HMS Networks AB (publ)

Interim report January-September 2009

Stabilization of the market

- **Net sales for the first nine months 2009 amounted to SEK 172.3 m (238.6), a 27,8 % decrease**
- **Operating profit during the first nine months reached SEK 15.3 m (58.1), representing a 8.9 % (24.3) operating margin**
- **Profit after taxes totalled SEK 9.0 m (38.6), and result per share amounted to SEK 0.83 (3.50)**
- **Net sales for the third quarter reached SEK 56.7 m (83.0). Operating result amounted to SEK 13.3 m (21.4), a 23.5 % (25.8) operating margin**
- **Net sales, profitability and cash flow improved during the third quarter compared to the previous quarter**

- The more stable market HMS experienced during the month of June continued during the third quarter. We can now see positive effects from actions taken during the first six months to adjust the operations to the major decline in the market. Despite considerable lower sales volumes we can show improved margins and the company is well positioned to meet a higher demand as the market situation improves, says Staffan Dahlström, CEO of HMS.

HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled SEK 317 million in 2008. Over 90% of these sales were to customers located outside Sweden. All development and the major portion of manufacturing are performed at the head office in Halmstad. Sales offices are located in Tokyo, Beijing, Karlsruhe, Chicago, Milan and Mulhouse. HMS has 151 employees and produces network interface cards and products to interconnect different networks under the trademark Anybus®. The network interface cards are embedded in automation equipment such as robots, control systems, motors and sensors. This allows subcomponents in machines to communicate with one another and with different networks in order to build more efficient and flexible manufacturing systems. HMS is listed on NASDAQ-OMX Nordic Exchange in Stockholm in the category Small Cap, Information Technology.

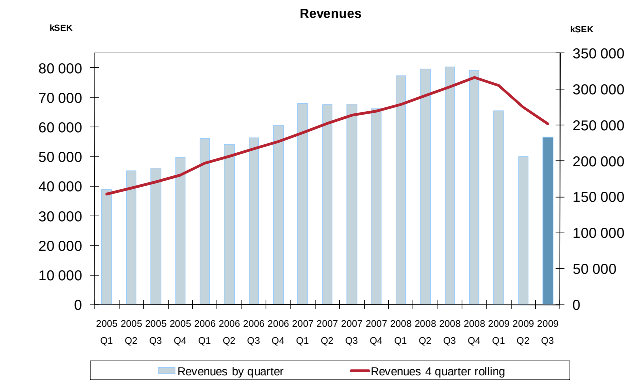
Comments of the CEO

The more stable order intake we experienced in June continued during the third quarter. Our interpretation is that this is a combination of a slightly higher market demand and adjustments of inventory levels at our customers. During the third quarter we have noticed an increase in market activities in China and in Germany.
On the cost side our third quarter is characterized by a seasonally low activity level and the effect of the cost reductions made during the first part of the year. Despite historically low sales volumes we can see an improved gross margin due to a higher utilization of our manufacturing resources.
We continue to improve our cost flexibility. This also makes us well prepared to meet the increasing demand we foresee as soon as the market conditions improves.
We have seen an improvement in sales and operating result in the third quarter compared to the previous quarter, but on the short term the market situation is still difficult to predict which means that our work to find the right balance between long term sales growth and our cost level continues.

Net sales

Net sales for the last twelve months amounted to SEK 250.2 m (306.4). In total the devaluation of the Swedish currency in relation to the major HMS currencies added SEK 33.7 m to net sales compared to the previous twelve month period. The order intake for the last four quarters amounted to SEK 251.2 m (303.9).

Net sales for the third quarter totalled to SEK 56.7 m (83.0) and the order intake amounted to SEK 58.8 (76.1). The third quarter net sales correspond to a 31.6 % decrease compared to the same period the previous year. Adjusted for SEK 5.3 m in currency effects the decrease in net sales amounted to 38.0 %. Order intake during the third quarter decreased with 29.7 % in local currencies.

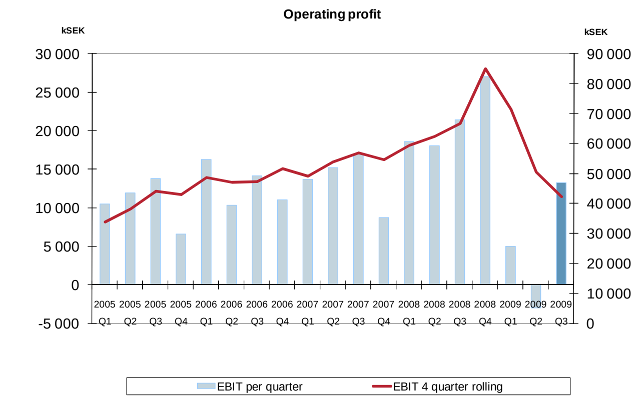


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turnover for the latest 12 month period referring to the scale on the axis to the right.

Operating profit

Operating profit totalled to SEK 42.3 m (66.8) for the last four quarters, equivalent to an operating margin of 16.9 %. Currency effects improved the operating result with SEK 22.6 m compared to the previous year.

The operating profit for the third quarter 2009 totalled to SEK 13.3 m (21.4). Operating margin totalled 23.5 % (25.8). Currency fluctuations affected the operating result positively with SEK 2.8 m.



The graph shows operating result per quarter in the bars referring to the scale on the left axis. The line shows operating result for the last 12 month period referring to the scale on the axis to the right. The graph shows the result without adjustments for non recurring expenses.

Currency effects

Assets and liabilities in foreign currencies are revaluated at closing date. Currency hedging contracts are revaluated at the date of closing and are also affecting the result on the date of expiration. Changes in book value due to revaluation of operating balance sheet items and currency hedging contracts are disclosed as other income and other expenses.
Changes in book value related to assets in foreign currencies i.e. liquid funds, are disclosed as financial income and expenses.
Net sales and expenses are affected by changes in exchange rates. This will have an impact on income and expenses. Net sales consist of 64 % in EURO, 20% in USD, 6% in Japanese Yen and 10 % in SEK and other currencies. Operating expenses consists of 18% in EURO, 8 % in USD, 2 % in Japanese Yen and 72 % of SEK. The group applies a policy for currency hedging described in the annual report.

Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 12.9 m (48.6) for the first nine months. The lower cash flow was attributable to the deteriorating result during the period. The investments in tangible assets for the period totalled SEK 2.0 m (1.7). Investments in intangible assets for the period totalled SEK 3.8 m (3.9) and comprise internal development projects. The Group's net debt decreased to SEK 49.7 m (61.4). At the end of the period the cash equivalents and unutilised credit facilities totalled SEK 51.5 m (71.3).

Tax

The tax charge for the period was SEK 3.5 m (16.8). The tax charge for the current period has been calculated on the basis of the tax situation applying to the Group at present and the profit development of the reporting entities belonging to the Group.

Equity

The Group's equity amounted to SEK 225.3 m. The total number of shares at the end of the period was 10,571,650. After full dilution, the total number of shares is 11,322,400. The Group's equity/assets ratio improved to 64.5 % (55.2).

Changes in Group Equity (SEK 000s)	**Sep 30 2009**	**Sep 30 2008**	**Dec 30 2008**
Balance at 1 January	224,426	182,211	182,211
Total comprehensive income for the period	19,387	39,653	52,787
Warrants	937	0	0
Dividends	-16,337	-10,572	-10,572
Closing balance	**228,413**	**211,292**	**224,426**

Important events

During the third quarter HMS launched a new Anybus CompactCom module for the network protocol ControlNet and a new extended concept for frequency converter manufacturers mainly directed to users of the network protocols Profibus, Ethernet, Devicenet and Canopen.

In accordance with principles adopted at HMS 2009 annual general meeting, the following persons have been assigned to be a part of the Nomination Committee: Nicolas Hassbjer representing 30% of the shares, Jan Svensson, Investment AB Latour representing 15% of the shares, Per Trygg, SEB fonder representing 9% of the shares and Urban Jansson, Chairman of the Board.

Outlook

The more stable order inflow during the last three months implies that our customers have reached a better balance between their demands and inventory levels. We have noticed more activities in China and in Germany.

The reorganizations made i.e. adjusting manufacturing resources, and strengthening of development and sales resources during the first 6 months and an increased utilization of manufacturing resources had a positive effect during the third quarter. The fourth quarter involves a high amount of customer and market activities which implies higher operating expenses during the last quarter of the year.

In spite of the more stable net sales compared to the previous quarter the short term market development is still difficult to assess.

The HMS comprehensive goals are unchanged. A long term average growth of 20% per year and an operating margin above 20%. The Company's strategy to reach these goals includes a continued effort to build a strong portfolio of design wins within embedded network cards and to broaden the offer to closely related areas within network technology based on the Company's technology platform.

HMS Networks AB´s shares

HMS Networks AB is listed on the NASDAQ-OMX Nordic Exchange in the category Small Cap, Information Technology. The total number of shares amounted to 10,571,650.

Risk management

The HMS Group is exposed to business and financial risks through its operations. These risks have been described at length in the Company's annual report 2008. In addition to the risks described in these documents, no additional significant risks have been identified.

Accounting policies

This interim report has been prepared in accordance with the Swedish Annual Accounts Act and IAS 34, for Interim Reporting. For information on the accounting policies applied, refer to the annual report for 2008. The accounting policies are unchanged compared to those applied in 2008.

Segment reporting

As of January 1, 2009 HMS implemented IFRS 8 segment reporting. According to this new standard information regarding segments should be disclosed from a management perspective similar to how the information is used in internal reports to the top management. Based on a management analysis of internal reporting the top management on a frequent basis receives sales reports, quality reviews and the Group income statement and cash flow reports. These reports are all based on the fact that the common technology platform, development process, manufacturing process, market strategy and the joint sales resources makes it neither possible nor necessary to a further break down of the operations. Consequently no review of the result for an individual part of the operations is performed.

The parent company

The Parent Company's operations are primarily focused on Group-wide management and financing. Apart from the Group's CEO, the Parent Company has no employees. The operating profit for the first three months amounted to SEK 1.6 m (3.1). Borrowing amounted to SEK 79.2 m (109.2). During the period the parent company received a SEK 120.0 m dividend from its subsidiary of which SEK 74.9 m was carried through the income statement.

Reporting occasions

- Q4 report will be published on February 4, 2010
- Q1 report will be published on April 19, 2010
- Annual general meeting will be held on April 19, 2010
- Q2 report will be published on July 15, 2010
- Q3 report will be published on October 21, 2010

Halmstad, October 26, 2009

Urban Jansson Chairman of the Board	Nicolas Hassbjer Vice Chairman of the Board	Göran Sigfridsson
Henrik Johansson	Ray Mauritsson	Staffan Dahlström CEO

Further information can be obtained from the CEO Staffan Dahlström on telephone +46-35-17 29 01 or the CFO Gunnar Högberg on telephone +46-35-17 29 95.
See also http://investors.hms.se

Review report

We have reviewed this report for the period 1 January 2009 to 30 September 2009 for HMS Networks AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden, RS, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Halmstad, 26 October 2009

PricewaterhouseCoopers

Olof Enerbäck

Authorised Public Accountant
Auditor in charge

Financial accounts

Key ratios

Group	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1-Q4 2008	Q4 2008 -Q3 2009
Net increase in revenue (%)*	-31.6	23.6	-27.8	17.8	17.5	-18.3
Gross margin (%)*	60.4	56.2	57.6	53.7	57.4	61.2
Operating margin EBIT (%)*	23.5	25.8	8.9	24.3	26.9	16.9
Return on capital employed (%)**	13.9	21.8	13.9	21.8	27.1	13.9
Return on total equity (%)**	13.5	22.1	13.5	22.1	28.6	13.5
Working capital in relation to sales (%)**	9.2	6.6	9.2	6.6	5.7	9.2
Capital turnover rate	0.69	0.84	0.69	0.84	0.86	0.69
Debt/equity ratio	0.22	0.29	0.22	0.29	0.19	0.22
Equity/assets ratio (%)	64.5	55.2	64.5	55.2	56.6	64.5
Capital expenditure in property, plant and equipm. (SEK 000s)	856	735	2,008	1,669	2,521	2,861
Capital expenditure in intagible fixed assets (SEK 000s)	1,041	1,090	3,827	3,915	4,900	4,812
Depreciation of property, plant and equipment (SEK 000s)	-1,011	-990	-3,092	-2,992	-4,043	-4,143
Amortisation of intangible fixed assets (SEK 000s)	-995	-1,105	-2,977	-3,095	-4,283	-4,165
Number of employees (average)	151	156	153	156	153	154
Revenue per employee (SEK m)**	1.7	2.0	1.6	2.0	2.1	1.6
Cash flow from operating activities per share, SEK	1.00	1.71	1.22	4.60	6.52	3.14
Cash flow from operating activities per share, diluted, SEK	0.96	1.63	1.17	4.38	6.21	3.00
Basic number of shares, average, thousands	10,572	10,572	10,572	10,572	10,572	10,572
Number of shares, diluted average, thousands	11,106	11,119	11,110	11,116	11,114	11,111

* Change in fair value of derivate has been relabeled from revenue to other operating income/costs when applicable.
** The key ratio has been translated into 12 months rolling value when applicable.

Income statements

Group (SEK 000s)	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1-Q4 2008	Q4 2008 -Q3 2009
Revenue	56,735	82,966	172,321	238,643	316,563	250,241
Cost of goods and services sold	-22,490	-36,369	-73,011	-110,548	-134,721	-97,184
Gross profit	**34,245**	**46,597**	**99,310**	**128,095**	**181,842**	**153,057**
Sales and marketing costs	-12,223	-12,886	-39,385	-36,600	-50,885	-53,670
Administrative expenses	-4,442	-4,864	-15,469	-13,630	-19,173	-21,012
Research and development costs	-5,958	-6,619	-21,281	-19,628	-27,003	-28,656
Other operating income	3,610	1,860	4,474	2,932	6,320	7,862
Other costs	-1,883	-2,653	-12,326	-3,117	-6,070	-15,279
Operating profit	**13,349**	**21,435**	**15,323**	**58,052**	**85,031**	**42,302**
Financial income	6	1,664	1,444	1,664	1,881	1,661
Financial costs	-932	-1,377	-4,280	-4,386	-5,961	-5,855
Profit before tax	**12,423**	**21,722**	**12,488**	**55,330**	**80,951**	**38,108**
Tax	-3,506	-6,471	-3,506	-16,769	-22,140	-8,877
Profit for the period	**8,917**	**15,251**	**8,982**	**38,561**	**58,811**	**29,231**
Profit attributable to shareholders of the parent company	8,886	14,793	8,730	36,963	57,429	29,196
Profit attributable to minority interest	31	458	251	1,598	1,382	35
Basic earnings per share, SEK	0.84	1.40	0.83	3.50	5.43	2.76
Earnings per share, diluted, SEK	0.80	1.33	0.79	3.32	5.17	2.63

Statements of comprehensive income

Group (SEK 000s)	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1-Q4 2008	Q4 2008 -Q3 2009
Profit for the period	8,917	15,251	8,982	38,561	58,811	29,231
Other comprehensive income						
Cash flow hedges	3,823	0	14,096	0	-10,194	3,902
Translation differences	-2	-22	16	89	140	67
Change in deferred tax	0	0	0	0	346	346
Settlement tax	0	1,003	0	1,003	1,003	0
Income tax relating to components of other comprehensive income	-1,005	0	-3,707	0	2,681	-1,026
Other comprehensive income for the period, net of tax	**2,816**	**981**	**10,405**	**1,092**	**-6,024**	**3,289**
Total comprehensive income for the period	**11,733**	**16,232**	**19,387**	**39,653**	**52,787**	**32,520**
Profit attributable to:						
Owners of the parent	11,702	15,774	19,135	38,055	51,405	32,485
Minority interest	31	458	251	1,598	1,382	35

Balance Sheets

Group (SEK 000s)	Sep 30 2009	Sep 30 2008	Dec 31 2008
ASSETS			
Goodwill	236,071	236,071	236,071
Other intangible assets	14,622	14,556	13,770
Property, plant and equipment	9,196	10,626	10,388
Deferred tax assets	779	868	862
Total fixed assets	**260,668**	**262,121**	**261,091**
Inventories	14,495	13,654	17,549
Trade and other receivables	30,634	43,907	37,952
Other current receivables	12,057	5,059	7,498
Cash and cash equivalents	31,541	51,330	66,177
Total current assets	**88,727**	**113,950**	**129,176**
TOTAL ASSETS	**349,395**	**376,071**	**390,267**
EQUITY AND LIABILITIES			
Equity	225,293	207,735	221,078
Minority interest in equity	3,120	3,557	3,348
Total equity	**228,413**	**211,292**	**224,426**
Liabilities			
Non-current liabilities	81,246	112,713	108,592
Deferred income tax liabilities	11,126	6,947	9,554
Total non-current liabilities	**92,371**	**119,660**	**118,146**
Trade payables	14,552	22,141	15,292
Other current liabilities	14,059	22,978	32,403
Total current liabilities	**28,611**	**45,119**	**47,695**
TOTAL EQUITY AND LIABILITIES	**349,395**	**376,071**	**390,267**

Cash flow statements

Group (SEK 000s)	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1–Q4 2008	Q4 2008 -Q3 2009
Cash flow from operating activities before changes in working capital	12,533	23,384	8,699	52,059	77,736	34,376
Cash flow from changes in working capital	-1,949	-5,282	4,166	-3,426	-8,760	-1,168
Cash flow from operating activities	10,584	18,102	12,865	48,633	68,976	33,208
Cash flow from investing activities	-1,897	-1,737	-5,835	-5,583	-7,344	-7,596
Cash flow from financing activities	-18,734	-3,935	-41,666	-21,837	-25,572	-45,401
Cash flow for the period	**-10,047**	**12,430**	**-34,636**	**21,213**	**36,060**	**-19,789**
Cash and cash equivalents at beginning of the period	41,588	38,900	66,177	30,117	30,117	51,330
Cash and cash equivalents at end of period	**31,541**	**51,330**	**31,541**	**51,330**	**66,177**	**31,541**

Capitalization of development costs has been relabeled from operating activities to investing activities when applicable.
Change in current receivables/liabilities related to derivate financial instruments is reported as cash flow from operating activities before changes in working capital.

Quarterly data

Revenue by region (SEK 000s)	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
EMEA	38,184	34,789	40,320	46,658	51,226	50,451	52,256	42,895	42,618	43,681	39,583
Americas	10,892	8,221	15,431	16,911	19,718	15,786	11,307	13,112	12,339	12,379	13,789
Asia	7,659	6,959	9,865	14,351	12,022	13,884	11,993	11,727	12,171	11,490	14,617

Income statement (SEK 000s)	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue	**56,735**	**49,969**	**65,616**	**77,920**	**82,966**	**80,121**	**75,556**	**67,734**	**67,128**	**67,550**	**67,989**
Gross profit	**34,245**	**26,752**	**38,313**	**55,075**	**46,597**	**42,682**	**38,816**	**36,318**	**37,782**	**35,313**	**32,795**
Gross margin	*60,4%*	*53.5%*	*58.4%*	*70.7%*	*56.2%*	*53.3%*	*51.4%*	*53.6%*	*56.3%*	*52.3%*	*48.2%*
Operating profit	**13,349**	**-2,989**	**4,963**	**26,979**	**21,435**	**18,025**	**18,594**	**8,704**	**16,950**	**15,185**	**13,670**
Operating margin	*23,5%*	*-6.0%*	*7.6%*	*34.6%*	*25.8%*	*22.5%*	*24.6%*	*12.9%*	*25.3%*	*22.5%*	*20.1%*
Profit before tax	**12,423**	**-4,964**	**5,028**	**25,621**	**21,722**	**17,188**	**16,422**	**6,706**	**11,830**	**11,955**	**11,922**

Parent company

Income Statements

Parent company (SEK 000s)	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1-Q4 2008	Q4 2008 -Q3 2009
Revenue	1,191	2,215	5,345	6,833	9,787	8,299
Cost of sales and services	0	0	0	0	0	0
Gross profit	**1,191**	**2,215**	**5,345**	**6,833**	**9,787**	**8,299**
Administrative expenses	-955	-654	-4,149	-2,155	-3,855	-5,849
Other costs - net	0	0	0	0	0	0
Operating profit	**237**	**1,561**	**1,196**	**4,678**	**5,932**	**2,450**
Financial incomes	74,926	0	74,926	0	0	74,926
Financial costs	-309	-1,561	-1,314	-4,678	-5,932	-2,568
Profit before tax	**74,854**	**0**	**74,809**	**0**	**0**	**74,809**
Tax	0	0	0	0	0	0
Profit for the period	**74,854**	**0**	**74,809**	**0**	**0**	**74,809**

Balance Sheets

Parent company (SEK 000s)	Sep 30 2009	Sep 30 2008	Dec 31 2008
ASSETS			
Financial fixed assets	244,039	289,113	289,113
Total financial fixed assets	**244,039**	**289,113**	**289,113**
Other receivables	215	95	12
Cash and cash equivalents	17	35	115
Total current assets	**231**	**130**	**127**
TOTAL ASSETS	**244,270**	**289,243**	**289,240**
EQUITY AND LIABILITIES			
Equity	**164,055**	**104,166**	**104,166**
Liabilities			
Non-current liabilities	**79,175**	**109,175**	**105,441**
Trade payables	88	0	0
Liabilities to Group companies	153	75,222	78,450
Other current liabilities	799	680	1,183
Total current liabilities	**1,040**	**75,902**	**79,633**
TOTAL EQITY AND LIABILITIES	**244,270**	**289,243**	**289,240**

Our Vision
"The vision of HMS is that all automation devices will be intelligent and networked.
HMS shall be the market leader in connectivity solutions for industrial devices".

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

Our purpose
“To create long term value for our customers, employees and investors”.

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