HMS’s Board and management work to ensure that the company lives up to the demands that the NASDAQ OMX Stockholm, shareholders and other interested parties place on the company. The board also follows the debate about the subject and recommendations issued by various players. HMS complies with the directives in the Swedish Code of Corporate Governance.

HMS’s corporate governance is mainly exercised at the Annual General Meeting and by the Board. In a broader perspective, the issues also cover management, its duties and its control and reporting functions within the Group.

Structure for corporate governance
HMS’s shareholders are the highest decision-making body concerning the running of the Group. The Annual General Meeting elects the Board, Chairman of the Board and auditors and decides on choosing a nominations committee. 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 Annual General Meeting
The shareholders’ right to decide on the company’s affairs is carried out by 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, 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 possible changes to the company’s Articles of Association, possible new share issues and introduction of share-related incentive schemes. The Articles of Association are the fundamental control document for the company determining what business the company may run, the size of the share capital, shareholders’ right to attend the AGM and the agenda of the AGM.

For a shareholder to have an issue raised at the AGM he/she must submit a written request to the Board in good time so that the issue can be added to the notice to attend the AGM. Information concerning when such a request should be available to the Board is available on the company’s website. Information prior to and minutes from the company’s AGM are available on the company’s website at www.hms.se.

The AGM will be held within six months after 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 gives the shareholder the right to one vote. The notice to attend should 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 2010
The AGM was held on 19 April 2010, at the company’s offices in Halmstad. Present at the meeting were shareholders representing 62 per cent of the shares and voting rights. The Chairman of the Board, Urban Jansson, and Board members Göran Sigfridsson and Henrik Johansson were present at the meeting. Also at the meeting were the nominations committee’s chairman Jan Svensson and Olof Enerbäck from the firm of auditors.

Shareholders at the AGM decided on the following:
• dividend of SEK 1.00 per share, totalling SEK 11,152,900
• the Board will consist of seven members
• to re-elect all Board members and elect Charlotte Brogren and Gunilla Wikman
• to re-elect Urban Jansson as Chairman of the Board
• remuneration to the Board would be SEK 825,000 for the current financial year, of which SEK 225,000 to the Chairman of the Board
• guidelines for appointing a nominations committee
• guidelines for remuneration and other conditions of employment for the CEO and other group management.

Nominations committee
The AGM decides on how the nominations committee is appointed. It is the duty of the nominations committee to, prior to
the next AGM, prepare and submit proposals for a Chairman of the Board and other Board members plus remuneration to the Chairman and other Board members.

It is the duty of the nominations committee to also evaluate the work of the Board, mainly from the report submitted by the Chairman to the nominations committee. The nominations committee also proposes the election of auditors and their remuneration.

At the Annual General Meeting in 2010 principles were decided on for the introduction of a nominations committee at HMS Networks AB. The AGM decided, in accordance with the nominations committee’s proposals, that the Chairman of the Board, together with representatives of the largest shareholders (as of 30 September 2009) will constitute the nominations committee until the next AGM has been held, or when necessary, until such time as a new nominations committee has been appointed.

The nominations committee should appoint a chairman from its members (the chairman of the board or other member of the board should not be elected as chairman of the nominations committee). In a case where 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, but the shareholder who in terms of shareholding is next in line.

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

The nominations committee tries to attain an even division of gender on the Board. The Board currently consists of 29 per cent women.

External auditors
Auditors are appointed by the AGM, currently for a four-year period, which guarantees consistency and depth of audits. The auditors are responsible to shareholders at the meeting and submit an auditors’ report covering the annual accounts and administration of the Board. 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 order and control in the company. Auditors also make a personal report twice a year to the entire board about their audit and state their views about internal controls.

The AGM chose PwC as its auditors in 2009, with authorized auditor Olof Enerbäck as the main auditor, 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 subject for disqualification.

The overall remuneration to HMS’s auditors in 2010 was SEK 672,000 (697,000). Further information regarding auditors’ remuneration is available in Note 7.
The Board

The Board is responsible for the company’s organization and administers 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 the company is organized so that bookkeeping, fund management and the company’s financial conditions in general are checked to a satisfactory degree. The Board sets policies and instructions for how this is to be achieved and sets rules of procedure for the Board and instructions for the CEO. These central control documents state how responsibilities and authority is divided between the Board as a whole and committees, plus 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 provides the nominations committee with the results of the 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 what is dealt with on the respective occasion. The rules of procedure also include the division of responsibility between the Board, its chairman and the CEO.

It is the Board’s duty to determine strategies, business plans, budgets, quarterly reports, financial statements and the annual report. Furthermore, it is the duty of the Board to appoint and dismiss the CEO and decide on significant changes in the HMS organization and operations. The rules of procedure stipulate monetary limits for when the Board must decide on investments, corporate acquisitions, company ownership transfers, loans etc. An evaluation of the Board’s work is carried out on an ongoing basis, partly concerning board work as a whole, and partly concerning individual members’ contributions. The purpose is to ensure that HMS has a well-composed board in terms of 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 worked on the company’s board for many years and 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 and at least two of the independent members must also be independent in relation to the shareholders that control ten per cent or more of the shares or voting rights in the company. The nominations committee has, during a joint assessment of each member’s relationship to the company, Group management and major shareholders, found that 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 per cent of the shares and voting rights in the company and Henrik Johansson, representing Investment AB Latour, which has 17 per cent of the shares and voting rights in the company). Individual members’ unique expertise and thereby also the Board’s composition in terms of expertise appear in the description on pages 32 and 33.

The Board received remuneration totalling SEK 825,000 (625,000) in 2010. For a more detailed description of the Board members’ attendance please see Note 27 on pages 66 and 67.
**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 running Board work and creating the best possible conditions so that this work can be carried out. 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. The Chairman must be available in an advisory capacity and discussion partner for the CEO, but 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 the nominations committee is informed about the evaluation.

Urban Jansson was re-elected Chairman of the Board at the AGM on 19 April 2010. The Chairman of the Board does not participate in the operative management of the company.

**Work of the Board in 2010**

Since the AGM on 19 April 2010 the board has held eight minut ed meetings up until the writing of this Annual Report. The CEO and CFO of HMS Networks AB take part in board meetings to submit reports and act as secretary respectively. At its meetings the Board has addressed the defined items that, in accordance with the Board’s rules of procedure, applied for the respective board meetings. This involves the company’s business position, budget, quarterly reports and annual accounts.

The work of the Board otherwise focused on the further development of previously established market and acquisition strategies.

**Remuneration committee**

The Board nominates a remuneration committee from its members that regularly evaluates group management’s conditions of employment compared with the market conditions for similar group management in other companies. The committee’s tasks also include processing the Board’s proposals to the AGM concerning guidelines for remuneration to group management, as well as the Board’s decision concerning such conditions for group management.

The remuneration committee includes the Chairman of the Board (Urban Jansson) and two Board members elected by the Board (Henrik Johansson and Ray Mauritsson) plus the CEO (Staffan Dahlström) as a co-opted member. Ray Mauritsson was elected as Chairman of the 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 the quality of the financial reporting. The committee also monitors the effectiveness of the company’s and Group’s internal controls, risk management systems and the external auditors’ impartiality and self-government. The committee evaluates the audit and assists the nominations committee when choosing the auditors.

The committee also makes decisions regarding all purchases of consulting services from the company’s auditor that do not fall within audit-related consulting.

The audit committee includes the Chairman of the Board (Urban Jansson) and three Board members elected by the Board (Nicolas Hassbjörn, Göran Sigfridsson and Gunilla Wikman). Nicolas Hassbjörn was elected as Chairman of the 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 control concerning the financial reporting.

**CEO and group management**

The CEO is responsible for the business’ development plus runs and coordinates the daily business in accordance with the instructions and directions adopted by the Board. This means, among other things, responsibility for the financial reporting, producing information and supporting data for decision-making and that obligations, contracts and other legal documents do not contravene Swedish or international laws and constitutions. The CEO must also check that all objectives, policies and strategic plans are followed and when necessary update them. The CEO appoints other group management members.

The CEO is also responsible for ensuring that the Board receives information and that the requisite supporting data for decision-making, is sent to each board member seven days before the board meetings. The CEO also submits reports at these meetings. The CEO keeps the Board and its Chairman constantly updated about the company’s and Group’s financial position and growth.

The Group management team is led by the CEO and consists of six members: Chief Financial Officer, Chief Operating Officer, HR Manager, Global Sales Director and Marketing Director. For further information about group management please see page 34 and 35.

Group management has overall responsibility for the business in the Group in accordance with the strategy and long-term objectives set out by HMS’s Board.

The group management team convene once a month. These meetings deal with strategic issues and issues that concern the whole Group. The meetings are led by the CEO, who makes decisions after consulting with other members.

Total remuneration to the CEO in 2010 (including pension provisions) was SEK 1,519,000 (1,190,000). For more information about remuneration to the CEO and the Group management team, see Note 27 on page 66 and 67.
HMS’s work with internal control in 2010 was designed to ensure correct, reliable financial reporting and accounting in accordance with applicable laws and ordinances, financial accounting standards and other demands placed on listed companies. The internal control work adds value by illustrating roles and responsibilities, improved process efficiency, increased risk awareness and improved decision data, plus increased security in financial reporting and follow ups.

**Description**

Internal control of financial reporting at HMS is an integrated element of corporate governance. It contains processes and methods to secure the Group’s assets and accuracy in financial reporting, and aims to protect the owners’ investment in the company. To organize and further improve this work HMS uses the COSO framework, which is a structured basis from which to carry out evaluations and follow ups of internal control of the financial reporting.

**Control environment**

The foundations for the internal controls are made up of an overall control environment set up by the Board and management. This is built on an organization with clear decision-making paths where authority and responsibility are defined with clear instructions and a corporate culture with common values and the individual’s awareness of their role in maintaining good internal control.

The Board has the overall responsibility for the internal controls concerning financial reporting. The Board has established written rules of procedure that clarify the Board’s responsibilities and regulate its committees’ internal distribution of work. In addition, the Board has appointed an audit committee whose main task it is to safeguard the financial reporting and is delegated to the CEO who in turn delegates function-specific responsibility to managers at different levels throughout the Group.

HMS’s internal control work aims at safeguarding that the Group lives up to its financial reporting objectives. A minimum requirement is that the control activities carried out should cover the key risks identified in the Group.

Responsibility and authority are defined in instructions for authorization rights, manuals, policies and routines. Examples include HMS’s manual for accounting and reporting, finance and credit policy, information policy, IT security policy and HR policies. These guidelines together with laws and other external regulations make up the control environment. Every employee must follow these guidelines.

To give the Board a basis from which to set levels concerning internal governance and control HMS continued in 2010 with its overview and analysis of existing governance processes and internal controls. The review is based on an analysis of how the COSO framework’s important areas are reflected in the HMS organization. The work is expected to result in an evaluation and verification of the governance documents and guidelines that act as a basis for the Group’s governance of its activities.

**Risk assessment**

Risk assessment stems from the Group’s financial targets. The overall financial risks are defined as liquidity risk, currency risk, interest risk and customer risk. These are managed mainly by the economy and finance function in accordance with the Group’s financial policy. For a detailed account, 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 can present a threat to the company achieving its business and financial targets. The risk assessment includes identifying...
risks that can arise if the basic requirements for financial reporting (completeness, accuracy, value and reporting) in the Group are not met.

Focus is placed on risks in financial reporting concerning significant income statement items and balance sheet items, which are relatively higher depending on the complexity of the process or where the effects of any inaccuracies risk becoming major, when values in transactions are significant. The result of the inspections led to measures such as improved control routines for further safeguarding correct financial reporting.

**Control activities**
Control activities limit identified risks and safeguard correct, reliable financial reporting and process efficiency. The control activities include the overall and detailed controls and aim to prevent, discover and correct inaccuracies and deviation.

The central finance and economy department is responsible for the consolidated accounts and consolidated annual accounts, plus for financial and administrative control systems. The department’s responsibilities also include ensuring that instructions of importance for the financial reporting are made known and available to the employees concerned.

The accounting and control functions carry out regular reviews and checks of reported amounts, plus analyses of the income statements and balance sheets. The control function carries out control activities at all levels within the company. The function analyzes and follows up budget deviations, makes forecasts, follows up significant fluctuations over defined periods and reports findings to the rest of the company, minimizing the risk for inaccuracies in the financial reporting.

The financial managers in the subsidiaries are responsible for the control activities in the financial reporting in their respective units, e.g. that they are designed to prevent, discover and correct inaccuracies and deviations, and that they correspond to internal guidelines and instructions.

A high degree of IT security is a condition 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 business system. Access to the business system is limited according to authorization levels, responsibility and roles based on Segregation of Duties, in order to ensure against intentional/unintentional faulty registration.

To quality-assure financial reporting activities the Board has set up an audit committee consisting of the Chairman of the Board and three 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 results throughout the HMS group help ensure that the right business decisions are made.

Guidelines for the financial reporting are communicated to the employees through policies, manuals and work instructions available on the group-wide intranet. The information includes methods, instructions and practical checklists, descriptions of roles and responsibilities and a comprehensive schedule.

The Board has set out an information policy, stating what should be communicated, by whom and in what way the information should be issued in order to ensure that the external information is correct and complete. There are also instructions for how the financial information is communicated between management and other employees.

A condition for the correct spread of information is also the presence of good routines concerning information security.

**Financial reporting and 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 set for listed companies.

Financial information is regularly published in the form of:

- Quarterly reports and financial statements, published as press releases
- Annual reports
- Press releases concerning important news and events that can significantly affect the share price
• Presentations and tele-conferences 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 ups/Improvements
Follow ups and tests of control activities are carried out regularly to ensure that risks have been taken into account and dealt with satisfactorily. Follow ups include both formal and informal routines applied by managers, process owners and controllers. These routines include such things as following up results against budgets and plans, analyses and key ratios.

Controls that go wrong must be attended to, meaning that measures must be taken and implemented to fix the problems.

The Board deals with all the Group’s quarterly reports, financial reports and annual reports before publication. The Board receives monthly financial reports concerning the Group’s position and earnings trend and at each Board meeting deal with the Group’s financial situation. The financial department and management carry out detailed monthly analyses of financial reporting.

Other important group-wide parts of internal controls include the rolling forecast process. Sales forecasts are made quarterly with a 12-month horizon at product level by managers in the sales organization. Sales forecasts are consolidated and validated in connection with the compiling of complete forecasts for the business. The complete forecasts are compiled twice a year. In addition to the complete forecasts, a budget is also drawn up that forms the basis for the board’s approval in Q4. In addition to forecasts and budgets, group management also works on overall strategic plans.

The audit committee follows up the financial accounts and receives reports from the company’s auditor with observations and recommendations. The effectiveness of the internal control activities is followed up regularly at different levels in the Group.

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

Halmstad, 17 March 2011

Auditor’s report on the corporate governance report

To the Annual General Meeting of HMS Networks AB (publ) co.reg.no. 556661-8954

The Board is responsible for the corporate governance report for 2010, which appears on pages 25-31 in the printed version of the Annual Report, and that it is prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the Annual Report and consolidated accounts, we have studied the corporate governance report and verified its legal content based on our knowledge of the company.

We believe that the corporate governance report has been prepared correctly, and that its statutory information is consistent with the Annual Report and consolidated accounts.

Halmstad, 17 March 2011
Olof Enerbäck
Authorized Public Auditor