

HMS Networks AB (publ)

Year End Report 2008

Record earnings create strong base in a weakening market

- ⊗ **Net sales for 2008 increased with 17 % to SEK 316.6 m (269.5)**
- ⊗ **Operating profit improved with 56 % to SEK 85.0 m (54.5), representing a 27 % (20) operating margin**
- ⊗ **Cash flow from ongoing operations improved with 102 % to SEK 69.0 m (34.2)**
- ⊗ **Profit after taxes increased with 97 % to SEK 58.8 m (29.8)**
- ⊗ **Earnings per share improved with 93 % to SEK 5.43 (2.81)**
- ⊗ **The board of directors propose a dividend of SEK 1.50 (1.00) per share**
- ⊗ **Net sales for the fourth quarter increased with 20% to SEK 79.2 m (66.1)
The order intake declined by 0,5% in local currencies**

- The positive financial development gives HMS a strong base allowing necessary long term actions despite the weak market situation. The economical downturn is decreasing our volume, but this is partly offset by currency effects. During the fourth quarter we received several key design-wins for customer specific solutions that will contribute to our long term growth. For this reason we are now recruiting development engineers and complementing our sales organisation in order to create stronger growth after 2009, says Nicolas Hassbjer, 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 160 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

For 2008 HMS can present a positive trend both in sales and earnings improving our strong financial position. Adjusted for exchange rate differences the growth in net sales was 15 %. The 2008 operating result reached SEK 85.0 m equal to a 56 % improvement compared to last year. During the later part of 2008 we have noticed a slowdown in our order intake. This slowdown was partly offset by a weakening of the Swedish currency and our sales exposure to the EURO, American Dollar and the Japanese Yen. Improved efficiency in our manufacturing facility and economies of scale in our operations affected our result positively.

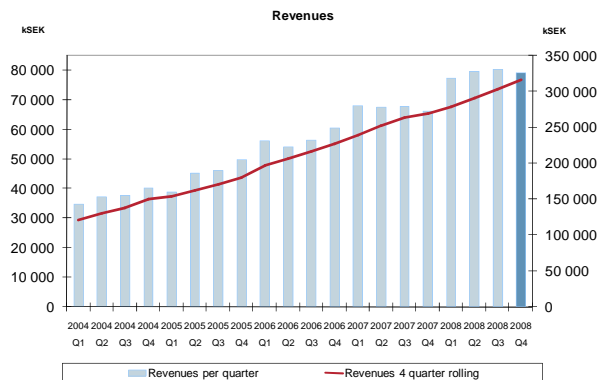
HMS profitability and cash flow was further strengthened at the end of 2008 providing a comfortable base to pursue our long term growth strategy. The growth in volume on existing customers is negatively affected by the weaker market situation, but the inflow of design-wins for embedded products continues. During the fourth quarter we also received strategically important orders for customer specific adaption of our base technology which will contribute to our long term growth potential.



Growth in sales

Net sales for 2008 amounted to SEK 316.6 m (269.5). Adjusted for currency effects of SEK 7.5 m this corresponded to 14.7 % growth. The order intake for the last four quarters amounted to SEK 313.1 m (266.9), equal to a 14.5 % increase in local currencies.

Net sales for the fourth quarter totalled to SEK 79.2 m (66.1) corresponding to a 19.8 % increase compared to the same period the previous year. Adjusted for SEK 9.5 m in currency effects the increase in net sales amounted to 5.5 %. Order intake during the fourth quarter decreased with 0.5 % in local currencies.

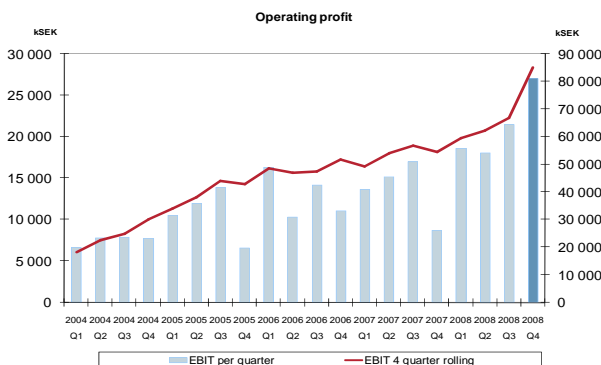


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turn over for the latest 12 month period referring to the scale on the axis to the right.

Growth in profit

Operating profit totalled to SEK 85.0 m (54.5) for the year, equivalent to an operating margin of 26.9 %. Currency effects improved the operating result with SEK 6.2 m compared to last year. Adjusted for fluctuations in currencies operating margin equalled 25.5 %. The operating margin improved during the year due to increased efficiencies in production, the implementation of the HMS NP30 chip in more products and the last six months focus on operating expenses.

The operating profit for the fourth quarter totalled to SEK 27.0 m (8.7). Last year the comparative period was charged with SEK 3.0 m in non recurring expenses. The fourth quarter result was positively affected by a favourable sales mix and SEK 7.1 m in currency effect compared to the same period the previous year. Adjusted for currency effects the operating margin amounted to 28.4 %.



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 60 % in EURO, 20% in USD, 8% in Japanese Yen and 12% in SEK and other currencies. Operating expenses consists of 19% in EURO, 9% in USD, 3% in Japanese Yen and 60% 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 improved with 102 % to SEK 69.0 m (34.2). The 2008 investments in tangible assets totalled SEK 2.5 m (5.0). Investments in intangible asset for 2008 totalled SEK 4.9 m (2.9). At the year-end the cash equivalents totalled SEK 66.2 m (30.1) and unutilised credit facilities SEK 20.0 m. The Group's net debt fell to SEK 42.4 m (95.0).

Tax

The 2008 tax charge was SEK 22.1 m (12.6). 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 224.4 m. The total number of shares at the end of the year was 10,571,650. After full dilution, the total number of shares is 11,152,900. The Group's equity/assets ratio is 56.6 %.

Consolidated changes in equity (SEK 000s)	Per December 31	
	2008	2007
Balance at 1 January	182 211	153 158
Currency translation differences	140	-635
Currency hedge	-10 194	
Tax effects from currency hedging	2 681	
Change in deferred tax	346	
Settlement tax	1 003	
New share issue		33
Payment, warrants		-114
Dividend	-10 572	
Profit for the period	58 811	29 768
Closing balance	224 426	182 211

Dividend

The board of directors of HMS Networks AB (publ) proposes a dividend of SEK 1.50 (1.00) per share. The proposed dividend is based on the previously established policy to distribute 30% of the financial year's net profit in dividend.

The Annual General Meeting of shareholders will be held at the Company's head quarter on April 2, 2009. The 2008 Annual Report will be available at the Company's home page as of week 10. A printed version of the Annual Report can be requested by sending your address details to ir@hms.se.

Important events during the year

In February HMS Networks received a SEK 1 m order for Anybus Gateways to connect more than 100 robots in a new car manufacturing line.

One of the world's largest manufacturers of Inverter drives decided in February to use the new Anybus technology in their new generation of products. The development order was SEK 1 m. At full production the annual sales volume is estimated to SEK 10 m.

In May HMS was awarded the price for the best Swedish export company by the Swedish Trade Council.

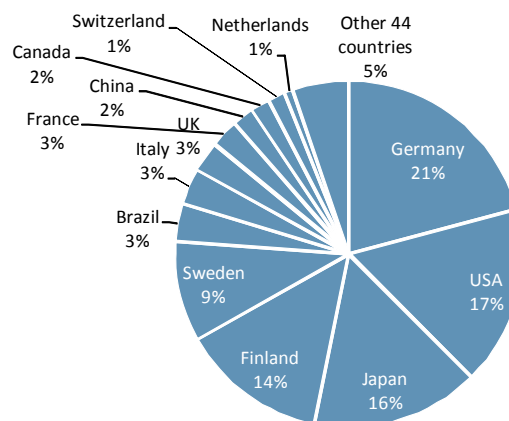
HMS Networks received a SEK 1.3 m order for Anybus Gateways to control systems in a marine application from a customer in the USA.

In November the previously received order from one of the world's largest manufacturers of Inverter Drives was enlarged to a total of SEK 3.6 m. At full production the annual sales volume is estimated to SEK 30 m.

The number of new design-wins increase to 80 (70). At year end the total number of design-wins amounted to 731 (651). By the end of the year 553 (492) 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 was SEK 0.43 m (0.44)

Of the 2008 net sales 71 % (74) was related to Embedded products and 26% (22) to Gateway products.

Geographic distribution of product revenues is shown to the right.



Nomination committee

Johan Lannebo has been appointed chairman of HMS nomination committee. The nomination committee consists of: Nicolas Hassbjer (representing Staffan Dahlström and own shares), Jan Svensson (Investment AB Latour), Per Trygg (SEB Fonder) and Urban Jansson (Chairman of the Board of Directors) and Johan Lannebo (Lannebo Fonder). Suggestions and point of views from shareholders can be sent to valberedning@hms.se or by regular mail to HMS with Att. Nomination committee.

Outlook

The Global financial crisis and the economical market development have influenced HMS customers to be cautious which makes the future market development uncertain. Historically the underlying automation market has been less affected than other markets by fluctuations in the business cycle. In a strong economy end customers are focusing on automation to increase capacity and in an economic downturn customer focus changes to increased automation in order to lower manufacturing costs. There is usually a lag with decreasing volumes between those periods. In the opinion of HMS management we are currently in such a lag. The HMS comprehensive goals are unchanged. 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. Average turnover totalled to SEK 1.0 m per day. Average number of shares sold totalled 15,603 shares per day. The volume weighted average share price during 2008 was 64.91 (70.76). At year end 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 2007 and in the prospectus prepared in connection with the initial public offering. 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. For information on the accounting policies applied, refer to the annual report for 2007. The accounting policies are unchanged compared to those applied in 2007.

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 5.9 m (-1.8). Cash and cash equivalents amounted to SEK 0.1 m (0.04) and borrowing amounted to SEK 105.4 m (120.4).

Annual general meeting and reporting occasions

- Annual General Meeting will be held on April 2, 2009 at HMS HQ in Halmstad
- Q1 report will be published on April 23, 2009
- Q2 report will be published on July 15, 2009
- Q3 report will be published on October 27, 2009

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

Halmstad, February 6, 2009

Nicolas Hassbjer
CEO

Further information can be obtained from the CEO Nicolas Hassbjer or the CFO Gunnar Högberg on telephone +46-35-17 29 00. See also <http://investors.hms.se>

The financial report in summary for the Group and Parent company below.

CONSOLIDATED INCOME STATEMENT

(SEK 000s)

	Q4 2008	Q4 2007	Q1-Q4 2008	Q1-Q4 2007
Revenue	79 248	66 118	316 563	269 464
Cost of sales and services	-24 173	-31 416	-134 721	-128 193
GROSS PROFIT	55 075	34 702	181 842	141 271
Selling and marketing costs	-14 285	-11 079	-50 885	-42 355
Administrative expenses	-5 543	-4 392	-19 173	-14 496
Research and development costs	-7 375	-7 822	-27 003	-25 710
Other operating income	5 177	295	6 320	295
Other costs	-6 070	-3 000	-6 070	-4 496
OPERATING PROFIT	26 979	8 704	85 031	54 509
Finance income	217	415	1 881	720
Finance costs	-1 575	-2 413	-5 961	-12 817
Profit before income tax	25 621	6 706	80 951	42 413
Tax	-5 372	-1 634	-22 140	-12 645
PROFIT FOR THE PERIOD	20 250	5 073	58 811	29 768

Attributable to shareholders of the Parent Company

20 466 5 372 57 429 29 284

Attributable to minority interest

-216 -299 1 382 484

Basic earnings per share, SEK

1.94 0.52 5.43 2.81

Earnings per share, diluted, SEK

1.84 0.49 5.17 2.65

Key ratios

Net increase in revenue (%)	19.9	9.2	17.5	18.5
Gross margin (%)	69.5	52.5	57.4	52.4
Operating margin EBIT (%)	34.0	13.2	26.9	20.2
Non-recurring expenses, affecting EBIT		-3 000		-3 800
Operating margin EBIT, adjusted for non-recurrent cost (%)		17.7		21.6
Return on capital employed (%)	27.1	16.8	27.1	16.8
Return on total equity (%)	28.6	17.1	28.6	17.1
Working capital in relation to sales (%)	5.7	8.1	5.7	8.1
Capital turnover rate	0.86	0.79	0.86	0.79
Debt/equity ratio	0.19	0.52	0.19	0.52
Equity/assets ratio (%)	56.6	52.1	56.6	52.1
Capital expenditure in property, plant and equipment	853	3 285	2 521	5 044
Capital expenditure in intangible fixed assets	985	1 051	4 900	2 872
Depreciation of property, plant and equipment	1 051	880	4 043	3 163
Amortisation of intangible fixed assets	1 188	954	4 283	3 668
Number of employees (average)	153	152	153	144
Revenue per employee	2.1	1.8	2.1	1.9
Cash flows from operating activities per share, SEK	1.92	1.11	6.52	3.29
Cash flows from operating activities per share, diluted, SEK	1.83	1.04	6.21	3.09
Basic number of shares, average, thousands	10 572	10 570	10 572	10 406
Number of shares, diluted average, thousands	11 114	11 060	11 114	11 040

CONSOLIDATED BALANCE SHEET

(SEK 000s)

ASSETS

Goodwill	236 071	236 071
Other intangible assets	13 770	13 736
Property, plant and equipment	10 388	11 869
Deferred income tax assets	862	828

Total fixed assets **261 091** **262 503**

Inventories	17 549	18 255
Trade and other receivables	37 952	30 552
Other current receivables	7 498	8 642
Cash and cash equivalents	66 177	30 117

Total current assets **129 176** **87 566**
TOTAL ASSETS **390 267** **350 069**
EQUITY AND LIABILITIES

Equity	221 078	180 252
Minority interest in equity	3 348	1 959

Total equity **224 426** **182 211**
Liabilities

Non-current liabilities	108 592	125 138
Deferred income tax liabilities	9 554	6 358

Total non-current liabilities **118 146** **131 497**

Trade payables	15 292	21 558
Other current liabilities	32 403	14 802

Total current liabilities **47 695** **36 360**
TOTAL EQUITY AND LIABILITIES **390 267** **350 069**
CONSOLIDATED CASH FLOW STATEMENT

(SEK 000s)

	Q4 2008	Q4 2007	Q1-Q4 2008	Q1-Q4 2007
Cash flows from operating activities before changes in working capital	14 961	4 998	64 754	35 149
Cash flows from changes in working capital	5 382	6 513	4 222	-949
Cash flows from operating activities	20 343	11 511	68 976	34 200
Cash flows from investing activities	-1 761	-3 363	-7 344	-7 059
Cash flows from financing activities	-3 735	-4 094	-25 572	-14 350
Cash flows for the period	14 847	4 054	36 060	12 791
Cash and cash equivalents and short-term investments at beginning of period	51 330	26 063	30 117	17 326
Cash and cash equivalents at end of period	66 177	30 117	66 177	30 117

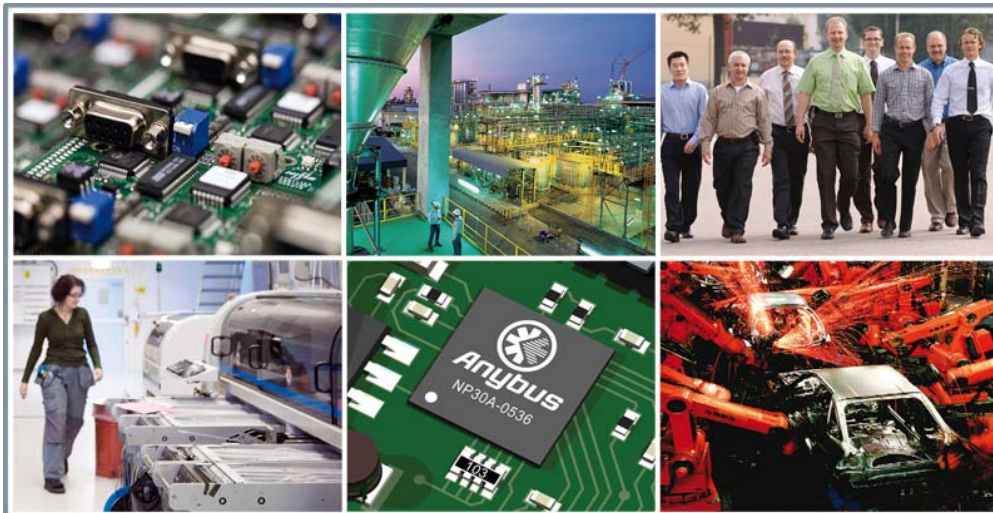
Quarterly data

Revenue per region (SEK 000s)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
EMEA	46 497	50 323	50 327	53 444	41 279	42 618	43 681	39 418
Americas	18 400	17 968	15 446	11 907	13 112	13 018	12 379	13 789
Asia	14 351	12 022	13 884	11 993	11 727	12 171	11 490	14 617
Income statement								
Revenue	79 248	80 313	79 657	77 345	66 118	67 807	67 550	67 989
Gross profit	55 075	43 944	42 219	40 605	34 702	38 461	35 313	32 795
<i>Gross margin</i>	69.5%	54.7%	53.0%	52.5%	52.5%	56.7%	52.3%	48.1%
Operating profit	26 979	21 435	18 025	18 594	8 704	16 950	15 185	13 670
<i>Operating margin</i>	34.0%	26.7%	22.6%	24.0%	13.2%	25.0%	22.5%	20.1%
Profit before tax	25 621	21 722	17 188	16 422	6 706	11 830	11 955	11 922

Parent Company

PARENT COMPANY INCOME STATEMENT (SEK 000s)	Q4 2008	Q4 2007	Q1-Q4 2008	Q1-Q4 2007
Revenue	2 954	0	9 787	100
Cost of sales and services	0	0	0	0
GROSS PROFIT	2 954	0	9 787	100
Administrative expenses	-1 700	806	-3 855	-1 092
Other costs - net	0	0	0	-800
OPERATING PROFIT	1 254	806	5 932	-1 792
Finance costs	-1 254	-1 564	-5 932	-11 181
Profit before income tax	0	-758	0	-12 973
Tax	0	3 631	0	3 631
PROFIT FOR THE PERIOD	0	2 872	0	-9 342

PARENT COMPANY BALANCE SHEET (SEK 000s)	2008-12-31	2007-12-31
ASSETS		
Financial fixed assets	289 113	289 113
Accumulated financial fixed assets	289 113	289 113
Other receivables	12	543
Cash and cash equivalents	115	44
Total current assets	127	587
TOTAL ASSETS	289 240	289 700
EQUITY AND LIABILITIES		
Equity	104 166	114 738
Non-current liabilities	105 441	120 441
Liabilities to Group companies	78 450	51 839
Other current liabilities	1 183	2 682
Total current liabilities	79 633	54 521
TOTAL EQUITY AND LIABILITIES	289 240	289 700



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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