HMS Networks AB (publ)

Interim report January-March 2010

First quarter 2010

- **Net sales increased with 16% to SEK 76.1 m (65.6). Net sales for the last four quarters totalled SEK 255.0 m (306.6)**
- **Operating profit improved to SEK 17.9 m (5.0), representing a 23.6 % (7.6) operating margin. For the last four quarters the operating margin amounted to 17.3% (23.3)**
- **Order intake amounted to SEK 79.8 m (57.0), corresponding to a 40% increase compared to the first quarter the previous year**
- **Cash flow from ongoing operations improved with SEK 7.8 m to SEK 10.5 m (2.8)**
- **Profit after taxes totalled SEK 13.4 m (3.6)**
- **Earnings per share amounted to SEK 1.16 (0.32)**

- The rapid recovery we experienced during the last six months of 2009 continued during the first quarter of 2010, with a certain weakening by the end of the quarter. A major part of the recovery originates from our existing customers both from their improved sales volumes and from adjusting their inventory levels based on a more positive view of the market situation. On top of this we also have a large number of new design wins moving into production phase and generating sales during the recent months, says Staffan Dahlström, CEO of HMS.

HMS Networks is a world-leading supplier of communication technology for industrial automation. Sales totalled SEK 245 million in 2009. 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 154 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

Order intake and sales improved during the first quarter of 2010. Net sales amounted to SEK 76.1 m equal to a sequential growth of 5% and 16% higher than the corresponding quarter last year. At the same time we could see an order intake reaching SEK 79.8 m, corresponding to a 40% increase compared to the same period the previous year. In Germany our broad customer base gives us a stability making this our largest geographical market. We could also see a continued recovery on the Japanese market. In contrast the American market still shows a weak development.

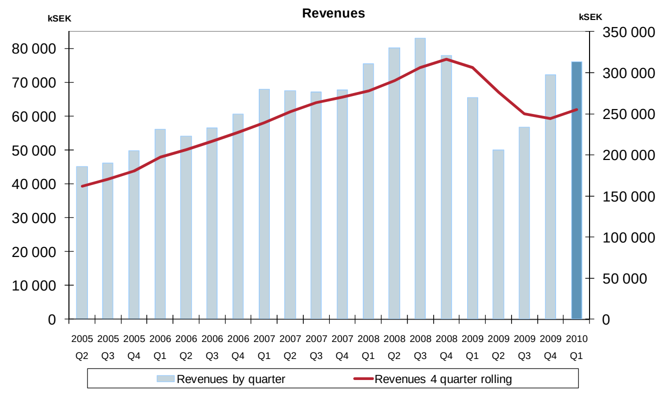
At present we focus on recruiting new employees mainly within our sales force and product development. This strengthening of our resources creates the prerequisite for HMS to deliver long term profitable growth although the effects from this expansion will not be seen until 2011 and onwards. Our new broadened Gateway product offering will be launched in the fourth quarter. We are also busy improving our manufacturing process by implementing a new production strategy. This new strategy involves a more efficient manufacturing mix with a flexible production set up in our factory in Sweden combined with a cost efficient manufacturing of volume products in China.

We continue to broaden our customer base by adding new Design Wins. This shows us that the interest for HMS product offering is still substantial. All in all this gives us a solid base for a continued growth.

Net sales

Net sales for the first quarter totalled to SEK 76.1 m (65.6) corresponding to a 16 % increase compared to the same period the previous year. Adjusted for SEK 7.9 m in currency effects the increase in net sales amounted to 28 %. Order intake during the first quarter increased with SEK 22.8 m corresponding to a 54 % increase in local currencies.

Net sales for the last twelve months amounted to SEK 255.0 m (306.6). In total the devaluation of the Swedish currency in relation to the major HMS currencies added SEK 5.5 m to net sales compared to the previous twelve month period. The order intake for the last four quarters amounted to SEK 280.6 m (290.6).

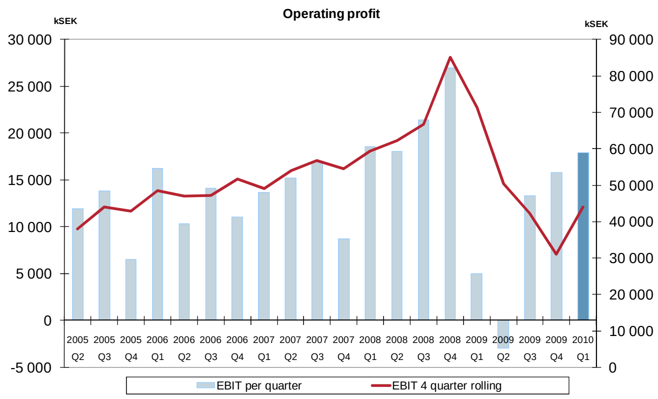


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turnover for the latest 12 month period referring to the scale on the axis to the right.

Operating profit

The operating profit for the first quarter 2010 totalled to SEK 17.9 m (5.0). Compared to the same period last year operating expenses came in at the same level. Currency effects had a SEK 1.0 m positive effect on operating expenses for the quarter

Operating profit totalled to SEK 44.1 m (71.4) for the last four quarters, equivalent to an operating margin of 17.3 %. Currency effects improved the operating result with SEK 3.8 m compared to the previous twelve months.



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 61 % in EURO, 18% in USD, 12% in Japanese Yen and 9% in SEK and other currencies. Cost of goods sold consists of 51% in EURO, 11% in USD and 2% in Japanese Yen. Operating expenses consists of 16% in EURO, 8% in USD, 6% in Japanese Yen and 70% in SEK. The group applies a policy for currency hedging further described in the annual report.

Cash flow, investments and financial position

Cash flow from operating activities amounted to SEK 10.5 m (2.8) for the first quarter. The investments in tangible assets for the period totalled SEK 1.1 m (0.6). Investments in intangible assets for the period totalled SEK 1.9 m (1.2) and comprise internal development projects. At the end of the period the cash equivalents totalled SEK 29.3 m (63.3) and unutilised credit facilities SEK 20.0 m. The Group's net debt fell to SEK 22.4 m (41.2) during the quarter.

Tax

The first quarter tax charge was SEK 4.9 m (1.4). The tax charge for the current year has been calculated on the basis of the tax situation applying to the Group at present and the profit development of the reporting entities belonging to the Group.

Equity

The Group's equity amounted to SEK 253.8 m. The total number of shares at the end of the year was 11,152,900. After full dilution, the total number of shares is 11,322,400. The Group's equity/assets ratio was 70.8 %(58.9).

Changes in Group Equity (SEK 000s)	**2010-03-31**	**2009-03-31**	**2009-12-31**
Balance at 1 January	240,434	224,426	224,426
Total comprehensive income for the period	13,390	5,489	28,961
Warrants	0	0	3,384
Dividends	0	0	-16,337
Closing balance	**253,824**	**229,914**	**240,434**

Important events

HMS Japanese operation is expanded and moves into new premises in Shinyokohama.

HMS signs agreements with two new partners to strengthen the market position in East-Europe.

Customized network cards supporting Profibus-DPV1 and Ethernet (Modbus TCP and Ethernet/IP) for installation in electrical motor drives are launched.

HMS signs agreement with two new partners to further strengthen the market position in the Middle East.

During the first quarter HMS successfully recertified its ISO 9001:2008 quality system.

Outlook

Compares to the first half year of 2009 the market for HMS product offering improved during the second half year of 2009 and during the first quarter 2010. We have noticed an improved customer activity in Japan and Germany. The upcoming quarter comprises a large number of customer activities and consequently operating expenses will increase during the second quarter of 2010. The future market development is still uncertain.

A continued inflow of Design Wins, a broader product offering within the Gateway product family, a strengthened customer focus and an expansion of the HMS sales channels supports the HMS Group long term growth. Implementing the new HMS production strategy improves the HMS conditions for future profitability. 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 11,152,900

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 2009. 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. A number of amendments to existing standards, new interpretations and a new standard (IFRS 8) came into effect on January 1, 2009.

For HMS the following standards and interpretations, which took effect on January 1, 2009, have been recognized as relevant for the preparation of the financial report and its accounting principles:

- IAS 1 (revised), Presentation of Financial Statements.

The changes in this standard affect the preparation of the financial statements. In accordance with IAS 1, HMS has chosen to present the Group's total result divided into two separate statements, an income statement and a statement over the comprehensive income. Hence the statement of changes in shareholders equity only shows transactions with the company´s owners.

- IFRS 8, Business segments.

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.

In all other respects HMS continues to apply the same accounting principles and valuation methods as those described in the most recent Annual Report.

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 0.0m (0.0). Cash and cash equivalents amounted to SEK 0.04 m (0.05) and borrowing amounted to SEK 50.4 m (101.6).

Reporting occasions

- Q2 report will be published on July 15, 2010
- Q3 report will be published on October 21, 2010

Halmstad, April 19, 2010

Staffan Dahlström
CEO

This report has not been reviewed by the Company's auditor.

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

Financial accounts

Key ratios

Group	Q1 2010	Q1 2009	Q1-Q4 2009	0904 - 1003 12 months
Net increase in revenue (%)	15.9	-13.2	-22.8	-16.8
Gross margin (%)	58.5	58.4	58.4	58.4
Operating margin EBIT (%)	23.6	7.6	12.7	17.3
Return on capital employed (%)*	14.1	23.0	10.5	14.1
Return on total equity (%)*	12.4	24.0	8.8	12.4
Working capital in relation to sales (%)*	9.3	8.1	7.6	9.3
Capital turnover rate	0.69	0.83	0.67	0.69
Debt/equity ratio	0.09	0.18	0.13	0.09
Equity/assets ratio (%)	70.8	58.9	70.0	70.8
Capital expenditure in property, plant and equipm. (SEK 000s)	1,071	642	2,423	2,852
Capital expenditure in intagible fixed assets (SEK 000s)	1,876	1,224	4,955	5,607
Depreciation of property, plant and equipment (SEK 000S)	-1,000	-1,029	-4,154	-4,125
Amortisation of intangible fixed assets (SEK 000s)	-1,188	-990	-4,075	-4,273
Number of employees (average)	154	154	154	153
Revenue per employee (SEK m)*	1.7	2.0	1.6	1.7
Cash flow from operating activities per share, SEK	0.94	0.26	2.89	3.57
Cash flow from operating activities per share, diluted, SEK	0.94	0.25	2.79	3.48
Basic number of shares, average, thousands	11,153	10,572	10,717	10,862
Number of shares, diluted average, thousands	11,153	11,112	11,121	11,131

* The key ratio has been translated into 12 months rolling value when applicable.

Income statements

Group (SEK 000s)	Q1 2010	Q1 2009	Q1-Q4 2009	0904 - 1003 12 months
Revenue	76,061	65,616	244,536	254,981
Cost of goods and services sold	-31,544	-27,303	-101,818	-106,059
Gross profit	**44,518**	**38,313**	**142,718**	**148,922**
Sales and marketing costs	-14,104	-13,964	-54,983	-55,123
Administrative expenses	-5,887	-5,506	-20,854	-21,234
Research and development costs	-7,149	-7,686	-29,211	-28,674
Other operating income	2,191	864	5,991	7,318
Other costs	-1,637	-7,058	-12,535	-7,114
Operating profit	**17,932**	**4,963**	**31,125**	**44,095**
Financial income	559	1,411	1,841	989
Financial costs	-197	-1,346	-4,514	-3,365
Profit before tax	**18,295**	**5,028**	**28,452**	**41,719**
Tax	-4,934	-1,393	-7,782	-11,323
Profit for the period	**13,361**	**3,635**	**20,671**	**30,397**
Profit attributable to shareholders of the parent company	12,923	3,394	20,116	29,645
Profit attributable to minority interest	437	241	555	752
Basic earnings per share, SEK	1.16	0.32	1.88	2.73
Earnings per share, diluted, SEK	1.16	0.31	1.81	2.66

Statements of comprehensive income

Group (SEK 000s)	Q1 2010	Q1 2009	Q1-Q4 2009	0904 - 1003 12 months
Profit for the period	13,361	3,635	20,671	30,397
Other comprehensive income				
Cash flow hedges	419	2,649	11,469	9,239
Translation differences	-280	-94	-163	-349
Income tax relating to components of other comprehensive income	-110	-701	-3,016	-2,425
Other comprehensive income for the period, net of tax	**29**	**1,854**	**8,290**	**6,465**
Total comprehensive income for the period	**13,390**	**5,489**	**28,961**	**36,862**
Profit attributable to:				
Owners of the parent	12,953	5,248	28,406	36,110
Minority interest	437	241	555	752

Balance Sheets

Group (SEK 000s)	2010-03-31	2009-03-31	2009-12-31
ASSETS			
Goodwill	236,071	236,071	236,071
Other intangible assets	15,340	14,005	14,652
Property, plant and equipment	8,583	9,998	8,564
Deferred tax assets	807	921	802
Total fixed assets	**260,801**	**260,995**	**260,089**
Inventories	16,777	17,988	13,043
Trade and other receivables	36,135	32,848	33,098
Other current receivables	10,003	9,247	7,073
Cash and cash equivalents	29,332	63,281	25,512
Total current assets	**92,247**	**123,364**	**78,724**
TOTAL ASSETS	**353,048**	**384,359**	**338,814**
EQUITY AND LIABILITIES			
Equity	249,963	226,326	237,010
Minority interest in equity	3,861	3,589	3,423
Total equity	**253,824**	**229,914**	**240,434**
Liabilities			
Non-current liabilities	51,748	104,435	55,828
Deferred income tax liabilities	11,639	10,408	11,319
Total non-current liabilities	**63,388**	**114,842**	**67,147**
Trade payables	17,316	14,696	16,432
Other current liabilities	18,521	24,906	14,800
Total current liabilities	**35,836**	**39,602**	**31,233**
TOTAL EQUITY AND LIABILITIES	**353,048**	**384,359**	**338,814**

Cash flow statements

Group (SEK 000s)	Q1 2010	Q1 2009	Q1–Q4 2009	0904-1003 12 months
Cash flow from operating activities before changes in working capital	16,185	1,698	25,620	40,107
Cash flow from changes in working capital	-5,668	1,068	5,371	-1,365
Cash flow from operating activities	10,517	2,766	30,991	38,742
Cash flow from investing activities	-2,947	-1,865	-7,379	-8,461
Cash flow from financing activities	-3,750	-3,797	-64,277	-64,230
Cash flow for the period	**3,820**	**-2,896**	**-40,665**	**-33,949**
Cash and cash equivalents at beginning of the period	25,512	66,177	66,177	63,281
Cash and cash equivalents at end of period	**29,332**	**63,281**	**25,512**	**29,332**

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 per region (SEK 000s)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
EMEA	47,979	46,284	38,184	34,789	40,320	46,658	51,226	50,451	52,256	42,895	42,618	43,681
Americas	12,611	13,373	10,892	8,221	15,431	16,911	19,718	15,786	11,307	13,112	12,339	12,379
Asia	15,471	12,558	7,659	6,959	9,865	14,351	12,022	13,884	11,993	11,727	12,171	11,490

Income statement (SEK 000s)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Revenue	**76,061**	**72,215**	**56,735**	**49,969**	**65,616**	**77,920**	**82,966**	**80,121**	**75,556**	**67,734**	**67,128**	**67,550**
Gross profit	**44,518**	**43,408**	**34,245**	**26,752**	**38,313**	**53,747**	**46,597**	**42,682**	**38,816**	**36,318**	**37,782**	**35,313**
Gross margin	*58,5%*	*60.1%*	*60.4%*	*53.5%*	*58.4%*	*69.0%*	*56.2%*	*53.3%*	*51.4%*	*53.6%*	*56.3%*	*52.3%*
Operating profit	**17,932**	**15,802**	**13,349**	**-2,989**	**4,963**	**26,979**	**21,435**	**18,024**	**18,594**	**8,704**	**16,950**	**15,185**
Operating margin	*23,6%*	*21.9%*	*23.5%*	*-6.0%*	*7.6%*	*34.6%*	*25.8%*	*22.5%*	*24.6%*	*12.9%*	*25.3%*	*22.5%*
Profit before tax	**18,295**	**15,965**	**12,423**	**-4,964**	**5,028**	**25,621**	**21,722**	**17,187**	**16,422**	**6,706**	**11,830**	**11,955**

Income Statements

Parent company (SEK 000s)	Q1 2010	Q1 2009	Q1-Q4 2009	0904 - 1003 12 months
Revenue	2,067	1,836	7,284	7,515
Cost of sales and services	0	0	0	0
Gross profit	**2,067**	**1,836**	**7,284**	**7,515**
Administrative expenses	-1,905	-1,197	-5,784	-6,492
Other costs - net	0	0	0	0
Operating profit	**162**	**639**	**1,500**	**1,023**
Profit from participations in group companies	0	0	74,926	74,926
Interest expense and similar items	-162	-639	-1,496	-1,019
Profit before tax	**0**	**0**	**74,931**	**74,930**
Appropriations	0	0	-8	-8
Tax	0	0	-12	-12
Profit for the period	**0**	**0**	**74,911**	**74,910**

Balance Sheets

Parent company (SEK 000s)	2010-03-31	2009-03-31	2009-12-31
ASSETS			
Financial fixed assets	244,039	289,113	244,039
Total financial fixed assets	**244,039**	**289,113**	**244,039**
Other receivables	583	367	565
Cash and cash equivalents	37	45	143
Total current assets	**620**	**412**	**708**
TOTAL ASSETS	**244,659**	**289,525**	**244,747**
EQUITY AND LIABILITIES			
Equity	**166,604**	**104,166**	**166,604**
Untaxed reserves	**8**	**0**	**8**
Liabilities			
Non-current liabilities	**50,368**	**101,644**	**54,118**
Trade payables	69	83	972
Liabilities to Group companies	26,495	82,866	22,592
Other current liabilities	1,114	765	453
Total current liabilities	**27,679**	**83,715**	**24,018**
TOTAL EQITY AND LIABILITIES	**244,659**	**289,525**	**244,747**

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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