

## HMS Networks AB (publ)

### Interim report January-June 2009

#### First six months 2009

- ⊗ **Net sales for the first six months 2009 amounted to SEK 115.6 m (155.7), equal to a 26% decrease**
- ⊗ **Order intake during the first half year decreased with 28% to SEK 117.2 m (163.3)**
- ⊗ **Operating profit reached SEK 2.0 m (36.6), representing a 1.7 % (23.3) operating margin. For the last four quarters the operating margin amounted to 18.2 %**
- ⊗ **Operating result for the period was affected by a SEK 1.0 m cost for restructuring**
- ⊗ **Negative SEK – 10.0 m impact from currency hedging contracts realized in the first six months**
- ⊗ **Profit after taxes totalled SEK 0.1 m (23.3), and result per share amounted to – 0.01 Kr (2.15)**

- The market continued to weaken during the first six months of 2009, which affects HMS sales volumes. Adjustments to inventory levels made by our customers were larger and longer than we could previously foresee, at the same time as currency hedging contracts affected our result negatively. We continue to see an inflow of new customers i.e. Design Wins which supports us in our opinion that we in the long term will reach our financial targets, says Staffan Dahlström, CEO of HMS.



HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled SEK 317 million in 2008. Over 90% of these sales were to customers located outside Sweden. All development and the major portion of manufacturing are performed at the head office in Halmstad. Sales offices are located in Tokyo, Beijing, Karlsruhe, Chicago, Milan and Mulhouse. HMS has 155 employees and produces network interface cards and products to interconnect different networks under the trademark Anybus®. The network interface cards are embedded in automation equipment such as robots, control systems, motors and sensors. This allows subcomponents in machines to communicate with one another and with different networks in order to build more efficient and flexible manufacturing systems.

In 2008 HMS was awarded to Sweden's best export company by H.M. the King of Sweden. HMS is listed on NASDAQ-OMX Nordic Exchange in Stockholm in the category Small Cap, Information Technology.

## Comments of the CEO

The weakening of the HMS market place continued and increased further during the second quarter. During the first six months of 2009 net sales and order intake decreased with 26 % and 28 % respectively. The size of the decrease is partly due to inventory adjustments made by our customers continuing to adapt to a further weakening of the economy on a scale we previously could not see. During the latter part of the second quarter we experienced a more stable order intake, still the short term market condition is difficult to evaluate.

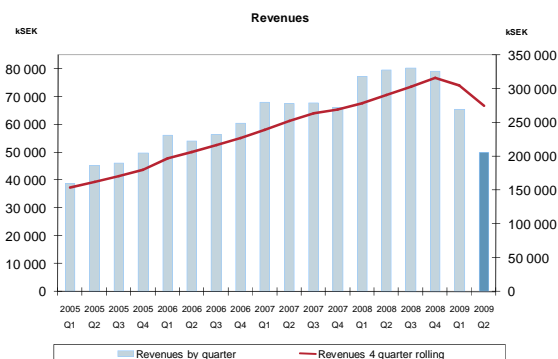
During the first part of the period we continued to strengthen our resources within product development and sales as a part of our long term growth strategy. During the later part of the period we have adapted the organisation to the continuing weak market conditions by implementing a cost reduction program mainly within our manufacturing department. This gives us lower operating expenses during the second quarter 2009 compared to the first quarter of the year. In total our operating expenses for the first six months increased compared to last year. The weak Swedish currency and a SEK - 10 m effect from currency hedging agreements realized during the period also contributed to the increase in operating expenses. The period carries a SEK 1.0 m cost for restructuring activities. Adjusted for these items we can conclude that our cost consciousness and our cost flexibility are effective and that we have managed to adjust our tied up capital, among other things by reducing our inventory levels. Our long term growth strategy is unchanged and we see a continued inflow of new Design Wins which gives HMS a good customer base when the market for industrial automation improves.



## Net sales

Net sales for the last twelve months amounted to SEK 276.5 m (290.5). In total the devaluation of the Swedish currency in relation to the major HMS currencies added SEK 28,5 m to net sales compared to the previous twelve month period. The order intake for the last four quarters amounted to SEK 267.0 m (297.1).

Net sales for the second quarter totalled to SEK 50.0 m (80.1) and the order intake amounted to SEK 59.8. The second quarter net sale corresponds to a 37 % decrease compared to the same period the previous year. Adjusted for SEK 7.6 m in currency effects the decrease in net sales amounted to 47 %. Order intake during the second quarter decreased with 28 % equal to 38 % in local currencies.

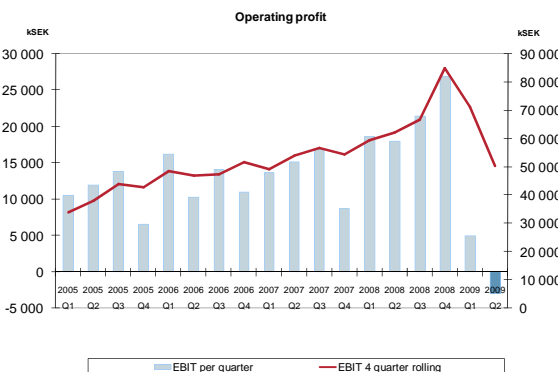


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turnover for the latest 12 month period referring to the scale on the axis to the right.

## Operating profit

Operating profit totalled to SEK 50.4 m (62.3) for the last four quarters, equivalent to an operating margin of 18 %. Currency effects improved the operating result with SEK 19.9 m compared to the previous year.

The operating profit for the second quarter 2009 totalled to SEK - 3.0 m (18.0). Realization of older currency hedging agreements had a negative impact of SEK 3.8 m in the second quarter. In the second quarter operating profit is affected by a SEK 1.0 m provision for reorganisation costs. Consequently operating result adjusted for currency hedging agreements and restructuring costs amounted to SEK 1.8 m. Compared to the same period previous year the second quarter operating expenses increased by SEK 5.1 m. This is fully attributable to restructuring costs, currency effects and realized currency hedging agreements.



The graph shows operating result per quarter in the bars referring to the scale on the left axis. The line shows operating result for the last 12 month period referring to the scale on the axis to the right. The graph shows the result without adjustments for non recurring expenses.

## Currency effects

Assets and liabilities in foreign currencies are revaluated at closing date. Currency hedging contracts are revaluated at the date of closing and are also affecting the result on the date of expiration. Changes in book value due to revaluation of operating balance sheet items and currency hedging contracts are disclosed as other income and other expenses.

Changes in book value related to assets in foreign currencies i.e. liquid funds, are disclosed as financial income and expenses. Net sales and expenses are affected by changes in exchange rates. This will have an impact on income and expenses. Net sales consist of 64 % in EURO, 20% in USD, 7% in Japanese Yen and 9 % in SEK and other currencies. Operating expenses consists of 17% in EURO, 9 % in USD, 5 % in Japanese Yen and 69 % of SEK. The group applies a policy for currency hedging described in the annual report.

## Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 2.3 m (30.5) for the first six months. The lower cash flow was attributable to the deteriorating result during the period. The investments in tangible assets for the period totalled SEK 1.2 m (0.9). Investments in intangible assets for the period totalled SEK 2.8 m (2.8) and comprise internal development projects. At the end of the period the cash equivalents totalled SEK 41.6 m (38.9) and unutilised credit facilities SEK 20.0 m. The Group's net debt amounted to SEK 58.8 m (77.9) compared to 42.4 at the beginning of the year. During the second quarter HMS distributed dividend payments to its shareholder equal to SEK 1.50 per share, in total SEK 15.9 m. During the same period a dividend totalling SEK 0.4 m was distributed to minority shareholders.

The HMS Group adapted its operation to the present market conditions by decreasing accounts receivables and inventory. Compared to the 2008 year end levels accounts receivables decreased by 27 % and inventory by 25 %.

## Tax

The tax charge for the period was SEK 0.0 m (10.3). The tax charge for the current period has been calculated on the basis of the tax situation applying to the Group at present and the profit development of the reporting entities belonging to the Group.

## Equity

The Group's equity amounted to SEK 216.7 m. The total number of shares at the end of the year was 10,571,650. After dilution, the total number of shares is 11,152,900. The Group's equity/assets ratio improved to 60.4 % (55.0).

Changes in Group Equity (SEK 000s)	June 30 2009	June 30 2008	Dec 30 2008
Balance at 1 January	224,426	182,211	182,211
Total comprehensive income for the period	7,654	23,421	52,787
Warrants	937	0	0
Dividends	-16,337	-10,572	-10,572
<b>Closing balance</b>	<b>216,680</b>	<b>195,060</b>	<b>224,426</b>

## Important events

During the period HMS successfully recertified its quality system according to ISO 9001:2008.

The Annual General Meeting of shareholders on April 2, 2009 approved all of the proposals put forward by the Board of Directors' and the nomination committee. Urban Jansson was re-elected as the chairman of the board. As members of the board Ray Mauritsson and Göran Sigfridsson were re-elected. Henrik Johansson and Nicolas Hassbjer were elected as new members of the board. At the board meeting following the election, Nicolas Hassbjer was elected as vice chairman of the board and Staffan Dahlström was appointed as President & CEO for HMS Networks AB.

During the second quarter HMS gave notice to 16 people. The final reduction in staff related to this notice was 13 people making up a part of the cost reduction program initiated as a result of the weak demand in the market.

During the second quarter HMS was granted new US patents regarding mechanical design, hardware design and software interface for its Anybus CompactCom technology.

## Outlook

The more stable order inflow during the latter part of the second quarter implies that our customers have reached a better balance between their demands and inventory levels. We have noticed more activities on the Japanese market. The German customer base has so far kept the sales decrease on a level less than anticipated and we can see a continuing interest in our technology.

The reorganizations made i.e. decreasing manufacturing resources, and strengthening of development and sales resources during the first 6 months is expected to give effect in the next quarters. The short term market development is still difficult to assess.

The HMS comprehensive goals are unchanged. A long term average growth of 20% per year and a operating margin above 20%. The Company's strategy to reach these goals includes a continued effort to build a strong portfolio of design wins within embedded network cards and to broaden the offer to closely related areas within network technology based on the Company's technology platform.

## HMS Networks AB's shares

HMS Networks AB is listed on the NASDAQ-OMX Nordic Exchange in the category Small Cap, Information Technology. The total number of shares amounted to 10,571,650.

## Risk management

The HMS Group is exposed to business and financial risks through its operations. These risks have been described at length in the Company's annual report 2008. In addition to the risks described in these documents, no additional significant risks have been identified.

## Accounting policies

This interim report has been prepared in accordance with the Swedish Annual Accounts Act and IAS 34, for Interim Reporting. For information on the accounting policies applied, refer to the annual report for 2008. The accounting policies are unchanged compared to those applied in 2008.

## Segment reporting

As of January 1, 2009 HMS implemented IFRS 8 segment reporting. According to this new standard information regarding segments should be disclosed from a management perspective similar to how the information is used in internal reports to the top management. Based on a management analysis of internal reporting the top management on a frequent basis receives sales reports, quality reviews and the Group income statement and cash flow reports. These reports are all based on the fact that the common technology platform, development process, manufacturing process, market strategy and the joint sales resources makes it neither possible nor necessary to a further break down of the operations. Consequently no review of the result for an individual part of the operations is performed.

## The parent company

The Parent Company's operations are primarily focused on Group-wide management and financing. Apart from the Group's CEO, the Parent Company has no employees. The operating profit for the first three months amounted to SEK 1.6 m (3.1). Cash and cash equivalents amounted to SEK 0.1 m (0.1) and borrowing amounted to SEK 97.9 m (112.9).

## Reporting occasions

- Q3 report will be published on October 27, 2009

The Board of Directors and CEO confirm that this quarterly report provides a fair presentation of the company's and Group's operations, financial position and results and describes the significant risks and uncertainties that the company and the companies included in the Group face. This quarterly report has not been reviewed by the Company's auditor.

Halmstad, July 14, 2009

Urban Jansson  
Chairman of the Board

Nicolas Hassbjer  
Vice Chairman of the Board

Göran Sigfridsson

Henrik Johansson

Ray Mauritsson

Staffan Dahlström  
CEO

Further information can be obtained from the CEO Staffan Dahlström on telephone +46-35-17 29 01 or the CFO Gunnar Högberg on telephone +46-35-17 29 95.  
See also <http://investors.hms.se>

## Financial accounts

### Key ratios

Group	Q2 2009	Q2 2008	Q1-Q2 2009	Q1-Q2 2008	Q1-Q4 2008	Q3 2008 -Q2 2009
Net increase in revenue (%)*	-37.6	18.6	-25.8	14.9	17.5	-4.8
Gross margin (%)*	53.5	53.3	56.3	52.4	57.4	59.8
Operating margin EBIT (%)*	-6.0	22.5	1.7	23.5	26.9	18.2
Return on capital employed (%)**	17.1	20.5	17.1	20.5	27.1	17.1
Return on total equity (%)**	17.3	19.8	17.3	19.8	28.6	17.3
Working capital in relation to sales (%)**	7.6	6.9	7.6	6.9	5.7	7.6
Capital turnover rate	0.78	0.83	0.78	0.83	0.86	0.78
Debt/equity ratio	0.27	0.40	0.27	0.40	0.19	0.27
Equity/assets ratio (%)	60.4	55.0	60.4	55.0	56.6	60.4
Capital expenditure in property, plant and equipm. (SEK 000s)	510	635	1,152	933	2,521	2,740
Capital expenditure in intangible fixed assets (SEK 000s)	1,562	1,655	2,786	2,825	4,900	4,861
Depreciation of property, plant and equipment (SEK 000s)	-1,052	-1,041	-2,081	-2,002	-4,043	-4,122
Amortisation of intangible fixed assets (SEK 000s)	-992	-995	-1,982	-1,990	-4,283	-4,275
Number of employees (average)	154	155	154	155	153	154
Revenue per employee (SEK m)**	1.8	1.9	1.8	1.9	2.1	1.8
Cash flow from operating activities per share, SEK	-0.05	2.33	0.22	2.89	6.52	3.85
Cash flow from operating activities per share, diluted, SEK	-0.04	2.21	0.21	2.75	6.21	3.67
Basic number of shares, average, thousands	10,572	10,572	10,572	10,572	10,572	10,572
Number of shares, diluted average, thousands	11,115	11,059	11,115	11,059	11,114	11,093

\* Change in fair value of derivate has been relabeled from revenue to other operating income/costs when applicable.

\*\* The key ratio has been translated into 12 months rolling value when applicable.

### Income statements

Group (SEK 000s)	Q2 2009	Q2 2008	Q1-Q2 2009	Q1-Q2 2008	Q1-Q4 2008	Q3 2008 -Q2 2009
Revenue	49,969	80,121	115,586	155,677	316,563	276,472
Cost of goods and services sold	-23,218	-37,439	-50,521	-74,179	-134,721	-111,063
<b>Gross profit</b>	<b>26,752</b>	<b>42,682</b>	<b>65,065</b>	<b>81,498</b>	<b>181,842</b>	<b>165,409</b>
Sales and marketing costs	-13,198	-12,747	-27,162	-23,714	-50,885	-54,333
Administrative expenses	-5,520	-4,300	-11,027	-8,766	-19,173	-21,434
Research and development costs	-7,638	-6,773	-15,323	-13,009	-27,003	-29,317
Other operating income	0	0	864	1,789	6,320	5,395
Other costs	-3,385	-838	-10,443	-1,181	-6,070	-15,332
<b>Operating profit</b>	<b>-2,989</b>	<b>18,024</b>	<b>1,974</b>	<b>36,617</b>	<b>85,031</b>	<b>50,388</b>
Financial income	28	0	1,438	0	1,881	3,319
Financial costs	-2,002	-837	-3,348	-3,009	-5,961	-6,300
<b>Profit before tax</b>	<b>-4,964</b>	<b>17,187</b>	<b>65</b>	<b>33,608</b>	<b>80,951</b>	<b>47,407</b>
Tax	1,393	-5,407	0	-10,298	-22,140	-11,842
<b>Profit for the period</b>	<b>-3,570</b>	<b>11,780</b>	<b>65</b>	<b>23,310</b>	<b>58,811</b>	<b>35,565</b>
Profit attributable to shareholders of the parent company	-3,550	11,353	-156	22,170	57,429	35,103
Profit attributable to minority interest	-20	427	220	1,140	1,382	462
Basic earnings per share, SEK	-0.34	1.07	-0.01	2.10	5.43	3.32
Earnings per share, diluted, SEK	-0.32	1.02	-0.01	1.99	5.17	3.16

## Statements of comprehensive income

Group (SEK 000s)	Q2 2009	Q2 2008	Q1-Q2 2009	Q1-Q2 2008	Q1-Q4 2008	Q3 2008 -Q2 2009
Profit for the period	-3,570	11,780	65	23,310	58,811	35,565
<b>Other comprehensive income</b>						
Cash flow hedges	7,624	0	10,273	0	-10,194	79
Translation differences	112	-40	18	111	140	47
Change in deferred tax	0	0	0	0	346	346
Settlement tax	0	0	0	0	1,003	1,003
Income tax relating to components of other comprehensive income	-2,001	0	-2,702	0	2,681	-21
<b>Other comprehensive income for the period, net of tax</b>	<b>5,735</b>	<b>-40</b>	<b>7,589</b>	<b>111</b>	<b>-6,024</b>	<b>1,454</b>
<b>Total comprehensive income for the period</b>	<b>2,165</b>	<b>11,740</b>	<b>7,654</b>	<b>23,421</b>	<b>52,787</b>	<b>37,019</b>
<b>Profit attributable to:</b>						
Owners of the parent	2,185	11,313	7,434	22,281	51,405	36,557
Minority interest	-20	427	220	1,140	1,382	462

## Balance Sheets

Group (SEK 000s)	June 30 2009	June 30 2008	Dec 31 2008
<b>ASSETS</b>			
Goodwill	236,071	236,071	236,071
Other intangible assets	14,576	14,573	13,770
Property, plant and equipment	9,425	10,829	10,388
Deferred tax assets	855	766	862
<b>Total fixed assets</b>	<b>260,927</b>	<b>262,239</b>	<b>261,091</b>
Inventories	13,085	14,399	17,549
Trade and other receivables	27,820	35,583	37,952
Other current receivables	10,156	6,229	7,498
Cash and cash equivalents	41,588	38,900	66,177
<b>Total current assets</b>	<b>92,649</b>	<b>95,111</b>	<b>129,176</b>
<b>TOTAL ASSETS</b>	<b>353,576</b>	<b>357,350</b>	<b>390,267</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	213,591	191,961	221,078
Minority interest in equity	3,089	3,099	3,348
<b>Total equity</b>	<b>216,680</b>	<b>195,060</b>	<b>224,426</b>
<b>Liabilities</b>			
Non-current liabilities	100,340	116,833	108,592
Deferred income tax liabilities	10,177	6,823	9,554
<b>Total non-current liabilities</b>	<b>110,517</b>	<b>123,656</b>	<b>118,146</b>
Trade payables	9,848	22,445	15,292
Other current liabilities	16,531	16,189	32,403
<b>Total current liabilities</b>	<b>26,376</b>	<b>38,634</b>	<b>47,695</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>353,576</b>	<b>357,350</b>	<b>390,267</b>

## Cash flow statements

Group (SEK 000s)	Q2 2009	Q2 2008	Q1-Q2 2009	Q1-Q2 2008	Q1-Q4 2008	Q3 2008 -Q2 2009
Cash flow from operating activities before changes in working capital	2,092	14,744	7,029	29,062	66,952	44,919
Cash flow from changes in working capital	-2,577	9,873	-4,748	1,469	2,024	-4,193
Cash flow from operating activities	-485	24,617	2,281	30,531	68,976	40,726
Cash flow from investing activities	-2,073	-2,394	-3,938	-3,846	-7,344	-7,436
Cash flow from financing activities	-19,135	-13,522	-22,932	-17,902	-25,572	-30,602
<b>Cash flow for the period</b>	<b>-21,693</b>	<b>8,701</b>	<b>-24,589</b>	<b>8,783</b>	<b>36,060</b>	<b>2,688</b>
Cash and cash equivalents at beginning of the period	63,281	30,199	66,177	30,117	30,117	38,900
<b>Cash and cash equivalents at end of period</b>	<b>41,588</b>	<b>38,900</b>	<b>41,588</b>	<b>38,900</b>	<b>66,177</b>	<b>41,588</b>

\*Capitalization of development costs has been relabeled from operating activities to investing activities when applicable.

## Quarterly data

Revenue per region (SEK 000s)	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
EMEA	34,789	40,320	46,658	51,226	50,451	52,256	42,895	42,618	43,681	39,583
Americas	8,221	15,431	16,911	19,718	15,786	11,307	13,112	12,339	12,379	13,789
Asia	6,959	9,865	14,351	12,022	13,884	11,993	11,727	12,171	11,490	14,617

Income statement (SEK 000s)	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue	49,969	65,616	77,920	82,966	80,121	75,556	67,734	67,128	67,550	67,989
Gross profit	26,752	38,313	55,075	46,597	42,682	38,816	36,318	37,782	35,313	32,795
Gross margin	53.5%	58.4%	70.7%	56.2%	53.3%	51.4%	53.6%	56.3%	52.3%	48.2%
Operating profit	-2,989	4,963	26,979	21,435	18,025	18,594	8,704	16,950	15,185	13,670
Operating margin	-6.0%	7.6%	34.6%	25.8%	22.5%	24.6%	12.9%	25.3%	22.5%	20.1%
Profit before tax	-4,964	5,028	25,621	21,722	17,188	16,422	6,706	11,830	11,955	11,922

## Parent company

### Income Statements

Parent company (SEK 000s)	Q2 2009	Q2 2008	Q1-Q2 2009	Q1-Q2 2008	Q1-Q4 2008	Q3 2008 -Q2 2009
Revenue	4,154	2,446	5,990	4,618	9,787	11,159
Cost of sales and services	0	0	0	0	0	0
<b>Gross profit</b>	<b>4,154</b>	<b>2,446</b>	<b>5,990</b>	<b>4,618</b>	<b>9,787</b>	<b>11,159</b>
Administrative expenses	-3,195	-876	-4,391	-1,501	-3,855	-6,745
Other costs - net	0	0	0	0	0	0
<b>Operating profit</b>	<b>960</b>	<b>1,570</b>	<b>1,599</b>	<b>3,117</b>	<b>5,932</b>	<b>4,414</b>
Financial costs	-1,005	-1,532	-1,644	-3,117	-5,932	-4,459
<b>Profit before tax</b>	<b>-45</b>	<b>38</b>	<b>-45</b>	<b>0</b>	<b>0</b>	<b>-45</b>
Tax	0	0	0	0	0	0
<b>Profit for the period</b>	<b>-45</b>	<b>38</b>	<b>-45</b>	<b>0</b>	<b>0</b>	<b>-45</b>



## Balance Sheets

Parent company (SEK 000s)	June 30 2009	June 30 2008	Dec 31 2008
<b>ASSETS</b>			
Financial fixed assets	289,113	289,113	289,113
<b>Total financial fixed assets</b>	<b>289,113</b>	<b>289,113</b>	<b>289,113</b>
Other receivables	321	200	12
Cash and cash equivalents	89	118	115
<b>Total current assets</b>	<b>410</b>	<b>318</b>	<b>127</b>
<b>TOTAL ASSETS</b>	<b>289,523</b>	<b>289,431</b>	<b>289,240</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	89,201	104,166	104,166
<b>Liabilities</b>			
<b>Non-current liabilities</b>	<b>97,909</b>	<b>112,909</b>	<b>105,441</b>
Trade payables	59	0	0
Liabilities to Group companies	101,481	71,547	78,450
Other current liabilities	872	809	1,183
<b>Total current liabilities</b>	<b>102,412</b>	<b>72,356</b>	<b>79,633</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289,523</b>	<b>289,431</b>	<b>289,240</b>

### Our Vision

"The vision of HMS is that all automation devices will be intelligent and networked. HMS shall be the market leader in connectivity solutions for industrial devices".

### Our Mission

"We provide reliable and flexible solutions to connect industrial devices to networks and products enabling interconnection between different industrial networks".



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