

# HMS Networks

## Annual Report 2021



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 hardware to communicate and share information with software and systems. This increases productivity and sustainability for our customers.

### 10 quick facts about HMS:

<b>Founded in</b>	1988
<b>Sector</b>	Industrial ICT (Information and Communication Technology)
<b>Offices in</b>	16 countries
<b>Employees</b>	+750
<b>Major markets</b>	Germany, US, Japan
<b>Head office</b>	Halmstad, Sweden
<b>CEO</b>	Staffan Dahlström
<b>2021 sales</b>	SEK 1,972 million
<b>2021 operating profit</b>	SEK 446 million
<b>Product brands</b>	Anybus, Ewon, Intesis, Ixxat (WEBfactory, Procentec, Owasys)

# 2021 in brief

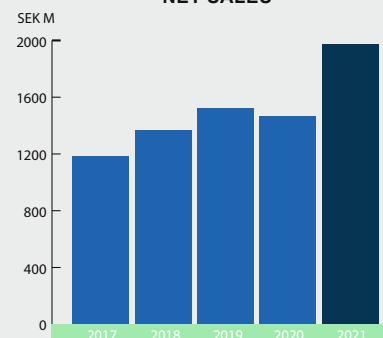
In 2021, HMS sales amounted to SEK 1,972 (1,467) million and operating profit was SEK 446 (288) million. The average number of employees during the year was 684 (614).

- February: HMS Networks releases the first commercially available industrial 5G router through the new venture initiative HMS Labs.
- March: HMS presents its annual market study showing continued growth for industrial networks despite the pandemic.
- June: American machine builders name HMS the number one choice for gateways and remote machine access through the magazine Control Design.
- July: HMS acquires a majority of Owasys S.L. — a Spanish wireless communication company designing and manufacturing products for utility vehicles and industrial machines.
- October: HMS is accepted as a signatory of the United Nations Global Compact. The UN Global Compact is a network of over 13,000 companies and 3,000 non-business participants that are committed to building a sustainable future.
- October: HMS is certified as "A Great Place to Work®" — an international standard for workplace evaluation.
- December: HMS Networks enters into a strategic partnership with Connectitude, a Swedish company which offers Software as a Service (SaaS) for industrial production processes.
- December: After 14 years on Nasdaq OMX Stockholm's Small and Mid Cap list, HMS Networks AB is moved to the Large Cap List.
- December: HMS ends the year strongly and presents record levels of revenue and profit.

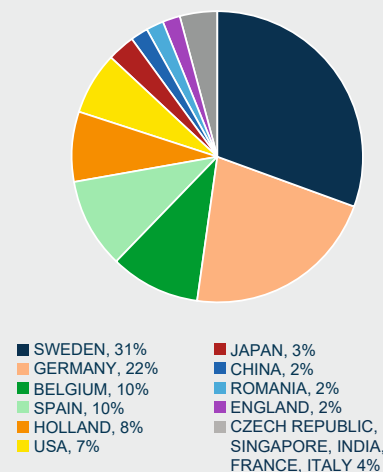
## FINANCIAL INFORMATION IN BRIEF, SEK m

	2021	2020	2019	2018	2017
Order intake	2,538	1,447	1,470	1,433	1,204
Net sales	1,972	1,467	1,519	1,366	1,183
Growth in net sales, %	34	-3	11	15	24
Operating profit	446	288	243	251	212
Operating margin, %	23	20	16	18	18
Profit for the year	362	220	205	171	143
Net profit margin, %	18.4	15.0	13.5	12.5	12.1
Earnings per share, basic, SEK	7.61	4.79	4.43	3.68	3.06
Earnings per share, diluted, SEK (¹ page 5)	7.57	4.77	4.40	3.65	3.04
Cash flow from operating activities	508	370	254	193	207
Average number of employees during the year	684	614	617	536	486

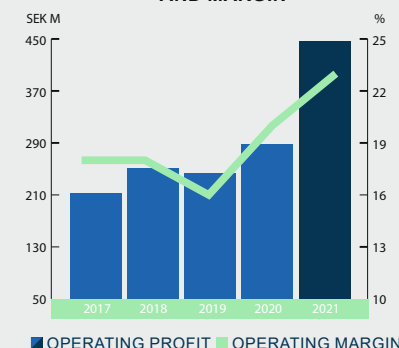
## NET SALES



## EMPLOYEES / COUNTRY



## OPERATING PROFIT AND MARGIN




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CEO COMMENTS

# Heading the right way after a strong recovery in 2021

A full-page photograph of Staffan Dahlström, President and CEO of HMS Networks, walking towards the camera in a modern office lobby. He is wearing a dark blue suit, a light blue shirt, and brown leather shoes. The background shows a brick wall, a checkered floor, and a large potted plant.

*“Our customers are digitalizing their processes and are investing in automation. Investments will continue in energy efficiency, operational reliability, and remote monitoring of industrial machines. The transition from fossil fuels to renewable energy creates new growth opportunities for HMS as these new areas require communication and data from industrial devices, machines and plants.”*

Staffan Dahlström  
President and CEO, HMS Networks





*Despite a challenging component situation in 2021, HMS product deliveries reached new record levels. Following the Corona peak, HMS staff slowly returned to the office during the year. A growing demand was seen in new business areas such as battery energy storage.*

2021 was characterized by a strong recovery in our markets. Our customers are expanding their production capacity, digitalizing their processes and increasing the degree of automation. We also see more investments in energy efficiency and remote monitoring of industrial machines, primarily to increase efficiency and decrease costs, but also to become more sustainable. We have also been successful with new business in areas such as wind power and battery energy storage.

All in all, this has resulted in a strong demand for HMS products during the year with continued successful growth and profitability. Comparing 2021 with 2019, i.e. the time before the Covid-19 pandemic, we have increased sales by 30% and our operating profit by 84%.

#### MATERIAL AND DELIVERY CHALLENGES

In 2021, the semiconductor market was very challenging and delivery times for electronic components reached unprecedented levels. This, in combination with increased prices from component suppliers during the latter part of the year, created issues for our own supply chain, as well as for our customers. However, we saw relatively good acceptance for longer delivery

times and increased prices from our customers, as the situation is the same for the entire industry. This also contributed to an extra strong order intake, as many customers wanted to secure their deliveries well into 2022. Unfortunately, we see no immediate improvement in the semiconductor market and we thus believe that 2022 will continue to be challenging in terms of material and component availability.

#### ACQUISITIONS

In 2021, HMS acquired 60% of the Spanish company Owasys, which develops communication solutions for mobile machines. We also made a small minority investment in the Swedish company Connectitude AB. We see good potential in these companies which are lead by skilled entrepreneurs who remain shareholders and can continue to develop the business with support from HMS.

The Dutch acquisition Procentec, of which HMS acquired 70% in 2020, has developed very well and contributes positively to the Group's growth both in terms of sales and profit.

#### SUSTAINABILITY

In 2021, put a lot of energy into organizing and structuring our sustainability work. We have hired a sustainability manager, created structures to better measure and follow up our climate footprint and started sustainability collaborations with several large customers. In October, we were accepted as a signatory to the United Nations Global Compact — a network of companies committed to building a sustainable future. Our ambition is to be Net Positive in CO<sub>2</sub> as early as 2025 — a challenging goal, but we believe that high ambitions and challenging goals are important for the changes we all need to make.

#### STAFF

During the first half of 2021, our business was to some extent limited by Covid-19 restrictions, but digital meetings and high flexibility made it possible for our business to function well even under these circumstances. The return to physical meetings during the fall was welcome, but we see a future where employees will combine working from home and at the office. Physical meetings between employees and our customers and suppliers will always be prioritized

as we believe that this creates extra good relationships and job satisfaction.

#### TRENDS THAT DRIVE OUR BUSINESS

We see that the trends that created growth in 2021 will continue in the coming years. Our customers are digitizing their processes and are investing in increased automation. Investments will continue in energy efficiency, operational reliability, and remote monitoring of industrial machines. The transition from fossil fuels to renewable energy and increased electrification creates new growth opportunities for HMS as these new areas require communication and data from industrial devices, machines and plants. We believe that our market will remain strong in the future.

In conclusion, together with the company's management, I would like to thank all employees, customers, partners, suppliers and shareholders for a successful year for HMS. We look forward with confidence to the coming years and a continued growth journey together.

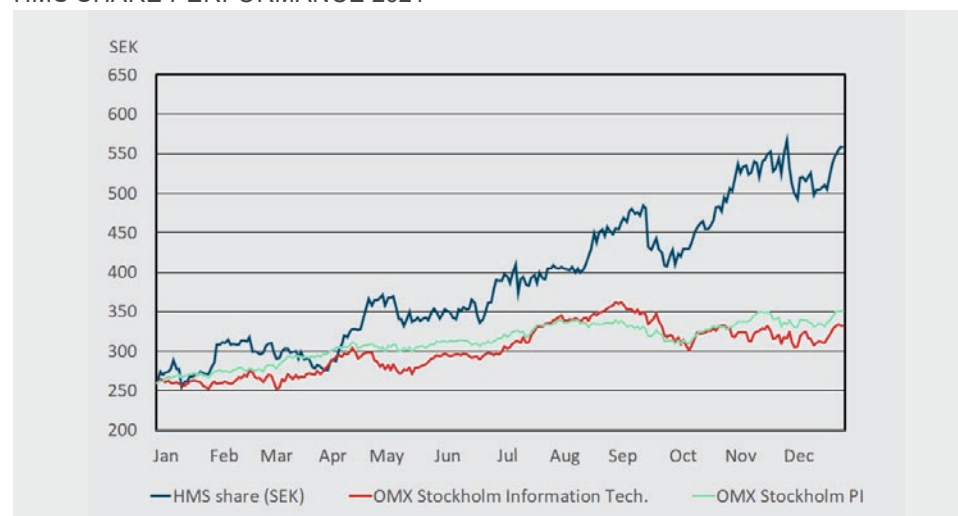
Staffan Dahlström  
President and CEO



# The HMS Networks share

HMS has been listed on the NASDAQ OMX Stockholm Large Cap list<sup>1</sup>, 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 2021



## HMS SHARE PERFORMANCE 2017 – 2021



<sup>1</sup> HMS Networks AB was moved to the Nasdaq Large Cap list as of 3 January 2022.

## NUMBER OF SHARES & 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 2021, HMS's share price increased by 115% to SEK 558 (260) per share. The Nasdaq OMX Information Technology index increased by 28% during the same period and, in total, the Nasdaq OMX Stockholm index increased by 35%. The highest price paid during the year for HMS shares was SEK 577 on November 30, and the lowest price paid was SEK 249.5 in January 15. At year-end 2021, HMS's market capitalization was SEK 26,125 (12,173) million.

## TRADING VOLUME

A total of 11.1 million shares were traded during the year, valued at SEK 4,470 (2,477) million, which corresponds to an annual turnover rate of 24% (30). On average, 43,953 (56,603) shares were traded for a value of SEK 17,668 (9,828) 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 proposes a dividend of SEK 3.00 (2.00) per share, which corresponds to approximately 40% of the

earnings per share. HMS share has had an average yield of 0.9% per year over the last five years.

## SHAREHOLDERS AND SHAREHOLDER STRUCTURE

As of December 31, HMS Networks AB (publ) had 7,616 (5,204) shareholders. The ten largest shareholders represented 72.2% (72.3) of the voting rights and capital.

## CONTINUOUS ANALYSIS

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

## SHAREHOLDERS, BASED ON HOLDINGS AS OF DECEMBER 31, 2021

Shareholding	Number of shareholders
1-500	6,411
501-1,000	477
1,001-5,000	494
5,001-10,000	90
10,001-15,000	33
15,001-20,000	18
20,001-	93
Total	7,616



## 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

	2021	2020	2019	2018	2017
Share price (last trading day)	558	260	173	123	124
Volume-weighted average share price	402	174	151	140	115
Average sales per day, SEK m	17.7	9.8	6.2	5.3	2.9
Average number of shares traded per day	43,953	56,603	41,061	38,038	25,168
No. of shares (thousand)	46,819	46,819	46,819	46,819	46,819
Earnings per share, basic, SEK	7.61	4.79	4.43	3.68	3.06
Earnings per share, diluted, SEK <sup>1</sup>	7.57	4.77	4.40	3.65	3.04
Market cap, SEK m	26,125	12,173	8,090	5,759	5,806
Enterprise value, EV (Market cap + net debt), SEK m	26,472	12,371	8,492	6,101	6,109
P/E	73.3	54.3	39.0	33.4	40.5
Net debt /EBITDA <sup>2</sup>	0.6	0.5	1.2	1.1	1.2
EV/EBITDA	48.3	30.8	25.5	20.2	23.6
EV/Net sales	13.4	8.4	5.6	4.5	5.2

<sup>1</sup> Dilution due to future allotment of shares in HMS share savings programs.

<sup>2</sup> In accordance with IFRS16, leasing liabilities are reported in the net debt from 2019 onwards.

## OWNERSHIP STRUCTURE AS OF DECEMBER 31, 2021



## HMS'S 10 LARGEST SHARE-HOLDERS ON DEC 31, 2021

	No. of shares	Share of votes and equity
Investment AB Latour	12,109,288	25.9%
Staffan Dahlström incl companies	6,091,459	13.0%
SEB fonder	3,899,001	8.3%
AMF Fonder	3,379,902	7.2%
Swedbank Robur Fonder	1,958,482	4.2%
State Street Bank & Trust	1,594,585	3.4%
Handelsbanken Fonder	1,532,639	3.3%
Första AP-fonden	1,169,430	2.5%
JP Morgan Chase Bank	1,121,736	2.4%
Livförsäkringsbolaget Skandia	935,683	2.0%
Other	13,025,763	27.8%
<b>Total</b>	<b>46,818,868</b>	<b>100%</b>

## CFO COMMENT ON 2021:

2021 has been a very good year for HMS, driven by a broad recovery in all our markets and product areas. Increased digitalization, a drive for more sustainable and efficient energy production, together with a higher adoption of remote access have been key drivers. The challenging component situation has both boosted our order intake and somewhat negatively impacted our delivery capability. All in all we are satisfied with a 34% organic growth and an operating margin of 23%, surpassing our long term target and putting us in a good position for our 2025 targets.

Joakim Nideborn – CFO





# The HMS playing field — Industrial ICT

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

### Primary HMS brands:

Anybus, Intesis, Ixxat



Control refers to control-centric real-time 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. Increased automation and industry 4.0 are strong driving trends.

### Key Business Areas:

- Multi-network connectivity for automation products
- Network-to-network integration in factories
- Multi-network connectivity for HVAC equipment
- Connectivity for CAN & embedded control

### Other key initiatives:

- Protocol conversion in buildings

## Information

### Primary HMS brands:

Ewon, WEBfactory, Owasys



Within information-centric applications, data from industrial equipment and processes is provided securely to IT systems and operators for improved insight and decision-making. Data can be provided 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

**Primary HMS brand:**  
Procentec



Communication Infrastructure refers to the infrastructural systems and networks used as the foundation for industrial communication. With the Procentec brand, HMS is the global leader within network diagnostics. In addition, HMS is an early adopter and thought leader in 5G solutions for Factory Automation.

### Key Business Areas:

- Network diagnostics in Factory Automation

### Other key initiatives:

- 5G connectivity solutions
- Wireless connectivity solutions



“

HMS communication technology is needed to meet demands for energy efficiency and sustainability

The global strive for energy efficiency and sustainability is affecting all areas of our playing field. To optimize the use of energy and resources, it is necessary to get information from industrial devices and machines. HMS communication technology enables our customers to get connected in many different ways.

*Jörgen Palmhager*  
CTO

”



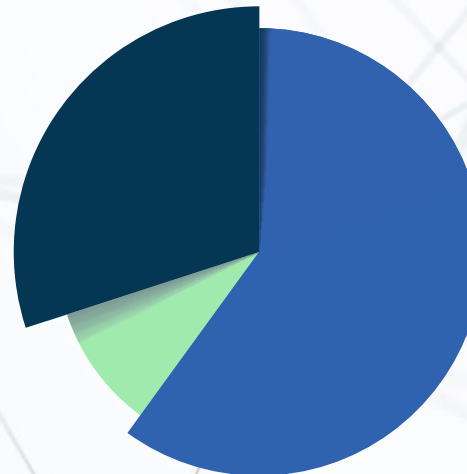
## BUSINESS MODEL, VISION AND MISSION.

# 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.

### INDIRECT SALES 34%

HMS gateways and routers are primarily sold through partners. With great technical and commercial expertise, they integrate HMS products in automation projects world-wide. HMS has a network of around 300 independent distributors covering approximately 50 countries.



### DIRECT SALES 61%

Direct sales is typically when HMS is in 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 orders HMS products on a recurring basis. For some customers, HMS offers customized hardware and software solutions that meet customer-specific requirements.

### TECH SERVICES AND SUBSCRIPTIONS 5%

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 information-centric products, such as for remote connectivity to industrial equipment, the customer is also offered to subscribe to cloud-based services.

## HMS Vision & Mission

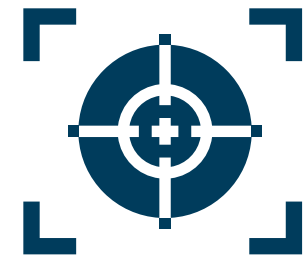


### VISION

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



FOCUS AREAS AND GOALS

# Focus areas and goals

HMS has defined 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 CO<sub>2</sub> net positive by 2025, which means that we will save more CO<sub>2</sub> than the negative impact of our footprint. Several factors contribute to reaching this objective.

First of all, we focus on measuring and understanding our emissions, and we are taking action to reduce CO<sub>2</sub> emissions in our operations and throughout our value chain. In addition, HMS invests in carbon offsetting for the remaining emissions, and we are continuously developing our products in a sustainable way.

The largest positive CO<sub>2</sub> impact comes from HMS's products, that enable efficient control of industrial equipment and processes contributing to the general reduction of energy usage in factories. Furthermore, by providing remote access to industrial machines, HMS enables remote troubleshooting which reduces the need for on-site travelling for our customers and their service teams.

Read more about HMS's environmental work and the efforts to become CO<sub>2</sub> net positive in the Sustainability Report starting on page 29.

### 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 targets a Net Promotor Score (NPS) of 25 or more, 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 36.

### 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 more than 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 HMS World

With offices in 16 countries and distributors in another 50, HMS is represented in all major industrial markets. HMS products are installed all over 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

### WEBFACTORY

Buchen (Germany), Sibiu (Romania).

### PROCENTEC

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

### OWASYS

Bilbao (Spain).

## 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).

## CONTINENTAL EUROPE

Europe is currently re-thinking. Covid has made the fragile dependencies in the supply chain evident, and the consequence will be a shift of production back to Europe. To ensure competitiveness and flexible production, smart and fully networked production plants is a must.

The need for secure data communication for machines will continue to increase and this is a great potential for HMS. As the key player in this field, we see many new business opportunities in the coming years.

*Thilo Döring*  
General Manager, Market Unit Continental Europe



## ASIA PACIFIC

There is a surge in demand for automating manufacturing in the Asia Pacific region. It spans from automation and digitalization of existing production sites to new investments related to electrification and green initiatives.

Asia Pacific is also the home of many air conditioning manufacturers, and during the past year we have expanded our footprint in the building automation space.

*Hans Larsson*  
CCO and acting General Manager for Market Unit Asia Pacific in 2021.

*(in 2022, The Asia Pacific region is divided into Greater China and APAC)*



## AMERICAS

2021 was an unprecedented recovery period in which we experienced record orders, almost every quarter. Secular trends including investments in digitalization of business processes, increased deployments of connected devices across the manufacturing ecosystem, and the growing need for remote monitoring and visualization enable our solutions to remain very relevant for our customers.

We will actively invest in expanding our footprint in underpenetrated vertical markets as well as adding resources in Latin America, which will allow us to position the business in the region for future success.

*Sergio Resendiz*  
General Manager, Market Unit Americas



## NORTH & REST OF THE WORLD

Despite challenges in the supply chain for both us and our customers, we managed to grow sales by double digits in 2021.

“The new normal” requires customers to optimize their operations and organization. In Market Unit North, we are in an excellent position to help them become more productive and sustainable with our wide portfolio of products and our strong partner network in Industrial and Building Automation.

*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



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



**PROCENTEC**<sup>®</sup>  
Member of the HMS group.

# PRODUCT OFFERING



# Hardware Meets Software™

A necessity to meet new demands for sustainability and productivity

HMS stands for Hardware Meets Software™. By enabling industrial hardware to communicate with software and systems, it is possible for our customers to make substantial productivity gains and meet the growing demands for sustainable processes.



**Anybus®**  
BY HMS NETWORKS

**Ewon®**  
BY HMS NETWORKS

**Intesis®**  
BY HMS NETWORKS

**Ixxat®**  
BY HMS NETWORKS

## ON A MISSION TO A MORE PRODUCTIVE AND SUSTAINABLE WORLD

HMS mission statement is to *“enable valuable data and insights from industrial equipment allowing our customers to increase productivity and sustainability.”* But just how strong and important is this statement and what does it really entail?

HMS mission statement is tightly related to two macro trends: The alarming climate change, and the accelerating global digitalization. At HMS, we believe that digitalization is one of the keys to a more sustainable world. Our mission entails a sustainable approach to growth and productivity through technology advancements. And this is no news to us. HMS has been contributing to continuous digitalization and automation in the industry globally for 30 years and we are still on this path.

## HOW WE DO IT

Thanks to our **control-centric** communication solutions, millions of devices and machines can communicate and be controlled in automation systems. With HMS communication solutions, factory owners benefit from improved overall equipment efficiency, resulting in better productivity and resource utilization.

HMS was one of the early providers of **information-centric** solutions in the industry, enabled by modern web and cloud technologies. Today, HMS offers a full range of solutions in this area. Firstly, HMS is recognized as the market leader in secure remote access to machines for optimized machine service. Secondly, HMS enables data from any industrial hardware to be connected to customers IoT software applications of choice. This enables operators and decision-makers to get the right manufacturing data and insights they need to make the best decisions possible to save time and resources.

Furthermore, additional productivity and sustainability gains can be achieved by optimizing the very **communication infrastructure**. HMS market-leading solutions for monitoring and troubleshooting of industrial networks prevent undesired manufacturing halts in factories. HMS also enables customers to choose the right infrastructure and connectivity for their application – wired as well as wireless solutions including cellular 3G, 4G and most recently 5G, a technology area where HMS has assumed a pioneer position on the market.

## HARDWARE MEETS SOFTWARE – A NECESSITY

No matter if the topic is control, information or infrastructure applications, it is all about enabling industrial **hardware to meet software** – ensuring that the right industrial data is made available at the right time to the right user. This is when the power of industrial data is unleashed and what enables new insights and smart decisions for productivity and sustainability. This is what HMS products do.

So, coming back to the initial question – Just how strong and important is HMS mission statement today and what does it really entail? For us at HMS it is clear, the macro trends and all other evidence suggest that our mission becomes increasingly important day by day – not only for HMS but for the entire industrial ICT community. Hardware Meets Software is what makes it happen. This makes us even more proud and committed to continue delivering solutions for a more productive and sustainable world.

Anders Hansson  
CMO







# Connecting any device, machine and network

Millions of devices can't be wrong! As the clear market leading solution, Anybus® products make it possible to connect any industrial device to any industrial network or the Internet. Industrial networks are sometimes referred to as fieldbuses (hence Anybus) and come in different variants depending on market and industry. It's much like the multitude of languages used around the world. Anybus makes it possible for industrial equipment to communicate anywhere.



**Bartek S. Candell**  
General Manager  
Business Unit Anybus

## 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 industrial data clouds and IoT systems.

## CUSTOMER EXAMPLE

# Always connected, always sharp!

American machine builder JSI makes paper slitters. They use Anybus gateways to connect their machines to a controlling network. This enables them to sell their machines to any region or industry, regardless of network.



## Market

Factory automation remains the most important market for Anybus. The increasing importance of communication in other 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 directly to manufacturers of automation products. A *Design Win* means that the customer has chosen Anybus as the standard communication solution which enable long-term recurring revenues for HMS. Anybus Gateways and Wireless products are sold both directly or via distributors.

## Competition

In the embedded segment, the main competitor is usually the customers themselves, since they could decide to develop their network communication solutions in-house. Other companies compete with HMS in various segments, mainly in Germany and the U.S. However, none are able to match HMS's comprehensive offering.





# Remote access to industrial machines and their data

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 and its data anytime and anywhere. Ewon has been voted the number one choice for Remote Access by the readers of Control Design Magazine — 6 years in a row!



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

## OFFERING



**Ewon Cosy**  
Provides machine builders 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®**  
The world's leading industrial cloud solution for secure remote access and data transmission to and from connected machines.

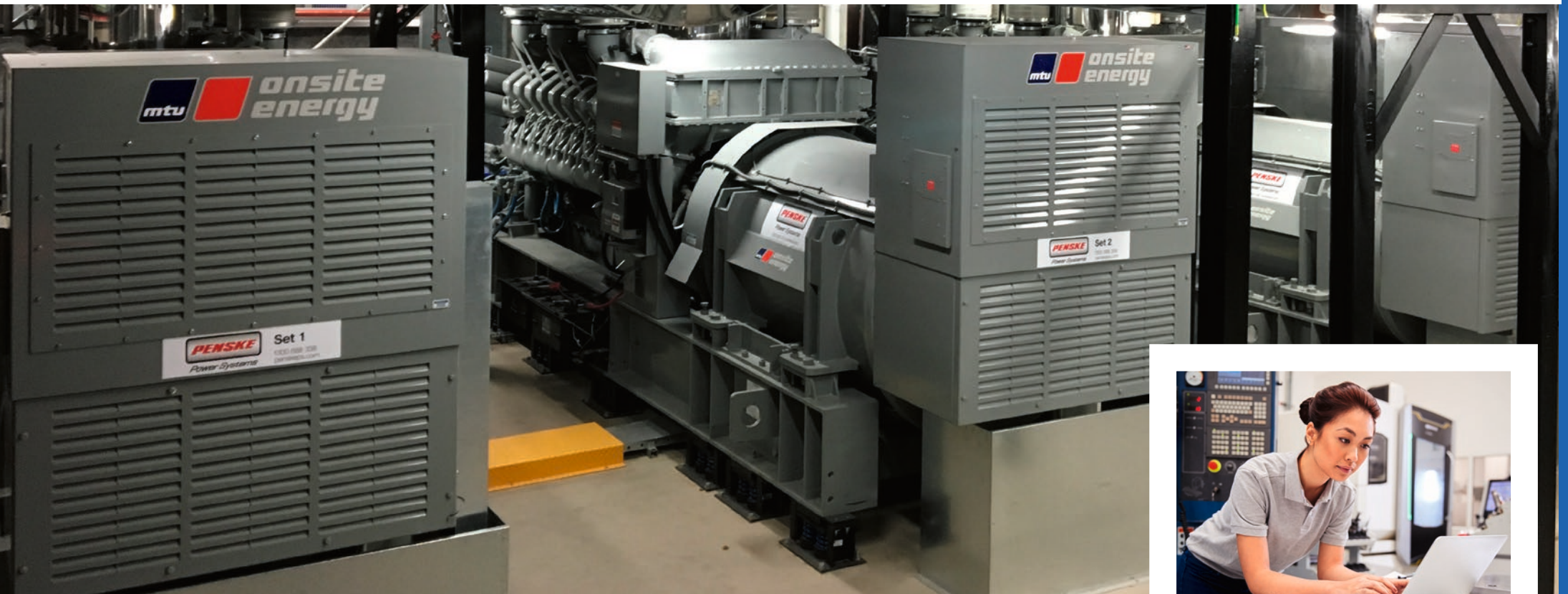


**Ewon Netbiter**  
An out-of-the box remote management solution, especially suitable for power generators and tank monitoring.

## CUSTOMER EXAMPLE

# Online control of power generators

In the plant room of the New Royal Adelaide Hospital in Australia, you will find six 21-ton power generators. With the help of Ewon's remote solutions it is possible to monitor and troubleshoot the generators remotely, making sure they are always ready to start if needed.



## Market

Ewon solutions enable remote access to industrial machines with a PLC (Programmable Logic Controller — an industrial computer that runs the machine.) But there are many other application areas such as backup power generators, battery systems, wind turbines, solar panels, 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 specific market segments.



# Intesis®

BY HMS NETWORKS

## 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.



**David Garcés**  
General Manager  
Business Unit Intesis

### OFFERING



#### Intesis protocol translators

Intesis offers gateways which act as translators between, for example, thermostats, lighting ballasts, smart meters, and building management systems running on KNX, BACnet or Modbus. The communication is configured with the software Intesis MAPS.



#### Intesis AC interfaces

Intesis is known for the market leading ability to design specific AC interfaces for the major vendors of air conditioning equipment. Today, Intesis enables more than one million AC units from 100 different brands to communicate.



#### Intesis cloud solutions

Intesis also offers solutions to monitor and control building equipment remotely via the cloud — using a web interface or a smartphone app.

## CUSTOMER EXAMPLE

# HVAC integration in 280 rooms

Roomers, a 5-star luxury hotel in Munich, uses Intesis AC interfaces to enable communication between Hitachi air conditioning units and the Building Management System — making sure that air-conditioning is only used when needed.



### 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

Intesis products are sold either through HMS' international network of distributors or directly by HMS staff. Customers typically buy Intesis hardware, however, cloud connectivity to the connected equipment is offered as an option, 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.





## 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 fields. The Ixxat offering primarily consists of a large number of products that solve the most common types of communication problems in machines, including safety aspects. It also contains products that solve new communication challenges in smart grids.



**Alexander Hess**  
General Manager  
Business Unit Ixxat

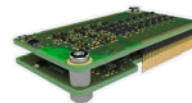
### OFFERING



**Industry**  
Connectivity solutions for machines, as well as 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 into industrial equipment.



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

## CUSTOMER EXAMPLE

# Giving EV batteries a second life

Connected Energy Ltd in the UK builds large energy storage systems made of used batteries from electric vehicles. Ixxat repeaters and gateways enable data communication between the battery modules to enable large arrays and also connect them to modern smart grid energy networks – enabling control, monitoring and predictive maintenance.



### 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 business model as Anybus Embedded. Development services and customized products are also important for the Ixxat brand.

### Competition

CAN is a mature technology and other companies offer similar products. However, none can offer such a complete portfolio and the level of technical expertise as Ixxat. Additionally, Ixxat offers unique solutions for automotive testing, functional safety and network connectivity.



# WEBfactory<sup>®</sup>

Member of the HMS group

## Displaying machine information online



### OFFERING

WEBfactory offers software for displaying information from industrial equipment in easy-to-use web interfaces. The i4 software is a perfect add-on for many other HMS products which handle data on the factory floor. These can be connected to WEBfactory solutions making machine data available online. Users benefit from instant visualisation and control of processes, as well as analysis and prediction of events.

# PROCENTEC<sup>®</sup>

Member of the HMS group.

## Keeping industrial networks running



### 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. The solutions are industry sector and supplier independent, making them applicable in almost all industrial set ups.



Member of the HMS group

# Wireless communication for mobile machines



## OFFERING

Owasys offers wireless communication platforms to enable remote monitoring and control of a wide range of mobile machines. Products include owa4x — an IoT gateway that processes and sends data from industrial devices to the cloud, and owa450 which is an IoT platform for controlling and monitoring data from vehicles and industrial machines. Customers and machine users benefit from reduced fleet downtime and predictive maintenance.









SUSTAINABILITY REPORT	
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This is HMS Network’s Sustainability Report for the financial year 2021 and part of the statutory Sustainability Report in accordance with the Annual Accounts Act, Chapter 6, Section 11. The HMS Sustainability Report describes the Group’s work based on economic, environmental and social aspects. The report has been prepared in accordance with the Global Reporting Initiatives’ (GRI) Sustainability Reporting Standards and in accordance with the requirements of the Annual Accounts Act.

The sustainability report includes the parent company HMS Networks AB (org. no. 556661-8954) and all units consolidated in the 2021 consolidated financial statement of HMS Networks AB, which are specified in note 38 in the consolidated financial statement. Because of limited availability of information, delimitations on reported entities have been made for a number of disclosures. The delimitations are described in the GRI appendix of the Sustainability Report, pages 116-130.

- The Sustainability Report in accordance with the requirements of the Annual Accounts Act can be found in the following sections:
- Strategy and business model, pages 3, 6-11, 30-31
  - Policies, evaluations and results pages 32-37, 117, 121-126
  - Material risks and risk management, pages 119-120
  - Priority key figures, pages 30-37, 121-126
  - Reporting of EU Taxonomy Regulation, page 126

# SUSTAINABILITY



## SUSTAINABILITY

# Sustainability in focus

Sustainability is a central part of the HMS Strategy 2025. We work within three focus areas to minimize the negative impact and maximize the positive effects in our value chain: environment, responsible business and employee engagement. These areas are the basis for our prioritized activities, follow-up and communication.

We aim to include sustainability in all parts of the HMS business. Our focus areas for sustainability are based on HMS's overall goals:

- Net positive CO<sub>2</sub> footprint by 2025
- Happy and high-performing employees generate loyal customers. HMS Targets a Net Promoter Score (eNPS) above 25
- Continued sustainable and profitable growth with a turnover of π billion (3.14) and an operating margin of 20 percent by 2025

We work actively to achieve our goals and closely follow up the results.

## Important events 2021

The pandemic continued to affect the business and HMS had to adjust to the current restrictions to minimize the spread of infection. Digital meetings have dominated our way of connecting and we have adapted our working methods to the digital everyday life. The low level of travel has continued to have positive effects on the company's carbon footprint. Travel is expected to increase after the pandemic, thus efforts are being made in forms of revision of internal guidelines in order to limit future emissions.

Based on the goal of becoming CO<sub>2</sub>-positive in 2025, a number of activities were initiated to reduce our carbon footprint.

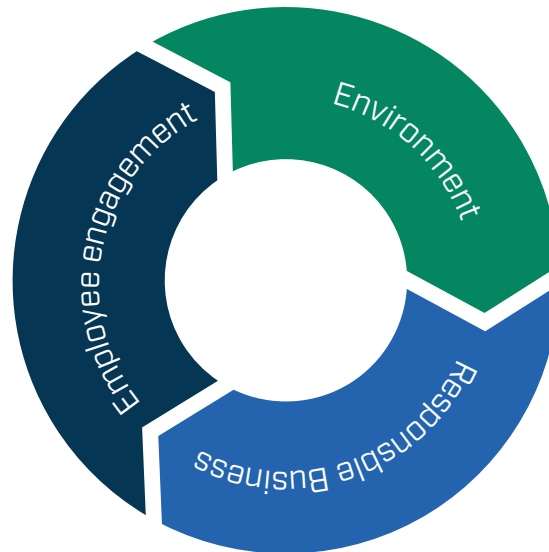
Lack of components and disruptions in the supply of materials have affected the HMS organization and thus also the sustainability work. Due to the pandemic, the possibilities for on-site supplier audits were limited.

During the year, several initiatives were also carried out focusing on to ensure effective internal working processes and compliance:

- HMS signed the UN Global Compact, which means that we commit to actively work with ten principles concerning human rights, working conditions, the environment and anti-corruption, as well as the Global Goals for Sustainable Development.
- The company's materiality analysis was updated in order to validate the HMS sustainability agenda, prioritize activities and report in accordance with the Global Reporting Initiative Standards.
- An environmental management system was implemented for HMS's Swedish operations in Halmstad and was certified in accordance with ISO14001. The environmental management system was implemented in existing processes and working methods and integrated into the business's quality management system.
- The HMS Code of Conduct was updated. The Code is one of our most important documents to ensure sound values and guidelines in matters such as business ethics and anti-corruption, human rights, working conditions and environmental responsibility.
- A screening of HMS's compliance with the EU Taxonomy regulation and the objectives "Climate change mitigation" and "Climate change adaptation" was carried out. The Taxonomy is a classification system for environmentally sustainable economic activities and a key tool for achieving the EU's goal of carbon neutrality by 2050.

## Three focus areas

HMS sustainability focus and prioritized activities are based on our own and our stakeholders' most important issues. In 2021, we renewed our materiality analysis aiming to validate the HMS Sustainability Agenda and to define the content of the sustainability report.



# The HMS contribution to Agenda 2030

HMS supports the UN Agenda 2030 and its 17 global goals for sustainable development. For us, sustainable development is both a responsibility and an opportunity, which is reflected in our strategy for 2025. HMS's focus areas for sustainability include our essential and prioritized sustainability issues. We have mapped how the HMS business impact and contributes to the global goals through our strategy and business, through our working methods and operations, and indirectly in our value chain.

## HMS focus areas and material sustainability topics





## SUSTAINABILITY

# A positive effect on the environment

Climate change and its effects are one of the greatest challenges of our time. At HMS, we strive to minimize our climate impact in the value chain, with the goal of becoming CO<sub>2</sub> net positive by 2025. We focus on reducing our carbon footprint where our impact is greatest, replacing fossil fuels with renewable alternatives and balancing remaining emissions. HMS's products and solutions enable our customers to increase their energy efficiency and reduce their carbon dioxide emissions. Commitment and cooperation between our employees, suppliers and customers are keys to achieving our ambitious goals.

If we are to achieve the goal of limiting global warming to 1.5 degrees, we need to drastically reduce greenhouse gas emissions. In our goal of becoming CO<sub>2</sub> net positive by 2025, we focus on measuring and understanding our emission sources, reducing carbon dioxide emissions in the value chain, compensating for remaining emissions as well as developing our products in a sustainable way.

As a first step, we reduce our carbon footprint where our impact is the greatest, with a focus on following measures:

- Efficient energy use of renewable energy sources
- Optimized logistics
- Sustainable business travel
- Minimized carbon footprint in the HMS supply chain
- Sustainable product development

## EFFICIENT ENERGY USE

HMS works continuously to increase energy efficiency throughout the business and strives to use 100 percent renewable energy (electricity, heating, cooling and fuel). During the year, renewable energy was set as a standard for all operations where this option is available. Five of our Business Areas increased their share

of renewable energy in 2021, three of them switched to 100 percent renewable electricity. Green electricity agreements exist for the majority of the HMS facilities. In 2021, the share of green electricity was 85 percent in the HMS Group.

As part of the work towards our environmental goal, efforts were prioritized to increase production capacity in our Swedish operations, which resulted in an improved electricity consumption per produced unit.

Decisions were also made during the year to invest in solar cells for our four largest facilities in Halmstad, Ravensburg, Karlsruhe, Nivelles and Igualada where almost 65 percent of HMS's employees work. The investments are expected to be realized in 2022.

## COMPENSATION OF EMISSIONS

Our ambition to become CO<sub>2</sub> net positive means that we will compensate for more than 100 percent of our remaining emissions by the year 2025. Therefore, we initiated collaborations with DHL Express and UPS during the year for climate compensation of HMS goods transports. This resulted in 52 percent of HMS transports for import and export being climate compensated in 2021, which corresponds to 638 tons of CO<sub>2</sub>.

## SUSTAINABLE BUSINESS TRAVEL

As a result of the ongoing pandemic, business travel was still at a low level during the year. A review of the company's travel policy was initiated in order to clarify the importance of environmental and climate considerations for business travel. The inventory of data was expanded in order to measure emissions from business trips in all parts of the HMS Group. HMS's operations increasingly switched to hybrid and electric cars as we aim to have a fully electric vehicle fleet by 2025.

## SUSTAINABLE PRODUCT DEVELOPMENT

Low environmental impact in HMS's operations and products creates value for our customers and the society. To minimize the environmental impact, HMS's products are designed for long-term use in demanding industrial environments. It is possible to repair and upgrade HMS's products in the field, a factor which is essential to achieve maximum lifetime of the products. All products are characterized by low weight, small form factor and material efficient packaging, which lower the environmental impact in the logistics chain.

Our primary sustainability target:  
CO<sub>2</sub> Net positive in 2025

"With technology as a driving force and with intelligent use of information and data, we want to create a positive effect on the environment and climate, which is one of the three focus areas in our strategy for 2025. As a company, we can offer many sustainability benefits to our customers — by using our products they can reduce service trips, optimize their energy consumption and increase productivity. However, we can also improve a lot in our own operations to achieve our goal of becoming CO<sub>2</sub> net positive by 2025."

Kristina Altner,  
*Sustainability Manager*



Plastic materials used as packaging are phased out where possible, HMS Swedish operations has replaced bubble plastic with paper and PVC-based tape has been partially replaced with paper tape. The initiative will continue in the coming years with a focus on material selection at our warehouse in the US.

HMS products include electronics that contain metals and chemicals that can be harmful to the environment and health. It is our responsibility to ensure that the usage of these substances is minimized and that the products are disposed in a responsible way. There are currently several regulations that limit or prohibit hazardous substances. To ensure the

HMS compliance process, a support system was implemented in 2021 that enables compliance with legal requirements. The system is a software platform for systematically collecting data and validating information about the composition of products.

## WASTE

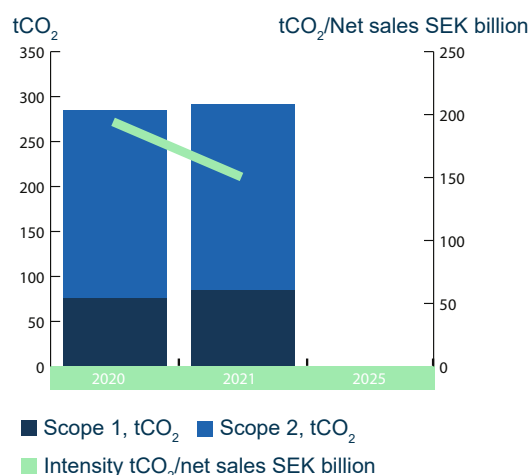
HMS targets to annually increase the recycling of generated waste. During 2021, opportunities to increase the sorting of plastic waste from the Swedish operations were identified and taken measures resulted in more fractions of plastics recycled. Through increased plastic recycling, there are good opportunities to minimize the

waste that is treated by incineration and the ambition is that all recyclable plastics that is generated will be subjected to material recycling.

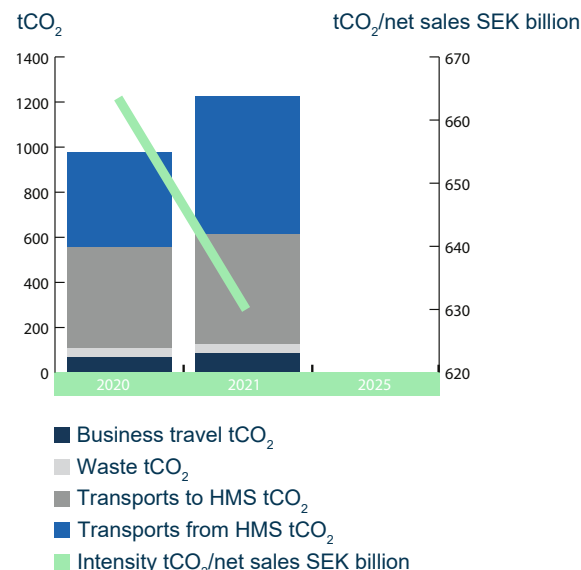
## EMISSIONS IN THE SUPPLY CHAIN

In order to achieve our ambitious goals, cooperation with HMS suppliers and business partners is crucial. In the coming years, HMS will, in collaboration with our suppliers, expand the inventory of emission data with the ambition to minimize the environmental impact from our operations.

## SCOPE 1 & 2



## SCOPE 3



As of 2021, a greater share of HMS business areas and companies are included in the report, with the exception of Webfactory Romania, HMS smaller sales offices in Singapore, Dubai and India as well as Owasys, which was acquired during the year. For comparability reasons, the emissions for 2020 have been recalculated. As a consequence of acquisitions, emissions in scope 1 increased in absolute terms in 2021, while the emission intensity improved. Emissions in scope 2 decreased in 2021 despite the fact that the energy use increased slightly, the reduction in emissions can be traced to the transition to renewable energy. The share of renewable energy has increased to 67 (63) percent in 2021.

The emission intensity for scope 3 also improved in 2021, despite the fact that emissions increased in absolute terms.

For more detailed information on HMS emissions and inventory, see pages 121-122.

**Ewon**  
BY HMS NETWORKS

**908 000**

tons of CO<sub>2</sub> saved in 2021  
due to remote solutions resulting  
in fewer service trips

**Intesis**  
BY HMS NETWORKS

**180 000**

tons CO<sub>2</sub> saved in 2021  
due to more efficient AC use

## THE HMS EFFECT

HMS's products enable energy savings and minimizes the need for service trips for our customers. Automated processes and Intelligent industrial communication enable lower energy consumption for industrial equipment such as motor controls, pumps and fan systems.

HMS's products for remote access and monitoring can also be used to address global sustainability challenges. Intelligent remote monitoring of industrial equipment enables energy savings, both through more efficient operation and a reduced need to travel for facility inspection.

Read more about how we have calculated on page 123.



## SUSTAINABILITY – RESPONSIBLE BUSINESS

# Responsible business

HMS's success is based on committed employees, long-term relationships with our stakeholders and well-functioning operations. We take responsibility throughout the value chain. Together with our employees, suppliers and customers, we create value.

## CODE OF CONDUCT

The HMS Code of Conduct is an important cornerstone for HMS's sustainability work. It provides guidance on how employees and representatives are expected to act in accordance with the company's values and guidelines. The Code of Conduct deals with important topics such as business ethics and anti-corruption, human rights, working conditions and environmental responsibility. The Code of Conduct is based on internationally recognized principles such as the 10 principles of the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

In 2021, a revision of the HMS Code of Conduct was made and the updated version was approved by the HMS Board of Directors. As part of the revision of the Code, a web-based whistleblower function was introduced enabling the possibility for HMS employees to report irregularities anonymously. All HMS employees will be trained on the principles of the updated Code of Conduct. In 2021, no irregularities were reported in the existing whistleblower system.

## HUMAN RIGHTS

Respect for human rights is a crucial principle in HMS's operations and conduct throughout the entire value chain. Human rights are included in several of our policies, goals and work processes.

The Code of Conduct includes equal treatment, non-discrimination, good working conditions, freedom of association, health and safety, as well as a ban on slavery and child labor as important principles. The HMS Supplier Code of Conduct contains equivalent principles for suppliers and business partners to follow.

Risks for human rights violations are primarily linked to HMS business relationships and the work environment in the supply chain. All suspected violations are taken seriously and handled the same way as other suspected violations of the HMS Code of Conduct and the Supplier Code of Conduct. For employees, there is an opportunity to anonymously report suspected human rights violations (and other violations) through the whistleblower channel. HMS also conducts regular audits of suppliers to identify and assess human rights, environmental and business ethics risks in the value chain.

**BUSINESS ETHICS AND ANTI-CORRUPTION**  
Honesty and fairness have always characterized HMS's way of doing business. Applicable legislation, regulations and HMS governing documents must be followed and there is a zero tolerance for bribery and corruption. The Code of Conduct describes the principles that all HMS representatives are expected to follow. The same principles apply to HMS suppliers and partners.

HMS staff are continuously trained in the Code of Conduct, where business ethics and anti-corruption are important parts. HMS believes in an open discussion around these issues and employees are encouraged to contact the responsible manager or HR function in the event of any ambiguities.

## RESPONSIBLE PROCUREMENT

The HMS Supplier Code of Conduct contains basic principles for suppliers and business partners to follow. It is expected from the suppliers that they pass on these values and principles to the suppliers in the next tier. The HMS suppliers are asked to sign the Supplier Code of Conduct, or an equivalent standard agreed upon with HMS.

HMS is in a good position to influence direct suppliers thanks to the close and long-term relationships. Longer supply chains can be more challenging to analyze and influence. Our Supplier Code of Conduct therefore plays an important role in ensuring good working conditions throughout the value chain.

Our ambition is to increase the systematics of the sustainability work and compliance together with our suppliers. In 2022, HMS plans to strengthen the working methods in order to increase knowledge and control, and enable the change that our sustainability goals entail.



## CONFLICT MINERALS

HMS does not tolerate and shall not contribute to the extraction of conflict minerals. Extraction of metals and minerals used in electronic products can pose a risk depending on where in the world the material is extracted. When extracted in conflict areas, there is a higher risk of human rights violations. Examples of conflict minerals are gold, tantalum, tin and tungsten.

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. Our suppliers are asked to report annually on the origin of delivered components. In the process, the reporting template for conflict minerals from the Responsible Minerals Initiative is used. The outcome from this year's reporting was not entirely satisfactory, as the respondent rate from the suppliers was limited. The outcome can be traced to the new information platform used for data collection and compilation, measures have been taken in order to improve the response rate

for the coming years. The reporting for 2021 shows that most suppliers have used components containing minerals from conflict-affected areas and/or high-risk areas. As a consequence, identified suppliers are asked to put measures in place to ensure responsible management of conflict minerals.

## CUSTOMER DATA MANAGEMENT

HMS's operations involve the processing of customer data generated in HMS systems and cloud services. We respect and protect customers' privacy and ensures that data is protected in the best possible way by adapting the systems and informing about which data is stored and processed. HMS's cloud solution Talk2M and the Ewon gateways are certified according to ISO27001 for information security. HMS has not had any cases of confirmed complaints regarding customer integrity or identified leaks of customer data in 2021.

## NETWORKING AND COLLABORATIONS

HMS has a close dialogue and long-term collaborations with universities and schools in different parts of the world. This has resulted in collaborations on innovation and research within the framework of our core business, where many students have gained valuable work experience from projects and summer jobs at HMS.

Collaborations with universities and schools are also important in order to improve the long-term gender equality in the tech industry. During the year, we participated in networking lunches arranged by Techella, an initiative to increase the proportion of women applying for technical education, getting women to stay in the industry and increasing the proportion of women on tech boards.

We also arranged a network lunch and invited Amazing Digital Amazonas (ADA), a student association for women in tech-related education programs at Halmstad University.

In collaboration with Halmstad University, HMS presents scholarships to the best thesis projects every year. The HMS scholarship is presented to prominent students in computer science, electrical engineering and mechatronics.

During the year, we also made donations to selected organizations, including Women on Wednesdays, a Swedish network for women that strives to support immigrant women to work. HMS makes a Christmas donation every year, and in 2021 the donation from our Swedish operations went to Hand-in-Hand, an organization which works to reduce poverty through entrepreneurship.

HMS continuously provides information to various third-party surveys within the field of sustainability. In 2021, we were again awarded a silver medal from EcoVadis and we were recognized as a Nasdaq ESG Transparency Partner. We also reported information about our environmental and climate work to CDP.

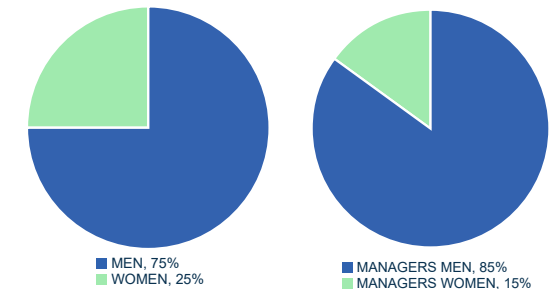




## SUSTAINABILITY – EMPLOYEE ENGAGEMENT

# Personal and professional development

HMS offers employees opportunities for personal and professional development in a growing, dynamic and international organization. We take pride in our inclusive corporate culture where common values, continuous learning and personal responsibility are prioritized. It is important that work is challenging, rewarding and fun. Our goal is to have committed and high-performing employees and reach a Net Promoter Score (eNPS) of over 25.



## FOCUS AREAS FOR EMPLOYEE ENGAGEMENT

### HEALTH & DEVELOPMENT



The health and well-being of employees is of utmost importance to HMS. Therefore, we encourage our employees to stay active and offer various health-promoting activities. Continuous investments are made in employee development to ensure that the organization has the knowledge and skills required for the future. The pandemic has changed the daily work with more home office work, digital meetings and restricted travelling. In 2021, there was a special focus on work environment and several workout sessions were arranged, both physical and digitally. Several of the the HMS offices also offered voluntary health tests.

### DIVERSITY & EQUALITY



To strengthen the corporate culture and build for the future, HMS targets to improve diversity and gender equality in all parts of the organization. HMS operates in a traditionally male-dominated industry and we constantly follow the distribution between men and women. As part of the ambition to increase diversity and gender equality, our goal is to have 20 percent female managers by 2025. With an increased focus on the issues in 2021, we strengthened the recruitment process, conducted training on the subject and arranged network meetings.

### COMPANY CULTURE



As HMS grows, it is important to maintain the culture of a smaller, entrepreneurial company. Our organizational structure with Business Units and Market Units ensures that the product development and sales teams do not become too large, which helps to maintain an entrepreneurial feeling. The inclusive culture as well as good relationships and cooperation are important cornerstones in the corporate culture. During the year, inspirational lectures and team development activities were arranged with HMS core values ("Heart, Mind and Soul") in focus, with the ambition to increase the cooperation within the organization.

### LEADERSHIP



HMS leadership programs and the international exchange at managerial level are important factors to develop HMS's leaders and to ensure collaborative work towards the common goals. External mentors, training, coaching and employee surveys develop and challenge our managers to inspire our employees and lead the organization forward.

## "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 (which makes for a pretty good abbreviation too).

**Heart** means collaborating, engaging and taking responsibility for what we do. **Mind** means building

and creating win-win situations for us and our customers. By **Soul**, we mean to dare, drive and inspire when it comes to our working life. Launched within the framework of the HMS 2025 strategy, Heart, Mind and Soul serve as a very important starting point for continuous activities with all employees.



HEART



MIND



SOUL

## Employee Promoter Score (eNPS)

eNPS measures the answer to the question "How likely are you to recommend the company to a friend or colleague?" The result is ranked from -100 to 100. HMS's target is 25.

2020

23

2021

29

## HMS is a "Great place to Work"

After analyzing a comprehensive employee survey, HMS Industrial Networks AB was deemed to meet the criteria required to be certified as "A Great Place to Work." – an international standard for workplace evaluation.

The criteria state that a good workplace is characterized by:

- Staff that trust the people they work for, are proud of the work they do and like the people they work with.
- Daily experiences that help people feel that they belong, that their unique talents matter and that their individual needs are taken care of by colleagues and leaders.
- Company values based on recognition, inclusion, respect and compassion.

*"We are very happy with the results from the evaluation, even though we see a number of areas where we can improve. HMS engineers, salespeople, marketers, etc. are at the very forefront of technology. The processes, technologies and business models are complex and take a long time to master. Therefore, it is critical for us to attract and retain talented employees who want to stay with us for a long time. This certification is proof that we are on the right track."*

Anna Hoffert,  
HR Manager

**Great  
Place  
To  
Work®**

**Certified**  
SEP 2021





## SUSTAINABILITY

# 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 2021 and that it has been prepared in accordance with the Annual Accounts Act. The company has defined the statutory sustainability report in the director's report on page 59.

## 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, 2022  
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren  
*Authorized Public Accountant*

# CORPORATE GOVERNANCE



# Chairman's comments

In 2021, the focus returned to growth and deliveries after a year when we were all greatly impacted by the global pandemic. We noticed positive market signals already at the end of 2020 and that trend continued in 2021, despite the significant challenges that we faced in our supply chain. It turned out to be a record year in terms of order intake, sales and operating profit.

With new, and above all rapidly changing, conditions occurring both locally and globally, it is becoming increasingly important to have control over the value chain. Furthermore, many industrial companies have taken note of the growing trend of digitalization through automation and robotics and have integrated this into their strategies for not only increasing their own robustness, but also lowering their environmental impact. HMS and our offering meet that very need and we have obtained a strong market position via both new and existing customer contacts.

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. One of the Board meetings is specifically focused on strategy, although strategic aspects of the business are continuously addressed because experience has shown that quick decisions and agility are crucial when it comes to dealing with fluctuations in both directions. In our results for 2021, we can now see the benefits from our streamlining efforts that began at the end of 2019, along with the new strategy adopted in 2020. We are also well on our way to achieving the 2025 goals.

The work of the Board of functions very well and we have a good balance of different skills and experiences. During the year, a Board

evaluation was performed 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 functions 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 during our journey to achieve 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 AGM elects the Board of Directors, the Chairman of the Board and the auditors. It also decides how the nomination committee with be elected. The Board is responsible to the shareholders for the organization of the Group and the administration of the Group's affairs. The auditors report their findings at the Annual General Meeting.

## SHAREHOLDERS AND AGM

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

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

ation 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 calendar days before the day of the AGM) and who have applied, have the right to attend. Each share entitles the shareholder to one vote. Notice of the AGM must be issued no earlier than six weeks and no later than four weeks in advance by advertising in Dagens Industri and the Swedish Gazette.

## ANNUAL GENERAL MEETING 2021

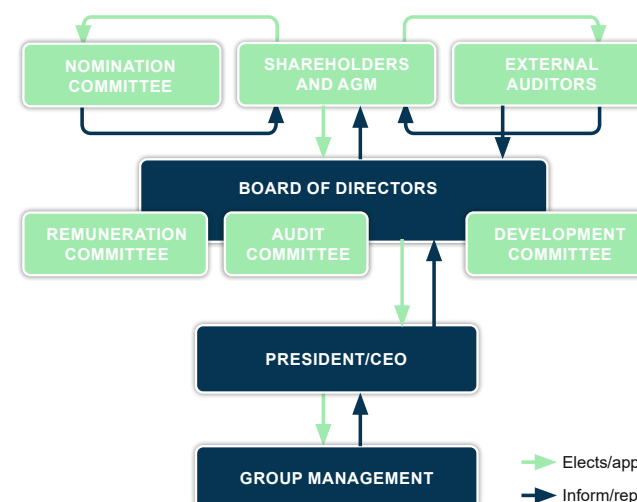
The AGM was held on 23 April 2021. Because of the ongoing pandemic and to lower the risk of a spread of infection, the AGM was only conducted via postal voting, in accordance with the Swedish Act on Temporary Exemptions to Facilitate the

Execution of General Meetings in Companies and Associations. Shareholders representing approximately 76% (67%) of the number of shares and votes participated in the AGM. The Chairman of the Board, Charlotte Brogren and CEO Staffan Dahlström were present at the AGM. Shareholders at the AGM decided:

- to pay dividends to SEK 2.00 (-) per share, corresponding to a paid dividend of SEK 93,323 (-) thousand.
- that the Board of Directors shall consist of six Board Members elected at the AGM, without Deputies.
- to re-elect Charlotte Brogren as Chairman of the Board and to re-elect Anders Mörrck,

Fredrik Hansson, Cecilia Wachtmeister, Ulf Södergren and Niklas Edling as Directors.

- that remuneration to the Board would be SEK 1,875 thousand for the next term, of which SEK 625 thousand to the Chairman of the Board and SEK 250 thousand to each of the other AGM-elected Board members.
- that remuneration for work in the audit committee would be SEK 100 for the Chairman of the committee and SEK 50 thousand for each of the other members
- the election of Öhrlings PricewaterhouseCoopers AB (PwC) as auditor, with Johan Palmgren, Authorized Public Accountant, in charge



→ Elects/appoints  
→ Inform/report



## CORPORATE GOVERNANCE

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

### NOMINATION COMMITTEE

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

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

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

The nomination committee appoints one of

### NOMINATION COMMITTEE FOR THE AGM 2022

Name/representing	Share of votes 2021-08-31
Johan Menckel, Investment AB Latour (publ)	26%
Staffan Dahlström, own holdings	13%
Patrik Jönsson, SEB Fonder	9%
Tomas Risbecker, AMF Fonder	7%
Charlotte Brogren, Chairman of the Board	<1%

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 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 had 29% (25%) women serving on it during the year. Of the total number of Board members elected 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 2021 AGM, shareholders elected Öhrlings PricewaterhouseCoopers AB (PwC) as the audit firm, with Authorized Public Accountant Johan Palmgren 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. The advisory is performed with impartiality and independence.

In 2021 total remuneration paid to PwC amounted to SEK 1,883 (1,729) thousand. Further information regarding auditors' remuneration is available in Note 7.

### AUDITOR



**Johan Palmgren**  
*Authorized Public Accountant*  
 Senior Auditor for HMS Networks AB since 2021.  
*Education:* M.Sc. in Business and Economics, Authorized Public Accountant since 2004.  
*Assignment:* Also serves as Senior Auditor for Bulten AB (publ), Troax Group AB (publ) and Transtema Group AB (publ)  
 Born: 1974

### BOARD OF DIRECTORS

The Board is responsible for how the company is organized and for administration of the company's affairs on behalf of the owners. The Board assesses the company's financial situation on an ongoing basis and makes sure that it is organized such that there are adequate controls on its bookkeeping, fund management and other

financial matters. The Board sets policies and instructions for how this is to be achieved. It also adopts rules of procedure for the Board and instructions for the CEO. These central governance documents specify how responsibilities and authority are allocated between the Board and its committees, as well as between the Chairman of the Board and the CEO. The Board appoints the CEO. The Chairman is responsible for evaluating the work of the Board and providing the nomination committee with the results of that evaluation.

### BASIS FOR BOARD WORK

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

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

Evaluation of the work done by the Board occurs continually, in part on its overall efforts and in part on the contribution made by each individual member. The purpose is to ensure that the HMS Board of Directors has the right structure in terms of its expertise and dedication. Each year, the work done by the Board is

evaluated by having every member of the Board answer a number of questions, which the Chairman then compiles and presents to the Board. This evaluation, which is also distributed to the nomination committee, is important for ensuring that the work done by the Board is effective.

## BOARD STRUCTURE

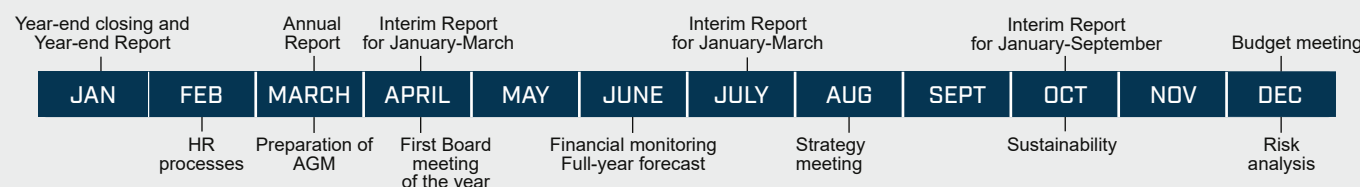
The Board consists of six members elected by the AGM and one employee representative and one employee deputy. The AGM-elected Board members have extensive professional experience and are, or have at some time, been CEOs and/or senior executives in large companies and many are also Board members in large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

The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control 10% or more of the shares or voting rights in the company. The nomination committee has, during a joint assessment of each member's relationship to the company, Group management and 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 48-49.

The total amount of fees paid to the Board in 2021 was SEK 2,025 (1,775) thousand. For a more detailed description of Board members'

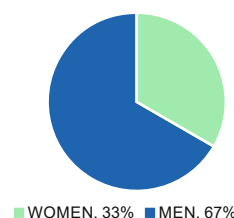


**Board work follows a structure that includes certain standing items, mainly in accordance with the following plan:**



attendance at meetings, please see Note 9.

**GENDER DISTRIBUTION FOR THE AGM-ELECTED BOARD MEMBERS**



## DIVERSITY POLICY

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

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

## CHAIRMAN OF THE BOARD

The Board's rules of procedure stipulate that the Chairman must ensure that the Board's work is run effectively and that the Board meets its obligations. This includes organizing and leading the Board's efforts and creating the best possible conditions for meeting its responsibilities. It is also the duty of the Chairman to ensure that

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

At the AGM on 23 April 2021 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 2021

Since the AGM of 23 April 2021, the Board has held 10 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 21 April



## CORPORATE GOVERNANCE

**REMUNERATION TO GROUP MANAGEMENT 2021, SEK THOUSANDS**

	Basic salary	Variable remuneration	Pension costs	Share-related remuneration	Total
CEO	3,603	1,646	1,169	261	6,679
Group management, other (5 individuals)	8,077	2,781	2,494	207	13,559
<b>Total</b>	<b>10,680</b>	<b>4,427</b>	<b>3,664</b>	<b>469</b>	<b>20,238</b>

2022. 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 internal controls, risk management systems and the external auditors' impartiality and independence.

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

The audit committee consists of two Board members appointed by the Board (Anders Mörrck and Fredrik Hansson). Anders Mörrck 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 is led by the CEO and for the first four months of 2021, it had five other members, listed here: Chief Financial Officer, Chief Technical Officer, Chief Commercial Officer, Chief Marketing Officer and Chief Product Officer. For the last eight months of 2021, the Group management team had five members in total. For additional information about the Group management team, please see page 50.

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 2021, the total remuneration (including pension provisions) to the CEO amounted to SEK 6,679 (5,763) thousand. For more information about remuneration to the CEO and Group management team, see Note 9.

# 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. As before, there is a global program in place for raising employee knowledge of information security. The goal is for them to gain a better understanding of the risks associated with information security, along with the operational, reputation 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.

## 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 20. Through quantitative and qualitative risk analyses based on the Group's balance sheet and income statement, HMS identifies the key risks that could pose a threat to the company achieving its business objectives and financial targets. Risk assessment involves identifying the risks that could arise if the fundamental requirements on financial reporting (completeness, accuracy, valuation and presentation) by the Group are not fulfilled.

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

## CONTROL ACTIVITIES

Control activities mitigate the identified risks and ensure that financial reporting is both correct and reliable and that processes are efficient.



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



## CORPORATE GOVERNANCE

The control activities include both the overall and specific controls and they aim to prevent, discover and correct inaccuracies and deviation.

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

The Group function regularly performs reconciliations and controls of the reported amounts, analyzing such things as the income statements and balance sheets, cash flows 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 control

function also performs control activities at all levels of the company.

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.

There is a Group-wide internal control program for significant processes that has been implemented in the Group's larger companies. Acquired companies are introduced into the program gradually. The internal control program covers significant process and is aimed at ensuring that suitable controls have been designed and implemented to prevent errors from occur-

ring in the financial reporting. The Group's larger reporting units also regularly perform self-evaluations on the effectiveness of the internal control over financial reporting. Those evaluations are sent to the Group function, which compiles the results for the audit committee, which then make decisions on any action to take along with regular follow-up.

### 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 control-



lers. 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 interim 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 central Group function carries out detailed monthly analyses of financial reports.

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

The audit committee follows up the financial reports and receives information from the company's auditor about their findings and recommendations. Checks on how well internal control activities are working are regularly performed at various levels within the Group and reported back to the Group by the audit committee. In

view of the scope of the business and the existing internal control program, 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, 22 March 2022

Charlotte Brogren Chairman of the Board	Fredrik Hansson Board member
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Niklas Edling Board member	Anders Mörck Board member
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Ulf Södergren Board member	Cecilia Wachtmeister Board member
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Mikael Mårtensson  
Employee representative

## 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 2021 Corporate Governance Report on pages 41-47 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 RevR 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, 22 March 2022  
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren  
Authorised 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.	CEO at ScandiNova Systems AB.	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	Stockholm	Gothenburg
<b>Other posts</b>	Chairman of the board at Avassa AB. Board member at OrganoClick AB and SEEL 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 memeber at Cavotec SA (publ).	Chairman of the Board at Troax Group AB. Board memeber at Bemsig AB, Latour Industries AB, Swegon Group AB, Hultafors Group AB and Nord-Lock international 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.	Sr VP Corporate Development and Vice president at Mycronic AB (publ), 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 Ernst & Young (now EY).
<b>Shareholding <sup>1</sup> (own and related parties)</b>	5,500	2,400	5,000	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%	100%	100%	100%
<b>Remuneration 2021 <sup>2</sup></b>	625,000	300,000	250,000	350,000

<sup>1</sup> Pertains to holding as of December 31, 2021, including shares from Share Savings Plans.

<sup>2</sup> Pertains to the period between AGM 2021 and AGM 2022.





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 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%
250,000



CECILIA WACHTMEISTER

Board member
Several years of complex system sales in the telecommunication industry.
Chief Commercial Officer at Kambi Plc.
M.Sc. in Industrial Engineering from The Institute of Technology at Linköping University.
2018
1966
Stockholm
Board member at Smart Eye AB (publ) and IAR Sytems.
Independent from the company and its main owners.
Several years of experience in leading positions at Ericsson AB.
3,000
X
100%
250,000



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.
21,774
100%
0



FREDDY DAHLBERG

Employee representative (deputy)
Employee of HMS.
Product Manager Energy at HMS.
Product management at a Product Management Institute.
2021
1987
Halmstad
None
Employee of HMS.
More than 10 years of experience in sales and business development, of which the last 3 years in business development of HMS' Ixxat brand with a focus on communication in energy.
211
100%
0

## GOVERNANCE – GROUP MANAGEMENT

# Group management



STAFFAN DAHLSTRÖM



ANDERS HANSSON



HANS LARSSON



JOAKIM NIDEBORN



JÖRGEN PALMHAGER

Current position	Chief Executive Officer - CEO	Chief Marketing Officer - CMO	Chief Commercial Officer - CCO	Chief Financial Officer - CFO	Chief Technology Officer - CTO	
Education	Degree in Computer Systems Engineering from Halmstad University and Executive MBA from Lund University, School of Economics and Management.	M.Sc. in Industrial Management and Economics from Halmstad University. B.Sc. in Innovation Engineering from Halmstad University.	B.Sc. in Innovation Engineering from Halmstad University.	M.Sc. in Industrial Economics from Lund Institute of Technology.	B.Sc. in Computer Systems Engineering from Halmstad University.	
Born in	1967	1968	1970	1983	1968	
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish	
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.	Board member of Allgon AB	
Previous experience	Sales and Marketing Manager at HMS.	Previous positions at HMS: Global Marketing Director, Head of HMS Global Key Account Management Team, Global Key Account Manager, Sales and Marketing Manager for HMS in France, Benelux, Spain and Portugal, Product Manager.	Vice President Life Science at Getinge AB, General Manager Sweden at GEA Food Solutions A/S.	CFO at Beijer Electronics Group AB, Management and Strategy Consultant at Axholmen Consulting and Celerant Consulting.	Developer, Project Manager, Development Manager and COO at HMS.	
Shareholding <sup>1</sup> (own and related parties)	6,098,090	11,875	1,811	698	190,062	
Employed since	1989	2000	2017	2017	1992	
Member of Group management team since:	2007	2010	2017	2017	2007	

<sup>1</sup> Pertains to holding as of December 31, 2021, 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**

Information and Security Director

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


**ERGIO RESENDIZ**

General Manager, Market Unit Americas

M.A. General Management, Harvard University, Cambridge, USA. B.S. Mechanical Engineering, Oral Roberts University, Tulsa, USA.

1982

Mexican

None

President and SVP, Americas, Leuze Inc.; VP Sales, Americas and Global Strategic Accounts, Belden; Regional Sales Direction US East and LATAM, Belden; Regional Sales Manager, Southeast, Belden

2021


**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, Business Unit Anybus

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

1980

Swedish

None

Export manager 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

2010



# Financial definitions

## Adjusted profit

Profit exclusive items affecting comparability.

## Average number of outstanding shares

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

## CAGR

Compound annual growth rate.

## Capital employed

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

## 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.

## 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.

## EBIT

Operating income according to income statement.

## EBIT EXCL ACQUISITION-RELATED COSTS

Operating income excluding amortization and impairment of acquired overvalues and goodwill as well as acquisition-related transaction costs.

## EBITDA

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

## Enterprise value

Market capitalization and net debt.

## 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.

## Equity/assets ratio

Shareholders' equity as a percentage of total assets.

## Financial assets

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

## Gross margin

Gross profit as a percentage of net sales.

## Net debt

Long- and short-term interest-bearing financial liabilities, additional purchase price and option liability, reduced with financial interest-bearing assets and cash and cash equivalents.

## Net debt /equity ratio

Net debt in relation to Shareholders' equity.

## No. of outstanding shares

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

## Operating margin

Operating profit as a percentage of net sales.

## Organic change

Change in order intake, net sales and operating expenses excluding increase attributable to acquisitions, converted to the previous year's exchange rates and calculated as a percentage of the previous year's figures. Amounts from acquired companies are included in the calculation of organic change from the first turn of

the month, which falls 12 months after the acquisition date.

## P/E Ratio

Market price as a percentage of earnings per share.

## Return on capital employed

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

## Return on shareholders' equity

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

## Working capital

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

# Glossary

**APAC** - Asia and Oceania.

**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.

**EMEA** - Europe, Middle East and Africa.

**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 within the areas Sustainability, Staff and Customers as well as Growth and 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 π (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 until 2021. With continued growth, dedicated gross margins improvement and a higher degree of digitalization in the business, we are convinced that we will continue to perform in relation to the profitability target.

## HOW LARGE IS HMS'S 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 three main niches – Industrial communication, solutions for remote access and network monitoring of industrial equipment and networks. 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 represents 65% of HMS' sales and is expected to grow by 5-7% annually over the next five years based on information in various industry reports and HMS knowledge of this market. About 25% 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 – 15% per year over the next five years. Finally, the market for Network Monitoring, representing 10% of HMS' sales is expected to grow by about 10% per year.

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

HMS is primarily aimed at two types of customers. "Makers" is our expression for manufacturers of automation devices 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 THE HMS ACQUISITION STRATEGY?

A basic principle is that HMS focuses on acquiring prosperous companies that complement the existing operations well, where HMS can add value as an owner. These can be independent acquisitions, as well as bolt-on acquisitions to our existing business operations. A high 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 in selected industry segments and in integrated software solutions.

## 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 large multinational industrial companies. The strong position in the industry is confirmed by the fact that HMS currently has 1,790 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.

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## DIRECTORS' REPORT

# Directors' report

## THE 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 also offers products and services for network diagnostics and troubleshooting via Procentec, software solutions for displaying data from industrial applications in an intuitive interface via WEBfactory and solutions for wireless communications to enable remote monitoring and control of mobile machinery via Owasys. 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 as well as in Ravensburg, Wetzlar and Buchen (Germany), Nivelles (Belgium), Igualada and Bilbao (Spain) and Delft (the Netherlands). Local sales and support are managed by our sales offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, Netherlands, India, United Kingdom, 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 750 employees and sales in 2021 were SEK 1,972 million. HMS is listed on the NASDAQ-OMX in Stockholm in the Large Cap, Information Technology category.

### Seasonality

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

### Significant events

To a large extent, 2021 was a year of post-pandemic recovery in all markets, along with higher interest in connecting devices. HMS ended the year with growth at record levels. Order intake for the year was 2,538 (1,447) million, which is an increase of 75% (-2%) and record sales of SEK 1,972 (1,467) million, which is an increase of 34% (-3%), of which 26% is organic growth.

It was also a year of great uncertainty and supply chain problems, with shortages in semiconductor components, especially processors. The company's delivery capacity has, to some extent, been dependent on the availability of components, but the acceptance of

longer lead times and increased prices has been relatively good among customers as the situation has been the same for the entire industry.

On 1 July 2021, 60% of the Spanish company Owasys Advanced Wireless Devices S.L., with 20 employees and headquarter in Bilbao, was acquired. Owasys offers wireless embedded communication platforms to enable remote monitoring and control of various types of utility vehicles and mobile machines. The acquisition has enabled HMS to enter this new vertical.

During the fourth quarter of 2021, HMS acquired a minority position in the Swedish company, Connectitude AB and a collaboration project has started up to use Connectitude's software together with the HMS Ewon brand.

In 2021, HMS put a great deal of focus on structuring and organizing the work with sustainability, which is one of the company's three focus areas in the strategy for 2025, where the goal is to be net positive with CO<sub>2</sub> emissions by then.

There was progress and growth in all of the geographic markets during the year. The strongest growth, 39% (-8%) occurred in EMEA (Europe, Middle East and Africa), which was primarily driven by Continental Europe, where there was strong post-pandemic market recovery and a high rate of investment during the year.

In terms of the products, all four brands, Anybus, Ixxat, Ewon and Intesis, had good growth compared to last year. The performance was also good for our most recent acquisitions, Procentec and Owasys, which ended the year strong.

There was also a continued steady inflow of Design-Wins in 2021. In total, there were 174 (165) new Design-Wins during the year, which brings the total number of active Design-Wins to 1,790 (1,820). Of these Design-Wins, 1,447 (1,418) are in production and 343 (402) are expected to enter production in the coming years.

On 23 April 2021, 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 Mörck, Cecilia Wachtmeister, Ulf Södergren and Niklas Edling were re-elected as Directors.

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

On 31 December 2020, the Share Savings Plan from 2017 was concluded and in 2021, a total of 47,345 shares, of which 17,973 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, 56,841 shares were acquired for a value of SEK 19 million and subsequent to year-end, 74,159 shares for a value of SEK 34 million were acquired. The total holding of own shares after acquisition was 238,571.

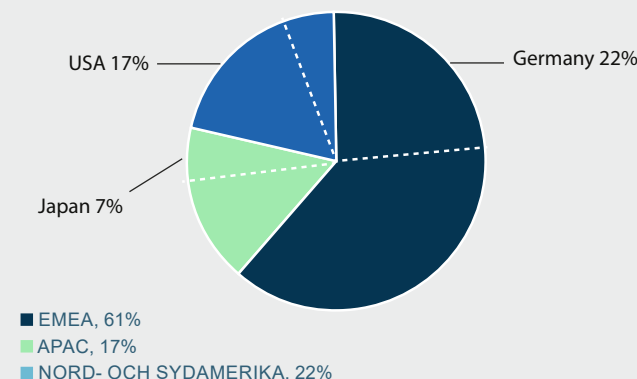
### Significant events subsequent to year-end

HMS Networks AB was moved to the Nasdaq Large Cap list as of 3 January 2022. Joakim Nideborn, the current CFO, was appointed CFO and Deputy CEO. Alexander Hess, the current General Manager of HMS' Business Unit Ixxat, was also appointed Vice President Information Centric and will be part of HMS' Group Management in 2022. No other significant events have occurred subsequent to the end of the period, but prior to the signing of this annual report.

### Net sales

The Group's net sales increased by 34% and amounted to SEK 1,972 (1,467) million. Exchange rate fluctuations during the year negatively impacted net sales by SEK 75 million (last year, negative impact of SEK 19 million). Invoiced sales by region were as follows:

### HMS Group's revenue distribution by market in 2021



EMEA (Europe, Middle East and Africa) 61% (59%), North and South America 22% (23%) and APAC 17% (18%). The Group's largest markets are Germany, USA and Japan.

### Profit (loss)

Gross profit amounted to SEK 1,230 (909) million with a gross margin of 62.4% (62.0%). During the second half of the year, there was a negative impact on the gross margin from higher costs of input goods and the need for component supply in the spot market.

Operating expenses amounted to SEK 787 (633) million. Organically, operating expenses increased by 19%, corresponding to SEK 120 million, primarily attributable to more activity and initiatives with sales and marketing.

Operating profit before depreciation/amortization and impairment (EBITDA) amounted to SEK 548 (401) million, which corresponds to an operating margin of 27.8% (27.4%). Depreciation/amortization and impairment amounted to SEK 102 (113) million. Operating profit amounted to SEK 446 (288) million, corresponding to a margin of 22.6% (19.6%). Currency translation impacted operating profit by SEK -31 (-8) million.

Net financial items were SEK 3 (-14) million and the profit before tax was SEK 448 (274) million. The reported tax expense was SEK

-86 (-54) million. Profit after tax thus amounted to SEK 362 (220) million.

### Investments

The year's investments in property, plant and equipment, along with intangible assets, amounted to SEK 39 (48) 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 24 (29) million.

The acquisition of new subsidiaries, Owasys in particular, had an impact on investing activities by SEK 45 (40) million. Investments in financial assets for there year were SEK 16 (-) million, of which SEK 15 million was the investment to acquire a minority position in Connectitude AB.

### Financial position

As of 31 December 2021, the Group had cash and cash equivalents of 172 (82) million, excluding unutilized credit facilities of SEK 490 (311) million. The Group's net debt amounted to SEK 347 (198) million and net debt in relation to EBITDA was 0.63 (0.49). The net debt to equity ratio was 30% (16%) and the equity to assets ratio was 53% (67%). As of 2021, the anticipated exercise price of options related to the remaining shares in Procentec B.V. and Owasys S.L., totaling SEK 391 (-) million is included in net debt.

During the year, the financing agreement with the existing bank was extended on similar terms. It concerns a revolving facility of EUR 45 million that runs until September 2024.

In total, amortization of the Group's external loans was SEK 174 (206) million and amortization of lease liability was SEK 36 (35) million. Repurchase of shares occurred for SEK 19 (6) million. Dividends of SEK 93 (-) million were paid to shareholders.

Cash flow from operating activities amounted to SEK 508 (370) million. After net investments of SEK -100 (-88) million and amortization, dividends paid, and repurchase of shares totaling SEK -321 (-247) million, the cash flow for the year amounted to SEK 87 (36) million.

### Group structure

HMS Networks AB (publ), CIN 556661- 8954, is the Parent Company of the wholly-owned subsidiary, HMS Industrial Networks AB, which, in turn is the Parent Company of several subsidiaries, see Note 36.

During the year, 60% of the Spanish company, Owasys Advanced Wireless Devices S.L. was acquired, along with a minority position in the Swedish company, Connectitude AB. A subsidiary was also started up in Singapore, responsible for sales, marketing and support in this geographic market.

HMS Industrial Networks AB, HMS Technology Center Ravensburg GmbH, HMS Technology Center Wetzlar GmbH, HMS Industrial Networks SA, HMS Industrial Networks SLU, WEBfactory GmbH, Procentec B.V. and Owasys Advanced Wireless Devices S.L 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 HMS Sustainability Report describes the Group's work based on economic, environmental and social aspects. The report has been prepared in accordance with the Global Reporting Initiatives' (GRI) Sustainability Reporting Standards and in accordance with the requirements of the Annual Accounts Act.

The sustainability report covers the parent company HMS Networks AB (CIN 556661-8954) and all units that are consolidated in the consolidated financial statements for HMS Networks AB 2021, which stated in note 38 in the consolidated financial statements. Due to availability in information and data are delimitations in companies covered made in some of the reported information. Delimitations are described in the GRI appendix to the sustainability report, pages 116-130.

The sustainability report in accordance with the requirements of the Annual Accounts Act can be found in the following sections:

- Strategy and business model, pages 3, 6-11, 30-31
- Policies, evaluations and results pages 32-37, 117, 121-126
- Material risks and risk management, pages 119-120
- Priority key figures, pages 30-37, 121-126
- Reporting of EU Taxonomy Regulation, page 126

## Summary of performance

	2021	2020
Net sales, SEK m	1972	1467
Operating income before depreciation (EBITDA), SEK m	548	401
Operating margin before depreciation (EBITDA), %	28	27
Operating income after depreciation (EBIT), SEK m	446	288
Operating margin after depreciation (EBIT), %	23	20
Profit after financial items, SEK m	448	274
Profit (loss) for the year, SEK m	362	220
Earnings per share, basic, SEK	7.61	4.79
Earnings per share, diluted, SEK	7.57	4.77

## DIRECTORS' REPORT

**Research and development**

The Group expensed SEK 235 (180) million for research and development during the year. In addition, capitalized development costs were SEK 23 (41) million, of which SEK 13 (-) million via acquisitions. Total costs for research and development expenses make up 12% (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. 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 751 (693).

**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 AGM on 23 April 2021. 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 ICT (Information and Communication Technology). HMS's industrial communication products enable millions of devices, such as robots, frequency converters and air conditioning equipment to be connected to various types of systems, which is necessary for meeting future requirements on energy efficiency and sustainability. 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, 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 execu-

tive's long-term development at HMS. The measurement period for goals on variable cash compensation can be one or several years.

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

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

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

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

*Determining the outcome of variable cash compensation etc.*

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



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

#### *Termination of employment*

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

It shall be possible for senior executives to obtain compensation for a non-compete clause that they have signed after termination of their employment. However, this is only allowed if severance pay has simultaneously been awarded during that same period. Such remuneration shall be aimed at compensating the senior executive for the difference between the fixed cash salary at the date of termination and the (lower) income that is received via a new employment contract, assignment or own pursuits. The compensation may be paid during the period of time that the non-compete clause is in effect. The maximum period of time that it may be paid, however, is for 12 months subsequent to the termination of employment. For more information on remuneration to senior executives, please see Note 9.

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

#### *Deviation from the guidelines*

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

#### **Risks and uncertainty factors**

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

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

##### *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, pandemics 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.

##### *c) Geopolitical risks*

HMS closely monitors events that may have a negative impact the macroeconomic or geopolitical factors affecting the company's markets. The past year the political instability has increased due to events such as the war in Ukraine which can lead to economic downturn, affect access to markets and involve changed customer behaviors with a negative impact on the group's net sales.

##### ***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. There could also be risks associated with the delivery capacity of HMS suppliers due to shortages, geopolitical disruptions or conflicts. Price changes and lead times on components could also 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

## DIRECTORS' REPORT

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 individuals in the future. Going forward, if HMS is less successful in recruiting and retaining highly qualified managers and other skilled employees, it could find it difficult to maintain and further develop the business.

#### d) Cybersecurity and IT infrastructure

The operations in many of HMS's business processes depend on reliable IT systems and infrastructure. Production, logistics and sales are just some examples. Risks linked to cybersecurity are on the rise and could have a significant negative impact on the Group's operations, reputation, profitability and financial position. HMS has a global IT security policy and strives to identify and monitor vulnerabilities and take appropriate action to avoid, prevent or mitigate their effects. Evaluation of HMS's protection takes place both through internal controls and through tests performed by external partners. Having an awareness of the risks of cybersecurity increases the readiness to respond quickly to an attack.

#### e) Acquisitions

In the future, HMS will be making new acquisitions, along with possibly divesting or discontinuing certain operations and/or companies. All such transactions are associated with uncertainties and

risks. A thorough valuation is carried out prior to a transaction in order to reduce risks and avoid inaccurate price setting for acquisitions. However, that is not always sufficient to ensure success or minimize the associated risks.

#### f) 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.

#### g) Product safety

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

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

can also be difficult.

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

#### Legal risks

##### 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 20.

#### 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 is reported in either Other operating income or Other operating expenses. Settlement of any hedging contracts is reported gross in the income statement. Any value change pertaining to hedging of net investments is reported in other comprehensive income. Changes in the value of other balance sheet items in foreign currency, such as cash and cash equivalents, are reported in net financial items. Operating income and expenses are also affected by changes in exchange rates. These changes have a direct impact on income and expense items.

The currency composition of operating income is approximately 64% in EUR, 21% in USD, 7% in JPY and 8% in other currencies. The currency composition of cost of goods sold is 53% in EUR, 24% in USD and 23% in other currencies. The currency composition of operating expenses is approximately 47% in EUR, 10% in USD, 3% in JPY and 40% in other currencies.

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

#### Future outlook

Demand is expected to continue at a high level and essentially all HMS customer groups have strong underlying businesses, which is expected to continue in the quarters ahead. The global shortage of semiconductor components is still affecting the company, which has resulted in higher purchase prices for certain input components and longer delivery times for several products. Although some deliveries may need to be delayed until the next quarter(s), the company does not expect that it will result in an appreciable risk of lost business.

There is currently great uncertainty about the situation in Ukraine and HMS closely follows the development in the area. The direct risk related to the company's business is currently assessed as relatively

low as only approx 0.5% of the company's net sales are related to Russia and Belarus. The long-term consequences of the uncertain geopolitical situation are difficult to assess right now.

The Group's long-term growth is supported by a continued inflow of Design Wins, a wider product offering, particularly in the area of Industrial ICT, supplementary technology platforms from prior acquisitions that have been made and an expansion of HMS's sales channels, in accordance with the established strategy.

#### HMS stock

HMS Networks AB (publ) is listed on the NASDAQ OMX Stockholm Large Cap list, in the Information Technology sector. On average, 43,953 (56,603) shares were traded each day. The shares' volume-weighted average price in 2021 was SEK 401.97 (173.62). The total number of shares was at the time of completion of this annual report 46,818,868, of which 176,320 are held in treasury allotment for the 2018 share savings program. 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	192,473
Profit for the year	422,495
<b>SEK 000s</b>	<b>614,968</b>

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

Distributing dividends to shareholders of SEK 3.00/share*	139,928
Carried forward	475,040
<b>SEK 000s</b>	<b>614,968</b>

\* The dividend is calculated on the total number of outstanding shares as of 2022-03-22.

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



## THE GROUP

# Consolidated income statement

SEK 000s	Note	2021	2020
Net sales	4	1,971,725	1,466,822
Cost of goods and services sold		-741,401	-558,058
<b>GROSS PROFIT</b>		<b>1,230,324</b>	<b>908,763</b>
Selling expenses		-372,157	-312,031
Administrative expenses		-174,187	-122,860
Research and development expenses		-234,846	-179,793
Other operating income	5	2,135	11,592
Other operating expenses	5	-5,656	-17,933
<b>OPERATING PROFIT</b>	6, 7, 8, 9, 10	<b>445,613</b>	<b>287,739</b>
Financial income	11	11,252	1,804
Financial expenses	12	-8,277	-15,623
<b>Net financial items</b>		<b>2,975</b>	<b>-13,819</b>
Share of the profit after tax from associates	32	-140	-
<b>PROFIT BEFORE TAX</b>		<b>448,448</b>	<b>273,920</b>
Income tax	13	-86,022	-53,507
<b>PROFIT FOR THE YEAR</b>		<b>362,426</b>	<b>220,414</b>
Profit attributable to:			
HMS Network AB's shareholders		354,853	223,488
Non-controlling interests		7,574	-3,074
<b>Total</b>		<b>362,426</b>	<b>220,414</b>
Earnings per share, basic, SEK <sup>1</sup>	14	7.61	4.79
Earnings per share, diluted, SEK <sup>1</sup>	14	7.57	4.77
Average number of shares, basic, 000s	14	46,660	46,654
Average number of shares, diluted, 000s	14	46,859	46,832
Paid dividends per share, SEK	15	2.00	-

<sup>1</sup> Dividends paid to the Parent Company's shareholders

# Consolidated statement of comprehensive income

SEK 000s	Note	2021	2020
Profit for the year		362,426	220,414
<b>Other comprehensive income:</b>			
<b>Items that can later be reclassified to profit and loss</b>			
Cash flow hedges		-28,090	18,400
Hedging of net investments		-3,103	11,812
Exchange differences arising from translation of foreign operations		19,432	-36,985
Income tax attributable to the items above	13	6,426	-6,224
<b>Other comprehensive income for the year, after tax</b>		<b>-5,335</b>	<b>-12,996</b>
<b>Total comprehensive income for the year</b>		<b>357,091</b>	<b>207,417</b>
Total comprehensive income for the year attributable to:			
HMS Network AB's shareholders		349,517	210,491
Non-controlling interests		7,574	-3074
<b>Total</b>		<b>357,091</b>	<b>207,417</b>

# Consolidated balance sheet

SEK 000s	Note	2021-12-31	2020-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>	16		
Capitalized development work		127,515	129,968
Goodwill		1,034,165	901,969
Customer relations and technology platforms		56,002	52,823
Brands		96,029	95,589
Other intangible assets		1,162	-
<b>Total intangible assets</b>		<b>1,314,873</b>	<b>1,180,349</b>
<b>Property, plant and equipment</b>			
Buildings and land	17	6,707	4,811
Plant and machinery		14,241	13,682
Equipment, installations and facilities		23,303	22,924
Construction-in-progress		614	570
Rights-of-use	17, 18	81,015	101,900
<b>Total property, plant and equipment</b>		<b>125,880</b>	<b>143,887</b>
<b>Financial assets</b>			
Participations in associated companies	32	14,860	-
Deferred tax asset	13	18,584	3,823
Other long-term receivables	20	12,252	10,641
<b>Total financial assets</b>		<b>45,696</b>	<b>14,464</b>
<b>Total non-current assets</b>		<b>1,486,449</b>	<b>1,338,700</b>

SEK 000s	Note	2021-12-31	2020-12-31
<b>Current assets</b>	20		
Inventories	21	195,184	157,775
Accounts receivable - trade	22	286,377	175,233
Current tax assets		21,536	12,876
Derivative instruments	23	553	21,230
Other receivables		22,371	20,516
Prepaid expenses and accrued income	24	18,996	18,093
Cash and cash equivalents	25	172,174	81,544
<b>Total current assets</b>		<b>717,191</b>	<b>487,267</b>
<b>TOTAL ASSETS</b>		<b>2,203,640</b>	<b>1,825,967</b>

## THE GROUP

# Cont. Consolidated balance sheet

SEK 000s	Note	2021-12-31	2020-12-31
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	26	1,170	1,170
Other contributed capital	26	218,318	218,318
Reserves	26	81,417	86,752
Retained earnings including profit for the year		876,229	897,518
Equity attributable to HMS Networks AB's shareholders		1,177,134	1,203,758
Non-controlling interests		-	16,730
<b>Total equity</b>		<b>1,177,134</b>	<b>1,220,488</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	27	13,165	177,279
Non interest-bearing liabilities	28	417,664	-
Lease liabilities	18	49,793	68,078
Derivative instruments	23	1,330	-
Deferred tax liability	13	83,849	80,378
<b>Total non-current liabilities</b>		<b>565,801</b>	<b>325,735</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	27	3,030	828
Non interest-bearing liabilities	28	7,426	-
Lease liabilities	18	28,364	33,863
Accounts payable - trade		164,638	90,979
Current tax liability		63,121	15,850
Derivative instruments	23	6,083	-
Other liabilities		40,532	42,088
Accrued expenses and deferred income	29	146,089	95,045
Other provisions	30	1,422	1,091
<b>Total current liabilities</b>		<b>460,705</b>	<b>279,744</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,203,640</b>	<b>1,825,967</b>



# Consolidated cash flow statement

SEK 000s	Note	2021	2020
<b>Cash flow from operating activities</b>			
Profit before tax		448,448	273,920
Adjustment for items not included in cash flow:			
Depreciation/amortization and impairment		102,328	113,364
Share Savings Plan	8	9,465	6,427
Unrealized exchange differences		1,340	13,653
Other provisions		-1,308	-9,759
Impairment of inventories		5,505	4,751
Settlement of contingent consideration	5	-	-10,469
Other non-cash items on the income statement		3,428	4,054
Income tax paid		-32,941	-39,278
<b>Cash flow from operating activities before changes in working capital</b>		<b>536,265</b>	<b>356,663</b>
<b>Change in working capital</b>			
Change in inventories		-28,959	20,081
Change in accounts receivables - trade		-92,511	-17,000
Change in other current receivables		2,669	1,680
Change in accounts payable - trade		57,490	-6,807
Change in other current liabilities		33,532	15,169
<b>Cash flow from operating activities</b>		<b>508,486</b>	<b>369,786</b>

SEK 000s	Note	2021	2020
<b>Investing activities</b>			
Investments in intangible assets	16	-24,143	-41,425
Investments in PPE	17	-15,041	-6,222
Investments in subsidiaries	31	-44,620	-39,954
Investments in associated companies	32	-15,000	-
Change in financial assets		-1,466	79
Sale of property, plant and equipment		234	-
<b>Cash flow from investing activities</b>		<b>-100,036</b>	<b>-87,522</b>
<b>Financing activities</b>	35		
Borrowings		25,939	-
Loan amortization		-199,730	-205,965
Amortization of lease liability	18	-35,681	-35,344
Repurchase of own shares		-18,813	-6,000
Dividends paid to the Parent Company's shareholders	15	-93,323	-
Change in other non interest-bearing liabilities		746	607
<b>Cash flow from financing activities</b>		<b>-320,862</b>	<b>-246,702</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>87,588</b>	<b>35,562</b>
Cash and cash equivalents at beginning of year	25	81,544	51,241
Exchange rate differences in cash and cash equivalents		3,042	-5,259
<b>Cash and cash equivalents at year-end</b>	25	<b>172,174</b>	<b>81,544</b>
<b>Interest paid and received</b>			
Interest paid		-3,481	-6,623
Interest received		44	9

## THE GROUP

# Consolidated statement of changes in equity

SEK 000s	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 1 January 2020</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	33	-	-	-	-5,620	-5,620	-7,799	-13,419
Holdings without a controlling influence that have arisen upon acquisition of subsidiaries		-	-	-	-	-	15,680	15,680
<b>Closing balance as of 31 December 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>
Total comprehensive income		-	-	-5,335	354,852	349,517	7,574	357,091
Costs for share-based remuneration		-	-	-	9,465	9,465	-	9,465
Repurchase of own shares		-	-	-	-18,813	-18,813	-	-18,813
Transactions with non-controlling interests	33	-	-	-	-273,471	-273,471	-24,304	-297,775
Dividend	15	-	-	-	-93,323	-93,323	-	-93,323
<b>Closing balance as of 31 December 2021</b>		<b>1,170</b>	<b>218,318</b>	<b>81,417</b>	<b>876,229</b>	<b>1,177,134</b>	<b>-</b>	<b>1,177,134</b>

## Parent company's income statement

SEK 000s	Note	2021	2020
Net sales	4	20,613	16,447
<b>GROSS PROFIT</b>		<b>20,613</b>	<b>16,447</b>
Administrative expenses	7, 8, 9,10	-20,613	-16,447
<b>OPERATING PROFIT</b>		<b>0</b>	<b>0</b>
Profit from participation in subsidiaries	34	422,672	28,967
Financial income		0	4,113
Financial expenses		-4	0
<b>Net financial items</b>		<b>422,668</b>	<b>33,100</b>
<b>PROFIT BEFORE TAX</b>		<b>422,668</b>	<b>33,100</b>
Income tax	13	-173	-1,178
<b>PROFIT FOR THE YEAR</b>		<b>422,495</b>	<b>31,922</b>



## PARENT COMPANY

# Parent company's balance sheet

SEK 000s	Note	2021-12-31	2020-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Financial assets</b>			
Participations in Group companies	36	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>			
Receivables from Group companies		308,817	-
Current tax assets		-	442
Other receivables		-	107
Prepaid expenses and accrued income	24	-	749
Cash and cash equivalents		2,318	1,525
<b>Total current assets</b>		<b>311,135</b>	<b>2,823</b>
<b>TOTAL ASSETS</b>		<b>648,459</b>	<b>340,147</b>

SEK 000s	Note	2021-12-31	2020-12-31
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		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>			
Retained earnings	15	94,924	174,840
Share premium reserve		97,549	97,549
Profit for the year		422,495	31,922
<b>Total non-restricted equity</b>		<b>614,968</b>	<b>304,311</b>
<b>Total equity</b>		<b>635,584</b>	<b>324,927</b>
<b>Current liabilities</b>			
Accounts payable - trade		184	525
Liabilities to Group companies		-	6,240
Current tax liability		30	921
Other liabilities		3,543	1,280
Accrued expenses and deferred income	29	9,118	6,253
<b>Total current liabilities</b>		<b>12,875</b>	<b>15,220</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>648,459</b>	<b>340,147</b>

## Parent company's cash flow statement

SEK 000s	Note	2021	2020
<b>Operating activities</b>			
Profit before tax		422,668	33,100
Adjustments for items that do not affect cash flow:			
Dividend received <sup>1</sup>		-422,672	-28,967
Share Savings Plan		298	251
Income tax paid		-622	-601
<b>Cash flow from operating activities before change in working capital</b>		<b>-328</b>	<b>3,782</b>
<b>Change in working capital</b>			
Change in other current receivables		14,711	124,055
Change in accounts payable - trade		-342	461
Change in other current liabilities		-1,112	-121,299
<b>Cash flow from operating activities</b>		<b>112,929</b>	<b>6,999</b>
<b>Financing activities</b>			
Repurchase of own shares		-18,813	-6,000
Dividend paid		-93,323	-
<b>Cash flow from financing activities</b>		<b>-112,136</b>	<b>-6,000</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>793</b>	<b>999</b>
Cash and cash equivalents at beginning of year		1,525	526
Cash and cash equivalents at year-end		2,318	1,525
<b>Interest paid and received</b>			
Interest paid		4	0
Interest received		0	546

<sup>1</sup> During 2021 the presentation of the row has changed and therefore also previous year

## Parent company's statement of changes in equity

SEK 000s	Note	Restricted equity		Non-restricted equity			Total
		Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit for the year	
<b>Opening balance on 1 January 2020</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 31 December 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>
<b>Opening balance as of 1 January 2021</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>
Transfer of profit (loss) from 2020		-	-	31,922	-	-31,922	-
Repurchase of own shares		-	-	-18,813	-	-	-18,813
Costs for share-based remuneration		-	-	298	-	-	298
Dividend							
Dividend (SEK 2.00 per share)	15	-	-	-93,323	-	-	-93,323
Profit for the year		-	-	-	-	422,495	422,495
<b>Closing balance as of 31 December 2021</b>		<b>1,170</b>	<b>19,446</b>	<b>94,924</b>	<b>97,549</b>	<b>422,495</b>	<b>635,584</b>

## NOTES

# Notes

All amounts in SEK thousands unless otherwise stated.

## Note 1 General information

The HMS Group is a market-leading supplier of Industrial Information and Communications Technology (Industrial ICT). HMS develops and manufactures products sold under the Anybus®, Ixxat®, Ewon® and Intesis® brands. Product development takes place at the head office in Halmstad as well as in Ravensburg, Wetzlar and Buchen (Germany), Nivelles (Belgium), Igualada and Bilbao (Spain) and Delft (the Netherlands). Local sales and support are managed by our sales offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, Netherlands, India, United Kingdom, 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 Large Cap, Information Technology category.

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on 22 March 2022.

## Note 2 Summary of important accounting policies

This note describes the important accounting policies that have been applied when preparing these consolidated financial statements, to the extent that they are not described in the notes that follow. However, most of the accounting policies that have been applied are detailed in each of the specific notes that follow. All of the accounting policies presented in this annual report 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.

#### 2.1.1 The Parent Company's accounting policies

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, with the exceptions accounted for below. The principles have been consistently applied for all presented years, unless otherwise stated.

The Parent Company's revenue 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 participation in subsidiaries.

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.

#### 2.1.2 New standards and amendments

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

The following standards and amendments have been applied for the first time by the Group for the financial year starting on 1 January 2021:

- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendment has not had any significant impact on the consolidated financial statements.

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

A number of new standards, amended standards and interpretations that have been published enter into force for financial years starting after 1 January 2021, but which have not been applied when preparing these financial statements. These new standards, amendments and interpretations are not expected to have a material impact on the Group's financial statements in current or future periods, nor on future transactions.

## 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 31).

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 adapted, 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) Associated companies

Associated companies are all the companies in which the Group has a significant but not controlling influence, which generally applies to shareholdings that comprise between 20 percent and 50 percent of the votes.

Holdings in associated companies are reported according to the equity method. According to this method, holdings in associated companies are initially reported in the consolidated balance sheet at the cost of acquisition. The carrying amount is thereafter increased



## CONT. NOTE 2 Accounting policies

or decreased so that it includes the share of the associated company's profit or loss after the acquisition date. The Group's share of associated companies' profit after tax is reported in the consolidated income statement as "Share of the profit after tax from associates". Dividends from associated companies are reported as a decrease in the investment's carrying amount.

When the Group's share of the losses in an associated company is equal to, or does not exceed, the holding in that associated company (including all non-current receivables that in reality are actually part of the Group's net investment in that associated company), the Group will not recognize any additional losses as long as the Group has not assumed obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's holdings in associated companies. Unrealized losses are also eliminated unless the transaction is an indication of impairment of the asset that has been transferred. The accounting policies for associated companies have been adjusted, where necessary, to ensure that they are consistent with the Group's accounting policies.

### c) Changes in the ownership share of a subsidiary without a change in controlling influence

Transactions with non-controlling interests that do not lead to loss of control are reported as equity transactions, i.e. as transactions with the owners in their role as owners. A change in ownership interest is reported via an adjustment to the carrying amount of the holdings with and without a controlling influence so that they reflect the changes in their relative holdings in the subsidiary. For acquisitions from holders 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 holders without a controlling influence are also reported in equity.

When there are options to acquire the remaining shares of a company and when they are likely to be utilized, those acquisitions will be reported as if they were wholly-owned, without minority. Instead, a financial liability is reported in the consolidated balance sheet corresponding to the discounted anticipated exercise price of these options. Doing so eliminates the share without controlling influence that is attributable to the option. The anticipated consideration for the remaining ownership share is reported as a financial

liability in accordance with the rules of IAS 32/IFRS 9 and any future value changes are reported in the consolidated income statement.

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.

If the ownership share in an associated company declines, but there is still a controlling influence, only a proportionate share of the amount that had previously been reported in other comprehensive income will be reclassified to profit or loss (in those cases where relevant).

### 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 sales of products and services are reported in the income statement as net sales. 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.

## NOTES

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.

### NOTE 3 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 are stated in the following notes:

- Recognition of deferred tax assets on loss carryforwards and tax credits - Note 13 Income tax and deferred tax
- Test of impairment for goodwill and capitalized development costs - Note 16 Intangible assets
- Recognition of liability for contingent consideration and options - Note 28 Non interest-bearing liabilities
- Inventory obsolescence - Note 21 Inventories

### NOTE 4 Revenue

The specific accounting policies for the Group's revenue from contracts with customers are explained below in Note 4.1.

Interest income is recognized using the effective interest method.

#### 4.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

##### Products

The Group develops and sells products and solutions for Industrial Information and Communication Technology (Industrial ICT) 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 HMS Group also offers products and services for network diagnostics and troubleshooting via Procentec, software solutions for displaying data from industrial applications in an intuitive interface via WEBfactory and solutions for wireless communications to enable remote monitoring and control

of mobile machinery via Owasys.

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.

##### Licenses

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

"Right to use" means that the customer is entitled to use an intellectual property right as designed at a certain point in time. "Right to access" means that the customer is entitled to use an intellectual property right as designed throughout the license period. To identify a license as "right to access" all of the 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 good or service.

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

##### 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.

##### Development services

The Group also sells development services associated with indus-

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

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

Most revenue from development services is recognized over time.

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

##### Categorization of revenue from contracts with customers

The Group sells products and services primarily in 10 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.

## CONT. NOTE 4 Revenue

Net sales per country	The Group		Parent Company	
	2021	2020	2021	2020
Germany	427,001	336,775	-	-
USA	345,122	270,392	-	-
Japan	139,263	129,996	-	-
France	124,364	100,845	-	-
China	113,382	86,575	-	-
Italy	106,368	71,161	-	-
The Netherlands	80,996	48,355	-	-
United Kingdom	79,407	52,299	-	-
Sweden	75,604	55,499	20,613	16,447
Spain	49,593	31,748	-	-
Other countries <sup>1</sup>	430,625	283,178	-	-
<b>Total</b>	<b>1,971,725</b>	<b>1,466,822</b>	<b>20,613</b>	<b>16,447</b>

<sup>1</sup> No single country accounts for more than SEK 50 thousands.

The Parent company's net sales amounted to SEK 20,613 (16,447) thousand, of which 100% were sales to Group companies. Purchases from Group companies amounted to SEK 0 (0) thousand.

No single 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	2021	2020
Anybus	913,400	797,404
Ewon	379,489	300,846
Ixxat	191,937	167,436
Intesis	133,378	114,333
Other <sup>1</sup>	353,520	86,803
<b>Total</b>	<b>1,971,724</b>	<b>1,466,822</b>

<sup>1</sup> The item Other also includes net sales from Procentec are included as of Q4 2020 and the net sales from Owasy as of Q3 2021.

**Contract assets and liabilities**

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

	31 December 2021	31 December 2020
Current contract assets attributable to development services.	3,465	2,562
Impairment reserve	-	-
<b>Total contract assets</b>	<b>3,465</b>	<b>2,562</b>
Contract liabilities – license and service agreements	13,759	11,886
<b>Total current contract liabilities</b>	<b>13,759</b>	<b>11,886</b>

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

*Remaining development agreements*

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

	31 December 2021	31 December 2020
The total amount of the transaction price that was allocated to development contracts that are unfulfilled or partially unfulfilled as of 31 December	3,652	8,424

Management expects that 100% of the transaction price that has been allocated to unfulfilled contracts as of 31 December 2021 will be recognized as revenue during the next financial year.

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.

**4.2 ACCOUNTING POLICIES**

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.

**4.3 ESTIMATES AND ASSESSMENTS**

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.



## NOTES

## NOTE 5 Other operating income and expenses

Other operating income	2021	2020
Settlement of contingent consideration <sup>1</sup>	-	10,469
Exchange rate differences	1,281	1,123
Other operating income	854	-
<b>Total</b>	<b>2,135</b>	<b>11,592</b>

Other operating expenses	2021	2020
Impairment of Goodwill <sup>1</sup>	-	-13,633
Exchange rate differences	-5,656	-4,300
<b>Total</b>	<b>-5,656</b>	<b>-17,933</b>

<sup>1</sup> Refers to WEBFactory GmbH

## NOTE 6 Categorization by type of cost

	2021	2020
Cost of purchasing and handling materials	619,996	434,601
Costs for remuneration to employees (Note 8)	613,574	513,308
Depreciation, amortization and impairment (Note 16, 17)	102,328	113,297
Marketing costs	21,453	17,535
Freight costs	12,307	8,351
Other external costs	175,897	127,075
Capitalized development costs (Note 16)	-22,964	-41,425
<b>Total costs for goods sold, sales administration, research and development</b>	<b>1,522,591</b>	<b>1,172,742</b>

## NOTE 7 Remuneration to auditors

Remuneration to auditors	The Group		Parent Company	
	2021	2020	2021	2020
<b>PwC</b>				
Audit assignment <sup>1</sup>	1,860	1,595	1,496	1,227
of which PwC Sweden	1,496	1,227	1,496	1,227
Audit activities other than the audit assignment	23	49	23	49
of which PwC Sweden	23	49	23	49
Tax advice	-	37	-	-
of which PwC Sweden	-	-	-	-
Other services	-	49	-	49
of which PwC Sweden	-	49	-	49
<b>Cabrera Auditors</b>				
Audit assignment <sup>1</sup>	140	222	-	-
<b>Total remuneration to auditors</b>	<b>2,023</b>	<b>1,952</b>	<b>1,519</b>	<b>1,324</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 8 Remuneration to employees

### ACCOUNTING POLICIES

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 regulated in full within 12 months after the end of the reporting period in which the employees perform the services that are eligible for compensation are reported as long-term liabilities.

### 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 2021, 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 allocation date. 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.

The 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.

	The Group		Parent Company	
	2021	2020	2021	2020
Salaries and other remuneration <sup>1</sup>	471,573	394,087	7,273	5,369
Social security contributions	112,906	95,443	2,569	2,177
Pension costs	29,095	23,778	1,169	2021
<b>Total</b>	<b>613,574</b>	<b>513,308</b>	<b>11,012</b>	<b>9,567</b>

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

	2021			2020		
	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	23,260	4,840	(1,408)	19,130	5,005	(2,195)
Other employees	448,313	137,161	(27,687)	374,957	114,065	(21,583)
<b>The Group, total</b>	<b>471,573</b>	<b>142,001</b>	<b>(29,095)</b>	<b>394,087</b>	<b>119,070</b>	<b>(23,778)</b>

Average no. of employees	2021		2020	
	Average no. employees	Of which men	Average no. employees	Of which men
Sweden	215	157	206	155
Germany	152	115	149	114
Belgium	66	54	55	47
Spain	66	51	55	39
The Netherlands	54	40	22	17
USA	47	36	47	37
Japan	20	16	20	15
Romania	16	10	18	13
China	13	8	13	10
Great Britain	11	8	9	7
India	7	6	7	7
Italy	7	4	4	3
France	5	5	5	5
Singapore	4	4	3	3
Czech Republic	1	1	1	1
<b>The Group, total</b>	<b>684</b>	<b>515</b>	<b>614</b>	<b>473</b>

## NOTES

## CONT. NOTE 8 Remuneration to employees

### CONT. ACCOUNTING POLICIES

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.

### 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 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.

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 means that two

Gender distribution of the Group (incl. subsidiaries) for Board members and President/CEOs and senior executives	2021		2020	
	No. on closing date	Of which men	No. on closing date	Of which men
Board members, President/CEOs and Senior executives <sup>1</sup>	19	17	19	17
<b>The Group, total</b>	<b>19</b>	<b>17</b>	<b>19</b>	<b>17</b>

<sup>1</sup> The Group Management is led by the CEO and consists, for the first four months of 2021, of another five members: Chief Financial Officer, Chief Technical Officer, Chief Commercial Officer, Chief Marketing Officer and Chief Product Officer. For the last eight months of 2021, Group management consists of a total of five people.

Ongoing Share Savings Plan				
Investment year (AGM decision)	Share of participating employees	Number saved of shares	Total number allocated (of which performance shares)	Fair value
2018 (2017)	52%	(concluded)	62,251 (31,228)	125.00
2019 (2018)	46%	25,874	-	125.80
2020 (2019)	41%	26,318	-	178.00
2021 (2020)	51%	14,945	-	274.50
2022 (2021)	53%	(not yet started)	-	557.00

performance shares would be issued in the 2019 program. The allotment of performance shares presupposes that the outcome of the average annual growth is 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).

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	56,841	-47,345	164,412
2022 <sup>1</sup>	74,159	-62,251	176,320

<sup>1</sup> Calculated on the total number of outstanding shares as of 2022-03-22.



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## NOTE 9 Remuneration to the Board of Directors and senior executives, etc

### Remuneration to the Board and senior executives

Remuneration to the Chairman and Board members is in accordance with the general meeting of shareholders' decision. Board fees do not pertain to employee representatives.

Remuneration to the CEO and other senior executives is comprised of basic salary, variable remuneration, other benefits and pension. In the context of this note, other senior executives are the five members of the Group management team that also includes the CEO. During the last eight months of 2021 there were 4 people in the category of other senior executives. For details on the composition of the Group management team, please see page 50.

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 members of the Group management team is 65 years.

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 23 April 2021 Charlotte Brogren was re-elected as Chairman of the Board. In addition, Fredrik Hansson, Anders Mörck, Cecilia Wachtmeister, Ulf Södergren and Niklas Edling were reelected as Directors. Since the AGM of 23 April 2021, the Board has held 10 minuted meetings up to the adoption of this annual report. It expects to have one additional meeting prior to the AGM on 21 April 2022.

### 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 2021, variable remuneration for the CEO corresponded to 50% (11%) of basic salary and for other senior executives it was 37% (10%).

### Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pen-

sion plans. See Note 10. 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 remuneration committee also assesses the feasibility of, in certain cases, giving remuneration to other Board members who provide consulting services to the Group.

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2021 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.

## NOTES

## CONT. NOTE 9 Remuneration to the Board of Directors and senior executives, etc

Remuneration and other benefits 2021	Basic salary/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total	Board attendance
Chairman of the Board, Charlotte Brogren	583	-	-	-	583	100%
Board member, Niklas Edling	242	-	-	-	242	100%
Board member, Cecilia Wachtmeister	242	-	-	-	242	100%
Board member, Fredrik Hansson	292	-	-	-	292	100%
Board member, Anders Mörck	342	-	-	-	342	100%
Board member, Ulf Södergren	242	-	-	-	242	100%
<b>Total, Board</b>	<b>1,942</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,942</b>	
CEO Staffan Dahlström	3,603	1,646	1,169	261	6,679	
Other senior executives <sup>1</sup> (5)	8,077	2,781	2,494	207	13,559	
<b>Total</b>	<b>13,621</b>	<b>4,427</b>	<b>3,664</b>	<b>469</b>	<b>22,180</b>	

Remuneration and other benefits 2020	Basic salary/ Board fees	Variable remuneration	Pension expenses	Share-based remuneration	Total	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 Mörck	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>	207	5,821	
Other senior executives <sup>1</sup> (5)	8,379	727	2,392	151	11,650	
<b>Total</b>	<b>13,411</b>	<b>1,065</b>	<b>4,412</b>	<b>358</b>	<b>19,246</b>	

<sup>1</sup> Pertains to others in the Group management team. During the last eight months of 2021 there were 4 people in the category of other senior executives.

<sup>2</sup> The expensed amount in 2020 includes SEK 992 thousand in "catch-up purchase" premiums, within the scope of the prior years' decided premium levels.

## NOTE 10 Pension obligations

### ACCOUNTING POLICIES

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

Some of the pension obligations for salaried employees in Sweden are secured through insurance with Alecta and Skandia, which are defined benefit plans covering a number of employers. For the 2021 financial year, the company has not had access to sufficient information to enable it to report these plans as defined benefit plans. The pension commitments are thus reported as a defined contribution plans.

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

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

### 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. The Group has a defined benefit pension obligation in Belgium that amounts to SEK 10,217 (6,426) thousand, see Note 27. The year's fees for pension insurance amounted to SEK 29,095 (23,778) thousand.

## NOTE 11 Financial income

	2021	2020
Interest income	44	9
Exchange rate differences	9,279	803
Other items	1,930	992
<b>Total</b>	<b>11,252</b>	<b>1,804</b>

## NOTE 12 Financial expenses

	2021	2020
Interest expenses on bank loans	-1,630	-4,390
Interest expenses on lease agreements	-1,851	-2,233
Bank expenses	-2,372	-828
Exchange rate differences	-1,823	-8,144
Other items	-601	-27
<b>Total</b>	<b>-8,277</b>	<b>-15,623</b>

## NOTE 13 Income tax and deferred tax r

## ACCOUNTING POLICIES

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

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

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

## Investment deductions and other similar tax incentives

Group companies may be entitled to special tax relief for investments in certain qualifying assets or attributable to qualifying expenses (for example, tax incentive plan for research and development or other investment deductions). Such tax deductions are reported in the Group as a reduction of the current tax liability and current tax expense. A deferred tax asset is reported for tax relief that has not yet been declared.



## NOTES

## CONT. NOTE 13 Income tax and deferred tax

	The Group		Parent Company	
	2021	2020	2021	2020
Current tax	-79,027	-57,019	-173	-1,178
Deferred tax	-6,995	3,512	-	-
<b>Total tax</b>	<b>-86,022</b>	<b>-53,507</b>	<b>-173</b>	<b>-1,178</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	
	2021	2020	2021	2020
Profit before tax	448,448	273,920	422,668	33,100
Tax according to the Swedish tax rate 20.6% (21.4% for 2020)	-92,380	-58,619	-87,070	-7,083
Tax effect for items that are not deductible/not taxable	12,291	9,756	86,891	6,055
Adjustment relating to prior years	2,866	131	5	-149
Difference in foreign tax rates	-9,056	-6,366	-	-
Revaluation of deferred tax - change in the foreign tax rate	-19	1,070	-	-
Tax effect on deficits where tax receivable has not been reported	-2,847	751	-	-
Prior non-reported loss carryforwards that have been utilized to lower the current tax expense	3,122	-229	-	-
<b>Tax expense</b>	<b>-86,022</b>	<b>-53,507</b>	<b>-173</b>	<b>-1,178</b>
Weighted average tax rate	19.2%	19.5%		

Income tax relating to components of other comprehensive income for the Group amounted to, for cash flow hedges SEK 5,787 (-3,791) thousand and for hedging of net investments to SEK 639 (-2,433) thousand.

In WEBfactory GmbH there is a tax loss carryforward for EUR 506 thousand for which the deferred tax has not been taken into account.

### IMPORTANT ESTIMATES AND ASSESSMENTS

Included in the deferred tax assets is tax of loss carryforward of SEK 1,524 thousand for HMS Technology Center Wetzlar GmbH and tax reductions of SEK 16,398 thousand for Owasys Advanced Wireless S.L. attributable to the company's investments in research and development. The Group has assessed that the loss carryforwards and tax reductions 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 each subsidiary. Owasys Advanced Wireless S.L. reports a surplus in 2021 and both subsidiaries are expected to generate future taxable profit from 2022 and onwards. The loss carryforwards and tax reductions can be rolled forward and they do not have any expiration date.

Gross changes regarding deferred tax assets and liabilities are reported as follows:

Deferred tax assets	Inventories	Currency hedging	Leases	Loss carry forwards and tax reductions	Pensions	Other	Total
<b>As of 1 January 2020</b>	<b>5,292</b>	<b>3,642</b>	<b>660</b>	<b>2,269</b>	<b>1,330</b>	<b>2,603</b>	<b>15,797</b>
Reclassification from deferred tax liabilities	-53	-3,642	-	-	-	-	-3,695
Reported in income statement	1,256	-	-195	-316	341	322	1,408
Exchange rate differences	4	-	-42	-72	-65	-76	-251
<b>As of 31 December 2020</b>	<b>6,499</b>	<b>-</b>	<b>423</b>	<b>1,881</b>	<b>1,606</b>	<b>2,849</b>	<b>13,259</b>
Reclassification to/from deferred tax liabilities	-	-2,718	-56	-	-	-	-2,774
Reported in income statement	-3,637	2,504	97	-389	911	2,118	-900
Reported in other comprehensive income	-	3,922	-	-	-	-	6,426
Added via acquisition	-	-	-	16,337	-	-	16,337
Exchange rate differences	2	-	15	93	37	-	147
<b>As of 31 December 2021</b>	<b>2,864</b>	<b>3,708</b>	<b>478</b>	<b>17,922</b>	<b>2,554</b>	<b>4,967</b>	<b>32,495</b>

Deferred tax liabilities	Inventories	Currency hedging	Leases	Tax allocation reserves	Property, plant and equipment and intangible assets	Other	Total
<b>As of 1 January 2020</b>	<b>52</b>	<b>-</b>	<b>618</b>	<b>18,179</b>	<b>68,041</b>	<b>1,786</b>	<b>88,675</b>
Reclassified to deferred tax assets	-53	-3,642	-	-	-	-	-3,695
Reported in income statement	2	136	591	3,832	-5,321	-1,344	-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	0	-	-23	-	-805	-16	-844
<b>As of 31 December 2020</b>	<b>0</b>	<b>2,718</b>	<b>1,186</b>	<b>22,081</b>	<b>63,404</b>	<b>425</b>	<b>89,814</b>
Reclassification to/from deferred tax assets	-	-2,718	-56	-	-	-	-2,774
Reported in income statement	0	-	693	10,815	-5,426	12	6,095
Added via acquisition	-	-	-	-	3,849	-	3,849
Exchange rate differences	0	-	27	-	736	13	776
<b>As of 31 December 2021</b>	<b>0</b>	<b>-</b>	<b>1,850</b>	<b>32,896</b>	<b>62,563</b>	<b>451</b>	<b>97,760</b>

## NOTES

## NOTE 14 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	2021	2020
Profit attributable to parent company shareholders	354,853	223,488
Weighted average number of outstanding ordinary shares (thousands)	46,660	46,654
Earnings per share, basic (SEK per share)	7.61	4.79
Earnings per share, diluted (SEK per share)	7.57	4.77

Average number of shares, basic and diluted (thousands)	2021	2020
Average number of shares used to calculate earnings per share, basic	46,660	46,654
Adjustment for calculation of earnings per share, diluted:		
Shares in Share Savings Plans	199	178
<b>Average number of shares, diluted</b>	<b>46,859</b>	<b>46,832</b>

## NOTE 15 Dividend per share and proposed distribution of profit in the Parent company

The dividend that was paid out in 2021 amounted to SEK 93,323 thousand (SEK 2.00 per share). No dividends were paid in 2020.

At the AGM on 21 April 2022 a proposal will be made to distribute SEK 139,928 thousand<sup>1</sup> as dividends for the 2021 financial year, which corresponds to SEK 3.00 per share. The proposed dividend has not been reported as a liability in these financial statements.

The following profits are at the disposal of the AGM:	
Profit brought forward and other non-restricted reserves	192,473
Profit for the year	422,495
<b>Total profits</b>	<b>614,968</b>
The Board of Directors proposes the following appropriation of profits:	
Distributing dividends to shareholders of SEK 3.00/share <sup>1</sup>	139,928
Carried forward	475,040
	<b>614,968</b>

<sup>1</sup> The dividend is calculated on the total number of outstanding shares as of 2022-03-22.



## NOTE 16 Intangible assets

### ACCOUNTING POLICIES

#### 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.

#### Goodwill

Goodwill is calculated in accordance with the principles explained in Note 31. 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.

#### 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.

#### 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.

#### 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 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.

## NOTES

## CONT. NOTE 16 Intangible assets

	Capitalized development work	Goodwill	Customers, technology platforms	Brands	Other	Total
<b>As of 1 January 2019</b>						
Cost	301,642	807,383	124,701	88,496	246	1,322,467
Accumulated amortization and impairment/ exchange rate effects	-177,820	68,465	-59,223	12,210	-246	-156,614
<b>Carrying amount</b>	<b>123,822</b>	<b>875,848</b>	<b>65,478</b>	<b>100,706</b>	<b>-</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
Acquisition of subsidiaries	62	66,168	6,496	-	-	72,726
Exchange rate differences	-955	-26,414	-2,021	-3,740	-	-33,110
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>-</b>	<b>1,180,349</b>
<b>As of 31 December 2020</b>						
Cost	343,129	873,523	131,975	88,496	246	1,437,368
Accumulated amortization and impairment/ exchange rate effects	-213,161	28,446	-79,153	7,093	-246	-257,021
<b>Carrying amount</b>	<b>129,968</b>	<b>901,969</b>	<b>52,823</b>	<b>95,589</b>	<b>-</b>	<b>1,180,349</b>
<b>Financial year 2021</b>						
Opening carrying amount	129,968	901,969	52,822	95,589	-	1,180,348
Investments	22,964	-	-	-	1,179	24,143
Acquisition of subsidiaries	6,695	119,354	24,005	-	-	150,054
Exchange rate differences	423	12,843	905	1,769	1	15,940
Impairment	-8,524	-	-	-	-	-8,524
Depreciation/amortization	-24,010	-	-21,729	-1,328	-18	-47,086
<b>Closing carrying amount</b>	<b>127,516</b>	<b>1,034,165</b>	<b>56,002</b>	<b>96,029</b>	<b>1,162</b>	<b>1,314,873</b>
<b>As of 31 December 2021</b>						
Cost	372,788	992,905	155,980	88,496	1,425	1,611,593
Accumulated amortization and impairment/ exchange rate effects	-245,272	41,260	-99,978	7,533	-263	-296,719
<b>Carrying amount</b>	<b>127,516</b>	<b>1,034,165</b>	<b>56,002</b>	<b>96,029</b>	<b>1,162</b>	<b>1,314,873</b>

The income statement includes depreciation, amortization and impairment losses of SEK 39,034 (41,588) thousand for Cost of goods sold, SEK 7,838 (6,215) thousand for Selling expenses and SEK 8,737 (5,111) thousand for Research and development costs. Last year, goodwill impairment of SEK 13,633 thousand was also included in Other operating expenses (see the information further down in this section).

In 2020, Procentec B.V. (Netherlands) was acquired, which led to surplus values in the form of technology platforms of SEK 6,496 thousands. The acquisition gave rise to goodwill of SEK 66,168 thousand associated with the company's market position in communication infrastructure and the expected synergies with existing operations. In 2020, impairment of goodwill attributable to WEBfactory GmbH was recognized for SEK 13,633 thousand, due to a weaker performance by the company than expected (not associated with the pandemic).

In 2021, Owasys Advanced Wireless Devices S.L. (Spain) was acquired, which led to surplus values in the form of customer relations of SEK 22,518 thousands and deficits of SEK -6,541 thousands associated with capitalized development work. The acquisition gave rise to goodwill of SEK 119,354 thousand associated with the company's market position in wireless communication and the expected synergies with existing operations.

Capitalized development costs are tested regularly for impairment. In 2021, impairment testing resulted in a write-down of SEK -8,524 (-5,111) thousand.

#### Impairment testing of goodwill and brands with an indefinite useful life

Impairment testing of the Group's goodwill and brands with an indefinite useful life is in accordance with IAS 36.

The Group's goodwill is attributable to the following cash-generating units:

	2021	2020
Procentec	64,487	63,308
Owasys	119,800	-
WEBfactory	15,066	14,790
Rest of the Group	834,812	823,870
<b>Total consolidated goodwill</b>	<b>1,034,165</b>	<b>901,969</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 90,344 (88,693) thousand.

The recoverable amount for the cash generating units has been based on their value-in-use. This has included estimates for growth, profit margin, tied-up capital, investment requirement and risk premium. The principles behind these assumptions were unchanged compared with the previous year. Financial forecasts are based on the company's budget for the coming year and its five-year financial plan. The company's market assessment for each period is also considered. Estimates of future cash flows are based on the 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 (not including cash and cash equivalents) in relation to the company's net sales over the long term is estimated at 5% (10%) for Rest of the Group, 3% (5%) for WEBfactory, 23% for Procentec and 20% for Owasy. The Weighted Average Cost of Capital (WACC) before tax amounts to 11.2% (12.3%) for Rest of the Group, 12.5% (11.0%) for WEBfactory, 13.0% for Procentec and 12.7% for Owasy. No impairment test was performed previous year for Procentec, acquired on October 1, 2021. The Group assessed that the recoverable amount of the company corresponded to the transaction price of the investment and thus no need for impairment.

The calculated recoverable amount for the Rest of the Group and Procentec exceeded the carrying amount with a good margin at year-end. The management team has concluded that no reasonably significant adjustments to the significant assumptions that were made when testing for impairment of its cash generating units would

result in the recoverable amount falling below the carrying amount of goodwill. There was less headroom noted during impairment testing of goodwill attributable to WEBfactory, where there was sensitivity to changes in WACC and forecasted EBITDA. Impairment will be recognized if WACC changes from 12.5% to 15.7%. For Owasy, which was acquired during the year, some sensitivity was identified for changes in the assumptions. For a change in WACC from 12.2% to 13.2%, impairment loss will be recognized.

The management team has concluded that no reasonably significant adjustments to the significant assumptions that were made when testing for impairment would result in the recoverable amount falling below the carrying amount of brands with an indefinite useful life.

#### IMPORTANT ESTIMATES AND ASSESSMENTS

Each year, in accordance with the accounting policy described in this report, the Group tests goodwill and brands with an indefinite useful life for impairment. The recoverable amount for the Group's cash-generating units WEBfactory, Procentec, Owasy and Rest of the Group has been determined by calculating value-in-use for each of them. Certain estimates are required in order to do that, which are described in this note. It has been assessed that no write-down requirement exists.

The company capitalizes costs associated with the development of identifiable and unique integrated circuits when the criteria described under "Capitalized development work" in section "Accounting policies" 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 2021, this impairment testing resulted in a write-down of SEK 8,524 (5,111) thousands.



## NOTES

## NOTE 17 Property, plant and equipment

## ACCOUNTING POLICIES

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 carrying amount of the asset exceeds its estimated 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'.

In the income statement, depreciation costs of SEK 13,046 (12,823) thousand are included in cost of goods sold, SEK 14,767 (15,917) thousand in Selling expenses, SEK 6,035 (5,492) thousand in Administration costs and SEK 12,870 (12,518) thousand in Research and development costs.

	Buildings & Land	Plant & machinery	Equipment, installations and facilities	Construction-in-progress	Right-of-use assets	Total
<b>As of 1 January 2019</b>						
Cost						
Accumulated cost	4,968	65,768	65,790	192	142,200	278,918
Accumulated depreciation/amortization	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/amortization	-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 31 December 2020</b>						
Accumulated cost	4,968	67,843	73,976	587	170,666	318,040
Accumulated depreciation/amortization, 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>
<b>Financial year 2021</b>						
Opening carrying amount	4,810	13,682	22,924	570	101,900	143,887
Investments	1,585	5,570	7,278	609	8,756	23,798
Increase via company acquisitions	-	332	142	-	-	474
Reclassifications	325	576	-	-576	-	325
Revaluation	-	-	-	-	1,631	1,631
Sales and disposals	-	-37	-19	-	-	-56
Exchange rate differences	89	40	293	11	2,105	2,539
Depreciation/amortization	-103	-5,922	-7,315	-	-33,378	-46,718
<b>Closing carrying amount</b>	<b>6,707</b>	<b>14,241</b>	<b>23,303</b>	<b>614</b>	<b>81,015</b>	<b>125,879</b>
<b>As of 31 December 2021</b>						
Accumulated cost	6,878	74,283	81,377	620	181,053	344,212
Accumulated depreciation/amortization, exchange rate effects	-171	-60,043	-58,074	-6	-100,038	-218,332
<b>Carrying amount</b>	<b>6,707</b>	<b>14,241</b>	<b>23,303</b>	<b>614</b>	<b>81,015</b>	<b>125,880</b>

## NOTE 18 Leases

### ACCOUNTING POLICIES

The Group leases buildings, facilities, machinery and automobiles. 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.

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.

### ESTIMATES AND ASSESSMENTS

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). Most of the extension options that pertain to leases for office premises and vehicles have been included in the leasing 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.

## NOTES

## CONT. NOTE 18 Leases

The following amounts associated with leases are reported in the balance sheet:

Right-of-use assets	2021	2020
Property	68,105	89,916
Equipment	353	508
Vehicles	12,558	11,476
<b>Total</b>	<b>81,015</b>	<b>101,900</b>

Lease liabilities	2021	2020
Current	28,364	33,863
Non-current	49,793	68,078
<b>Total</b>	<b>78,157</b>	<b>101,941</b>

The following amounts associated with leases are reported in the income statement:

Depreciation of right-of-use assets	2021	2020
Property	-26,366	-27,008
Equipment	-158	-246
Vehicles	-6,612	-6,775
<b>Total</b>	<b>-33,136</b>	<b>-34,030</b>

Additional right-of-use assets in 2021 amounted to SEK 8,756 (24,216) thousand. Interest expenses attributable to leases amounted to SEK -1,846 (-2,233) thousand. Expenses attributable to short-term leases for which the underlying asset is of low value amounted to SEK -1,629 (-1,099) thousand. The total cash flow associated with leases in 2021 was SEK -35,621 (-35,344) thousand. See also the analysis of maturity on page 96.

## NOTE 19 Fixed assets, by country

Total fixed assets, by country	2021		2020	
Germany	171,294	28%	194,019	39%
Spain	170,884	28%	25,588	5%
Sweden	133,055	22%	144,232	29%
The Netherlands	81,030	13%	84,493	17%
Belgium	42,959	7%	43,557	9%
Other countries	6,718	1%	8,476	2%
<b>Total</b>	<b>605,941</b>		<b>500,365</b>	

Fixed assets by country consist of intangible assets and PPE, with the exception of goodwill attributable to the rest of the Group, see Note 16-17.

The acquisition in 2021 of Owasys Advanced Wireless Devices S.L. increased that amount of fixed assets in Spain, primarily pertaining to surpluses and goodwill.



## NOTE 20 Financial instruments and financial risk management

### ACCOUNTING POLICIES

#### *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.

#### *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.

#### *Measurement*

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.

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

#### **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.

#### **Impairment**

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

## NOTES

## CONT. NOTE 20 Financial instruments and financial risk management

Group 2021	Financial assets/liabilities measured at amortized cost	Financial assets/liabilities measured at fair value through profit or loss	Derivative instruments used for hedging	Total
<b>Financial assets</b>				
Deposits	3,551	-	-	3,551
Long-term securities holdings	-	8,701	-	8,701
Accounts receivable - trade	286,377	-	-	286,377
Contract assets	3,465	-	-	3,465
Derivative instruments (used for hedging)	-	-	553	553
Cash and cash equivalents	172,174	-	-	172,174
<b>Total</b>	<b>465,567</b>	<b>8,701</b>	<b>553</b>	<b>474,821</b>
<b>Financial liabilities</b>				
Option liability	-	390,858	-	390,858
Additional consideration	-	32,890	-	32,890
Derivative instruments (used for hedging)	-	-	7,413	7,413
Bank loans	5,978	-	-	5,978
Accounts payable - trade	164,638	-	-	164,638
<b>Total</b>	<b>170,616</b>	<b>423,748</b>	<b>7,413</b>	<b>601,777</b>

Group 2020	Financial assets/liabilities measured at amortized cost	Financial assets/liabilities measured at fair value through profit or loss	Derivative instruments used for hedging	Total
<b>Financial assets</b>				
Deposits	3,823	-	-	3,823
Long-term securities holdings	-	6,818	-	6,818
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</b>	<b>263,162</b>	<b>6,819</b>	<b>21,230</b>	<b>291,210</b>
<b>Financial liabilities</b>				
Bank loans	171,681	-	-	171,681
Accounts payable - trade	90,979	-	-	90,979
<b>Total</b>	<b>262,660</b>	<b>-</b>	<b>-</b>	<b>262,660</b>

## FINANCIAL RISK MANAGEMENT

### 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) Currency risk

#### Exposure

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

Exposure	31 December 2021		
	EUR	USD	JPY
Accounts receivable - trade	174,614	78,086	16,293
Bank loans	-5,977	-	-
Additional consideration	-32,890	-	-
Option liability	-390,858	-	-
Accounts payable - trade	-93,892	-50,732	-785
Currency futures (cash flow hedges) <sup>1</sup>	269,762	110,243	53,287

Exposure	31 December 2020		
	EUR	USD	JPY
Accounts receivable - trade	111,701	37,631	13,954
Bank loans	-171,141	-	-
Accounts payable - trade	-56,690	-19,868	-863
Currency futures (cash flow hedges) <sup>1</sup>	154,998	93,940	54,146

<sup>1</sup> Nominal amount

Risk	Exposure arises from	Measurement	Management
Market risk – currency risk	Future business transactions. Recognized financial assets and financial liabilities that are not expressed in the Group companies' respective reporting currency.	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

### Instruments used by the Group

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

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

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

Disclosures on the reporting of hedging instruments are provided in Note 23.

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

### Hedging of net investments in foreign operations

In 2021, the Group amortized EUR 17 million on prior years' acquisition loans. The loan totaling EUR 17 million has been identified as a hedge of net investments in 2016 for the 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:

## NOTES

**CONT. NOTE 20 Financial instruments and financial risk management**

Derivative instruments – currency futures	2021	2020
Carrying amount (asset)	553	21,230
Nominal amount	62,644	303,084
Maturity	Jan 2022 - Dec 2022	Jan 2021 - April 2022
Hedge ratio <sup>1</sup>	1:1	1:1
Change in value for outstanding hedging instruments since 1 January	274	20,024
Value change in the hedged item for determining the ineffective portion	-274	-20,024
Weighted average for the outstanding hedging instrument	SEK 10.2338:1 EUR, SEK 9.1237:1 USD, SEK 0.0848:1 JPY	SEK 10.5656:1 EUR, SEK 9.0581:1 USD, SEK 0.0872:1 JPY

<sup>1</sup> 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	2021	2020
Carrying amount (liability)	-7,413	-
Nominal amount	370,648	-
Maturity	March 2022 - March 2023	-
Hedge ratio <sup>1</sup>	1:1	-
Change in value for outstanding hedging instruments since 1 January	-8,556	-
Value change in the hedged item for determining the ineffective portion	8,556	-
Weighted average for the outstanding hedging instrument	SEK 10.1720:1 EUR, SEK 8.4761:1 USD, SEK 0.0779:1 JPY	-

<sup>1</sup> 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	2021	2020
Carrying amount (bank loans)	173,417	170,680
Carrying amount in EUR	17,000	17,000
Hedge ratio	1:1	1:1
Change in the loan's carrying amount due to changes in the exchange rate since 1 January	-3,103	11,812
Change in the value of the hedged item for determining ineffective portion	3,103	-11,812
Weighted average for currency rates during the year	SEK 10.1568:1 EUR	SEK 10.5118:1 EUR

**Sensitivity analysis**

The Group is primarily exposed in its ongoing operations to changes in the EUR/SEK exchange rate. If the SEK had weakened/strengthened by 5% in relation to the EUR with all other variables constant, the Group's equity as of 31 December 2021 would have been SEK 28.4 (18.6) million lower/higher. If the SEK had weakened/strengthened by 5% in relation to the Group's most important currencies, the Group's equity as of 31 December 2021 would have been SEK 42.6 (32.7) million lower/higher.

If the SEK had weakened/strengthened by 5% in relation to the EUR with all other variables constant, the operating profit for the year as of 31 December 2021 would have been SEK 26.8 (16.7) million lower/higher, as a result of transactions in foreign currency.

If the SEK had weakened/strengthened by 5% in relation to the USD with all other variables constant, the operating profit for the year as of 31 December 2021 would have been SEK 8.1 (9.0) million lower/higher, as a result of transactions in foreign currency.

If the SEK had weakened/strengthened by 5% in relation to the JPY with all other variables constant, the operating profit for the year as of 31 December 2021 would have been SEK 5.9 (4.5) million lower/higher, as a result of transactions in foreign currency.

**Derivative instruments**

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

Information about the fair value of various derivative financial instruments used for hedging is provided in Note 23.

**Hedging reserve**

The Group's hedging reserve is reported in equity and described in Note 26.

**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 2021 or 2020.

**b) 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 2021 and 2020, 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 2021 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 0.8 (2.3) million lower/higher.

If the SEK had weakened/strengthened by 5% against the EUR during 2021 with all other variables held constant, profit before tax for the financial year would have been SEK 0.0 (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 22 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 22 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 27 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 34% (27%).

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

**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. Net debt is calculated as non-current and current interest-bearing liabilities, leasing liabilities and non-current and current non-interest-bearing liabilities (contingent consideration and option debt) less cash and cash equivalents. Total capital is calculated as equity in the consolidated balance sheet plus net debt.

The net debt/equity ratios on 31 December 2021 and 31 December 2020 were as follows:

	2021	2020
Interest-bearing liabilities (Note 27)	16,195	178,107
Non interest-bearing liabilities (Note 28)	425,090	-
Lease liabilities (Note 18)	78,157	101,941
Less cash and cash equivalents (Note 25)	-172,174	-81,544
<b>Net debt</b>	<b>347,268</b>	<b>198,504</b>
Total equity	1,177,134	1,220,488
<b>Total capital</b>	<b>1,524,402</b>	<b>1,418,992</b>
Net debt/equity ratio	30%	16%

## NOTES

## CONT. NOTE 20 Financial instruments and financial risk management

### 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 31 December 2021:

	Note	Level 1	Level 2	Level 3	Total
Long-term securities holdings		-	-	8,701	8,701
Derivative instruments used for hedging	23	-	553	-	553
<b>Total assets</b>		-	<b>553</b>	<b>8,701</b>	<b>9,254</b>
Derivative instruments used for hedging	23	-	-7,413	-	-7,413
Additional consideration			-	-32,890	-32,890
Option liability	28	-	-	-390,858	-390,858
<b>Total liabilities</b>		-	<b>-7,413</b>	<b>-423,748</b>	<b>-431,161</b>

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

	Note	Level 1	Level 2	Level 3	Total
Long-term securities holdings		-	-	6,819	6,819
Derivative instruments used for hedging	23	-	21,230	-	21,230
<b>Total assets</b>		-	<b>21,230</b>	<b>6,819</b>	<b>28,049</b>
<b>Total liabilities</b>		-	-	-	-

There have been no transfers between the levels during the year.

The fair value of currency futures contracts is determined as the present value of future cash flows based on quoted exchange rates for the currency on the balance sheet date.

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

The Group has contingent consideration and options liabilities in connection with acquisitions which constitute financial instruments that are reported at fair value through profit or loss. The fair value reported for those items has been calculated by management using a discounted cash flow model.

### Analysis of maturity

As of 31 December 2021	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	-164,688	-	-	-	-	-164,638
Derivative instruments	-1,824	-4,259	-1,329	-	-	-7,413
Additional consideration	-	-6,136	-10,227	-17,181	-	-33,544
Option liability	-	-	-	-404,318	-	-404,318
Bank loans	-1,823	-1,240	-2,382	-589	-	-6,034
Lease liabilities	-7,031	-21,092	-19,938	-30,030	-1,615	-79,706
<b>Total</b>	<b>-175,366</b>	<b>-32,727</b>	<b>-33,876</b>	<b>-452,119</b>	<b>-1,615</b>	<b>-695,703</b>

As of 31 December 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>

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.

## NOTE 21 Inventories

### ACCOUNTING POLICIES

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.

### IMPORTANT ESTIMATES AND ASSESSMENTS

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

The Group	2021	2020
Raw materials and consumables	132,498	98,056
Work-in-progress	4,621	3,597
Finished goods	58,065	56,122
<b>Total</b>	<b>195,184</b>	<b>157,775</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 -5,505 (-4,751) thousand.

## NOTE 22 Accounts receivable and contract assets

### ACCOUNTING POLICIES

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. 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 20 d) for a description of the Group's impairment policies.

	2021	2020
Accounts receivable - trade	288,030	176,755
Provision for doubtful debts	-1,653	-1,522
<b>Accounts receivable – net</b>	<b>286,377</b>	<b>175,233</b>

Fair value is a close approximation of the carrying amount, due to short maturity.

During the year, the Group reported a loss concerning the impairment of accounts receivable amounting to SEK -202 (-286) thousand. As of 31 December 2021, the provision for doubtful debts amounted to SEK 1,653 (1,522) thousand.

As of 31 December 2021, accounts receivable amounting to SEK 42,950 (30,997) thousand had fallen due. An aging analysis is provided below:

	2021	2020
1–15 days	31,057	20,967
15 days to 3 months	9,605	7,032
3 to 6 months	741	1,710
More than 6 months	1,547	1,288
<b>Total</b>	<b>42,950</b>	<b>30,997</b>

## NOTES

### CONT. NOTE 22 Accounts receivable and contract assets

In the amount for accounts receivable overdue by more than 6 months, a provision to doubtful debts has been made for SEK 1,547 (1,288) 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	2021	2020
EUR	174,614	111,701
USD	78,086	37,631
JPY	16,293	13,954
SEK	7,261	4,596
CNY	6,447	4,482
GBP	5,329	4,120
DKK	-	271
<b>Total</b>	<b>288,030</b>	<b>176,755</b>



## NOTE 23 Derivatives

### ACCOUNTING POLICIES

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.

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. During the period, the Group did not have any derivatives for trading.

#### Cash flow hedging

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

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

The Group identifies the entire 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.

HMS reports the realized cash flow hedges (currency futures) in the line item for net sales in the income statement. In 2020, the inflows were reported in the line item for net sales and the outflows in the line item for cost of goods sold and selling expenses in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects earnings.

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.

#### Hedging of net investments

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

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

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

	2021	2020
Currency futures contracts – asset	553	21,230
Currency futures contracts – liability	7,413	-

#### (a) Currency futures contracts

The nominal amount of outstanding currency futures contracts as of 31 December 2021 was SEK 433,292 (303,084) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 15 months. Gains and losses on currency forward contracts as of 31 December 2021, which are a component of equity, are reported in the income statement in the line item for Net sales in the periods when the hedged transaction affects earnings.

In 2021, realized currency forward contracts had a positive impact on operating profit of SEK 12,155 (2,018) thousand.

#### (b) Hedging of net investments in foreign operations

At the end of the financial year, the Group did not have any borrowings in EUR (170,680) to identify as hedging of net investments pertaining to the acquisition of subsidiaries. The exchange loss on translation of the borrowings into SEK during the year amounted to SEK -3,103 (11,812) thousand at the end of the reporting period and it has been recognized in other comprehensive income.

NOTES

NOTE 24 Prepaid expenses and accrued income

	The Group		Parent Company	
	2021	2020	2021	2020
Rents	3,594	3,841	-	-
Contract receivables, see Note 5	3,465	2,562	-	-
Other prepaid expenses	11,937	11,690	-	749
<b>Total</b>	<b>18,996</b>	<b>18,093</b>	<b>-</b>	<b>749</b>

NOTE 25 Cash and cash equivalents

**ACCOUNTING POLICIES**

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 interest-bearing liabilities.

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

The Group	2021	2020
Cash and bank balances	172,174	81,544
<b>Total</b>	<b>172,174</b>	<b>81,544</b>

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

## NOTE 26 Share capital and reserves in equity

### ACCOUNTING POLICIES

#### 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 the parent company repurchases 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.

#### Reserves

Reserves 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.

	Number of shares (000s)	Share capital (SEK t)	Other contributed capital (SEK t)	Total SEK 000s
As of 1 January 2020	46,819	1,170	218,318	219,488
As of 31 December 2020	46,819	1,170	218,318	219,488
<b>As of 31 December 2021</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.

Reserves	Hedge accounting	Currency translation	Total
<b>As of 1 January 2020</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
Hedging of net investments	-	11,812	11,812
Deferred tax	-	-2,433	-2,433
Other exchange rate differences	-	-38,011	-38,011
Exchange rate differences 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 31 December 2020</b>	<b>16,744</b>	<b>70,008</b>	<b>86,752</b>
Revaluation - gross	-15,935	-	-15,935
Deferred tax	3,283	-	3,283
Reclassification to income statement (Net sales)	-12,155	-	-12,155
Deferred tax	2,504	-	2,504
Hedging of net investments	-	-3,103	-3,103
Deferred tax	-	639	639
Other exchange rate differences	-	20,434	20,434
Exchange rate differences attributable to non-controlling interests	-	-1,002	-1,002
<b>Other comprehensive income:</b>	<b>-22,303</b>	<b>16,968</b>	<b>-5,335</b>
<b>As of 31 December 2021</b>	<b>-5,559</b>	<b>86,976</b>	<b>81,417</b>

#### Hedging reserve

The hedging reserve consists of a cash flow hedge reserve, see Note 23. The cash flow hedge reserve is used to report the effective portion of the fair value change in derivative instruments that have been identified and qualify as a cash flow hedge. In subsequent periods, the amount is reclassified to the income statement as the futures expire.

#### Currency translation

Exchange differences arising on translation of foreign subsidiaries are reported in other comprehensive income in accordance with the description 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.

## NOTES

## NOTE 27 Interest-bearing liabilities

### ACCOUNTING POLICIES

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 interest-bearing liabilities in the balance sheet but is unused as per December 31, 2021. The company does not have any major development projects that would necessitate capitalization of borrowing costs. All borrowings costs are thus expensed as incurred.

	2021	2020
<b>Non-current interest-bearing liabilities</b>		
Bank loans	2,948	170,853
Defined benefit pension plan	10,217	6,426
<b>Total</b>	<b>13,165</b>	<b>177,279</b>
<b>Current interest-bearing liabilities</b>		
Bank loans	3,030	828
<b>Total</b>	<b>3,030</b>	<b>828</b>
<b>Total interest-bearing liabilities</b>	<b>16,195</b>	<b>178,106</b>

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

	2021	2020
3 months or less	1,812	611
Between 3 months and 1 year	1,217	217
Between 1 and 2 years	2,367	170,853
Between 2 and 5 years	582	-
More than 5 years	10,217	6,426
<b>Total</b>	<b>16,195</b>	<b>178,106</b>

During the year, the financing agreement with the bank was extended. It concerns a revolving facility of EUR 45 million that runs until September 2024. At year-end, unutilized credit facilities amounted to SEK 490 (311) million. The interest rates on bank loans are variable and tied to EURIBOR and STIBOR. The average interest rate in 2021 was 0.963% (1.021%).

Loan terms for the revolving facility are based on the development of net debt and EBITDA. As per December 31 2021, the facility is unused (170,853).

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.



## NOTE 28 Non interest-bearing liabilities

## ACCOUNTING POLICIES

## Liability for contingent consideration and options

When there are options to acquire the remaining shares of a company and when they are likely to be utilized, those acquisitions will be reported as if they were wholly-owned, without minority. Instead, a financial liability is reported in the consolidated balance sheet corresponding to the discounted anticipated exercise price of these options. The anticipated consideration for the remaining ownership share is reported as a financial liability in accordance with the rules of IAS 32/IFRS 9 and any future value changes are reported in the consolidated income statement.

Contingent consideration and options in connection with acquisitions which constitute financial instruments are reported at fair value through profit or loss. The fair value reported for those items has been calculated by management using a discounted cash flow model, which belongs to Level 3 in fair value hierarchy.

## IMPORTANT ESTIMATES AND ASSESSMENTS

On 1 October 2020, 70% of the shares in Procentec B.V. (Netherlands) were acquired. HMS has a call/put option on the remaining 30% of the shares in Procentec and during the third quarter of 2021, management updated its assessment that the option will likely be utilized in 2025. Because of that, HMS must report a liability corresponding to the discounted expected exercise price for the option, which amounts to SEK 299,619 thousand.

On 1 July 2021, 60% of the shares in Owasys Advanced Wireless Devices S.L. (Spain) were acquired. HMS has a call/put option on the remaining 40% of the shares in Owasys, which will likely be utilized in 2025. Because of that, HMS must report a liability corresponding to the discounted expected exercise price for the option, which amounts to SEK 91,240 thousand.

The exercise price of the options depends on the future results (EBITDA) that those companies are able to achieve. Fair value is based on each company's business plan for 2024 multiplied by a multiple (10). The future expected exercise price has then been discounted using the actual market interest rate.

In conjunction with the acquisition of Owasys, there was also an agreement on contingent consideration. The additional consideration, which amounts to EUR 2.4 million is contingent on sales growth and earnings during the period 2021-2023. Based on how the company performed during the first six months after the acquisition, and the business plan for the years ahead, management's assessment is that the 100% of the contingent consideration will be paid out.

	2021	2020
<b>Non-current non interest-bearing liabilities</b>		
Liability for contingent consideration	26,806	-
Liability for options	390,858	-
<b>Total</b>	<b>417,664</b>	<b>-</b>
<b>Current non interest-bearing liabilities</b>		
Liability for contingent consideration	6,084	-
Other current non interest-bearing liabilities	1,342	-
<b>Total</b>	<b>7,426</b>	<b>-</b>
<b>Total non interest-bearing liabilities</b>	<b>425,090</b>	<b>-</b>

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

	2021	2020
3 months or less	1,342	-
Between 3 months and 1 year	6,084	-
Between 1 and 2 years	10,055	-
Between 2 and 5 years	407,608	-
More than 5 years	-	-
<b>Total</b>	<b>425,090</b>	<b>-</b>

## NOTE 29 Accrued expenses and deferred income

	The Group		Parent Company	
	2021	2020	2021	2020
Accrued salaries	43,632	27,353	1,816	587
Vacation pay	14,768	15,938	567	545
Social security contributions	38,170	19,364	2,349	1,190
Deferred income	14,324	11,866	-	-
Other items	32,195	20,504	4,386	3,931
<b>Total</b>	<b>146,089</b>	<b>95,045</b>	<b>9,118</b>	<b>6,253</b>

## NOTE 30 Provisions

### ACCOUNTING POLICIES

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.

	2021	2020
Warranty provision	974	1,091
Other items	448	-
<b>Total</b>	<b>1,422</b>	<b>1,091</b>

### Warranty costs

A provision has been made to assess the warranty costs for goods that were sold under warranty and where the warranty period had not yet expired as of the end of the financial year. The warranties are expected to be settled during the next financial year.

## NOTE 31 Business combinations

### ACCOUNTING POLICIES

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 as 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.

### Acquisition of Owasys Advanced Wireless Devices S.L.

On 1 July 2021, 60% of Owasys Advanced Wireless Devices S.L., (Spain) was acquired. Owasys offers wireless embedded communication platforms to enable remote monitoring and control of various types of utility vehicles and mobile machines. It has approximately 20 employees and sales in 2021 were EUR 6.4 million.

The acquisition price amounted to EUR 5.1 million on a debt-free basis and conditional consideration for a maximum of EUR 2.4 million, to be paid out if Owasys achieves certain defined financial targets. The acquisition was financed with existing credit.

HMS has a call/put option on the remaining 40% of the shares, which will likely be utilized. Because of the option, HMS is reporting acquisition of the shares in Owasys as if it were wholly-owned (without minority), along with a liability corresponding to the discounted expected exercise price for the option. The liability pertaining to the remaining shares is valued at SEK 90,900 thousand at the time of acquisition. See Note 28 for more information.

The acquisition has generated goodwill of approximately SEK 143,758 thousands. The acquired company has been included in the HMS consolidated income statement and balance sheet since 1 July 2021. As of the acquisition date, Owasys has contributed to the Group's sales by SEK 33,790 thousands. The acquisition's contribution to operating profit, including amortization of excess value and acquisition costs, amounts to SEK 2,161 thousand. If the acquisition had occurred at the start of the financial year, the contribution to net sales would have been SEK 64,807 thousand and the contribution to operating profit, including amortization of the acquired goodwill and the acquisition costs, would have been SEK 11,254 thousand.

According to the preliminary acquisition analysis, the purchase price, acquired net assets and goodwill are as follows:

Purchase price:	
Cash and cash equivalents	54,072
Additional consideration	32,768
Option liability	90,900
<b>Total purchase price</b>	<b>177,739</b>

The assets and liabilities recognized in conjunction with the acquisition are as follows:	Fair value
Intangible assets	30,763
Property, plant and equipment	477
Financial assets	71
Deferred tax assets	16,337
Current assets	23,522
Cash and cash equivalents	9,451
Deferred tax liabilities	-3,835
Non-current liabilities	-2,069
Current liabilities	-16,332
Total identifiable net assets	58,385
Goodwill <sup>1</sup>	119,354
<b>Acquired net assets</b>	<b>177,739</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.

Purchase price – cash outflow		2021
Cash purchase price		54,071
Acquired cash and cash equivalents		-9,451
<b>Net outflow of cash and cash equivalents</b>		<b>44,620</b>

#### Acquisition of Procentec B.V.

The acquisition analysis from the acquisition of 70% of the shares in Procentec B.V. was finalized in 2021, since one year had elapsed since the acquisition took place on 1 October 2020.

The acquisition price amounted to EUR 7.7 million on a debt-free basis and it was financed using existing credit.

The acquisition generated goodwill of SEK 71,236 thousand (including non-controlling interest of 30%). The acquired company has been included in the HMS consolidated income statement and balance sheet since 1 October 2020. In 2020, Procentec contributed SEK 40,227 thousand to the Group's sales. The acquisition's contribution to operating profit, including amortization of excess value and acquisition costs, amounted to SEK 3,692 thousand. 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 the acquired goodwill and the acquisition costs, would have been SEK 9,637 thousand in 2020.

According to the final acquisition analysis (including non-controlling interests of 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 <sup>1</sup>	66,168
<b>Acquired net assets</b>	<b>56,719</b>

<sup>1</sup> Goodwill is associated with the company's market position in communication infrastructure and the expected synergies with existing operations. None of the reported goodwill is expected to be deductible for tax purposes.

## NOTES

## CONT. NOTE 31 Business combinations

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>

HMS has a call/put option on the remaining 30% of the shares in Procentec B.V. and during the third quarter of 2021, management updated its assessment that the option will likely be utilized. Because of that, HMS has reported a liability corresponding to the discounted expected exercise price for the option, which amounts to SEK 298,860 thousand. Because of the option, HMS is reporting the acquisition of the shares as if the company were wholly-owned (without minority) as of the third quarter of 2021. See Note 28 for more information.

## NOTE 32 Shares in associated companies

On 8 December 2021, the Group entered into a strategic partnership with Connectitude and acquired a minority position in their holding company, Cenito AB. Connectitude offers a Software as a Service (SaaS) for industrial digitalization, that allows both Machine Builders and Factory Owners to co-operate and share valuable data insights from their production processes, in real-time. The investment is not expected to have any impact on the Group's profit per share in the coming years.

	2021	2020
Opening carrying amount	-	-
Purchases during the year	15,000	-
Profit share after tax for the year	-140	-
<b>Closing carrying amount</b>	<b>14,860</b>	<b>-</b>

Name of company	Country of registration/operations	Ownership share <sup>1</sup>	Cost of acquisition	Fair value	Carrying amount
Cenito AB	Sweden	20%	15,000	- <sup>2</sup>	14,860

<sup>1</sup> The ownership share is the same as the voting share.

<sup>2</sup> Private company. No listed price is available.

## Summary information for associated companies

The table below shows summary financial information for Connectitude. The information shows the amounts reported in the financial statements for the company and not the HMS Group's share of these amounts. They have been adjusted to reflect adjustments made by the Group in applying the equity method, including any adjustments to fair value at the time of the acquisition and any adjustments for differences in accounting policies.

Summary balance sheet	2021	2020
Non-current assets	523	-
Current assets	12,398	-
<b>Total assets</b>	<b>12,920</b>	<b>-</b>
Non-current liabilities	9,177	-
Current liabilities	8,128	-
<b>Total liabilities</b>	<b>17,304</b>	<b>-</b>
<b>Net assets</b>	<b>-4,384</b>	<b>-</b>
<b>Reconciliation to carrying amount:</b>		
Opening net assets 8 December 2021	-3,684	-
Profit for the period	-701	-
Other comprehensive income	-	-
Dividend paid	-	-
<b>Closing net assets</b>	<b>-4,384</b>	<b>-</b>
The Group's share in %	20%	-
The Group's share in SEK thousand	-877	-
Goodwill	15,737	-
<b>Carrying amount</b>	<b>14,860</b>	<b>-</b>

Summary comprehensive income <sup>2</sup>	2021	2020
Revenue	1,928	-
Profit (loss)	-701	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>-701</b>	<b>-</b>
Dividend received	-	-

<sup>2</sup> 8 December - 31 December 2021



## NOTE 33 Transactions with non-controlling interests

HMS has a symmetrical put/call option on the remaining shares in both Procentec B.V. and Owasy S.L., which are not held by the majority owners. Based on the design of these options, it is assessed as likely that the option will be able to be utilized. Because of that, the acquisition is reported at 100%, without non-controlling interest and reported in the Group's equity. The prior non-controlling interest pertaining to Procentec B.V. has, in conjunction with this assessment been adjusted and the fair value of the option is instead reported as a financial liability. The difference between the option's assessed fair value and the reported minority is taken on the majority's equity. The Group reported a decrease in non-controlling interests of SEK 24,304 thousand and a decrease of equity attributable to the parent company's owner of SEK 273,471 thousand.

In 2020, the Group acquired the remaining 25.1% of the shares in WEBfactory GmbH. The acquisition price amounted to SEK 13,449 thousand. The Group reported a decrease in non-controlling interests of SEK 7,799 thousand and a decrease of equity attributable to the parent company's owner of SEK 5,620 thousand

The effect on equity attributable to the owners of HMS Networks AB during the year is summarized as follows:

	2021	2020
Carrying amount of non-controlling interests	24,304	7,799
Paid purchase price to non-controlling interests	-	13,419
Expected exercise price of options	297,775	-
<b>Surplus of purchase price reported in equity</b>	<b>-273,471</b>	<b>-5,620</b>

## NOTE 34 Earnings from participations in Group companies

### ACCOUNTING POLICIES

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.

	Parent Company	
	2021	2020
Dividend from subsidiary	422,672	28,967
<b>Total</b>	<b>422,672</b>	<b>28,967</b>

## NOTE 35 Change in liabilities associated with financing activities

### ACCOUNTING POLICIES

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.

	Bank loans (note 27)	Leases (note 18)	Total
<b>As of 1 January 2020</b>	<b>324,839</b>	<b>112,568</b>	<b>437,407</b>
Added via acquisition	60,447	13,544	73,991
Cash flow	-205,965	-35,344	-241,309
Not impacting cash flow	-7,640	11,173	3,533
<b>As of 31 December 2020</b>	<b>171,681</b>	<b>101,941</b>	<b>273,622</b>
Added via acquisition	5,517	-	5,517
Cash flow	-173,791	-35,681	-209,472
Not impacting cash flow	2,571	11,897	14,468
<b>As of 31 December 2021</b>	<b>5,978</b>	<b>78,157</b>	<b>84,135</b>

## NOTES

## NOTE 36 Shares in subsidiaries

Shares owned by Parent Company	Registered office	CIN	Share	No. of shares	With quotient value	2021	2020
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244,039	244,039
HMS Industrial Networks SA <sup>1</sup>	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.	Wateringen, Netherlands	74522108	70%
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%
Glocohm Venture Capital S.L. <sup>2</sup>	Derio, Spain	B-42717165	60%
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%
HMS Industrial Networks B.V.	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 Pte. Ltd. <sup>3</sup>	Singapore	202123480W	100%
HMS Industrial Networks SLU	Igualada, Spain	B62202460	100%
HMS Industrial Networks S.r.l.	Milan, Italy	5260930960	100%
HMS Industrial Networks SA <sup>1</sup>	Nivelles, Belgium	450350907	65.5%
HMS Technology Center Ravensburg GmbH	Ravensburg, Germany	29724241	100%
HMS Technology Center Wetzlar GmbH	Wetzlar, Germany	00340136310005	100%
Owasys Advanced Wireless Devices S.L. <sup>2</sup>	Derio, Spain	B-95218095	60%
Procentec B.V.	Rotterdam, Netherlands	27165526	70%
Procentec GmbH	Karlsruhe, Germany	HRB-705029	70%
Procentec Ltd	Manchester, UK	11112985	70%
Procentec Srl	Brescia, Italy	BS-556730	70%
WEBfactory Business Center Eastern Europe SRL	Sibiu, Romania	J32/121/2002	100%
WEBfactory GmbH	Buchen, Germany	HRB460672	100%

<sup>1</sup> HMS Industrial Networks SA is 100% owned by HMS Networks AB and HMS Industrial Networks AB

<sup>2</sup> Glocohm Venture Capital S.L. and Owasys Advanced Wireless Devices S.L. were acquired on July 1, 2021

<sup>3</sup> HMS Industrial Networks Pte. Ltd. was established on July 6, 2021

### 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 31 December 2021. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Handelsgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on 31 December 2021.

### HMS Technology Center Ravensburg GmbH (CIN: HRB 551905)

We hereby confirm that these consolidated financial statements contain figures for the UK subsidiary HMS Industrial Networks Limited (CIN: HRB 551905) for the year ending on 31 December 2021. We confirm that the German subsidiary took advantage of the exemption contained in 264 (3) of the German (Handelsgesetzbuch, HGB) as regards the preparation of a Directors' report, notes to the financial statements, audit and publishing the annual report for the financial year ending on 31 December 2021.

## NOTE 37 Pledged assets and contingent liabilities

The Group	2021	2020
<b>Pledged assets</b>	none	none
<b>Contingent liabilities</b>	none	none

Parent Company	2021	2020
<b>Pledged assets</b>	none	none
<b>Contingent liabilities</b>		
Security for subsidiaries	30,000	200,974

## NOTE 38 Transactions with related parties

There have not been any related party transactions except for the ones specified in Note 9 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 4.1.

## NOTE 39 Subsequent events

As part of the work towards achieving the Group's goals for 2025, HMS Networks implemented two changes in Group management that came into force at the start of the year. Joakim Nideborn, the current CFO, was appointed CFO and Deputy CEO. Alexander Hess, the current General Manager of HMS' Business Unit Ixxat, was also appointed Vice President Information Centric and will be part of HMS' Group Management in 2022.

HMS Networks AB was moved to the Nasdaq Large Cap list as of 3 January 2022. 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 21, 2022.

Halmstad March 22, 2022

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*

Mikael Mårtensson  
*Employee representative*

Our audit report was submitted on March 22, 2022  
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren  
*Authorized Public Accountant*



# Auditor's report

Unofficial translation

To the general meeting of shareholders of HMS Networks AB (publ) Corporate identity number: 556661-8954

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of HMS Networks AB (publ) for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 54-109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies

within the EU.

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

### Our audit approach

#### *Audit scope*

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

When we designed our Group audit strategy and Group audit plan, we assessed the degree of audit required by the Group audit team and other auditors from the PwC network. As a result of the Group's decentralized financial organization, thus a part of the financial reporting occurs in entities outside Sweden. This means that a part of the audit must be performed by auditors operating in the PwC network in other countries.

When we assessed the degree of audit required for 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 scope audit should be performed on the financial information prepared by two significant subsidiaries, in two different countries. For entities where we assessed that it was not necessary to conduct a full audit, specified audit procedures were performed on a total of five entities. The Group audit team performed specified procedures on three of them. For the 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, as Group auditors, the need and degree of involvement in the work of the entity auditors to determine whether sufficient audit evidence has been obtained for the basis of our opinion on the consolidated audit report.

### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

# AUDIT REPORT

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment testing of goodwill</b></p> <p>As of December 31, 2021, goodwill amounted to SEK 1 034 million, which corresponds to 47% of the Group's total assets. As described in Note 16, the Group's goodwill is associated with four separate cash generating units; Owasys, 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.</p> <p>Impairment testing is essential for our audit because goodwill represents significant amounts in the balance sheet. Furthermore, with performing an impairment test, 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, 2021. The most significant assumptions used in the impairment test are described in Note 16.</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 budget and business plan.</p> <p>We have evaluated and assessed that the company's valuation model 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, if changed, may lead to impairment of goodwill in the future.</p>
<p><b>Option liabilities</b></p> <p>As stated in Notes 28, 31 and 33, HMS has a so-called call / put option related to the remaining 30% of the shares in Procentec and to the remaining 40% of the shares in Owasys. Management's assessment is that the options will probably be exercised. This means that HMS reports a liability corresponding to the discounted expected exercise price for the options, which amounts to SEK 299,619 thousand for Procentec and SEK 91,240 thousand for Owasys.</p> <p>The option liabilities amount to significant amounts and include calculations with significant estimates and assessments by company management. This process involves the company management making estimates and assumptions, e.g. on the operations' future earnings development, probability of exercising the call / put options and market interest rate.</p> <p>The exercise price of the options is determined by the companies' future EBITDA. Fair value is based on the companies' respective business plan for 2024 multiplied by a multiple (10). The future expected exercise price has subsequently been discounted at the current market interest rate.</p>	<p>Our audit procedures to assess recognition of the option liabilities have included a review of agreements attributable to the transactions.</p> <p>We have evaluated and assessed the accuracy of the calculation model.</p> <p>We have evaluated and assessed the company management's significant estimates and assumptions in the valuation, such as future earnings development in relation to the business plan, probability of exercising the options and market interest rates.</p> <p>Finally, we have also assessed the accuracy of the information provided by the Group in Notes 28, 31 and 33 regarding these liabilities.</p>

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-53 and 115-131. The other information consists of the Remuneration Report 2021, which we obtained before the date of this audit report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Director's and the Managing Director

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend

to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### Report on other legal and regulatory requirements

#### The auditor's examination of the administration of the company and the proposed appropriations of the company's profit or loss

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of HMS Networks AB (publ) for the year 2021 and the proposed appropriations of the company's profit or loss.

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

### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or

## AUDIT REPORT

- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### The auditor's examination of the ESEF report

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for HMS Networks AB (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report has been prepared in a format that, in all material respects, enables uniform electronic reporting.

### Basis for Opinions

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of HMS Networks AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical

responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for ensuring that the Esef report has been prepared in accordance with the Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to form an opinion with reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed. RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements. Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the ESEF report. The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements. The reasonable assurance engagement involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that

enables uniform electronic reporting of the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The reasonable assurance engagement also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director. The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts. Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, statement of financial position, statement of changes in equity and the statement of cash flow.

Öhrlings PricewaterhouseCoopers AB, 113 21 Stockholm, was appointed auditor of HMS Networks AB (publ) by the general meeting of the shareholders on April 23, 2021 and has been the company's auditor since January 14, 2004. HMS Networks AB (publ) has been a company of public interest since October 19, 2007.

Halmstad, March 22, 2022  
Öhrlings PricewaterhouseCoopers AB

Johan Palmgren  
Authorized Public Accountant



FINANCIAL DATA IN SUMMARY (SEK M)	2021	2020	2019	2018	2017
Order intake	2,538	1,447	1,470	1,433	1,204
Net sales	1,972	1,467	1,519	1,366	1,183
Growth in net sales, %	34	-3	11	15	24
Gross profit	1,230	909	928	834	722
Gross margin, %	62	62	61	61	61
Operating income before depreciation (EBITDA)	548	401	334	301	259
Operating margin before depreciation (EBITDA), %	28	27	22	22	22
Operating income after depreciation/amortization (EBIT)	446	288	243	251	212
Operating margin after depreciation/amortization (EBIT), %	23	20	16	18	18
EBIT excl acquisition-related costs	467	311	240	266	212
EBIT excl acquisition-related costs, %	24	21	16	20	18
Profit for the year	362	220	205	171	143
Earnings per share, basic, SEK	7.61	4.79	4.43	3.68	3.06
Earnings per share, diluted, SEK	7.57	4.77	4.40	3.65	3.04
Dividend per share, SEK <sup>2</sup>	3.00 <sup>1</sup>	2.00	-	1.80	1.50
Total assets	2,204	1,837	1,758	1,577	1,438
Equity	1,177	1,220	1,010	857	721
Equity per share, SEK <sup>2</sup>	26.15	24.07	19.87	17.06	14.65
Equity/assets ratio, %	53	67	58	54	50
Net debt/equity ratio %	-7	16	40	40	42
Working capital in relation to sales (%)	6.8	10.5	9.5	7.2	5.1
Return on shareholders' equity, %	29	20	22	22	21
Return on capital employed, %	29	19	17	21	19
Investments in non-current assets	48	48	66	30	32
Cash flow from operating activities	508	370	254	193	207
Cash flow from operating activities per share, SEK <sup>2</sup>	10.90	7.93	5.45	4.14	4.44
Average number of employees	684	614	617	536	486
Sales per employee	2.9	2.4	2.5	2.6	2.4

<sup>1</sup> The 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.



# SUSTAINABILITY NOTES, GRI APPENDIX 2021

Information, methods and assumptions used for sustainability information that is presented in the annual and sustainability report.



# HMS Networks GRI Appendix 2021

The HMS Networks Sustainability Report for 2021 has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. It is presented each year as a section of the Annual Report. The financial year is the same as the calendar year and the most recent Annual and Sustainability Report were published in March 2021 for the 2020 financial year. The Sustainability Report also serves as HMS reporting as per the Global Compact (CoP, Communication on Progress).

This appendix is a supplement to the statutory Sustainability Report according to the definitions on page 59 in the Directors' Report. It contains information on the accounting policies, GRI-related information and data. Because of limited availability of information, delimitations on reported entities have been made for a number of disclosures. The delimitations are described for each disclosure in this appendix. The auditor has made a statement that a statutory Sustainability Report has been conducted, see statement on page 38. The content of the Sustainability Report and in this appendix has not been reviewed by a third party. Changes and corrections compared with previous reports, exceptions, delimitations or scope are described in the sections for each material sustainability issue.

## MATERIAL SUSTAINABILITY ISSUES

The starting point for HMS sustainability work is to minimize the negative impact to the greatest possible extent and to increase the positive effects in our value chain based on our focus areas: environment, responsible business and employee engagement. Our focus areas and material sustainability issues are the basis for our prioritized activities, follow-up and communication.

The HMS materiality assessment was updated during fall 2021 in order to verify HMS existing framework and priorities in the area of sustainability, along with ensuring relevance of the reporting and compliance with GRI Standards. An important component of the work was to identify our prioritized stakeholders' view on what HMS should be prioritizing in the future. The materiality assessment was carried out via extensive stakeholder engagement in the form of surveys and in-depth interviews with strategic customers and suppliers. The survey was sent to HMS prioritized stakeholders:

- Owners
- Board of Directors
- Employees
- Customers
- Distributors
- Suppliers

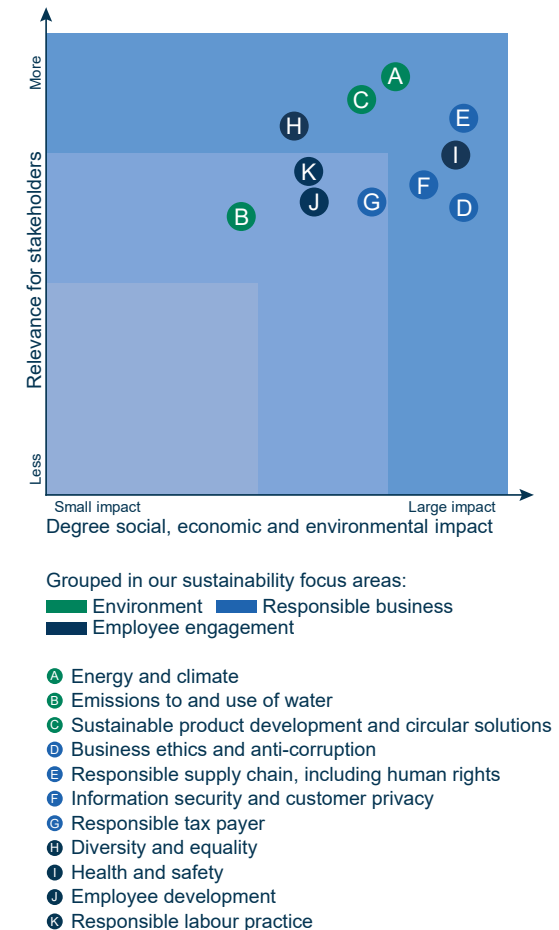
Responses were received from 460 stakeholders. The viewpoints were compiled and, together with the HMS Global Sustainability Team, the HMS impact on important issues was analyzed. Based on the stakeholder engagement and analysis of HMS's impact,

a total of seven material sustainability issues were identified and validated by the HMS Group Management Team.

The results showed that sustainable product development, responsible value chain, diversity and equality had increased in importance since the last materiality assessment was done. The need for result-oriented climate efforts that are clearly linked to energy-efficient products was revealed to be a clear expectation for all stakeholder groups. Customers and owners also highlighted the importance of having a responsible value chain. Furthermore, information security remained a high priority for customers, distributors and suppliers. For HMS employees, priority issues were professional development, health & safety, energy efficiency and business ethics.

The materiality assessment is updated at regular intervals and as needed, for example, when there are changes in the business, significant world events or changes in our stakeholders' focus and expectations.

The results of the materiality assessment are presented in the figure to the right. The Y-axis shows the importance to stakeholders of a particular issue and the X-axis shows HMS's impact on sustainable development. The material issues decided for HMS are those that are most important to stakeholders and highest HMS impact. The assessment gives us the necessary insight and understanding of our stakeholders' expectations and perceptions of HMS. The results serve as guidance for our future priorities and activities.



## STAKEHOLDER ENGAGEMENT

HMS maintains close and regular contact with its stakeholders. It is a key component of daily operations and an important tool for our long-term planning. The HMS key stakeholders are: owners and investors, employees, customers, suppliers, partners, authorities and society. The determination of key stakeholders for HMS reflects mutual dependency and the proximity between the stakeholders and the company. There is a continuous dialogue in various forums and in 2021, surveys and interviews were carried out to update the HMS materiality assessment.

Key stakeholders	Forums for engagement 2021	Important issues	How HMS addresses the issues
Owners and investors	Annual and Sustainability Report, quarterly reports, AGM, individual meetings.	Long-term profitability and growth, proactively managing risks, transparency, legal compliance, CO <sub>2</sub> emissions.	Group-wide goals and follow-up, accounting and reporting, policies, systematic work methods, transparency, lower CO <sub>2</sub> emissions.
Employees	Continuous dialogue, employee surveys, performance reviews.	Work conditions, human rights, personal development, health & safety, business ethics, energy consumption.	Group-wide goals and follow-up, policies, systematic work methods, deviation management systems, employee surveys, benefits, training.
Customers	Continuous dialogue and meetings, customer surveys.	Secured supply and lead times, high-quality products that generate lower energy consumption, legal compliance, CO <sub>2</sub> emissions, responsible purchasing, transparency.	Secured supply and customer support, innovation and product development, Group-wide goals and follow-up, secured legal compliance, reduced CO <sub>2</sub> emissions, transparency, accounting and reporting.
Suppliers and partners	Continuous dialogue and meetings, purchasing requirements, site visits.	Long-term profitability and growth, contract terms, customer satisfaction, secure supply and lead times, energy consumption, CO <sub>2</sub> emissions, human rights, health & safety.	Sound business ethics, transparent dialog, systematic working methods, Group-wide goals and follow-up, ensured legal compliance, reduced CO <sub>2</sub> emissions.
Authorities and society	Annual and Sustainability Report, continuous dialogue with authorities, decision-makers and certification bodies.	Sustainable products and increased circularity, current political issues, legal compliance, transparency.	Group-wide goals and follow-up, accounting and reporting, policies, systematic work methods, transparency.

The table shows HMS's key stakeholders and the different forums for engagement.





## MATERIAL SUSTAINABILITY RISKS

There are various sustainability risks associated with HMS's operations. The most significant sustainability risks and value chain were identified in conjunction with updating the materiality assessment. The potential negative impact has been based on following perspectives: environment, employees, society, human rights and anti-corruption.

Risk area	Description	Governance and management
Use of rare metals and minerals in products	Potential negative environmental impact and risk of human rights violations in the extraction, production and use of valuable and rare metals and minerals used in the manufacture of components.	The HMS policy for conflict minerals provides guidance on traceability reporting to ensure a conflict-free supply chain. Suppliers must comply with the HMS Conflict Minerals Policy, which includes, for example, providing information on the source and origin of potential conflict minerals in deliveries to HMS.
Emissions	Negative environmental impact through emissions from production and transport in HMS's own production and in the value chain.	HMS complies with current environmental requirements and the Code of Conduct and Environmental Policy contain guidelines for governance of the business. The Supplier Code of Conduct clarifies requirements and expectations on business partners in the environmental area. Several of HMS's businesses have environmental management systems. The HMS Group-wide goal of a net positive carbon footprint by 2025 serves as a guide and several initiatives have been initiated to reduce emissions in the value chain. Examples are collecting more data on emissions, the transition to a fossil-free vehicle fleet, investment in solar cells.
Waste management	Negative environmental impact from emissions, which contributes to climate change and air pollution.	Waste that is generated at facilities is managed by professional waste management companies. A large portion of the waste is recycled, but in cases where recycling is not possible, the waste is treated through energy recovery. Ensuring that products and materials are used as long as possible is an effective way of lowering the negative impact and amount of electronic waste. Another important measure is designing products that are easy to take apart, recycle and to extract hazardous substances.
Health and work environment	The working environment and various parts of the HMS business can involve risks to our employees' health, including psychosocial health.	HMS works systematically with the working environment according to accepted methodologies, with a stated ambition of continuous improvement. The HMS Code of Conduct and Supplier Code of Conduct, together with specific HR policies, contain guidelines for health and working environment. Employee surveys and performance reviews are conducted on a regular basis. Employees are offered occupational health services and exercise/wellness benefits, all of which is aimed at creating a healthy workplace.

Risk area	Description	Governance and management
Human rights	Risk of deficient working conditions and respect for, among other things, basic principles in the ILO's core conventions in the HMS value chain.	Respect for human rights is an important part of how we run business and in collaboration with partners. HMS assesses that the risk of human rights violations is greatest in the supply chain. The Code of Conduct addresses equal treatment, non-discrimination, good working conditions, freedom of association, health and safety, as well as a ban on slavery and child labor as important principles. The Supplier Code of Conduct specifies various equality principles that suppliers and partners are expected to comply with. The HMS Conflict Minerals Policy provides guidance on traceability reporting to ensure a conflict-free supply chain.
Business ethics and anti-corruption	Risk of corruption and inadequate compliance with anti-competition legislation in the HMS value chain.	HMS is active in both domestic and international markets via various types of purchase and sales channels. The corruption risks in these environments vary, but they are always present and it necessitates proactive efforts to ensure that responsibility is being taken in the business and value chain. The Code of Conduct contains guidelines and business principles for employees and representatives of HMS. Employees are able to anonymously report any irregularities via an externally managed whistleblower function. Registered reports are received and managed by the HMS whistleblower team. If it is decided that further investigation is needed, there is a set process for how the case will be managed. The HMS principles and guidelines in this area have been communicated to suppliers and partners in the Supplier Code of Conduct.
Information security	Deficiencies in IT security can result in an uncontrolled dissemination of sensitive information about our employees and partners.	HMS continuously strives to evaluate and fortify information security via technical solutions, administrative process and an overall risk awareness. A high level of information security is very important for both us and our customers. Security at HMS is continuously evaluated through internal controls and tests that are run by external partners. Regarding how personal data is managed, there is compliance with current laws and regulations, along with carefully designed routines for managing such information. A cornerstone of security efforts is for HMS users to have risk awareness, which is why we regularly offer training about the current risks and how to manage information in a safe way. Companies belonging to the Group manage large quantities of customer data and they have been certified in accordance with ISO27001 Information Security, which is also audited each year by an independent auditor.

## GRI APPENDIX

**OVERALL GOVERNANCE AND ORGANIZATION**

The foundation for HMS sustainability work is internationally recognized principles, such as the 17 UN Sustainable Development Goals, the ten principles of the UN Global Compact and the UN Guiding Principles of Human Rights. Other important starting points for our work with sustainability are global climate efforts in the form of climate agreements, regional/national principles and legislation.

The HMS Code of Conduct, Supplier Code of Conduct and Environmental Policy guide the work in our focus areas for sustainability. Sustainability is also a central part of the HMS Strategy 2025 and the Group-wide goals that govern our priorities and daily efforts. The goals have been integrated into both business plans and follow-up. The precautionary principle is applied in the daily work, with ambition to minimize or entirely avoid negative impact.

Sustainability is of high importance of the Board of Directors and the Group management team has been given responsibility to define the strategic direction of initiatives and priorities, along with ensuring that the work progresses. The Sustainability Department is responsible for running, coordinating and following-up on the Group's sustainability agenda. Sustainability is represented on the Group management team by the CFO. Dialogue and collaboration with the different parts of the HMS organization is a foundation when driving the agenda.

Collaboration and shared responsibility are important corner stones in the HMS business model and organization. The organization complies with applicable national legislation and with the group-wide goals and guidelines. Direct responsibility for sustainability work has thus been delegated by the CEO to each business area manager. It means that each area of operations within HMS is responsible for implementing the goals and guidelines, initiating activities and following up on the work in their area of responsibility. Management systems have been implemented for governance at the various parts of the organization.

A global sustainability team was set up during the year, tasked with driving the group-wide agenda forward, coordinating initiatives, follow-up and knowledge-sharing within the company. The team is coordinated by the Global Sustainability Department.

**CERTIFIED MANAGEMENT SYSTEMS WITHIN THE GROUP**

Business unit	ISO certification
Anybus, Halmstad	ISO9001:2015, ISO14001:2015
Ewon, Nivelles	ISO27001:2013 <sup>1</sup>
Intesis, Igualada	ISO9001:2015, ISO14001:2015
Ixxat, Ravensburg	ISO9001:2015

<sup>1</sup> The certification covers Talk2M and industrial cloud solutions and gateways.

**GOVERNANCE AND RESPONSIBILITIES FOR HMS'S MATERIAL SUSTAINABILITY ISSUES**

Material issue	GRI standard	Legislation, policies, guidelines and procedures for governance	Allocation of responsibility within HMS	Evaluation of governance and results
Energy and climate	GRI 302: Energy GRI 305: Emissions	National legislation, Code of Conduct, environmental policy, car policy, travel policy, ISO14001, business-specific goals and key figures.	Group management team, business area managers, Global Sustainability Manager	Follow-up of activities and results in the Group management team and cooperation forum, reporting to the Annual and Sustainability Report, reporting to authorities.
Sustainable product development and circularity	GRI 306: Waste	National legislation, Code of Conduct, environmental policy, ISO14001, general purchasing conditions, supplier agreements.	Group management team, Product Development Managers, Global Sustainability Manager	Follow-up of activities and results in the Group management team, reporting to the Annual and Sustainability Report, reporting to authorities.
Business ethics and anti-corruption	GRI 205: Anti-corruption	National legislation, Code of Conduct, Supplier Code of Conduct, training, work with basic values.	HMS Board of Directors, Group management team, Global Sustainability Manager, HMS Whistleblowing Team	Continuous financial follow-up, follow-up of cases reported via the HMS whistleblower function, reporting to the Annual and Sustainability Report.
Responsible behavior in the value chain	GRI 308: Supplier environmental assessment GRI 414: Supplier social impact assessment	National legislation, Code of Conduct, Supplier Code of Conduct, policy for conflict minerals, ISO14001, general purchasing conditions, supplier agreements.	Group management, Global Supply Manager, Global Sustainability Manager	Follow-up of suppliers, reporting to the Annual and Sustainability Report.
Information security and customer privacy	GRI 418: Customer privacy	National legislation, Code of Conduct, privacy and information security policies, ISO9001, ISO27001, written instructions and procedures.	Group management, Information and Security Director, Product Development Managers	Follow-up of activities/results and reported incidents, reporting to the Annual and Sustainability Report.
Diversity and equality	GRI 405: Diversity and equal opportunity	National legislation, Code of Conduct, instructions and manuals for employees, deviation management systems, company values, business-specific goals and key figures, employee surveys and interviews, training.	Group management, business area managers (each for their own business area), HR functions and collaboration forums	Follow-up of activities and results in the Group management team and cooperation forum, reporting to the Annual and Sustainability Report.
Health and safety	GRI 403: Health and safety	National legislation, Code of Conduct, HR policies, instructions and manuals for employees, deviation management systems, company values, business-specific goals and key figures, employee surveys and interviews, training.	Group management, business area managers (each for their own business area), HR functions and collaboration forums	Follow-up of safety rounds and reported incidents in safety committees and management groups, reporting to the Annual and Sustainability Report.

## Environment

HMS's material issues within the environmental area are energy, climate, sustainable product development and circular solutions. For these issues, HMS's impact and responsibility stretches across the entire value chain.

HMS's overall goal is to be CO<sub>2</sub> net-positive by 2025. The goal is in line with the Paris Agreement of minimizing greenhouse gases in the atmosphere and thereby limiting global warming. To ensure efficient working methods and constantly work with improvement, the HMS head office implemented ISO14001 Environmental Management in 2021. The environmental management system has been integrated with the existing ISO9001 Quality Management system.

### ENERGY AND CLIMATE

Most of HMS's carbon footprint is attributable to suppliers, where transports account for 73 percent of the total CO<sub>2</sub> emissions. Emissions from HMS's own operations are primarily attributable to energy consumption, company cars and business travel.

HMS calculates and reports its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol (GHG) and applies financial control as the consolidation method. Calculations of CO<sub>2</sub> emissions are done using the Cemasys tool, which includes a global database with emission factors. The Global Warming Potential (GWP) used when calculating carbon dioxide equivalents is based on the IPCC Fourth Assessment Report (AR4), except for calculations for waste in Scope 3, where emission factors based on IPCC AR5 are used.

Activity data is based on invoice information, measurements, estimates, calculations or information reported by suppliers. Due to uncertainty in measurements and estimates, there is also some uncertainty in the reported emission data.

Base years have been determined based on data quality and data on emissions for 2020 have been adjusted from what was previously reported. More business areas have been included and the emission data from 2020 has thus been updated to broaden the scope. Emission data for 2020 has been updated with recalculations in Scope 1 and business trips with flights in Scope 3, along with an expanded reporting of data in Scope 2 and Scope 3 regarding heating, cooling, waste and business travel.

The following HMS businesses are not included in reported emission data: Webfactory Romania, HMS's minor sales offices in Singapore, Dubai and India, US logistic center as well as Owasys which was acquired in July 2021.

### SCOPE 1 (DIRECT) CO<sub>2</sub> EMISSIONS GENERATED FROM HMS OPERATIONS

Scope 1 refers to direct emissions from operations that are owned or controlled by HMS. The table below covers fuel for company cars used for business travel.

Scope 1	2021		2020	
Fossil fuels	Liters	tCO <sub>2</sub>	Liters	tCO <sub>2</sub>
Diesel	17,347.6	46.8	19,465.8	52.1
Petrol	16,464.9	38.4	10,317	23.7
Total Scope 1	33,812.5	85.2	29,782.8	75.8

#### Comments:

Information on business travel with company cars has, in several cases, been estimated since the reported distance also include private use. The calculations has been based on a percentage estimation of the proportion of mileage covered by business trips. In 2021, digital meeting replaced a large portion of business travel, due to restrictions associated with the pandemic. Emissions from business travel increased from 75.8 tCO<sub>2</sub> in 2020 to 85.2 tCO<sub>2</sub> in 2021. The increase is attributable to having added more business areas to the reporting.



### SCOPE 2 (INDIRECT) CO<sub>2</sub> EMISSIONS GENERATED FROM HMS OPERATIONS

Scope 2 pertains to the indirect emissions associated with purchasing, electricity consumptions, heating & cooling, which is controlled by HMS.

Scope 2	2021		2020	
Energy consumption	MWh	tCO <sub>2</sub>	MWh	tCO <sub>2</sub>
Electricity consumption - Properties and production	1,710.8	91.5	1,499.6	105.5
Electricity consumption - Transports <sup>1</sup>	11.5	1.3	1.3	0.4
Heating	1,019.1	107	962.1	98.7
Cooling	339.6	0.5	299.3	0.1
Total Scope 2	3,081	200.3	2,762.3	204.7

<sup>1</sup>When calculating electricity consumption from hybrid and electric cars, it has been assumed that the energy source is non-renewable in all countries except Sweden. Energy consumption from hybrid vehicles has been calculated based on 30 percent electric and 70 percent fuel consumption.

Percentage renewable energy	2021		2020	
	MWh	Percentage	MWh	Percentage
Green electricity <sup>1</sup>	1,454.2	85	1,203.5	80
Total energy consumption from renewable sources <sup>2</sup>	2,047.6	67	1,748.9	63

<sup>1</sup> Includes renewable electricity from real estate, hybrid and electric cars

<sup>2</sup> Includes renewable electricity from real estate, hybrid and electric cars as well as heating and cooling

#### Comments:

All of the HMS business units are required to use renewable energy and switch to renewable energy wherever possible. The percentage of renewable energy sources increased from 63 percent in 2020 to 67 percent in 2021, which has lowered the CO<sub>2</sub> emissions from energy consumption, even though total energy consumption has slightly increased. Five more business areas increased the percentage of renewable energy in 2021, of which three transitioned to 100 percent renewable energy. Green electricity agreements are in place for many HMS premises. At the head office, a large portion of the district heating will be upgraded to renewable district heating in 2022.

## GRI APPENDIX

**ENERGY INTENSITY**

Energy intensity has been calculated on the basis of the organization's consumed energy and number delivered units.

Energy intensity	2021		2020	
Fossil fuels	kWh	Units	kWh	Units
Energy consumption <sup>1</sup> and delivered units	3,069,500	1,208,891	2,761,000	979,739
Energy intensity	2.5 kWh/unit		2.8 kWh/unit	

<sup>1</sup> Includes consumed electricity, heating and cooling. Electricity consumption from electric cars is not included.

**EMISSION INTENSITY**

Emission intensity has been calculated on the basis of the organization's total CO<sub>2</sub> emissions in Scope 1-3 and total net sales for the year.

Emissions intensity Scope 1 and 2	2021		2020	
	tCO <sub>2</sub>	Net sales (SEK billion)	tCO <sub>2</sub>	Net sales (SEK billion)
Scope 1	85.2	1.940	75.8	1.467
Scope 2	200.3		204.7	
Intensity	147.2 tCO <sub>2</sub> /net sales		191.2 tCO <sub>2</sub> /net sales	

Emissions intensity Scope 3	2021		2020	
	tCO <sub>2</sub>	Net sales (SEK billion)	tCO <sub>2</sub>	Net sales (SEK billion)
Sales	1 222.6	1.940	972.2	1.467
Intensity	630.2 tCO <sub>2</sub> /net sales		662.7 tCO <sub>2</sub> /net sales	

**SCOPE 3 (INDIRECT) CO<sub>2</sub> EMISSIONS GENERATED FROM HMS OPERATIONS**

Scope 3 refers to indirect emissions from sources that are not owned or not directly controlled by HMS. The table below covers both downstream and upstream transports of materials with the company's own transport account, business travel and waste generated by own operations.

Scope 3	2021		2020	
Transports <sup>1</sup>	tCO <sub>2</sub>		tCO <sub>2</sub>	
Downstream transports	611.3		419.5	
Upstream transports	489.1		449.4	
<b>Total for transports</b>	<b>1,100.4</b>		<b>868.6</b>	
Business travel <sup>1</sup>	pkm	tCO <sub>2</sub>	pkm	tCO <sub>2</sub>
Air	452,441	78.2	347,603	59.9
Train	106,142	0.3	21,984	0.1
Ferry	159	0.1	112	0.1
Rentals & taxi	13,298	2.3	6,127	1
Business travel, private car	16,600	2.7	22,500	3.6
<b>Total for business travel</b>	<b>588,640</b>	<b>83.6</b>	<b>398,326</b>	<b>64.7</b>
Waste from own operations <sup>2</sup>	tons	tCO <sub>2</sub>	tons	tCO <sub>2</sub>
Hazardous waste	1.8	-	2.3	-
Glass, recycled	0	-	0.4	-
Paper, recycled	3.5	-	4.2	-
Cardboard, recycled	27.7	0.6	22.6	0.5
Metal, recycled	3.5	0.1	0.8	-
EE waste, recycled	0.9	-	1.6	-
Plastic, recycled	1.1	-	0.6	-
EUR pallets, reused	0.5	-	0.1	-
Wood, recycled	0.6	-	0.2	-
Sorted waste, recycled	0.7	-	0	-
Residual waste, incinerated	75.8	37.9	76.5	38.4
<b>Total for waste</b>	<b>116.1</b>	<b>38.6</b>	<b>109.3</b>	<b>38.9</b>
<b>Total Scope 3</b>	<b>1,222.6</b>		<b>972.2</b>	

<sup>1</sup> Does not include Procentec

<sup>2</sup> Includes waste from business areas Anybus, Ixxat, Ewon, Intesis.

**Comments:**

Emissions data from transports has been collected from each transport company and calculated on the basis of the of Well to Wheel (WtW) concept. A few transport companies have not reported the actual distribution of imports and exports, so the data is based in part on their own assumptions.

Data on business travel has been collected from travel agencies and via invoices. The calculations have been partly based on assumptions. Emissions from air travel have been adjusted for 2020, the correction was needed in order to take account credited trips. The adjusted data resulted in decreased emissions comparing to reported data in previous sustainability report.

Waste generated at facilities is managed by professional waste management companies. In cases where it has not been possible to establish the collected amounts, it has been estimated based on the organization's size. The figures reported for waste in previous years have been adjusted. The amount is now higher, to include business units that had not been included earlier.



## SUSTAINABLE PRODUCT DEVELOPMENT AND CIRCULAR SOLUTIONS

HMS strives for a responsible utilization of natural resources throughout the value chain, which includes improving energy performance of products, promoting the use of recycled materials, reducing the amount of waste and increasing the percentage of waste that can be recycled. Data on energy intensity and waste generated from HMS's own operations is reported on page 122. Emissions data from waste has been calculated for the following HMS business areas: Anybus, Ewon, Intesis and Ixxat.

Electronical waste is managed in accordance with customary practices to ensure recycling of materials and to minimize emissions from hazardous substances. HMS customers may, if necessary, return their used products to their local HMS office, which will then take responsibility for its disposal or reuse.

### THE HMS EFFECT

HMS products help save energy and lower the amount of business travel for our customers. We call it the "HMS effect" and the calculation is made as follows:

### REMOTE CONTROL RESULTS IN FEWER SERVICE CALLS

HMS customers used Ewon solutions for remote access and control of their industrial equipment and we estimate that it has enabled

them to lower their environmental impact by 908,000 tons CO<sub>2</sub> in 2021.

Our calculation: We looked at the amount of remote connections to our Talk2M cloud service that were more than 15 minutes long. Then, we estimated the number of service calls that would have been needed instead, thereafter calculating the amount of emissions that would have resulted from those trips. We took into account the connection time for connections that were more than 15 minutes long. The time has been compiled on a 2.5-hour basis, in order to arrive at the number of flights customers would have taken (based on the assumption that air travel is not an alternative for travels less than 2.5 hours of site work). This gives us the number of flights. An average one-way flight is considered to be 1,400 km and two-way is 2,800 km. The CO<sub>2</sub> emissions are 0.12 kg per km.

### MORE EFFICIENT AC USE

The Intensis AC interface has saved 180,000 tons of CO<sub>2</sub> emissions to the atmosphere in 2021 thanks to our control of 1,043,500 AC units. It corresponds to 610 GWh power, which is equivalent to the annual consumption of a town with 27,000 inhabitants or the amount of carbon dioxide that can be absorbed by 7.2 million trees.

Our calculation: Based on the number of AC units controlled by the Intensis AC interface, we estimate the energy consumption to be 30 percent lower with the Intensis AC Interface (based on customer reports).





## Responsible business

HMS's impact and responsibility extends throughout the entire value chain. We work together with our suppliers and customers to ensure responsible behavior. HMS's material issues in the area are information security and customer privacy, responsible behavior in the value chain, business ethics and anti-corruption.

### INFORMATION SECURITY AND CUSTOMER PRIVACY

IT security is an important part of sustainable product development and is essential for the company's long-term success, competitiveness and reputation. HMS's impact occurs mainly during the customer's use of the product and in their own operations.

HMS is responsible for ensuring a high level of IT security and protecting customers' data. Employees are regularly kept informed about customer privacy and cybersecurity. HMS has clear policies and routines for ensuring systematic working methods and some parts of the business is certified according to ISO27001, Information Security Management System.

### RESPONSIBILITY IN THE VALUE CHAIN

HMS has many suppliers for the various needs of the business, such as electronic components, plastics, packaging material and services. HMS also has long-term partnerships with contract manufacturers of proprietary products. A large portion of HMS's sustainability impact occurs in our value chain. Accordingly, close collaboration with our suppliers is a prerequisite for ensuring responsible behavior and for meeting our sustainability goals.

HMS Global Supply has an overall responsibility for the supply of components and products. Some of the responsibility for purchasing of goods and services has, however, been allocated to various HMS business areas and functions.

The HMS Supplier Code of Conduct, general purchasing conditions and Policy for Conflict

Minerals are fundamental documents when ensuring responsibility in the value chain. We request that suppliers sign the Supplier Code of Conduct, or that they have an equivalent policy established.

Routines for monitoring supplier performance are in place and follow-up discussions take place on a regular basis with our strategically important suppliers. Legal compliance checks are performed for the content in products and there is an annual risk evaluation on the existence of conflict minerals in the supply chain. The outcome from this year's reporting was not entirely satisfactory, as only 64 percent of the suppliers responded. The outcome can be traced to the new information platform used for data collection and compilation, measures have been taken in order to improve the response rate for the coming years. During the year, HMS established collaboration with 14 new suppliers, one of which was evaluated on the basis of environmental and social criteria through an on-site audit.

### BUSINESS ETHICS & ANTI-CORRUPTION

HMS operates on the global market, with customers in all parts of the value chain and in different geographical areas. Our business conduct is a concern for both our employees and our business partners in the value chain. Proactive efforts addressing responsible business ethics and anti-corruption are therefore always important. HMS's principles in the area are stated in our Code of Conduct and Supplier Code of Conduct.

During the year, an updated version of the Code of Conduct was taken by the Board of Directors. The updated version was published for all HMS employees to read on the HMS intranet and on the HMS website for external stakeholders. In 2022, all HMS employees will receive training on the principles in the updated Code of Conduct. New employees will be trained during onboarding and the training will then be continuously renewed. Employees are able to anonymously report any suspected irregularities via a whistleblower function and the Group

management team and Board of Directors follow up on outcome each year. In 2021, no irregularities were reported in the existing whistleblower system.

### MEMBERSHIP IN ORGANIZATIONS

HMS is a member of several organizations to promote innovation and business development. The strategic memberships of HMS are:

- 5G-ACIA (5G Alliance for Connected Industry and Automation)
- BACnet International
- Bluetooth SIG, Inc.
- CiA (CAN in Automation)
- CLPA (CC-Link Partner Association)
- CSIA (Control Systems Integrators Association)
- DiiA (Digital Illumination Interface Alliance)
- DNP (Distributed Network Protocol)
- EPSG (Ethernet Powerlink Standardization Group)
- Ericsson Industry 4.0 Partner Program
- ETG (EtherCAT Technology Group)
- FABLAB (Halmstad University)
- IO-Link Consortium
- KNX
- Modbus Organization
- ODVA
- OPC Foundation
- PAC World
- PI (PROFIBUS and PROFINET International)
- Rockwell Automation Technology Partner
- Schneider Electric Technology Partner
- THINGS
- PTC Technology Partner
- VDMA (The Mechanical Engineering Industry Association)

## Employee engagement

HMS strives to offer its employees opportunities for personal and professional development in a growing, dynamic and international organization. HMS's material issues in the area are health and safety, which includes safe workplaces, employee health and well-being, diversity and equality.

All employees are entitled to join a union. As of year-end 2021, 52 percent of employees of the Group were covered by collective agreements and for HMS's Swedish operations, all employees were covered by such.

### HEALTH AND SAFETY

Health and safety in the workplace is a prerequisite to attract and retain employees. Thriving employees who have the right conditions for work facilitates efficiency and motivation for development. We actively strive to create a workplace that is healthy in all areas (socially, physically and psychologically) for all employees through measures to prevent the risk of work-related injuries and unwellness. Systematic working environment efforts include investigating, preventing, implementing and follow-up.

All business areas and companies in the HMS Group comply with the relevant national legislation and working environment regulations. In Sweden, it is a legal requirement for employers to work systematically with the working environment (AFS 2001:1) and the supervisory authority for that is the Swedish Work Environment Authority. There are similar regulations in place elsewhere,



such as Spain, where preventive work environment efforts are regulated by Act 31/95.

The HMS Code of Conduct and Supplier Code of Conduct contain guidelines on occupational health and the working environment, with systematic efforts managed via policies and instructions in the organization. To ensure that systematic working environment efforts are being done, HMS also has a variety of management systems in place that cover HMS employees. However, none of those systems have yet obtained certification in accordance with international standards.

In 2021 the HMS Swedish operations, Intesis, Ewon, Procentec and Owasys had separate management systems for occupational health and safety. Together, they covered 59 percent of HMS employees. At present, no formal management systems are in place for the remaining parts of the organization, but comparable routines, instructions, activities and follow-up are in place.

Consultants and hired staff must comply with guidelines at the HMS facility where they operate. There is currently no widespread and systematic follow-up on the percentage of staff working on assignment for HMS, who are employed by an external partner.

As part of risk prevention activities, safety rounds are carried through regularly and is monitored by safety committees at most HMS businesses areas. At some of our premises, safety rounds are performed by external parties, while implementation and corrective measures are the responsibility of internal staff and management teams.

Risks and incidents are reported in deviation management systems, to the manager in charge or person with the assigned responsibility at each location. All reported incidents are followed up and corrective measures are decided upon. Operational responsibility for the working environment typically belongs to the HR function. However, the executive management team at each business has an ultimate responsibility for the working environment. Since incidents, work-related injuries and illness are reported according to local routines and definitions in each country,

information is not currently compiled at the Group level.

For the Swedish operations, HMS employees are represented by union occupational health representatives. During safety rounds, employees also have the opportunity to participate and provide feedback.

All relevant information concerning guidelines and preventive efforts are published on the HMS intranet. Information is given to new employees and fire drill exercises are regularly performed. Employee surveys and performance reviews are done on a regular basis to obtain an overview of how employees feel about their work situation.

Most business areas and companies in the HMS Group offer their employees various forms of occupational health services and insurance. However, it was not possible to verify information from the HMS businesses in Asia. HMS encourages employees to engage in physical activities and supports health and wellness through wellness subsidies, gym access, group activities and health examinations.

## DIVERSITY AND EQUALITY

Higher diversity and equality is a crucial cornerstone for strengthening the HMS company culture and building our organization for the future. HMS has, through our impact, not only significant opportunities for improving diversity and equality in our own organization, but also helping to move our industry in a positive direction.

HMS's overall goal is to have 20 percent women in managerial positions by 2025. In 2021, there were 15 percent women in managerial positions (a total of 17 women). Gender distribution for the HMS Board of Directors in 2021 was 33 percent women (2 people) and 67 percent men (4 people). The Group management team in 2021 consisted of five men.

With several initiatives to increase the percentage of women working at HMS the number has been steadily rising over the last few years. Those efforts continue, aimed at creating an equal, inclusive working environment for the entire company.

Number of employees	2019		2020		2021	
	Women	Men	Women	Men	Women	Men
<b>Total no. of employees</b>	<b>148</b>	<b>476</b>	<b>158</b>	<b>535</b>	<b>185</b>	<b>566</b>
Permanent employees	145	476	158	535	185	566
- Full-time	140	461	138	511	156	536
- Part-time	5	53	20	24	29	30
Temporary employees	3	-	-	-	-	-
<b>Europe</b>						
<b>Total no. of employees</b>	<b>129</b>	<b>404</b>	<b>141</b>	<b>465</b>	<b>165</b>	<b>500</b>
Permanent employees	126	404	141	465	165	500
- Full-time	122	389	121	441	137	470
- Part-time	4	15	20	24	28	30
Temporary employees	3	-	-	-	-	-
<b>Asia</b>						
<b>Total no. of employees</b>	<b>9</b>	<b>34</b>	<b>8</b>	<b>36</b>	<b>11</b>	<b>38</b>
Permanent employees	9	34	8	36	11	38
- Full-time	-	-	-	-	10	38
- Part-time	-	-	-	-	1	0
Temporary employees	-	-	-	-	-	-
<b>North and South America</b>						
<b>Total no. of employees</b>	<b>10</b>	<b>38</b>	<b>9</b>	<b>34</b>	<b>9</b>	<b>28</b>
Permanent employees	10	38	9	34	9	28
- Full-time	9	38	9	34	9	28
- Part-time	1	-	-	-	-	-
Temporary employees	-	-	-	-	-	-

The table shows the total number of employees for each type of employment contract as of 31 December. HMS does not have any seasonal variations in the number of employees during the year. Information on temporary employees has not been compiled for 2020-2021.

Age distribution, %	2020			2021		
	Total	Managers	Employees	Total	Managers	Employees
<b>&lt; 30 years</b>	<b>14%</b>	<b>0%</b>	<b>14%</b>	<b>13%</b>	<b>0%</b>	<b>13%</b>
- women	4%	0%	4%	4%	0%	4%
- men	10%	0%	10%	9%	0%	9%
<b>30-50 years</b>	<b>67%</b>	<b>10%</b>	<b>58%</b>	<b>68%</b>	<b>11%</b>	<b>57%</b>
- women	18%	1%	17%	17%	2%	16%
- men	49%	9%	41%	50%	9%	41%
<b>&gt; 50 years</b>	<b>18%</b>	<b>4%</b>	<b>14%</b>	<b>19%</b>	<b>4%</b>	<b>15%</b>
- women	4%	0%	4%	5%	1%	4%
- men	13%	4%	9%	15%	3%	11%
<b>Average age</b>	<b>40</b>	<b>46</b>	<b>41</b>	<b>42</b>	<b>46</b>	<b>41</b>

## Reporting of the EU Taxonomy Regulation

The EU Taxonomy Regulation is a classification system for environmentally sustainable economic activity and a key tool for achieving the EU's CO<sub>2</sub> neutrality target by 2050. During the year, HMS surveyed the organization based on the Taxonomy disclosure requirements and the existing objectives "Climate change mitigation" and "Climate change adaptation". The survey revealed compatible and incompatible activities in relation to the existing parts of the taxonomy, with the following conclusions:

- Most of HMS's sales are derived from its own manufactured physical products, which primarily fall under the category of activity 3.6, "Manufacture of other low carbon activities". HMS has, however, chosen a strict interpretation of the activity based on the requirement that the business should be "aimed at substantial GHG emission reduction" and has concluded that the positive reductions in greenhouse gas emissions that the products generate among HMS customers can only be classified as a side effect according to the Taxonomy.
- HMS cloud-based solutions represented only a small portion of HMS sales for 2021 and fall under the activity 8.1, "Data processing, hosting and related activities". These products are primarily related to Ewon Talk2M and WEBfactory i4, and help mitigate climate change, primarily by reducing the need to make service calls.
- HMS did not make any investments during the year related to the taxonomy-compatible cloud-based solutions. Regarding other investments, it was not possible to follow up on suppliers' compatibility with the Taxonomy because of the availability of data.
- For HMS operating costs, taxonomy-compatible activities are reported for R&D costs associated with HMS cloud-based solutions.

	Total (SEK billion)	Proportion taxonomy-eligible activities (%)	Proportion non taxonomy-eligible activities (%)
Turnover	1,972	2%	98%
Capex	79	0%	100%
Opex	223	8%	92%

The table presents taxonomy-eligible economic activities related to the EU's first two environmental objectives, presented by the share of HMS turnover, investment expenses and operating costs for 2021. HMS determines the eligibility of the activities in accordance with the Taxonomy Regulation, Article 8, Annex I.

### ACCOUNTING POLICIES

The specification of the KPIs is determined in accordance with Annex I of the Art. 8 Delegated Act. We determine the taxonomy-eligible KPIs in accordance with the legal requirements and describe our accounting policy in this regard as follows:

#### Turnover KPI

##### Definition

The proportion of taxonomy-eligible economic activities in our total turnover has been calculated as the part of net turnover derived from products and services associated with taxonomy-eligible eco-

nomical activities (numerator) divided by the net turnover (denominator). The denominator of the turnover KPI is based on our consolidated net turnover in accordance with IAS 1.82(a).

##### Reconciliation

Our consolidated net turnover can be reconciled to our consolidated financial statements, cf. income statement on page 64 of our Annual Report 2021 ("Net sales").

#### Capex KPI

##### Definition

The Capex KPI is defined as taxonomy-eligible Capex (numerator) divided by our total Capex (denominator). With regard to the numerator, we refer to our explanations below.

Total Capex consists of additions to tangible and intangible fixed assets during the financial year, before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments, as well as excluding changes in fair value. It includes additions to fixed assets (IAS 16), intangible assets (IAS 38) and right-of-use assets (IFRS 16). Additions resulting from business combinations are also included. Goodwill is not included in Capex as it is not defined as an intangible asset in accordance with IAS 38.

##### Reconciliation

HMS total Capex can be reconciled to our consolidated financial statements, cf. pages 86 and 88 of our Annual Report 2021 ("Note 16 Intangible assets" and "Note 17 Property, plant and equipment"). They are the total of:

- Investments,
- Acquisition of subsidiaries (Goodwill excluded) for intangible assets, right-of-use assets and property, plant and equipment.

#### Opex KPI

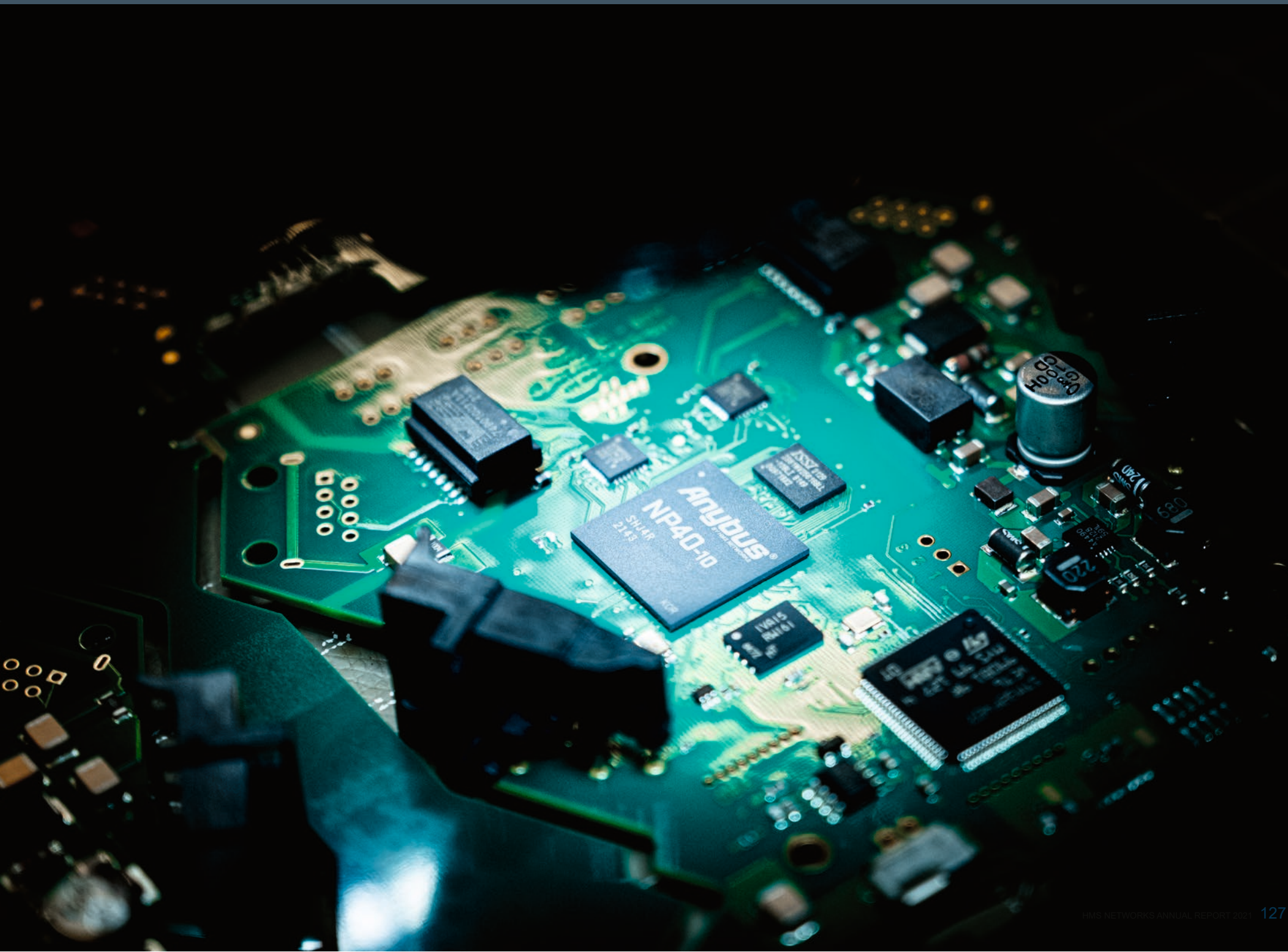
##### Definition and reconciliation

The Opex KPI is defined as taxonomy-eligible Opex (numerator) divided by our total Opex (denominator). With regard to the numerator, we refer to our explanations below.

Total Opex consists of direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment. This includes:

- Research and development expenditure recognized as an expense during the reporting period in our income statement (cf. page 64 of our Annual Report 2021).
- The volume of non-capitalized leases was determined in accordance with IFRS 16 and includes expenses for short-term leases and low-value leases (cf. page 90 of our Annual Report 2021).
- Maintenance and repair and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment were determined based on the maintenance and repair costs allocated to our internal cost centers. The related cost items can be found in various line items in our income statement.





## GRI APPENDIX

## GRI CONTENT INDEX — GENERAL DISCLOSURES

GRI Standard	Disclosure	Description	Page	Comment
Organizational profile				
GRI 102: General disclosures 2016	102-1	Name of the organization	29	
	102-2	Activities, brands, products, and services	6-12, 17-27	
	102-3	Location of headquarters	12	
	102-4	Location of operations	12	
	102-5	Ownership and legal form	4-5	
	102-6	Markets served	6-8, 18-27	
	102-7	Scale of the organization	1	
	102-8	Information on employees and other workers	125	
	102-9	Supply chain	34-35, 119-120, 124	
	102-10	Significant changes to the organization and its supply chain	1, 3	
	102-11	Precautionary Principle or approach	120	
	102-12	External initiatives	35	
	102-13	Membership of associations	124	
Strategy				
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker	2-3	
Ethics and integrity				
GRI 102: General disclosures 2016	102-16	Values, principles, standards, and norms of behavior	34-36, 119-120, 124-125	
Governance				
GRI 102: General disclosures 2016	102-18	Governance structure	41-51, 120	
Stakeholder engagement				
GRI 102: General disclosures 2016	102-40	List of stakeholder groups	118	
	102-41	Collective bargaining agreements	124	
	102-42	Identifying and selecting stakeholders	117-118	
	102-43	Approach to stakeholder engagement	117-118	
	102-44	Key topics and concerns raised	117-118	
Reporting practice				
GRI 102: General disclosures 2016	102-45	Entities included in the consolidated financial statements	117	
	102-46	Defining report content and topic boundaries	117	
	102-47	List of material topics	30-31, 117, 120	
	102-48	Restatements of information	117, 121-122	
	102-49	Changes in reporting	117, 121-122	
	102-50	Reporting period	117	
	102-51	Date of most recent report	117	
	102-52	Reporting cycle	117	
	102-53	Contact point for questions regarding the report	130	
	102-54	Claims of reporting in accordance with the GRI Standards	117	
	102-55	GRI content index	128-130	
	102-56	External assurance	117	

## GRI CONTENT INDEX — TOPIC-SPECIFIC DISCLOSURES

GRI Standard	Disclosure	Description	Page	Comment
<b>Economic</b>				
GRI 205: Anti-corruption 2016	103-1	Explanation of the material topic and its boundary	34, 119, 124	
	103-2	The management approach and its components	30-31, 34, 119-120	
	103-3	Evaluation of the management approach	34, 120, 124	
	205-2	Communication and training about anti-corruption policies and procedures	34, 124	Omission on employees and management teams who have completed training in the HMS Code of Conduct. The training is under update, to be completed in 2022.
<b>Environmental</b>				
GRI 302: Energy 2016	103-1	Explanation of the material topic and its boundary	30-33, 119, 121-123	
	103-2	The management approach and its components	30-31, 34, 119-120	
	103-3	Evaluation of the management approach	32-33, 120-123	
	302-1	Energy consumption within the organization	32-33, 121-122	
	302-3	Energy intensity	122	
GRI 305: Emissions 2016	103-1	Explanation of the material topic and its boundary	30-33, 119, 121-123	
	103-2	The management approach and its components	30-31, 34, 119-120	
	103-3	Evaluation of the management approach	32-33, 120-123	
	305-1	Direct (Scope 1) GHG emissions	33, 121	
	305-2	Energy indirect (Scope 2) GHG emissions	33, 121	
	305-3	Other indirect (Scope 3) GHG emissions	33, 122	
	305-4	GHG emissions intensity	33, 122	
GRI 306: Waste 2020	103-1	Explanation of the material topic and its boundary	30-33, 119, 121-123	
	103-2	The management approach and its components	30-31, 34, 119-120	
	103-3	Evaluation of the management approach	32-33, 120-123	
	306-3	Waste generated	122	Reported only for HMS business areas Anybus, Ewon, Intesis och Ixxat.
GRI 308: Supplier Environmental Assessment 2016	103-1	Explanation of the material topic and its boundary	34-35, 119, 124	
	103-2	The management approach and its components	34-35, 119-120	
	103-3	Evaluation of the management approach	34-35, 120, 124	
	308-1	New suppliers that were screened using environmental criteria	124	

## GRIAPPENDIX

GRI Standard	Disclosure	Description	Page	Comment
<b>Social</b>				
GRI 403: Occupational Health and Safety 2018	103-1	Explanation of the material topic and its boundary	36-37, 119, 124-125	
	103-2	The management approach and its components	30-31, 34, 119-120	
	103-3	Evaluation of the management approach	36-37, 120, 124-125	
	403-1	Occupational health and safety management system	124-125	
	403-2	Hazard identification, risk assessment, and incident investigation	125	
	403-3	Occupational health services	36, 125	
	403-4	Worker participation, consultation, and communication on occupational health and safety	36, 124-125	
	403-5	Worker training on occupational health and safety	34, 36, 124-125	
	403-6	Promotion of worker health	36-37, 124-125	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	124-125	
	403-8	Workers covered by an occupational health and safety management system	125	
GRI 405: Diversity and Equal Opportunity 2016	103-1	Explanation of the material topic and its boundary	30-31, 36, 124-125	
	103-2	The management approach and its components	30-31, 36, 119-120	
	103-3	Evaluation of the management approach	36, 120, 125	
	405-1	Diversity of governance bodies and employees	125	
GRI 414: Supplier Social Assessment 2016	103-1	Explanation of the material topic and its boundary	34-35, 119, 124	
	103-2	The management approach and its components	30-31, 34-35, 119-120	
	103-3	Evaluation of the management approach	34-35, 120, 124	
	414-1	New suppliers that were screened using social criteria	124	
GRI 418: Customer Privacy 2016	103-1	Explanation of the material topic and its boundary	31, 35, 119, 124	
	103-2	The management approach and its components	30-31, 119-120	
	103-3	Evaluation of the management approach	35, 120, 124	
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	35	No confirmed complaints 2021.

**CONTACT**

For more information on the Sustainability Report and our sustainability efforts, please contact:  
 Kristina Altnr, Sustainability Manager at HMS Networks, [kral@hms.se](mailto:kral@hms.se).



# Annual General Meeting April 21, 2022

The shareholders of HMS Networks AB (publ), Reg. no. 556661-8954, are hereby invited to the Annual General Meeting, which will be held at 10.30 a.m on Thursday 21 April 2022 at the HMS head office, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 9.30 a.m.

## Right to participate in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden AB (the Swedish Central Securities Depository) on Monday 11 April 2022 and give notice of their intention to participate in the Annual General Meeting no later than on Wednesday 13 April 2022 preferably before 4 p.m.

Notification shall be made by phone +46 (0)8 402 92 16, in writing to HMS Networks AB, "Annual General Meeting", c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden or via the website: [www.hms-networks.com](http://www.hms-networks.com). The notification should include name, personal ID number/CIN, address, daytime telephone number and, when applicable, information on assistants (no more than two).

## Proxies

If a shareholder is represented by a proxy, a proxy should be issued with a power of attorney for the proxy. Anyone representing a legal entity must present a copy of the registration certificate, or other document demonstrating the signatory's authority to sign for the legal entity. The power of attorney and any registration certificate may not be more than one year old, unless a longer period of validity is stated in the power of attorney (no more than five years). The power of attorney in original and, if applicable, registration certificate must be sent to HMS Networks AB, "Annual General Meeting", c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden or by email to [generalmeetingservice@euroclear.com](mailto:generalmeetingservice@euroclear.com), well in advance of the Annual General Meeting. A form of power of attorney is available on the HMS website [www.hms-networks.com](http://www.hms-networks.com) and at the company's head office.

## 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, register its shares in its own name so that the share-

holder is listed in the presentation of the share register as of Monday 11 April 2022. 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 Wednesday 13 April 2022 will be taken into account in the presentation of the share register.

Halmstad March 2022  
HMS Networks AB (publ)  
Styrelsen







## 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 14, 2022      **Q1 Report**
- April 21, 2022      **Annual General Meeting**
- July 14, 2022      **Q2 Report**
- October 22, 2022      **Q3 Report**
- January 26, 2023      **Q1 Report**



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## HMS – A leading company within industrial ICT

HMS develops and manufactures hardware and software for Industrial Information and Communication Technology. Our products enable 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, machines and systems 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 in our field.



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