Corporate governance report

The HMS Board of Directors and management team strive to ensure that the company lives up to the demands of the OMX Nordic Exchange, the company’s shareholders and other stakeholders. The Board also monitors all issues having to do with the recommendations and requirements from the company’s stakeholders. HMS complies with the directives in the Swedish Code of Corporate Governance.

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

Structure for corporate governance
HMS’s shareholders are ultimately responsible for making decisions on corporate governance. The Annual General Meeting 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 how the Group is organized and how its affairs are managed. The auditors report their findings at the AGM.

Shareholders and AGM
The shareholders exercise their right to decide on the company’s affairs at the Annual General Meeting, which is the company’s highest decision-making body. Items that are decided at the AGM include adoption of the income statement and balance sheet, appropriation of profits, discharge of responsibility for the Board of Directors, election of a new Board of Directors and new auditors and remuneration to the Chairman of the Board, other Board members and the 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-related incentive schemes. The Articles of Association are the company’s fundamental governing documents. Among others, they specify the types of operations the company may run, 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 who are registered in the shareholders’ register on the record day (i.e. five calendar days before the date of the AGM) are entitled to participate in the AGM, provided that they have also registered to attend. Each share entitles the shareholder to one vote. Notice of the AGM must be issued no earlier than six months following the end of the financial year, of which at least four weeks in advance by advertising in Dagens Industri and the Swedish Gazette.

Annual General Meeting 2011
The AGM was held on 14 April 2011 at the company’s office in Halmstad. Present at the meeting were shareholders representing approximately 58% of the number of shares and votes. Those in attendance at the AGM were Chairman of the Board Urban Jansson and the following Board members: Nicolas Hassbjer, Göran Sigfridsson, Henrik Johansson, 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 on the following:

• to issue dividends of SEK 2.00 per share, totaling SEK 22,305,800
• 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 current financial year, 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 guidelines for appointing the nomination committee
• on guidelines for remuneration and other conditions of employment for the CEO and other senior executives.

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 2011 AGM, a decision was taken 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). If any of the three largest shareholders declines the right to appoint a representative, that right will pass to the next largest shareholder on the list (as of the date specified above). If a member resigns from the nomination committee early, a replacement will be appointed by the same shareholder that appointed the one who has resigned (if this is deemed appropriate). Or if that shareholder no longer ranks among the three largest shareholders, a replacement will be appointed by the shareholder who is next on the list of the largest shareholders.

The composition of the nomination committee must be published on the company’s website no later than six months prior to the next AGM.

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 regularly provide both written and oral reports to the audit committee on how the audit has been carried out, as well as their assessment of the controls that are in place in the company. The auditors attend meetings of the Board of Directors twice per year to discuss the audit and provide their assessment of the internal controls.

At the 2009 AGM, shareholders elected PwC as the audit firm, with Authorized Accountant Olof Enberbäck 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 2011 total remuneration paid to HMS’s auditors amounted to SEK 602 (672) thousand. Additional information about remuneration to the auditors is provided 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.

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<table>
<thead>
<tr>
<th>Members of the nomination committee and voting rights</th>
<th>Voting rights (%) of total as of 31 Dec 2011</th>
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<tr>
<td>Representative</td>
<td>Shareholder</td>
</tr>
<tr>
<td>Nicolas Hassbjer</td>
<td>Representing Staffan Dahlström and own holdings</td>
</tr>
<tr>
<td>Jan Svensson, Chairman</td>
<td>Investment AB Latour</td>
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<tr>
<td>Evert Carlsson</td>
<td>Swedbank Robur Fonder</td>
</tr>
<tr>
<td>Urban Jansson, Chairman of the Board</td>
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In 2011, HMS expanded its facilities in Halmstad by adding approximately 2,000 m². The new extension was opened in January 2012.
Basis for Board work

Fundamental issues having to do with the allocation of responsibilities between the Board, its committees, the Chairman of the Board and the CEO are dealt with in the Board’s rules of procedure and its instructions to 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. Each member has extensive experience from industry and are or have at some time been CEOs and/or senior executives in large companies. Furthermore, many of them serve on the Board of one or more other 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 performed an assessment of each Board member’s relationship to the company, the Group management team and major shareholders. It found that two of the Board members do not have an independent relationship to major shareholders (Nicolas Hassbjer, who represents the two main owners, Nicolas Hassbjer and Staffan Dahlström, who together own 29% of the shares and votes in the company and Henrik Johansson who represents Investment AB Latour, which controls 22% of the shares and votes). The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on pages 36-37.

The total amount of fees paid to the Board in 2011 was SEK 1,103 (825) thousand. For a more detailed description of Board members’ attendance at meetings, please see Note 26 on page 71.

Chairman of the Board

Among others, the Board’s rules of procedure stipulate that the Chairman must ensure that the Board’s work is conducted in an efficient manner and that the Board fulfills its obligations. This includes organizing and leading the Board’s efforts and creating the best possible conditions for meeting its responsibilities. The Chairman is also responsible for ensuring that the Board members of the Board are always up to date and have in-depth knowledge of the company. Furthermore, the Chairman must ensure that new members are provided with training and a suitable introduction to the company. The Chairman must serve as an advisor to the CEO and regularly discuss important issues with him. He must also evaluate the CEO’s work and present his assessment 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 14 April 2011 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 2011

During the period between the AGM on 14 April 2011 and the adoption of this annual report, the Board has held eight meetings at which the minutes were taken. Both the CEO and CFO of HMS Networks AB participate in Board meetings,
with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board’s rules of procedure. This includes discussion of the company’s business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board’s work consists of regular follow-up on financial matters, strategic product development, providing recommendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

Remuneration committee
The Board appoints 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 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 Hassbjörn). 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 from the company’s auditor that are not related to the audit.

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 the external auditors, who report any irregularities that they became aware of while conducting the statutory audit, particularly possible weaknesses in the internal control concerning 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 be a resource when it comes to planning and presenting R&D initiatives that require a decision by the Board due to the strategic importance, required investments or the need to cooperate with other partners. The committee should ensure that the HMS Board keeps up to date on R&D issues relevant to HMS’s development. The development committee consists of Vice Chairman of the Board (Nicolas Hassbjörn) 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 7 days prior to a scheduled Board meeting, where the CEO serves as rapporteur. The CEO continually provides the Board and Chairman with updates on the company’s and Group’s financial position and growth.

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 making sure that the operations conducted by the Group are in accordance with the strategy and long-term goals established by the HMS Board of Directors. 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 2011, the total remuneration (including pension provisions) to the CEO amounted to SEK 1,465 (1,519) thousand. For more information about remuneration to the CEO and Group management team, see Note 26.
Board’s internal control report concerning financial reporting

HMS’s work with internal control has been designed to ensure that the company provides reliable information in its financial statements1 and that its financial reporting is in accordance with the applicable laws, regulations other requirements that apply to listed companies. The work with internal control 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
Internal control of financial reporting at HMS is an integral part of corporate governance. It consists of processes and methods for protecting the Group's assets and ensuring the accuracy of its financial reporting. The purpose of such internal control is 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 foundation for internal controls consists of the overall control environment that has been established by the Board and management team. It is built on an organization with unambiguous decision paths, clear instructions on the allocation of responsibilities and authority and a company culture with shared values and individual awareness of the role each person plays in maintaining effective internal controls.

The Group strives to ensure that its values (page 6) are evident throughout the organization. There is much emphasis on applying these values in all company interactions, both internal and external. During 2011, HMS established a Code of Conduct. It explains the desired behavior in different situations.

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

Furthermore, the Board has drawn up instructions pertaining to financial reporting for both the CEO and the Board of HMS. Responsibility for maintaining an effective control environment and the day-to-day efforts related to internal controls have been delegated to the CEO, who in turn has delegated responsibility for specific functions to managers at various levels of 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 2011, HMS continued its review and analysis of the existing governance processes and internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The review is based on analyses of how the COSO frameworks significant 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 form the basis for the Group’s governance activities.

Risk assessment
Risk assessment stems from the Group’s financial targets. The following have been identified as the overall financial risks: liquidity risk, currency risk, interest rate risk and credit risks. 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 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. The findings from tests of controls can be used to improve control routines such that there is an even higher level of assurance of the accuracy of financial reporting.

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1) Financial reporting consists of interim reports, the year-end report, the annual report and internal 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 overall controls and detailed ones. They aim at preventing, discovering and correcting any errors or deviations.

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 correspond to internal guidelines and instructions.

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

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

Information and communication
Information and communication about risks, controls and control results throughout the HMS Group help ensure that the right business decisions are made. The Group strives 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, checklists, descriptions of roles and responsibilities and an overall 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 development.
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 are designed to supply the market with relevant, reliable, correct and up-to-date information about the Group’s growth 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 that are performed 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 are taken to address the problem and correct whatever weaknesses that have been 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.

Because of the scope of operations and the existing control activities, the Board has determined that it is not necessary to set up a special 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 2011 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, 15 March 2012
PricewaterhouseCoopers AB
Olof Enerbäck
Authorized Public Accountant