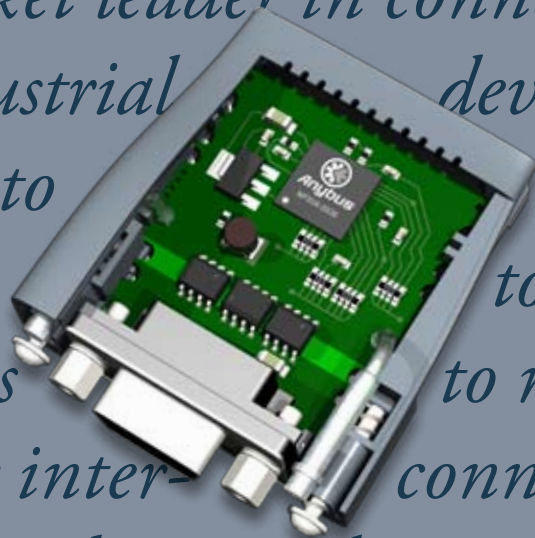


*Our vision is that all automation devices will become intelligent and networked. HMS shall be the market leader in connectivity solutions for industrial devices.*

*Our mission is to provide the best solutions to connect industrial devices to networks and products for inter-connection of different industrial networks.*

*Our purpose is to create long-term value for our customers, employees and investors.*



# Contents

<b>1</b>	2009 in summary
<b>2</b>	This is HMS
<b>4</b>	CEO's comments
<b>6</b>	2009 – from crisis to recovery
<b>10</b>	Anybus® saves money for HMS's customers
<b>12</b>	Intellicom and HMS complement each other
<b>13</b>	Leading technology and top quality
<b>16</b>	Strongly committed growth organization
<b>18</b>	HMS's shares
<b>19</b>	Board of Directors
<b>20</b>	Management team
<b>22</b>	HMS's Corporate governance
<b>25</b>	Directors' report
<b>29</b>	Consolidated income statement
<b>30</b>	Consolidated balance sheet
<b>32</b>	Consolidated cash flow statement
<b>33</b>	Change in consolidated shareholders' equity
<b>34</b>	Notes
<b>43</b>	Definitions
<b>44</b>	Glossary



## Key figures

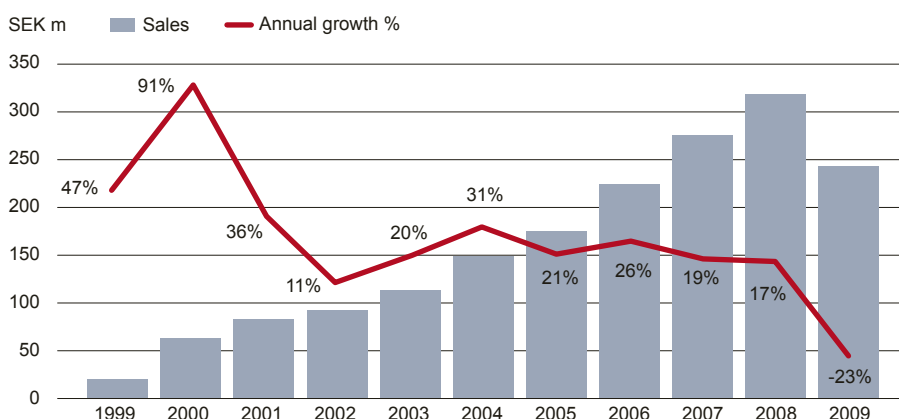
Financial data in summary (SEK m)	2009	2008	2007	2006	2005
Net sales	245	317	270	227	180
Growth in net sales, %	-23	17	19	26	21
Gross profit	143	182	142	116	93
Gross margin, %	58	57	53	51	52
Operating profit	31	85	55	52	43
Operating margin, %	13	27	20	23	24
Profit for the period	21	59	30	33	22
Earnings per share before dilution, SEK	1.88	5.43	2.81	3.16	2.09
Dividend per share, SEK	1.00*	1.50	1.00	0.00	0.00
Shareholders' equity	240	224	182	153	119
Total assets	339	390	352	329	333
Equity/assets ratio, %	70	57	52	46	36
Net debt/equity ratio, %	13	19	52	79	95
Return on shareholders' equity, %	9	29	18	24	18
Return on capital employed, %	11	27	19	19	16
Investments in non-current assets	7	7	8	10	5
Cash flow from operating activities	31	68	34	29	7
Cash flow from operating activities per share before dilution, SEK	2.89	6.52	3.24	2.79	0.65
Average number of employees	153	154	144	119	98
Revenue per employee	1.6	2.1	1.9	1.9	1.8

\* Board's proposal

# 2009 in summary

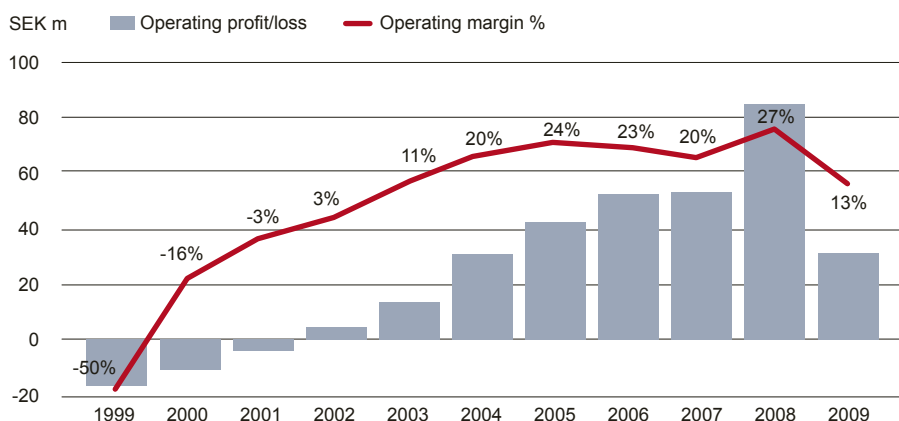
- Market leader with over 1 million Anybus network interface cards in automation systems worldwide
- Net sales amounted to SEK 244.5 million (316.6)
- The operating profit was SEK 31.1 million (85.0), equivalent to an operating margin of 12.7% (26.9)
- Cash flow from operating activities was SEK 31.2 million (68.1)
- The Group's net debt fell by SEK 12.1 million to SEK 30.3 million (42.4)
- The profit after tax was SEK 20.7 million (58.8) and the EPS was SEK 1.88 (5.43)
- The Board of Directors proposes a dividend of SEK 1.00 per share (1.50)
- Continued inflow of new design wins, which contributes to long-term growth

## Sales performance



The HMS Group has shown average growth over the past 10 years of 25% annually. The year's weak business cycle caused Group sales to drop by 23% compared with last year. More than 90% of the Group's sales are generated in markets outside Sweden.

## Earnings trend



The lower sales volumes had a negative effect on the Group's results compared to last year. The operating margin for the year fell to 13% compared to 27% the year before. During the first half of 2009 a number of costcutting measures were deemed necessary due to the weaker business cycle and 17 employees had to leave the Group. The Group reported an operating margin of 23% in the second half of 2009.

# HMS gets machines to communicate

HMS Networks AB is a world-leading supplier of communication technology for industrial automation. HMS was set up in 1988, has around 160 employees and has its head office in Halmstad where product development and some production take place. Over 90 per cent of sales are to customers abroad, including through sales offices in Tokyo, Beijing, Karlsruhe, Chicago, Milan and Mulhouse. HMS has been listed on the NASDAQ OMX Stockholm Small Cap list since October 2007.

## HMS products

HMS specializes in how automation devices communicate with each other. Examples of automation devices include electric motors, industrial robots and control systems. Using this knowledge the company develops network interface cards and software enabling communication between automation devices and industrial networks, or between two networks. HMS's products can be split into two categories, Embedded Products and Gateways. These are based on the same principle technology and are marketed under the Anybus® brand.

Embedded Products are, as the name implies, built into other companies' products. Network interface cards built into an industrial robot or electric motor controls act as a communication centre or as a robot's language centre. Using Anybus® a robot, pump or control system, to give a few examples, can communicate with the industrial network in question.

A Gateway is a communication port between two separate networks. HMS developed its first Gateway product back in 2001, using expertise from Embedded Products. In simple terms a Gateway

is like two connected network interface cards. These act like a traffic switch that translates information between different networks so they can communicate with one another. The Gateway family can be split into two groups: Network Gateways and M2M Gateways (M2M – Machine-to-Machine). The difference between the two is mainly that M2M Gateways are wireless and allow long-distance communication and remote monitoring. Using an M2M Gateway a machine manufacturer can, for example, receive direct, relevant operational information straight from the machine, wherever it is.

HMS constantly develops new products and customer applications and at year-end 2009 HMS had around 800 different items in its product portfolio.

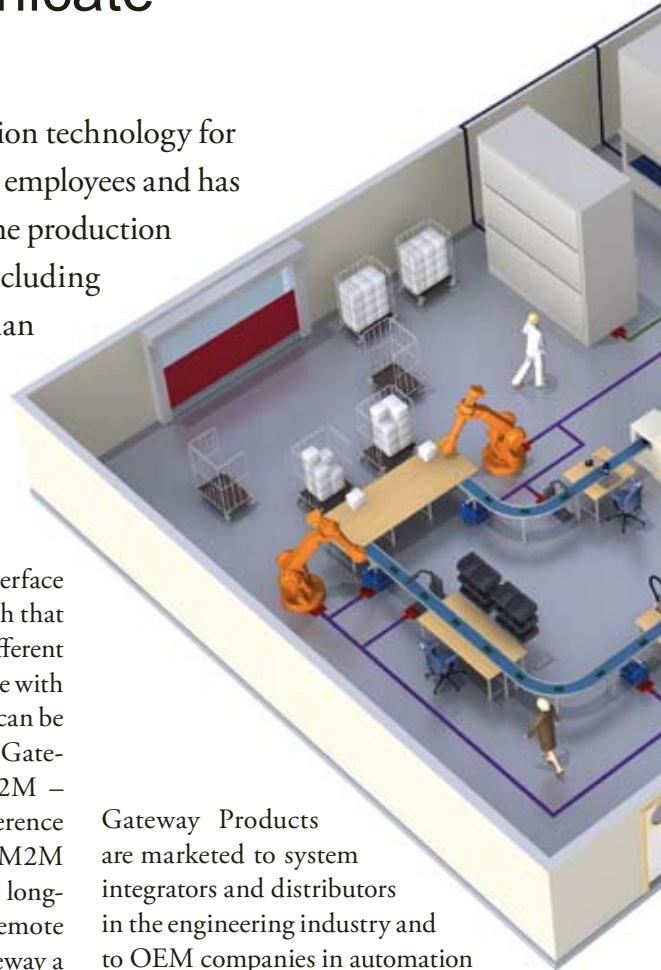
## Customers

HMS's customers differ according to their product group. Embedded Products are marketed to Original Equipment Manufacturers (OEMs) and specialist automation device suppliers. Examples of OEMs include: Rockwell Automation, Atlas Copco, Bosch and Schneider Electric.

Gateway Products are marketed to system integrators and distributors in the engineering industry and to OEM companies in automation who market products under their own brand.

## Benefitting customers, the environment and society

HMS's products help towards increased productivity, more efficient use of resources and improved quality in customers' product lines. Energy use drops as control becomes more effective. For automation manufacturers it is more cost-effective to let a specialized network interface card manufacturer, like HMS, take care of the development and supply of network interface cards. Because HMS, thanks to its processed knowledge bank and specialization, can quickly provide tried and tested solu-



## Milestones in HMS's history

**1988** HMS founded by Nicolas Hassbjer, who developed and patented a network system of sensors.

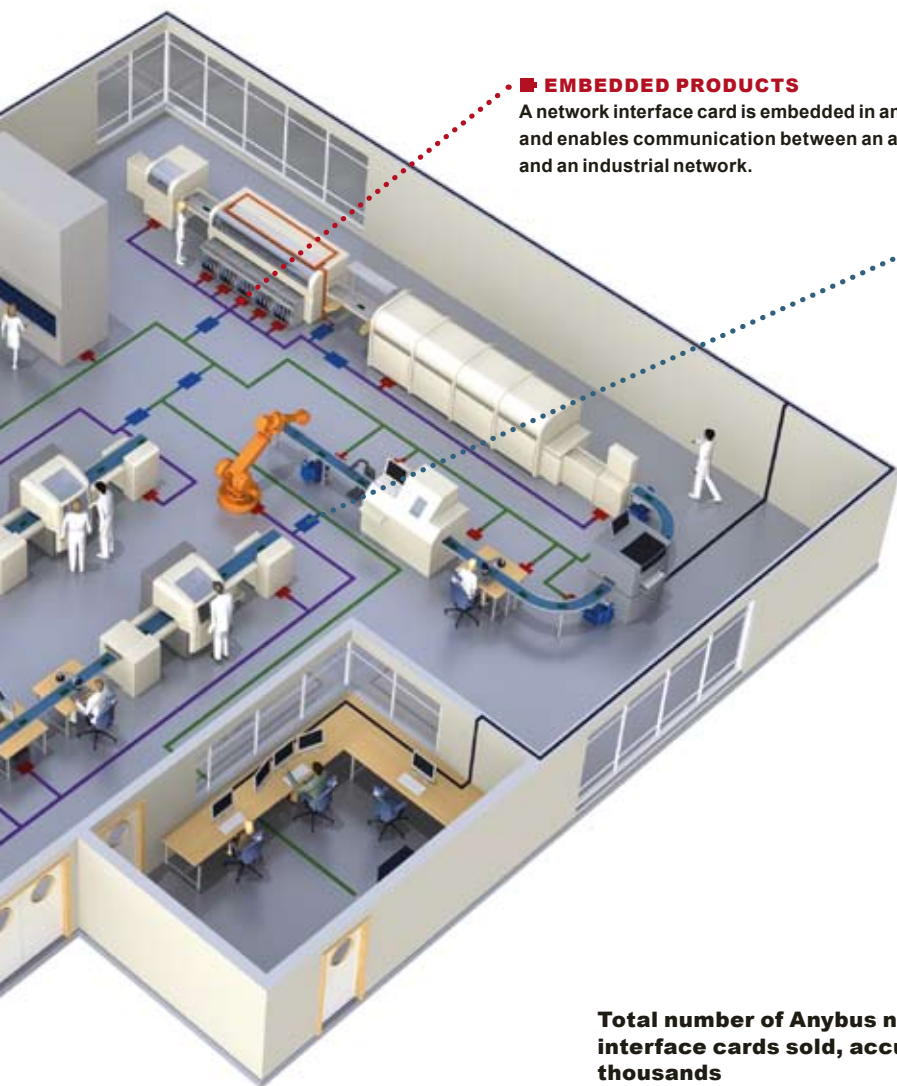
**1989** Staffan Dahlström, the company's present CEO joins as joint-owner.

**1994** Development of the first product called Anybus is ready. The company gets its first major order from the Japanese company Hitachi.

**1995** First major installation of the Anybus model at three of General Motors' factories.

**1997** IntelliCom Innovation AB is founded. The company focuses on network technology for construction automation and is jointly owned by HMS and Intellicom's four founders.

**1998** The company's first sales office outside Sweden opens in Chicago, USA.



**EMBEDDED PRODUCTS**

A network interface card is embedded in an automation device and enables communication between an automation device and an industrial network.

**GATEWAYS**

Different communication protocols are used in industrial networks. A gateway consists of two interconnected network interface cards that translate data between two different protocols, thereby enabling communication between two industrial networks.

**ETHERNET TCP/IP**

Office networks used between standard computers and for production planning. No major demands on reaction time.

**INDUSTRIAL CONTROL NETWORKS**

Factory networks that link together control systems and parts of the processes. Reaction time <1/100 second.

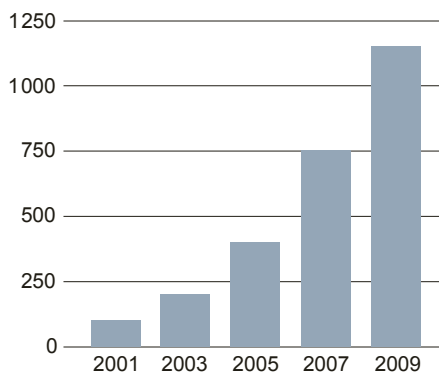
**DEVICE/SENSOR NETWORKS**

Networks within a machine or for part of the production line. Reaction time <1/1000 second.

**MOTION CONTROL NETWORKS**

For synchronized movements, involving extremely fast sequences. Barely measurable reaction time.

**Total number of Anybus network interface cards sold, accumulated thousands**



tions, development costs can be cut and lead times, also known as time-to-market, for customers can be significantly cut.

An obstacle to communication within and between automation systems is the large number of industrial network protocols, i.e. languages. These are tending to increase rather than decrease, as no standard can satisfy all industries' needs. There are also vast regional variations concerning what protocol is used. An international vendor of automation devices must therefore have access to a wide range of communication solutions for industrial networks. HMS's size and

experience create unique opportunities for its customers and provides cost-effective access to a large number of different communication solutions.

For end-users of automation solutions HMS's products allow for greater flexi-

bility at production sites. Because HMS's products can be easily adapted and communicate in different languages, an automation device, a network or control system can be changed when necessary without needing to affect the entire facility. HMS's products facilitate energy-saving and thereby improving the environment by central control or connecting a number of intelligent systems leading to resource optimization. Intelligent control might for example be the electricity supply to a manufacturing process being adapted according to requirements.

**2000** The first patent for Anybus in the US. Sales offices are established in Tokyo, Japan and Karlsruhe, Germany.

**2001** A new production site in Halmstad starts up. HMS's first Gateway product, Anybus Communicator launched.

**2003** 200,000 Anybus network device cards in accumulated volume supplied during the year.

**2005** Sales office opens in Beijing, China.

**2006** Sales office opens in Mulhouse, France and Milan, Italy.

**2007** HMS stock market introduction.

**2008** HMS awarded best export company in Sweden and receives Sweden's Grand Export Prize.

**2009** 1,000,000 Anybus network device cards in accumulated volume reached during the year.

# The recession has strengthened us – we're now looking ahead

Staffan Dahlström had been part of HMS for 20 years, of which the past ten years as Sales & Marketing Director and deputy CEO. At the AGM on 2 April 2009, Staffan took over the role as CEO of HMS from Nicolas Hassbjer, company founder and CEO since the start in 1988. The Board considered this a stable, long-term solution for HMS. The appointment was as undramatic for the employees as for Staffan himself. The biggest challenge instead was handling the affects of the global recession of 2009.

“Making 17 employees redundant as recently appointed CEO is obviously not what you want to do when starting a new job. These measures were necessary however to meet the weaker demand from our customers during the first half of 2009,” says Staffan.

Cutting employee numbers was part of a rationalization scheme carried out as a result of the drop in demand for HMS's products at the end of 2008 and start of 2009. Every market, except China, saw a decline. The biggest downturn was recorded in Japan, whose automation industry was affected both by a weak market and by a significant strengthening of the Japanese Yen. That the downturn was as considerable on the Japanese market was a key factor of the lower volumes seen by HMS, which has held a strong position in Japan for many years. The profit for the year was SEK 21 million, a drop of 65 per cent compared with last year. Staffan meanwhile says that HMS has emerged strongly from the recession.

The poorer position gave us the opportunity to evaluate our organization and structure, which then helped us roll up our sleeves and get in shape for the future.

“HMS is definitely in better shape now than it was before the crisis. We're more on our toes and are clearly focused on what we need to strengthen to boost competitive strength and find new market opportunities. We changed our production system during the year, including extending the cooperative agreement with our production partner. We use their factories in Sweden and China to boost our capacity and competitive strength. We've meanwhile become more focused on our own production of small, fast production runs and new product launches. This means that we are now more flexible and can regulate production volumes faster than before,” he explains.

Trends changed in the second half of 2009, for the global economy and for HMS.

“We're more on our toes and clearly focused on what we need to strengthen to boost competitive strength and find new market opportunities.”



The company moved to newly renovated premises in Halmstad in 2007. This gave the opportunity of reviewing and further streamlining production flows.



“The worst of it is definitely over. We went from 25,000 manufactured units a month in the autumn of 2008 to 10,000 units in May 2009. We had reached just under 20,000 units per month by the end of 2009. The recovery gives an indication of where we’re headed and I’m confident about the future. Although sales were weak in 2009 we’ve continued to attract new customers and received new design wins at roughly the same rate as the record year of 2008. This means we’ll see renewed growth for our Embedded range as many of these design wins are entering production. We’ll continue developing Gateways as a product area, which is an area where we still have a lot to give. We believe this is a relatively undeveloped, fragmented market where we can take a much stronger position in the future.”

Staffan says that the value of the Gateway market according to new market surveys is estimated at over SEK 2 billion, which is considerably more than former surveys had shown.

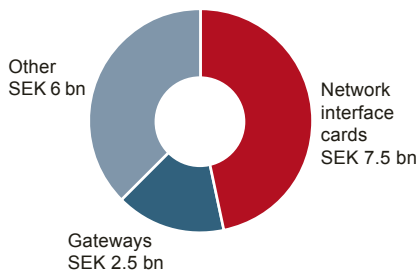
“Developing Gateways is a major priority, but we must also cement and retain our position in Embedded products. I see good potential for achieving our objectives and thereby return to a situation with positive growth and good profits in 2010. We’ve worked through our objectives, strategies and activity plans and we’re investing in the future again,” he says and concludes, “I’d like to thank all our employees, customers, suppliers and shareholders for a challenging but inspiring 2009.”

# 2009 – from crisis to recovery

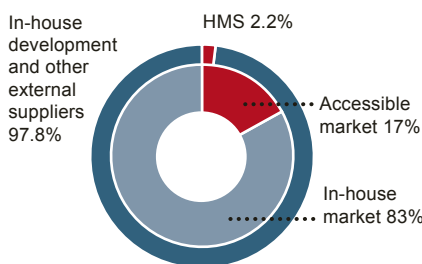
HMS operates on the industrial network market, estimated to be worth SEK 16 billion. This is a global market and was generally considered less sensitive to business cycle fluctuations, as the tendency to invest in industrial networks, as a rule, remains strong even during bad times. From an historical perspective HMS has been able to compensate a downturn on a geographic market with an upswing on another. The financial crisis and the resulting recession of 2009 broke this trend for the market as a whole. The market did however recover in the second half of 2009.



**The sub market's share of the total market (SEK 16 bn) for industrial networks**



**Market share of network interface cards**



The outer ring shows the total market for network interface cards (SEK 7.5 bn).

The inner ring shows the division between the accessible market and in-house manufacturing of embedded cards.

HMS operates on the industrial network market – i.e. equipment and systems for connecting automation devices so that they can exchange information with each other, this can apply to drive systems, sensors and control systems. HMS divides the market into industrial network interface cards, Gateways and other.

The industrial network market is part of the process automation market and the discreet automation market. The majority of the market is for discreet automation as it is more advanced in the use of modern communication technology.

### Market forces

The industrial network market is driven by industry's constant need to cut costs, increase productivity, flexibility, efficiency and reduce energy consumption.

To meet these challenges industry constantly improves its level of automation and its use of industrial networks. The use of independent, external network solution suppliers is also growing.

### Customers looking for external suppliers

HMS's biggest customer group is made up of automation equipment manufacturers. These companies are, to a greater extent, buying network interface cards from external suppliers instead of manufacturing them in-house.

That manufacturers of automation equipment are buying in an increasing amount of network interface cards from external suppliers is due to extra complexity of industrial networks, and more language versions, known as network protocols, for different networks. Increased complexity means extra demand for specialist expertise, making it more profitable to let external manufacturers like HMS supply the network interface cards.

The tendency to buy in network interface cards from external suppliers means that the independent external network interface card manufacturer market for industrial networks is increasing and is expected to continue growing faster than the network interface card market as a whole.

### Market growth

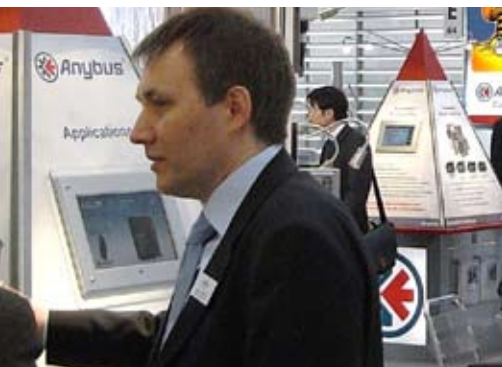
Growth in the industrial network market can be measured by the rise in the number of network nodes, which are the connection points an automation device must have for connection to a network. A network interface card (Embedded product) represents one node, whereas a Gateway, an interconnection of two network interface cards, represents two nodes.

Between 2002–2006 the average annual increase in the number of nodes was 18 per cent.

The market was for many years considered unaffected by general financial



HMS's office in Chicago opened in 1998 serving North American customers directly or through a well-established network of distributors.



developments. The downturn in the global economy at the end of 2008 and start of 2009 proved however to affect the industrial network market. The market is expected to achieve an annual growth rate of more than 10 per cent over the coming years.

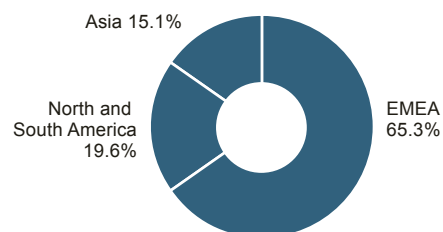
**Market value**

The total global industrial network market is estimated to be worth around SEK 16 billion. HMS's submarkets (network interface cards and gateways) account for 63 per cent of the total market.

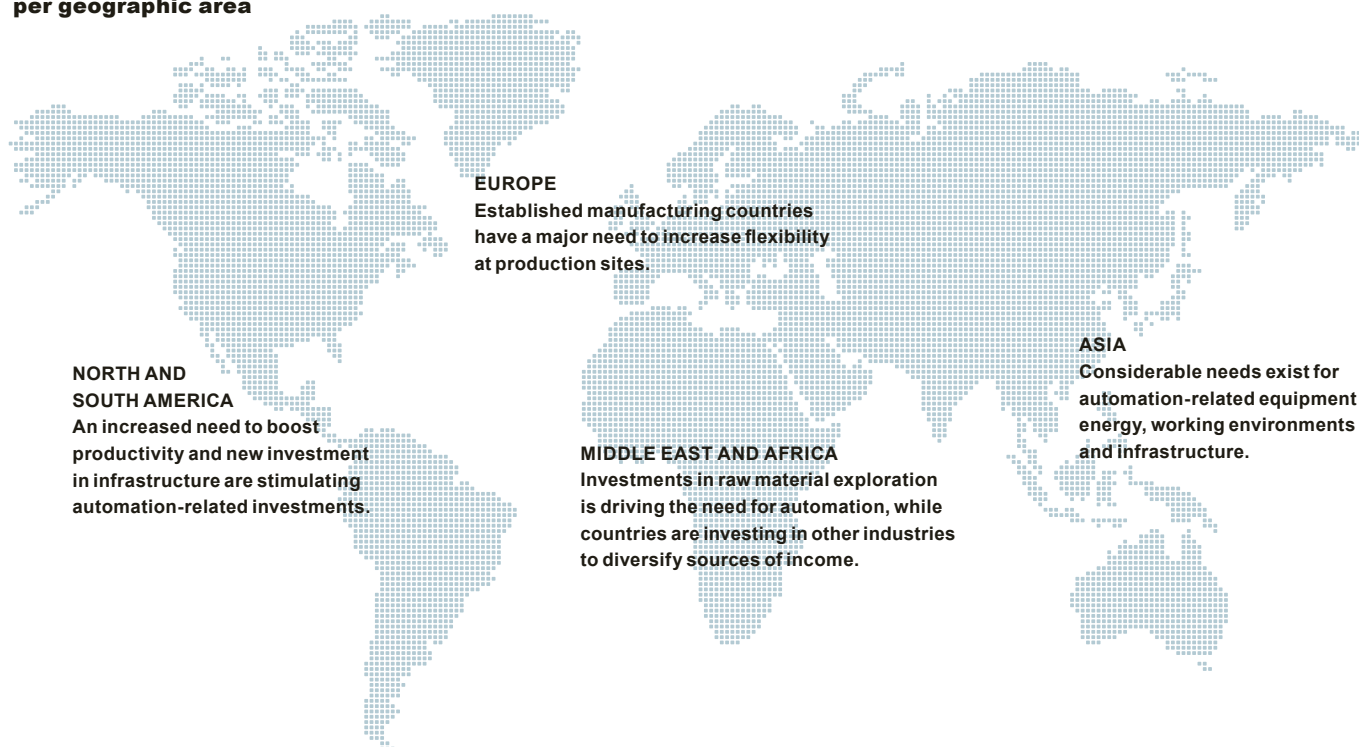
The value of the network interface card market is around SEK 7.5 billion, while the gateway market is around SEK 2.5 billion.

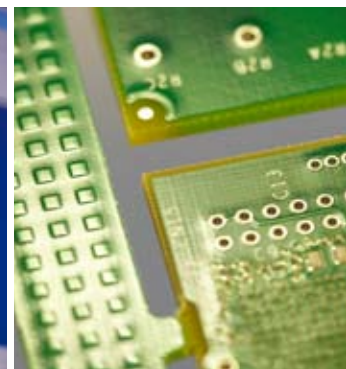
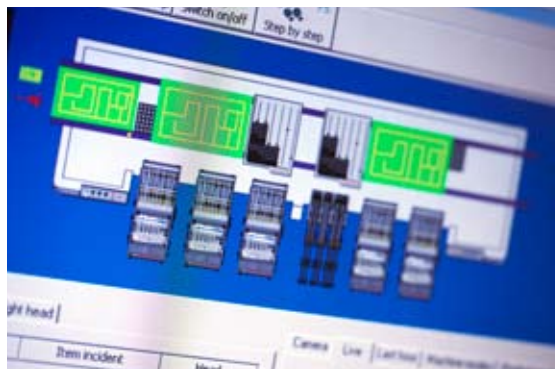
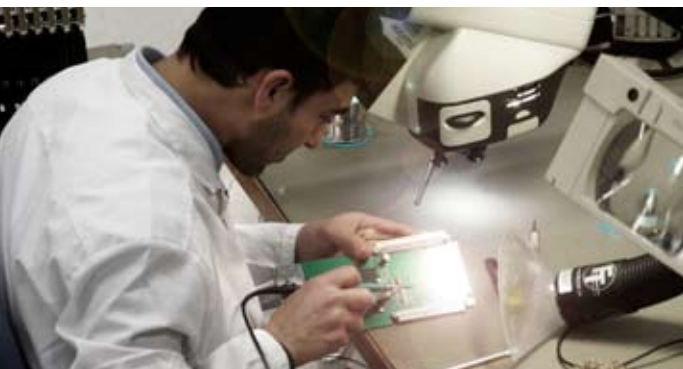
Even if the network interface card market is biggest the gateway market is growing faster. According to external market surveys, gateways are expected to grow at an average of 15 per cent annually, in the US, Europe, Middle East and Africa (EMEA). Taken together these areas account for 80 per cent of the market. Growth in gateways increases as newer network technology

**HMS's product sales per geographic market 2009**



**Driving forces for growth in industrial automation per geographic area**





is introduced onto the market and needs to communicate with older, existing automation devices.

**2009 – from crisis to recovery**

The financial crisis of the second half of 2008 and the resulting recession meant a dramatic downturn to the global economy. The financial system almost came to a standstill for a few months and the companies almost totally stopped investing. The downturn in the automation industry was very serious in spring 2009, which naturally also affected HMS, which for the first time in the company's history was forced to lay off employees in order to adjust to lower volumes.

A factor that affected HMS was the dramatic downturn in the Japanese economy, which has been HMS's biggest market. The downturn was cemented by the Japanese Yen being relatively strong, which affected the Japanese export industry.

There was however a stabilization of the Japanese market after the summer, with a certain degree of recovery in Q4.

**Less production – many design wins**

HMS noticed the downturn mainly in production, where the company hit a bottom of 10,000 manufactured devices

per month compared to 25,000 devices during the best months of 2008. Towards year-end production had however returned to around 20,000 manufactured devices per month.

Positive factors of the recession included HMS not losing any major customers and the company recording an almost unchanged in-flow of design wins. The latter means that customers decided to build HMS products into their systems. This means that HMS's customer base broadened and strengthened in 2009, giving the company a strong position when the market situation improves again.

Design wins don't provide immediate sales increases, but do indicate that HMS will increase production and sales

in line with customers increasing their sales. Recessions cause the time between a design win and increased sales to get longer.

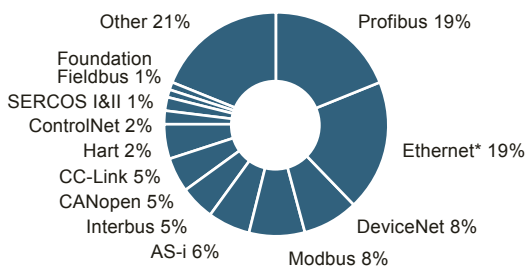
**More customers – fewer sales**

The greater number of design wins in 2009 meant that HMS was able to add to its customer portfolio, even though overall sales fell.

Sales of HMS's network interface cards amounted to SEK 160.6 million (224.8), equivalent to around 2.2 per cent of the total network interface card market.

HMS's sales on the gateway market in 2009 amounted to SEK 69.0 million (82.3), equivalent to a market share of around 2.8 per cent.

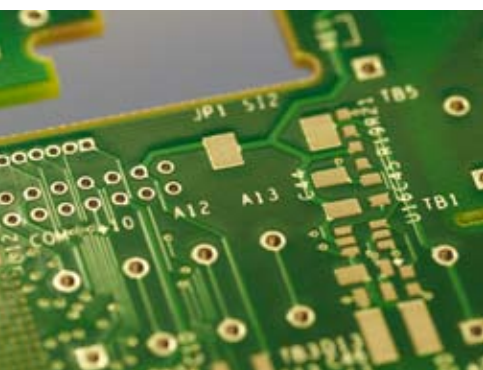
**Market shares for industrial network systems, newly installed network nodes**



\*Ethernet includes standard TCP/IP (office networks) and Industrial Ethernet (factory networks for control) such as EtherNet/IP, Modbus-TCP, PROFINET, EtherCAT, Powerlink and FF HSE.

Source: IMS Research 2008

HMS's office in Beijing was established in 2005 dealing with sales and technical support, mainly on the Chinese market for Gateway products.



Orders of both network interface cards and gateways fell more from large customers than from smaller and mid-sized customers. From an industry perspective developments were strongest in the petrochemical industry. From a geographical perspective Germany and China developed relatively well, while Japan reported weaker development.

For Gateways HMS mainly competes with independent manufacturers of expensive, often customized equipment. These independent manufacturers normally compete with a few product models and there is no competitor to match HMS extensive product range in the area with over 200 different gateways between different industrial protocols.

For Embedded Products and Gateways HMS expects to take market shares from smaller competitors as a result of the company's relative size, including competitive advantages in the form of an established customer base, customer support, benefits of scale and leading technology.

### HMS's market position

The industrial network market is relatively fragmented with many small players. HMS meets competition mainly from two types of company – OEMs, i.e. manufacturers of automation equipment and external suppliers that develop and produce solutions for network communication.

OEMs may choose to develop their own solutions for network communication, through an in-house development department or with the help of consultants, and then produce the network interface cards themselves.

The competition differs slightly in terms of Embedded Products and Gateways respectively. For Embedded Products HMS's customers choose either to buy in network communication solutions from suppliers like HMS or develop their own internally. Here HMS expects the company to be the biggest independent supplier with at least twice the number of sales of relevant products as its nearest rival.

Scandisign AS, part of Norwegian company SafeRoad Group, is a leading supplier of LED-based traffic signs and energy-efficient light boxes for multi-storey and airport car parks.

Most of Scandisigns signs have variable messages, such as speed restrictions or actual speed indicators at road works or closed bridges and tunnels. These products are known as Variable Message Signs and communicate using Anybus IC technology.



# Anybus® saves money for HMS's customers

HMS develops, manufactures and markets network interface cards and software that allows communication between automation devices and industrial networks or between networks. HMS has two product categories – Embedded Products and Gateways, marketed under the Anybus® brand. In its product portfolio, HMS has more than 100 network interface card versions and around 200 Gateways that can communicate in around 30 languages, increasing customer flexibility.



HMS's extensive range of network products is marketed under the joint Anybus® brand and under customers' own brands. The company has two product groups: Embedded Products and Gateways. Embedded Products are network interface cards built into automation devices, while Gateways facilitate communication between different industrial networks.

HMS's products are sold partly via the company's own distribution channels and partly by existing customers in automation production, who in turn sell them as a complement to their own product ranges.

Embedded Products account for 66 per cent of HMS's overall sales, while Gateways have historically recorded the highest growth and an increasing share (28 per cent) of sales. The remainder is made up of revenues from developing customized network interface cards, development systems, test software and other revenues.

## Embedded Products

HMS offers a complete range of exchangeable automation equipment network interface cards, for motor control systems, robots, instruments and control panels.

Motor control is now the most important application area for Embedded Products where network interface cards are embedded to connect motor control with an industrial network to allow centralized control. Another important area is industrial robots.

Network interface cards consist of software and hardware, which are configured and integrated into customers' production equipment for connection to industrial networks. The embedded network interface card supports all major industrial network protocols, such as Ethernet, Profibus, ControlNet, DeviceNet, AS-Interface, LonWorks and CANopen.

HMS's product range works with all important and well-established protocols, i.e. network languages. This means that HMS can attract most automation equipment manufacturers as customers.

Customers are also offered extreme flexibility because HMS modules permit the change of protocol after the automation product has been installed in a factory, making it possible to change network technologies without major investments in new automation devices.

## Customized solutions

HMS offers both standardized embedded interface cards and customized embedded network interface cards. When a customer asks for a large quantity of network interface cards with special requirements they can get them customized to their specifications. Around 35 per cent of HMS's network interface card sales are customized.

## A growing product portfolio

HMS's network interface cards are available in more than 100 different versions enabling communication between some thirty different industrial network protocols. The majority of HMS's sales revenues come from the Anybus-S platform and the simpler Anybus-IC product for automation devices requiring less functionality. HMS's newest product family in Embedded Products is the optimized Anybus-CompactCom (Anybus-CC). There are a significant number of advantages with Anybus-CC. It is modular and can be post-assembled anywhere along the distribution chain. Anybus-CC is smaller than its predecessor, but with improved performance. From a customer perspective this means increased flexibility, simplified logistics and lower conversion costs when changing network systems.



HMS is continuously broadening the Anybus-CC family with new versions. 2009 saw the launch of a Profinet IO 2-Port version and new modules for the ControlNet, CompoNet and Sercos III network protocols.

### Design wins

When a company decides to use HMS's embedded products in their automation devices it's called a "design win". A design win leads to the start of a close and in-depth partnership to customize the products to one another. When the development process is finished and the customer's device can begin to be sold, HMS's integrated network interface cards will be used to the extent that the end-customer wishes to connect their automation device to the network. As long as customers sell their automation devices, HMS will receive orders for a corresponding amount of network interface cards.

Since automation devices that use HMS's embedded products generally have a useful life of between seven and ten years, HMS's network interface cards also have a long product lifecycle. Over time, HMS has built up a portfolio of more than 814 active design wins, which contribute to the company's current and forecasted turnover.

### Gateways

Gateways are stand-alone communication solutions in or between industrial networks. In simple terms a Gateway is made up of two network interface cards with two separate network protocols and a solution that translates the first protocol to the second.

A gateway can be used in two ways. Firstly, connecting a gateway between two industrial networks makes it possible for them to communicate with one another. Secondly, an automation device can be connected to an industrial network without the automation device having a network interface card that uses the same protocol as the industrial network. Gateways instead translate the protocol of the automation device to the industrial networks' protocol and vice versa.

HMS launched its first series of gateways, Anybus Communicator, in 2001. These make it possible to connect a number of industrial networks using their existing serial ports. Anybus Communicator requires no special modification and can be used for both new and older automation devices already installed on the factory floor. In 2002, HMS further developed the Anybus Communicator concept with the launch of the Anybus-X Gateway to facilitate

communication between industrial networks.

HMS's latest addition to Gateways is a completely new product family of M2M gateways for remote controlling automation devices. This product family, Anybus RemoteCom, can be used to monitor and control industrial equipment via a standard web browser.

Anybus RemoteCom is equipped with a powerful internal web server, which via interconnection provides access to device data in the form of log information and forecasts. The integrated alarm and status management system automatically alerts the supervisor via SMS or email if predefined events occur. It is easy to configure the units oneself, but templates can also be downloaded from a central management server.

Typical applications for Anybus RemoteCom include remote control of process equipment, power stations, climate and ventilation systems. A secure web server that collects all the data from every connected device makes it easier to search for, and manage, data.

# IntelliCom and HMS complement each other

IntelliCom Innovation AB, founded in 1997, develops products for remote control and monitoring machines via the internet and wireless networks. The machines can thereby tell us when they break down or when they need servicing. IntelliCom is based in Halmstad and currently employs 15 people. HMS has owned 52% of IntelliCom since 1997.



## HMS and IntelliCom – a fruitful partnership

HMS and IntelliCom have had a close working relationship since the start. Initially both companies business were very similar, but in 2000 IntelliCom decided to focus activities on Remote Device Management (M2M Gateways), i.e. the remote management and monitoring of machines, thereby making both companies a complement to one another. IntelliCom develops electronics and markets and sells products, while buying in, logistics and manufacturing is outsourced. The company's products and platforms allow machines to provide service information to operators. HMS uses the Anybus RemoteCom brand for IntelliCom's products and platforms.

## Markets and customers

The Remote Device Management market, also known as the M2M (Machine to Machine) market, is worth an estimated USD 50 billion. According to Beecham Research this market is expected to grow to USD 250 billion by 2012.

For a company with machinery and plant spread across large geographic areas IntelliCom's wireless remote monitoring means that operational and maintenance processes are significantly simplified. How much fuel that's left in a cistern, or how much energy a wind farm produces are examples of information that customers get in real time via the internet or wireless network. All information is encrypted to stop unauthorized access to it. Remote monitoring allows energy companies to read electricity meters without needing to send anyone out to physically read the meter. Machinery or plant down-time can be simply monitored and remedied centrally. Central wireless remote monitoring facilitates increased productivity, while operational and service costs are cut. By cutting travelling and emergency call-outs for example customers save time, money and the environment. Many examples show that it can take as little as a few months for customers to recoup investment costs.

IntelliCom differs from the competition as it concentrates on simplicity. IntelliCom simplified the use of its products further in 2009 for installing, putting into operation and usage.

## Investing for growth

The recession meant that some of IntelliCom's customer projects were put on ice, meaning that 2009 was somewhat flatter than the year before. The company did however make a number of investments in internal projects to nurture future growth. One such project was the further development of the NetBiter platform, an online management portal, which facilitates monitoring and control over the internet. IntelliCom's orders rose towards the year-end however and in November a major contract was signed with a world-leading energy solutions company. The contract is for a complete M2M solution based on the NetBiter platform.

Overall the future looks bright for IntelliCom and the company will be concentrating more on sales in 2010.

# Leading technology and top quality

HMS's clear specialization has meant the company has achieved economies of scale and experience, allowing it to further increase its lead over the competition. Keen quality-awareness further assists in building a loyal customer base.



## Leading technology

HMS aims to be at the vanguard of technical advances. As a result, HMS can provide communication solutions for more, improved communication solutions than any of its competitors. HMS began earlier than its competitors to develop communication products for industrial Ethernet protocols, which are currently the fastest-growing industrial network protocols. The company's internally developed NP30 processor replaces a number of large components on a circuit board, thus enabling the company to manufacture smaller, more cost-effective devices than today's standard formats. HMS has patented a number of its solutions to protect its technology and products.

## Many customers provide economies of scale and extensive experience

With more than 1,000 customers and a product portfolio of more than 800 design wins, the company can achieve relatively high production volumes and thereby attain lower marginal costs than its competitors. For the same reason, product development costs per unit are relatively low. The high volumes also generate economies of scale for the company in customer service and support, as relatively few employees support a large customer base. The many customers also generate benefits in the form of

extensive experience. Every customized solution adds to the experience bank. This experience and knowledge are competitive advantages in themselves, as experience is an important prerequisite, not only for developing new technology but also for better maintenance and service. HMS finds itself therefore in an upward spiral where the customer base is leading to lower costs and more experience, which is used for developing new products and solutions, which in turn is adding to the customer base.

## Marketing

HMS markets its products through the sales organization's contacts with existing and potential customers. Other important channels include major trade fairs for the automation industry, regional trade fairs for user organizations or distributors and industry publications for technical products. HMS also has more than 25,000 visitors to its website every month. HMS's geographic focus is on the major automation markets of North America, Japan and Western Europe. China as a market is increasing in importance, not least for the company's Gateways.

## Sales

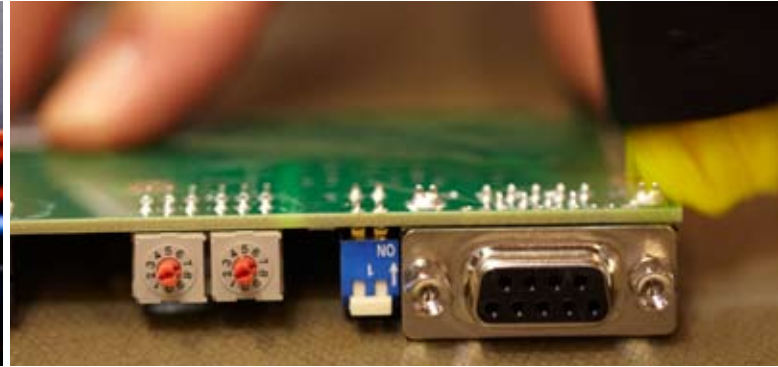
HMS's sales activities are conducted globally by the sales organization in Sweden and by six sales offices in the US, Germany, Japan, China, Italy and

France. In addition, HMS has distributors in 30 countries, primarily for sales of Gateway products.

## Direct sales

Embedded Products are almost entirely sold directly to and in close collaboration with customers' development departments. Because HMS's products are integrated in customers' automation equipment rigorous demands are placed on HMS's ability to understand and adapt to the customers' products and their application areas. The trust between customer and supplier in this type of sale takes time to build up and HMS typically estimates that the period between the initial contact and the production start of a new design win, when the collaboration starts to generate revenues, is around 6-18 months. Volume growth in the first few years can vary significantly from case to case due to the complexity of customers' respective product roll-outs. The average product lifecycle for automation products is a period of 7-10 years. HMS therefore conducts very long-term sales and marketing activities.

Historically, HMS's sales focus for Embedded Products has been on small and mid-sized applications, which is explained by the fact that Anybus-S has provided customers with significant cost benefits with these applications.



The launch of Anybus-CC has meanwhile strengthened HMS's competitive advantage and the company as since then focused sales towards new customers to move towards applications with greater volume potential, preferably with existing customers. In the past most customers were small and mid-sized companies. With the opportunity of marketing Anybus-CC towards applications with higher volume potential, conditions for reaching the large automation manufacturers' volume products have improved. This has meant the potential for achieving major production volumes has increased and in 2009 HMS received new design wins in this segment.

HMS has established specific global sales teams for key accounts with global operations. The aim is to sell large volumes to these customers.

**Indirect sales**

Gateway products are sold today either via HMS's own distribution channels or to OEM customers, who in turn sell them as a complement to their own product range. The company also actively seeks to expand its sales of Gateway products by establishing new indirect sales channels to quickly reach a broader customer

base. This will require a different form of sales activity, which has meant that the company has started to separate sales of Gateways, step-by-step, from the sales organization for Embedded Products. This process is a gradual one and adapted to the prevailing conditions in different geographic markets.

**A quality-conscious organization**

HMS's customers can be found in a broad spectrum of industrial sectors. Common to them all is their exacting demands on reliability and quality. HMS's thorough quality initiative has meant that the company has a strong customer base on the demanding Japanese market and the company's products are reliable. In 2009 the number of field returns was 300 ppm (parts per million), or three devices for every 10,000 returned for repair. This is a very low number that HMS intends to improve upon. HMS confirms orders quickly and delivers according to schedule. The company's delivery precision has in recent years achieved and remained at 99 per cent.

HMS updated its ISO 9001 certification in March 2009 to the latest version ISO 9001:2008.

**Environmental consideration in products and processes**

Possibly the most important reason for HMS's customers to use the company's products and technology is its desire to boost productivity, thereby reducing its use of natural resources in end-customers' manufacturing processes. Effective communication optimises processes, creating the opportunity for intelligent control and monitoring. HMS's ambition is to be environmentally aware throughout the entire product lifecycle. This is achieved by choosing the right material and minimizing the amount of material in manufacturing processes. Manufacturing processes have been adapted to be lead-free. Products' environmental impact is also kept to a minimum due to the low energy-consumption of the NP30 processor.

**Customer satisfaction**

The high quality levels of previous years have been retained. The number of field returns remained at the same level in 2009 as the year before. One contributory factor to the high level of quality, in addition to the well-structured and well thought out quality process in the organization, is HMS's extensive experi-



HMS's office in Milan opened in 2006 and, along with the office in France, accounts for sales and technical support on the respective market.



ence of close collaboration with Japanese customers. Japanese quality awareness has filtered through into HMS's organization over the years. A number of key account customers conducted quality audits at HMS during the year, giving the company very good references.

### Product supply

Since the beginning, HMS has strategically worked on developing its product supply according to four main principles:

- Quality
- Short lead times
- High flexibility
- Correct production costs

HMS's objective for product supply is to always deliver the right quality at the right cost and on time. Each step of the production chain therefore applies a combination of in-house and external manufacturing. The idea is to find the right balance between the lowest price and highest quality for each step of the production chain, measured in terms of flexibility and reliability. The share of in-house resources increases for every step of the production chain. Delivery handling, for example, is carried out using in-house resources only. HMS's

production is small scale in so much as the company's products are manufactured in so many versions that each is manufactured in relatively small scales and only to order. This places strict demands on lead times, which in turn place strict demands on employees and flexibility. By partly producing finished products itself, HMS ensures that the company can supply the most reliable and well-developed products. The recession in 2009 made HMS realise the importance of reacting swiftly to changing sales volumes. As a result, and with increased demands for lower costs, the company extended its alliance with a partner with global production that HMS can currently use in Sweden and China. The intention is to more quickly adapt to variations on the market and promote growth.

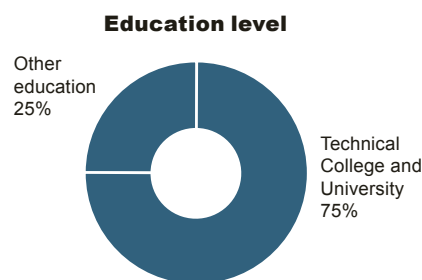
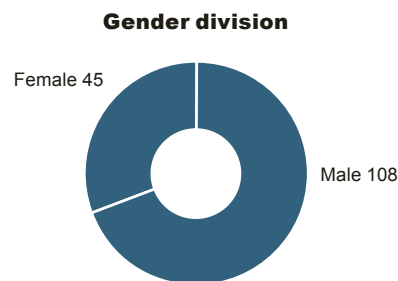
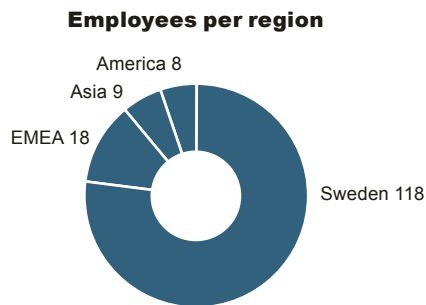
### Component vendors

A network interface card consists of a circuit board fitted with hundreds of components. HMS works strategically with purchasing components and has developed relationships with vendors who are all market leaders in their areas. The components used in HMS's products are standard with manufacturers around the world supplying similar

products. The company's own network processor, Anybus-NP30, has been developed with one of the leading semiconductor companies in the US and produced by one of the world's largest manufacturers of integrated circuits.

# Strongly committed growth organization

The atmosphere at HMS is open and friendly with employees used to working in a constantly expanding organization. Growing with assignments and taking on new challenges are natural elements of the employees' commitment.



Activities to further develop and improve the company's values and employees' development plans were forced to take a back seat to a certain degree for managing the redundancies. HMS meanwhile emerged strongly from the recession, with an increased understanding for the effects of business cycles on the company's business. Commitment remains strong among employees and in 2010 efforts will continue to further strengthen the company's values.

### An open climate characterized by strong commitment

An entrepreneurial spirit characterizes HMS and a strong commitment at all levels of the organization. The company is non-hierarchical and employees work together to create proposals for improvement and to implement them. The improvement initiatives that began in 2008 continued in 2009 with a further 113 proposed improvements, of which 71 were implemented during the year. The company also successfully completed the recertification of the ISO 9001:2008 quality system. A number of HMS's major customers conducted second party audits during the year, where they secured HMS's ability to achieve set levels of quality work and verified the company's capacity to live up to future quality demands.

### Employees and core values

Over the year HMS has actively sought to further develop the company's core values, which set the foundation for employees' basic outlook at work and decision-making. HMS's values include clarity and a consensus expressed in five core values that summarize the organization's way of working towards its interested parties – customers, suppliers, employees and shareholders.

The five core values, known as High Five, are communicated in English throughout the organization to ensure a common interpretation of their meaning.

HMS's core values are:

- Customer commitment
- Growth and innovation
- Long-term approach
- Building relationships
- Cost awareness

Work to communicate and cement the values will intensify in 2010 to further improve efficiency throughout the organization.

### Low level of sick leave

The level of sick leave during the year was low: 2% (2%). The staff turnover rate in 2009 was 4.4%, excluding the 17 redundancies completed in the spring as a consequence of the company's rationalization scheme.

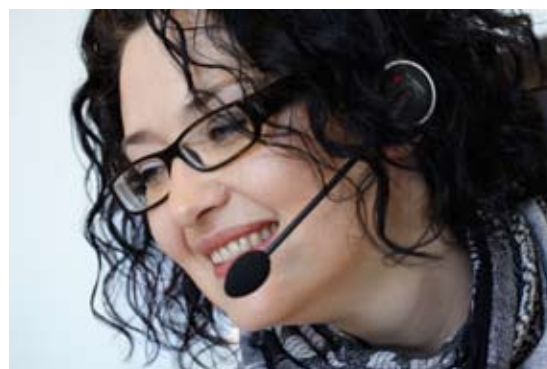


“ I work with strategic procurement. My job requires a lot of planning for making sure material supplies are safeguarded, not only now but also in 2 years time. The company’s strategies and growth targets are clear. HMS feels like a young and dynamic company with a belief in the future and high ambitions. Meanwhile there’s an open attitude and if you have a good idea you believe in then it’ll be strongly considered.

**Henrik Karlsson**

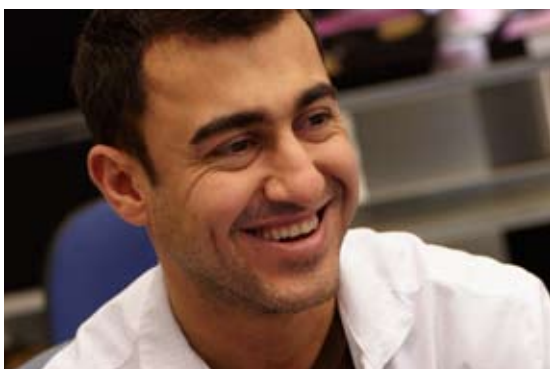
“ Working as receptionist at HMS is fantastic. I really feel part of a winning team, where everyone’s important and everyone supports one another. It’s nearly always enjoyable to come to work and I get to help create good relationships with our customers on a daily basis. I feel I share the responsibility of greeting the customer correctly, preferably with a smile.

**Magdalena Novovic Cukon**



“ I really enjoy working in production. There’s a positive atmosphere and we do something new every day. I don’t have any direct customer contact, but everyone’s a part of the bigger picture. We work hard every day and are an important part of the quality work. We work in a production team and when something goes wrong it’s documented and analysed so we can learn from our mistakes. Nobody ever accuses a colleague and everyone works towards the same goal – to always be better.

**Mohammed Omer**

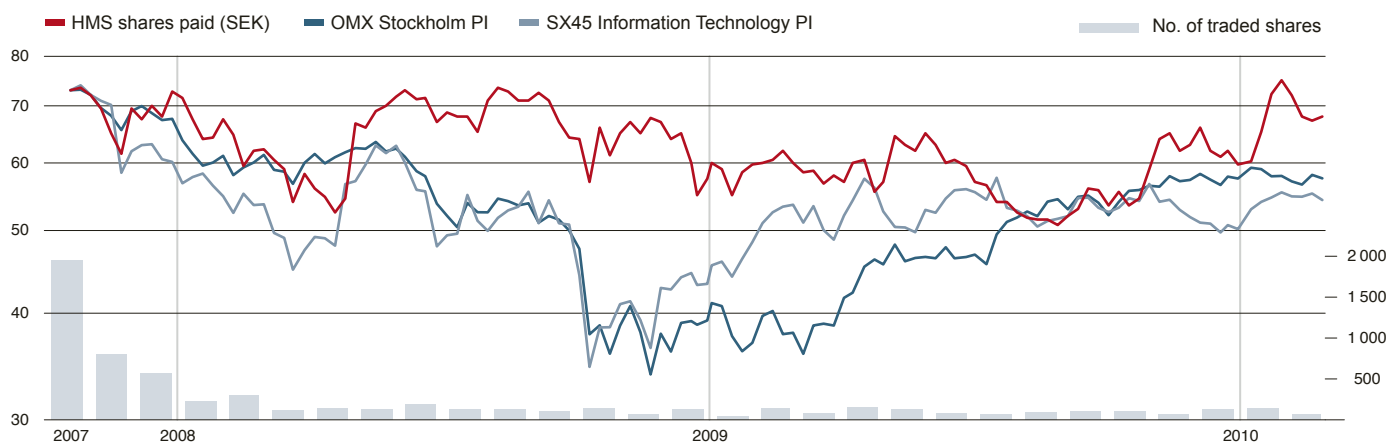


“ I work with software development and am relatively new here. I started at HMS in August 2009. I’m currently working on a product that’s due for launch in the spring. The biggest challenge for me has been to learn all the products and different standards. Helpful, friendly colleagues have meant integrating into the workplace was made easy. Everyone seems open and honest and I really like it here.

**Marcus Klingberg**



# HMS's shares



## HMS's shares

HMS's shares have been listed on the NASDAQ OMX Stockholm Small Cap list since 19 October 2007. Shares are traded under the HMS ticker.

## Share structure

HMS has a total of 11,152,900 shares. All shares have equal voting rights.

## Dividend policy

HMS's policy is to pay annual dividends of approximately 30% of the net profit.

## Warrants and options

On the closing day HMS had one outstanding warrant scheme. Conditions for the scheme is described in the accompanying table.

## Outstanding options scheme 31 December 2009

Recipient	Due date	No.	Strike price	Acquisition price	Payment received
Employees, Sweden	31/5/12	169,500	90.20	5.33	937,335

## Shareholders

As of 31 December 2009 HMS Networks AB (publ) had around 2,800 (3,100) shareholders. The ten largest shareholders represented 73.5% (74.7) of the voting rights and capital.

## The following analysts monitor HMS on an ongoing basis

Fredrik Agardh, Handelsbanken Capital Markets  
 Andreas Joelsson, SEB Enskilda, Equity Research  
 Håkan Wranne, Swedbank Markets

## HMS's largest shareholders 31 December 2009

	Total no. of shares	Share of equity and voting rights
Nicolas Hassbjer	1,589,873	14.3%
Staffan Dahlström	1,589,873	14.3%
Investment AB Latour	1,582,579	14.2%
Swedbank Robur fonder	1,171,200	10.5%
SEB Fonder	958,159	8.6%
Lannebo Fonder	472,000	4.2%
Nykredit	261,386	2.3%
DEKABANK	203,200	1.8%
Danske Invest	199,683	1.8%
AMF	171,733	1.5%
Länsförsäkringar	129,212	1.2%
Martin Gren	110,000	1.0%
Other	2,714,002	24.3%
<b>Total</b>	<b>11,152,900</b>	<b>100.0%</b>

## Key figures

	2009	2008	2007
Share price (final day of trading)	59.8	57.5	72.8
Volume-weighted average share price	58.7	64.9	70.8
Average turnover per day (SEK m)	0.5	1.0	4.9
Average number of shares traded per day	8,879	15,603	69,239
Number of shares (including dilution)	11,153	11,153	11,153
Earnings per share (including dilution)	1.8	5.2	2.7
Market capitalization (SEK m)	667	641	811
Enterprise value, EV (Market cap. + net debt, SEK m)	697	684	906
P/E	33.0	11.1	27.5
Net debt/ EBITDA	0.8	0.5	1.5
EV/EBITDA	17.7	7.3	14.8
EV/Net sales	2.9	2.2	3.4

# Board of Directors

**Urban Jansson** (born 1945)  
Chairman of HMS Networks AB (publ). Board member since May 1999. He is Chairman of Bergendahls, Global Health Partner, Rezidor Hotel Group AB (publ) etc. He is a board member of Clas Ohlson AB (publ), Höganäs AB, Skandinaviska Enskilda Banken AB (publ) etc. He has a higher degree in banking business from Skandinaviska Banken.

Shareholding: 59,750 shares in HMS Networks AB (publ).

**Nicolas Hassbjer** (born 1967)  
Vice Chairman and founder of HMS Networks AB (publ). Former President and CEO of HMS from June 1988 to March 2009. He is an independent board member and management and strategy adviser in rapidly expanding companies through Hassbjer Development AB. He is Chairman of the Board of Genomatix Software GmbH (Munich) and a board member of the Chamber of Commerce and Industry of Southern Sweden. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad

University and studied management of rapidly expanding companies through CEO-CF/IESE in Barcelona.

Shareholding: 1,589,872 shares in HMS Networks AB (publ).

**Henrik Johansson** (born 1966)  
Board member of HMS Networks AB (publ) since April 2009. He is head of Investment AB Latour's, Latour Industries business area. He is Chairman of the Board of Nord-Lock International AB, Sigfrid Stenberg Pressmaster AB, Specma Seals AB, Carstens AB and Specma Tools AB. He is also a board member of Hultafors AB.

Shareholding: 6,400 shares in HMS Networks AB (publ).

**Ray Mauritsson** (born 1962)  
Board member of HMS Networks AB (publ) since May 2007. He is CEO of Axis AB (publ). He has a Master of Science degree in Technical Physics and an Executive Master of Business Administration degree from the Lund School of Economics and Management.

Shareholding: 5,000 shares in HMS Networks AB (publ).

**Göran Sigfridsson** (born 1948)  
Board member of HMS Networks AB (publ) since May 2008. He has extensive experience from leading positions in industrial automation and is the former CEO of Beijer Electronics AB (publ) 1981-2008. He is Chairman of Svep Design Center AB and board member of Note AB (publ) and Borgestad Industries ASA (publ). He also runs his own management consulting company, SimaCon AB. He has a Civil Engineering degree in Electronics from the Lund Institute of Technology 1973.

Shareholding: 1,000 shares in HMS Networks AB (publ).

From left: Henrik Johansson, Urban Jansson, Nicolas Hassbjer, Göran Sigfridsson and Ray Mauritsson.



# Management team

## **Staffan Dahlström\***

*Chief Executive Officer*

Born 1967. President and CEO of HMS, and formerly Global Sales & Marketing Director at HMS. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad University.

Shareholding: 1,589,873 shares; warrants with subscription rights to 20,000 shares.

## **Gunnar Högberg\***

*Chief Financial Officer*

Born 1956. Chief Financial Officer of HMS since August 2006. He was previously CFO of Roxtec AB, Kipling Holding AB (publ) and Group Controller of Althin Medical AB (publ). He has many years' experience in accounting, including a role as authorized auditor at Ernst & Young. He has a B.Sc. in Business Administration and Economics.

Shareholding: 26,500 shares; warrants with subscription rights to 20,000 shares.

## **Jörgen Palmhager\***

*Chief Operating Officer*

Born 1968. Chief Operating Officer of HMS since January 2007, and formerly Development Manager of HMS 1992-2006. He has been a member of the Technical Review Board of the Open Devicenet Vendor Association since 2005. He has a B.Sc. in Computer Systems Engineering.

Shareholding: 39,750 shares; warrants with subscription rights to 20,000 shares.

## **Sabina Lindén**

*HR Manager*

Born 1979. Human Resource Manager of HMS since April 2006 and has a B.Sc. in Social Science from the University of Gothenburg.

Shareholding: 5,500 shares; warrants with subscription rights to 10,000 shares.

## **Petra Jarhl**

*Supply Manager*

Born 1969. Supply Manager of HMS since 2005 with total responsibility for internal production and contract manufacturing. She has a B.Sc. in Business & Administration from Växjö University

and experience as Production Controller and Business Controller of Duni between 2000 and 2005.

Shareholding: 12,550 shares; warrants with subscription rights to 5,000 shares.

## **Magnus Hansson**

*Development Manager*

Born 1975. Development Manager of HMS since January 2007 and was previously project manager at HMS in development since 1997. He has an M.Sc. in Electronic Engineering from Halmstad University.

Shareholding: 13,550 shares; warrants with subscription rights to 10,000 shares.

## **Katarina Lecander**

*Quality Manager*

Born 1967. Quality Manager of HMS since 1999 and joined the company in 1997. When the new ISO 9001:2000 standard was introduced, she was the first in Sweden to carry out a certification at HMS. She has a B.Sc. in Industrial Organization from Halmstad University.

Shareholding: 8,700 shares; warrants with subscription rights to 5,000 shares.

\* Member of HMS senior management team



Jörgen Palmhager

Staffan Dahlström

Gunnar Högberg

Katarina Lecander

Petra Jarhl

Martin Falkman

**Martin Falkman**

*Head of Product Management*

Born 1971. Head of Production Management since 2007 and joined the company in 1999. He has a B.Sc. degree in Electronic Engineering and has previous experience of system integration within automation.

Shareholding: 8,250 shares; warrants with subscription rights to 10,000 shares.

**Linda Johansson**

*Group Controller*

Born 1974. Group Controller of HMS since September 2008. She has previous experience as an auditor, Chief accountant and financial manager. She has a B.Sc. in Business Administration and Economics.

Shareholding: 0 shares; warrants with subscription rights to 10,000 shares.

**Niclas Johansson**

*Global Sales Director*

Born 1972. Global Sales Director of HMS since 2008. He has an M.Sc. in Business Administration & Economics and previous extensive experience of international sales.

Shareholding: 11,250 shares; warrants with subscription rights to 10,000 shares.



**International sales managers**

- Michael Volz, Global Marketing
- Matthias Oswald, Germany
- Marc Richard, France
- Staffan Dahlström, CEO
- Kevin Knake, USA
- Anders Hansson, Global Key Accounts



- Christian Bergdahl, Asia
- Paolo Sartori, Italy
- Jerry Zhao, China
- Trevor Lang, USA



Linda Johansson

Niclas Johansson

Sabina Lindén

Magnus Hansson

# HMS's corporate governance

HMS's board and management works to ensure that the company lives up to the demands that the NASDAQ OMX Stockholm, shareholders and other interested parties place on the company. The board also follows the debate on the subject and the recommendations issued by various players. HMS complies with the directives in the Swedish Code of Corporate Governance.

HMS's corporate governance is mainly exercised at the Annual General Meeting and by the Board. In a broader perspective, the issues also cover management, its duties and its control and reporting functions within the Group.

## **Group structure and ownership structure**

The majority of the Group's operations are run by HMS Industrial Networks AB, which is a wholly owned subsidiary of HMS Networks AB.

HMS's main owners are Nicolas Hassbjer (14% of capital and voting rights), Staffan Dahlström (14% of capital and voting rights) and Investment AB Latour (14% of capital and voting rights). At year-end there were around 2,800 shareholders. The Board and senior management together own around 30 per cent of the voting rights and capital.

## **Annual General Meeting**

HMS's highest decision-making body is the Annual General Meeting (AGM). The meeting elects the Board and accountants, adopts the financial statements, decides on possible dividends and other allocations from profits and decides on discharge of responsibility for the Board and CEO. In addition, the AGM decides on possible new share issues and the introduction of share-related incentive schemes. The AGM will be held within six months after the end of the financial year. All shareholders registered in the shareholders' register on the record day (five calendar days before the day of the AGM) and who have applied, have the right to attend.

Each share gives the shareholder the right to one vote. The notice to attend should be issued no earlier than six weeks and no later than four weeks in advance by advertising in Dagens Industri and the Swedish Gazette (which since 1 January 2007 is only available at [www.bolagsverket.se/poit](http://www.bolagsverket.se/poit)).

The AGM was held on 2 April 2009 at the company's offices in Halmstad. Present at the meeting were shareholders representing 68 per cent of the shares and voting rights. The AGM decided to re-elect Urban Jansson, Ray Mauritsson and Göran Sigfridsson and decided to elect Henrik Johansson and Nicolas Hassbjer. The Meeting decided to elect Urban Jansson as Chairman of the Board.

Guidelines for appointing a nominations committee were established at the AGM.

The AGM decided that remuneration to the Board would be SEK 625,000 for the current financial year, of which SEK 225,000 to the Chairman and SEK 100,000 each to board members not employed by the company.

The AGM decided that a dividend of SEK 1.50 per share should be paid to shareholders.

The AGM also decided on an issue of 250,000 warrants with subscription rights to new shares between 1 May 2012 and 31 May 2012.

## **The Board**

Five board members were elected at the AGM in 2009 to HMS Networks AB's board. The board includes one person, Nicolas Hassbjer, who represents the two main owners (Nicolas Hassbjer and Staffan Dahlström) who together control 28% of the shares and votes in the company. The CEO and CFO of HMS Networks AB take part in board meetings to submit reports and act as secretary respectively.

The Board's main duty is to exercise shareholders' control of the management and its way of running the company. The work of the Board is governed by the

rules of procedure adopted at the board meeting following elections every year.

The rules of procedure regulate such things as how often the Board convenes and what is dealt with on the respective occasions. The rules of procedure also include the division of responsibility between the Board, its chairman and the CEO.

The rules of procedure also include the division of responsibility between the Board, its chairman and the CEO.

It is the Board's duty to determine strategies, business plans, budgets, quarterly reports and financial statements. Furthermore, it is the duty of the Board to appoint and dismiss CEO's and decide on significant changes in the HMS organization and operations.

The rules of procedure stipulate monetary limits for when the Board must decide on investments, corporate acquisitions, company ownership transfers, loans etc.

An evaluation of the Board's work is carried out on an ongoing basis, partly concerning board work as a whole, and partly concerning individual members' contributions. The purpose is to ensure that HMS has a well-composed board in terms of expertise and dedication.

Individual members' unique expertise and thereby also the Board's composition in terms of expertise appear in the description on page 19.

Since the AGM on 2 April 2009 the board has held nine minuted meetings up until the writing of this Annual Report. At its meetings the Board has addressed the defined items that, in accordance with the Board's rules of procedure, applied for the respective board meetings. This involved the company's business position, budget, quarterly reports and annual accounts. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies.

The board received remunerations totalling SEK 625,000.



### **Chairman**

Urban Jansson was re-elected Chairman of the Board at the AGM on 2 April 2009. It is the Chairman's duty to follow the development of the business and be responsible for other members receiving the information required on an ongoing basis so that the work of the Board can be exercised with a retained level of quality and in accordance with the Swedish Companies Act. The Chairman of the Board does not participate in the operative management of the company.

### **Nominations committee and other committees**

At the Annual General Meeting in 2009 a resolution was passed concerning the principles for the introduction of a nominations committee at HMS Networks AB. The AGM decided to adopt the nominations committee's proposal that the Chairman of the Board, together with representatives of the largest shareholders will constitute the nominations committee until the next AGM has been held, or when necessary, until such time as a new nominations committee has been appointed. The nominations committee should appoint a chairman from its members (the chairman of the board or other member of the board should not be elected as chairman of the nominations committee). In a case where any of the three largest shareholders decline their right to appoint a representative, the right is transferred to the shareholder with the next largest shareholding on the specific date. If a member leaves the nominations committee in advance then, if appropriate, a replacement will be appointed by the same shareholder that appointed the one departing, or if this shareholder no longer ranks among the three largest shareholders, by the shareholder who in terms of shareholdings is next in line. The composition of the nominations committee will be published on the company's website no later than six months before the next AGM.

It is the duty of the nominations committee, prior to the Annual General

Meeting, to provide proposals on the number of board meetings, board fees, the composition of the Board, Chairman of the Board, Chairman of the AGM, new instructions to the nominations committee and, in certain cases, also the election of auditors and their remuneration. Prior to the 2010 Annual General Meeting the nominations committee consisted of: Urban Jansson, Nicolas Hassbjer, Jan Svensson and Per Trygg with Jan Svensson acting as Chairman of the committee.

The Board nominates a remuneration committee from its members that process issues concerning salaried employees and other employees' employment and pension provisions. The committee also deals with issues concerning incentive schemes for employees. Members of the committee are Urban Jansson, Ray Mauritsson and Henrik Johansson with Ray Mauritsson acting as Chairman of the committee.

The Board also nominates an audit committee from its members that deals with audit-related issues, such as planning, performed audits and observations from these audits. The committee also makes decisions regarding all purchases of consulting services from the company's auditor that do not fall within audit-related consulting. The audit committee includes Nicolas Hassbjer, Göran Sigfridsson and Urban Jansson with Nicolas Hassbjer acting as Chairman of the committee.

### **CEO and senior management**

The CEO leads the business in accordance with the instructions accepted by the Board. The CEO is also responsible for ensuring that the Board receives information and the requisite supporting data for decision-making, sent to each board member seven days before the board meetings, and submits reports at these meetings. The CEO keeps the Board and its Chairman constantly updated about the company's and Group's financial position and growth.

Total remuneration to the CEO in 2009 amounted to SEK 1,190,000.

The Group's senior management team consists of three individuals presented on page 20. During the year, the management team held 18 meetings. The meetings were led by the CEO, who makes decisions after consulting with other members.

### **External audits**

The company's auditors make a personal report twice a year to the entire board about their audit and state their views about internal controls. The company auditors also participate in audit committee meetings.

In addition to the audit, PricewaterhouseCoopers also provides advice concerning auditing and tax. This advice is not considered to be subject for disqualification.

The overall remuneration to HMS's auditors in 2009 was SEK 697,000.

### **Internal control reports**

The Board is responsible in accordance with the Swedish Companies Act and the Code for Corporate Governance for internal controls. The Board shall, according to the established working procedures, annually evaluate and describe the most important elements in the company's system for internal controls and risk management regarding financial reporting as well as evaluate the need for internal auditing. This report does not constitute a part of the formal annual accounts and has not been examined by the company's auditors.

### **Description**

Internal control of financial reporting within HMS is an integrated element of corporate governance. It contains processes and methods to secure the Group's assets and accuracy in financial reporting, and aims to protect the owners' investment in the company. HMS has initiated a review based on the COSO framework to organize and further improve work in this area.

### Control environment

The Board has overall responsibility for establishing and maintaining a well-functioning system for risk assessment and internal controls. The Board has established procedures for its work that identifies the internal distribution of work between board members. The ongoing work concerning the maintenance of an effective internal control environment and ongoing risk assessment regarding financial reporting is delegated to the CEO, who in turn delegates function-specific responsibilities to managers at various levels in the Group. Detailed delegation rules have been drawn up with well-defined authorization and decision-making levels that are applied throughout the Group.

The HMS organization is structured to enable a fast response to market changes. Operative decisions are therefore taken at department level, whereas decisions on strategy, direction, acquisitions and overall financial matters are made by the Board and senior management. The internal controls regarding financial reporting within HMS are designed to manage these basic conditions.

The foundations for the internal controls regarding financial reporting are made up of a control environment with organization, decision-making paths, authority and responsibilities documented and communicated by governance documents. Within HMS, some of the most important elements in the control environment are documented in the company's policies and in operational descriptions. HMS policies include Policy for Accounting and Reporting, Finance Policy and HR policies.

The Board establishes working procedures every year that regulate areas such as the Chairman's and CEO's duties. The Board has established an audit committee to increase knowledge on observation and control of the company's accounting, financial reporting and risk management, and a remuneration committee to manage senior management's remuneration.

In 2009, HMS initiated an overview and analysis of existing governance processes and internal controls to give the Board a basis for establishing the level of internal governance and control. The review is based on an analysis of how the COSO framework's important areas are reflected in the HMS organization. The work is expected to lead to an evaluation and verification of the governance documents and guidelines that act as a basis for the Group's governance of its activities.

### Risk assessment

Risk assessment stems from the Group's financial targets. The overall financial risks are defined. Through quantitative and qualitative risk analyses based on the Group's balance sheet and income statement, HMS identifies the key risks that can represent a threat to the company achieving its business and financial targets. These analyses form the basis for defining measures to minimize the identified risks.

### Control activities

Identified risks concerning financial reporting are managed via the company's control activities. There are, for example, automatic controls in IT based systems that manage authority and certification rights, and manual controls in ongoing bookkeeping and closing entries. Detailed financial analysis of results and follow-ups against budget and forecasts complement the business-specific controls and provide an overall confirmation of the reporting quality.

### Information and communication

The Group has information and communication paths that aim to promote completeness and accuracy in financial reporting. Policies, handbooks and operational descriptions are available on the company's intranet. Important guidelines, manuals and similar for financial reporting are updated and communicated to affected personnel on an ongoing

basis. The company's auditors attend at least two board meetings per year at which the auditors present their assessments and observations on operational processes, the accounts and reporting.

### Follow-ups and monitoring

The financial department and management carry out detailed monthly analyses of financial reporting.

Other important group-wide parts of internal controls include the rolling forecast process. Sales forecasts are made quarterly with a 12-month horizon and at product level by managers in the sales organization. Sales forecasts are consolidated and validated in connection with the compiling of complete forecasts for the business. The complete forecasts are compiled three times per year. In addition to the complete forecasts, a budget is also drawn up that forms the basis for the board's approval in Q4 of the financial year. In addition to forecasts and budgets, senior management also works on overall strategic plans.

The audit committee follows up the financial accounts and receives reports from the company's auditor with observations and recommendations. The board receives monthly financial reports and manages the company's financial situation at each board meeting.

The effectiveness of the internal control activities is followed up regularly at different levels in the Group.

In view of the scope of the business and the existing control activities, the board has decided that there is no requirement to introduce a specific internal audit function.

# Directors' report

## Information about the business

The HMS Group is a world-leading industrial network technology company. The Group develops and manufactures flexible, reliable solutions for connecting different networks. HMS's patented Anybus® technology has received many industrial awards and is used the world over in products from many of the world's leading automation companies. The company was voted Sweden's best electronics firm by the Electronics Industry Association and the *Elektronik i Norden* publication. HMS was founded in 1988 and over the past 10 years has seen an average organic growth of 25%. Sales are conducted from the head office in Halmstad and through the company's sales offices in Chicago, Tokyo, Beijing, Karlsruhe, Milan and Mulhouse.

The Group's invoiced sales amounted to SEK 244.5 million (316.6). Exchange rate fluctuations positively affected net sales during the year by SEK 24.6 million. Invoiced sales are divided between EMEA 65% (63), Asia 15% (17) and the Americas 20% (20). The Group's largest markets are Germany, the US and Japan.

The operating profit after depreciation was SEK 31.1 million (85.0) and cash flow from operating activities was SEK 31.2 million (68.1).

The Group's equity amounts to SEK 240.4 million (224.4) and liquidity at year-end was SEK 25.5 million (66.2) excluding unutilized overdraft facilities.

The Group's net debt fell by SEK 12.1 million to SEK 30.3 million (42.4).

## Group relationships

HMS Networks AB (publ), co. reg. no. 556661-8954, is the parent company of the wholly-owned subsidiary HMS Industrial Networks AB. HMS Industrial Networks AB is in turn the parent company of HMS Industrial Networks Inc, HMS Industrial Networks GmbH, HMS Electronics AB, HMS Industrial Networks SAS, HMS Industrial Networks S.r.l., HMS Industrial Networks K.K. and the partly-owned subsidiary IntelliCom Innovation AB (52% of capital and voting rights).

## Representative offices abroad

The Group has a Registered Representative Office in Beijing. The office deals with sales and support on the Chinese market.

## Important events during the year

All markets, except China were negatively impacted during the year. The downturn was most noticeable on the Japanese market.

At year-end the total number of design wins was 814 (731). Of these, 630 (553) were in the project phase. The average revenue per design win in the production phase amounted to SEK 0.26 million (0.43).

HMS held its AGM on 2 April 2009 with all of the board's and nominations committee's proposals agreed by the meeting.

Urban Jansson was re-elected as Chairman of the Board. Ray Mauritsson and Göran Sigfridsson were re-elected to the board. Henrik Johansson and Nicolas Hassbjer were elected to the board. At an ordinary board meeting Nicolas Hassbjer was elected as Vice Chairman of HMS's board and Staffan Dahlström took over as President and CEO of HMS Networks AB.

HMS underwent a successful recertification of the ISO 9001:2008 quality system in the spring.

HMS informed 17 people they were to be made redundant in Q2. The staff cutbacks that eventually settled at 13 redundancies was part of a rationalization scheme initiated as a result of poor demand.

HMS received new patents in the US in Q2 for mechanical design, hardware design and software interface for Anybus CompactCom.

A new Anybus CompactCom module was launched in Q3 for the ControlNet network protocol and a new extended concept for manufacturers of electrical motor control, known as static frequency converters, primarily directed towards the Profibus, Ethernet, DeviceNet and CANopen network protocols.

HMS received a number of orders in Q4 for communication products for use in the expansion of the subway system in China. The order is estimated to be worth SEK 3 million. An order was also received for a new Gateway product from one of North America's leading automation companies. The order for the initial work to customize the products is estimated to be worth SEK 2 million. This customization will be completed in 2010-2011. Sales volumes in coming years are expected to be around SEK 2-3 million annually.

Embedded products represented 66% (71) of the Group's revenues and Gateway products represented 28% (26).

## Environment

Since 2006, the HMS Group has used lead-free soldering in production processes in accordance with the RoHS directive. The legal requirements mainly cover electronics in consumer products. However, HMS decided at an early stage to phase out lead, mercury, hexavalent chromium, cadmium and flame retardant agents from Anybus® products and production processes. The Group runs no activities that require compulsory registration or permits.

## Research and development

The Group has expensed SEK 29.2 million (27.0) for research and development. In addition, SEK 5.0 million (4.9) worth of development expenses have been capitalized, of which SEK 4.7 million (4.9) is for in-house projects. Total research and development expenses make up 14% (10) of sales. The Group's policy is to only capitalize major development projects for the manufacture of the company's own integrated circuits, strategic IP blocks new platforms and costs up until the first protocol version for a specific network in a product line.

**Personnel**

At year-end the Group had 163 employees (167). The reduced headcount is due to the redundancies carried out in the first half of 2009.

**Principles for remuneration to senior management**

The Board appointed a remuneration committee in 2009. The following principles proposed by the company's remuneration committee will be put before the AGM in 2010. Remuneration to the CEO and other individuals in the HMS Networks AB's group management is made up of basic salary, short and long-term incentive programmes and pension. Other benefits and remuneration is received on corresponding grounds to those of other employees.

The aim of the HMS remuneration policy for senior management is to offer remuneration that promotes the retention and recruitment of qualified expertise for HMS Networks AB. The basic salary is established on the basis that it shall be competitive in combination with short and long-term incentives. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is fixed by the Board based on the proposal from the remuneration committee. Remuneration to senior management is established by the CEO after approval by the remuneration committee.

Incentive programs for the CEO and senior management are based on the financial targets of the Group. Incentives shall mainly be based on growth in combination with profitability, and in addition other personal targets can be set. For the CEO and senior management the single highest bonus amount is a maximum of 24% of basic salary.

The retirement age for the CEO is 65. The pension premium shall amount to 35 per cent of the fixed monthly salary. For other senior management the ITP agreement is applied with a retirement age of 65.

In the case of notice of termination, the mutual period of notice for the CEO is six months. In the case of notice of termination of the CEO from the company's side, a severance payment is made corresponding to 12 month's salary. Other earnings are not deducted from the severance pay. In the case of notice of termination from the CEO's side, no severance payment is made. The mutual notice of termination period between the company and other members of senior management is six months.

For information on the composition of the remuneration committee, see page 23.

**Risks and uncertainty factors**

**Market-related risks**

The company is exposed to market-related risks that are beyond the company's control. These risks are mainly connected with the business climate, competitive situation, world market demand and access to resources that are important for the company's business.

*Business cycle*

The company's products are mainly used in industry. Industry is affected by the general economic situation and investment levels, which in turn can be affected by a number of factors beyond the company's control, such as interest levels, currency exchange rates, inflation, deflation, political uncertainty, taxes, stock market trends, unemployment and other factors that affect belief in the economy. The influence of the above mentioned factors can affect the company's profits and position.

*Competitors*

The market for the company's products is competitive. The company competes in local markets with a number of players and further players can become established in the market. The company's strategy aims to improve the company's already strong market position and thereby prepare the company for the prospect of more intense competitiveness. A change in the competitive situation affects both sales volumes and gross profit margins. If the company cannot successfully meet the competition this will impact on the company's profits and position.

*Risks relating to new products*

If HMS does not succeed in developing new and innovative products or keep pace with technical development, the business and revenues can be negatively affected. HMS considers that its success is partly dependent on the company's ability to develop new and innovative products and to continuously enhance existing products. The company's revenues and market shares can be affected negatively if the company's competitors introduce new or improved products or services that customers perceive as attractive. If HMS does not succeed in keeping pace with product development and technology advances, or does not succeed in meeting customer's needs, this can have effects on the company's profits and position.

*Operational risks*

The company is exposed to operational risks in its activities. These risks are associated with the company's strategy, activities and its relations with the world at large.

*Suppliers*

The company is dependent on satisfactory cooperation with suppliers. The company is dependent on its component suppliers, but other suppliers are also important. If cooperation with these suppliers should deteriorate or be terminated, the company would be forced to replace them with new suppliers, alternative components or possibly redesign the products. This could have a negative effect on the company's profits and position.

### *Customers*

The company's sales are to professional companies. It is of the greatest importance for the company to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that the company has the capability to develop and market new products that are accepted by the market and fulfil customers' requirements, as well as the capacity to improve existing products. If major changes should occur in purchasing patterns at the company's major customers, this would affect the company's profitability. The large number of customers limits dependency on any single customer. A limiting of the company's possibilities to maintain its relations with one or more customers can however negatively affect the company's business, profits and financial position.

### *Employees*

The company's future development is partly dependent on key people staying with the organization. There are no guarantees that the company can succeed in retaining such key people. Any loss of one or more key people can lead to negative affects for the business. To date, the company has not had difficulties in recruiting qualified staff, but the company cannot guarantee that replacements with corresponding expertise can be recruited in the future. If HMS can no longer succeed in attracting and retaining highly qualified management personnel and other knowledgeable staff, the company risks no longer being able to maintain or further develop its business.

### *Acquisitions*

The company may in the future carry out acquisitions, sales and disposals of operations and companies. All such transactions are associated with uncertainties and risks. A thorough valuation is carried out prior to a transaction in order to reduce risks and avoid inaccurate price setting for acquisitions. However, a valuation prior to a transaction is not always sufficient to ensure success or minimize risks associated with the acquisition.

### *Product faults*

Manufacturing and sales of products in industry carries the risk of guarantee requirements and product liability. Therefore, HMS normally designs its products according to detailed technical specifications in order to meet requirements within industry. Even though the company tests its products thoroughly to ensure that they shall meet the relevant specifications, the operation in this area can be subject to increased risk for product and guarantee liability. When HMS carries out close inspections regarding product safety, the company engages both internal and external analyses to ensure that products meet agreed product specifications. Even though the company considers that these measures have been sufficient in each individual case, the company cannot guarantee that product or guarantee liability cannot arise even after these or similar future measures have been taken.

Purchasing and ordering of components from subcontractors also carries a risk that faults in the supplied components are only discovered at a later stage of production or after the product has been sold. In such a situation it can be difficult in retrospect to determine where the fault has arisen and to obtain compensation from a supplier both in terms of lost sales and product and guarantee liability.

Even though HMS considers that it has adequate protection regarding product liability insurance, it still cannot guarantee that the insured amount will be sufficient to cover such claims that can be made on the company in the future. Product liability or guarantee claims can entail considerable costs regarding legal proceedings and damages. Claims successfully made on HMS that exceed the company's insurance cover, or claims that entail considerable negative publicity, can have significant negative effects on the company's profits and position.

### **Legal risks**

#### *Legislation and regulation*

HMS and the market for HMS's operations are partly affected by applicable legislation and other directives that regulate the business. Changes in legislation, or political decisions, can thus negatively affect HMS's possibilities to run or develop its business.

#### *Intellectual property rights*

HMS's intellectual property rights are essential for the company's business. HMS has registered patents and brands in a number of countries. Even though HMS has tried to protect its brand through registration in every country in which the company has a presence, or can conceivably be active in years to come, and has sought patent protection where the company considers it to be commercially justified, it cannot be guaranteed that these measures are, or will be, sufficient to protect intellectual property rights. HMS cannot guarantee that the company's competitors will not attempt to use the company's brand and logotype in the marketing of their products and thereby infringe, or in any other way represent a threat, to the company's intellectual property rights. If the intellectual property rights cannot be protected, regardless of the reason, the company's business can be affected in a negative way.

### **Disputes**

The company is currently not involved in any disputes. Though no potential future disputes have been identified it cannot be ruled out that the company will become involved in disputes that would have a negative impact on the company's profits and position.

### **Financial risks**

The Group's international operations entail a number of financial risks, which are managed by policies established by the board.

The overall objective is that the Group's financial function provides financing to group companies and manages financial risks so that the effects on the Group's profits are minimized. The Group is mainly exposed to financing, currency, interest and credit risks. For further information, see Note 3.

**Currency exposure**

Assets and liabilities in foreign currencies are reassessed every closing day. Currency hedging contracts are reassessed every closing day and also have an impact when redeemed. The change in value as a result of the reassessment of business-related balance sheet items and redemption of currency hedging contracts are reported in the "other income" and "other expenses" items. Changes in value of other balance sheet items in foreign currency, such as liquid assets, are reported as net financial items. Operating income and expenses are also affected by changes in currency exchange rates. These changes have a direct impact on income and expenses items. Of operating income, around 63% is in EUR, 20% in USD, 7% in JPY and 10% in SEK and other currencies. Of the cost of goods sold in foreign currencies, 30% is in EUR, 15% in USD and 1% in JPY. Of operating expenses, 19% is in EUR, 8% in USD, 6% in JPY and 67% in SEK. The Group's policy is to minimize currency exposure by means of forward contracts.

**Future outlook**

The market for HMS's product range improved in the latter part of 2009 compared with the first half of the year. Future market trends are generally difficult to predict. HMS's objective is for growth to average 20% and thereby continue growing faster than the market as a whole. HMS's overall objectives remain unchanged on previous years: long-term growth averaging 20% per year and an operating margin over 20%. The company's strategy to achieve these targets involves a continuing investment in building up a strong portfolio of design wins in the area of embedded network interface cards and a broadening of the offering to closely related areas in network technology based on the company's technology platform. Continued design wins. A broader product range, mainly in the area of Gateway products, a strengthened customer focus and expansion of HMS sales channels support the Group's long-term growth.

**HMS's shares**

HMS Networks AB is listed on the NASDAQ OMX Nordic Exchange in the Small Cap category within the Information Technology segment. The average turnover of shares was 8,879 (15,603) shares per day. The shares' volume-weighted average price in 2009 was SEK 58.68 (64.91). The total number of shares at year-end was 11,152,900. All shares have the same voting rights.

**Parent company**

**Information on the business**

The parent company's activities focus on group-wide administration. Apart from the CEO, the parent company has no employees.

**Ownership structure as of 31 December 2009**

Owner	No. of shares	Share of capital and voting rights
Nicolas Hassbjer and companies	1,589,873	14.3%
Staffan Dahlström and companies	1,589,873	14.3%
Investment AB Latour	1,582,579	14.2%
Swedbank Robur fonder	1,171,200	10.5%
SEB fonder	958,159	8.6%
Others	4,261,216	38.2%
	<b>11,152,900</b>	<b>100.0%</b>

There are 11,152,900 shares in the company. All shares have the same voting rights.

**Proposed allocation of profits in the parent company:**

The following profits are at the disposal of the annual General Meeting:

Profit brought forward and other non-restricted reserves	71,131,310
Profit for the year	74,911,054
<b>Total non-restricted equity</b>	<b>146,042,364</b>

The Board and CEO propose:

A dividend of SEK 1.00 per share to shareholders	11,152,900
Brought forward	134,889,464
	<b>146,042,364</b>

It is the Board's opinion that the proposed dividend does not inhibit the company, or other Group companies, from meeting their duties over the short or long term and nor does it inhibit the completion of necessary investments. The proposed dividend can thereby be defended with respect to that stated in the Swedish Companies Act; ABL Chapter 17, section 3 paragraphs 2-3 (prudence rule).

The following pages are a condensed version of the HMS Group's Annual Report. For further information please visit HMS's website at: [www.hms.se](http://www.hms.se) or contact CFO Gunnar Högberg at: [guh@hms.se](mailto:guh@hms.se)

# Consolidated income statement

SEK Thousands	2009	2008
Revenue	244,536	316,563
Cost of goods and services sold	-101,818	-134,721
<b>GROSS PROFIT</b>	<b>142,718</b>	<b>181,842</b>
Cost of sales	-54,983	-50,885
Administrative expenses	-20,854	-19,173
Research and development expenses	-29,211	-27,003
Other operating income	5,991	6,320
Other operating expenses	-12,535	-6,070
<b>OPERATING PROFIT</b>	<b>31,125</b>	<b>85,031</b>
Financial income	1,841	1,881
Financial costs	-4,514	-5,961
<b>Total income from net financial investments</b>	<b>-2,673</b>	<b>-4,080</b>
<b>PROFIT BEFORE TAX</b>	<b>28,452</b>	<b>80,951</b>
Income tax	-7,782	-22,140
<b>PROFIT FOR THE YEAR</b>	<b>20,671</b>	<b>58,811</b>
Profit attributable to:		
Parent company's shareholders	20,116	57,429
Minority interests	555	1,382
	<b>20,671</b>	<b>58,811</b>
Earnings per share, basic, SEK	1.88	5.43
Earnings per share, diluted, SEK	1.81	5.17
Average number of shares, basic, thousands	10,717	10,572
Average number of shares, diluted, thousands	11,121	11,114
Dividends per share, SEK	1.50	1.00

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK Thousands	2009	2008
Profit for the year	20,671	58,811
<b>Other comprehensive income:</b>		
Effect on deferred tax and changes in Swedish tax rates	0	346
Cash flow hedging	11,469	-10,194
Currency differences	-163	140
Settlement of tax	0	1,003
Income tax attributable to components in other comprehensive income	-3,016	2,681
<b>Other comprehensive income for the year</b>	<b>8,290</b>	<b>-6,024</b>
<b>Total comprehensive income for the year</b>	<b>28,961</b>	<b>52,787</b>
Total comprehensive income attributable to:		
Parent company's shareholders	28,406	51,405
Minority interests	555	1,382
<b>Total comprehensive income for the year</b>	<b>28,961</b>	<b>52,787</b>

# Consolidated balance sheet

SEK Thousands	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>		
<b>Non-current assets</b>		
<b>Intangible non-current assets</b>		
Patents	217	0
Capitalized development work	14,436	13,770
Goodwill	236,071	236,071
<b>Total intangible non-current assets</b>	<b>250,722</b>	<b>249,841</b>
<b>Tangible non-current assets</b>		
Plant and machinery	2,995	4,162
Equipment, tools and other installations	5,569	6,226
<b>Total tangible non-current assets</b>	<b>8,564</b>	<b>10,388</b>
<b>Financial assets</b>		
Deferred income tax assets	802	862
<b>Total non-current assets</b>	<b>260,089</b>	<b>261,091</b>
<b>Current assets</b>		
Inventories	13,043	17,549
Trade and other receivables	33,098	37,952
Derivative financial instruments	1,275	0
Other receivables	2,461	4,271
Prepaid expenses and accrued income	3,336	3,228
Cash and cash equivalents	25,512	66,177
<b>Total current assets</b>	<b>78,725</b>	<b>129,177</b>
<b>TOTAL ASSETS</b>	<b>338,814</b>	<b>390,268</b>



SEK Thousands	31 Dec 2009	31 Dec 2008
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	1,115	1,057
Other contributed capital	110,369	107,043
Reserves	254	254
Retained earnings	125,272	112,724
<b>Total capital and reserves attributable to parent company's shareholders</b>	<b>237,011</b>	<b>221,078</b>
<b>Minority interests in equity</b>	<b>3,423</b>	<b>3,348</b>
<b>Total equity</b>	<b>240,434</b>	<b>224,426</b>
<b>Non-current liabilities</b>		
Borrowings	39,509	92,151
Deferred income tax liabilities	11,319	9,554
<b>Total non-current liabilities</b>	<b>50,828</b>	<b>101,705</b>
<b>Current liabilities</b>		
Borrowings	16,320	16,441
Trade payables	16,432	15,292
Income tax liabilities	1,469	2,375
Other liabilities	2,842	3,237
Derivative financial instruments	0	10,784
Accrued expenses and deferred income	10,490	16,008
<b>Total current liabilities</b>	<b>47,553</b>	<b>64,137</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>338,814</b>	<b>390,268</b>

# Consolidated cash flow statement

SEK Thousands	31 Dec 2009	31 Dec 2008
<b>Operating activities</b>		
Operating profit	31,126	85,031
Adjustment for items not included in cash flow:		
Depreciation/amortization	6,787	6,785
Losses on sales of tangible non-current assets	0	29
Disposals of tangible non-current assets	0	11
Impairment of intangible non-current assets	0	580
Cash flow hedging	11,469	-10,194
Other items not affecting liquidity	-494	-876
Interest received	118	1,184
Interest paid	-1,726	-6,170
Income tax paid	-9,933	-10,306
<b>Cash flow from operating activities before changes in operating capital</b>	<b>37,347</b>	<b>66,074</b>
<b>Changes in operating capital</b>		
Change in inventories	4,506	707
Change in trade receivables	4,406	-6,261
Change in other current receivables	362	1,249
Change in trade payables	1,162	-6,315
Change in other current liabilities	-16,534	12,644
<b>Cash flow from operating activities</b>	<b>31,249</b>	<b>68,098</b>
<b>Investing activities</b>		
Purchase of tangible non-current assets	-2,423	-2,521
Investment in intangible assets	-4,956	-4,901
Sale of tangible non-current assets	0	78
Changes in current financial investments	1,179	-1,921
<b>Cash flow from investing activities</b>	<b>-6,200</b>	<b>-9,265</b>
<b>Financing activities</b>		
Proceeds from issue of warrants	2,446	0
Cost of recently issued warrants	937	0
Repayment of debt	-51,323	-15,000
Dividend paid to parent company's shareholders	-15,857	-10,572
Dividend paid to minority shareholders	-480	0
<b>Cash flow from financing activities</b>	<b>-64,277</b>	<b>-25,572</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>-39,228</b>	<b>33,262</b>
<b>Change in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of year	66,177	30,117
Exchange rate differences in cash and cash equivalents	-1,179	1,921
Translation differences	-258	877
Cash and cash equivalents at year-end	25,512	66,177
<b>CHANGE FOR THE YEAR FOR CASH AND CASH EQUIVALENTS</b>	<b>-40,665</b>	<b>36,060</b>

# Consolidated statement of change in equity

SEK Thousands	Attributable to parent company's equity holders						Minority interests	Total equity
	Share capital	Other contributed capital	Reserves	Retained earnings	Total			
<b>Opening balance on 1 January 2008</b>	<b>1,057</b>	<b>107,043</b>	<b>254</b>	<b>71,897</b>	<b>180,252</b>	<b>1,959</b>	<b>182,211</b>	
<b>Comprehensive income</b>								
Profit for the year				57,429	57,429	1,382	58,811	
Other comprehensive income				-6,031	-6,031	7	-6,024	
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>51,398</b>	<b>51,398</b>	<b>1,389</b>	<b>52,787</b>	
<b>Transactions with equity holders</b>								
Dividend for 2007				-10,572	-10,572		-10,572	
<b>Total transactions with equity holders</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-10,572</b>	<b>-10,572</b>	<b>0</b>	<b>-10,572</b>	
<b>Closing balance on 31 December 2008</b>	<b>1,057</b>	<b>107,043</b>	<b>254</b>	<b>112,723</b>	<b>221,078</b>	<b>3,348</b>	<b>224,426</b>	

SEK Thousands	Attributable to parent company's equity holders						Minority interests	Total equity
	Share capital	Other contributed capital	Reserves	Retained earnings	Total			
<b>Opening balance 1 January 2009</b>	<b>1,057</b>	<b>107,043</b>	<b>254</b>	<b>112,723</b>	<b>221,078</b>	<b>3,348</b>	<b>224,426</b>	
<b>Comprehensive income</b>								
Profit for the year				20,116	20,116	555	20,671	
Other comprehensive income				8,290	8,290	0	8,290	
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,406</b>	<b>28,406</b>	<b>555</b>	<b>28,961</b>	
<b>Transactions with equity holders</b>								
Options scheme:								
- Payment of issued shares	58	2,388			2,446		2,446	
- Payment of warrants		937			937		937	
Dividend for 2008				-15,857	-15,857	-480	-16,337	
<b>Total transactions with equity holders</b>	<b>58</b>	<b>3,326</b>	<b>0</b>	<b>-15,857</b>	<b>-12,473</b>	<b>-480</b>	<b>-12,953</b>	
<b>Closing balance on 31 December 2009</b>	<b>1,115</b>	<b>110,369</b>	<b>254</b>	<b>125,272</b>	<b>237,011</b>	<b>3,423</b>	<b>240,434</b>	

# Notes

All amounts in SEK Thousands unless otherwise stated

## Note 1 General information

The HMS Group is one of the world's leading suppliers of communication technology for industrial automation. The Group develops and manufactures flexible, innovative and reliable solutions to connect industrial products to networks and gateways enabling interconnection between various networks. All development and most of the manufacturing takes place at the company's head office in Halmstad, Sweden. Sales are conducted from the head office in Halmstad and from sales offices in Chicago, Karlsruhe, Tokyo, Beijing, Mulhouse and Milan.

The parent company, HMS Networks AB (publ), is a listed Swedish limited liability company based in Halmstad, Sweden. The head office address is Stationsgatan 37, Halmstad, Sweden. The company is listed on the NASDAQ OMX Stockholm exchange under the Small Cap, Information Technology category.

The consolidated financial statements were approved for publication by the Board of Directors on 19 March 2010.

## Note 2 Accounting policies

The most important accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis for preparation of financial statements

The consolidated financial statements of the HMS Group have been prepared in accordance with the Swedish Annual Accounts Act and RFR 1.2 Additional consolidated accounting regulations and International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU. The annual report has been prepared in accordance with the acquisition value method, with the exception of some financial assets valued at the true value in other comprehensive income.

Preparing financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires the company to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant the consolidated financial statements are disclosed when appropriate in the notes.

Amendments were made in 2009 to IFRS 7 (amendment), "Reclassification of financial instruments" and IAS 1 (revised), "Presentation of financial statements". The amendment to IFRS 7 involves more information about valuing according to true values and liquidity risks. The revised IAS 1 does not permit

the presentation of income and expenses items in statements of change in equity and requires changes to equity that don't relate to transactions with shareholders to be reported as comprehensive income. The introduction of IFRS 2 (amendment) "Share-based payment", deals with vesting conditions and cancellations and the introduction of IAS 23 "Borrowing costs", have not had an effect on the consolidated financial statements.

A number of IFRIC statements have come into force. These do not apply to the Group and have had no effect on the financial statements.

The Group has also analysed the IFRS standards and interpretations yet to come into force and not applied in the 2009 annual report. The amendment to IFRS 3 (revised) "Business combinations", apply from 1 January 2010 and require payment for acquisitions to be reported at the true value on the acquisition date, while the subsequent contingent payments classified as liabilities are subsequently revalued through the income statement. Furthermore, all transaction costs in conjunction with acquisitions are cost-accounted. IAS 38 (amendment) "Intangible assets", meaning clarification of the true value of an intangible asset acquired in a business combination. The Group will apply IFRS 3 (revised) and IAS 38 (amendment) prospectively for all business combinations from 1 January 2010. IAS 27 (amendment) "Consolidated and Separate Financial Statements", requires the effects of all transactions with owners who do not have a controlling influence are recorded in equity if they do not entail any changes in the controlling influence. Other new standards and amendments to existing standards are not expected to have any affect the consolidated financial statements.

The parent company's annual accounts have been prepared according to the Swedish Annual Accounts Act and RFR 2.2. The parent company's accounting policies therefore coincide with the Group's. In cases where different accounting policies are applied in the parent company then they are specifically stated in the respective sections below.

### 2.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to report the acquisition of subsidiaries by the Group. The value of an acquisition is measured as the true value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a company acquisition are measured initially at their true values on the acquisition date, irrespective of the extent of any minority interest. The excess made up of the difference between the acquisition value and the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the value of acquisition is less than the true value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting principles of subsidiaries have been changed where necessary to ensure consistency with the principles adopted by the Group.

The Group applies the principles of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recognized in the income statement. At acquisition of minority shares where the paid purchase sum exceeds the acquired portion of the reported value of the subsidiaries' net assets, the difference is amount is reported as goodwill. Disposals of minority interests, in which the received purchase sum deviates from the reported value of the portion of the net assets sold, result in gains or losses for the Group that are recognized in the income statement.

### 2.3 Reporting of segments

HMS's business is regulated and reported primarily by a division of sales in the respective product groups, Embedded and Gateways. The product groups are consolidated according to the same principles as the Group as a whole.

Both product groups are based on the same technology platform, developed and produced by the company. The business' overheads, assets and liabilities in 2009 were therefore not divided according to the respective product groups.

### 2.4 Translation of foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swedish kronor (SEK), which is the parent company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions or the date when items are revaluated. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. The exception is hedge transactions that fulfil the conditions of hedge accounting of cash flow, then gains/losses are reported in equity.

Exchange profits and losses attributable to loans and liquid funds are reported in the income statement as financial revenues or expenses. Exchange profits and losses attributable to the purchasing of raw materials and products are reported in the income statement as cost for goods sold. Other exchange profits and losses are reported in the items Other operating income and Other operating expenses respectively in the income statement.

The results and financial position of all the Group entities (none of which has the functional currency of a hyperinflationary economy) that have a functional currency from the presentation currency are translated into the presentation currency as follows:

- a) assets and liabilities are translated at the exchange rate on balance sheet date
- b) income and expenses are translated at average exchange rates, and
- c) all resulting exchange differences are recognized as a separate component of equity

When consolidating, exchange rate fluctuations arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is fully or partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the capital gain or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 Property, plant and equipment

Property, plant and equipment is reported at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is based on the original cost of the assets and on their estimated useful lifetimes as follows:

Plant and machinery	3-7 years
Equipment, tools and other installations	3-7 years

The assets' residual value and utilization period are tested at the end of every report period and adjusted accordingly.

Gains and losses on disposals are determined by comparing the proceeds with the reported value and reported under Other operating income or Other operating expenses.

## 2.6 Intangible assets

### a) Goodwill

Goodwill is made up of the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the company acquisition from which the goodwill arose.

### b) Development work

HMS' technology is based on internally developed solutions for connecting industrial equipment to networks, as well as gateways for the interconnection of different networks. The technology used in the company's products is based on the patented Anybus technology.

Costs that are directly associated with the development of identifiable and unique circuits, strategic IP blocks, new product line platforms and costs up until the first protocol version for a specific network in a product line and that are controlled by the Group are recognized as intangible assets when the following criteria are fulfilled:

- that it is technically possible to complete the above development project so that the development results can be used,
- the company's intention is to complete the development project and to use it or sell it,
- there are good conditions for using or selling the development results,
- it can be shown how the development results generate probable future financial benefits,
- there is access to adequate technical, financial and other resources to complete development and to use or sell the development results, and
- the expenditure attributable to the project during its development can be estimated in a reliable way.

Costs include the employee costs for internal work with development, external expenses and an appropriate portion of relevant overheads. Intangible assets resulting from development work are reported at cost value. In cases in which the assets carrying amount exceeds the calculated recoverable amount, the asset is immediately written down to its recoverable amount.

The development of new product platforms is capitalized during the development phase. Maintenance of software and extensions to existing products and product lines are considered adjustments of the core product and are not capitalized. Projects in the development phase are not capitalized.

Development expenditures previously written off are not capitalized as assets in later periods.

Advances attributable to external development are reported as intangible assets in cases where the company has control of the asset.

Amortization is calculated on the original acquisition cost and is based on the assessed useful lifetime as follows:

Capitalized development work	5 years
------------------------------	---------

## 2.7 Impairment

Assets with an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Capitalized development work is annually tested for impairment before it is ready to be put into use.

## 2.8 Financial instruments

### 2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through the income statement, loans and receivables and derivative instruments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

#### a) Financial assets valued at fair value via the income statement

Financial assets valued at fair value via the income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'Trade and other receivables' and 'Cash and cash equivalents' in the balance sheet (Note 2.10 and 2.11).

#### c) Derivative financial instruments and hedging activities

The Groups utilizes derivative financial instruments to cover risks for exchange rate fluctuations regarding future commercial cash flow both external and internal, in foreign currency. The holding of derivative financial instruments is made up of currency futures and currency options.

Derivatives are recognized at fair value, initially on the date a derivative contract is entered into, and in subsequent revaluations. All derivative instruments are classified as current assets or short-term liabilities.

At the determination of fair values of foreign exchange forward contracts, the listed rates of the currency at the balance sheet date are used. The Group assesses whether there is objective evidence for a write-down requirement for a financial asset or a group of financial assets at each balance sheet date. In those cases in which a write-down requirement exists, the asset is written down to its fair value.

When a transaction is carried out, the relationship between the hedging instrument and the hedged item, or transaction is documented, as well as the objective of the risk management and strategy for taking different hedging measures. The Group also documents its assessment, both at the start of the hedging period and on an ongoing basis, of how the derivative instruments used in the hedging transaction are effective in terms of counterbalancing changes in fair value or cash flow for the hedged items.

Hedging is structured so that measures can be expected to be effective.

The effective part of changes in fair value of the hedging instrument is reported in other comprehensive income. The gain or loss attributable to any ineffective part is reported immediately under the operating profit in the income statement. The accumulated amount in equity is reversed in the income statement in those periods when the hedged item affected results, for example when forecast external sales took place.

When a hedging instrument expires or is sold or when the hedging no longer fulfils conditions for hedge accounting and accumulated profits or losses for the hedged item is in equity, these profits/losses remain in equity and are taken up as income at the same time as forecast transactions are finally reported in the income statement. When a forecast transaction is no longer expected, the accumulated profit or loss is transferred as reported in equity immediately to the income statement's operating profit.

### 2.8.2 Reporting and valuation

Purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Financial instruments, except for financial assets reported at fair value via the income statement, are initially recognized at fair value plus transaction costs. Financial assets carried at fair value via the income statement are initially recognized at fair value, and associated transaction costs are reported in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets valued at fair value via the income statement' category are presented in the income statement as Other operating income or Other operating expenses in the period in which they arise.

### 2.8.3 Offsetting financial instruments

Financial assets and liabilities are offset and reported at a net sum in the balance sheet, only when there's a legal right to offset the reported amount with an intention to regulate them by a net amount or meanwhile realize the asset and regulate the liability.

### 2.9 Inventories

Inventories are stated at the lower of the cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) principle. Finished goods are valued at standard cost. The cost of finished goods comprises raw materials/components, direct labour, and other direct and indirect related production overheads (based on normal production capacity). Cost of borrowings is not included. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inter-company profit from sales between Group companies are eliminated.

### 2.10 Trade receivables

Trade receivables are amounts to be paid by customers for goods or services sold in current activities. If payment is expected within 1 year or earlier it is classified as a current asset, otherwise it is classed as non-current asset.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the HMS Group will not be able to collect all amounts due according to the original terms of the receivables.

### 2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held in bank accounts and other current investments with maturities of three months or less.

### 2.12 Provisions

Provisions for restructuring costs and legal claims are recognized when the Group has a legal or informal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions for restructuring include costs incurred by redundancies and for severance pay. No provision is made for future operational losses.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required to settle the obligations of the Group and the amount has been reliably

estimated. A provision is also reported if the likelihood for an outflow concerning a special item in this group of obligations is insignificant.

### 2.13 Trade payables

Trade payables are obligations to pay for goods or services acquired by suppliers from current activities. Trade payables are classified as current liabilities if they fall due for payment within one year or sooner, otherwise they are reported as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently at amortized cost using the effective interest method.

### 2.14 Income tax

Tax costs for the period include current tax and deferred tax. Income tax is recognized in the income statement, except when the tax relates to items reported in other comprehensive income or directly in equity. In such cases the tax is also recognized other comprehensive income an equity respectively.

The actual tax cost is estimated on the basis of the tax regulations, which on the balance sheet date, are in force or practically in force in the countries where the parent company's subsidiaries are active and generate taxable revenues.

Deferred income tax is calculated using the balance sheet method on temporary differences arising between the taxable values of assets and liabilities and these reported values in the consolidated accounts. However, the deferred income tax is not reported if it arises from initial recognition of an asset or liability in a transaction other than a business acquisition and if, at the time of the transaction, it affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or income tax liability is settled.

Deferred tax receivables are reported to the extent it is likely that future taxable surplus will be available, against which the temporary differences can be used.

Deferred tax is calculated on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax receivables and liabilities are offset when there is a legal offset right and where this refers to tax debited by one and the same tax authority and either refers to the same tax subject or different tax subjects, where there is an intention to regulate the balance through net payment.



## 2.15 Remuneration to employees

### a) Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Pension commitments for salaried employees in Sweden are secured through insurance in Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3, this is a defined benefit plan, which covers a number of employers. For the financial year 2009 the company has not had access to sufficient information to enable it to report this plan as a defined benefit plan. The pension commitments are thus reported as a defined contribution plan.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they fall due for payment.

### b) Share-based remuneration

The Group has outstanding share option schemes for portions of its personnel. Share options have been issued on four occasions, of which three matured in 2009 for which shares were issued. The option schemes aim to facilitate recruitment to leading positions and stimulate long-term commitment from employees regarding the Group's profit and business development. Warrants have been issued at market rates and thereafter transferred to the employees. The warrants give the owner the right to acquire shares at a predetermined price. The payments that HMS has received at the transfer of the warrants have been allocated to total equity. Repurchase of warrants is booked against total equity.

Allocation of shares through the exercise of warrants will be made through a new share issue.

## 2.16 Revenue recognition

Revenue is recognized at the fair value of the consideration received or to be received for goods and services sold in the Group's current activities. Sales are recognized after deductions for VAT, returns, rebates and discounts and after the elimination of intra-Group sales.

The Group recognizes revenue when the amount of revenue can be reliably measured and it is possible that future economic benefits will flow to the company.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each case.

The Group manufactures and sells products to connect industrial equipment to networks and gateways to enable the interconnection of different networks.

Sales of products are recognized on delivery of the products to the customer, in accordance with the sales conditions, at the point at which the material risks and benefits are transferred to the buyer

The Group also sells development services within industrial network technology. These services are provided on a time and material basis or as a fixed price contract. Revenue from time and material contracts is recognized at the contractual rates as labour hours are delivered and direct expenses incurred.

Revenue from fixed price contracts for conducted service assignments are recognized in relation to the contract's percentage of completion at balance sheet date (successive revenue recognition). A contract's percentage of completion is based on how many of the services carried out are of the total number to be carried out.

In any circumstances that arise that can alter the original estimate of revenues, costs or percentage of completion, these estimates are reassessed. These reassessments can result in increases or decreases in estimated revenues or costs and affect revenues during the period the circumstances that caused the alteration came to the knowledge of the senior management.

Interest income is recognized using the effective interest method. When the value of a receivable in the loan receivables and accounts receivable category is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan receivables is recognized using the original effective interest rate.

## 2.17 Leasing

Leases in which a significant portion of the risks and rewards associated with ownership are retained by the lessor are classified as operational leasing. Payments made during the leasing period are expensed in the income statement linearly over the leasing period.

The Group leases certain tangible assets. Leasing agreements for tangible fixed assets in which the Group essentially holds the financial risks and rewards associated with ownership, are classified as financial leasing.

Every leasing fee is divided between amortization of the liability and the financial cost for obtaining a fixed interest rate for the recognized liability. Corresponding payment obligations, after deductions for financial expenses are included in the balance sheet items Non-current liabilities and Current liabilities. The interest component of the financial expenses is recognized in the income statement divided over the leasing period. Tangible fixed assets that are held in accordance with financial leasing agreements are written off during the shorter of the asset's period of utilization or the leasing period.

### 2.18 Dividend

Dividends to the parent company's shareholders is reported as a liability in the consolidated financial statements in the period the dividend is approved by the parent company's shareholders.

### 2.19 Borrowings

All borrowings are expensed as they arise.

### 2.20 Cash flow statement

The cash flow statement for the Group has been established in accordance with the indirect method. The year's change of cash in hand is divided into operative, investing and financing activities. The starting point for the indirect method is the operating income modified by transactions that have not resulted in cash receipts or disbursements.

Cash and cash equivalents include cash and bank balances and current financial investments with durations of less than three months. All items within cash and cash equivalents can be converted into cash at relatively short notice.

## Note 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and financing risk.

The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures and apply hedge accounting in accordance with IAS 39.

Risk management is carried out by a central financial department (Group finance) according to policies approved by the Board of Directors. The head of the Group's financial function identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors provides written principles for overall risk management and for specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

#### a) Financing and liquidity risk

Financing risk refers to the risk that refinancing of maturing loans is made more difficult or expensive and that the Group therefore has difficulties in fulfilling its payment obligations. Liquidity risk refers to the risk of difficulties in fulfilling obligations that are connected with financial liabilities.

Cash flow forecasts are drawn up by the Group's operating companies and aggregated by Group finance. The Group carefully follows rolling forecasts for the Group's liquidity reserve, which consists of unutilized credit lines and liquid funds, on the basis of expected cash flow. This is done centrally for all operational units in the Group in accordance with the praxis and limits established for the company. This also includes liquidity management to calculate expected cash flow in major currencies and determine which amount of different liquid assets is required to meet this, to monitor balance sheet based liquidity measurement in relation to internal and external supervisory requirements and to draw up plans for financing of liabilities.

Financing risk arises when, at a given point in time, difficulties arise regarding the acquisition of financing. To minimize the cost for the Group's borrowings and financing, the finance function should make credit promises available to cover the Group's requirement for operating credit. HMS aims to always have credit facilities with multiple banks. HMS should always have access to 10% of revenue in cash and cash equivalents, excess liquidity and unutilised credit facilities.

The table below shows the Group's financial derivative instruments that will be regulated before tax, divided according to the time that remains on balance sheet date up until the contractual due date. The sums shown in the table are the contractual, non-discounted cash flows. The sums that mature within 12 months concur with the booked amounts because the discount effect is negligible.

<u>As of 31 December 2009</u>	<u>Less than 1 year</u>
Currency forward agreements	
Cash flow hedging	
-Inflow	
-Outflow	68,567
<u>As of 31 December 2008</u>	<u>Less than 1 year</u>
Currency forward agreements	
Cash flow hedging	
-Inflow	5,615
-Outflow	136,035
Currency options	
Cash flow hedging	
-Inflow	
-Outflow	62,500

#### **b) Interest rate risk**

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's financing policy states that the interest expense should be decreased as far as possible. In order to minimize the Group's interest expense, interest rate derivatives may be utilized. For 2009 it was assessed that the usage of interest rate derivatives would not decrease the Group's interest expense.

If interest rates on borrowings in SEK on 31 December 2009 were +/- 1% with all other variables constant then the profit before tax for the financial year would have been +/- SEK 0.9 million (2008: 1.0 m).

#### **c) Currency risk**

The Group operates internationally and is exposed to currency risks arising from currency exposure, principally with respect to the USD, EUR and JPY.

The Group's currency risk consists partly of the transaction risk, which arises when purchasing or selling in foreign currencies and partly of the translation risk, which arises when the net assets of foreign subsidiaries are recalculated at the present exchange rate.

The transaction risk is minimized through the currency hedging of anticipated net cash flows in each major foreign currencies for the next twelve months. The Group's risk management policy states that exchange rate hedging for the next three months should be performed at 60% of exposure and, for the following three to nine months, it should be hedged in the interval 10%-40% of expected exposure.

Translation risk arises through the effect on the Group's equity of currency rate fluctuations on capital expenditure in subsidiaries. The Group currently conducts no active hedging of the effects of currency rate fluctuations on capital expenditure in subsidiaries.

The Group assesses that sensitivity as a result of the currency risk is negligible.

If the SEK weakened/strengthened by 5% against the EUR with all other variables remaining constant, the operating profit/loss for the year would have been +/- SEK 5.2 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

If the SEK weakened/strengthened by 5% against the USD with all other variables remaining constant, the operating profit/loss for the year would have been SEK +/- 1.3 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

If the SEK weakened/strengthened by 5% against the JPY with all other variables remaining constant, the operating profit/loss for the year would have been SEK +/- 0.4 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

#### **d) Credit risk**

There are clear guidelines in the Group's credit policy for when to grant credit to customers and when security is required. It is the view of Group Management that no material credit risk concentration exists regarding any single customer, counterparty or geographical region. According to the company's financing policy, excess liquidity can be invested in interest-bearing securities with a maximum duration of one year and an average duration of six months. Counterparty risk is managed through regulations in the financial policy regarding the long-term rating of issuers in which it is stated that investments may be made in Swedish corporate bonds with a Standard & Poor's rating of at least BBB+, Swedish commercial papers with a rating of at least K1, Swedish housing finance institutions and the Swedish state. All borrowings are made in consultation with the parent company's financial function.

### 3.2 Managing capital risks

The Group's goal in terms of capital structure is to safeguard the Group's ability to continue its business in order for it to continue generating yield for shareholders and useful to other interested parties and to maintain the optimal capital structure in order to keep capital expenditure down.

To maintain or adjust the capital structure the Group may be required to alter the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debts.

The Group considers the capital on the basis of the net debt/equity ratio. This key figure is calculated as the net debt divided by the total equity including minority interest. The net debt is calculated as the total borrowings (including Short-term borrowings and Long-term borrowings in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as Equity in the consolidated balance sheet plus net debt.

In 2009 the Group's strategy was to cut borrowings in order to create room for manoeuvre in the future.

The net debt/equity ratio on 31 December 2009 and 31 December 2008 respectfully were as follows:

	2009	2008
Total borrowings	55,828	108,592
Less cash and cash equivalents	-25,512	-66,177
Net debt	30,316	42,415
Total equity	240,434	224,426
<b>Total capital</b>	<b>270,750</b>	<b>266,841</b>
Net debt/equity ratio	13%	19%

### 3.3 Recognition of derivative instruments and hedging activities

The Group has financial derivative instruments in the form of forward foreign exchange contracts, held with the intention of hedging purchases and sales in foreign currency.

### 3.4 Fair value estimation

From 1 January 2009 the Group has applied the amendments to IFRS 7 for financial instruments valued at fair value in the balance sheet. This requires information concerning valuing at the fair value by level in the following fair value hierarchy:

- The quoted prices (not adjusted) on active markets for identical assets or liabilities (level 1).
- Other observable data for the asset or liability than the quoted prices included in level 1, either directly (i.e. as a price quotation) or indirectly (i.e. derived from price quotations) (level 2).
- Data for assets or liabilities not based on observable market data (i.e. non-observable data) (level 3).

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2009:

Assets	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging		1,275		1,275
<b>Total assets</b>	<b>0</b>	<b>1,275</b>	<b>0</b>	<b>1,275</b>

Derivative instruments' fair values are set by using market rates for the currency on the closing date.

# Definitions

**Return on shareholders' equity**

Share of profit after tax attributable to the parent company's shareholders in relation to the average shareholders' equity excluding minority shares.

**Return on capital employed**

Share of the profit after financial income in relation to the average capital employed.

**Return on total capital**

Share of the profit after financial expenses attributable to the parent company's shareholders in relation to the average total capital excluding minority shares.

**EBIT**

Operating income according to income statement excluding items affecting comparability.

**EBITA**

Operating income excluding amortization of intangible assets, excluding items affecting comparability.

**EBITDA**

Operating income excluding amortization of tangible fixed assets and excluding items affecting comparability.

**Financial assets**

Long-term and current financial receivables and cash and cash equivalents.

**Net debt**

Long-term and current financial liabilities less financial assets.

**Net debt/equity ratio**

Net debt in relation to shareholders' equity including minority shares.

**P/E ratio**

Market price in relation to earnings per share.

**Earnings per share**

Share of the profit after tax attributable to the parent company's shareholders in relation to the average number of outstanding shares.

**Earnings per share after dilution**

Share of the profit after tax attributable to the parent company's shareholders in relation to the average number of outstanding shares with addition for the average number of shares that are added when converting the outstanding number of convertible securities and options.

**Operating margin**

Operating income in relation to net sales.

**Equity/assets ratio**

Shareholders' equity in relation to total assets.

**Capital employed**

Total assets less non interest-bearing current liabilities and provisions, as well as total deferred tax liabilities.

# Glossary

**Distributed Control System (DCS)** is a collective term for main control systems, primarily used to control continuous processes.

**Design win** refers to when an OEM decides to use Anybus in their products.

**Discreet manufacturing** is the manufacture of separate, individual products (such as computers or furniture), usually manufactured in small volumes with a high level of complexity. In discreet manufacturing each unit can be easily identified as opposed to process manufacturing where it's not possible to see the difference between one product and another (e.g. oil and gas production).

**Gateways** are input equipment, network bridges, computers, software or other equipment used to transmit data between networks with different standards or equipment. Gateways allow an input and output of data and manage a certain degree of data conversion. A router is one form of gateway. The term gateway does not actually refer to a certain device or equipment, but is a general term used for a connecting point between different networks where some form of data conversion takes place.

**Interfaces** in computer technology are points of connection between two different systems. More specifically, this can include how a software code uses a software library, how a client uses a server or how a person uses a user interface.

**Network** is a general term for a system with interconnected computers that can be constructed in different ways. In an industrial network, devices in a production plant for example are linked together so they can interact with each other.

**OEM (Original Equipment Manufacturer)** is a company that manufactures and sells products under its own brand that contain products and components from other companies. OEMs are common within the computer industry.

**PLC (Programmable Logic Controller)** is a programmable control system that controls all or parts of an automation system or equipment in discreet manufacturing.

**A port** is a computer interface to which a device can be connected. Personal computers (PCs) have different types of ports. Internally there are many ports to which hard drives, monitor cards and other devices can be connected. Externally there are ports for connecting modems, printers, mouse and other external devices.

**A serial port** is a physical interface through which information is transferred serially as in or out data (one bit at a time). It is often used for communication with terminals and modems. A PC often has 2-4 serial ports, often called COM1–COM4. Every serial port requires a unique IRQ (Interrupt Request, an internal function in the processor), but the number of these is limited in a PC. Serial ports have a maximum data transfer capacity of 115.2 kbit/s and are therefore increasingly being replaced by USBs that support data transmission at 12 Mbit/s (version 1.0) and 480 Mbit/s (version 2.0).

**Protocol** is a set of rules that defines how two or more computer programs will communicate with each other. The protocol is literally the standard used for communication between the computers. Examples of communication protocols are HTTP (transfer of websites between computers over the internet), TCP/IP (for basic internet communication) and SMTP (transfer of emails).

**High real time demands** means that you know exactly when the data will arrive and that the transfer of data is extremely time critical and each millisecond counts compared to email communication where real time demands are low – where a fluctuation of a second or two is rarely of major significance.





*“Long-term quality-assurance builds  
a strong market position.”*



HMS Networks AB (publ) • Box 4126, SE-300 04 Halmstad, Sweden  
Tel +46 35-17 29 00 • Fax +46 35-17 29 09 • [info@hms.se](mailto:info@hms.se) • [www.hms.se](http://www.hms.se)