

## HMS Networks AB (publ)

### Year End Report 2007

## Investments for continued growth completed

- **Net sales increased to 269.5 MSEK (227.4). Adjusted for 7.5 MSEK in negative currency effects the growth amounted to 21.8%.**
- **Operating profit improved to 54.5 MSEK (51.7). Adjusted for one-off costs for relocation of the Company the operating margin was 21.6% (22.7).**
- **Cash flow from ongoing operations improved to 34.2 MSEK (28.5).**
- **Profit after taxes totalled 29.9 MSEK (33.3) and earnings per share amounted to 2.81 SEK (3.21).**
- **The board of directors propose a dividend of 1.00 SEK per share.**

- We have now completed a considerable strengthening of our organisation and relocation of the entire Swedish operations. This has a short term negative effect on profitability, but gives us the right conditions for a continued growth, says Nicolas Hassbjer, CEO of HMS.



HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled MSEK 270 in 2007. 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. HMS was formed in 1988 and has had an average organic growth of 30% per year over the last 10 years. HMS is listed on OMX Nordic Exchange in Stockholm in the category Small Cap, Information Technology.

## Comments of the CEO

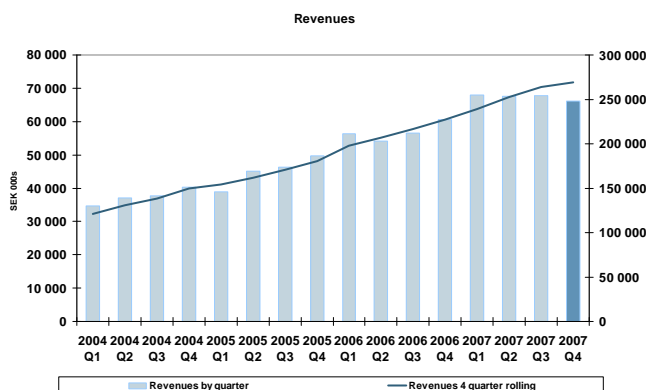
Operations and financial performance have developed according to our expectations. HMS has a relatively small exposure against the American dollar, but the material weakening of the dollar and in certain degree the yen affects sales and profit negatively. Adjusted for exchange rate differences the growth is 21.8% which is slightly better than our objective of an average growth of 20%. New design wins that have entered into serial production have had a relatively small effect on growth. The new customers deciding to use Anybus in their products, i.e. Design Wins, has developed well. This has given us a strong portfolio of design wins which will enter serial production in the coming years. The profit for 2007 is affected negatively by non-recurring expenses for the IPO and relocation of the entire Swedish operations. Moreover we have completed an extensive growth plan and strengthened our organization. In two years we have expanded from 100 employees to more than 150 and most of them have been added during 2007. This is also reflected in the result with full effect in the 4<sup>th</sup> quarter. With our long sales cycles it will take some more time before we can see the full effect of this investment. We are now well prepared for a continued growth with good profitability.



## Growth in sales

Net sales for this year's operation increased to 269.5 MSEK (227.4), which corresponds to 18.5% growth compared to last year. Changes in exchange rates affect this year's net sales with -7.5 MSEK. The order intake increased to 266.9 MSEK (233.4).

Net sales for the fourth quarter totalled to 66.1 MSEK (60.6). Net sales have to some extent been affected by the move to new premises. Exchange rates had a negative effect of 1.9 MSEK in the fourth quarter.

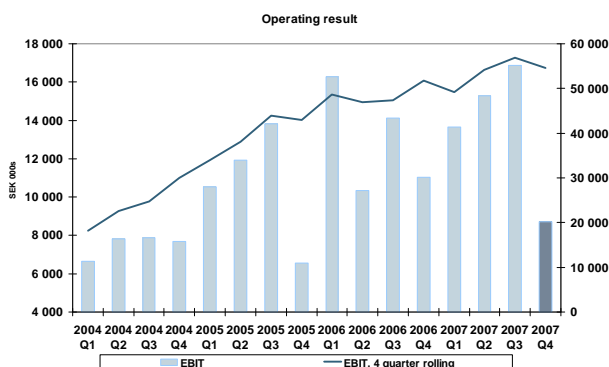


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turn over for the latest 12 month period referring to the scale on the axis to the right.

## Growth in profit

Operating profit totalled to 54.5 MSEK (51.7) for the year. The financial year has been charged with 3.8 MSEK in expenses related to the relocation to a new office. Adjusted for these expenses the operating profit totalled 58.3 MSEK, equivalent to an operating margin of 21.6 %. In addition to this changes in exchange rates is estimated to affects the result with approximately -5.0 MSEK. Expenses for the Company's IPO is accounted for under financial expenses and does not affect the operating profit for 2007.

The operating profit for the fourth quarter totalled to 8.7 MSEK (11.0). Adjusted for non-recurring expenses the operating profit totalled to 11.7 MSEK.



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.

## Cash flow, investments and financial position

Cash flow from operating activities improved to 34.2 MSEK (28.5), due to the increased result before depreciation and a more efficient use of the working capital. The investments of the period totalled to 7.1 MSEK (36.9). At the year-end the cash equivalents totalled 30.1 MSEK (17.3) and unutilised credit facilities 20.0 MSEK. The Group's net debt amounted to 95.0 MSEK (120.8).

## Tax

The year's tax charge totalled to 12.5 MSEK (12.3). 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 182.2 MSEK. 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 52.1 %.

### Consolidated changes in equity

Equity Tkr	Per December 31	
	2007	2006
Balance at 1 January	153 158	119 294
Currency translation differences	-748	181
Transfer		149
Payment, warrants	33	260
Profit for the period	29 768	33 274
<b>Closing balance</b>	<b>182 211</b>	<b>153 158</b>

## Dividend

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

## Important events during the year

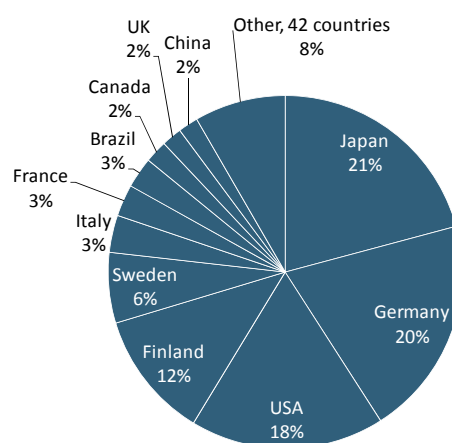
All material markets show a growth. The strongest growth occurred in Germany, Brazil and China.

The Company has completed a long term plan to strengthen the sales and marketing organisation. During the fourth quarter the marketing activities were intensified through participation on a number of international automation fairs that coincided in November.

Mitsubishi Electric which is the leading manufacturer of communication systems in Asia presented an additional new network system, CC-Link IE at the System Control Fair in Tokyo.

At year end the total number of design wins amounted to 651 (581). Of these 492 (412) were in the production phase and generated revenue in 2007. The Company estimates that the present portfolio of design wins in the development phase is stronger than the design wins that went into production phase. The average revenue per design win in the production phase amounted to 0.43 MSEK (0.45).

During November, the Company successfully relocated the Swedish operations to new premises in Halmstad. This decision that has been previously announced was done to secure the needs for expansion and combine the Swedish operations in one building to improve the communication, co-operation and efficiency.



## 2008 Outlook

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 OMX Nordic Exchange in the category Small Cap, Information Technology. Average turnover totalled 4.9 MSEK per day. Average number of shares sold totalled 69 239 shares per day. The volume weighted average share price during 2007 was 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 2006 and in the prospectus prepared in connection with the recently completed 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 2006. The accounting policies are unchanged compared to those applied in 2006.

## Nomination committee

The HMS nomination committee consists of persons represented by the largest owners. The nomination committee consists of: Urban Jansson (chairman), Nicolas Hassbjer, and Johan Lannebo, Lannebo Fonder. Suggestions and point of views from shareholders about the constellation of the board of directors can be sent to [valberedning@hms.se](mailto:valberedning@hms.se) or to HMS Networks AB, Att. Valberedningen, Stationsgatan 37, 302 45 Halmstad, Sweden.

## 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 amounted to -1.8 MSEK (-0.3). The operating loss for the period has been charged with expenses in connection with the completed IPO preparations, amounting to 5, 0 MSEK. Cash and cash equivalents amounted to 0.04 MSEK (0.6) and borrowing to 120.4 MSEK (132.9).

## Annual general meeting and reporting occasions

The general meeting for HMS Networks AB will be held in the premises of the company on April 30, 2008 at 10.30. The year-end report will be available at the Company's webpage from March 31<sup>st</sup>.

- First quarter report presented on April 30, 2008
- Second quarter report presented on July 30, 2008
- Third quarter report presented on November 5, 2008
- Year-end report 2008 presented on February 6, 2009

The Board of Directors and CEO confirm that the interim report provides a fair presentation of the Company's and the 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 year end report has not been reviewed by the Company's auditor.

Halmstad, February 14, 2008

Urban Jansson

Jörgen Centerman

Ray Mauritsson

Sebastian Ehrnrooth

Staffan Dahlström

Nicolas Hassbjer  
CEO

Further information can be obtained from CEO Nicolas Hassbjer or 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)**

	<b>Q4</b>	<b>Q4</b>	<b>Q1-Q4</b>	<b>Q1-Q4</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue	66 118	60 551	269 464	227 438
Cost of sales and services	-31 416	-30 918	-128 193	-111 594
<b>GROSS PROFIT</b>	<b>34 702</b>	<b>29 634</b>	<b>141 271</b>	<b>115 844</b>
Selling and marketing costs	-11 079	-10 138	-42 355	-32 167
Administrative expenses	-4 392	-2 750	-14 496	-9 903
Research and development costs	-7 822	-5 356	-25 710	-19 487
Other operating income	295		295	
Other costs	-3 000	-369	-4 496	-2 550
<b>OPERATING PROFIT</b>	<b>8 704</b>	<b>11 021</b>	<b>54 509</b>	<b>51 737</b>
Finance income	415	323	720	556
Finance costs	-2 413	-1 847	-12 816	-6 662
<b>Profit before income tax</b>	<b>6 706</b>	<b>9 497</b>	<b>42 413</b>	<b>45 631</b>
Tax	1 359	-2 102	-9 652	-12 357
Deferred tax	-2 993		-2 993	
<b>PROFIT FOR THE PERIOD</b>	<b>5 073</b>	<b>7 395</b>	<b>29 768</b>	<b>33 274</b>
Attributable to shareholders of the Parent Company	5 372	6 904	29 284	32 783
Attributable to minority interest	-299	491	484	491
Result per share before dilution, SEK	0.52	0.73	2.81	3.21
Result per share after dilution, SEK	0.49	0.67	2.65	3.00

**Key ratios**

Net increase in revenue (%)	9.2	21.5	18.5	26.3
Gross margin (%)	52.5	48.9	52.4	50.9
Operating margin EBIT (%)	13.2	18.2	20.2	22.7
Operating margin EBITA (%)	15.2	21.3	22.1	23.6
Non-recurring expenses	- 3 000	0	- 3 800	0
Operating margin EBIT adjusted to non-recurrent cost (%)	17.7	18.2	21.6	22.7
Return on capital employed (%)	16.8	18.6	16.8	18.6
Return on total equity (%)	17.1	24.3	17.1	24.3
Working capital in relation to sales (%)	8.1	7.3	8.1	7.3
Capital turnover rate	0.79	0.69	0.79	0.69
Debt/equity ratio	0.69	1.07	0.69	1.07
Equity/assets ratio (%)	52.1	46.6	52.1	46.6
Capital expenditure in property, plant and equipment	3 285	831	5 044	8 643
Capital expenditure in intangible fixed assets	1 051	960	2 872	2 633
Depreciation of property, plant and equipment	880	886	3 163	3 174
Amortisation of intangible fixed assets	954	491	3 668	1 964
Number of employees (average)	152	117	144	119
Revenue per employee	1.8	1.9	1.9	1.9
Operating cash flow per share, SEK	1.11	1.81	3.29	2.79
Operating cash flow per share, diluted, SEK	1.04	1.68	3.09	2.59
Basic number of shares, average, thousands	10 570	10 220	10 406	10 220
Number of shares, diluted average, thousands	11 060	10 020	11 040	11 020

# CONSOLIDATED BALANCE SHEET

(SEK 000s)

## ASSETS

Goodwill	236 071	236 071
Other intangible assets	13 736	14 522
Property, plant and equipment	11 869	10 059
Deferred income tax assets	828	1 155

**Total fixed assets** **262 503** **261 807**

Inventories	18 255	17 249
Trade and other receivables	30 552	25 057
Other current receivables	8 642	7 528
Cash and cash equivalents	30 117	17 326

**Total current assets** **87 566** **67 160**

**TOTAL ASSETS** **350 069** **328 967**

## EQUITY AND LIABILITIES

Equity	180 252	151 864
Minority interest in equity	1 959	1 294

**Total equity** **182 211** **153 158**

## Liabilities

Non-current liabilities	125 138	138 173
Deferred income tax liabilities	6 358	3 329

**Total non-current liabilities** **131 497** **141 502**

Trade payables	21 558	20 707
Other current liabilities	14 802	13 599

**Total current liabilities** **36 360** **34 306**

**TOTAL EQUITY AND LIABILITIES** **350 069** **328 967**

# CONSOLIDATED CASH FLOW STATEMENT

(SEK 000s)

	Q4 2007	Q4 2006	Q1 – Q4 2007	Q1 – Q4 2006
Cash flows from operating activities before changes in working capital	4 998	15 163	35 149	36 508
Cash flows from changes in working capital	6 513	3 365	-949	-7 987
Cash flows from operating activities	11 511	18 527	34 200	28 520
Cash flows from investing activities	-3 363	-33 873	-7 059	-36 949
Cash flows from financing activities	-4 094	-1 415	-14 350	-13 847
<b>Cash flows for the period</b>	<b>4 054</b>	<b>-16 761</b>	<b>12 791</b>	<b>-22 276</b>
Cash and cash equivalents and short-term investments at beginning of period	26 063	34 086	17 326	39 602
Cash and cash equivalents at end of period	30 117	17 326	30 117	17 326

## Quarterly data

Revenue per region	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(SEK 000s)	2007	2007	2007	2007	2006	2006	2006	2006
EMEA	41 279	42 618	43 681	39 418	36 265	33 844	31 319	34 743
Americas	13 112	13 018	12 379	13 789	11 608	12 223	11 290	11 728
Asia	11 727	12 171	11 490	14 617	12 679	10 407	11 548	9 785
Income statement	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2007	2007	2007	2007	2006	2006	2006	2006
Revenue	66 118	67 807	67 550	67 989	60 552	56 474	54 157	56 256
Gross profit	34 702	38 461	35 313	32 795	29 634	29 179	26 673	30 358
Gross margin	52.5%	56.7%	52.3%	48.1%	48.9%	51.7%	49.3%	54.0%
Operating profit	8 704	16 688	15 285	13 632	11 021	14 135	10 322	16 259
Operating margin	13.2%	24.9%	22.7%	20.0%	18.2%	25.0%	19.1%	28.9%
Profit before tax	6 706	11 830	11 935	11 942	9 497	12 341	8 751	15 042

## Parent Company

PARENT COMPANY INCOME STATEMENT (SEK 000s)	Q4 2007	Q4 2006	Q1-Q4 2007	Q1-Q4 2006
Revenue			100	
Cost of sales and services				
<b>GROSS PROFIT</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>0</b>
Administrative expenses	806	-338	-1 092	-315
Other costs - net			- 800	
<b>OPERATING PROFIT</b>	<b>806</b>	<b>-338</b>	<b>-1 792</b>	<b>-315</b>
Finance costs	-1 564	-1 777	-11 181	-6 400
<b>Profit before income tax</b>	<b>-758</b>	<b>-2 115</b>	<b>-12 973</b>	<b>-6 715</b>
Tax	3 631	1 880	3 631	1 880
<b>PROFIT FOR THE PERIOD</b>	<b>2 872</b>	<b>-235</b>	<b>-9 342</b>	<b>-4 835</b>

PARENT COMPANY BALANCE SHEET (SEK 000s)	2007-12-31	2006-12-31
<b>ASSETS</b>		
Financial fixed assets	289 113	289 113
<b>Accumulated financial fixed assets</b>	<b>289 113</b>	<b>289 113</b>
Other receivables	543	15
Cash and cash equivalents	44	582
<b>Total current assets</b>	<b>587</b>	<b>597</b>
<b>TOTAL ASSETS</b>	<b>289 700</b>	<b>289 710</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	114 738	114 824
<b>Non-current liabilities</b>	<b>120 441</b>	<b>132 894</b>
Trade payables		75
Liabilities to Group companies	51 839	41 605
Other current liabilities	2 682	312
<b>Total current liabilities</b>	<b>54 521</b>	<b>41 992</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>289 700</b>	<b>289 710</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".



**HMS Networks AB (publ)**

Org.Nr. 556661-8954

Stationsgatan 37 | 302 45 Halmstad | Sweden

Tel: +46 35 172 900 | Fax: +46 35 172 909

<http://investors.hms.se>