

## HMS Networks AB (publ)

### Semi-annual report January-June 2008

## Continued good growth with improved profitability

- ⊗ Net sales rose to SEK 79.7 m (67.6) in the second quarter, which is equivalent to a growth of 17.9 %
- ⊗ Net sales for the half year period increased to SEK 157.0 m (135.5). Over the last 12-month period, net sales rose by 15.2 % to SEK 290.9 m
- ⊗ Orders received went up by 22.5% to SEK 164.7 m (134.5) for the first half year
- ⊗ Operating cash flow improved by 122.6 % to SEK 27.6 m (12.4)
- ⊗ The operating profit improved by 35.9% to SEK 36.6 m (28.9)
- ⊗ The profit after tax climbed by 38.5 % to SEK 22.3 m (16.1) and earnings per share improved by 39,6 % to SEK 2.15 (1.54)

“The positive start of 2008 has continued during the second quarter. With a continued good order intake and a positive sales development we can report a 38.5 % net profit improvement for the first six months”, 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 the OMX Nordic Exchange in Stockholm in the Small Cap, Information Technology sector.

## CEO's comments

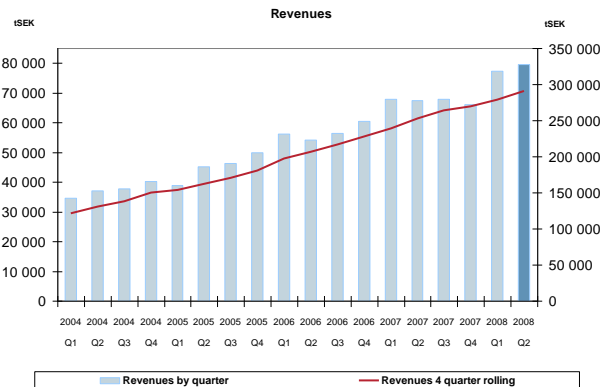
The net sales and the reported profit showed a strong performance over the first half year of 2008. Growth levels are continued good and the operating result increased with 35.9% to reach SEK 36.6 m. The implementation of our new Anybus-NP30 chip in a larger part of our product range now gives us a positive effect on our gross margin. The Design-Win portfolio, which will provide recurring revenues over a long period of time, continues to grow and as previously communicated HMS made a breakthrough in major design-wins for our new Anybus technology. This breakthrough shows that HMS is strongly positioned to attract demanding customers with a need for a strong partner in the area of industrial communication. Our long term focus has given us the award as Sweden's best export company. The prize handed out by His Majesty the King of Sweden will further encourage our employees and will also be an asset in our continued international expansion.



## Net sales

Net sales for the last four quarters totalled SEK 290.9 m (252.6) which corresponds to an annual growth of 15.2 %. Orders received over the four quarters amounted to SEK 297.1 m (253.2) corresponding to a 17.3 % increase.

Net sales for the second quarter totalled SEK 79.7 m (67.6), which corresponds to a growth of 17.9 % compared to the same period last year. Adjusted for currency fluctuations of in total SEK – 1.7 m, net sales growth reached 20.5 %. Orders received totalled SEK 84.9 m (72.7) which corresponds to an increase of 16.8 %.

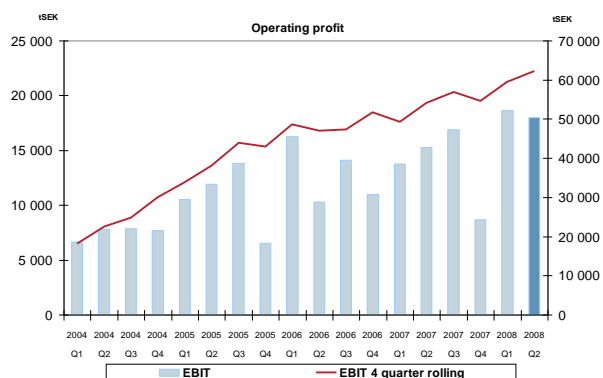


The graph shows sales per quarter on the bars referring to the scale on the left axis. The line shows sales for the latest 12-month period referring to the scale on the axis to the right.

## Operating profit

The operating profit for the last four quarters was SEK 62.3 m (54.1). 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 66.1 m, which corresponds to an operating margin of 22.7%.

The operating profit for the second quarter of 2008 was SEK 18.0 m (13.4) which is a rise of 34.7 % compared to the same period last year. The operating margin was 22.6 % (19.8).



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 SEK 27.6 m (12.4) due to a decrease in working capital. Investments in tangible assets for the period totalled SEK 0.9 m (2.8). At the year-end cash equivalents totalled SEK 38.9 m (21.3) and unutilised credit facilities stood at SEK 20.0 m. The Group's net debt decreased to SEK 77.9 m (111.2). Realization of future exchange contracts had a positive impact on net financial expenses during the second quarter.

## Tax

The period's tax charge was SEK 10.3 m (7.7). 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 195.1 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 the second quarter of 2008 the Company paid dividends of SEK 10.6 m. The Group's equity/assets ratio was 54.6 %.

## Important events during the year

On May 13th HMS won the Grand export prize that for the fourth time was awarded to the best export company in Sweden. The prize was handed out by the King Carl XVI Gustav at an award ceremony at Berns Salonger in Stockholm in the presence of 1 000 guests from the Swedish export industry.

The motivation from the jury was: HMS rapid growth is built on the market need to make devices and machines in manufacturing processes communicate. Early on, HMS' management decided to focus on the international market and created a successful business concept based upon embedded connectivity solutions, which have now generated a consistent strong growth along with good profits. HMS has in a short time frame achieved a geographically well distributed sales volume to a strong global customer base.



Ulf Berg, CEO of Swedish Trade added: - It is actually only very few Swedish companies for which the three largest markets also are the world's largest economies namely; USA, Japan and Germany.

## Outlook for 2008

HMS's long term goals i.e. 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 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 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 loss for the period was SEK -3.1 m (-2.9). Cash and cash equivalents stood at SEK 0.1 m (1.2) and borrowings at SEK 112.9 m (127.9).

## 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).

- Q3 report will be published on 5 November 2008
- The financial statement for 2008 will be published on 6 February 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 30 July 2008

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**CONSOLIDATED INCOME STATEMENT  
(SEK 000s)**

	Q2 2008	Q2 2007	Q1-Q2 2008	Q1-Q2 2007	Q1-Q4 2007	Q3-07– Q2-08 LTM
Revenue	79 657	67 550	157 002	135 374	269 464	290 927
Cost of goods and services sold	-37 439	-32 237	-74 179	-67 431	-128 193	-134 941
<b>GROSS PROFIT</b>	<b>42 219</b>	<b>35 313</b>	<b>82 823</b>	<b>67 943</b>	<b>141 271</b>	<b>155 986</b>
Sales and marketing costs	-12 747	-11 088	-23 714	-19 972	-42 355	-46 097
Administrative expenses	-4 300	-3 291	-8 766	-6 474	-14 496	-16 788
Research and development costs	-6 773	-5 535	-13 009	-12 549	-25 710	-26 170
Other operating income					295	295
Other costs	-374	-2 014	-717	-2 014	-4 496	-4 955
<b>OPERATING PROFIT</b>	<b>18 025</b>	<b>13 385</b>	<b>36 617</b>	<b>26 935</b>	<b>54 509</b>	<b>62 271</b>
Financial income		103		207	720	513
Financial costs	-837	-1 533	-3 009	-3 386	-12 817	-10 640
<b>Profit before tax</b>	<b>11 935</b>	<b>11 935</b>	<b>33 608</b>	<b>23 756</b>	<b>42 413</b>	<b>52 144</b>
Tax	-5 407	-4 228	-10 298	-7 673	-9 652	-12 276
Deferred tax					-2 993	-2 993
<b>PROFIT FOR THE PERIOD</b>	<b>11 780</b>	<b>7 707</b>	<b>23 310</b>	<b>16 082</b>	<b>11 780</b>	<b>36 875</b>
Attributable to shareholders of the Parent Company	11 353	7 566	22 170	15 768	29 284	35 562
Attributable to minority interest	427	141	1 140	314	484	1 313
Basic earnings per share, SEK	1.11	0.74	2.15	1.54	2.81	3.51
Earnings per share, diluted, SEK	1.06	0.68	2.02	1.42	2.65	3.22

**Key ratios**

Net increase in revenue (%)	17.9	24.7	16.0	22.6	18.5	15.2
Gross margin (%)	53.0	52.3	52.8	50.2	52.4	53.6
Operating margin EBIT (%)	22.6	19.8	23.3	19.9	20.2	20.4
Return on capital employed (%)	16.3	17.4	16.3	17.4	16.8	16.4
Return on total equity (%)	19.2	20.7	19.2	20.7	17.1	19.4
Working capital in relation to sales (%)	8.2	9.3	8.2	11.4	8.1	8.4
Capital turnover rate	0.77	0.74	0.77	0.74	0.79	0.77
Debt/equity ratio	0.40	0.78	0.40	0.78	0.69	0.40
Equity/assets ratio (%)	55	49	55	49	52	55
Capital expenditure in property, plant and equipment	635	649	933	1 561	5 044	4 416
Capital expenditure in intangible fixed assets	1 655	1 001	2 825	1 211	2 872	4 486
Depreciation of property, plant and equipment	1 041	769	2 002	1 506	3 163	3 659
Amortisation of intangible fixed assets	995	860	1 990	1 719	3 668	3 939
Number of employees (average)	155	135	155	135	144	149
Revenue per employee	1.9	1.9	1.9	1.9	1.9	1.9
Operating cash flow per share, SEK	2.16	0.71	2.61	1.21	3.29	3.23
Operating cash flow per share, diluted, SEK	2.06	0.66	2.49	1.12	3.09	3.09
Basic number of shares, average, thousands	10 570	10 240	10 570	10 240	10 406	10 489
Number of shares, diluted average, thousands	11 059	11 069	11 059	11 069	11 040	10 972

CONSOLIDATED BALANCE SHEET (SEK 000s)	2008-06-30	2007-06-30	2007-12-31
<b>ASSETS</b>			
Goodwill	236 071	236 071	236 071
Other intangible assets	14 573	14 178	13 736
Property, plant and equipment	10 829	9 949	11 869
Deferred tax assets	766	1 155	828
<b>Total fixed assets</b>	<b>262 239</b>	<b>261 353</b>	<b>262 503</b>
Inventories	14 399	30 965	18 255
Trade and other receivables	35 583	37 403	30 552
Other current receivables	8 229	4 426	8 642
Cash and cash equivalents	38 900	21 296	30 117
<b>Total current assets</b>	<b>95 111</b>	<b>84 090</b>	<b>87 566</b>
<b>TOTAL ASSETS</b>	<b>357 350</b>	<b>345 443</b>	<b>350 069</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	191 961	167 663	180 252
Minority interest in equity	3 099	1 608	1 959
<b>Total equity</b>	<b>195 060</b>	<b>169 271</b>	<b>182 211</b>
<b>Liabilities</b>			
Non-current liabilities	116 833	132 528	125 138
Deferred income tax liabilities	3 099	1 608	6 358
<b>Total non-current liabilities</b>	<b>123 656</b>	<b>135 713</b>	<b>131 497</b>
Trade payables	22 445	22 237	21 558
Other current liabilities	16 187	18 222	14 802
<b>Total current liabilities</b>	<b>38 632</b>	<b>40 459</b>	<b>36 360</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>357 350</b>	<b>345 443</b>	<b>350 069</b>

CONSOLIDATED CASH FLOW STATEMENT (SEK 000s)	Q2 2008	Q2 2007	Q1-Q2 2008	Q1-Q2 2007	Jan-Dec 2007
Cash flows from operating activities before changes in working capital	12 984	8 624	26 132	19 422	35 149
Cash flows from changes in working capital	9 873	-1 323	1 469	-7 036	-949
Cash flows from operating activities	22 857	7 301	27 601	12 386	34 200
Cash flows from investing activities	-634	-1 650	-916	-2 771	-7 059
Cash flows from financing activities	-13 522	41	-17 902	-5 646	-14 350
<b>Cash flows for the period</b>	<b>8 701</b>	<b>5 692</b>	<b>8 783</b>	<b>3 970</b>	<b>12 791</b>
Cash and cash equivalents and short-term investments at beginning of period	30 199	15 604	30 117	17 326	17 326
Cash and cash equivalents at end of period	38 900	21 296	38 900	21 296	30 117

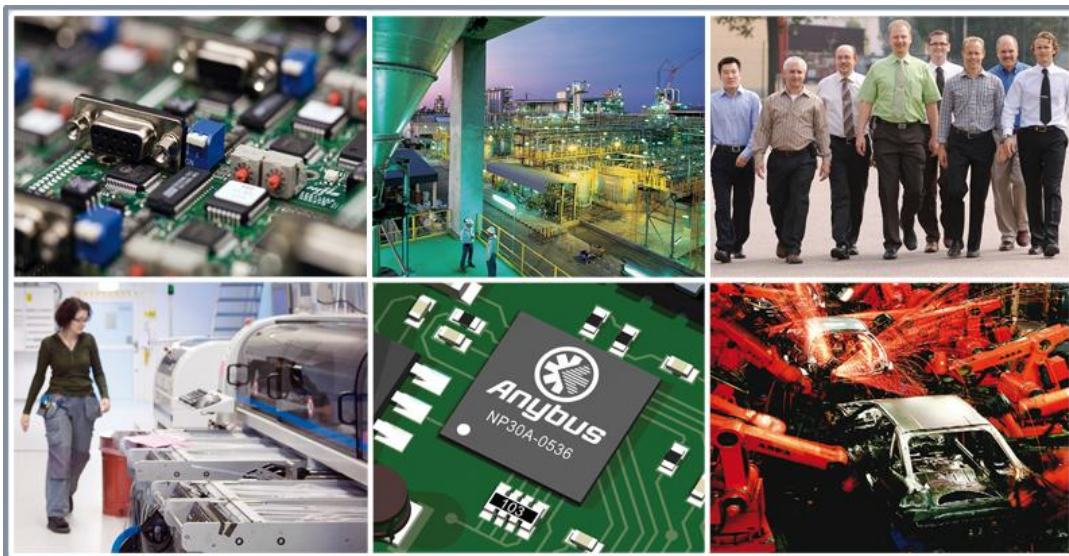
## Quarterly data

Revenue per region (SEK 000s)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
<b>EMEA</b>	50 327	53 444	41 279	42 618	43 681	39 418	36 265	33 844
<b>Americas</b>	15 446	11 907	13 112	13 018	12 379	13 789	11 608	12 223
<b>Asia</b>	13 884	11 993	11 727	12 171	11 490	14 617	12 679	10 407
Income statement	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Revenue	79 657	77 345	66 118	67 807	67 550	67 989	60 552	56 474
<b>Gross profit</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>	<b>29 179</b>
<i>Gross margin</i>	53.0%	52.5%	52.5%	56.7%	52.3%	48.1%	48.9%	51.7%
<b>Operating profit</b>	<b>18 025</b>	<b>18 594</b>	<b>8 704</b>	<b>16 888</b>	<b>15 285</b>	<b>13 632</b>	<b>11 021</b>	<b>14 135</b>
<i>Operating margin</i>	22.6%	24.0%	13.2%	24.9%	22.7%	20.0%	18.2%	25.0%
<b>Profit before tax</b>	<b>17 188</b>	<b>16 422</b>	<b>6 706</b>	<b>11 830</b>	<b>11 935</b>	<b>11 942</b>	<b>9 497</b>	<b>12 341</b>

## Parent Company

PARENT COMPANY INCOME STATEMENT (SEK 000s)	Q2 2008	Q2 2007	Q1-Q2 2008	Q1-Q2 2007	Q1-Q4 2007	Q3 07 – Q2 08 LTM
Revenue	2 446		4 618		100	4 718
Cost of sales and services						
<b>GROSS PROFIT</b>	<b>2 446</b>	<b>0</b>	<b>4 618</b>	<b>0</b>	<b>100</b>	<b>4 718</b>
Administrative expenses	-876	-888	-1 501	-975	-1 092	-1 618
Other costs - net		-1 900		-1 900	-800	-1 100
<b>OPERATING PROFIT</b>	<b>1 570</b>	<b>-2 788</b>	<b>3 117</b>	<b>-2 875</b>	<b>-1 792</b>	<b>2 000</b>
Financial costs	-1 532	-1 570	-3 117	-3 163	-11 181	-11 135
<b>Profit before tax</b>	<b>38</b>	<b>-4 358</b>	<b>0</b>	<b>-6 038</b>	<b>-12 973</b>	<b>-9 135</b>
Tax					1 880	1 880
<b>PROFIT FOR THE PERIOD</b>	<b>38</b>	<b>-4 358</b>	<b>0</b>	<b>-6 038</b>	<b>-9 342</b>	<b>-7 255</b>

PARENT COMPANY BALANCE SHEET (SEK 000s)	2008-06-30	2007-06-30	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	200	764	543
Cash and cash equivalents	118	558	44
<b>Total current assets</b>	<b>318</b>	<b>1 322</b>	<b>587</b>
<b>TOTAL ASSETS</b>	<b>289 431</b>	<b>290 435</b>	<b>289 700</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>104 166</b>	<b>111 789</b>	<b>114 738</b>
<b>Non-current liabilities</b>	<b>112 909</b>	<b>127 541</b>	<b>120 441</b>
Trade payables			
Liabilities to Group companies	71 547	51 105	51 839
Other current liabilities	809		2 682
<b>Total current liabilities</b>	<b>72 356</b>	<b>51 105</b>	<b>54 521</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289 431</b>	<b>290 435</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".

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