

Corporate governance report

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

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



Structure for corporate governance

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

Shareholders and AGM

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

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

shareholders' right to attend the AGM and the agenda of the AGM.

Any shareholder who wishes to have a particular item dealt with at the AGM must submit a written request to the Board well in advance so that the item can be included in the notice of the AGM. Information on the deadline for submitting such requests to the Board is available on the company's website. Information relevant to the AGM and the minutes from the AGM are available on the company's website: www.hms.se.

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

Annual General Meeting 2012

The AGM was held on 19 April 2012 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 73% of the number of shares and votes. Those in attendance at the AGM were Chairman of the Board Urban Jansson and the following Board members: Nicolas Hassbjer, Göran Sigfridsson, Henrik Johans-

son, Ray Mauritsson, Charlotte Brogren and Gunilla Wikman. Also at the meeting were Jan Svensson, Chairman of the nomination committee and Olof Enerbäck from the firm of auditors. Shareholders at the AGM decided:

- to issue dividends of SEK 2.25 per share, totaling SEK 25,094,025
- that the Board would consist of seven members
- to re-elect all of the Board members
- to re-elect Urban Jansson as Chairman of the Board
- that remuneration to the Board would be SEK 1,200,000 for the next term, of which SEK 300,000 to the Chairman of the Board and SEK 150,000 to each Board member who is not employed by the company.
- on principles for appointing the nomination committee
- on guidelines for remuneration and other conditions of employment for the CEO and other senior executives
- on the authority of the Board to issue new shares
- to set up an incentive program open to all employees of the Group.

Nomination committee

The AGM decides on how the nomination committee is appointed. It is the duty of the nomination committee to, prior to the next AGM, prepare and submit proposals for a Chairman of the Board and other Board mem-

bers, 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 2012 AGM, there was a decision on the principles for establishing a nomination committee at HMS Networks AB. In accordance with the nomination committee's proposal, the shareholders at the AGM decided that the nomination committee would consist of the Chairman of Board, along with representatives from the largest shareholders (as of 31 August) up until the next AGM is held or, when necessary, until such time as a new nomination committee has been appointed.

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

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

Members of the nomination committee and voting rights

Representative	Shareholder	Voting rights (% of total) as of 31 Dec 2012
Nicolas Hassbjer	Representing Staffan Dahlström and own holdings	28.5
Jan Svensson, Chairman	Investment AB Latour	25.0
Evert Carlsson	Swedbank Robur Fonder	10.1
Urban Jansson, styrelseordförande		

The nomination committee strives to achieve gender balance on the Board of Directors. The Board of Directors currently has 29% women serving on it.

External auditors

Auditors are currently appointed to serve for a period of four years, which ensures continuity and depth of the audit work. The auditors are accountable to the shareholders at the AGM and they must provide an auditor's report on the financial statements and the administration by the Board of Directors. The auditors report verbally and in writing on an ongoing basis to the audit committee about how the audit has been carried out and give their views on the level of order and control in the company. Auditors also report in person twice a year to the entire Board about their audit and state their views about internal controls.

At the 2009 AGM, shareholders elected PwC as the audit firm, with Certified Accountant Olof Enerbäck as the auditor in charge, for a period of four years. In addition to the audit, PwC also provides advice concerning auditing and tax. This advice is not considered to be biased.

In 2012 total remuneration paid to HMS's auditors amounted to SEK 1,245 (602) thousand. Further information regarding auditors' remuneration is available in Note 7.

Board of Directors

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



Basis for Board work

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

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

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

Board structure

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

The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control 10 percent 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 two of the members are not independent in relationship to major shareholders (Nicolas Hassbjer, representing the two main owners, Nicolas Hassbjer and Staffan Dahlström, who together have 29 percent of the shares and voting rights in the company and Henrik Johansson, representing Investment AB Latour, which has 25 percent of the shares and voting rights in the company). The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on pages 36-37.

The total amount of fees paid to the Board in 2012 was SEK1,200(1,103) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 26.

Chairman

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

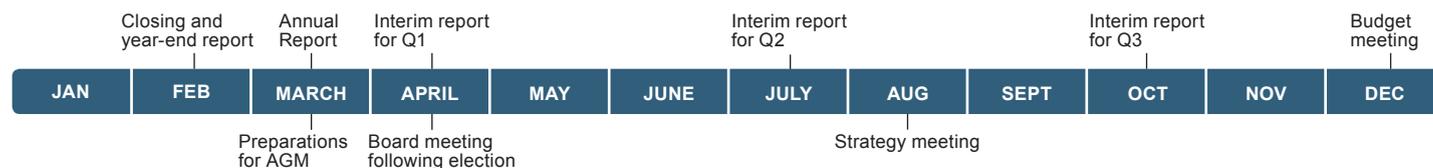
responsibilities. It is also the duty of the Chairman to ensure that Board members regularly update and deepen their knowledge of the company and that new members receive the requisite introduction and training. Furthermore, the Chairman must meet with the CEO to provide advice and discuss important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

At the AGM on 19 April 2012 Urban Jansson was re-elected as Chairman of the Board. The Chairman of the Board is not involved in the operational management of the company.

Work of the Board in 2012

During the period between the AGM on 19 April 2012 and the adoption of this annual report, the Board has held eight meetings at which the minutes were taken. Both the CEO and CFO of HMS Networks AB participate in Board meetings, with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board's rules of procedure. This includes discussion of the company's business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board's work consists of regular follow-up on



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

financial matters, strategic product development, providing recommendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

Remuneration committee

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

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

Audit committee

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

The audit committee consists of the Chairman of the Board (Urban Jansson) and two other appointed Board members (Gunilla Wikman and Henrik Johansson). Gunilla

Wikman was elected as Chairman of the audit committee.

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

Development committee

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

CEO and Group management

The CEO is responsible for developing the company's business, as well as leading and coordinating daily operations in accordance with the instructions and directions adopted by the Board. This means, among other things, responsibility for the financial reporting, compiling the supporting information for decisions

and ensuring that obligations, contracts and other legal documents do not contravene Swedish or international laws and regulations. The CEO must also ensure that the company's goals, policies and strategic plans are being followed and that they are updated whenever necessary. The CEO appoints the other members of the Group management team.

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

The six member Group management team is headed by the CEO and its other members are the individuals who hold the following positions: Chief Financial Officer, Chief Operating Officer, HR Manager, Global Sales Director and Marketing Director. For additional information about the Group management team, please see pages 38-39.

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 every month. 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 2012, the total remuneration (including pension provision) to the CEO amounted to SEK 1,920 (1,465) thousand. For more information about remuneration to the CEO and Group management team, see Note 26.

The Board's report on the internal controls over financial reporting

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

Description

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

Control environment

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

The Group strives to ensure that the entire organization lives by these values (page 7). There is much emphasis on making sure that these core values guide all behavior, both internally and externally. HMS has established a Code of Conduct. It explains the desired behavior in different situations.

The Board has overall responsibility for the internal controls concerning financial report-



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

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

Responsibility and authority are defined in the instructions for the right to sign on behalf of the company, manuals, policies and routines. Examples include HMS's manual for accounting and reporting, the finance and

credit policy, information policy, IT security policy and HR policies. These guidelines, together with laws and other external regulations, are the components of the control environment. Every employee must follow these guidelines.

During 2012, in accordance with established guidelines, HMS continued its review of the existing internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The result of this effort will be an evaluation and verification of the governing documents and guidelines that form the basis of corporate governance.

Risk assessment

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

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

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



objectives and financial targets. Risk assessment involves identifying the risks that could arise if the fundamental requirements on financial reporting (completeness, accuracy, valuation and presentation) by the Group are not fulfilled.

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

Control activities

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

The central finance and accounting department is responsible for the consolidated financial statements, as well as the financial and administrative control systems. The department's responsibilities also include

ensuring that relevant instructions for the financial reporting are made known and available to the employees concerned.

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

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

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

thermore, segregation of duties helps prevent both intentional and unintentional entries.

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

Information and communication

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

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

legal entities and they are prepared in accordance with standardized reporting routines.

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

To ensure that information reported externally is correct and complete, the Board has established an information policy. It specifies which items must be communicated, who is responsible for communicating the information, and how this should be done. There are also instructions for how financial information should be relayed 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 up-to-date information about the Group's performance and financial position. HMS's information policy meets the requirements that have been established for listed companies.

Financial information is regularly published in the form of:

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

All reports, presentations and press releases are published simultaneously on the Group's website at: <http://investors.hms.se>.

Follow up

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

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

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

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

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

In view of the scope of the business and the existing control activities, the Board has decided that there is no need to introduce a special internal audit function.

Auditor's report on the Corporate Governance Statement

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2012 on pages 29-35 and that it has been prepared in accordance with the Annual Accounts Act.

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

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

Halmstad 20 March 2013
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant