

## HMS Networks AB (publ)

### Semi-annual report January-September 2008

#### Continued profitable growth

- ⊗ **Net sales for the first nine months 2008 increased to SEK 237.3 m (203.3), equal to a 18 % increase in comparable currencies.**
- ⊗ **Cash flow from operating activities improved by 114 % to SEK 48.6 m (22.7)**
- ⊗ **The operating profit during the first nine months of the year improved by 27% to SEK 58.1 m (45.8)**
- ⊗ **The profit after tax climbed by 56 % to SEK 38.6 m (24.7) and earnings per share improved by 52 % to SEK 3.50 (2.31)**
- ⊗ **Net sales for the third quarter increased to SEK 80.3 m (67.8). In comparable currencies this is equivalent to a 22 % increase. Operating profit improved with 26% reaching SEK 21,4 m (16,9)**

“As of September 2008 HMS reached SEK 300 m in annual net sales volume. With the economies of scale from the present sales volume and our cost control we can report a further improved operating margin for the third quarter,” says Nicolas Hassbjer, CEO of HMS.



HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled SEK 270 m in 2007. Over 90% of these sales were to customers located outside Sweden. All development and the major portion of manufacturing is carried out 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.

During the year HMS was awarded to Sweden's best export company. HMS is listed on NASDAQ-OMX Nordic Exchange in Stockholm in the Small Cap, Information Technology sector.

## CEO's comments

The net sales and the reported profit showed a positive trend over the first nine months of 2008. Sales increased by 18% in local currencies and the operating margin improved to reach 24.5%. During the third quarter operating margin improved further mainly due to the following two reasons 1) We see continued positive effects on our gross profit as a result from implementing our new Anybus-NP30 network chip in a larger part of our product range. 2) Our growing sales volume in combination with our cost control gives us economies of scale which also contributes to the improved result.

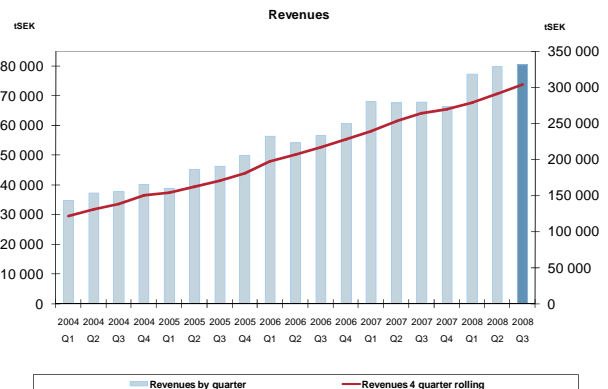


During the third quarter we have noticed a lower growth rate in our existing customer base for Embedded Products. The slowdown in the market has not affected the inflow of new design-wins, which is important for our long term growth. For our Gateway Products we can still see a good growth during the third quarter. It is too early to assess the total effect of the general slowdown in the market. Our strong financial performance puts us in a good position to execute strategic investments in order to further strengthen our market position.

## Net sales

Net sales for the last four quarters totalled SEK 303.4 m (263.9). The total annual growth in comparable currencies totalled to 16.2 %. Orders received over the four quarters amounted to SEK 301.0 m (264.8). Adjusted for fluctuations in currencies, orders received increased by 14.8%

Net sales for the third quarter totalled SEK 80.3 m (67.8), which corresponds to a growth of 18.4 % compared to the same period last year. Adjusted for currency fluctuations of in total SEK – 2.6 m, net sales growth reached 22.0 %. Adjusted for fluctuations in currencies, orders received increased by 10 %.

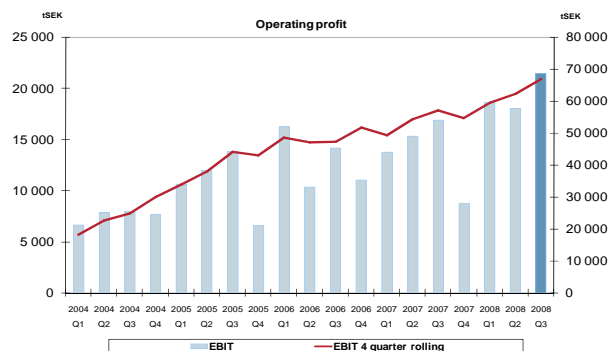


The graph shows sales per quarter on the bars referring to the scale on the left axis. The line shows sales for the latest 12-month period referring to the scale on the axis to the right.

## Operating profit

The operating profit for the last four quarters was SEK 66.8 m (56.8). The operating profit for the last four quarters has been charged with costs of SEK 3.8 m related to the organisation's move. Adjusted for these costs the operating profit was SEK 70.6 m, which corresponds to an operating margin of 23.3%.

The operating profit for the third quarter of 2008 totalled SEK 21.4 m (16.9) which is a rise of 26.5 % compared to the same period last year. The operating margin was 26.7 % (25.0).



The graph shows the operating profit per quarter in the bars referring to the scale on the left axis. The line shows the operating profit for the last 12-month period referring to the scale on the axis to the right.

## Cash flow, investments and financial position

The cash flow from operating activities was improved to SEK 48.6 m (22.7). Investments in tangible assets for the period totalled SEK 1.7 m (1.8). At the end of the period cash equivalents totalled SEK 51.3 m (26.1) and unutilised credit facilities stood at SEK 20.0 m. The Group's net debt decreased to SEK 61.4 m (102.3).

## Tax

The period's tax charge was SEK 16.8 m (11.0). The tax charge has been calculated on the basis of the tax position that currently applies to the Group and the earnings trend of the reporting entities belonging to the Group.

## Equity

The Group's equity amounted to SEK 207.7 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. During this period the Company have paid dividends of SEK 10.6 m. The Group's equity/assets ratio was 55.2 %.

### HMS Group, change of Equity

Equity (SEK 000s)	September 30		December 31
	2008	2007	2007
Incoming equity on January 1	182 211	153 158	153 158
Translation difference	89	-103	-635
Tax settlement	1 003		
New issue of shares			33
Buy back of stock options			-114
Dividends	-10 572		
Profit for the period	38 561	24 695	29 768
<b>Equity as of September 30</b>	<b>211 292</b>	<b>177 750</b>	<b>182 211</b>

## Important events during the year

In February HMS Networks received a major order of approx. SEK 1 million for Anybus Gateways to connect over 100 industrial robots in a new car manufacturing line.

In February, one of the world's largest manufacturers of inverter drives decided to use the new Anybus technology in their next generation of products.

On May 13th, Swedish Trade Council awarded HMS the prize as the best export company in Sweden. The prize was handed out by His Majesty the King of Sweden to the company that:

- Shows a strong development of its international sales during the latest years with success in several markets
- Show a positive development of value added, organic growth and employment in the organisation
- Developed a strong market offering or marketing concept
- Increased the sales in combination with good profitability

In accordance with principles adopted at HMS 2008 annual general meeting, the following persons have been assigned to be a part of the Nomination Committee:

- Nicolas Hassbjer, representing own shareholding and the shareholding of Staffan Dahlström
- Jan Svensson, Investment AB Latour
- Per Trygg, SEB Fonder,
- Johan Lannebo, Lannebo Fonder
- Urban Jansson, Chairman of the board

Shareholders who wish to present proposals to HMS's Nomination Committee may do so by e-mail to [valberedning@hms.se](mailto:valberedning@hms.se) or in writing to the company's address.

## Outlook

The financial turmoil and the market conditions have resulted in cautiousness by HMS customers making the future market development uncertain.

HMS's long term goals, an average sales growth of 20 % and an operating margin exceeding 20 %, remain unchanged. The Company's strategy to achieve these goals includes a continued effort to build a strong portfolio of design-wins within embedded network cards and to widen 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 Small Cap, Information Technology sector. At year-end the total number of shares was 10,571,650.

## Risk management

The HMS Group is exposed to business and financial risks throughout its operations. These risks have been described at length in the Company's Annual Report for 2007. In addition to the risks described in these documents, no additional significant risks have been identified.

## Accounting policies

This semi-annual 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 period was SEK 4.7 m (-2.6). Cash and cash equivalents stood at SEK 0.0 m (0.1) and borrowings at SEK 109.2 m (124.2).

## Future reports

HMS Networks AB's AGM was held on 30 April 2008. The complete year-end report is available on the company's website and a printed version can be obtained by sending your name and address to [ir@hms.se](mailto:ir@hms.se).

- The financial statement for 2008 will be published on 6 February 2009
- The Annual General Meeting will be held on April 2, 2009
- The Semi-annual report for Quarter 1 will be presented on April 23, 2009

Halmstad on November 5<sup>th</sup>, 2008

Nicolas Hassbjer  
CEO

Further information can be obtained from:  
CEO Nicolas Hassbjer +46 35 17 29 02  
CFO Gunnar Högberg +46 35 17 29 95  
See also <http://investors.hms.se>

## Review report

We have reviewed this report for the period 1 January 2008 to 30 September 2008 for HMS Networks AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review. We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden, RS, and other generally accepted auditing standards in Sweden.

The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Halmstad, 5 November 2008  
Öhrlings PricewaterhouseCoopers

Olof Enerbäck  
Authorised Public Accountant

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

<b>CONSOLIDATED INCOME STATEMENT (SEK 000s)</b>	<b>Q3 2008</b>	<b>Q3 2007</b>	<b>Q1-Q3 2008</b>	<b>Q1-Q3 2007</b>	<b>Q1-Q4 2007</b>	<b>Q4 07-Q3 08 12 months</b>
Revenue	80 313	67 807	237 315	203 346	269 464	303 433
Cost of goods and services sold	-36 369	-29 346	-110 548	-96 777	-128 193	-141 964
<b>GROSS PROFIT</b>	<b>43 944</b>	<b>38 461</b>	<b>126 767</b>	<b>106 569</b>	<b>141 271</b>	<b>161 469</b>
Sales and marketing costs	-12 886	-11 304	-36 600	-31 276	-42 355	-47 679
Administrative expenses	-4 864	-3 630	-13 630	-10 104	-14 496	-18 022
Research and development costs	-6 619	-5 339	-19 628	-17 888	-25 710	-27 450
Other operating income	1 860	0	1 143	0	295	2 155
Other costs	0	-1 238	0	-1 496	-4 496	-3 717
<b>OPERATING PROFIT</b>	<b>21 435</b>	<b>16 950</b>	<b>58 052</b>	<b>45 805</b>	<b>54 509</b>	<b>66 756</b>
Financial income	1 664	98	1 664	305	720	2 079
Financial costs	-1 377	-5 218	-4 386	-10 404	-12 817	-6 799
<b>Profit before tax</b>	<b>21 722</b>	<b>11 830</b>	<b>55 330</b>	<b>35 706</b>	<b>42 413</b>	<b>62 036</b>
Tax	-6 471	-3 338	-16 769	-11 011	-9 652	-15 410
Deferred tax	0	0	0	0	-2 993	-2 993
<b>PROFIT FOR THE PERIOD</b>	<b>15 251</b>	<b>8 492</b>	<b>38 561</b>	<b>24 695</b>	<b>29 768</b>	<b>43 633</b>
Attributable to shareholders of the Parent Company	14 793	8 020	36 963	23 912	29 284	42 334
Attributable to minority interest	458	472	1 598	783	484	1 299
Basic earnings per share, SEK	1.40	0.76	3.50	2.31	2.81	4.00
Earnings per share, diluted, SEK	1.33	0.70	3.32	2.10	2.65	3.81
<b>Key ratios</b>						
Net increase in revenue (%)	18.4	20.1	16.7	21.8	18.5	15.0
Gross margin (%)	54.7	56.7	53.4	52.4	52.4	53.2
Operating margin EBIT (%)	26.7	25.0	24.5	22.5	20.2	22.0
Return on capital employed (%)	21.8	18.7	21.8	18.7	16.8	21.8
Return on total equity (%)	22.1	19.3	22.1	19.3	17.1	22.1
Working capital in relation to sales (%)	6.7	8.1	6.7	8.1	8.1	6.7
Capital turnover rate	0.84	0.77	0.84	0.77	0.79	0.84
Debt/equity ratio	0.29	0.58	0.29	0.58	0.52	0.29
Equity/assets ratio (%)	55.2	50.8	55.2	50.8	52.1	55.2
Capital expenditure in property, plant and equipment	735	197	1 669	1 758	5 044	4 953
Capital expenditure in intangible fixed assets	1 090	780	3 915	1 991	2 872	4 966
Depreciation of property, plant and equipment	990	776	2 992	2 283	3 163	3 873
Amortisation of intangible fixed assets	1 105	996	3 095	2 715	3 668	4 049
Number of employees (average)	156	144	156	138	144	153
Revenue per employee	1.9	1.8	1.9	1.8	1.9	2.0
Operating cash flow per share, SEK	1.71	0.97	4.60	2.19	3.29	5.69
Operating cash flow per share, diluted, SEK	1.63	0.90	4.37	1.99	3.09	5.41
Basic number of shares, average, thousands	10 572	10 570	10 572	10 350	10 406	10 572
Number of shares, diluted average, thousands	11 119	11 397	11 119	11 397	11 040	11 119

The key ratios have in some cases been recalculated to rolling 12 month values.

**CONSOLIDATED BALANCE SHEET**

(SEK 000s)

**ASSETS**

Goodwill	236 071	236 071	236 071
Other intangible assets	14 556	13 799	13 736
Property, plant and equipment	10 626	9 345	11 869
Deferred tax assets	868	1 155	828

<b>Total fixed assets</b>	<b>262 121</b>	<b>260 370</b>	<b>262 503</b>
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Inventories	13 654	20 015	18 255
Trade and other receivables	43 907	37 596	30 552
Other current receivables	5 059	6 470	8 642
Cash and cash equivalents	51 330	26 063	30 117

<b>Total current assets</b>	<b>113 950</b>	<b>90 144</b>	<b>87 566</b>
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<b>TOTAL ASSETS</b>	<b>376 071</b>	<b>350 514</b>	<b>350 069</b>
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**EQUITY AND LIABILITIES**

Equity	207 735	175 670	180 252
Minority interest in equity	3 557	2 080	1 959

<b>Total equity</b>	<b>211 292</b>	<b>177 750</b>	<b>182 211</b>
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**Liabilities**

Non-current liabilities	112 713	128 371	125 138
Deferred income tax liabilities	6 947	3 209	6 358

<b>Total non-current liabilities</b>	<b>119 660</b>	<b>131 580</b>	<b>131 497</b>
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Trade payables	22 141	20 515	21 558
Other current liabilities	22 978	20 669	14 802

<b>Total current liabilities</b>	<b>45 119</b>	<b>41 184</b>	<b>36 360</b>
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<b>TOTAL EQUITY AND LIABILITIES</b>	<b>376 071</b>	<b>350 514</b>	<b>350 069</b>
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**CONSOLIDATED CASH FLOW STATEMENT**

(SEK 000s)

	Q3 2008	Q3 2007	Q1 – Q3 2008	Q1 – Q3 2007	Q1-Q4 2007
Cash flows from operating activities before changes in working capital	20 731	10 703	49 793	30 151	35 149
Cash flows from changes in working capital	-2 629	-400	-1 160	-7 462	-949
Cash flows from operating activities	18 102	10 303	48 633	22 689	34 200
Cash flows from investing activities	-1 737	-924	-5 583	-3 696	-7 059
Cash flows from financing activities	-3 935	-4 611	-21 837	-10 256	-14 350
<b>Cash flows for the period</b>	<b>12 430</b>	<b>4 767</b>	<b>21 213</b>	<b>8 737</b>	<b>12 791</b>
Cash and cash equivalents and short-term investments at beginning of period	38 900	21 296	30 117	17 326	17 326
Cash and cash equivalents at end of period	51 330	26 063	51 330	26 063	30 117

## Quarterly data

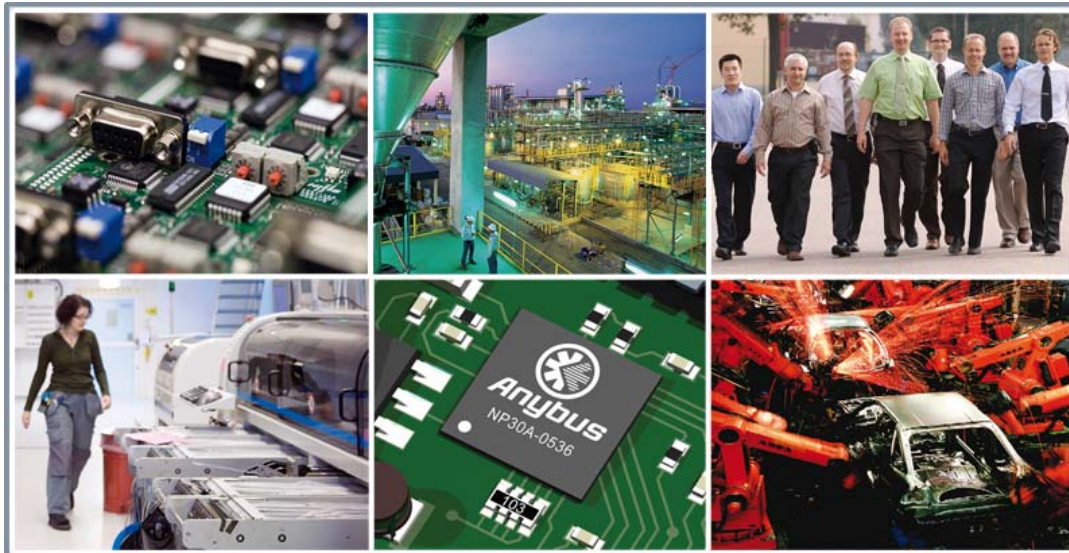
Revenue per region (SEK 000s)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
<b>EMEA</b>	50 323	50 327	53 444	41 279	42 618	43 681	39 418	36 265
<b>Americas</b>	17 968	15 446	11 907	13 112	13 018	12 379	13 789	11 608
<b>Asia</b>	12 022	13 884	11 993	11 727	12 171	11 490	14 617	12 679
Income statement	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Revenue	<b>80 313</b>	<b>79 657</b>	<b>77 345</b>	<b>66 118</b>	<b>67 807</b>	<b>67 550</b>	<b>67 989</b>	<b>60 552</b>
<b>Gross profit</b>	<b>43 944</b>	<b>42 219</b>	<b>40 605</b>	<b>34 702</b>	<b>38 461</b>	<b>35 313</b>	<b>32 795</b>	<b>29 634</b>
<i>Gross margin</i>	54.7%	53.0%	52.5%	52.5%	56.7%	52.3%	48.1%	48.9%
<b>Operating profit</b>	<b>21 435</b>	<b>18 025</b>	<b>18 594</b>	<b>8 704</b>	<b>16 950</b>	<b>15 185</b>	<b>13 670</b>	<b>11 021</b>
<i>Operating margin</i>	26.7%	22.6%	24.0%	13.2%	25.0%	22.5%	20.1%	18.2%
<b>Profit before tax</b>	<b>21 722</b>	<b>17 188</b>	<b>16 422</b>	<b>6 706</b>	<b>11 830</b>	<b>11 955</b>	<b>11 922</b>	<b>9 497</b>

## Parent Company

PARENT COMPANY INCOME STATEMENT (SEK 000s)	Q3 2008	Q3 2007	Q1-Q3 2008	Q1-Q3 2007	Q1-Q4 2007	Q4 07-Q3 08 12 months
Revenue	2 215	100	6 833	100	100	6 833
Cost of sales and services	0	0	0	0	0	0
<b>GROSS PROFIT</b>	<b>2 215</b>	<b>100</b>	<b>6 833</b>	<b>100</b>	<b>100</b>	<b>6 833</b>
Administrative expenses	-654	-923	-2 155	-1 898	-1 092	-1 349
Other costs - net	0	-700	0	-800	-800	0
<b>OPERATING PROFIT</b>	<b>1 561</b>	<b>-1 523</b>	<b>4 678</b>	<b>-2 598</b>	<b>-1 792</b>	<b>5 484</b>
Financial costs	-1 561	-4 654	-4 678	-9 617	-11 181	-6 242
<b>Profit before tax</b>	<b>0</b>	<b>-6 177</b>	<b>0</b>	<b>-12 215</b>	<b>-12 973</b>	<b>-758</b>
Tax	0	0	0	0	3 631	3 631
<b>PROFIT FOR THE PERIOD</b>	<b>0</b>	<b>-6 177</b>	<b>0</b>	<b>-12 215</b>	<b>-9 342</b>	<b>2 873</b>

PARENT COMPANY BALANCE SHEET (SEK 000s)	2008-09-30	2007-09-30	2007-12-31
<b>ASSETS</b>			
Financial fixed assets	289 113	289 113	289 113
<b>Accumulated financial fixed assets</b>	<b>289 113</b>	<b>289 113</b>	<b>289 113</b>
Other receivables	95	375	543
Cash and cash equivalents	35	86	44
<b>Total current assets</b>	<b>130</b>	<b>461</b>	<b>587</b>
<b>TOTAL ASSETS</b>	<b>289 243</b>	<b>289 574</b>	<b>289 700</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>104 166</b>	<b>102 527</b>	<b>114 738</b>
<b>Non-current liabilities</b>	<b>109 175</b>	<b>124 175</b>	<b>120 441</b>
Trade payables	0		
Liabilities to Group companies	75 222	58 136	51 839
Other current liabilities	680	4 736	2 682
<b>Total current liabilities</b>	<b>75 902</b>	<b>62 872</b>	<b>54 521</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289 243</b>	<b>289 574</b>	<b>289 700</b>





**Our Vision**

"All automation devices will be intelligent and networked. HMS will be the market leader in connectivity solutions for industrial devices".

**Our Mission**

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