

## HMS Networks AB (publ)

### Year End Report 2009

#### Continued recovery in sales and order intake

- ⊗ **Net sales for 2009 reached SEK 244.5 m (316.6)**
- ⊗ **Operating profit amounted to SEK 31.1 m (85.0), representing a 13 % (27) operating margin**
- ⊗ **Profit after taxes amounted to SEK 20.7 m (58.8)**
- ⊗ **Earnings per share amounted to SEK 1.88 (5.43)**
- ⊗ **The board of directors propose a dividend of SEK 1.00 (1.50) per share**
- ⊗ **Order intake for the fourth quarter increased with 10% to SEK 81.0 m (73.7) corresponding to 1.1 times invoiced sales of SEK 72.2 m (77.9)**
- ⊗ **Net sales, operating result and cash flow improved in the fourth quarter compared to the previous quarter**

- The increase in sales and order intake continued during the fourth quarter showing a sequential sales growth of 27% compared to the previous quarter. We have noticed an increased stability sales and order intake giving us the support necessary to initiate the next growth phase in the HMS development, says Staffan Dahlström, CEO of HMS.



HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled SEK 245 million in 2009. 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 154 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. HMS is listed on NASDAQ-OMX Nordic Exchange in Stockholm in the category Small Cap, Information Technology.

## Comments of the CEO

Order intake and sales improved further during the last quarter of 2009. During the fourth quarter sales reached SEK 72.2 m, which is 27% higher than the previous quarter. Order intake amounted to SEK 81.0 m, 37% higher than the third quarter and equal to a 10% increase compared to the corresponding quarter in 2008. We have noticed a more stable market situation in Germany and in China and a recovery on the Japanese market.

As previously reported, the HMS fourth quarter is characterized by a high activity level in the areas of sales and marketing. Despite the higher expense level we can report a 22 % operating margin.

The inflow of new design wins for Embedded products continued and the increase in number of design wins amounted to 83 (80) for 2009. Despite the weak sales we can disclose a positive cash flow and net debt decreased with SEK 12 m reaching SEK 30 m by the end of the year. As a result of the strong cash flow and the solid cash position at the beginning of the year HMS can now disclose a 0.2 debt/equity ratio by the end of the year.

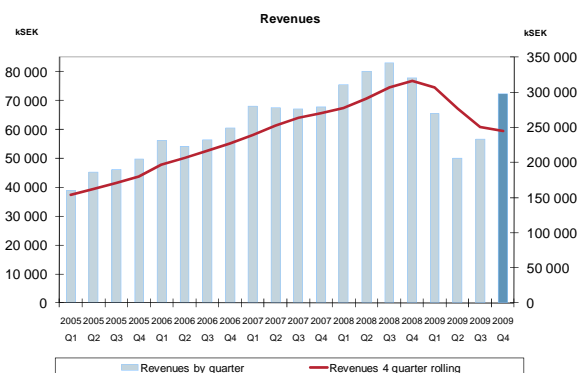
We have noticed an increased stability in sales volumes and in order intake. Together with the improved result levels during the second half of 2009 we are now ready to initiate the next step in the HMS expansion plan. Primarily this will be accomplished by an increase in resources and a strengthening of the company's sales channels to develop the HMS position in new market areas. The product offering will be broadened mainly in the form of new Gateway products at the same time as we continue to develop the already successful product offering within the area of Embedded products.



## Growth in sales

Net sales for 2009 amounted to SEK 244.5 m (316.6) equal to a 30.5% decrease in local currencies. During the year the weakening of the Swedish currency affected net sales with SEK 24.6m. The order intake for the last four quarters amounted to SEK 257.9 m (313.1), equal to a 25.5 % drop in local currencies.

Net sales for the fourth quarter totalled to SEK 72.2 m (77.9) corresponding to a 7.3 % decrease compared to the same period the previous year. Adjusted for SEK 0.4 m in currency effects the decrease in net sales amounted to 7.9%. Order intake during the fourth quarter increased with 9.4 % in local currencies and amounted to SEK 81.0 (73.7).

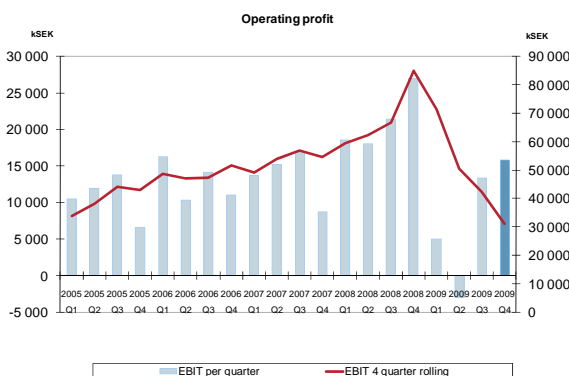


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turn over for the latest 12 month period referring to the scale on the axis to the right.

## Growth in profit

Operating profit totalled to SEK 31.1 m (85.0) for the year, equivalent to an operating margin of 12.7 %. Currency effects improved the operating result with SEK 16.0 m compared to last year. The operating margin improved during the year due to increased efficiencies in production and the last six months strengthened focus on operating expenses.

The operating profit for the fourth quarter totalled to SEK 15.8 m (27.0) equal to a 21.9% operating margin. The fourth quarter result was positively affected by a SEK 0.5 m in currency effect compared to the same period the previous year.



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.

## 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 63 % in EURO, 20% in USD, 7% in Japanese Yen and 10% in SEK and other currencies. Cost of goods sold consists of 30% in EURO, 15% in USD and 1% in Japanese Yen. Operating expenses consists of 19% in EURO, 8% in USD, 6% in Japanese Yen and 67% in SEK. The group applies a policy for currency hedging further described in the annual report.

## Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 31.0 m (69.0). The 2009 investments in tangible assets totalled SEK 2.4 m (2.5). Investments in intangible asset for 2009 totalled SEK 5.0 m (4.9) and consist of capitalization of internal project regarding development. At year-end the cash equivalents totalled SEK 25.5 m (66.2) and unutilised credit facilities SEK 20.0 m (20.0). The Group's net debt fell to SEK 30.3 m (42.4). The debt/equity ratio was 0.2 at the end of the year

## Tax

The 2009 tax charge was SEK 7.8 m (22.1). The tax charge for the current year 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 237.0 m. Call warrants giving the right to subscribe for 169 500 shares were issued during the second quarter of 2009. Issuing the new warrants increased shareholders equity with SEK 0.1m. During the fourth quarter 581,250 shares were issued based on previously issued warrant programs increasing shareholders equity with SEK 2.4m. The total number of shares at the end of the year was 11,152,900. After full dilution, the total number of shares is 11,322,400. During the year dividends amounting to SEK 16.3m was distributed. The Group's equity/assets ratio improved to 70.0% (56.6).

Changes in Total Group Equity (SEK 000s)	Dec 31 2009	Dec 31 2008
Balance at 1 January	224,426	182,211
Total comprehensive income for the period	28,961	52,787
Warrants	3,384	0
Dividends	-16,337	-10,572
<b>Closing balance</b>	<b>240,434</b>	<b>224,426</b>

## Important events during the year

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 first half year HMS made a successful recertification of its quality system according to ISO 9001:2008.

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.

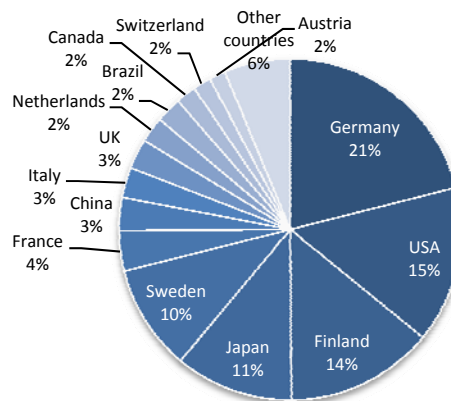
During the third quarter HMS launched a new Anybus CompactCom module for the network protocol ControlNet and a new extended concept for frequency converter manufacturers mainly directed to users of the network protocols Profibus, Ethernet, Devicenet and Canopen.

During the fourth quarter HMS received numerous orders for communication products to be used in the extension of subway lines in China. The total order value was approximately SEK 3m. In addition an order for a new Gateway product was received from one of the leading North American automation companies. The order value for the initial customization of the product is approximately SEK 2m. The customization will be finalized during 2010-2011. The sales volume in the following years is estimated to reach SEK 2m – SEK 3m annually.

The number of design-wins increased with 83 (80). At year end the total number of design-wins amounted to 814 (731). By the end of the year 630 (553) design-wins had reached the production phase. The portfolio of design-wins in the development phase is considered to be further strengthened. The average sales per design win in production phase decreased to SEK 0.26 m (0.43) as a consequence of the weaker demand from existing customers in 2009.

Of the 2009 net sales 66% (71) was related to Embedded products and 28% (26) to Gateway products.

Geographic distribution of net sales is shown to the right.



## Dividend

The board of directors of HMS Networks AB (publ) proposes a dividend of SEK 1.00 (1.50) per share.

## Annual General Meeting and Annual Report

The Annual General Meeting of shareholders will be held at the Company's head quarter on Monday April 19, 2010 at 10.00. The 2009 Annual Report will be available at the Company's home page as of week 11. A printed version of the Annual Report can be requested by sending your address details to [ir@hms.se](mailto:ir@hms.se).

## Nomination committee

The following persons have been appointed as members of the Nomination Committee: Nicolas Hassbjer representing 30% of the shares, Jan Svensson, Investment AB Latour representing 15% of the shares, Per Trygg (SEB Fonder) representing 9% of the shares and Urban Jansson (Chairman of the Board of Directors). Suggestions and point of views from shareholders can be sent to [valberedning@hms.se](mailto:valberedning@hms.se) or by regular mail to HMS with Att. Nomination committee no later than March 1, 2010.

## Outlook

Compared to the first half year the market for the HMS product offering strengthened during the later part of 2009. The future market development is still uncertain.

A continued inflow of design wins, a broader product offering especially in the area of Gateway products, a stronger customer focus and an expansion of HMS sales channels supports the long term growth. The HMS comprehensive long term goals are unchanged with a 20% long term average growth and an operating margin exceeding 20%.

The company's strategy to reach these goals involves a continued effort to build a strong design win portfolio in the area of embedded network cards and a broadening of the product offering in the Gateway area to penetrate the existing market and to expand into adjacent areas within network technology.

## HMS Networks AB's shares

HMS Networks AB is listed on the NASDAQ-OMX Nordic Exchange in the category Small Cap, Information Technology. Average number of shares sold totalled 8,879 shares per day. The volume weighted average share price during 2009 was SEK 58.68 (64.91). At year end the total number of shares amounted to 11,152,900.

## 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 year-end report has been prepared in accordance with the Swedish Annual Accounts Act and IAS 34, for Interim Reporting. A number of amendments to existing standards, new interpretations and a new standard (IFRS 8) came into effect on January 1, 2009.

For HMS the following standards and interpretations, which took effect on January 1, 2009, have been recognized as relevant for the preparation of the financial report and its accounting principles:

- IAS 1 (revised), Presentation of Financial Statements.

The changes in this standard affect the preparation of the financial statements. In accordance with IAS 1, HMS has chosen to present the Group's total result divided into two separate statements, an income statement and a statement over the comprehensive income. Hence the statement of changes in shareholders equity only shows transactions with the company's owners.

- IFRS 8, Business segments.

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.

In all other respects HMS continues to apply the same accounting principles and valuation methods as those described in the most recent Annual Report.

### **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 year amounted to SEK 1.5m (5.9). Cash and cash equivalents amounted to SEK 0.1 m (0.1) and borrowing amounted to SEK 54.1 m (105.4).

### **Annual general meeting and reporting occasions**

- Annual General Meeting will be held at 10.00 on Monday April 19, 2010 at HMS HQ in Halmstad
- Q1 report will be published on April 19, 2010
- Q2 report will be published on July 15, 2010
- Q3 report will be published on October 21, 2010

Halmstad, February 4, 2010

Staffan Dahlström  
CEO

This yearend report has not been reviewed by the Company's auditor.

Further information can be obtained from the CEO Staffan Dahlström on telephone +46-35-172901 or the CFO Gunnar Högberg on telephone +46-35-17 29 95. See also <http://investors.hms.se>

## Financial accounts

### Key ratios

Group	Q4	Q4	Q1-Q4	Q1-Q4
	2009	2008	2009	2008
Net increase in revenue (%)*	-7.3	15.0	-22.8	17.1
Gross margin (%)*	60.1	69.0	58.4	57.4
Operating margin EBIT (%)*	21.9	34.6	12.7	26.9
Return on capital employed (%)**	10.5	27.1	10.5	27.1
Return on total equity (%)**	8.8	28.6	8.8	28.6
Working capital in relation to sales (%)**	7.6	5.7	7.6	5.7
Capital turnover rate	0.67	0.86	0.67	0.86
Debt/equity ratio	0.13	0.19	0.13	0.19
Equity/assets ratio (%)	70.0	56.6	70.0	56.6
Capital expenditure in property, plant and equipm. (SEK 000s)	415	853	2,423	2,521
Capital expenditure in intangible fixed assets (SEK 000s)	1,128	985	4,955	4,900
Depreciation of property, plant and equipment (SEK 000s)	-1,062	-1,051	-4,154	-4,043
Amortisation of intangible fixed assets (SEK 000s)	-1,098	-1,188	-4,075	-4,283
Number of employees (average)	154	153	154	153
Revenue per employee (SEK m)**	1.6	2.1	1.6	2.1
Cash flow from operating activities per share, SEK	1.63	1.92	2.89	6.52
Cash flow from operating activities per share, diluted, SEK	1.63	1.83	2.79	6.21
Basic number of shares, average, thousands	11,153	10,572	10,717	10,572
Number of shares, diluted average, thousands	11,153	11,114	11,121	11,114

\* 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)	Q4	Q4	Q1-Q4	Q1-Q4
	2009	2008	2009	2008
Revenue	72,215	77,920	244,536	316,563
Cost of goods and services sold	-28,807	-24,173	-101,818	-134,721
<b>Gross profit</b>	<b>43,408</b>	<b>53,747</b>	<b>142,718</b>	<b>181,842</b>
Sales and marketing costs	-15,598	-14,285	-54,983	-50,885
Administrative expenses	-5,386	-5,543	-20,854	-19,173
Research and development costs	-7,930	-7,375	-29,211	-27,003
Other operating income	1,517	5,177	5,991	6,320
Other costs	-209	-4,742	-12,535	-6,070
<b>Operating profit</b>	<b>15,802</b>	<b>26,979</b>	<b>31,125</b>	<b>85,031</b>
Financial income	397	217	1,841	1,881
Financial costs	-235	-1,575	-4,514	-5,961
<b>Profit before tax</b>	<b>15,965</b>	<b>25,621</b>	<b>28,452</b>	<b>80,951</b>
Tax	-4,275	-5,372	-7,782	-22,140
<b>Profit for the period</b>	<b>11,689</b>	<b>20,250</b>	<b>20,671</b>	<b>58,811</b>
Profit attributable to shareholders of the parent company	11,386	20,466	20,116	57,429
Profit attributable to minority interest	303	-216	555	1,382
Basic earnings per share, SEK	1.02	1.94	1.88	5.43
Earnings per share, diluted, SEK	1.02	1.84	1.81	5.17



## Statements of comprehensive income

Group (SEK 000s)	Q4 2009	Q4 2008	Q1-Q4 2009	Q1-Q4 2008
Profit for the period	11,689	20,250	20,671	58,811
<b>Other comprehensive income</b>				
Cash flow hedges	-2,627	-10,194	11,469	-10,194
Translation differences	-179	51	-163	140
Change in deferred tax	0	346	0	346
Settlement tax	0	0	0	1,003
Income tax relating to components of other comprehensive income	691	2,681	-3,016	2,681
<b>Other comprehensive income for the period, net of tax</b>	<b>-2,115</b>	<b>-7,116</b>	<b>8,290</b>	<b>-6,024</b>
<b>Total comprehensive income for the period</b>	<b>9,574</b>	<b>13,134</b>	<b>28,961</b>	<b>52,787</b>
<b>Profit attributable to:</b>				
Owners of the parent	9,271	13,350	28,406	51,405
Minority interest	303	-216	555	1,382

## Balance Sheets

Group (SEK 000s)	Dec 31 2009	Dec 31 2008
<b>ASSETS</b>		
Goodwill	236,071	236,071
Other intangible assets	14,652	13,770
Property, plant and equipment	8,564	10,388
Deferred tax assets	802	862
<b>Total fixed assets</b>	<b>260,089</b>	<b>261,091</b>
Inventories	13,043	17,549
Trade and other receivables	33,098	37,952
Other current receivables	7,073	7,498
Cash and cash equivalents	25,512	66,177
<b>Total current assets</b>	<b>78,724</b>	<b>129,176</b>
<b>TOTAL ASSETS</b>	<b>338,814</b>	<b>390,267</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	237,010	221,078
Minority interest in equity	3,423	3,348
<b>Total equity</b>	<b>240,434</b>	<b>224,426</b>
<b>Liabilities</b>		
Non-current liabilities	55,828	108,592
Deferred income tax liabilities	11,319	9,554
<b>Total non-current liabilities</b>	<b>67,147</b>	<b>118,146</b>
Trade payables	16,432	15,292
Other current liabilities	14,800	32,403
<b>Total current liabilities</b>	<b>31,233</b>	<b>47,695</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>338,814</b>	<b>390,267</b>

## Cash flow statements

Group (SEK 000s)	Q4 2009	Q4 2008	Q1-Q4 2009	Q1-Q4 2008
Cash flow from operating activities before changes in working capital	16,921	25,677	25,620	77,736
Cash flow from changes in working capital	1,205	-5,334	5,371	-8,760
Cash flow from operating activities	18,126	20,343	30,991	68,976
Cash flow from investing activities	-1,544	-1,761	-7,379	-7,344
Cash flow from financing activities	-22,611	-3,735	-64,277	-25,572
<b>Cash flow for the period</b>	<b>-6,029</b>	<b>14,847</b>	<b>-40,665</b>	<b>36,060</b>
Cash and cash equivalents at beginning of the period	31,541	51,330	66,177	30,117
<b>Cash and cash equivalents at end of period</b>	<b>25,512</b>	<b>66,177</b>	<b>25,512</b>	<b>66,177</b>

Capitalization of development costs has been relabeled from operating activities to investing activities when applicable.  
Change in current receivables/liabilities related to derivative financial instruments is reported as cash flow from operating activities before changes in working capital.

## Quarterly data

Revenue by region (SEK 000s)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
EMEA	46,284	38,184	34,789	40,320	46,658	51,226	50,451	52,256	42,895	42,618	43,681	39,583
Americas	13,373	10,892	8,221	15,431	16,911	19,718	15,786	11,307	13,112	12,339	12,379	13,789
Asia	12,558	7,659	6,959	9,865	14,351	12,022	13,884	11,993	11,727	12,171	11,490	14,617

Income statement (SEK 000s)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue	72,215	56,735	49,969	65,616	77,920	82,966	80,121	75,556	67,734	67,128	67,550	67,989
Gross profit	43,408	34,245	26,752	38,313	53,747	46,597	42,682	38,816	36,318	37,782	35,313	32,795
Gross margin	60.1%	60.4%	53.5%	58.4%	69.0%	56.2%	53.3%	51.4%	53.6%	56.3%	52.3%	48.2%
Operating profit	15,802	13,349	-2,989	4,963	26,979	21,435	18,024	18,594	8,704	16,950	15,185	13,670
Operating margin	21.9%	23.5%	-6.0%	7.6%	34.6%	25.8%	22.5%	24.6%	12.9%	25.3%	22.5%	20.1%
Profit before tax	15,965	12,423	-4,964	5,028	25,621	21,722	17,187	16,422	6,706	11,830	11,955	11,922

## Parent company

Parent company (SEK 000s)	Q4 2009	Q4 2008	Q1-Q4 2009	Q1-Q4 2008
Revenue	1,939	2,954	7,284	9,787
Cost of sales and services	0	0	0	0
<b>Gross profit</b>	<b>1,939</b>	<b>2,954</b>	<b>7,284</b>	<b>9,787</b>
Administrative expenses	-1,634	-1,700	-5,784	-3,855
Other costs - net	0	0	0	0
<b>Operating profit</b>	<b>304</b>	<b>1,254</b>	<b>1,500</b>	<b>5,932</b>
Financial incomes	0	0	74,926	0
Financial costs	-182	-1,255	-1,496	-5,932
<b>Profit before tax</b>	<b>122</b>	<b>0</b>	<b>74,931</b>	<b>0</b>
Appropriations	-8	0	-8	0
Tax	-12	0	-12	0
<b>Profit for the period</b>	<b>102</b>	<b>0</b>	<b>74,911</b>	<b>0</b>



## Balance Sheets

Parent company (SEK 000s)	Dec 31 2009	Dec 31 2008
<b>ASSETS</b>		
Financial fixed assets	244,039	289,113
<b>Total financial fixed assets</b>	<b>244,039</b>	<b>289,113</b>
Other receivables	565	12
Cash and cash equivalents	143	115
<b>Total current assets</b>	<b>708</b>	<b>127</b>
<b>TOTAL ASSETS</b>	<b>244,747</b>	<b>289,240</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>166,604</b>	<b>104,166</b>
<b>Untaxed reserves</b>	<b>8</b>	<b>0</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>	<b>54,118</b>	<b>105,441</b>
Trade payables	972	0
Liabilities to Group companies	22,592	78,450
Other current liabilities	453	1,183
<b>Total current liabilities</b>	<b>24,018</b>	<b>79,633</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>244,747</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".

### Our purpose

"To create long term value for our customers, employees and investors".



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