethics and social responsibility • Personal and professional development • Auditor's statement

# Climate and energy framework

HMS strives to reduce its carbon footprint and be CO<sub>2</sub> net positive in 2025. This means compensating for more than 100% of our emissions. In order to be CO<sub>2</sub> net positive, it is necessary that all sources of emissions are identified to understand HMS's total environmental impact. In 2020, we mapped our emission sources and expanded our measurements to include a larger proportion of emission sources. This work will be continued with the ambition of having full control of the business's total environmental impact.

## CO<sub>2</sub> EMISSIONS OVERVIEW

The table presents emissions according to the Green House Gas Protocol for HMS largest business areas. 2019 include the business areas Anybus, Ixxat and Ewon. 2020 include two more business areas, Intesis and Procentec.

SCOPE 1 - DIRECT EMISSIONS (tCO <sub>2</sub> )	2019	2020	INITIATIVES			
Company Cars	246	119	 MAKING HMS CAR FLEET ELECTRIC			
SCOPE 2 - INDIRECT EMISSIONS (tCO <sub>2</sub> )	2019	2020	INITIATIVES			
Power consumption and heating	41	67	 GREEN ENERGY SOURCES FOR HMS OPERATIONS  OPTIMIZING HMS FACILITY CONSUMPTION			
SCOPE 3 - OTHER INDIRECT EMISSIONS (tCO <sub>2</sub> )	2019	2020	INITIATIVES			
Business travel (air travel) <sup>1</sup>	451	81	 OPTIMIZING TRANSPORTS TO/FROM HMS  MINIMIZING CO <sub>2</sub> IMPACT FROM HMS SUPPLIERS  MINIMIZING AIR TRAVEL BY HMS STAFF  RESPONSIBILITY FOR PRODUCTS AT END OF LIFE			
Waste <sup>1</sup>	11	10				
Goods transports (upstream) <sup>2</sup>	384	495				
Goods transports (downstream)	not measured	396				
<b>TOTAL (tCO<sub>2</sub>)</b>	<b>1 133</b>	<b>1 167</b>				

<sup>1</sup> Refers only to emissions from the head office in Halmstad, Sweden

<sup>2</sup> Includes the Business Units Anybus, Ixxat, Ewon and Intesis

*General note: There has been a significant reduction in greenhouse gas emissions from company cars in scope 1, largely due to the pandemic which has turned physical meetings into digital which has resulted in less traveling. As can be seen in Scope 2, the energy consumption from HMS's operations has increased as two more business areas have been included. If we compare the outcome of the businesses areas counted in 2019 with the 2020 numbers, there has in fact been a reduction in energy consumption. Emissions from other indirect sources are presented in scope 3, and these have increased from the previous year, as additional business areas have been added and more emission sources have been included in the calculations.*



# Minimizing climate impact in our operations

Long-term sustainable business is conducted with the environment and climate in mind, and climate impact is one of HMS focus areas going forward. HMS primary climate impact comes from material extraction, production and transports. In order to guide the business's focus regarding material selection, suppliers and resource management, HMS has established an environmental policy. This policy acts as a guiding document for how HMS should minimize negative impact on the environment. HMS must comply with relevant national laws and regulations and develop, use and promote environmentally friendly technologies, products and services in our operations and throughout our value chain.

## A YEAR OF CHANGE

Due to the Corona situation, 2020 was a year when HMS had to make substantial changes to operational business procedures. Many of these changes have had a positive impact when it comes to sustainability. Most notably, almost all communication and meetings were quickly moved to digital systems and tools, internally as well as externally with customers. A clear effect was substantially decreased traveling, which had positive effects on the business' carbon dioxide emissions.

So even if HMS already increased the focus on sustainability step by step in recent years due to the escalating climate situation, the Corona-pandemic in 2020 proved to be a trigger for

change, and an updated sustainability agenda was formulated and presented as a core element of the HMS2025 strategy.

## ENERGY EFFICIENCY

HMS works continuously to increase the energy efficiency throughout the business activities, aiming to maximize energy usage from renewable sources. The objective is that the energy we use should have as low a climate impact as possible.

In the operations, HMS uses energy-efficient technologies and solutions that contribute to energy-efficient and resource-efficient industrial production. For example, HMS has recently invested in more integrated and automated

solutions for manufacturing and warehousing in our own facilities, which enables better planning, regulation and control of processes. With this, HMS can be as resource-efficient as possible, not least when it comes to energy consumption.

Within this scope, HMS takes pride in using our own products and solutions for industrial communication as part of the mentioned automated and integrated solutions.

“During 2020, our Anybus and Ixxat Business Units used 100% renewable energy, and the Ewon Business Unit increased its share of renewable energy from 10% to 70%. Our aim is that all energy consumption within our business shall come from renewable energy sources.”

*Theres Borssén*  
Quality and Sustainability Coordinator



## Highlight: Orders for the rainforest

“During 2020, HMS Market Unit Continental Europe has started to encourage customers to avoid small orders. For orders under €1000, HMS charges a fee which is donated to WWF and their work to protect the Amazon rainforest. The initiative was started in October 2020 and raised more than €10,000 in three months 2020.”



Gundula Schulze  
Marketing Manager,  
Market Unit Continental  
Europe

# HMS products lower environmental impact

## THE HMS EFFECT

HMS's main contribution to sustainable development is offering products that make energy savings possible for our customers, as well as reducing the amount of travelling needed for service inspections. Using automated processes and intelligent industrial communication enables more efficient energy consumption in industrial equipment, such as motor controls, pumps and fan systems. In this context, HMS products for remote access and monitoring via cloud solutions can be used by our customers to deal with global sustainability challenges. Intelligent remote control of equipment provides energy savings, both through more efficient operation and a reduced need for site visits for inspection.

## HMS PRODUCTS

HMS also needs to cater for its operations and manufacturing. To minimize the environmental impact, products are designed for long-term use in demanding industrial environments. It is possible to repair and upgrade HMS products in the field, a factor which is essential to achieve maximum service life. All products are characterized by low

weight, small form factor and efficient packaging which saves material, providing a lower environmental impact in the logistics chain

HMS products include electronics which contain metals and chemicals that can be harmful to the environment and health. Since many years, HMS requires suppliers to comply with the RoHS Directive, which restricts or prohibits the use of certain heavy metals and flame retardants in electronics. The directive covers lead, mercury, cadmium, hexavalent chromium, the flame retardants PBB and PBDE and the plasticizers DEHP, BBP, DBP and DIBP.

## WASTE

HMS's ambition is to map waste management at all production sites with the aim of reducing the amount of waste and increasing the share that goes to recycling.

HMS has reviewed the use of materials in packaging processes and replaced plastic materials with paper materials in parts of the packaging process. Plastic materials in packaging processes will continue to be phased out as long as it is technically possible and do not affect the product's functionality. HMS's goal is to annually increase the recycling of generated waste. As an example, our head office in Sweden, has increased material recycling from 44% to 51% compared to previous years.

# 839,000

tons CO<sub>2</sub> saved during 2020

## Highlight: Reduced travelling

By using our Ewon solutions to remotely access and manage industrial equipment, we estimate that customers have been able to reduce their environmental impact by approximately 839,000 tons of CO<sub>2</sub> in 2020 — an increase of 36% compared to the previous year.

*How we have calculated: We have looked at remote connections to our Talk2M service lasting more than fifteen minutes. From these connections, we have estimated the number of service trips that would have been needed instead of the remote sessions, and compared it with the emissions that would have been caused by these trips.*



## Growing wind power business in China

*During 2020, HMS has seen a great upswing in our business in China. HMS products are often used in the rapid expansion of Chinese wind power — an important part of the sustainability strategy that China has adopted to achieve zero greenhouse gas emissions by 2060.*

# Business ethics and social responsibility

HMS has established controlled working conditions throughout the value chain — contributing to societal development in places where HMS is active with its own operations or via partners. This also means taking responsibility for the society in which HMS operates by combating corruption and respecting human rights. Social responsibility does not stop at HMS's own operations but extends further into our supply chain.

## BUSINESS PRINCIPLES - CODE OF CONDUCT

The HMS Code of Conduct provides guidance on how HMS employees should act ethically and in accordance with the company's values. It covers key topics such as safe working conditions, responsibility for the environment, anti-corruption principles, ethics in relationships with customers and suppliers and a positive interaction with the society in which HMS operates. The code is based on international agreements such as the International Labour Organization's core conventions on human rights in working life, the UN Declaration of Human Rights and the Convention on the Rights of the Child. More information is available on [www.hms-networks.com](http://www.hms-networks.com).

All HMS staff are trained on the HMS Code of Conduct during onboarding and continuously during the employment. By complying with the code, HMS ensures that business is conducted professionally, honestly and ethically. HMS employees can report any irregularities under anonymity via a whistleblower system. During 2020, HMS did not have any cases of improper conduct that resulted in remedial action.

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

## ANTI-CORRUPTION

As HMS grows internationally, higher demands are

imposed regarding a framework to counter corruption. HMS has zero tolerance for bribery and corruption and the Code of Conduct clearly states that employees and subcontractors shall not participate in, or promote, corruption and must act ethically and responsibly throughout HMS's value chain. An important element is HMS's position that "all its business is conducted in a responsible, transparent and trustworthy way." All aspects of HMS business must comply with these guidelines, as well as with the laws and regulations that apply locally.

## HUMAN RIGHTS

Human rights play a significant part in the HMS Code of Conduct. HMS supports and respects the protection of human rights and guarantees, through internal processes and steering documents, that it is not involved in crimes against human rights. Suppliers, distributors, consultants and other business partners must apply the principles of HMS's Code of Conduct.

Included aspects are respect for the individual, an equal workplace, non-discrimination, safe working conditions, reasonable working hours and compensation, as well as working against slavery and child labor.

The HMS process for supplier evaluations is based on evaluation before and during the collaboration and is linked to human rights, sustainability and social conditions. The performance in these

areas is evaluated and if the supplier does not meet HMS's requirements, this results in deviations that must be reported and remedied, otherwise the collaboration is terminated.

In 2020, HMS has further developed compliance control with platform technology that creates transparency and more effective communication.

HMS opportunities to influence direct suppliers are good as we have close relationships. Longer supply chains can be more challenging to analyze and influence. To ensure good working conditions throughout the entire value chain, our Supplier Code of Conduct plays an important role.

## CONFLICT MINERALS

Extraction of metals and minerals used in electronic products can pose a risk due to where the material is extracted. HMS policy for conflict minerals provides a guide on how to perform traceability



ETHICAL BUSINESS PRINCIPLES



ANTI-CORRUPTION



HUMAN RIGHTS

ity reporting in the supply chain to ensure a conflict-free supply chain. Our suppliers must follow the HMS conflict mineral policy, which includes providing information about the source and origin of potential conflict minerals in deliveries to HMS.

## PROCESSING OF CUSTOMER DATA

HMS operations involves processing of customer data generated in HMS's systems and cloud services. HMS respects and protects the customers' privacy and ensure that data is protected in the best possible way by adapting systems as well as expanding the information about what we store and process. HMS's cloud solution Talk2M is certified in accordance with ISO27001 for information security. HMS neither received any complaints during 2020 in relation to customer privacy, nor identified any leaks of customer data.

## Highlight: Silver medal from EcoVadis

HMS was awarded a silver medal in the sustainability assessment system EcoVadis \*, which assesses suppliers' sustainability performance. It places HMS in the top 25% of companies that have been evaluated. The assessment is divided into four areas consisting of: environment, fair labor and human rights, ethics and sustainable procurement.



\* EcoVadis is an internationally recognized provider of sustainability assessments for companies.



# Examples of social commitments

HMS maintains a close dialogue and long-term partnerships with universities and schools in several parts of the world. This has resulted in collaboration on innovation and research in the context of our core business activities, where students gained valuable work experience from projects and summer jobs at HMS.

In collaboration with Halmstad University, HMS grants scholarships for the best thesis proj-

ects every year. The HMS scholarship is presented to outstanding students in computer science, electrical engineering and mechatronics.

Furthermore, HMS has various sponsorship programs to help the needy and reduce inequalities. HMS also provides opportunities and encourages local initiatives in the Group. For example, HMS has supported and contributed to ADA – a student society for female engineers. HMS also

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



## Nasdaq ESG Transparency Partner

In 2020, HMS was recognized as a Nasdaq ESG Transparency Partner. The recognition is presented to companies which display a high level of transparency to its investors when it comes to Environmental, Social and Governance issues (ESG).



# Personal and professional development

HMS offers employees exciting possibilities for personal and professional development in a dynamic, growing and international organization. The company culture is modern and open, where shared values, learning and own responsibility are prioritized. Constantly working to be an attractive employer, the staff is offered benefits such as wellness grants, physical training and well-being activities, lectures and competence training.

Highlight: HMS targets to have an employee Net Promotor Score (NPS) above 25 in 2025.

## SIX FOCUS AREAS FOR EMPLOYEE ENGAGEMENT



### HEALTH & DEVELOPMENT

Employee health and well-being are top priorities for the company. Accordingly, HMS encourages employees to exercise and supports various health-related activities internationally. Furthermore, HMS is continuously investing in staff development and offers extensive competence training opportunities in order for the organization to be up to date with the required skills for the future.



### COMPANY CULTURE

Although HMS is becoming a larger company, it is still important for us to keep the culture of a smaller entrepreneurial company. HMS' organizational setup with Business and Market Units ensures that teams are not becoming too big and also maintains the entrepreneurial feeling.



### LEADERSHIP

HMS stages leadership development programs on a continuous basis to develop leaders ensuring modern leadership. International synchronization and sharing on manager level are strengthened by the recurring HMS Leadership Summit. Staged every other year, this summit has become cornerstone in the interaction between HMS management and all managers internationally.



### DIVERSITY & EQUALITY

HMS operates in a field which is traditionally male-dominated. However, HMS strives for increased diversity in all aspects of our business. HMS continuously tracks the male vs female split — for employees in general as well as for managers. As part of the ambition to increase gender equality, HMS has set a goal to reach 20% female managers by 2025.



### RESPONSIBLE TAX PAYER

An international company with subsidiaries all over the world, HMS wants to take local responsibility for its business according to local regulations. Accordingly, HMS does not engage in complex international tax-evasive setups. Taxes are simply paid where HMS generates the business.



### ETHICS & ANTI-CORRUPTION

HMS takes pride in being a good employer and fair business partner all over the world. As presented in the "Responsible Business" section, HMS Code of Conduct includes strictly formulated policies related to business ethics and anti-corruption, which are expected to be followed — both by HMS internally as well as by HMS' partners in the value chain.

## HEART, MIND AND SOUL IN WHAT WE DO

### HEART, MIND AND SOUL = HMS

Heart, mind and soul is a summary of how we do things (makes for a pretty good abbreviation too).

*Heart* means collaborating, engaging and taking responsibility for what we do. *Mind* means building for the future, focusing on sustainable growth and

creating win-win situations for us and our partners.

By *Soul*, we mean to dare, drive and inspire when it comes to our working life. Launched within the framework of the HMS2025 strategy, Heart, Mind and Soul serve as a very important starting point for continuous activities with all employees.



HEART



MIND



SOUL

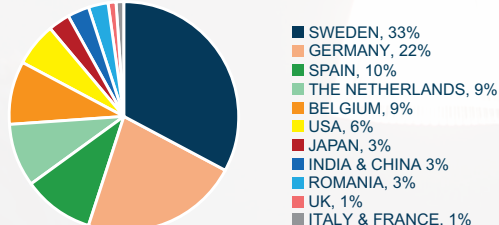


## Employees per function



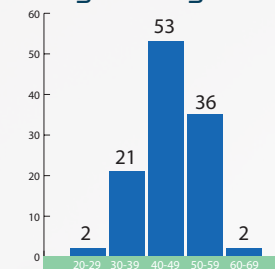
HMS decentralized development organization constitutes the largest group of staff, which is essential to remain at the forefront of technology.

## Employees per country



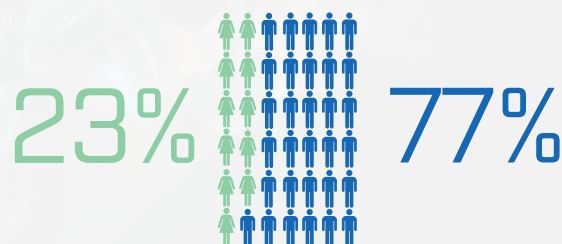
HMS is becoming less dependent on a few single markets, both when it comes to human capital and business.

## Managers' age at HMS



With 20% of our managers under 40, HMS is in the process of building a solid succession base.

## Employee split: Women/Men



In our male-dominated industry, HMS strives to increase gender equality, but here there is still more to be done.

## Manager split: Women/Men



As part of the ambition to increase gender equality, HMS has set a goal to reach 20% female managers by 2025.

## Employee Satisfaction Index (ESI)

76

A major part of HMS staff worked from home in 2020. Despite this, the ESI was 76, an increase compared to 2019 (75).

## Employee turnover 2020

97 PEOPLE STARTED 51 PEOPLE LEFT

During 2020, 97 people started at HMS, of which 70 stem from the acquisition of Procentec. 51 people left during 2020, corresponding to 7%.

## Training hours per employee

19

The pandemic has limited the number of on-site classroom trainings, but HMS has still managed to reach an average of 19 hours per staff member through digital trainings.

# Auditor's report on the statutory sustainability report

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

## ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the statutory sustainability report for the year 2020 on pages 25-33 and that it has been prepared in accordance with the Annual Accounts Act.

## THE SCOPE OF THE AUDIT

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

## OPINION

A statutory sustainability report has been prepared.

Halmstad, March 22, 2021  
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson  
*Authorized Public Accountant*



# CORPORATE GOVERNANCE

# Chairman's comments

In 2020, we saw something that no one thought could happen — a global pandemic that affected everything and everyone. The pandemic and its direct and indirect effects have, of course, characterized the board's work in 2020, but through adjusted cost structure made at the end of 2019 and the rapid action of HMS management in early 2020, we have been able to balance revenue against costs and maintain margins to achieve good profitability in 2020.

With covid-19, the need for digital technology has only increased. To be able to meet and communicate via various digital channels and increase the degree of automation of industrial processes to increase robustness and reduce vulnerability increases the relevance of HMS's offering and we have seen a stable influx of new customers in 2020.

The Board, together with HMS's management, has used 2020 to implement a strategy leading up to 2025, which includes both ambitious growth goals and goals around sustainability. In addition to a continued focus on organic growth, we will broaden our business through acquisitions in existing and new market segments. Furthermore, sustainability — in all its aspects — will be a cornerstone of the business in the future, as we are of the opinion that sustainability is a basic

prerequisite for future profitable growth.

For a growth company in a fast-growing sector, the board has an important role to play both in governance and in a more supportive role. The latter is important in connection with the broadening of product and application areas that has taken place in recent years which increases the demands on HMS management to be able to handle a greater complexity of markets and products.

For the board, it is important to actively support the management team in strategic matters, ensure a good balance between risk and opportunities, access to the right human capital and to ensure that set plans are followed. The Board's work follows a fixed annual cycle with planned meetings and a division of work and responsibilities established in the rules of procedure.

The work of the board works very well, with a good balance between different experiences. During the year, a board evaluation was made based on a model developed by the Latour Group. This evaluation is of great importance to ensure effective processes and also as a guide to achieving the right composition and competence of the board. This year's summary once again showed a well-functioning board work, with good dynamics

both internally within the board and between the board and management. The committee work also works well; The audit and remuneration committees aim to ensure that we work efficiently with both financial management, accounting and staff issues, while the development committee pays special attention to the important issues surrounding product and technology development.

The Board's challenges in the future are to assist and help the management to continue to develop HMS business in a short-term perspective with the new challenges covid-19 entails, as well as focus on the goals we have set for HMS 2025.

Charlotte Brogren  
*Chairman of the Board*





# Corporate governance report

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

## STRUCTURE FOR CORPORATE GOVERNANCE

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

## SHAREHOLDERS AND AGM

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

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

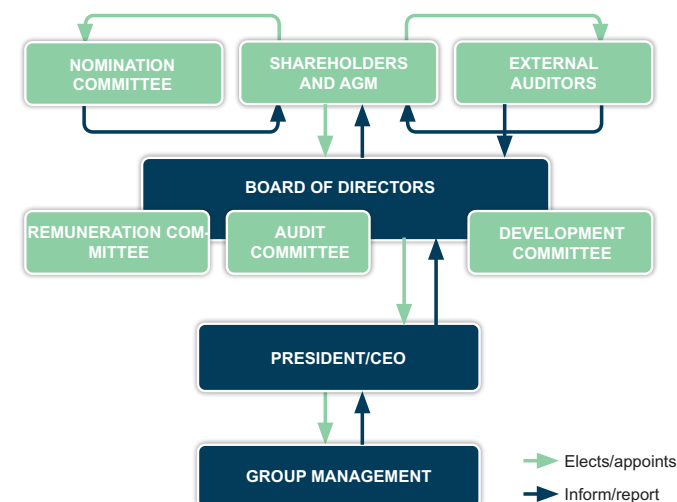
the size of share capital, shareholders' right to attend the AGM and the agenda of the AGM. Any shareholder who wishes to have a particular item dealt with at the AGM must submit a written request to the Board well in advance so that the item can be included in the notice of the AGM. Information on the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

The AGM must be held within six months following the end of the financial year. All shareholders registered in the shareholders' register on the record day (six bank 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 2020

The AGM was held on April 23, 2020 at the company's office in Halmstad. Due to the corona pandemic the number of participants present was very limited but including postal votes it was represented by approximately 67 (73) % of the number of shares and votes. At the AGM, the Chairman of the board Charlotte Brogren and the company's CEO Staffan Dahlström was present. Shareholders at the AGM decided:

- not to pay any dividends (last year SEK 1.80 per share, corresponding to a paid dividend of SEK 83,909 thousand)
- that the Board of Directors shall consist of six AGM elected Board Members without Deputies
- to re-elect Charlotte Brogren as Chairman of the Board and to re-elect Anders Mörck, Fredrik Hansson, Cecilia Wachtmeister, Ulf Södergren as Directors and elect Niklas Edling as new Director
- that remuneration to the Board would be SEK 1,625 thousand for the next term, of which SEK 500 thousand to the Chairman of the Board and SEK 225 thousand to each of the other AGM elected Board members
- that remuneration for work in the audit committee would be SEK 100 thousand to the Chairman of the audit committee and SEK 50 thousand for other members
- the election of Öhrlings PricewaterhouseCoopers AB (PwC) as auditor, with Fredrik Göransson, Authorized Public Accountant, in charge
- on guidelines for salary and other remuneration for the CEO and other senior executives
- on the authority of the Board to issue new shares
- to set up a share savings plan open to all permanent employees of the Group



→ Elects/appoints  
→ Inform/report

## CORPORATE GOVERNANCE

- to purchase own shares in HMS Networks AB in connection with the established Share Savings Plan

## NOMINATION COMMITTEE

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

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

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

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

## NOMINATION COMMITTEE FOR THE AGM 2021

Name/representing	Share of votes 2020-08-31
Johan Hjertönsson, Investment AB Latour (publ.)	26%
Staffan Dahlström, own holdings	14%
Per Trygg, SEB Fonder	9%
Evert Carlsson, Swedbank Robur Fonder	6%
Charlotte Brogren, Chairman of the Board	<1%

of shareholding is next in line.

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

## EXTERNAL AUDITORS

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

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

At the 2020 AGM, shareholders elected Öhrlings PricewaterhouseCoopers AB (PwC) as the audit firm, with Authorized Public Accountant Fredrik Göransson as the auditor in charge until the date of the next AGM. In addition to the audit, PwC also provides advisory services relating to financial reporting and taxes. This advice is not considered to be subject to a conflict of interest.

In 2020 total remuneration paid to PwC amounted to SEK 1,729 (2,305) thousand. Further information regarding auditors' remuneration is available in Note 8.

## AUDITOR



Fredrik Göransson  
*Authorised Public Accountant*  
 Senior Auditor for HMS Networks AB since 2014.  
*Education:* M.Sc. in Business and Economics, Authorized Public Accountant since 2003.  
*Assignment:* Also serves as Senior Auditor for PowerCell Sweden AB (publ) and BUFAB AB (publ).  
*Born:* 1973

## BOARD OF DIRECTORS

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

## BASIS FOR BOARD WORK

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

The Board is responsible for adopting strategies, business plans, budgets, quarterly reports, financial statements and the annual report. The

Board is also responsible for appointing and dismissing the CEO and decisions involving significant changes to the HMS organization and operations. The rules of procedure state the thresholds that apply when the Board must decide on investments, company mergers and acquisitions, loans, etc.

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

## BOARD STRUCTURE

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

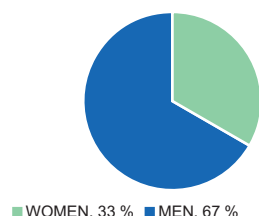
The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control 10% or more of the shares or voting rights in the company. The nomination committee has, during a joint assessment of each member's relationship to the company, Group management and major shareholders, found that all members are independent in relation to the company and its management. Except for Anders Mörck, all the members have been assessed as being independent



in relation to major shareholders. The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on page 44-45.

The total amount of fees paid to the Board in 2020 was SEK 1,775 (1,775) thousand including fees paid to the audit committee. For a more detailed description of Board members' attendance at meetings, please see Note 10.

DISTRIBUTION AGM-ELECTED WOMEN/  
MEN ON THE BOARD



## DIVERSITY POLICY

HMS Networks, through the nomination committee, applies rule 4.1 of the Swedish Code of Corporate Governance as its diversity policy when preparing nominations for the election of board members. The rule stipulates that the Board should have a composition appropriate to the company's operations, phase of development and other relevant circumstances.

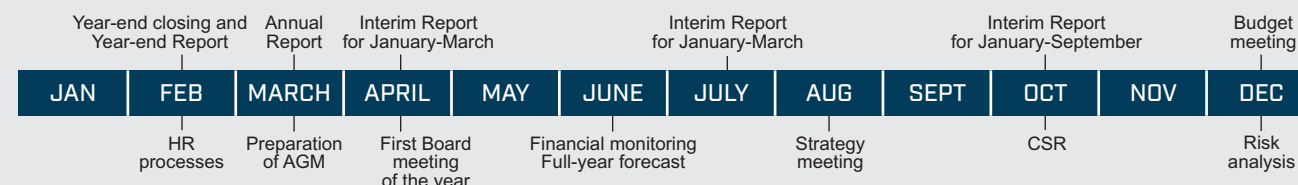
The Board members elected by the AGM must, as a whole, reflect diversity and breadth in terms of their qualifications, experience and background. The company must also strive for gender balance on the Board. The aim of the diversity policy is to satisfy the need of sufficient diversity on the Board regarding gender, age and nationality, and also experience, work background and business areas. The nomination committee has concluded that the Board of HMS Networks in this respect has an appropriate composition.

## CHAIRMAN OF THE BOARD

The Board's rules of procedure stipulate that the Chairman must ensure that the Board's work is run effectively and that the Board meets its obligations. This includes organizing and leading the



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



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

At the AGM on April 23, 2020, Charlotte Brogren was elected as Chairman of the Board. The Chairman of the Board is not involved in the operational management of the company.

## WORK OF THE BOARD IN 2020

Since the AGM of April 23, 2020, the Board has held 11 minuted meetings up to the adoption of

this annual report. It expects to have one additional meeting prior to the AGM on April 23, 2021. Both the CEO and CFO of HMS Networks AB participate in Board meetings, with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board's rules of procedure. This includes discussion of the company's business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board's work consists of regular follow-up on financial matters, strategic product development, providing recommendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

## REMUNERATION COMMITTEE

The Board appoints some of its members to serve

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

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

## AUDIT COMMITTEE

The Board nominates an audit committee, which monitors the financial reporting by examining all critical audit issues and other conditions that might affect the content and quality of the financial statements. The committee also monitors the effectiveness of the company's and Group's inter-

## CORPORATE GOVERNANCE

## REMUNERATION TO GROUP MANAGEMENT 2020, SEK THOUSANDS

	Basic salary	Variable remuneration	Pension costs	Share-related remuneration	Total 2020
CEO	3,256	338	2,021	148	5,763
Group management, other (5 individuals)	8,379	727	2,392	120	11,619
<b>Total</b>	<b>11,636</b>	<b>1,065</b>	<b>4,412</b>	<b>268</b>	<b>17,381</b>

nal controls, risk management systems and the external auditors' impartiality and independence.

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

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

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

## DEVELOPMENT COMMITTEE

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

and its future.

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

## CEO AND GROUP MANAGEMENT

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

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

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

about the Group management team, please see page 46.

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

In 2020, the total remuneration (including pension provisions) to the CEO amounted to SEK 5,763 (4,654) thousand. For more information about remuneration to the CEO and Group management team, see Note 10.





# Board's internal control report

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

## DESCRIPTION

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

## CONTROL ENVIRONMENT

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

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

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

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

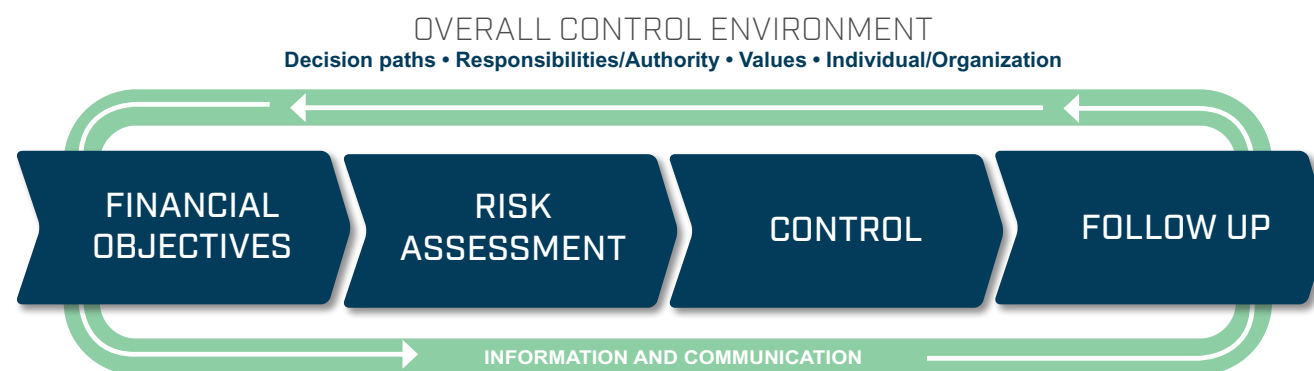
Responsibility and authority are defined in the instructions for the right to sign on behalf of the company, manuals, policies and routines. Examples include HMS's manual for accounting and reporting, the finance and credit policy, information policy, IT security policy and HR policies. These guidelines,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

During 2020, in accordance with established guidelines, HMS continued its review of the exist-

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

## RISK ASSESSMENT

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



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

## CORPORATE GOVERNANCE

(completeness, accuracy, valuation and presentation) by the Group are not fulfilled.

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

### CONTROL ACTIVITIES

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

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

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

The financial managers of the subsidiaries are

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

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

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

### INFORMATION AND COMMUNICATION

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

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

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

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

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

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

Financial information is regularly published in the form of:

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





analysts, investors and the media on the same day as the financial statements and quarterly reports are published and in conjunction with the publication of other important information.

- Meetings with financial analysts and investors. All reports, presentations and press releases are published simultaneously on the Group's website at: [www.hms-networks.com](http://www.hms-networks.com).

#### FOLLOW UP

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

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

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

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

forecast and budget, Group management also works with overall strategic plans.

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

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

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

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

Halmstad, March 22, 2021

Charlotte Brogren    Fredrik Hansson

Niklas Edling    Anders Mörck

Ulf Södergren    Cecilia Wachtmeister

Tobias Persson    Mikael Mårtensson

## Auditor's statement on the corporate governance report

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

#### ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the 2020 Corporate Governance Report on pages 37-43 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

#### THE SCOPE OF THE AUDIT

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

#### OPINION

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

Halmstad, March 22, 2021

Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson

*Authorized Public Accountant*

## GOVERNANCE – BOARD OF DIRECTORS

# Board of Directors


**CHARLOTTE BROGREN**

**FREDRIK HANSSON**

**NIKLAS EDLING**

**ANDERS MÖRCK**

<b>Board position</b>	Chairman of the Board	Board member	Board member	Board member
<b>Special skills to contribute to HMS</b>	Years of experience in automation and development.	Leadership, business development and internationalization with a strategic perspective in sales and marketing.	Business development, strategy development, company acquisitions and purchasing, production and logistics issues.	Mergers and acquisitions, company business values, stock exchange experience and financial management.
<b>Current employment</b>	Chief Technology Officer (CTO) at Alimak Group AB (publ).	Active in own company.	Sr VP Corporate Development and Vice president at Mycronic AB (publ).	CFO at Investment AB Latour (publ).
<b>Education</b>	PhD in Chemical Engineering from Lund University.	Bachelor of Science, Economics and Finance from the University of North Alabama.	M.Sc. in Mechanical Engineering from KTH and Master of Business Administration from Stockholm School of Economics.	M.Sc. in Business and Economics, Växjö University.
<b>Year elected</b>	2010	2015	2020	2016
<b>Born in</b>	1963	1971	1963	1963
<b>Resident of</b>	Stockholm	Karlskrona		Gothenburg
<b>Other posts</b>	Board member of OrganoClick AB.	Chairman of the board at Hedson Technologies International AB and Scanbox Thermoproducts AB and board member of Nord-Lock International AB, Anocca AB and Troax Group AB (publ).	Board member at Cavotec SA (publ).	Chairman of the Board at Troax Group AB. Board member at Swegon Group AB, Latour Industries AB, Nord-Lock International AB, Latour-Gruppen AB and Hultafors Group AB.
<b>Dependence</b>	Independent from the company and its main owners.	Independent from the company and its main owners.	Independent from the company and its main owners.	Independent from the company. Not independent of the major shareholders.
<b>Previous experience</b>	Development Manager for ABB Robotics and executive positions within ABB's research organization as well as General Director of Vinnova.	CEO at Roxtec Group AB.	VP Supply Chain & Manufacturing at Laerdal Medical and VP Operations at Hudson RCI.	CFO at Bure Equity AB, Nilörngruppen AB and previously authorized public accountant at Ernst & Young (now EY).
<b>Shareholding <sup>1</sup> (own and related parties)</b>	5,500	2,400	4,000	4,000
<b>Audit committee</b>		X		X (Chair)
<b>Remuneration committee</b>	X (Chair)			
<b>Development committee</b>	X		X	
<b>Attendance at Board meetings</b>	100%	90%	100%	100%
<b>Remuneration 2020 <sup>2</sup></b>	500,000	275,000	225,000	325,000

<sup>1</sup> Pertains to holding as of December 31, 2020, including shares from Share Savings Plans.

<sup>2</sup> Pertains to the period between AGM 2020 and AGM 2021.





ULF SÖDERGREN

Board member
Innovation and industry processes.
Board member.
M.Sc. in Mechanical Engineering from KTH and Bachelor in Economics from Stockholm University.
2018
1953
Stockholm
Chairman of the Board at IV Produkt AB. Board memeber at ÅF Pöyry AB (publ) and Lagercrantz Group AB (publ).
Independent from the company and its main owners.
CTO of ASSA ABLOY AB (publ) and prior to that various positions within the ASSA ABLOY Group, such as Regional Manager and COO. Before that active within Electrolux and ABB.
10,000
X (Chair)
100%
225,000



CECILIA WACHTMEISTER

Board member
Several years of complex system sales in the telecommunication industry.
Executive Vice President Business & Group Funcions at Kambi Plc.
M.Sc. in Industrial Engineering from The Institute of Technology at Linköping University.
2018
1966
Stockholm
Board member of Smart Eye AB (publ).
Independent from the company and its main owners.
Several years of experience in leading positions at Ericsson AB.
3,000
X
100%
225,000



TOBIAS PERSSON

Employee representative
Employee of HMS.
Senior Development Engineer at HMS.
M.Sc. in Computer Systems Engineering. B.Sc. in Information and Communication Technology. B.Sc. in Electrical Engineering. University degree in mechatronics.
2016
1978
Halmstad
Chairman of the Board at MedicWave AB (publ). Partner of Lypson Intelligenta System HB.
Employee of HMS.
100%
0



MIKAEL MÅRTENSSON

Employee representative
Employee of HMS.
Senior Field Application Engineer at HMS.
B.Sc. in Computer Systems Engineering.
2019
1972
Halmstad
None
Employee of HMS.
More than 20 years of experience in Industrial Automation / Communication as product manager and developer at HMS.
24,844
100%
0



KUJTIM LECAJ

Employee representative (deputy)
Employee of HMS.
Production logistics at HMS.
Vocational training in transport and logistics in Austria as well as training with a focus on logistics, administration and organization.
2020
1985
Halmstad
None
Employee of HMS.
Part of the logistics management team at HMS with shared responsibility for the entire Group's warehouse logistics.
210
100%
0

# Group management



STAFFAN DAHLSTRÖM



ANDERS HANSSON



HANS LARSSON



JOAKIM NIDEBORN



JÖRGEN PALMHAGER



TIMO VAN'T HOFF

Current position	Chief Executive Officer - CEO	Chief Marketing Officer - CMO	Chief Commercial Officer - CCO	Chief Financial Officer - CFO	Chief Technology Officer - CTO	Chief Product Officer - CPO
Education	Degree in Computer Systems Engineering from Halmstad University and Executive MBA from Lund University, School of Economics and Management.	Master's Degree in Industrial Management and Economics from Halmstad University.	B.Sc. in Innovation Engineering from Halmstad University.	M.Sc. in Industrial Economics from Lund Institute of Technology.	B.Sc. in Computer Systems Engineering from Halmstad University.	B.Sc. in Automotive Engineering from HTS Autoteckniek, Apeldoorn, The Netherlands. M.Sc. in Technology Management from Chalmers University of Technology, Gothenburg.
Born in	1967	1968	1970	1983	1968	1971
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish	Swedish, Dutch
Other posts	Board member of Mycronic AB (publ) and Clavister Holding AB (publ)	None	Board member of Bemsig AB	Board member of Axiell Group AB.	None	Board member of Unimer Plast & Gummi AB
Previous experience	Sales and Marketing Manager at HMS.	Previous positions at HMS: Head of Global Key Account Management Team, Global Key Account Manager, Sales and Marketing Manager for France, Benelux, Spain and Portugal, Product Manager.	Vice President Life Science at Getinge AB, General Manager Sweden at GEA Food Solutions A/S.	CFO at Beijer Electronics Group AB, Management and Strategy Consultant at Axholmen Consulting and Celerant Consulting.	Developer, Project Manager, Development Manager and COO at HMS.	CEO at Volvo Car Retail Solutions, Director Product Management and R&D at Marine Tank Management, Emerson Process Management, Manager Diagnostic & SWDL Tools, AB Volvo, and Consultant at Capgemini.
Shareholding <sup>1</sup> (own and related parties)	6,095,629	18,418	1,587	698	242,062	0
Employed since	1989	2000	2017	2017	1992	2017
Member of Group management team since:	2007	2010	2017	2017	2007	2019

<sup>1</sup> Pertains to holding as of December 31, 2020, including shares from Share Savings Plans.



# Extended management team



PATRIK ARVIDSSON

Global Supply Chain Manager

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

1969

Swedish

None

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

2011



THILO DÖRING

General Manager, Market Unit Continental Europe

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

1971

German

None

Sales Manager at Mitsubishi Electric.

2010



MAGNUS HANSSON

Global Systems and Security Manager

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

1975

Swedish

None

Development Manager at HMS.

1997



ALEXANDER HESS

General Manager, Business Unit Ixxat

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

1981

German

None

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

2020



KEVIN KNAKE

General Manager, Market Unit Americas

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

1961

American

Chairman of ODVA Roundtable of EtherNet/IP

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

2003



FRANCIS VANDERGHINST

General Manager, Business Unit Ewon

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

1964

Belgian

None

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

2006



DAVID GARCÉS

General Manager, Business Unit Intesis

M.Sc. in Telecommunications Engineering from University of Bilbao (Spain) and MBA from Collège des Ingénieurs in Paris (France).

1977

Spanish

None

Deputy Director at HMS Industrial Networks SLU, Product manager at Softing AG and Entrepreneur.

2013



BARTEK S. CANDELL

General Manager, Market Unit APAC

Bachelor in innovation Engineering, Halmstad University. Latour Executive Program, University of Gothenburg

1980

Swedish

None

Exportchef Sveico

2010



MARTIN HOFFERT

General Manager, Market Unit North

B.Sc. Computer Engineering, Halmstad University.

1977

Swedish

None

Senior Solution Architect and Certified Project Manager, Ericsson. Product Manager and Sales Manager, HMS

2011

## FINANCIAL DEFINITIONS

# Financial definitions

### No. of outstanding shares

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

### Return on shareholders' equity

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

### Return on capital employed

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

### CAGR

Compound annual growth rate.

### EBIT

Operating income according to income statement.

### EBITDA

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

### Equity per share

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

### Financial assets

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

### Average number of outstanding shares

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

### Adjusted profit

Profit exclusive items affecting comparability.

### Capital turnover

Net sales in relation to average balance sheet total.

### Cash flow from operating activities per share

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

### Net debt

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

### Net debt/equity ratio

Net debt in relation to shareholders equity.

### P/E ratio

Market price as a percentage of earnings per share.

### Earnings per share, undiluted

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

### Earnings per share, diluted

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

### Working capital

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

### Operating margin

Operating profit as a percentage of net sales.

### Equity/assets ratio

Shareholders' equity as a percentage of total assets.

### Capital employed

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



# Glossary

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

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

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

**ESD protection** – Protection from electrostatic discharge.

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

**Industrial ICT (Information and Communication Technology)** – HMS' playing field. Within ICT, HMS works solutions for Control, Information and Infrastructure.

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

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

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

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

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

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

**PPM** – Parts per million.

**Process manufacturing** – a branch of manufacturing that is associated with formulas and manufacturing recipes, such as 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/EC) governing the registration, evaluation, authorization and restriction of chemicals. This legislation came into force on 18 December 2006.

**Real-time requirements** — Being able to know exactly when data arrives. This is needed when the transmission of data is extremely time-critical and requires millisecond precision. In comparison, email has low real-time requirements and does not require time precision.

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

**WEEE** – EU Directive (2002/96/EG) on waste that is comprised of, or contains, electrical or electronic equipment. The Directive has

been in force since 27 January 2003. The government authority in charge of enforcing this in Sweden is the Swedish Environmental Protection Agency.

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





# FINANCIAL STATEMENTS

# CFO explains



Joakim Nideborn

## COULD YOU EXPLAIN HMS'S GOALS?

In 2020, HMS presented new goals in three areas; Sustainability, Staff&Customers as well as Growth & Profitability. In addition, the dividend target was adjusted to be 30-50% of earnings per share.

In terms of sustainability, HMS has set ambitious goal of being net positive regarding carbon dioxide emissions by 2025. All companies need to take their responsibility and help save our planet, and given the great impact that carbon dioxide emissions have on the climate, HMS has chosen to focus on this area.

Furthermore, we have a strong belief that if our employees thrive and develop, they will do a good job, creating loyal customers, who in turn create growing business. Therefore, we have set goals for a NPS (Net Promoter Score) greater than 25 for employees and customers.

The growth target has been formulated to  $\pi$  (3.14) billion in sales by 2025. We believe that the recipe for achieving the target will be equal parts organic and acquired growth. The profitability target is, as before, set at a 20% operating margin

– a target that we have been close to reaching for many years but have not fully reached. However, in light of the expected growth and the improvements we managed to make during the year, such as improved gross margins and a higher degree of digitalization in the business, we are convinced that we will reach the profitability target.

## HOW LARGE IS HMS MARKET SHARE AND HOW FAST DOES THE MARKET GROW?

HMS operates within the field of Industrial ICT – Information and Communication Technology. The company focuses on several underlying markets with very different competitive situations. HMS is the market leader in the two main niches – Industrial communication and solutions for remote access of industrial equipment. The growth rate varies depending on the market and product offering from HMS.

The largest part of HMS sales is generated in the industrial automation market, where HMS enables communication between industrial equipment over industrial networks for real-time control. This market is expected to grow by 4-6% annually over the next five years based on information in various industry reports and HMS knowledge of this market.

More than 20% of HMS sales come from remote monitoring and other information-centric applications. Here, HMS enables remote access to machines and their data for visualization and monitoring in solutions that are often connected to the Industrial Internet of Things (IIoT). This market is expected to grow significantly faster – 10-15% per year over the next five years.

## CAN YOU DESCRIBE HMS BUSINESS MODEL AND CUSTOMER TYPES?

HMS is primarily aimed at two types of customers. "Makers" is our expression for manufacturers of

automation products and machines, and "Users", is how we name the end users where all automation equipment ends up.

Regarding Makers, HMS strives to achieve long-term relationships with customers who integrate HMS products into their automation products and machines. When a customer decides to integrate an HMS product in this way, HMS receives a Design-Win, after which the customer usually orders the HMS product for many years. We normally sell directly to Makers through our own sales force.

When it comes to Users, HMS is usually aimed at system integrators with gateway solutions that help them achieve well-integrated systems of automation products, machines and software in end-user factories. Here, HMS usually sells indirectly to system integrators and end users through distributors, and for this purpose we have a wide network of distributors covering more than 50 countries. So even though we are present in many end-user industries with our solutions – especially factory automation – the end-user is in most cases not a direct customer of HMS.

## CAN YOU SAY A FEW WORDS ABOUT HMS'S ACQUISITION STRATEGY?

A basic principle is that HMS focuses on acquiring prosperous companies that complement the existing operations well, and that HMS can add value as an owner. These can be small as well as larger independent acquisitions, as well as additional acquisitions to our existing business operations.

Much focus is on the information-centric area where a lot is happening and we see great opportunities to further strengthen our position through acquisitions. For example, the market for remote monitoring and remote control is developing at a rapid pace and here we see opportunities to expand even in verticals outside industrial automation and in software solutions. We are also focus-

ing on achieving greater penetration of end users of communication solutions, something we strengthened with this year's acquisition of Procentec – the market leader in network diagnostics. This niche has increased in importance with the number of installed industrial networks globally. Today's manufacturing industry is heavily dependent on well-functioning networks to ensure the desired productivity.

Building automation is also an interesting area for future expansion. Basically, these are communication solutions similar to those in the industry, but with specific communication standards for buildings. The acquisition of Intesis was HMS's first major step into this area.

## CAN YOU DESCRIBE HMS'S COMPETITIVE ADVANTAGES?

HMS is a well-known company in the industrial arena and has been around for more than 30 years. The company has gradually increased its international presence and is today represented in all important industrial markets. HMS offers proven, high-quality solutions that are trusted by thousands of automation companies, including several industry giants. The strong position in the industry is confirmed by the fact that HMS currently has 1,820 active Design-Wins, which adds an extra long-term dimension to the business. In addition, HMS is known for being flexible in adapting its products to customer requirements, which also contributes to the long-term relationships with customers. An important part of HMS's offering is also security. By continuously offering secure solutions, software updates, certifications for the latest standards and – most importantly – high-quality products, HMS not only ensures that the customer's products work today, but also that they meet the requirements of tomorrow.



## IF THERE IS A COMMON INDUSTRIAL COMMUNICATION STANDARD, WILL HMS MARKET DISAPPEAR?

We have often received this question since the stock exchange listing in 2007 and the question is relevant to the business that relates to our Anybus brand. Part of the success of Anybus is based on the fact that there are a number of industrial networks on the market. In the last ten years, we have seen a consolidation into approximately 5-7 networks, which are currently the most popular for new installations. But at present there is no indication whatsoever that there will only be one standard for all applications. Should this still happen, HMS is still needed to connect new equipment to this specific network and to deliver retrofit solutions to connect new and existing equipment that has already been installed in millions of industrial applications.

Additionally, HMS has since 2007 addressed a number of additional, complementary markets, which today are estimated to have as good or better growth potential as the market for industrial networks. Overall, this means that there is no concern that HMS' market would disappear.

## HOW WILL FUTURE TECHNOLOGIES LIKE 5G AFFECT HMS?

For a couple of years now, HMS has had a focus on 5G, where HMS has taken a position as a thought leader for connecting industrial equipment to 5G. During the year, the collaboration with e.g. Ericsson intensified, and HMS recently launched the world's first industrial 5G router for commercial use. The router supports connection to the Ericsson Industry Connect 5G network and HMS offers starter kits that enable users to get started with 5G in an industrial environment.

Overall, we believe that the roll-out of 5G in industrial networks will create new business opportunities for HMS. Automation cells with extreme demands on time synchronization will probably continue to be largely dependent on existing communication standards and to a large extent contain wired communication also in the future. The big change will most likely be in communication between cells. Here, the performance requirements are not as extreme, which is why wired communication is increasingly considered to be able to be replaced by 5G networks. With this, factory installations and manufacturing processes will become significantly more flexible.

# Contents

DIRECTORS' REPORT .....	54	Note 15 Income tax .....	86
Significant events .....	54	Note 16 Earnings per share .....	87
Sustainability .....	55	Note 17 Dividend per share .....	87
The Board of Directors' proposal on guidelines for future remuneration to senior executives .....	56	Note 18 Deferred tax .....	87
Risks and uncertainty factors .....	57	Note 19 Intangible assets .....	88
Future outlook .....	58	Note 20 Property, plant and equipment .....	90
Parent Company .....	59	Note 21 Lease agreements .....	91
THE GROUP .....		Note 22 Fixed assets, by country .....	91
Consolidated income statement .....	60	Note 23 Financial assets and financial liabilities .....	92
Consolidated statement of comprehensive income ..	60	Note 24 Inventories .....	94
Consolidated balance sheet .....	61	Note 25 Accounts receivable and contract assets ...	94
Consolidated cash flow statement .....	62	Note 26 Derivatives .....	95
Consolidated statement of changes in equity .....	63	Note 27 Prepaid expenses and accrued income ....	95
PARENT COMPANY .....		Note 28 Cash and cash equivalents .....	95
Parent company's income statement .....	64	Note 29 Share capital and other contributed capital .....	95
Parent company's balance sheet .....	65	Note 30 Interest-bearing liabilities .....	96
Parent company's cash flow statement .....	66	Note 31 Accrued expenses and deferred income ...	96
Parent company's statement of changes in equity ...	66	Note 32 Provisions .....	96
NOTES .....	67	Note 33 Business combinations .....	97
Note 1 General information .....	67	Note 34 Transactions with non-controlling interests.....	99
Note 2 Summary of important policies .....	67	Note 35 Change in liabilities associated with financing activities .....	99
Note 3 Financial risk management .....	75	Note 36 Reserves in equity.....	99
Note 4 Important estimates and assessments for accounting purposes .....	79	Note 37 Earnings from participations in Group companies .....	100
Note 5 Revenue from contracts with customers ....	79	Note 38 Shares in subsidiaries .....	100
Note 6 Other operating income and expenses .....	82	Note 39 Pledged assets and contingent liabilities .....	101
Note 7 Categorization by type of cost .....	82	Note 40 Proposed distribution of profit in the Parent Company .....	101
Note 8 Remuneration to auditors .....	82	Note 41 Related parties .....	101
Note 9 Remuneration to employees .....	83	Note 42 Subsequent events .....	101
Note 10 Remuneration to the Board and senior executives, etc. ....	84	BOARD'S AFFIRMATION .....	102
Note 11 Pension obligations .....	86	AUDIT REPORT .....	103
Note 12 Items affecting comparability and other information .....	86	Multi-year overview .....	106
Note 13 Financial income .....	86		
Note 14 Financial expenses .....	86		

# Directors' report

## HMS Group

### Operations

HMS is a market-leading supplier of solutions for Industrial ICT (Information and Communication Technology) sold under the Anybus®, Ewon®, Ixxat® and Intesis® brands. HMS products and solutions make it possible for industrial equipment to communicate and share information with software and systems.

Product development takes place at the head office in Halmstad, Ravensburg, Nivelles, Igualada, Wetzlar, Buchen and Delft. Local sales and support are managed by our sales offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, Netherlands, India, UK, Sweden, South Korea and United Arab Emirates (UAE), as well as via a wide network of distributors and partners across the globe.

HMS has approximately 700 employees and sales in 2020 were SEK 1,467 million. HMS is listed on the NASDAQ-OMX in Stockholm in the Mid Cap, Information Technology category.

### Seasonality

HMS does not have any significant seasonal variations in its operations, except for higher costs in the fourth quarter, primarily associated with the number of large marketing events that occur in that period. In 2020, these activities in their previous form have largely been canceled and instead the activities have been carried out digitally at generally lower costs.

### Significant events

The Covid-19 pandemic had a major impact during the year and it is still affecting the global economy. Nevertheless, the market situation improved significantly during the latter part of the year compared to how it was during the spring and summer months. Adapting the business in ways leading to more control over liquidity, working capital and costs, along with a cancelled dividend, has had a positive effect on both earnings and financial position.

Net sales amounted to SEK 1,467 (1,519) million, which corresponds to a decrease of 3%. Order intake for the year was SEK 1,447 (1,470) million, which corresponds to a decrease of 2%.

In October 2020, HMS acquired 70% of the shares in the Dutch company, Procentec B.V., which is a world-leading supplier of solutions and services for diagnostics and monitoring of industrial networks. The company, including its wholly-owned subsidiaries in Germany, Italy and the UK, has approximately 70 employees and

sales in 2020 were EUR 11.8 million.

Also in October, the remaining 25.1% of the shares in WEBfactory GmbH were acquired, which is expected to increase the integration and use of WEBfactory's software products with HMS other product segments.

Geographically, the sales for EMEA (Europe, Middle East and Africa) were 8% lower in 2020, while sales for North and South America increased by 3% and in Asia, the increase was 6%. During the final months of the year, however, EMEA showed improvement that was slightly better than the other markets.

Looking at the product brands, growth for Ewon was good compared to last year. Sales for Intesis and Ixxat were in the range of 2-5 percent lower and sales for Anybus were 9% lower.

The upward trend in the number of new Design-Wins also continued in 2020. In total, there were 165 (199) new Design-Wins during the year, which brings the total number of active Design-Wins to 1,820 (1,797), an increase of slightly more than 1% compared to last year. Of these Design-Wins, 1,418 (1,399) are in production and 402 (398) are expected to enter production in the coming years.

On April 23, 2020, HMS held its AGM. All the proposals by the Board and nomination committee were adopted by the AGM. Charlotte Brogren was re-elected as Chairman of the Board. Fredrik Hansson, Anders Mörrck, Cecilia Wachtmeister and Ulf Södergren were re-elected as Directors and Niklas Edling was newly elected as

Director.

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

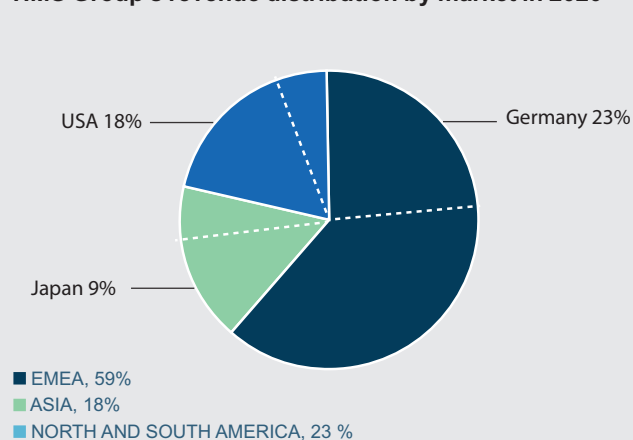
On December 31, 2019, the Share Savings Plan from 2016 was concluded and in 2020, a total of 88,083 shares (of which 44,002 were performance shares), were distributed free-of-charge to the remaining participants. For this distribution, the company used shares that were held in treasury.

Based on the authorization from the Annual General Meeting, the Board of Directors decided during the year to purchase own shares. The purpose of the repurchase is to ensure that HMS is able to fulfill its commitment to deliver shares in accordance with the company's Share Savings Plan. During the year, 40,000 shares were acquired at a value of SEK 6 million and after the end of the year 50,000 shares were acquired for a value of SEK 15 million. The total holding of own shares after the acquisition at the end of the year was 204,916.

### Significant events subsequent to year-end

Recent developments and spread of the coronavirus mean a higher degree of uncertainty and the effects on the Group activities are very difficult to assess. No other significant events have occurred subsequent to the end of the period, but prior to the signing of this annual report.

## HMS Group's revenue distribution by market in 2020



## Summary of performance

	2020	2019
Net sales, SEK m	1,467	1,519
Operating income before depreciation (EBITDA), SEK m	401	334
Operating margin before depreciation (EBITDA), %	27	22
Operating income after depreciation (EBIT), SEK m	288	243
Operating margin after depreciation (EBIT), %	20	16
Profit after financial items, SEK m	274	228
Profit for the year, SEK m	220	205
Earnings per share, basic, SEK	4.79	4.43
Earnings per share, diluted, SEK	4.77	4.40



**Net sales**

The Group's net sales fell by 3% and amounted to SEK 1,467 (1,519) million. Exchange rate fluctuations during the year negatively impacted net sales by SEK 19 million compared to last year. Invoiced sales by region were as follows: EMEA 59 (63)%, North and South America 23 (20)% and Asia 18 (17)%. The Group's largest markets are Germany, USA and Japan.

**Profit**

Gross profit amounted to SEK 909 (928) million and the gross margin was 62.0 (61.1) %. Operating expenses decreased by SEK 72 million to SEK 633 (704) million, of which SEK 35 million is explained by reduced non-recurring costs related to the corona pandemic, SEK 6 million is attributable to government support for short-time work and an additional SEK 7 million refers to reduced personnel expenses related to short-time work. The previous year's figures included non-recurring costs of SEK 22 million regarding 2019 restructuring program and in 2020 the measures taken have resulted in an ongoing saving of SEK 35 million.

Other operating income primarily consists of a reversal of SEK 10 million of the contingent consideration associated with the acquisition of WEBfactory GmbH. Other operating expenses includes impairment of goodwill for SEK 14 million, which is also attributable to WEBfactory GmbH. The reason for the write-down is that growth for the subsidiary has been lower than expected. Organically, and adjusted for short-term work, operating expenses fell by 11%, corresponding to SEK 75 million.

Operating profit before depreciation/amortization and impairment amounted to SEK 401 (334) million, which corresponds to a margin of 27.4 (22.0)%. Depreciation/amortization and impairment amounted to SEK 113 (92) million. Operating profit amounted to SEK 288 (243) million, corresponding to a margin of 19.6 (16.0) %. Currency translation effects had an impact on operating profit of SEK -8 (31) million. The acquired companies contributed to operating profit by SEK 5 million, including amortization of acquired excess values and acquisition costs.

Operating profit also includes a positive effect of SEK 19 million which is attributable to the settlement of contractual contingent consideration and SEK -22 million pertaining to restructuring costs. Adjusted operating profit amounted to SEK 246 million.

Net financial items were SEK -14 (-15) million and the profit before tax was SEK 274 (228) million. The reported tax expense

amounted to SEK -54 (-23) million, where the tax in the previous year was positively affected by SEK 19 million related to a tax exemption in Belgium. Profit after tax thus amounted to SEK 220 (205) million.

**Investments**

The year's investments in property, plant and equipment, along with intangible assets, amounted to SEK 48 (66) million. The acquisitions of new subsidiaries (Procentec B.V. and the remaining shares in WEBfactory GmbH) had an impact on investing activities by SEK 40 (24) million. No investments in financial assets were made (previous year 2 million). Investments in intangible assets primarily consist of the costs associated with development of new technology platforms. Amortization of capitalized development costs amounted to SEK 29 (30) million.

**Financial position**

As of December 31, 2020, the Group had cash and cash equivalents of 82 (51) million, excluding unutilized credit facilities of SEK 311 (176) million. The Group's net debt amounted to SEK 198 (402) million and net debt in relation to EBITDA was 0.49 (1.20). The net debt to equity ratio was 16 (40) % and the equity to assets ratio was 67 (58) %.

The financing agreement with the bank has previously been extended. It concerns a revolving credit facility of EUR 45 million which runs through September 2022.

In total, the net amount of amortization on the Group's loans was SEK 206 (58) million and amortization of lease agreement amounted to SEK 34 (29) million. There has been a repurchase of shares for SEK 6 (-) million. Due to the Covid-19 pandemic and to increase the company's preparedness for future uncertainty, it was decided that dividends would not be distributed to shareholders for 2020. Dividends for the prior year were SEK 84 million.

Cash flow from operating activities amounted to SEK 370 (254) million. After net investments of SEK -88 (-92) million, amortization and repurchase of shares totaling SEK -247 (-173) million, the cash flow for the year amounted to SEK 36 (-12) million.

**New long-term strategy with new financial goals**

At the end of the year, the Board of Directors and Group Management presented the company's new long-term strategy - HMS2025. This comprises new financial targets, which include a growth target with net sales exceeding SEK "π" billion (3.14) billion and an operat-

ing margin target of 20%. To achieve these ambitious goals, HMS will have an increased focus on acquisitions, which means a slightly adjusted dividend policy where it is assessed that an annual dividend should be in the interval between 30-50% of earnings per share. Furthermore, HMS2025 contains new ambitions regarding the company's focus markets, sustainability, employees and customer satisfaction.

**Group structure**

HMS Networks AB (publ), CIN 556661-8954, is the Parent Company of the wholly-owned subsidiary, HMS Industrial Networks AB, which, in turn is the Parent Company of several subsidiaries, see Note 38.

During the year, the Dutch company Procentec B.V. was acquired and the subsidiary Ewon K.K. in Japan was liquidated.

Since the acquisition in 2016, the subsidiary in Spain, Intesis Software SLU, conducted its business as an independent company. Since the beginning of the year, Intesis has been fully integrated into HMS sales worldwide marketing organization. At the same time the company changed name to HMS Industrial Networks SLU.

HMS Industrial Networks AB, HMS Technology Center Ravensburg GmbH, HMS Technology Center Wetzlar GmbH, HMS Industrial Networks SA, HMS Industrial Networks SLU, WEBfactory GmbH and Procentec B.V. comprise the development center for the HMS Group while the other subsidiaries are responsible for sales, marketing and support in their respective geographic markets.

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

**Sustainability report**

In accordance with Chapter 6, Section 11 of the Annual Accounts Act, HMS Networks AB (publ) has elected to prepare its sustainability report as a separate report from the directors' report. The sustainability report is provided on pages 24–34 of this annual report.

**Research and development**

The Group expensed SEK 180 (190) million for research and development during the year. In addition, capitalized development costs were SEK 41 (53) million, (SEK 11 million of the prior year's amount via acquisition). Total costs for research and development expenses make up 15 (15)% 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.

## DIRECTORS' REPORT

Development of additional products or applications based on these are not capitalized. Customer specific projects are capitalized when it has been determined as likely that the development costs will be covered by future volume commitments.

## Employees

At year-end, the number of employees for the Group was 693 (624).

### Guidelines for remuneration to senior executives

#### *Whom the guidelines apply to and their applicability*

These guidelines apply to persons who are member of the HMS Group management team. The guidelines shall be applied to contractual remuneration, and any changes made to already agreed remuneration, after the guidelines are adopted at the AGM on April 23, 2020. The guidelines do not apply to remuneration that is decided by the AGM.

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

HMS is a market-leading supplier of solutions for industrial communication and Industrial IoT. The company's vision is to, in a world where machines and devices are intelligent and connected, be a leader in enabling industrial devices and systems to communicate for a more productive and sustainable world. In brief, the HMS business strategy aims to achieve profitable growth in strategic markets, focus on sustainable product development, be a global player with a local presence and have a sustainable supply chain. A successful implementation of the HMS business strategy and safeguarding the company's interests, including its sustainability, depends on HMS being able to both recruit and retain skilled employees. The goal for the HMS remuneration policy for senior executives is thus to offer competitive and market-based remuneration, so that it is possible to attract, motivate and retain talented and skilled employees. These guidelines make it possible to offer senior executives a competitive total remuneration package.

HMS has ongoing long-term share-based incentive schemes that have been adopted by the AGM and which are not covered by these guidelines. The incentive schemes apply to all employees of HMS, with the aim of motivating them to take greater interest in the business and its performance, while creating a sense of solidarity with the company by establishing long-term ownership interests. The

incentive schemes also help make it possible for HMS to offer competitive total remuneration packages and thereby create the prerequisites for being able to recruit and retain talented employees. Performance requirements are currently linked to profit per share. The incentive schemes require own investment during a certain holding period.

#### *Types of remuneration, etc.*

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

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

Variable cash compensation shall be based on predetermined and measurable financial and non-financial targets for the Group and may amount to a maximum of 50 percent of the fixed cash salary. The distribution between fixed and variable cash compensation shall be proportionate to the executive's responsibilities and authority. The goal shall primarily relate to growth and profitability, where the relationship between these KPIs shall be used for determining the amount of variable cash compensation. In addition to that, other individual goals may be established. The goals shall be formulated such that they promote HMS's business strategy and long-term interests, including sustainability. For example, there should be a clear link to the business strategy or promoting the senior executive's long-term development at HMS. The measurement period for goals on variable cash compensation can be one or several years.

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

plan and amount to, at most, 30 percent of the pensionable income.

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

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

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

#### *Determining the outcome of variable cash compensation etc.*

The remuneration committee is tasked with preparing, monitoring and evaluating matters having to do with variable compensation on behalf of the Board. When the measurement period for fulfilling criteria for payment of variable cash compensation has elapsed, an assessment shall be made on the extent to which the criteria have been fulfilled. Assessments on the extent to which financial targets have been fulfilled shall be based on adopted financial statements and documentation pertaining to that period. Remuneration to the CEO shall be decided by the Board based on the recommendations of the remuneration committee. Remuneration to other senior executives is decided by the CEO after consultation with the remuneration committee.

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

#### *Termination of employment*

Senior executives shall have permanent employment. In the case of notice of termination, the mutual period of notice for the CEO is six months. In the case of notice of termination of the CEO from the



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

It shall be possible for senior executives to obtain compensation for a non-compete clause that they have signed after termination of their employment. However, this is only allowed if severance pay has not been awarded during that same period. Such remuneration shall be aimed at compensating the senior executive for the difference between the fixed cash salary at the date of termination and the (lower) income that is received via a new employment contract, assignment or own pursuits. The compensation may be paid during the period of time that the non-compete clause is in effect. The maximum period of time that it may be paid, however, is for 12 months subsequent to the termination of employment. For more information on remuneration to senior executives, see Note 10.

#### *Salary and employment terms for employees*

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

#### *Decision process for establishing, monitoring and implementing the guidelines*

The Board of Directors has set up a remuneration committee. The committee's tasks include preparing the material upon which the Board's decisions will be based and making proposals for guidelines on remuneration to senior executives. The Board must make proposals on new guidelines for remuneration every four years and present those proposals for decisions to the AGM, which means no later than the 2024 AGM. The guidelines shall apply until new guidelines have been adopted by the AGM. The remuneration committee is also required to follow and evaluate the variable remuneration schemes for senior executives, application of the guidelines for remuneration to senior executives and applicable remuneration structures and levels at HMS. Members of the remuneration committee are inde-

pendent in relation to the company and its senior executives. When the Board considers and makes decisions on remuneration issues, the CEO and other members of the Group management team are not present and do not participate.

#### *Deviation from the guidelines*

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

### **Risks and uncertainty factors**

#### **Market-related risks**

HMS is exposed to market-related risks that are beyond the Group's control. These risks are mainly connected with the business climate, competitive situation, world market demand and access to resources that are essential to the Group's operations. The development and spread of the coronavirus has also clearly demonstrated that there could be new, unexpected risks, where it is very difficult to assess the effect on the Group's operations.

#### *a) Business cycle*

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

#### *b) 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.

#### *a) 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.

#### *b) 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.

#### *c) 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 individ-

uals 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.

#### *d) Acquisitions*

In the future, HMS will acquire, divest or discontinue certain operations and/or companies if necessary. 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.

#### *e) 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.

#### *f) Product safety*

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

from happening.

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

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**

#### *a) 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.

#### *b) Intellectual property rights*

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

#### *c) 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.

#### *a) Currency exposure*

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

The currency composition of operating income is approximately 61% in EUR, 25% in USD, 8% in JPY and 6% in other currencies. The currency composition of cost of goods sold is approximately 49% in EUR, 20% in USD and 31% in other currencies. The currency composition of operating expenses is approximately 48% in EUR, 12% in USD, 3% in JPY and 37% in other currencies.

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

### **Future Outlook**

The Group's long-term growth is supported by a continued inflow of



## DIRECTORS' REPORT

Design Wins, a wider product offering, particularly for the Industrial ICT area, supplementary technology platforms from prior acquisitions that were made and expansion of HMS's sales channels, in accordance with the established strategy.

The COVID-19 pandemic continues to impact the global economy. However, the market situation has improved significantly compared to how things were during the spring and summer months of 2020. Recovery is expected to continue during 2021.

### HMS stock

HMS Networks AB (publ) is listed on the NASDAQ OMX Stockholm Mid Cap list, in the Information Technology sector. On average, 56,603 (41,061) shares were traded each day. The shares' volume-weighted average price in 2020 was SEK 173.62 (150.69). The total number of shares was at the time of completion of this annual report 46,818,868, of which 157,571 are held in treasury after allotment of the 2017 share savings plan. All shares have the same voting rights.

## PARENT COMPANY

### Information about the business

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

### Proposed distribution of profit in the Parent Company

The following profits are at the disposal of the AGM:

Profit brought forward and other non-restricted reserves	272,389
Profit for the year	31,922
<b>SEK t</b>	<b>304,311</b>

### The Board of Directors proposes the following appropriation of profits:

Distributing dividends to shareholders of SEK 2.00/share <sup>1</sup>	93,323
Carried forward	210,988
<b>SEK t</b>	<b>304,311</b>

<sup>1</sup> The dividend is calculated on the total number of outstanding shares as of 2021-03-22.

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, paragraph 3, sections 2–3 of the Swedish Companies Act (prudence rule).

## THE GROUP

## Consolidated income statement

SEK t	Note	2020	2019
Net sales	5	1,466,822	1,518,708
Cost of goods and services sold		-558,058	-590,925
<b>GROSS PROFIT</b>		<b>908,763</b>	<b>927,783</b>
Selling expenses		-312,031	-348,714
Administrative expenses		-122,860	-123,767
Research and development expenses		-179,793	-189,666
Restructuring costs	12	-	-22,000
Other operating income	6, 12	11,592	19,794
Other operating expenses	6, 12	-17,933	-20,305
<b>OPERATING PROFIT</b>	7, 8, 9, 10, 11	<b>287,739</b>	<b>243,124</b>
Financial income	13	1,804	101
Financial expenses	14	-15,623	-15,110
<b>Financial items - net</b>		<b>-13,819</b>	<b>-15,009</b>
<b>PROFIT BEFORE TAX</b>		<b>273,920</b>	<b>228,115</b>
Income tax	12, 15	-53,507	-23,158
<b>PROFIT FOR THE YEAR</b>		<b>220,414</b>	<b>204,957</b>
Profit attributable to:			
HMS Network AB's shareholders		223,488	206,260
Non-controlling interests		-3,074	-1,303
<b>Total</b>		<b>220,414</b>	<b>204,957</b>
Earnings per share, basic, SEK <sup>1</sup>	16	4.79	4.43
Earnings per share, diluted, SEK <sup>1</sup>	16	4.77	4.40
Average number of shares, basic, 000s	16	46,654	46,598
Average number of shares, diluted, 000s	16	46,832	46,868
Paid dividends per share, SEK	17	-	1.80

<sup>1</sup> Attributed to parent company's shareholder

## Consolidated statement of comprehensive income

SEK t	Note	2020	2019
Profit for the year		220,414	204,957
<b>Other comprehensive income:</b>			
<b>Items that can later be reclassified to profit and loss</b>			
Cash flow hedges		18,400	3,582
Hedging of net investments		11,812	-2,073
Exchange differences arising from translation of foreign operations		-36,985	15,243
Income tax attributable to the items above	15	-6,224	-323
<b>Other comprehensive income for the year, after tax</b>		<b>-12,996</b>	<b>16,429</b>
<b>Total comprehensive income for the year</b>		<b>207,417</b>	<b>221,386</b>
Total comprehensive income for the year attributable to:			
HMS Network AB's shareholders		210,491	222,689
Non-controlling interests		-3,074	-1,303
<b>Total</b>		<b>207,417</b>	<b>221,386</b>



# Consolidated balance sheet

SEK t	Note	2020-12-31	2019-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>	19		
Capitalized development work		129,968	123,821
Goodwill		901,969	875,848
Customer relations and technology platforms		52,823	65,479
Brands		95,589	100,706
<b>Total intangible assets</b>		<b>1,180,349</b>	<b>1,165,854</b>
<b>Property, plant and equipment</b>			
Buildings and land	20	4,811	5,023
Plant and machinery	20	13,682	17,423
Equipment, installations and facilities	20	22,924	22,343
Construction-in-progress	20	570	199
Rights-of-use	20, 21	101,900	111,430
<b>Total property, plant and equipment</b>		<b>143,887</b>	<b>156,418</b>
<b>Financial assets</b>			
Deferred tax asset	18	3,823	3,675
Other long-term receivables	23	10,641	9,333
<b>Total financial assets</b>		<b>14,464</b>	<b>13,008</b>
<b>Total non-current assets</b>		<b>1,338,700</b>	<b>1,335,280</b>
<b>Current assets</b>	23		
Inventories	24	157,775	158,799
Accounts receivable - trade	25	175,233	142,854
Current tax assets		12,876	26,871
Derivative instruments	26	21,230	4,042
Other receivables		20,516	20,867
Prepaid expenses and accrued income	27	18,093	17,605
Cash and cash equivalents	28	81,544	51,241
<b>Total current assets</b>		<b>487,267</b>	<b>422,279</b>
<b>TOTAL ASSETS</b>		<b>1,825,967</b>	<b>1,757,559</b>

SEK t	Note	2020-12-31	2019-12-31
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	29	1,170	1,170
Other contributed capital	29	218,318	218,318
Reserves	36	86,752	99,748
Retained earnings including profit for the year		897,518	679,224
Equity attributable to HMS Networks AB's shareholders		1,203,758	998,460
Non-controlling interests		16,730	11,923
<b>Total equity</b>		<b>1,220,488</b>	<b>1,010,383</b>
<b>Non-current liabilities</b>	23		
Non-current interest-bearing liabilities	30	177,279	339,399
Non-current lease liabilities	21	68,078	82,047
Deferred tax liability	18	80,378	76,553
<b>Total non-current liabilities</b>		<b>325,735</b>	<b>497,999</b>
<b>Current liabilities</b>	23		
Current interest-bearing liabilities	30	828	1,195
Current lease liabilities	21	33,863	30,521
Accounts payable - trade		90,979	75,893
Current tax liability		15,850	9,966
Derivative instruments	26	-	1,212
Other liabilities		42,088	33,893
Accrued expenses and deferred income	31	95,045	85,468
Other provisions	32	1,091	11,029
<b>Total current liabilities</b>		<b>279,744</b>	<b>249,177</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,825,967</b>	<b>1,757,559</b>

## THE GROUP

## Consolidated cash flow statement

SEK t	Note	2020	2019
<b>Cash flow from operating activities</b>			
Profit before tax		273,920	228,115
Adjustment for items not included in cash flow:			
Depreciation/amortization and write-downs		113,364	90,444
Share Savings Plan	9	6,427	2,774
Unrealized exchange differences		13,653	3,890
Other provisions		-9,759	8,200
Impairment of inventories		4,751	1,511
Settlement of contingent consideration	12	-10,469	-19,721
Other non-cash items on the income statement		4,054	6,818
Income tax paid		-39,278	-58,414
<b>Cash flow from operating activities before changes in working capital</b>		<b>356,663</b>	<b>263,617</b>
<b>Change in working capital</b>			
Change in inventories		20,081	572
Change in accounts receivables - trade		-17,000	27,942
Change in other current receivables		1,680	6,334
Change in accounts payable - trade		-6,807	-37,558
Change in other current liabilities		15,169	-7,106
<b>Cash flow from operating activities</b>		<b>369,786</b>	<b>253,801</b>

SEK t	Note	2020	2019
<b>Investing activities</b>			
Investments in intangible assets	19	-41,425	-41,608
Investments in PPE	20	-6,222	-24,710
Investments in subsidiaries	33	-39,954	-24,355
Change in non-current financial assets		79	-1,878
Sale of property, plant and equipment		-	98
<b>Cash flow from investing activities</b>		<b>-87,522</b>	<b>-92,453</b>
<b>Financing activities</b>	35		
Borrowings		-	107,716
Loan amortization		-205,965	-166,080
Lease amortization	21	-35,344	-29,438
Repurchase of own shares		-6,000	-
Dividends paid to the Parent Company's shareholders	17	-	-83,909
Change in other current interest-bearing liabilities		607	-1,305
<b>Cash flow from financing activities</b>		<b>-246,702</b>	<b>-173,016</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>35,562</b>	<b>-11,668</b>
Cash and cash equivalents at beginning of year	28	51,241	58,951
Exchange rate differences in cash and cash equivalents		-5,259	3,959
<b>Cash and cash equivalents at year-end</b>	28	<b>81,544</b>	<b>51,241</b>
<b>Interest paid and received</b>			
Interest paid		-6,623	-7,599
Interest received		9	101

## Consolidated statement of changes in equity

SEK t	Note	Attributable to HMS Network AB's shareholders					Non-controlling interests	Total equity
		Share capital	Other contributed capital	Reserves	Retained earnings including profit for the year	Total		
<b>Opening balance on January 1, 2019</b>		<b>1,170</b>	<b>218,318</b>	<b>83,319</b>	<b>554,099</b>	<b>856,907</b>	<b>-</b>	<b>856,907</b>
Total comprehensive income		-	-	16,429	206,260	222,689	-1,303	221,386
Costs for share-based remuneration		-	-	-	2,774	2,774	-	2,774
Non-controlling interests that have arisen upon acquisition of subsidiaries		-	-	-	-	-	13,226	13,226
Dividend	17	-	-	-	-83,909	-83,909	-	-83,909
<b>Closing balance as of December 31, 2019</b>		<b>1,170</b>	<b>218,318</b>	<b>99,748</b>	<b>679,224</b>	<b>998,460</b>	<b>11,923</b>	<b>1,010,383</b>
Total comprehensive income		-	-	-12,996	223,488	210,491	-3,074	207,417
Costs for share-based remuneration		-	-	-	6,427	6,427	-	6,427
Repurchase of own shares		-	-	-	-6,000	-6,000	-	-6,000
Transactions with non-controlling interests	34	-	-	-	-5,620	-5,620	-7,799	-13,419
Non-controlling interests that have arisen upon acquisition of subsidiaries		-	-	-	-	-	15,680	15,680
<b>Closing balance as of December 31, 2020</b>		<b>1,170</b>	<b>218,318</b>	<b>86,752</b>	<b>897,518</b>	<b>1,203,758</b>	<b>16,730</b>	<b>1,220,488</b>



## THE PARENT COMPANY

# Parent company's income statement

SEK t	Note	2020	2019
Net sales	5	16,447	16,224
<b>GROSS PROFIT</b>		<b>16,447</b>	<b>16,224</b>
Administrative expenses	8, 9, 10, 11	-16,447	-16,224
<b>OPERATING PROFIT</b>		<b>0</b>	<b>0</b>
Profit from participation in subsidiaries	37	28,967	179,123
Interest income and similar items		4,113	4,806
Interest expenses and similar items		0	-2,551
<b>Total income from financial items</b>		<b>33,100</b>	<b>181,378</b>
<b>PROFIT AFTER FINANCIAL ITEMS</b>		<b>33,100</b>	<b>181,378</b>
Tax on profit for the year	15	-1,178	-588
<b>PROFIT FOR THE YEAR</b>		<b>31,922</b>	<b>180,791</b>

# Parent company's balance sheet

SEK t	Note	2020-12-31	2019-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Financial assets</b>			
Participations in Group companies	38, 39	337,324	337,324
<b>Total financial assets</b>		<b>337,324</b>	<b>337,324</b>
<b>Total non-current assets</b>		<b>337,324</b>	<b>337,324</b>
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables from Group companies		-	95,794
Current tax asset		442	97
Other receivables		107	83
Prepaid expenses and accrued income	27	749	67
<b>Total current receivables</b>		<b>1,298</b>	<b>96,041</b>
<b>Cash and bank balances</b>		<b>1,525</b>	<b>526</b>
<b>Total current assets</b>		<b>2,823</b>	<b>96,567</b>
<b>TOTAL ASSETS</b>		<b>340,147</b>	<b>433,891</b>

SEK t	Note	2020-12-31	2019-12-31
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital	29	1,170	1,170
Statutory reserve		19,446	19,446
<b>Total restricted equity</b>		<b>20,616</b>	<b>20,616</b>
<b>Non-restricted equity</b>	40		
Retained earnings		174,840	-202
Share premium reserve		97,549	97,549
Profit for the year		31,922	180,791
<b>Total non-restricted equity</b>		<b>304,311</b>	<b>278,138</b>
<b>Total equity</b>		<b>324,927</b>	<b>298,754</b>
<b>Current liabilities</b>			
Accounts payable - trade		525	65
Liabilities to Group companies		6,240	128,069
Current tax liability		921	-
Other liabilities		1,280	1,063
Accrued expenses and deferred income	31	6,253	5,940
<b>Total current liabilities</b>		<b>15,220</b>	<b>135,137</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>340,147</b>	<b>433,891</b>

## Parent company's cash flow statement

SEK t	Note	2020	2019
<b>Operating activities</b>			
Profit after financial items		33,100	181,379
Adjustments for items that do not affect cash flow:			
Share Savings Plan		251	134
Income tax paid		-601	-422
<b>Cash flow from operating activities before change in working capital</b>		<b>32,750</b>	<b>181,091</b>
<b>Change in working capital</b>			
Change in other current receivables		-707	82
Change in accounts payable - trade		461	-191
Change in other current liabilities		531	1,236
<b>Cash flow from operating activities</b>		<b>33,034</b>	<b>182,217</b>
<b>Investing activities</b>			
<b>Cash flow from investing activities</b>		<b>-</b>	<b>-</b>
<b>Financing activities</b>			
Repurchase of own shares		-6,000	-
Dividend paid		-	-83,909
Change in interest-bearing items, internal		-26,035	-99,090
<b>Cash flow from financing activities</b>		<b>-32,035</b>	<b>-182,998</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>999</b>	<b>-781</b>
Cash and cash equivalents at beginning of year		526	1,307
Cash and cash equivalents at year-end		1,525	526
<b>Interest paid and received</b>			
Interest paid		0	0
Interest received		546	1,386

## Parent company's statement of changes in equity

SEK t	Note	Restricted equity		Non-restricted equity			Total
		Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit for the year	
<b>Opening balance on January 1, 2019</b>		<b>1,170</b>	<b>19,446</b>	<b>-80,244</b>	<b>97,549</b>	<b>163,817</b>	<b>201,738</b>
Transfer of profit (loss) from 2018		-	-	163,817	-	-163,817	-
Costs for share-based remuneration		-	-	134	-	-	134
Dividend (SEK 1.80 per share)	17	-	-	-83,909	-	-	-83,909
Profit for the year		-	-	-	-	180,791	180,791
<b>Closing balance as of December 31, 2019</b>		<b>1,170</b>	<b>19,446</b>	<b>-201</b>	<b>97,549</b>	<b>180,791</b>	<b>298,754</b>
Transfer of profit (loss) from 2019		-	-	180,791	-	-180,791	-
Repurchase of own shares		-	-	-6,000	-	-	-6,000
Costs for share-based remuneration		-	-	251	-	-	251
Profit for the year		-	-	-	-	31,922	31,922
<b>Closing balance as of December 31, 2020</b>		<b>1,170</b>	<b>19,446</b>	<b>174,840</b>	<b>97,549</b>	<b>31,922</b>	<b>324,927</b>



# Notes

All amounts in SEK thousands unless otherwise stated

## Note 1 General information

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

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

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on March 22, 2021.

## Note 2 Summary of important accounting policies

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

### 2.1 BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

companies.

Shareholder's contribution is recognized in the equity of the receiver and as shares and participating interests of the shareholder, if impairments are not required. Group contributions are reported using the so-called alternative rule, according to RFR 2, IAS 27 p.2. The alternative rule means that group contributions, both received and paid, are recognized as appropriations in the income statement.

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

#### 2.1.1 New standards and amendments

##### a) New and amended standards adopted by the Group

Below, are the new and amended statements, along with interpretations that have been published and that must be applied by the Group for the first time for the financial year that starts on January 1, 2020.

Standard	Definition of Material – Amendments to IAS 1 and IAS 8
Significant requirements	<p>The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.</p> <p>In particular, the amendments clarify:</p> <ul style="list-style-type: none"> <li>• that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and</li> <li>• the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.</li> </ul>
Effect	No effect on the consolidated financial statements.
Effective as of	January 1, 2020

Standard	Definition of Business – Amendments to IFRS 3
Significant requirements	<p>The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.</p> <p>The amendments will likely result in more acquisitions being accounted for as asset acquisitions.</p>
Effect	No effect on the consolidated financial statements.
Effective as of	January 1, 2020

## NOTES

## CONT. NOTE 2 Accounting policies

Standard	<i>Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39</i>
Significant requirements	The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
Effect	No effect on the consolidated financial statements.
Effective as of	January 1, 2020

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

A number of new standards and interpretations enter into force for the financial year starting after January 1, 2020, but which have not been applied when preparing these financial statements. These new standards and interpretations are not expected to have a material impact on the consolidated financial statements in current or future periods, nor on future transactions. See the table, below.

Standard	<i>Classification of Liabilities as Current or Non-current – Amendments to IAS 1</i>
Significant requirements	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to January 1, 2023.
Effective as of	January 1, 2022 (possibly deferred until January 1, 2023)

Standard	<i>Reference to the Conceptual Framework – Amendments to IFRS 3</i>
Significant requirements	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.
Effective as of	January 1, 2022

Standard	<i>Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37</i>
Significant requirements	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
Effective as of	January 1, 2022

Standard	<i>Annual Improvements to IFRS Standards 2018–2020</i>
Significant requirements	The following improvements were finalised in May 2020: <ul style="list-style-type: none"> <li>• IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.</li> <li>• IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.</li> <li>• IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.</li> </ul>
Effective as of	January 1, 2022

## 2.2 CONSOLIDATED FINANCIAL STATEMENTS

### a) Subsidiaries

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

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

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

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

### b) Changes in ownership in a subsidiary without a change in controlling interest

Transactions with holdings without a controlling interest that do not lead to a loss of control are reported as equity transactions, i.e. as transactions with the owners in their role as owner. A change in ownership is reported as an adjustment to the carrying amounts for holdings with and without a controlling interest so that they reflect the changes in their relative holding in the subsidiary. For acquisitions from holdings without a controlling interest, the difference between the fair value of paid consideration and the actual acquired share of the carrying amount of the subsidiary's net assets is reported in equity. Gains and losses on disposals to non-controlling interests are also reported in equity.

### c) Divestment of a subsidiary

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

provides the basis for future reporting of the remaining holding as an associated company, joint venture or financial asset. All amounts concerning the divested unit that were previously reported in other comprehensive income are reported as if the Group had directly divested the attributable assets or liabilities. This could mean that amounts previously recognized in other comprehensive income are reclassified and recognized in profit or loss instead.

## 2.3 REPORTING OF SEGMENTS

Segment disclosures must be presented from the management's perspective, i.e. in the same way that they are presented for internal reporting purposes. The point of departure for identifying reportable segments is the internal reporting used by the highest-ranking executive decision-maker. Management has analyzed the internal reporting and concluded that the Group's highest-ranking executive decision-maker, the Group management team, regularly analyses the sales reports, quality reports, consolidated income statement and cash flow statement. This reporting is based on the fact that the common technology platform, development process, manufacturing process, market strategy and sales resources do not motivate further segmentation of the business. Therefore, there is no follow-up on the profit of any particular segment of the business.

## 2.4 TRANSLATION OF FOREIGN CURRENCY

### a) Functional currency and reporting currency

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

### b) Transactions and balance sheet items

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

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

### c) Group companies

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

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

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

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

## 2.5 REVENUE RECOGNITION

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

Interest income is recognized using the effective interest method.

## 2.6 CURRENT AND DEFERRED INCOME TAX

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



## CONT. NOTE 2 Accounting policies

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

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

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

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

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

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

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

### a) Investment deductions and other similar tax incentives

Group companies may be entitled to special tax relief for investments in certain types of qualifying assets or attributable to qualifying expenses (such as tax incentives for research and development

or other investment deductions). These types of tax deductions are reported by the Group as a reduction in the current tax liability and the current tax expense. A deferred tax asset is reported for tax relief that has not yet been declared.

## 2.7 LEASING

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

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

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

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

- fixed fees (including fees that are inherently fixed), less incentive claims
- variable lease fees that are based on an index or a price
- the guaranteed residual value that the lessee expects to pay to the lessor
- the exercise price for a call option, if it is reasonably certain that the lessee will exercise the option, and
- penalty for terminating the lease, if duration of the lease reflects the assumption that the lessee will utilize that option.

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

The Group is exposed to potential future increases in variable

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

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

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

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

### b) Options to extend or cancel agreements

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

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

## 2.8 BUSINESS COMBINATIONS

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

- the transferred assets
- liabilities that the Group incurs to former owners
- shares issued by the Group

- assets or liabilities that result from an agreement on contingent consideration
- previously held equity interest in the acquired company

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

The costs associated with acquisitions are expensed as incurred.

Goodwill is the amount that the

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

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

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

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

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

## 2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and intangible assets with an indefinite useful life or intangible assets not ready for use, are not amortized. They are however, tested annually for impairment, or more often whenever there is an

indication of impairment. Assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less selling expenses or its value-in-use, whichever is higher.

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

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

## 2.10 ITEMS AFFECTING COMPARABILITY

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

## 2.11 CASH AND CASH EQUIVALENTS

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

Utilized overdraft facility is recognized as borrowings in current liabilities.

## 2.12 ACCOUNTS RECEIVABLE - TRADE

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

Accounts receivable are initially reported at the transaction price. However, accounts receivable that have a significant financing component are measured at fair value. The Group has accounts receivable for the purpose of collecting contractual cash flows and it thus measures them at subsequent reporting occasions at amortized cost using the effective interest method. See Note 3.1 d) for a description of the Group's impairment policies.

## 2.13 INVENTORIES

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

## 2.14 INVESTMENTS AND OTHER FINANCIAL ASSETS

### 2.14.1 Classification

The Group classifies its financial assets in the following categories:

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

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

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

### 2.14.2 Recognition and derecognition in the balance sheet

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

### 2.14.3 Valuation

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

## CONT. NOTE 2 Accounting policies

### a) Investments in debt instruments

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

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

### b) Investments in equity instruments

The Group measures all of its equity instruments at fair value. In cases where Group management has elected to report fair value changes in equity instruments via other comprehensive income,

there will not be any subsequent reclassification of fair value changes to the income statement when the instrument is removed from the balance sheet. Dividends from such investments are reported in the income statement as other income when the Group's right to obtain payment has been established.

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

### c) Impairment

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

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

## 2.15 DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are reported in the balance sheet on the contract date. They are measured at fair value both at the first reporting date and upon subsequent revaluation at the end of each reporting period. When determining the fair value of a hedging instrument, the quoted rate of the currency on the closing date is used. The method of recognizing the resulting gain or loss arising on revaluation depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group identifies derivatives as:

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

When the transaction is entered into, the Group documents the relationship between the hedging instrument and the hedged item, as well as the Group's objectives for risk management and its risk strategy for the hedge. The Group also documents its assessment, both at the start of the hedging period and on an ongoing basis, of how the derivative instruments used in the hedging transaction have

been and will continue to be effective in terms of counterbalancing changes in fair value or cash flows attributable to the hedged items.

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

### 2.15.1 Cash flow hedging

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

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

The Group identifies the change in fair value of the currency futures (including spot price) as a hedging instrument. Gains and losses attributable to the effective portion of the change in the spot price are reported in other comprehensive income in the hedging reserve, which is a component of equity.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects earnings. Until and including 2019, they have been reported as Other operating income/Other operating expenses in the income statement. From 2020, HMS identifies a net of both net sales and costs as hedged items and reclassifications of the hedging reserve to the income statement are reported as Net sales, Cost of goods and services sold, Sales costs and Financial items.

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

### 2.15.2 Hedging of net investments

The Group hedges net investments in EUR. Hedging of net invest-



ments in foreign operations are reported in a similar way as cash flow hedges.

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

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

## 2.16 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

The residual value and useful life of assets are tested at the end of every reporting period and adjusted if necessary. The carrying amount of an asset is immediately written down to its recoverable amount if the asset's carrying amount exceeds its assessed recoverable amount.

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

## 2.17 INTANGIBLE ASSETS

### a) Goodwill

Goodwill is calculated in accordance with the principles explained in Note 2.8. Goodwill resulting from business combinations is included in intangible assets. Goodwill is not amortized, but is tested for impairment on an annual basis, or more often if events or changed

conditions indicate possible impairment. Goodwill is recognized at cost less accumulated impairment losses. When a unit is sold, the carrying amount of goodwill is included in the resulting gain/loss.

For the purpose of impairment testing, goodwill that was acquired in a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the acquisition. Each unit or group of units to which goodwill has been allocated correspond to the lowest level in the Group at which the goodwill is monitored as part of internal governance. Impairment losses are immediately expensed and they are never reversed.

### b) Brands

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

### c) Customer relations and technology platforms

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

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

### d) Capitalized development work

HMS's technology is based on internally developed solutions (including but not limited to) for connecting industrial equipment to networks, distributing information between processes and IT environment and to provide smart industrial data and information solutions. HMS has made several acquisitions over the last few years, which have given the company a more complete, yet also more complex offering. Part of the product strategy aims to capture economies of scale by developing and maintaining various product platforms in order to share a common framework for the various technical offers.

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

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

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

## 2.18 ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

Accounts payable and other liabilities are classified as current

## NOTES

**CONT. NOTE 2 Accounting policies**

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

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

**2.19 BORROWING AND BORROWING COSTS**

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

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

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

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

**2.20 PROVISIONS**

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

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

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

**2.21 REMUNERATION TO EMPLOYEES**

Liabilities for wages and salaries, including non-monetary benefits and compensated absences that are expected to be settled within 12 months after the fiscal year-end, are recognized as current liabilities at the undiscounted amount that is expected to be paid when the liabilities are settled. The expense is recognized at the rate that employees perform the services. Liabilities for long-term paid absence that are not expected to be settled in full within 12 months after the end of the reporting period in which the employees perform the services that are eligible for compensation are reported as non-current liabilities.

**a) Pension commitments**

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

Some of the pension obligations for salaried employees in Sweden are secured through insurance with Alecia and Skandia, which are defined benefit plans covering a number of employers. For the 2020 financial year, the company has not had access to sufficient information to enable it to report these plans as defined benefit plans. The pension commitments are thus reported as a defined contribution plans.

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

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

**b) Share-based remuneration**

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

During 2020, all permanent employees of the HMS Group were offered the opportunity to participate in a Share Savings Plan, where payment is made in shares and where the Group receives services

from employees as consideration for the Group's own equity instruments.

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

Fair value per share is determined according to the share price on the first trading day during the first year when a new program starts and the shares are acquired. At the end of each reporting period, the Group revises its estimates of the number of shares expected to vest based on the non-market vesting conditions. Any deviation from the original assessments that are discovered during the reassessment, are recognized in the income statement with a corresponding adjustment to equity.

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

**2.22 SHARE CAPITAL**

Ordinary shares are classified as equity.

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

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

**2.23 PROVISIONS**

Other provisions in equity are comprised of hedging and translation reserves. The hedging reserve is comprised of unrealized gains and losses on futures which are recognized in profit or loss in the periods that the hedged transactions impact profit or loss. The translation

reserve is comprised of exchange differences arising when the income statements and balance sheets of all the Group companies are translated to the Group's reporting currency.

## 2.24 DIVIDENDS

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

## 2.25 CASH FLOW STATEMENT

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

# NOTE 3 Financial risk management

## 3.1 FINANCIAL RISK FACTORS

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

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

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

### a) Derivative instruments

The Group has financial derivatives in the form of currency futures

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

contracts that hedge purchases and sales in foreign currency. Derivatives are only used for commercial hedging purposes and not as speculative investments.

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

### Hedging reserve

The Group's hedging reserve is reported in reserves in equity and is provided in Note 36.

### Hedge effectiveness

Hedge effectiveness is a forward-looking evaluation that is made when the hedge agreement is entered into. The hedged item and the hedging instrument are continually evaluated to ensure that the requirements for effectiveness are met. When the Group hedges transactions in foreign currency, the critical conditions in the hedging instrument exactly match the conditions for the hedged item. Accordingly, a quantitative evaluation of effectiveness of the hedge is thus ensured.

When hedging transaction in foreign currency, an ineffective portion can arise if the timing of the forecast transaction changes compared to what was initially estimated. There were no ineffective portions in currency futures contracts in 2020 or 2019.

### b) Currency risk

#### Exposure

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

Exposure	December 31, 2020		
	EUR	USD	JPY
Accounts receivable - trade	111,701	37,631	13,954
Bank loans	-171,141	-	-
Additional consideration	-	-	-
Accounts payable - trade	-56,690	-19,868	-863
Currency futures (cash flow hedges)	154,998	93,940	54,146

Exposure	December 31, 2019		
	EUR	USD	JPY
Accounts receivable - trade	90,747	35,377	7,331
Bank loans	-289,840	-	-
Additional consideration	-10,434	-	-
Accounts payable - trade	-37,614	-25,482	-852
Currency futures (cash flow hedges)	164,288	36,253	54,165

### Instruments used by the Group

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



## NOTES

## CONT. NOTE 3 Financial risk management

foreign subsidiaries.

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

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

Information on accounting principles for hedging instruments can be found in Note 2.15.1.

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

#### *Hedging of net investments in foreign operations*

During 2020, the Group amortized EUR 10.6 million on prior year acquisition loans. The remaining acquisition loans thus amount to EUR 17 million and they have been identified as hedging net investments in the 2016 acquisition of the subsidiaries HMS Industrial Networks SA and HMS Industrial Networks SLU. There was no ineffective portion to be reported from hedges of net investments in foreign operations.

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

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

Derivative instruments – currency futures	2020	2019
Carrying amount (asset)	21,230	4,042
Nominal amount	303,084	210,938
Maturity	Jan 2021 - April 2022	March 2020 - April 2021
Hedge ratio*	1:1	1:1
Change in value for outstanding hedging instruments since January 1	20,024	3,808
Value change in the hedged item for determining effectiveness	-20,024	-3,808
Weighed average for forward rates during the year	SEK10.5656:1EUR, SEK 9.0581:1USD, SEK0.0872:1JPY	SEK10.5004:1EUR, SEK8.8646:1USD, SEK0.0879:1JPY

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

Derivative instruments – currency futures	2020	2019
Carrying amount (liability)	-	-1,212
Nominal amount	-	43,767
Maturity	-	March 2020 - April 2021
Hedge ratio*	-	1:1
Change in value for outstanding hedging instruments since January 1	-	-834
Value change in the hedged item for determining effectiveness	-	834
Weighed average for forward rates during the year	-	SEK10.5004:1EUR, SEK8.8646:1USD, SEK0.0879:1JPY

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

Net investment in foreign operations	2020	2019
Carrying amount (bank loans)	170,680	288,166
Carrying amount in EUR	17,000	27,619
Hedge ratio	1:1	1:1
Change in the loan's carrying amount due to changes in the exchange rate since January 1	11,812	-2,073
Change in the value of the hedged item for determining effectiveness	11,812	-2,073
Weighed average for currency rates during the year	SEK10.5118:1EUR	SEK10.5884:1EUR

#### *Sensitivity analysis*

Through its operating activities, the Group is primarily exposed to changes in the exchange rate between EUR and SEK. If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, the Group's equity as of December 31, 2020 would have been SEK 18.6 million lower/higher. If the SEK had weakened/strengthened by 5% against the Group's most significant exchange rates, the Group's equity as of December 31, 2020 would have been SEK 32.7 million lower/higher.

If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, the operating profit/loss as of December 31, 2020 would have been SEK 16.7 (17.1) million lower/higher, as a result of transactions in foreign currency.

If the SEK had weakened/strengthened by 5% against the USD with all other variables held constant, the operating profit/loss as of December 31, 2020 would have been SEK 9.0 (5.9) million lower/higher, as a result of transactions in foreign currency.

If the SEK had weakened/strengthened by 5% against the JPY with all other variables held constant, the operating profit/loss as of December 31, 2020 would have been SEK 4.5 (3.5) million lower/higher, as a result of transactions in foreign currency.

#### **c) Interest rate risk**

The Group's primary interest rate risk arises from long-term borrowings with variable interest rates, which expose the Group to interest rate risk on the cash flow. The Group's financial policy states that

interest expenses should be as low as possible. In order to minimize the Group's interest expenses, interest rate derivatives may be utilized. For 2020 and 2019, it was assessed that the use of interest rate derivatives would not decrease the Group's interest expenses.

#### Sensitivity analysis

If interest rates on borrowings in EUR during 2020 had been one percentage point higher/lower with all other variables constant then the profit before tax for the financial year would have been SEK 2.3 (3.0) million lower/higher.

If the SEK had weakened/strengthened by 5% against the EUR during 2020 with all other variables held constant, profit before tax for the financial year would have been SEK 0.1 (0.2) million higher/lower due to decreased/increased interest expenses.

If interest rates on borrowings in EUR as of December 31, 2020 rise/fall by 1% in 2021, profit before tax for 2021 will be SEK 1.7 million lower/higher.

If, compared to December 31, 2020, the SEK weakens/strengthens by 5% against the EUR during the coming year, with all other variables held constant, profit before tax for 2021 will be SEK 0.1 million higher/lower due to decreased/increased interest expenses.

#### d) Credit risk

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

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

#### Impairment of financial assets

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

- Accounts receivable attributable to the sale of goods sold and

services provided, and

- Contract receivables attributable to development contracts

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

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

See Note 25 for more information about the Group's reported credit losses.

#### e) Financing and liquidity risk

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

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

the amount of various liquid assets thus required, monitoring solvency in relation to internal and external supervisory requirements and drawing up plans for debt financing.

Financing risk arises when, at a given point in time, it becomes difficult obtaining financing. To minimize the costs of the Group's borrowings and financing, the finance function must provide credit facilities that adequately meet the Group's need for working capital credit. HMS's goal is to always have access to approximately 8% of sales in cash, excess liquidity including unutilized credit facilities, which at year-end corresponded to approximately 27 (15)%.

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

#### Analysis of maturity for financial liabilities

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

### 3.2 MANAGING CAPITAL RISKS

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

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

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

The Group evaluates its capital structure by calculating and monitoring the net debt/equity ratio. This key figure is calculated as net liabilities divided by total equity. The net debt is calculated as the

## NOTES

## CONT. NOTE 3 Financial risk management

total borrowings (including current interest-bearing liabilities and non-current interest-bearing liabilities in the consolidated balance sheet) and short-term and long-term lease liabilities less cash and cash equivalents. Total capital is calculated as equity in the consolidated balance sheet plus net debt.

The net debt/equity ratios on December 31, 2020 and December 31, 2019 were as follows:

	2020	2019
Interest-bearing liabilities (Note 30)	178,107	340,594
Lease liabilities (note 21)	101,941	112,568
Less cash and cash equivalents (Note 28)	-81,544	-51,241
<b>Net debt</b>	<b>198,504</b>	<b>401,921</b>
Total equity	1,220,488	1,010,383
<b>Total capital</b>	<b>1,418,992</b>	<b>1,412,304</b>
Net debt/equity ratio	16%	40%

## Analysis of maturity

As of December 31, 2020	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Accounts payable - trade	-90,979	-	-	-	-	-90,979
Derivative instruments	-	-	-	-	-	-
Bank loans	-1,039	-1,499	-171,707	-	-	-174,246
Lease liabilities	-9,041	-27,124	-25,224	-43,184	-5,587	-110,161
<b>Total</b>	<b>-101,060</b>	<b>-28,624</b>	<b>-196,932</b>	<b>-43,184</b>	<b>-5,587</b>	<b>-375,386</b>

As of December 31, 2019	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Accounts payable - trade	-75,893	-	-	-	-	-75,893
Derivative instruments	-746	-466	-	-	-	-1,212
Bank loans*	-1,354	-3,689	-14,691	-328,741	-	-348,475
Lease liabilities	-8,197	-24,590	-28,125	-44,835	-13,957	-119,703
<b>Total</b>	<b>-86,190</b>	<b>-28,745</b>	<b>-42,816</b>	<b>-373,575</b>	<b>-13,957</b>	<b>-545,283</b>

\* Incl. additional consideration.

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

## 3.3 CALCULATION OF FAIR VALUE

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

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

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

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

The following table shows the Group's assets and liabilities valued at a fair value as of December 31, 2020:

	Note	Level 1	Level 2	Level 3	Total
Long-term securities holdings		-	-	6,819	6,819
Derivative instruments used for hedging	26	-	21,230	-	21,230
<b>Total assets</b>		<b>-</b>	<b>21,230</b>	<b>6,819</b>	<b>28,049</b>
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

The fair value of the derivative instruments is determined as the present value of future cash flows, based on quoted exchange rates for the currency on the closing date.

The change in long-term securities holdings refers to acquired assets.



## NOTE 4 Important estimates and assessments for accounting purposes

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

Estimates and assessments are evaluated continuously and they are based on past experience and other factors, including expectations of future events considered reasonable under the prevailing conditions. The estimates and assumptions that involve a considerable risk of needing to make significant adjustments to the carrying amounts of assets and liabilities during the next financial year are shown below.

### a) Test of impairment for goodwill and brands

Each year, in accordance with the accounting policies described in Note 2.9, the Group tests goodwill and brands with an indefinite useful life for impairment. The recoverable amount for the Group's cash-generating units (for the Group excl. WEBfactory and Procentec as well as WEBfactory separately) has been determined by calculating value-in-use. Various estimates must be made in order to make these calculations (Note 19). The Group estimates that the recoverable amount of the recently acquired company Procentec corresponds to the transaction price of the investment. There is no need for impairment.

For the Group excl. WEBfactory and Procentec, the reported value of goodwill amounts to SEK 823.9 million. The amount for WEBfactory alone is SEK 14.8 million and the amount for Procentec alone is SEK 63.3 million. The total is SEK 902.0 (875.8) million. In 2020, impairment of goodwill for WEBfactory was recognized in the amount of SEK 13.6 million, based on a weaker development in the company than expected (no connection with the corona pandemic).

The carrying amount for brands with an indefinite useful life is SEK 88.7 (92.2) million.

Sensitivity analyses reveal that the return requirement after tax could increase from 10.0% to 22.5% (for the Group excl. WEBfactory and Procentec) and from 11.0% to 14.8% for WEBfactory, without needing to recognize any additional impairment losses.

### b) Revenue recognition

The Group uses the percentage of completion method for reporting fixed-price agreements for sales of development services. The percentage of completion method means that the Group must assess

services already performed by the closing date as a proportion of the total services to be performed.

### c) Capitalized development costs

The company capitalizes costs associated with the development of identifiable and unique integrated circuits when the criteria described in Section 2.17 d have been fulfilled and when the costs are expected to be covered and exceeded by future revenue. Four times per year, the Group determines whether its products, for which a carrying amount has been recorded, are in the process of being sold, or are expected to be sold. The Group records impairment loss on products for which the future economic benefits are expected to be less than the carrying amount. In 2020, this impairment testing resulted in a write-down of SEK 5.1 (1.2) million.

### d) Contingent consideration

In conjunction with the acquisition of WEBfactory GmbH in 2019, there was an agreement on contingent consideration. The additional consideration, which amounted to EUR 1.5 million, was contingent on sales growth during 2020. Because sales growth was weaker than expected, the amount for the contingent consideration was reversed in 2020. That event resulted in a gain of SEK 10.5 million that has been reported as part of other operating income.

### e) Leasing

When the length of a lease agreement is established, management takes into consideration all available information that provides an economic incentive to utilize an extension option of not utilize an option to cancel an agreement.

Opportunities to extend an agreement only add to the duration of an agreement if it is reasonable certain that the agreement will be extended (or not canceled). The majority of extension options related to the leasing of office premises and vehicles have been included in the lease liability.

The leasing period is re-evaluated if an option is exercised (or not exercised) or if the Group will have to exercise the option (or not exercise it). If the assessment is reasonably certain, it will only be re-evaluated if significant events arise, or a change in circumstances, which impact the original assessment and also if the change is within the lessor's control.

### f) Recognition of deferred tax assets on loss carryforwards

Included in deferred tax assets is SEK 1.9 million, which is the loss

carryforward for HMS Technology Center Wetzlar GmbH. The Group has assessed that the loss carryforwards will be able to be used against future taxable profit. The assessment is based on a business plan and budget that has been decided for the subsidiary. The subsidiary is expected to generate future taxable profit from 2021 and onwards. The loss carryforwards can be rolled forward and they do not have any expiration date.

### g) Inventory obsolescence

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

## NOTE 5 Revenue from contracts with customers

### 5.1 PRODUCTS

The Group develops and sells products and solutions for Industrial ICT (Information and Communication Technology) sold under the Anybus®, Ixxat®, Ewon® and Intesis® brands. The products make it possible for industrial equipment to communicate and share information with software and systems.

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

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

### 5.2 LICENSES

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

## NOTES

## CONT. NOTE 5 Revenue from contracts with customers

over time.

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

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

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

### 5.3 CLOUD SERVICES

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

### 5.4 DEVELOPMENT SERVICES

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

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

the services already rendered to the total amount of services to be performed.

Most revenue from development services is recognized over time.

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

### 5.5 CATEGORIZATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The HMS Group sells products and services primarily in seven countries, as shown in the following table. For information about the Group's segments, see Note 2.3. Categorization is based on the country that a product or service is delivered to.

Net sales per country	The Group		Parent Company*	
	2020	2019	2020	2019
Germany	336,775	413,401	-	-
USA	270,392	265,585	-	-
Japan	129,996	136,305	-	-
France	100,845	87,152	-	-
Italy	71,161	76,764	-	-
China	86,575	62,095	-	-
Sweden	55,499	58,947	16,447	16,224
Other countries	415,580	418,460	-	-
<b>Total</b>	<b>1,466,822</b>	<b>1,518,708</b>	<b>16,447</b>	<b>16,224</b>

\*The Parent company's net sales amounted to SEK 16,447 (16,224) thousand, of which 100% were sales to Group companies. Purchases from Group companies amounted to SEK 0 (0) thousand.

No singel customer accounts for more than 10% of the Group's total revenue.

The products for Industrial ICT are sold under the Anybus®, Ixxat®, Ewon® and Intesis® brands. The breakdown of net sales by brand is shown in the following table.

Net sales per brand	2020	2019
Anybus	797,404	873,011
Ewon	300,846	291,985
Ixxat	167,436	176,319
Intesis	114,333	117,378
Other	86,803	60,015
<b>Total</b>	<b>1,466,822</b>	<b>1,518,708</b>

### 5.6 CONTRACT ASSETS AND LIABILITIES

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

	December 31, 2020	December 31, 2019
Current contract assets attributable to development services.	2,562	2,873
Impairment reserve	-	-
<b>Total contract assets</b>	<b>2,562</b>	<b>2,873</b>
Contract liabilities – license and service agreements	11,886	8,576
<b>Total current contract liabilities</b>	<b>11,886</b>	<b>8,576</b>

There has not been any loss reserve recognized for contract assets.

#### 5.6.1 REMAINING NON-CURRENT DEVELOPMENT AGREEMENTS

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

	December 31 2020	December 31 2019
The total amount of the transaction price that was allocated to long-term development contracts that are unfulfilled or partially unfulfilled as of 31 December	8,424	7,757

Management expects that 67% of the transaction price that has been allocated to unfulfilled contracts as of December 31, 2020 will

be recognized as revenue during the next financial year (SEK 5,664 thousand).

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

5.7 REPORTING

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

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

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

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

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



## NOTE 6 Other operating income and expenses

Other operating income	2020	2019
Settlement of contingent consideration <sup>1</sup>	10,469	19,721
Exchange rate differences	1,123	73
<b>Total</b>	<b>11,592</b>	<b>19,794</b>

Other operating expenses	2020	2019
Goodwill impairment <sup>2</sup>	-13,633	-
Realized forward exchange agreements	-	-13,739
Exchange rate differences	-4,300	-6,567
<b>Total</b>	<b>-17,933</b>	<b>-20,306</b>

<sup>1</sup> Pertains to WEBFactory GmbH 2020 and HMS Technology Center Wetzlar GmbH 2019

<sup>2</sup> Pertains to WEBFactory GmbH

## NOTE 7 Categorization by type of cost

	2020	2019
Cost of purchasing and handling materials	434,601	460,658
Costs for remuneration to employees (Note 9)	513,308	547,715
Depreciation, amortization and impairment (Note 19, 20)	113,297	59,118
Marketing costs	17,535	30,379
Freight costs	8,351	9,016
Restructuring costs <sup>1</sup>	-	22,000
Other external costs	127,075	187,794
Capitalized development costs (Note 19)	-41,425	-41,608
<b>Total costs for goods sold, sales administration, research and development</b>	<b>1,172,742</b>	<b>1,275,072</b>

<sup>1</sup> The restructuring costs for 2019 are allocated as follows: Cost of goods sold SEK 5,555 thousand, Selling and marketing expenses SEK 9,354 thousand, Administrative costs SEK 3,494 thousand and Research and development costs SEK 3,137 thousand.

## NOTE 8 Remuneration to auditors

Remuneration to auditors	The Group		Parent Company	
	2020	2019	2020	2019
PwC				
Audit assignment <sup>1</sup>	1,595	1,796	1,227	618
of which PwC Sweden	1,227	1,143	1,227	618
Audit activities other than the audit assignment	49	-	49	-
of which PwC Sweden	49	-	49	-
Tax advice	37	391	-	23
of which PwC Sweden	-	23	-	23
Other services	49	119	49	52
of which PwC Sweden	49	90	49	52
<b>Total</b>	<b>1,729</b>	<b>2,305</b>	<b>1,324</b>	<b>693</b>

<sup>1</sup>The audit assignment is the fee for conducting the statutory audit, i.e. work necessary for providing an audit report, and any audit advice provided in connection with the audit engagement.

## NOTE 9 Remuneration to employees

	The Group		Parent Company	
	2020	2019	2020	2019
Salaries and other remuneration <sup>1</sup>	394,087	423,548	5,369	5,502
Social security contributions	95,443	99,237	2,177	1,914
Pension costs	23,778	24,930	2,021	763
<b>Total</b>	<b>513,308</b>	<b>547,715</b>	<b>9,567</b>	<b>8,179</b>

<sup>1</sup> Salaries in the parent company pertain to the CEO and Board of Directors.

	2020			2019		
	Salaries and other remuneration	Social security expenses (of which pension expenses)		Salaries and other remuneration	Social security expenses (of which pension expenses)	
Board members and CEO	19,130	5,005	(2,195)	19,259	3,638	(972)
Other employees	374,957	114,065	(21,583)	404,289	120,529	(23,958)
<b>The Group, total</b>	<b>394,087</b>	<b>119,070</b>	<b>(23,778)</b>	<b>423,548</b>	<b>124,167</b>	<b>(24,930)</b>

Average no. of employees	2020		2019	
	Average no. employees	Of which men	Average no. employees	Of which men
Sweden	206	155	228	169
Germany	149	114	151	117
Belgium	55	47	60	47
Spain	55	39	60	44
USA	47	37	45	35
Netherlands	22	17	8	6
Japan	20	15	19	14
Romania	18	13	8	6
China	13	10	12	9
Great Britain	9	7	6	5
India	7	7	6	6
France	5	5	5	5
Italy	4	3	5	4
Singapore	3	3	2	2
Czech Republic	1	1	1	1
Switzerland	0	0	1	1
<b>The Group, total</b>	<b>614</b>	<b>473</b>	<b>617</b>	<b>471</b>

## Share-based remuneration

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

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

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

For all of the plans, a requirement on receiving performance shares is, besides the requirements on employment and holding, that HMS achieves certain financial targets on profit per share during the qualification period. The financial targets are based on average annual growth for the Group's profit per share, calculated in accordance with CAGR (Compound Annual Growth Rate) during the qualification period. Performance shares are awarded on a straight-line basis in the interval between 0-20% and maximum allocation occurs if there is a higher profit per share during the qualification period than 20% CAGR. Maximum outcome would thus be issuance of one performance share for the 2018 plan (and one matching share) and two performance shares for later plans. A prerequisite for allocation of performance shares is that average growth for the year must be positive.

In order to ensure allocation of shares in accordance with the Share Savings Plans, the AGM decided to acquire own shares for all plans.

The Group's costs for the Share Savings Plan are reported in accordance with IFRS 2 Share-based payment (see also the description under accounting policies).

## CONT. NOTE 9 Remuneration to employees

Gender distribution of the Group (incl. subsidiaries) for Board members, President/CEOs and senior executives	2020		2019	
	No. on closing date	Of which men	No. on closing date	Of which men
Board members, CEO and senior executives	19	17	18	16
<b>The Group, total</b>	<b>19</b>	<b>17</b>	<b>18</b>	<b>16</b>

Ongoing Share Savings Plans				
Investment year (AGM decision)	Share of participating employees	Number saved of shares	Total number allocated (of which performance shares)	Fair value
2017 (2016)	43%	<i>(concluded)</i>	47,382 (17,973)	75.63
2018 (2017)	52%	33,816	-	125.00
2019 (2018)	46%	28,931	-	125.80
2020 (2019)	41%	29,106	-	178.00
2021 (2020)	51%	<i>(not yet started)</i>	-	274.50

Shares held in treasury related to share-based compensation			
Year	Repurchase	Allocation	Balance
2013	124,000	-	124,000
2017	350,200	-112,468	361,732
2018	70,000	-138,907	292,825
2019	-	-89,826	202,999
2020	40,000	-88,083	154,916
2021 <sup>1</sup>	50,000	-47,345	157,571

<sup>1</sup> Calculated on the total number of outstanding shares as of 2021-03-22.

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

**Remuneration to the Board and senior executives**

Remuneration to the Chairman and Board members is in accordance with the general meeting of shareholders' decision. Board fees do not pertain to employee representatives.

Remuneration to the CEO and other senior executives is comprised of basic salary, variable remuneration, other benefits and pension. In the context of this note, other senior executives are the five members of the Group management team that also includes the CEO.

The distribution between basic salary and variable remuneration shall be proportionate to the executive's responsibilities and authority. For the CEO and other senior executives, variable remuneration may not exceed 50% of basic salary. Variable remuneration is based on performance in relation to targets. Pension benefits and other benefits for the CEO and other senior executives are a part of the total remuneration package. The retirement age for the CEO and Swedish senior executives is 65 years old.

Variable remuneration for the financial year consists of expensed bonus, which is paid out in the coming year.

For details of how the bonus is calculated, see below.

At the AGM on April 23, 2020 Charlotte Brogren was re-elected as Chairman of the Board. The following individuals were also re-elected at the AGM to serve on the Board of Directors: Fredrik Hansson, Anders Mörck, Cecilia Wachtmeister and Ulf Södergren. Niklas Edling was elected to the Board of Directors. Since the AGM of April 23, 2020, the Board has held 11 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on April 23, 2021.

**Variable remuneration**

Variable remuneration for the CEO and other senior executives is based primarily on growth along with profitability goals set by the Board. In addition to that, other personal goals may be established. For 2020, variable remuneration for the CEO corresponded to 11 (23)% of basic salary and for other senior executives it was 9 (14)%.



**Defined benefit/Defined contribution pension plans**

The Group has both defined benefit and defined contribution pension plans. See section 2.21 and Note 11. Pension costs are costs that affect profit (loss) for the year.

**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 examines the feasibility of remuneration to other Board members who provide consulting services to the Group, if applicable.

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2020 financial year was decided by the Board based on the recommendations of the remuneration committee. Remuneration for other senior executives was decided by the CEO after consultation with the remuneration committee.

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

Remuneration and other benefits 2020	Basic salary/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2020	Board attendance
Chairman of the Board, Charlotte Brogren	500	-	-	-	500	100%
Board member, Niklas Edling	225	-	-	-	225	100%
Board member, Cecilia Wachtmeister	225	-	-	-	225	100%
Board member, Fredrik Hansson	275	-	-	-	275	90%
Board member, Anders Möck	325	-	-	-	325	100%
Board member, Ulf Södergren	225	-	-	-	225	100%
<b>Total, Board</b>	<b>1,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,775</b>	
CEO Staffan Dahlström	3,256	338	2,021 <sup>2</sup>	148	5,763	
Other senior executives <sup>1</sup> (5)	8,379	727	2,392	120	11,619	
<b>Total</b>	<b>13,411</b>	<b>1,065</b>	<b>4,412</b>	<b>268</b>	<b>19,156</b>	

Remuneration and other benefits 2019	Basic salary/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total 2019	Board attendance
Chairman of the Board, Charlotte Brogren	500	-	-	-	500	100%
Board member, Ray Mauritsson	225	-	-	-	225	100%
Board member, Cecilia Wachtmeister	225	-	-	-	225	100%
Board member, Fredrik Hansson	275	-	-	-	275	100%
Board member, Anders Möck	325	-	-	-	325	100%
Board member, Ulf Södergren	225	-	-	-	225	90%
<b>Total, Board</b>	<b>1,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,775</b>	
CEO Staffan Dahlström	3,067	660	763	164	4,654	
Other senior executives <sup>1</sup> (5)	8,388	1,201	2,500	148	12,237	
<b>Total</b>	<b>13,230</b>	<b>1,861</b>	<b>3,263</b>	<b>312</b>	<b>18,667</b>	

<sup>1</sup> Pertains to others in the Group management team

<sup>2</sup> Amounts expensed in 2020 include SEK 992 thousand in "buy to catch up"-premiums within the framework of premium levels decided on in previous years

## NOTE 11 Pension obligations

### Pension benefits

Most employees in the Group have a premium-based pension solution and in Sweden, it follows the ITP 1 plan. Other employees in Sweden have the ITP 2 plan, which is a defined benefit pension plan. The premium is individually calculated and based on such things as salary, previously earned pension and expected remaining period of service. For the 2020 financial year, the company did not have access to information in order to report its proportionate share of the ITP plan's obligations, plan assets and costs, which meant that it was not possible to report this as a defined benefit plan. This defined benefit pension plan is therefore reported as a defined contribution plan. The Group has a defined benefit pension obligation in Belgium that amounts to SEK 6,426 (5,321) thousand, see Note 30. The year's fees for pension insurance amounted to SEK 23,778 (24,930) thousand.

## NOTE 12 Items affecting comparability and other information

### Items affecting comparability

In 2019, the Group reported restructuring costs of SEK 22,000 thousand related to an action plan that had been implemented. Because the expenses are significant and nonrecurring, they are reported as items affecting comparability in the income statement.

### Other information

In 2020, the Group reported non-taxable operating income of SEK 10,469 thousand, pertaining to reversal of the contingent consideration associated with the acquisition of WEBfactory GmbH. Simultaneous with that, a non-deductible impairment loss on goodwill was recognized for SEK 13,633 thousand attributable to WEBfactory GmbH. These items are reported in the income statement among other operating income and other operating expenses, respectively.

In 2019 the Group reported non-taxable operating income of SEK 19,721 thousand associated with settlement of the contractual contingent consideration for the acquisition of HMS Technology Center Wetzlar GmbH. The revenue is reported as other operating income in the income statement. There has also been a positive impact on last year's tax expense for the year from tax credits attributable to 2018 totaling SEK 15,609 thousand.

## NOTE 13 Financial income

	2020	2019
Interest income	9	101
Exchange rate differences	803	1,724
Other items	992	-
<b>Total</b>	<b>1,804</b>	<b>1,825</b>

## NOTE 14 Financial expenses

	2020	2019
Interest expenses bank loans	-4,390	-5,264
Interest expenses lease liabilities	-2,233	-2,335
Exchange rate differences	-8,144	-9,235
Other items	-855	-
<b>Total</b>	<b>-15,623</b>	<b>-16,834</b>

## NOTE 15 Income tax

	The Group		Parent Company	
	2020	2019	2020	2019
Current tax	-57,019	-27,255	-1,178	-588
Deferred tax (Note 18)	3,512	4,097	-	-
<b>Total tax</b>	<b>-53,507</b>	<b>-23,158</b>	<b>-1,178</b>	<b>-588</b>

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

	The Group		Parent Company	
	2020	2019	2020	2019
Profit before tax	273,920	228,115	33,100	181,378
Tax calculated using the Swedish tax rate (21.4%)	-58,619	-48,817	-7,083	-38,815
Tax effect of items which are non-deductible/non-taxable	9,756	30,548	6,055	38,227
Adjustment relating to prior years	131	6,410	-149	-
Difference in foreign tax rates	-6,366	-9,007	-	-
Revaluation of deferred tax - change in the foreign tax rate	1,070	700	-	-
Loss carry-forwards used this year	-229	-2,282	-	-
Tax effect of loss carry-forward	751	-710	-	-
<b>Tax expense</b>	<b>-53,507</b>	<b>-23,158</b>	<b>-1,178</b>	<b>-588</b>
Weighted average tax rate	19.5%	10.2%		

Income tax relating to components of other comprehensive income for the Group amounted to, for cash flow hedges SEK -3,791 (+766) thousand and for hedging of net investments to SEK -2,433 (-444) thousand.

The low tax rate for 2019 is primarily attributable to the Belgian subsidiary having received a significant tax exemption, which has had a positive impact on tax by SEK 18,830 thousand (of which SEK 10,307 thousand is related to 2018 and SEK 8,523 thousand to 2019). There was also a positive impact on tax of approximately SEK 9,522 thousand associated with conditional consideration transactions.

## NOTE 16 Earnings per share

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

Earnings per share, basic and diluted	2020	2019
Profit attributable to parent company shareholders	223,488	206,260
Weighted average number of outstanding ordinary shares (thousands)	46,654	46,598
Earnings per share, basic (SEK per share)	4.79	4.43
Earnings per share, diluted (SEK per share)	4.77	4.40

Average number of shares, basic and diluted (thousands)	2020	2019
Average number of shares used to calculate earnings per share, basic	46,654	46,598
Adjustment for calculation of earnings per share, diluted:		
Shares in Share Savings Plans	178	270
<b>Average number of shares, diluted</b>	<b>46,832</b>	<b>46,868</b>

## NOTE 17 Dividend per share

Due to the uncertainties and effects of the coronapandemic and to increase the company's preparedness for future uncertainty, it was decided that dividends would not be distributed to shareholders in 2020. Dividends paid out in 2019 amounted to SEK 83,909 thousand (SEK 1.80 per share).

At the AGM on April 23, 2021, a proposal will be made to distribute SEK 93,323 thousand<sup>1</sup>, as dividends for the 2020 financial year, which corresponds to SEK 2.00 per share. The proposed dividend has not been reported as a liability in these financial statements.

<sup>1</sup> The dividend is calculated on the total number of outstanding shares as of 2021-03-22.

## NOTE 18 Deferred tax

Deferred tax assets	Inventory	Loss carry forward	Pensions	Currency hedging	Other	Total
<b>As of January 1, 2019</b>	-	-	729	3,964	3,692	8,386
Reclassification from deferred tax liabilities	3,785	-	-	-	-112	3,673
Reported in income statement	1,507	-3,055	598	-	-400	-1,350
Reported in other comprehensive income	-	-	-	-323	-	-323
Added via acquisition	-	5,226	-	-	-	5,226
Exchange rate differences	0	98	2	-	84	184
<b>As of December 31, 2019</b>	<b>5,292</b>	<b>2,269</b>	<b>1,330</b>	<b>3,642</b>	<b>3,263</b>	<b>15,797</b>
Reclassification to/from deferred tax liabilities	-53			-3,642	-	-3,695
Reported in income statement	1,256	-316	341		127	1,408
Exchange rate differences	4	-72	-65		-117	-251
<b>As of December 31, 2020</b>	<b>6,499</b>	<b>1,881</b>	<b>1,606</b>	<b>-</b>	<b>3,272</b>	<b>13,259</b>

Deferred tax liabilities	Tax allocation reserve	Property, plant and equipment and intangible assets	Currency hedging	Other	Total
<b>As of January 1, 2019</b>	18,062	63,608	-	-755	80,914
Reclassification to deferred tax assets	-	-		3,673	3,673
Reported in income statement	118	-4,130		-1,435	-5,447
Added via acquisition	-	8,031		-	8,031
Exchange rate differences	-	532		972	1,504
<b>As of December 31, 2019</b>	<b>18,179</b>	<b>68,041</b>	<b>-</b>	<b>2,455</b>	<b>88,675</b>
Reclassification to/from deferred tax assets			-3,642	-53	-3,695
Reported in income statement	3,832	-5,321	136	-752	-2,104
Reported in other comprehensive income			6,224		6,224
Change in tax rate	70	121			191
Added via acquisition		1,367			1,367
Exchange rate differences		-805		-39	-844
<b>As of December 31, 2020</b>	<b>22,081</b>	<b>63,404</b>	<b>2,718</b>	<b>1,611</b>	<b>89,814</b>



## NOTE 19 Intangible assets

	Patents	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Total
<b>As of January 1, 2019</b>						
Cost	448	248,844	781,329	97,674	88,496	1,216,790
Accumulated amortization and impairment/ exchange rate effects	-448	-148,784	59,526	-43,783	12,028	-121,461
<b>Carrying amount</b>	<b>-</b>	<b>100,060</b>	<b>840,855</b>	<b>53,891</b>	<b>100,524</b>	<b>1,095,330</b>
<b>Financial year 2019</b>						
Opening carrying amount	-	100,060	840,855	53,891	100,524	1,095,330
Investments	-202	41,608	-	-	-	41,406
Net investments from company acquisitions	-	11,190	-	-	-	11,190
Acquisition of subsidiaries	-	-	36,901	19,939	-	56,840
Reclassification of final acquisition analysis	-	-	-10,847	7,866	-	-2,981
Exchange rate differences	-	-70	8,939	301	1,569	10,739
Impairment	-	-1,174	-	-	-	-1,174
Depreciation/amortization	202	-27,792	-	-16,519	-1,387	-45,496
<b>Closing carrying amount</b>	<b>-</b>	<b>123,822</b>	<b>875,848</b>	<b>65,478</b>	<b>100,706</b>	<b>1,165,854</b>
<b>As of December 31, 2019</b>						
Cost	246	301,642	807,383	124,701	88,496	1,322,467
Accumulated amortization and impairment/ exchange rate effects	-246	-177,820	68,465	-59,223	12,210	-156,614
<b>Carrying amount</b>	<b>-</b>	<b>123,822</b>	<b>875,848</b>	<b>65,478</b>	<b>100,706</b>	<b>1,165,854</b>
<b>Financial year 2020</b>						
Opening carrying amount	-	123,822	875,848	65,478	100,706	1,165,854
Investments	-	41,425	-	-	-	41,425
Net investments from company acquisitions	-	62	-	-	-	62
Acquisition of subsidiaries	-	-	66,168	6,496	-	72,636
Exchange rate differences	-	-955	-26,414	-2,021	-3,740	-33,082
Impairment	-	-5,111	-13,633	-	-	-18,744
Depreciation/amortization	-	-29,295	-	-17,131	-1,377	-47,803
<b>Closing carrying amount</b>		<b>129,968</b>	<b>901,969</b>	<b>52,823</b>	<b>95,589</b>	<b>1,180,349</b>
<b>As of December 31, 2020</b>						
Cost	246	343,129	873,523	131,975	88,496	1,437,368
Accumulated amortization and impairment/ exchange rate effects	-246	-213,161	28,446	-79,153	7,093	-257,021
<b>Carrying amount</b>	<b>-</b>	<b>129,968</b>	<b>901,969</b>	<b>52,823</b>	<b>95,589</b>	<b>1,180,349</b>

Included in the income statement are depreciation/amortization and impairment losses of SEK 41,588 (40,324) thousand in Cost of goods sold, SEK 6,215 (5,172) thousand in Selling expenses, SEK 5,111 (1,174) thousand in Research and development expenses and SEK 13,633 (-) in Other operating expenses.

In 2019, the German company, WEBfactory GmbH and the Dutch company, Raster Products B.V. (HMS Industrial Networks B.V.) were acquired. The acquisition of WEBfactory generated a surplus in the form of complementary technology and customer relations, along with goodwill of SEK 29,013 thousand associated with the company's market position in IIoT and the expected synergies with existing operations. The acquisition of Raster generated goodwill attributable to the company's geographic market position of SEK 7,888 thousand.

In 2019, excess values were allocated in accordance with the final acquisition analysis regarding the 2018 acquired company Beck IPC GmbH (HMS Technology Center Wetzlar GmbH).

In 2020, the Dutch company Procentec B.V. was acquired, which led to goodwill in the form of technology platforms and customer relations. The amount of goodwill, SEK 66,168 thousand, is attributable to the company's market position in communications infrastructure and the expected synergies with existing operations. In 2020, an impairment loss on goodwill was recognized for SEK 13,633 thousand attributable to WEBfactory GmbH.

Capitalized development costs are tested regularly for impairment. In 2020, impairment testing resulted in a write-down of SEK -5,111 (-1,174) thousand.

#### Test of impairment for goodwill and brands with an indefinite useful life

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

	2020	2019
Procentec	63,308	-
Intesis	-	129,911
WEBfactory	14,790	28,934
Rest of the Group	823,870	717,003
<b>Total consolidated goodwill</b>	<b>901,969</b>	<b>875,848</b>

The Group's brand with an indefinite useful life are attributable to the Ixxat brand, which is part of the cash-generating unit 'Rest of the Group'. The carrying value amounts to SEK 88,693 (92,170) thousand.

The recoverable amount for the cash generating units has been based on their value-in-use. This has included assumptions for growth, profit margin, tied-up capital, investment requirements and risk premium. The principle underlying these assumptions is unchanged compared to last year, with the exception of HMS Industrial Networks SLU (Intesis). The company has been integrated with HMS sales and marketing organization worldwide and thus included as part of the same cash generating unit as the 'Rest of the Group' from January 1, 2020 (see table on previous page). Due to this, no separate recoverable amount has been calculated for HMS Industrial Networks SLU this year.

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

The company's assumptions about future growth are based on prior experience, external sources of information and its long-term business plan. For this assumption, expected market growth and price development were also considered.

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

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

These estimates form the basis for calculating value-in-use and the cash flow forecast for a period covering the fixed budget and the company's five-year financial plan. Cash flow was then extrapolated using an assumed annual growth rate of 2.0 (2.0)%, which is lower than the actual annual growth rate. The need for working capital (excluding cash) is, over the long term, estimated at 10 (8)% for the 'Rest of the Group' and 5 (10)% for WEBfactory alone, of the company's net sales. The weighted average cost of capital (WACC) before tax is 12.3 (12.4)% for the 'Rest of the Group' and 11.0 (12.5)% for WEBfactory alone.

The Group estimates that the recoverable amount of the recently acquired company Procentec corresponds to the transaction price of the investment. There is no need for impairment.

An impairment loss of SEK 13,633 thousand was recognized on the amount of goodwill for WEBfactory during the second quarter of 2020, due to the company having weaker sales growth than expected (no connection to the corona pandemic).

The calculated recoverable amount for the 'Rest of the Group' and WEBfactory exceeds the carrying amount with a good margin as of year end. 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 of the Group's goodwill and brand with an indefinite useful life.

## NOTE 20 Property, plant and equipment

	Buildings & Land	Plant & machinery	Equipment, installations and facilities	Construction -in-progress	Rights-of-use	Total
<b>As of January 1, 2019</b>						
Accumulated cost	3,452	77,922	49,545	224	-	131,143
Accumulated depreciation	48	-42,781	-36,632	4	-	-79,361
<b>Carrying amount</b>	<b>3,500</b>	<b>35,141</b>	<b>12,913</b>	<b>228</b>	<b>-</b>	<b>51,782</b>
<b>Financial year 2019</b>						
Opening carrying amount	3,500	35,141	12,913	228	-	51,782
Adjustment due to changed accounting policy	-	-19,448	-	-	119,222	99,774
Investments	1,529	7,262	15,919	-	24,378	49,088
Increase via company acquisitions	-	-	668	-	-	668
Reclassifications	-13	32	13	-32	-	-
Sales and disposals	-	-	-355	-	-	-355
Exchange rate differences	32	14	30	3	-2,673	2,594
Depreciation	-25	-5,578	-6,845	-	-29,497	-41,945
<b>Closing carrying amount</b>	<b>5,023</b>	<b>17,423</b>	<b>22,343</b>	<b>199</b>	<b>111,430</b>	<b>156,418</b>
<b>As of December 31, 2019</b>						
Accumulated cost	4,968	65,768	65,790	192	142,200	278,918
Accumulated depreciation, exchange rate effects	55	-48,345	-43,447	7	-30,770	-122,500
<b>Carrying amount</b>	<b>5,023</b>	<b>17,423</b>	<b>22,343</b>	<b>199</b>	<b>111,430</b>	<b>156,418</b>
<b>Financial year 2020</b>						
Opening carrying amount	5,023	17,423	22,343	199	111,430	156,418
Investments	-	2,075	3,551	396	10,672	16,695
Increase via company acquisitions	-	-	4,739	-	13,544	18,283
Reclassifications	-	-	-	-	4,250	4,250
Sales and disposals	-	-	-105	-	-	-105
Exchange rate differences	-189	-75	-650	-24	-3,966	-4,904
Depreciation	-24	-5,741	-6,955	-	-34,030	-46,750
<b>Closing carrying amount</b>	<b>4,811</b>	<b>13,682</b>	<b>22,924</b>	<b>570</b>	<b>101,900</b>	<b>143,887</b>
<b>As of December 31, 2020</b>						
Accumulated cost	4,968	67,843	73,976	587	170,666	318,040
Accumulated depreciation, exchange rate effects	-158	-54,161	-51,052	-17	-68,766	-174,154
<b>Carrying amount</b>	<b>4,811</b>	<b>13,682</b>	<b>22,924</b>	<b>570</b>	<b>101,900</b>	<b>143,887</b>

Depreciation costs of SEK 12,823 (12,543) thousand are included in Cost of goods sold, SEK 15,917 (13,319) thousand in Selling expenses, SEK 5,492 (5,484) thousand in Administration costs and SEK 12,518 (10,599) thousand in Research and development costs.



## NOTE 21 Leases

The following amounts associated with leases are reported in the balance sheet:

Right-of-use assets	2020	2019
Property	89,916	99,259
Equipment	508	671
Vehicles	11,476	11,500
<b>Total</b>	<b>101,900</b>	<b>111,430</b>

Lease liabilities	2020	2019
Current	33,863	30,521
Non-current	68,078	82,047
<b>Total</b>	<b>101,941</b>	<b>112,568</b>

The following amounts associated with leases are reported in the income statement:

Depreciation of right-of-use assets	2020	2019
Property	-27,008	-23,839
Equipment	-246	-234
Vehicles	-6,775	-5,424
<b>Total</b>	<b>-34,030</b>	<b>-29,497</b>

Additional right-of-use assets in 2020 amounted to SEK 24,216 (24,378) thousand. Interest expenses attributable to leasing agreements amounted to SEK -2,233 (-2,335) thousand. Expenses attributable to short-term leases for which the underlying asset is of low value amounted to SEK -1,099 (-1,329) thousand. The total cash flow associated with leases in 2020 was SEK -35,344 (-29,438) thousand. See also analysis of maturity on page 78.

## NOTE 22 Fixed assets, by country

Total fixed assets, by country	2020		2019	
Germany	194,019	39%	230,915	38%
Sweden	144,232	29%	155,196	26%
Netherlands	84,493	17%	70	0%
Belgium	43,557	9%	48,666	8%
Spain	25,588	5%	159,929	26%
Other countries	8,476	2%	10,494	2%
<b>Total</b>	<b>500,365</b>		<b>605,269</b>	

Fixed assets distributed by country comprise intangible and tangible fixed assets with the exception of goodwill attributable to the Group, see Note 19.

The 2020 acquired company Procentec B.V. has given rise to increased fixed assets in the Netherlands, mainly excess values and goodwill but also tangible fixed assets. On January 1, 2020, HMS Industrial Networks SLU (Intesis) in Spain was integrated with HMS. The company is thus part of the same cash generating unit as HMS ('Rest of the Group'), meaning no separate goodwill is reported for Intesis.

## NOTE 23 financial assets and financial liabilities

Financial assets	Financial assets measured at amortized cost	Financial assets at fair value through profit or loss,	Derivative instruments used for hedging	Total
<b>2020</b>				
<b>Non-current assets</b>				
Deposits	3,823	-	-	3,823
Long-term securities holdings	-	6,819	-	6,819
<b>Total non-current assets</b>	<b>3,823</b>	<b>6,818</b>	<b>-</b>	<b>10,642</b>
<b>Current assets</b>				
Accounts receivable - trade	175,233	-	-	175,233
Contract assets	2,562	-	-	2,562
Derivative instruments (used for hedging)	-	-	21,230	21,230
Cash and cash equivalents	81,544	-	-	81,544
<b>Total current assets</b>	<b>259,339</b>	<b>-</b>	<b>21,230</b>	<b>280,569</b>
<b>Total financial assets</b>	<b>263,162</b>	<b>6,819</b>	<b>21,230</b>	<b>291,211</b>
<b>2019</b>				
<b>Non-current assets</b>				
Deposits	4,020	-	-	4,020
Long-term securities holdings	-	5,313	-	5,313
<b>Total non-current assets</b>	<b>4,020</b>	<b>5,313</b>	<b>-</b>	<b>9,333</b>
<b>Current assets</b>				
Accounts receivable - trade	142,854	-	-	142,854
Contract assets	2,873	-	-	2,873
Derivative instruments (used for hedging)	-	-	4,042	4,042
Cash and cash equivalents	51,241	-	-	51,241
<b>Total current assets</b>	<b>196,968</b>	<b>-</b>	<b>4,042</b>	<b>201,010</b>
<b>Total financial assets</b>	<b>200,988</b>	<b>5,313</b>	<b>4,042</b>	<b>210,343</b>

Financial liabilities	Financial assets measured at amortized cost	Financial assets at fair value through profit or loss	Derivative instruments used for hedging	Total
<b>2020</b>				
<b>Non-current liabilities</b>				
Bank loans	170,853	-	-	170,853
<b>Total non-current liabilities</b>	<b>170,853</b>	<b>-</b>	<b>-</b>	<b>170,853</b>
<b>Current liabilities</b>				
Bank loans	828	-	-	828
Accounts payable - trade	90,979	-	-	90,979
<b>Total current liabilities</b>	<b>91,807</b>	<b>-</b>	<b>-</b>	<b>91,807</b>
<b>Total financial liabilities</b>	<b>262,660</b>	<b>-</b>	<b>-</b>	<b>262,660</b>
<b>2019</b>				
<b>Non-current liabilities</b>				
Bank loans	323,644	-	-	323,644
Additional consideration	-	10,434	-	10,434
<b>Total non-current liabilities</b>	<b>323,644</b>	<b>10,434</b>	<b>-</b>	<b>334,078</b>
<b>Current liabilities</b>				
Bank loans	1,195	-	-	1,195
Accounts payable - trade	75,893	-	-	75,893
Derivative instruments (used for hedging)	-	-	1,212	1,212
<b>Total current liabilities</b>	<b>77,088</b>	<b>-</b>	<b>1,212</b>	<b>78,300</b>
<b>Total financial liabilities</b>	<b>400,732</b>	<b>10,434</b>	<b>1,212</b>	<b>412,378</b>



## NOTE 24 Inventories

The Group	2020	2019
Raw materials and consumables	98,056	102,044
Work-in-progress	3,597	3,799
Finished goods	56,122	52,956
<b>Total</b>	<b>157,775</b>	<b>158,799</b>

Costs for impairment of inventories (obsolescence) that affected the year's profit are included in cost of goods sold and negatively impacted earnings by SEK -4,751 (-1,511) thousand.

## NOTE 25 Accounts receivable

	2020	2019
Accounts receivable - trade	176,755	144,408
Provision for doubtful debts	-1,522	-1,554
<b>Accounts receivable – net</b>	<b>175,233</b>	<b>142,854</b>

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

Fair value is estimated to correspond to reported value due to short maturity.

During the year, the Group reported loss concerning the impairment of accounts receivable amounting to SEK -286 (-583) thousand. As of December 31 2020, the provision for doubtful debts amounted to SEK 1,522 (1,554) thousand.

As of December 31, 2020, accounts receivable amounting to SEK 30,997 (32,868) thousand had fallen due. An aging analysis is provided below:

	2020	2019
1–15 days	20,967	20,914
15 days to 3 months	7,032	10,050
3 to 6 months	1,710	864
More than 6 months	1,288	1,039
<b>Total</b>	<b>30,997</b>	<b>32,868</b>

In the amount for accounts receivable overdue by more than 6 months, a provision to doubtful debts has been made for SEK 1,288 (1,039) thousand.

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:

	2020	2019
EUR	111,701	90,747
USD	37,631	35,377
JPY	13,954	7,331
SEK	4,596	4,540
CNY	4,482	4,323
GBP	4,120	1,805
DKK	271	287
<b>Total</b>	<b>176,755</b>	<b>144,408</b>

## NOTE 26 Derivatives

	2020	2019
Currency futures contracts – asset	21,230	4,042
Currency futures contracts – liability	-	-1,212

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

The Groups accounting policies for cash flow hedges are explained in Note 2.15.1.

### (a) Currency futures contracts

The nominal amount of outstanding currency futures contracts as of December 31, 2020 was SEK 303,084 (254,705) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Gains and losses on currency forward contracts as of December 31, 2020, which are a component of equity, are reported in the income statement as net sales, costs of goods and services sold, selling expenses and financial items in the periods when the hedged transaction affects earnings.

In 2020, realized currency forward contracts had a positive impact on operating profit of SEK 2,018 (-13,739) thousand.

### (b) Hedging of net investments in foreign operations

The Group's borrowings in EUR amounting to SEK 170,680 (288,166) thousand are identified as a hedging of net investments pertaining to the acquisition of subsidiaries. The Group's assessment is that the fair value on the borrowings corresponds to the carrying amount as of December 31, 2020. The exchange loss on translation of the borrowings into SEK amounted to SEK 11,812 (-2,073) thousand at the end of the reporting period and it has been recognized in other comprehensive income.

## NOTE 27 Prepaid expenses and accrued income

	The Group		Parent Company	
	2020	2019	2020	2019
Rents	3,841	3,132	-	-
Contract receivables, see Note 5	2,562	2,873	-	-
Other prepaid expenses	11,690	11,600	749	63
<b>Total</b>	<b>18,093</b>	<b>17,605</b>	<b>749</b>	<b>63</b>

## NOTE 28 Cash and cash equivalents

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

The Group	2020	2019
Cash and bank balances	81,544	51,241
<b>Total</b>	<b>81,544</b>	<b>51,241</b>

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

## NOTE 29 Share capital and other contributed capital

	Number of shares (000s)	Share capital (SEK t)	Other contributed capital (SEK t)	Total (SEK t)
As of January 1, 2019	46,819	1,170	218,318	219,488
As of December 31, 2019	46,819	1,170	218,318	219,488
<b>As of December 31, 2020</b>	<b>46,819</b>	<b>1,170</b>	<b>218,318</b>	<b>219,488</b>

The total number of shares is 46,818,868 (46,818,868) with a quotient value of SEK 0.025 (0.025) per share.

## NOTE 30 Interest-bearing liabilities

	2020	2019
<b>Non-current interest-bearing liabilities</b>		
Bank loans	170,853	323,644
Liability for contingent consideration	-	10,434
Defined benefit pension plan	6,426	5,321
<b>Total</b>	<b>177,279</b>	<b>339,399</b>
<b>Current interest-bearing liabilities</b>		
Bank loans	828	1,195
<b>Total</b>	<b>828</b>	<b>1,195</b>
<b>Total interest-bearing liabilities</b>	<b>178,106</b>	<b>340,594</b>

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

	2020	2019
3 months or less	611	391
Between 3 months and 1 year	217	804
Between 1 and 2 years	170,853	10,912
Between 2 and 5 years	-	323,166
More than 5 years	6,426	5,321
<b>Total</b>	<b>178,106</b>	<b>340,594</b>

During the prior year, the financing agreement with the bank was extended. It concerns a revolving credit facility of EUR 45 million which runs through September 2022. At year-end, unutilized credit facilities amounted to SEK 311 (176) million. The interest rates on bank loans are variable and tied to EURIBOR and STIBOR. The average interest rate in 2020 was 1.021 (1.15) %. Loan terms for the bank loan are based on the development of net debt and EBITDA.

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

The non-current liability of contingent consideration in 2019 pertained WEBfactory GmbH and it was reversed in 2020. More information about that is provided in Note 6 and Note 33. Management continually revalues liabilities associated with conditional consideration to their estimated fair value based on the acquired company's performance, established budgets, business plans and projections. This means that the fair value is substantially based on unobservable inputs (Level 3 as defined in IFRS 13).

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

## NOTE 31 Accrued expenses and deferred income

	The Group		Parent Company	
	2020	2019	2020	2019
Accrued salaries	27,353	24,343	587	1,279
Vacation pay	15,938	16,630	545	459
Social security contributions	19,364	19,219	1,190	1,203
Deferred income	11,886	4,958	-	-
Other items	20,504	20,318	3,931	2,999
<b>Total</b>	<b>95,045</b>	<b>85,468</b>	<b>6,253</b>	<b>5,940</b>

## NOTE 32 Provisions

	2020	2019
Restructuring reserve	-	9,947
Warranty provision	1,091	1,082
<b>Total</b>	<b>1,091</b>	<b>11,029</b>

### Restructuring costs

In 2019, HMS implemented an action program to adapt costs to a weaker market. The total restructuring costs, which amounted to SEK 22,000 thousand, were reported in full in the income statement for 2019 and have been fully utilized in 2019 and 2020.

### Warranty costs

Provision has been made to assess the warranty costs for goods that were sold under warranty and where the warranty period had not yet expired as of the end of the financial year. The warranties are expected to be settled during the next financial year.



## NOTE 33 Business combinations

### Acquisition of Procentec B.V.

On October 1, 2020, the Group acquired 70% of the shares in the Dutch company, Procentec B.V., which is a world-leading supplier of solutions and services for diagnostics and monitoring of industrial networks. Procentec, including its wholly-owned subsidiaries in Germany, Italy and the UK, has approximately 70 employees and its sales in 2020 were EUR 11.8 million.

The acquisition price amounted to EUR 7.7 million on a debt-free basis and it was financed using existing credit.

The acquisition has generated goodwill of SEK 71,236 thousand (including non-controlling interests 30%). The acquired company has been included in the HMS consolidated income statement and balance sheet since October 1, 2020. During the fourth quarter, Procentec contributed to the Group's sales by SEK 40,227 thousand. The acquisition's contribution to operating profit, including amortization on acquired overvalues and acquisition costs, amounted to SEK 3,692 million. If the acquisition had occurred at the start of the financial year, the contribution to net sales would have been SEK 124,595 thousand and the contribution to operating profit, including amortization of acquired overvalues and acquisition costs, would have been SEK 9,637 thousand.

According to the preliminary acquisition analysis (including non-controlling interests 30%), the purchase price, acquired net assets and goodwill are as follows:

Purchase price:	
Cash and cash equivalents	56,719
<b>Total purchase price</b>	<b>56,719</b>

The assets and liabilities recognized in conjunction with the acquisition are as follows:	Fair value
Intangible assets	6,496
Property, plant and equipment	4,278
Financial assets	1,574
Current assets	48,460
Cash and cash equivalents	12,852
Deferred tax liabilities	-1,429
Non-current liabilities	-60,498
Current liabilities	-21,183
Total identifiable net assets	-9,449
Goodwill*	66,168
<b>Acquired net assets</b>	<b>56,719</b>

\*Goodwill is attributable to the company's market position in communications infrastructure and the expected synergies with existing operations. None of the reported goodwill is expected to be deductible for tax purposes.

Purchase price – cash outflow		2020
Cash purchase price		39,705
Acquired cash and cash equivalents		-12,852
<b>Net outflow of cash and cash equivalents</b>		<b>26,853</b>

### Acquisition of WEBfactory GmbH

The acquisition analysis from acquisition of 74.9% of the shares in WEBfactory GmbH was finalized during the second quarter of 2020 given that one year had elapsed since the acquisition was made on April 1, 2019.

The acquisition price amounted to EUR 3.2 million on a debt-free basis and conditional consideration for a maximum of EUR 1.5 million, to be paid out in 2021 if WEBfactory achieved certain defined financial targets. The acquisition was financed with existing credit.

The acquisition generated goodwill of SEK 43,189 thousand (including minority share of 25.1%). The acquired company has been included in the HMS consolidated income statement and balance sheet since April 1, 2019. During the first nine months, WEBfactory contributed to the Group's sales by SEK 14,645 thousand. The acquisition's contribution to operating profit, including amortization on acquired overvalues and acquisition costs, amounted to SEK -8,902 thousand. If the acquisition had occurred at the start of the financial year, the contribution to net sales would have been SEK 21,830 thousand and the contribution to operating profit, including amortization on acquired overvalues and acquisition costs, would have been SEK -8,403 thousand.

According to the final acquisition analysis (including minority share of 25.1%), the purchase price, acquired net assets and goodwill were as follows:

Purchase price:	
Cash and cash equivalents	23,250
Contingent consideration	13,977
<b>Total purchase price</b>	<b>37,227</b>

The assets and liabilities recognized in conjunction with the acquisition are as follows:	Fair value
Intangible assets	
- Intellectual property rights	19,061
- Customer relations	12,170
- Deferred tax liabilities	-5,782
Property, plant and equipment	148
Current assets	4,869
Cash and cash equivalents	338

## CONT. NOTE 33 Business combinations

Non-current interest-bearing liabilities	-19,171
Current liabilities	-3,419
Total identifiable net assets	8,214
Goodwill <sup>1</sup>	29,013
<b>Acquired net assets</b>	<b>37,227</b>

<sup>1</sup> Goodwill is associated with the company's market position in IIoT and the expected synergies with existing operations. None of the reported goodwill is expected to be deductible for tax purposes.

<b>Purchase price – cash outflow</b>	<b>2019</b>
Cash purchase price	12,921
Acquired cash and cash equivalents	-338
<b>Net outflow of cash and cash equivalents</b>	<b>12,583</b>

Based on a weaker development than expected in the company (no connection with the corona pandemic), the contingent purchase price was reversed during the second quarter of 2020. During the same quarter, impairment testing of goodwill resulted in a write-down of SEK 13,633 thousand. Total goodwill for WEBfactory after the write-down is thus SEK 14,790 thousand.

During the fourth quarter, the remaining 25.1% of the shares in WEBfactory GmbH were acquired, which is expected to increase the integration and use of WEBfactory's software products with HMS other product segments. The acquisition price amounted to SEK 13,449 thousand. The effect on equity is reported in Note 34.

### Acquisition of Raster Products B.V.

The acquisition analysis from the acquisition of Raster Products B.V. (now HMS Industrial Networks B.V.) was finalized during the second quarter of 2020, since one year had elapsed since the acquisition was made on May 2, 2019.

The acquisition price amounted to EUR 1.1 million on a debt-free basis and it was financed using existing credit.

The acquisition generated goodwill of SEK 7,888 thousand. The acquired company has been included in the HMS consolidated income statement and balance sheet since May 1, 2019. Raster Products has, for the first eight months, not had any significant impact on the Groups sales and earnings.

According to the final acquisition analysis, the purchase price, acquired net assets and goodwill were as follows:

<b>Purchase price:</b>	
Cash and cash equivalents	11,832
<b>Total purchase price</b>	<b>11,832</b>

<b>The assets and liabilities recognized in conjunction with the acquisition are as follows:</b>	<b>Fair value</b>
Property, plant and equipment	524
Current assets	6,449
Cash and cash equivalents	65
Current liabilities	-3,094
Total identifiable net assets	3,944
Goodwill*	7,888
<b>Acquired net assets</b>	<b>11,832</b>

\*Goodwill is associated with the company's market position. None of the reported goodwill is expected to be deductible for tax purposes.

<b>Purchase price – cash outflow</b>	<b>2019</b>
Cash purchase price	11,832
Acquired cash and cash equivalents	-65
<b>Net outflow of cash and cash equivalents</b>	<b>11,767</b>

## NOTE 34 Transactions with non-controlling interests

During the fourth quarter, the remaining 25.1% of the shares in WEBfactory GmbH were acquired. The acquisition price amounted to SEK 13,449 thousand.

The Group reported a reduction in non-controlling interests of SEK 7,799 thousand and a reduction in equity attributable to the parent company's owners of SEK 5,620 thousand. The effect on equity attributable to the owners of HMS Networks AB during the year is summarized as follows:

	2020	2019
Reported value of acquired non-controlling interest	7,799	-
Paid purchase price for non-controlling interest	13,419	-
<b>Surplus of purchase price reported in equity</b>	<b>-5,620</b>	<b>-</b>

There were no transactions with non-controlling interests in 2019.

## NOTE 35 Change in liabilities associated with financing activities

	Bank loans (note 30)	Leasing liabilities (note 21)	Total
<b>As of January 1, 2019</b>	<b>335,518</b>	<b>-</b>	<b>335,518</b>
Cash flow	-37,302	-29,438	-66,740
Not affecting cash flow	26,623	-	26,623
New accounting standard	-	142,006	142,006
<b>As of December 31, 2019</b>	<b>324,839</b>	<b>112,568</b>	<b>437,407</b>
Added through acquisitions	60,447	13,544	73,991
Cash flow	-205,965	-35,344	-241,309
Not affecting cash flow	-7,640	11,173	3,533
<b>As of December 31, 2020</b>	<b>171,681</b>	<b>101,941</b>	<b>273,622</b>

## NOTE 36 Reserves in equity

	Hedging	Foreign currency translation	Total
<b>As of January 1, 2019</b>	<b>-681</b>	<b>84,000</b>	<b>83,319</b>
Revaluation - gross	-10,157	-	-10,157
Deferred tax	2,174	-	2,174
Reclassification to income statement - gross	13,739	-	13,739
Deferred tax	-2,940	-	-2,940
Net investment hedge	-	-2,073	-2,073
Deferred tax	-	444	444
Other currency translation differences	-	15,269	15,269
Currency translation attributable to non-controlling interests	-	-26	-26
<b>Other comprehensive income</b>	<b>2,815</b>	<b>13,614</b>	<b>16,429</b>
<b>As of December 31, 2019</b>	<b>2,135</b>	<b>97,613</b>	<b>99,748</b>
Revaluation - gross	20,418	-	20,418
Deferred tax	-4,206	-	-4,206
Reclassification to income statement - gross	-2,018	-	-2,018
Deferred tax	416	-	416
Net investment hedge	-	11,812	11,812
Deferred tax	-	-2,433	-2,433
Other currency translation differences	-	-38,011	-38,011
Currency translation attributable to non-controlling interests	-	1,027	1,027
<b>Other comprehensive income</b>	<b>14,610</b>	<b>-27,605</b>	<b>-12,996</b>
<b>As of December 31, 2020</b>	<b>16,744</b>	<b>70,008</b>	<b>86,752</b>

### The hedging reserve

The hedging reserve includes the cash flow hedge reserve, see Note 2.15.1. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently reclassified to the income statement.

### Foreign currency translation

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income, as described in Note 2.4 c), and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is disposed of.



## NOTE 37 Earnings from participations in Group companies

	Parent Company	
	2020	2019
Dividend from subsidiary	28,967	179,123
<b>Total</b>	<b>28,967</b>	<b>179,123</b>

## NOTE 38 Shares in subsidiaries

Shares owned by Parent Company	Registered office	CIN	Share	No. of shares	With quotient value	20-12-31	19-12-31
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244,039	244,039
HMS Industrial Networks SA	Nivelles, Belgium	450350907	34.5%	431	100	93,285	93,285
<b>Total</b>						<b>337,324</b>	<b>337,324</b>

Shares owned by subsidiary	Registered office	CIN.	Share
Ekitec Holding B.V. <sup>1</sup>	Wateringen, the Netherlands	74522108	70%
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%
HMS Industrial Networks B.V. <sup>2</sup>	Hedel, Netherlands	11060009	100%
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%
HMS Industrial Networks Inc*	Chicago, USA	5983-659-5	100%
HMS Industrial Networks India Pvt. Ltd.	Pune, India	138298	100%
HMS Industrial Networks K.K.	Tokyo, Japan	0200-01-060118	100%
HMS Industrial Networks Ltd.	Coventry, England	7521411	100%
HMS Industrial Networks SLU <sup>3</sup>	Igualada, Spain	B62202460	100%
HMS Industrial Networks S.r.l.	Milan, Italy	5260930960	100%
HMS Industrial Networks SA	Nivelles, Belgium	450350907	65.5%
HMS Technology Center Ravensburg GmbH	Ravensburg, Germany	29724241	100%
HMS Technology Center Wetzlar GmbH <sup>4</sup>	Wetzlar, Germany	00340136310005	100%
Procentec B.V. <sup>1</sup>	Rotterdam, the Netherlands	27165526	70%
Procentec GmbH <sup>1</sup>	Karlsruhe, Germany	HRB-705029	70%
Procentec Ltd <sup>1</sup>	Manchester, England	11112985	70%
Procentec Srl <sup>1</sup>	Brescia, Italy	BS-556730	70%
WEBfactory Business Center Eastern Europe SRL <sup>5</sup>	Sibiu, Romania	J32/121/2002	100%
WEBfactory GmbH <sup>5</sup>	Buchen, Germany	HRB460672	100%

<sup>1</sup> Ekitec Holding B.V., Procentec B.V., Procentec GmbH, Procentec Ltd and Procentec Srl were acquired on October 1, 2020. <sup>2</sup> Raster Products B.V. changed its name during the year to HMS Industrial Networks B.V.

<sup>3</sup> Intesis Software SLU changed its name during the year to HMS Industrial Networks SLU. <sup>4</sup> Beck IPC GmbH changed its name during the year to HMS Technology Center Wetzlar GmbH.

<sup>5</sup> The ownership share of WEBfactory Business Center Eastern Europe SRL and WEBfactory GmbH changed from 74.9% to 100% during the year. Ewon KK was liquidated during the year.

#### HMS Industrial Networks Ltd. (CIN: 07521411)

We hereby confirm that these consolidated financial statements contain figures for the UK subsidiary HMS Industrial Networks Limited (CIN; 07521411) for the year ending December 31, 2020. We confirm that the UK subsidiary claims exemption from the UK audit in accordance with section 479A of the UK Companies Act 2006.

#### HMS Industrial Networks GmbH (CIN 35006/39876)

We hereby confirm that these consolidated financial statements contain figures for the German subsidiary HMS Industrial Networks GmbH (CIN 35006/39876) for the year ended on December 31, 2020. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Handelsgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on December 31, 2020.

#### HMS Technology Center Ravensburg GmbH (CIN: HRB 551905)

We hereby confirm that these consolidated financial statements contain figures for the German subsidiary HMS Technology Center Ravensburg GmbH (CIN: HRB 551905) for the year ending on December 31, 2020. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Handelsgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on December 31, 2020.

### NOTE 39 Pledged assets and contingent liabilities

The Group	2020	2019
<b>Pledged assets</b>	none	none
<b>Contingent liabilities</b>	none	none

Parent Company	2020	2019
<b>Pledged assets</b>	none	none
<b>Contingent liabilities</b>		
Security for subsidiaries	200,974	353,521

### NOTE 40 Proposed distribution of profit in the Parent Company

The following profits are at the disposal of the AGM	
Profit brought forward and other non-restricted reserves	272,389
Profit for the year	31,922
<b>SEK t</b>	<b>304,311</b>

The Board of Directors proposes the following appropriation of profits:	
Distributing dividends to shareholders of SEK 2.00/share <sup>1</sup>	93,323
Carried forward	210,988
<b>SEK t</b>	<b>304,311</b>

<sup>1</sup> The dividend is calculated on the total number of outstanding shares as of 2021-03-22.

### NOTE 41 Related parties

There have not been any related party transactions except for the ones specified in Note 10 Remuneration to the Board and senior executives. The Parent Company's related party transactions consist of sales to, and purchases from, Group companies, which are reported in Note 5.5.

### NOTE 42 Subsequent events

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

## BOARD'S AFFIRMATION AND SIGNATURES

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

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

The income statement and balance sheet will be presented for adoption at the Annual General Meeting on April 23, 2021.

Halmstad March 22, 2021

Charlotte Brogren  
*Chairman of the Board*

Staffan Dahlström  
*CEO*

Cecilia Wachtmeister  
*Board member*

Niklas Edling  
*Board member*

Fredrik Hansson  
*Board member*

Anders Mörck  
*Board member*

Ulf Södergren  
*Board member*

Tobias Persson  
*Employee representative*

Mikael Mårtensson  
*Employee representative*

Our audit report was submitted on March 22, 2021  
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson  
*Authorized Public Accountant*



# Audit report

To the general meeting of shareholders of HMS Networks AB (publ) CIN: 556661-8954

## Report on the Annual Report and Consolidated Financial Statements

### Opinion

We have conducted an audit of the annual report and consolidated financial statements of HMS Networks AB (publ) for the year 2020. The company's annual report and consolidated financial statements are provided on pages 54-102 of this document.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Parent Company's financial position as at December 31, 2020 and of its financial performance and cash flow for the year in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and in all material respects, they give a true and fair view of the Group's financial position as at December 31, 2020 and of its financial performance and cash flow for the year in accordance with the International Financial Reporting Standards (IFRS) that have been adopted by the EU. The Board of Directors' report is consistent with the other parts of the annual report and the consolidated financial statements.

We therefore recommend that the general meeting of shareholders should adopt the income statements and balance sheets for the Parent Company and the Group.

Our opinions in this report on the financial statements and consolidated financial statements are consistent with the content in the supplementary report that has been submitted to the Parent Company's and Group's Audit Committee in accordance with Article 11 of Regulation (EU) 537/2014 (audit legislation).

### Basis for opinion

We conducted the audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing practices in Sweden. Our responsibility as per these standards is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements. This means that, based on best knowledge and belief, no prohibited services, as stipulated in Article 5.1 of Regulation (EU) 537/2014, have been provided to the audited

company or, where applicable, its Parent Company or its controlling company within the EU.

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

### Our audit work

#### *Focus and scope of the audit*

We designed our audit by establishing the level of materiality and assessing the risk of material misstatement in the financial statements. We gave extra consideration to the areas in which the CEO and the Board made subjective judgments, for example, significant accounting estimates made on the basis of assumptions and projections about future events, which by their nature are uncertain. As with all audits, we also considered the risk of the Board or CEO overriding internal controls, and among other things, considered whether there is evidence of systematic deviations resulting in a risk of material misstatement due to fraud.

We adapted our audit to ensure that it would be effective, with the aim of being able to express an opinion on the financial statements as a whole, taking into account the Group's structure, accounting processes and controls, and the industry in which it operates.

When we designed our Group audit strategy and Group audit plan, we assessed the degree of auditing required by the Group audit team and other auditors from the PwC network. As a result of the Group's decentralized financial organization, a substantial amount of the financial reporting occurs in entities outside Sweden. This means that a significant portion of the audit must be performed by auditors operating in the PwC network in other countries.

When we assessed the degree of auditing required at each entity, we considered the group's geographic distribution, the size of each entity, as well as the specific risk profile of each entity. With that in mind, we assessed that, in addition to the Parent Company in Sweden, a full audit would be performed on the financial information prepared by two major subsidiaries (in two foreign countries).

For entities where we assessed that it was not necessary to conduct a full audit, specifically defined procedures were performed on a total of five entities and the Group team performed

these procedures on three of them. For other entities, which were assessed as being individually immaterial as regards the consolidated audit, the Group audit team performed analytical procedures at Group level.

In cases where the entity's auditors carry out work that is essential to our audit of the Group, we evaluate, in our capacity as Group auditors, the need and degree of involvement in the work of the entity auditors in order to determine whether sufficient audit evidence has been obtained as the basis for our opinion on the consolidated audit report.

### Materiality

The scope and focus of the audit was impacted by our assessment of materiality. An audit is designed to achieve a reasonable degree of assurance about whether the financial statements are free from material misstatement. Errors may occur as a result of fraud or error. They are regarded as material if individually or collectively, they can reasonably be expected to influence the economic decisions that users make based on the financial statements.

Based on professional judgment, we established certain quantitative materiality thresholds, including ones for the financial statements as a whole. We used these thresholds, along with qualitative assessments, to establish the scope and focus of the audit, along with the nature of the audit procedures, timing and scope, along with assessing the effect of individual and cumulative errors in the financial statements as a whole.

### Particularly important areas

Areas that are particularly important to the audit are those which, according to our professional assessment, are the most significant for the audit of the financial statements for the current period. These areas were dealt with as part of both the audit, and our overall assessment of the financial statements. However, we do not provide separate opinions on these areas.

Particularly important area	How our audit took into consideration this particularly important area
<p><b>Test of impairment on goodwill</b></p> <p>As of December 31, 2020, goodwill amounted to SEK 902 million, which corresponds to 49% of the Group's total assets. As described in Note 19, the Group's goodwill is associated with three separate cash generating units; Procentec, Webfactory and rest of the Group.</p> <p>In accordance with IAS 36, the Group tests at least annually whether there is an impairment of goodwill. Impairment is determined by considering each cash-generating unit's recoverable amount compared to its carrying amount. Apart from Procentec, the recoverable amount was established by the management through a calculation of the businesses' ability to generate future cash flows. Because Procentec was acquired in close proximity to the balance sheet date, the acquisition price was deemed to correspond to the fair value as of December 31, 2020.</p> <p>Impairment testing is essential for our audit because goodwill represents significant amounts in the balance sheet. Furthermore with a test of impairment, management must make significant estimates and assumptions about the future.</p> <p>Based on management's impairment test, the Board has concluded that no impairment of goodwill exists as of December 31, 2020. The most significant assumptions used in the impairment test are described in Note 19.</p>	<p>Our audit procedures included an assessment of the mathematical accuracy of the cash flow calculation, along with a reconciliation of cash flow forecasts against the budget for 2021 that was adopted by the Board and the established business plan for for the subsequent period up to and including 2025.</p> <p>We have evaluated and assessed that the company's valuation is consistent with accepted valuation techniques.</p> <p>We have evaluated the sensitivity and the effect on impairment tests in the assumptions that have the highest impact on the impairment test, which include sustainable growth rate, sustainable operating margin and discount rate.</p> <p>By making our own sensitivity analyses, we have challenged management's assumptions and tested the existing safety margins to assess the risk that impairment could occur.</p> <p>We have also evaluated whether the Company has provided enough information in the annual report about the assumptions which, should they change, could lead to impairment of goodwill in the future.</p>

## Other information besides what is shown in the financial statements and consolidated financial statements

This document contains other information besides the financial statements and consolidated financial statements and it is found on pages 1–36 and on pages 44– 53 and 106–114. The other information also consists of a document in which the financial statements are not included: The other information consists of the Remuneration Report 2020, which we obtained prior to the date of this audit report. The Board and the CEO are responsible for this other information.

Our opinion on the financial statements and consolidated financial statements does not include this other information, and we make no statement of assurance regarding this other information.

In connection with our audit of the financial statements, it is our responsibility to read the information identified above and consider whether the information is substantially incompatible with the financial statements and consolidated financial statements. During this review, we also take into account knowledge we obtained during the audit and we assess whether the information in general seems to contain material misstatements.

If, based on the work that has been conducted on this information, we conclude that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in that regard.

## The Board of Directors' and CEO's responsibilities

The Board and the CEO are responsible for preparing financial statements and consolidated financial statements that provide a true and fair view in accordance with the Annual Accounts Act and with regard to the consolidated financial statements in accordance with IFRS as adopted by the EU, and the Annual Accounts Act. The Board of Directors and CEO are also responsible for any internal control they deem necessary for preparing financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Board and CEO are responsible for assessing the ability of the Company and Group to continue operations. They must disclose, when applicable, any circumstances that may affect the ability to continue operations and apply the assumption of continued operations. However, the

assumption of continued operations is not applied if the Board and CEO intend to liquidate the company, cease operations, or if they have no realistic alternatives than either of these two options.

The Audit Committee must monitor the company's financial reporting without it impacting the Board's responsibilities and tasks in general.

## Auditor's responsibility

Our goal is to achieve a reasonable degree of assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to submit an audit report containing our opinions. Reasonable assurance is a high degree of assurance. However, it does not guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if one exists. Errors may occur due to fraud or error, and they are deemed material if, individually or together they can reasonably be expected to influence the economic decisions that users make based on the financial statements and consolidated financial statements.

A more detailed description (in Swedish) of our responsibility for the audit of the financial statements and consolidated financial statements is available on the website of the Swedish Inspectorate of Auditors: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is a part of the audit report.

## Report on other requirements in accordance with legislation and other regulations

### Opinion

In addition to our audit of the financial statements and consolidated financial statements, we have performed an audit of the Board's and Managing Director's administration of HMS Networks AB (publ) for the year 2020 and the proposed appropriation of the profit or loss.

We recommend to the general meeting of shareholders that the appropriation of profit should be in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the CEO should be discharged from liability for the fiscal year.

### Basis for opinion

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in the section, Auditor's responsibility. We are independent of the Company and the Group in accordance with the auditor's oath in Sweden and have otherwise fulfilled our ethical responsibilities under these requirements.

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

### The Board of Directors' and CEO's responsibilities

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. With proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the demands that the nature of operations, scope and risks place on the size of the Parent Company's and Group's equity, consolidation requirements, liquidity and position in general.

The Board is responsible for the company's organization and management of its affairs. This includes, for example, assessment of the company's and Group's financial situation on an ongoing basis and ensuring that the company is organized such that there

are adequate controls on its bookkeeping, fund management and other financial matters. The CEO is responsible for ongoing management that is in accordance with the Board's guidelines and instructions, including taking the actions necessary to ensure that the company's accounting complies with law and that assets are managed in a satisfactory manner.

### Auditor's responsibility

Our goal regarding the audit of the administration, and therefore our opinion, is to obtain audit evidence that with a reasonable degree of certainty enables us to determine whether any Board member or the CEO in any material respect:

- has undertaken any action or been guilty of any omission, which could give rise to liability to the Company,
- or in any other way acted in contravention of the Swedish Companies Act, Annual Accounts Act or the Articles of Association.

Our goal regarding the audit of the proposed appropriation of the profit or loss, and thus our statement on this, is to, with a reasonable degree of certainty, assess whether the proposal is consistent with the Swedish Companies Act.

Reasonable certainty is a high degree of certainty, but no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that could give rise to a liability to the Company or that a proposal for the appropriation of the profit or loss is not consistent with the Swedish Companies Act.

A more detailed description (in Swedish) of our responsibility for the audit of the administration is available on the website of the Swedish Inspectorate of Auditors: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is a part of the audit report.

*Öhrlings PricewaterhouseCoopers AB, 113 21 Stockholm, was elected as auditor for HMS Networks AB (publ) at the AGM on April 23, 2020 and it has been the company's auditor since January 14, 2004. HMS Networks AB (publ) became a listed company on October 19, 2007.*

Halmstad, March 22, 2021  
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson  
Authorized Public Accountant



## MULTI-YEAR OVERVIEW

FINANCIAL DATA IN SUMMARY (SEK M)	2020	2019	2018	2017	2016
Net sales	1,467	1,519	1,366	1,183	952
Growth in net sales, %	-3	11	15	24	36
Gross profit	909	928	834	722	581
Gross margin, %	62	61	61	61	61
Operating income before depreciation (EBITDA)	401	334	301	259	188
Operating margin before depreciation (EBITDA), %	27	22	22	22	20
Operating income after depreciation/amortization (EBIT)	288	243	251	212	149
Operating margin after depreciation/amortization (EBIT), %	20	16	18	18	16
Profit for the year	220	205	171	143	100
Order intake	1,447	1,470	1,433	1,204	966
Earnings per share, basic, SEK	4.79	4.43	3.68	3.06	2.16
Earnings per share, diluted, SEK	4.77	4.40	3.65	3.04	2.16
Dividend per share, SEK <sup>2</sup>	2.00 <sup>1</sup>	-	1.80	1.50	1.00
Total assets	1,837	1,758	1,577	1,438	1,406
Equity	1,220	1,010	857	721	636
Equity per share, SEK <sup>2</sup>	24.07	19.87	17.06	14.65	12.09
Equity/assets ratio, %	67	58	54	50	45
Net debt/equity ratio %	16	40	40	42	66
Return on shareholders' equity, %	20	22	22	21	18
Return on capital employed, %	19	17	21	19	15
Investments in non-current assets	48	66	30	32	39
Cash flow from operating activities	370	254	193	207	155
Cash flow from operating activities per share, SEK <sup>2</sup>	7.93	5.45	4.14	4.44	3.35
Average number of employees	614	617	536	489	467
Sales per employee	2.4	2.5	2.6	2.4	2.0

<sup>1</sup> Board's proposal<sup>2</sup> Key figures have been recalculated based on the 4:1 stock split that occurred in the second quarter of 2017.

# HMS NETWORKS GRI APPENDIX 2020

Information, methods and assumptions used for sustainability information presented in the annual report



# HMS Networks GRI Appendix 2020

The HMS Sustainability Report for 2020 is in accordance with the Global Reporting Initiative (GRI). The report has been prepared in accordance with GRI Standards: Core option and it is presented each year as an attachment to the Annual Report. The Sustainability Report has not been audited by a third party.

## GRI INDEX

The following list refers to the GRI disclosures that HMS reports. All disclosures are from GRI Standards version 2016.

AR = Annual Report; GRI = GRI Appendix

## GENERAL DISCLOSURES

GRI Standards	Disclosure	Page number(s)
GRI 102: General Disclosures		
<b>Organizational Profile</b>		
102-1	Name of the organization	25
102-2	Activities, brands, products, and services	16-25
102-3	Location of headquarters	12
102-4	Location of operations	12
102-5	Ownership and legal form	4-5
102-6	Markets served	8-17
102-7	Scale of the organization	1, 5, 12
102-8	Information on employees and other workers	112
102-9	Supply chain	30, 113
102-10	Significant changes to the organization and its supply chain	1
102-11	Precautionary Principle or approach	111, 113
102-12	External initiatives	28-31
102-13	Membership of associations	112
<b>Strategy</b>		
102-14	Statement from senior decision-maker	2-3
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behavior	30, 32
<b>Governance</b>		
102-18	Governance structure	37-47
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	109-110
102-41	Collective bargaining agreements	112
102-42	Identifying and selecting stakeholders	109-110
102-43	Approach to stakeholder engagement	109-110
102-44	Key topics and concerns raised	109-110

GRI Standards	Disclosure	Page number(s)
<b>Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	25
102-46	Defining report content and topic Boundaries	109
102-47	List of material topics	110
102-48	Restatements of information	109
102-49	Changes in reporting	108
102-50	Reporting period	109
102-51	Date of most recent report	108
102-52	Reporting cycle	108
102-53	Contact point for questions regarding the report	113
102-54	Claims of reporting in accordance with the GRI Standards	108
102-55	GRI-index	108-109
102-56	External assurance	108

## TOPIC-SPECIFIC DISCLOSURES

GRI Standards	Disclosure	Page number(s)
<b>Indirect economic impacts</b>		
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Entities included in the consolidated financial statements 28-29
<b>GRI 203: Indirect economic impacts</b>	203-2	Defining report content and topic Boundaries 28-29
<b>Anti-corruption</b>		
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach 109-111, 113
<b>GRI 205: Anti-corruption</b>	205-2	Communication and training about anti-corruption policies and procedures 30, 32, 111



GRI Standards		Disclosure	Page number(s)
<b>Energy</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	26-29, 109-111
<b>GRI 302: Energy</b>	302-1	Energy consumption within of the organization	27-29
	302-3	Energy intensity	111
<b>Emissions</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	26-29, 109-111
<b>GRI 305: Emissions</b>	305-1	Direct (Scope 1) GHG emissions	27, 111
	305-2	Energy indirect (Scope 2) GHG emissions	27, 111
	305-3	Other indirect (Scope 3) GHG emissions	27, 111
	305-4	GHG emissions intensity	111
<b>Waste</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	27, 29, 109-111
<b>GRI 306: Waste</b>	306-2	Waste by type and disposal method	111
<b>Education</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	30, 32-33, 109-112
<b>GRI 404: Education</b>	404-1	Average hours of training per year per employee	33, 111-112
	404-3	Percentage of employees receiving regular performance and career development reviews	112
<b>Supplier social assessment</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	109-110, 113
<b>GRI 414: Supplier social assessment</b>	414-1	New suppliers that were screened using social criteria	113
<b>Customer Privacy</b>			
<b>GRI 103: Management approach</b>	103-1, 103-2, 103-3	Management approach	30
<b>GRI 418: Customer Privacy</b>	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	30



## BOUNDARIES

All identified material sustainability topics impact our organization. Some of the aspects have an impact beyond HMS's organizational boundaries, such as supplier assessment. In the Sustainability Report, the effect of each sustainability topic both within and outside the company is reported. After several years of reporting in accordance with GRI G4, this is the third year that HMS reports in accordance with the GRI Standards. Our systems for measuring all indicators are being continuously developed.

## STAKEHOLDER ENGAGEMENT

HMS is in continual contact with all of our stakeholders in order to obtain valuable input for HMS's future development. The purpose is to identify the sustainability aspects that our customers, employees, investors and owners consider to be most important. The knowledge is necessary for us to be able to drive our sustainability work forward in an effective way, therefore we maintain a regular dialogue with our stakeholders. This is

done through, for example, surveys and ongoing meetings that take place in daily operations.

The determination of key stakeholders for HMS is based on mutual dependency and the proximity between these groups and the company. HMS identified key stakeholders are: customers, owners, employees, suppliers, partners, authorities and society.

## MATERIALITY ASSESSMENT

In 2020, a SWOT analysis was performed to analyze significant aspects of the business's external and internal environments. This materiality assessment is based on HMS's strategy and engagement with stakeholders. HMS prioritizes sustainability aspects that:

- directly impact our success
- directly impact our stakeholders
- are fundamental to our ability to operate
- HMS can control.

This approach enables HMS to set relevant goals, and to track and improve performance.

Key stakeholders	Forum for engagement	Important issues
Owners and investors	Contacts and meetings	Long-term profitable growth. Risk management and transparency. Read more on page 57-58 [ref to Directors' report]
Employees	Continual dialog, surveys and performance reviews.	Environmental impact from products and services. Skills development. Safe and good working environment. Transport and energy efficiency. Monitoring suppliers on human rights issues. Read more on pages 28-33
Customers	Ongoing dialogue and surveys.	Solve specific challenges within industrial communication. Compliance with EU environmental laws. Reporting on conflict minerals. Transparency.
Suppliers	Ongoing dialogue and purchasing requirements. Site visits.	Stable, mutual successful, long-term business. Clearly stated requirements and understanding and willingness to follow our supplier Code of Conduct. Read more on page 30
Authorities and society	Dialogue with authorities, decision-makers and certification bodies.	Dialogue on current political issues that are important for the business, such as the environment and transport. Locally with a focus on energy, waste and chemical use. Compliance with applicable laws and standards. Read more on pages 29-31.

The table shows HMS's key stakeholders and the forum for engagement.



HMS material sustainability aspects	
Social	Human rights, anti-corruption and customer privacy
Environmental	Energy consumption, emissions and electronic waste
Employees	Training of employees and create an attractive workplace

## MATERIAL SUSTAINABILITY RISKS

Section	Material sustainability risks	Risk management
Social	HMS operates in a value chain where there is a risk that suppliers and/or customers may violate human rights, requirements for social conditions and environmental regulations and conduct business in unethical ways. A key factor for HMS is to conduct business in a responsible and ethical way and take responsibility for our value chain, since not doing so could put the HMS brand at risk and in turn affect the Company financially.	We govern work with our Code of Conduct. Read more on page 30.
Environment	The manufacturing and discontinuation of electronic products entails negative environmental impact. Some minerals and metals used in electronic products are rare and hard to come by. Limiting and minimizing harmful substances and managing the Earth's resources is in line with our view on Sustainable Development. Tougher restrictions for the electronics industry may be necessary for a sustainable future. This may mean increased production costs and limited material supply.	We have an environmental policy that governs long-term investments, construction material choices, distribution, supplier choices, recycling of electronics and chemicals management. In 2020, investments have been made to streamline compliance control to manage our supply chain in a more efficient way. Ensuring that products and materials are used for a longer period of time is an effective measure to reduce the negative impact and the amount of electrical waste. Read more on pages 28-29.
Employees	HMS employees are its greatest asset. Their knowledge, commitment and efforts are crucial for us to succeed with our strategy, achieve our goals and continue to develop. If we lose our commitment to our employees, this may lead to decreased job satisfaction and even illness. In turn, this may result in loss of skills for HMS. With a weaker employer brand, we risk not being able to attract the skills we need for the future. As a result, continuous investments in the well-being of our employees is a must for us.	Our work environment, equality and pay-setting efforts are governed by our common ethics policy, summarized in "Heart, Mind and Soul". Read more on pages 31-33.

ANTI-CORRUPTION

The HMS Code of Conduct is a statement about what the company stands for and its commitment to high standards and ethically correct conduct. Line managers familiarize employees with the HMS Code of Conduct, promote its provisions and monitor compliance with it within their organizations and in interactions with their counterparties.

All staff are trained on the HMS Code of Conduct during onboarding and continuously during the employment. By complying with the code, HMS ensures that business is conducted professionally, honestly and ethically. Our Code of Conduct clearly states that employees and subcontractors may not participate in, or promote, corruption and must act ethically and responsibly throughout our value chain.

HMS employees can report any irregularities under anonymity via a whistleblower system.

Training in Code of Conduct and anti-corruption is carried out at least every three years, the most recently completed training was carried out in 2018.

ENVIRONMENT

HMS continually strives to lower our internal impact and we apply a precautionary approach, for more information see Material Sustainability risks on page 110. Energy, emissions, and environmental compliance are identified as material aspects considering climate change as a global challenge. One of our material aspects is electronic waste. Our production generates waste consisting of electronic waste which is sent for recycling. By recycling electronic waste, metal recycling is maximized from the available raw metals. The table below shows the amount of electronic waste that has been recycled between 2017–2020. In 2018, we began

to include data for non-hazardous waste.

In 2020, electricity consumption from HMS's five business units was 1,215 MWh and the percentage of renewable energy was 86%. The renewable energy used in Halmstad (BU Anybus) is 52.6% solarpower (from Skedalahed in Halmstad). The remaining 47.4% is hydro-power (from Nissan and Ätran in Halland, and some from Småland). The renewable energy used in Ravensburg (BU Ixxat) is 49.9% energy funded under the German Renewable Energy Sources Act (EEG), which includes mostly renewable electricity sources, such as wind power, photovoltaics, biomass, hydroelectricity, and geothermal energy. The remaining 50.1% used in Ravensburg is from other renewable energy sources. Most of the 70% renewable energy used in Nivelles (BU Ewon) comes from biomass and wind farms. There is also some contributions from hydroelectricity and a small part from solar panels. The renewable energy used in Igualada (BU Intesis) is 10.1%. Information about the electricity consumption is provided by electricity providers.

Electricity consumption has increased from the previous year. The increase is due to the fact that two more business areas have been included in the reporting. If we consider the same business areas as reported in the previous year, there has been a reduction in energy consumption.

Energy intensity has increased in 2020, the reduced turnover due to the covid-19 pandemic has a significant effect on energy intensity and is an important factor for the increase.

Emission of greenhouse gases from HMS's five business units is classified as Scope 1, 2



or 3 in accordance with the Greenhouse Gas Protocol.

Direct emissions in Scope 1 include fuel for vehicles used for business travel. There has been a reduction in emissions in scope 1, which is partly due to the changes that have been implemented during the pandemic where physical meetings have been replaced by digital meeting places to a great extent.

The indirect energy consumption in Scope 2 comes from electricity. We aim for all business units to use renewable energy and therefore shift to renewable energy in HMS facilities when feasible.

Scope 3 covers shipments of material (using the company's own transport account), flights and

waste. For HMS, incoming transport is key as this is the major source of HMS's greenhouse gas emissions. Emissions from transport of goods have increased from the previous year. The increase is partly due to the fact that two more business areas have been included in the reporting. Air travel and waste have only been reported for Halmstad. There has been a significant reduction in the number of flights, which has contributed to a reduction in emissions from air travel. The decrease is largely due to adjustments made during the pandemic.

Emissions have been calculated using the CEMAsys tool for climate and energy reporting. The CEMAsys carbon footprint module is based on the GHG Protocol and it includes an extensive database covering worldwide emission factors.

Recycling of electronic waste (ton)	2017	2018	2019	2020
Non-hazardous waste	-	17.44	15.55	17.46
Hazardous waste	1.94	0.9	0.81	2.26

HMS recycles paper, iron, metals, e-waste and plastic. Information provided by the waste disposal contractor. Only data for Halmstad.

Scope	Activity
Scope 1	Fuel for vehicles used for business travel
Scope 2	Power consumption and heating
Scope 3	Transports of materials and products, waste and flights

The table shows activities that have been included in the calculation of HMS's greenhouse gas emissions.



## MEMBERSHIPS

HMS is a member of several associations in order to build understanding and promote innovation and business development. The memberships considered to be of strategic importance are listed in the table below.

Memberships
<ul style="list-style-type: none"> <li>• Association for High Technology Distribution</li> <li>• CLPA – CC-Link Partner Association</li> <li>• Control System Integrators Association</li> <li>• ETG – EtherCAT Technology Group</li> <li>• ODVA (an HMS employee is Chairman of the Technical Review Board)</li> <li>• PI – Profibus International</li> <li>• Rockwell Automation Global Encompass Partner</li> <li>• Schneider Electric CAPP - Collaborative Automation Partner Program</li> <li>• VDMA (The Mechanical Engineering Industry Association)</li> <li>• OPC Foundation</li> <li>• 5G-ACIA – 5G Alliance for Connected Industries and Automation</li> <li>• IO-Link Consortium</li> <li>• Bluetooth SIG, Inc.</li> <li>• CAN in Automation (CiA)</li> </ul>



## EMPLOYEE ENGAGEMENT

All employees are entitled to join a union. 33% of the Groups' employees, all employed in Sweden, were covered by collective bargaining agreements at the end of 2020. The table shows the total number of employees for each type of employment contract as of December 31. HMS doesn't have any seasonal variations in the number of employees.

HMS continuously strives to create an attractive workplace for all employees, and the company promotes a high-performing organization by continuously developing and training our employees. Employee surveys and performance reviews are conducted on a regular basis to get an overall picture of how the staff experience the work situation.

Number of employees	2018		2019		2020	
	Women	Men	Women	Men	Women	Men
<b>Total number of employees</b>	<b>143</b>	<b>449</b>	<b>148</b>	<b>476</b>	<b>158</b>	<b>535</b>
<b>Number of permanent employees</b>	<b>143</b>	<b>449</b>	<b>145</b>	<b>476</b>	<b>158</b>	<b>535</b>
- Full time	131	436	140	461	138	511
- Part time	12	13	5	53	20	24
Number of temporary employees	-	3	3	-	-	-
<b>Europe</b>						
<b>Total number of employees</b>	<b>128</b>	<b>385</b>	<b>129</b>	<b>404</b>	<b>141</b>	<b>465</b>
<b>Number of permanent employees</b>	<b>128</b>	<b>385</b>	<b>126</b>	<b>404</b>	<b>141</b>	<b>465</b>
- Full time	117	372	122	389	121	441
- Part time	11	13	4	15	20	24
Number of temporary employees	-	3	3	-	-	-
<b>Asia</b>						
<b>Total number of employees</b>	<b>4</b>	<b>31</b>	<b>9</b>	<b>34</b>	<b>8</b>	<b>36</b>
<b>Number of permanent employees</b>	<b>4</b>	<b>31</b>	<b>9</b>	<b>34</b>	<b>8</b>	<b>36</b>
- Full time	4	31	9	34	8	36
- Part time	-	-	-	-	-	-
Number of temporary employees	-	-	-	-	-	-
<b>North and South America</b>						
<b>Total number of employees</b>	<b>11</b>	<b>33</b>	<b>10</b>	<b>38</b>	<b>9</b>	<b>34</b>
<b>Number of permanent employees</b>	<b>11</b>	<b>33</b>	<b>10</b>	<b>38</b>	<b>9</b>	<b>34</b>
- Full time	10	33	9	38	9	34
- Part time	1	-	1	-	-	-
Number of temporary employees	-	-	-	-	-	-

The table shows the total number of employees per employment contract as per 31/12.

**SOCIAL RESPONSIBILITY**

Human rights are a vital part of HMS's Code of Conduct and a part of the evaluation of partners and supplier assessment. By seeking to improve good governance throughout supply chains, we act in our own interest as well as in the interest of our stakeholders and society at large. HMS engages with responsible suppliers, distributors and partners that support the HMS Code of Conduct.

In 2020 we have further developed compliance control with platform technology that creates transparency and more effective communication. Through this system, we collect updated data from our suppliers and ensure that they comply with our Code of Conduct.

All new suppliers must approve the HMS Code of Conduct before cooperation begins. For HMS strategic suppliers, who are judged to be particularly important for HMS operations, more detailed assessments are carried out on a regular basis. Due to the covid-19 pandemic, no site audits have been performed at our suppliers in 2020.

**CONTACT**

For more information on the Sustainability Report and our sustainability efforts, please contact Theres Borssén, Quality and Sustainability Coordinator at HMS, [thbo@hms.se](mailto:thbo@hms.se).



# Annual General Meeting on April 23, 2021

The shareholders of HMS Networks AB (publ), Reg. no. 556661-8954, are hereby invited to the Annual General Meeting, which will be held on Friday, April 23, 2021.

The Board of Directors has decided that the Annual General Meeting should be conducted by way of postal vote pursuant to temporary legislation being in effect in 2021. This means that the Annual General Meeting will be held without the physical presence of shareholders, representatives or third parties. The shareholders will therefore only be able to exercise their voting rights by postal voting in the manner prescribed below

Information on the decisions of the Annual General Meeting will be published as soon as the outcome of the postal voting is finally compiled on April 23, 2021.

## Registration and notification with regard to Annual General Meeting by postal voting

Shareholders who wish to attend the Annual General Meeting must be registered in the share register kept by Euroclear Sweden AB (the Swedish Central Securities Depository) on Thursday, April 15, 2021 and must give notice of their attendance by casting their postal vote, in accordance with instructions under the heading "Postal Voting" below, so that the postal vote is available to Euroclear Sweden AB no later than Thursday, April 22, 2021.

Please note that notification of attendance to the Annual General Meeting can only be made through postal voting.

## Nominee registered shares

In order to be entitled to participate in the Annual General Meeting, a shareholder whose shares are registered in the name of a nominee must, in addition to giving notice of participation in the Annual General Meeting by submitting its postal vote, register its shares in its own name so that the shareholder is listed in the presentation of the share register as of Thursday, April 15, 2021. Such registration may be temporary (so-called voting rights registration), and request for such voting rights registration shall be made to the nominee in accordance with the nominee's routines at such a time in advance as decided by the nominee. Voting rights registrations that have been made by the nominee no later than Monday, April 19, 2021 will be taken into account in the presentation of the share register.

## Postal voting

Shareholders may exercise their voting rights at the Annual General Meeting only by postal voting in accordance with section 22 of the Act (2020:198) on temporary exceptions to facilitate the execution of general meetings in companies and other associations. A special form must be used for the postal vote. The form is available on the company's website [www.hms-networks.com](http://www.hms-networks.com). The postal vote form is considered as notice to participate in the Annual General Meeting.

In order to be considered, the completed and signed form must be received by Euroclear Sweden AB no later than Thursday, April 22, 2021. The completed and signed form must be sent by mail to HMS Networks AB, "Annual General Meeting", c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden or by email to [GeneralMeetingServices@euroclear.com](mailto:GeneralMeetingServices@euroclear.com). Shareholders who are natural persons may also cast their votes electronically through verification with BankID via the Euroclear Sweden AB's website <https://anmalan.vpc.se/EuroclearProxy/>. To be considered, such electronic votes must be submitted no later than Thursday, April 22, 2021.

If the shareholder submits its postal vote by proxy, a power of attorney must be attached to the postal voting form. Proxy forms in Swedish and in English are available on the company's website [www.hms-networks.com](http://www.hms-networks.com) and also upon request. A power of attorney is valid one (1) year from its issue date or such longer time period as set out in the power of attorney, however not more than five (5) years. If the shareholder is a legal person, a registration certificate or other authorization document, not older than one (1) year, must be attached to the form, listing the authorized signatories.

The shareholders may not provide special instructions or conditions to the postal vote. If so, the entire postal vote is invalid. Further instructions and conditions can be found in the postal voting form and at <https://anmalan.vpc.se/EuroclearProxy/>.

Halmstad, March 2021  
HMS Networks AB (publ)  
The Board of Directors





Follow HMS at [www.hms-networks.com](http://www.hms-networks.com)

All interim reports, annual reports and certain presentations are available on the HMS website: [www.hms-networks.com/ir](http://www.hms-networks.com/ir). A printed version of the annual report can be ordered by emailing [ir@hms.se](mailto:ir@hms.se). Please make sure to include a complete delivery address.

**Important reporting dates:**

- April 23, 2021      **Q1 Report 2021**
- April 23, 2021      **Annual General Meeting**
- July 14, 2021      **Q2 Report 2021**
- October 22, 2021      **Q3 Report 2021**
- February 2, 2022      **Year-end Report 2021**



<https://www.facebook.com/HMSBehindTheScenes>



<https://twitter.com/hmsnetworks>



<https://www.linkedin.com/company/hmsnetworks>



<https://www.youtube.com/HMSNetworks>

## HMS – A leading company within industrial ICT

HMS develops and manufactures software and hardware for Industrial Information and Communication Technology. Our products enables industrial hardware such as robots, sensors, HVAC units etc. to communicate and share information with different industrial networks, building automation systems and IoT-applications.

HMS solutions connect millions of devices around the world and enable our customers to become more productive and sustainable. Our long expertise, large installed base, and wide market coverage, make us the market leader of our field.



Box 4126, 300 04 Halmstad  
Phone: +46 35 17 29 00  
[info@hms-networks.com](mailto:info@hms-networks.com)  
[www.hms-networks.com](http://www.hms-networks.com)