hms networks

ANNUAL REPORT 2011

NEW SALES RECORD – AGAIN THIS YEAR!

Sales rose by 11% to SEK 384 million

HMS Partner Program – an important sales channel for Gateways and Netbiter

Anybus supports green automation

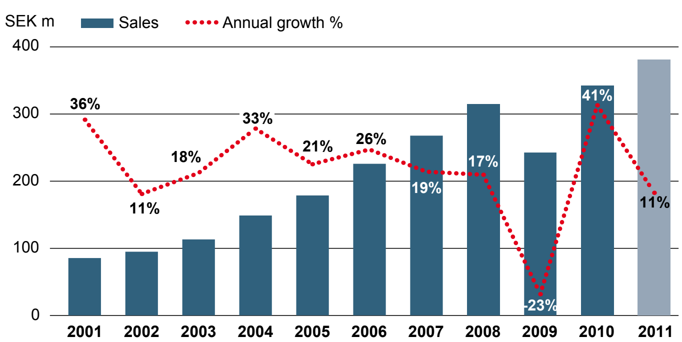
More design-wins creates a strong customer base

We added 47 new employees in 2011

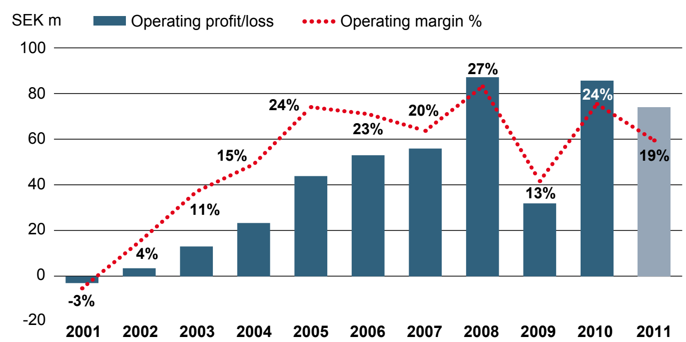
Financial summary

- Net sales rose to SEK 384 (345) million, corresponding to growth of 11%.
- Operating profit decreased to SEK 72 (84) million, corresponding to an operating margin of 18.8 (24.2)%.
- Profit after tax decreased to SEK 54 (62) million and earnings per share amounted to SEK 4.84 (5.41).
- The growth plan for the period 2010–2011, which involved the recruitment of 74 new employees, was concluded during the year.
- Cash flow from operating activities amounted to SEK 46 (75) million.
- A continued inflow of new design-wins contributes to long-term profitable growth.
- The Board of Directors proposes a dividend of SEK 2.25 (2.00) per share.

Sales performance



Earning trend



Key figures

Financial data in summary (SEK m)	2011	2010	2009	2008	2007
Net sales	384	345	245	317	270
Growth in net sales, %	11	41	-23	17	19
Gross profit	232	208	143	182	142
Gross margin, %	61	60	58	57	53
Operating profit	72	84	31	85	55
Operating margin, %	19	24	13	27	20
Profit for the period	54	62	21	59	30
Earnings per share before dilution, SEK	4.84	5.41	1.88	5.43	2.81
Dividend per share, SEK	2.25*	2.00	1.00	1.50	1.00
Total assets	391	392	339	390	352
Equity	299	286	240	224	182
Shareholders' equity per share before dilution, SEK	27	26	22	21	18
Equity/assets ratio, %	76	72	70	57	52
Net debt/equity ratio %	0	-5	13	19	52
Return on shareholders' equity, %	19	23	9	29	18
Return on capital employed, %	23	28	11	27	19
Investments in non-current assets	20	15	7	7	8
Cash flow from operating activities	46	75	31	68	34
Cash flow from operating activities per share before dilution, SEK	4.13	6.71	2.89	6.52	3.24
Average number of employees	213	164	153	154	144
Revenue per employee	1.8	2.1	1.6	2.1	1.9

* Board's proposal

2011 Continued growth in orders and revenue

Q1

- HMS acquires the remaining shares in its subsidiary, Intellicom Innovation AB.
- New subsidiaries are set up in India, Denmark and Great Britain.
- HMS signs a framework agreement with one of Europe's leading manufacturers of automation equipment for Industrial Ethernet communication solutions. The total order value amounts to SEK 7 million.
- Order intake increases to SEK 96.8 (78.1) million.

Q2

- HMS launches a large number of new Gateway products, extending the product range even further.
- The network protocol BACnet/IP is launched as a new member of the Anybus CompactCom family (embedded network cards).
- Order intake increases to SEK 100.2 (89.7) million.

Q3

- HMS signs a framework agreement with a manufacturer of automated assembly machines.
- New sales records, the highest in HMS´s history for a single quarter and on an annual basis.
- HMS signs agreements with 11 new system partners.
- Order intake increases to SEK 107.7 (86.9) million.

Q4

- HMS starts a green automation initiative by launching solutions for energy control in automation systems.
- During the year, 47 new employees joined the company, corresponding to an increase of 24% in the total number of employees compared to last year.
- HMS signs agreements with 12 additional system partners, which brings the total number of new partners added in 2011 to 28.
- Order intake decreases to SEK 82.9 (87.5) million.
- At year-end, the total number of new design-wins was 116 (114). HMS had a total of 909 (830) active design-wins at year-end.

Proven solutions for industr

HMS is one of the world's leading suppliers of proprietary, patented technology for intelligent industrial communication. HMS's competitive advantage is derived from its unique combination of compact and energy-efficient technology for solutions enabling high performance in many application areas. Furthermore, HMS's products are turnkey solutions, containing reliable hardware and software, which makes them easy to install, configure and maintain.

Three product lines under two brands

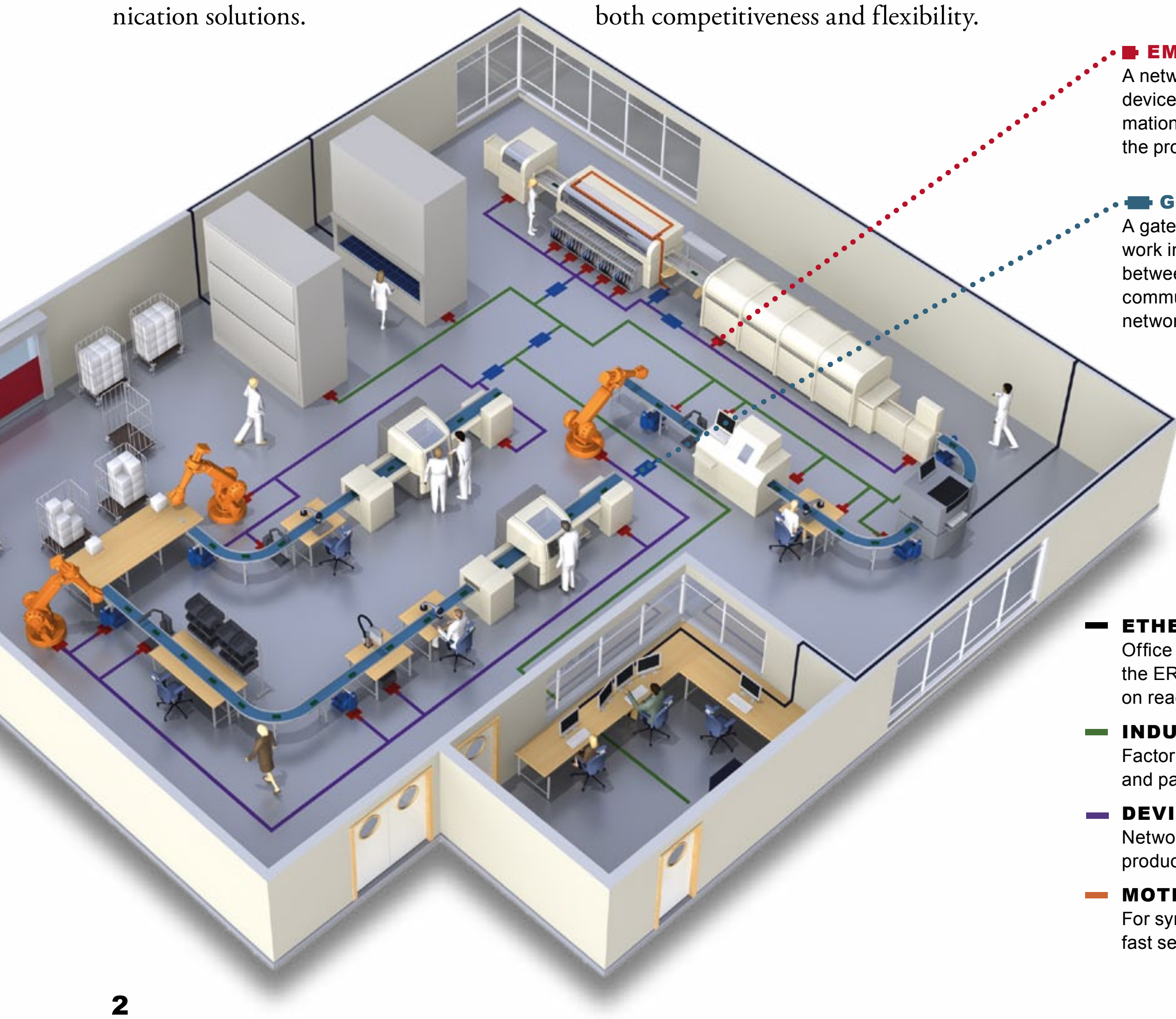
The Anybus brand is based on HMS's proprietary microprocessor technology that is used to convert information between different network protocols. Anybus enables communication within and between industrial networks, independent of network systems and network protocols. Anybus meets the needs of a steadily growing market for industrial automation and industrial networks. Demand is driven by the requirements on productivity and energy efficiency in global industry. At the same time, the plethora of network protocols creates a need for intelligent communication solutions.

Anybus® Embedded

Anybus Embedded is a network interface card that is integrated into the design of many types of industrial automation equipment, such as robots, motor drives and sensors. Once the equipment has been adapted to the communications standard in the Anybus network interface card it is able to communicate with most industrial networks. This is possible because HMS technology takes care of translating the various network languages. This means that customers don't have to worry about the type of network system or network protocol their products will connect to, which simplifies the design process and improves both competitiveness and flexibility.

Anybus® Gateways

Anybus Gateways are based on the same technology, but they are independent communication ports comprised of two interconnected network interface cards that are installed in different network systems or existing automation equipment to enable communication regardless of network protocols, just like Anybus Embedded. Gateways are designed for the end user in industry or system integrators and system installers working with industrial tasks.



EMBEDDED PRODUCTS
A network interface card is built into an automation device to enable communication between the automation device and industrial network, regardless of the protocol used.

GATEWAYS
A gateway consists of two interconnected network interface cards that translate information between two different protocols, thus enabling communication between two types of industrial networks.

ETHERNET TCP/IP
Office networks between standard computers and for the ERP and production planning. No major demands on reaction time.

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

DEVICE/SENSOR NETWORKS
Networks within a machine or for parts of the production line. Reaction time <1/1000 second.

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

ial communication

Netbiter® Remote Management
Netbiter Remote Management is HMS's other brand. It is an innovative communications solution that provides web-based network communication between geographically dispersed industrial equipment and the operator for the purpose of remote monitoring and control of operations. Netbiter serves a young, growing market for industrial remote management, where there are many new and growing application areas for mission-critical systems, renewable energy and social insfrastructure.

About the company
HMS was founded in 1988 as a company specializing in customized communications solutions for industrial networks. The first patented Anybus products were launched in 1995.

HMS has its head office in Halmstad, where all development and some manufacturing takes place at the company's own facilities. By the end of 2011, the company had 240 employees, of which 178 were working in Sweden and 62 were at one of the company's 9 sale's offices located in key markets.

Over the last 10 years, the company has had an organic growth averaging approximately 17% per year. Since 2007, HMS has been listed on the Nasdaq OMX Stockholm Small Cap in the Information Technology sector.

Technology that creates benefits for stakeholders

For customers
Manufacturers of automation equipment don't need to worry about adapting their products to the multitude of communications standards when they integrate the HMS interface network card, Anybus Embedded, into their products. This simplifies their development and design efforts significantly and simultaneously boosts competitiveness by making their offering more flexible.

Anybus Gateways solve the interface dilemma by making it possible to connect several industrial networks, regardless of the protocols or protocol generations being used. This simplifies the task of integrating industrial networks considerably, because HMS Gateways take care of translating the languages between networks or parts of a network.

For operators of equipment at different geographic locations, Netbiter Remote Management provides a web-based solution for remote monitoring and control, including intelligent data and information management. This results in significant cost savings for services and maintenance, while increasing the reliability and service life of equipment.

For shareholders
HMS is an independent supplier of three product groups based on patented technology for intelligent industrial communication that increases industry's productivity, flexibility and energy efficiency. The company supplies proven, certified turnkey solutions that meet customer needs, including configuration tools, drive routines, training and support.

HMS's markets are growing due to industrial automation and the demand for intelligent communications solutions and monitoring systems in more and more areas.

The company is continually expanding its portfolio of standard products and increasing its sales volumes, which results in economies of scale and good profitability. Over the last five years, HMS's growth has kept pace with or exceeded the market. On average, sales have grown by 17% per year, with an average operating margin of 21%. HMS has an explicit policy of distributing 50% of its profit as dividends to shareholders.

For employees
HMS offers its employees the opportunity of working with exciting technological developments in a modern, dynamic and growing organization that has a wide network of international contacts and excellent career opportunities. The company culture is modern and open, where shared values, learning and own responsibility are prioritized. Employees at HMS have many opportunities for shaping their work situation and developing their skills.

For the environment
HMS's products make industrial processes and industrial remote management more flexible and energy efficient. HMS prioritizes the development of energy-efficient, compact products with a long service life and that do not contain any materials or components that are hazardous to the environment. Sustainability efforts are comprised of careful evaluation of development and manufacturing processes, materials selection and supplier quality.

"Making good progress –

2011 was another good year for HMS, with new records for both orders and sales. The number of customers deciding to integrate our interface network cards into their automation equipment is increasing. Sales of both network cards and gateways rose sharply and our remote management solutions are generating a growing interest in the market.

During 2011, we solidified our position as a long-term, reliable partner to industry. Our intensive product development efforts and strong focus on quality have enabled us to build up an even larger customer base and a wider portfolio of proven solutions that can easily be integrated or installed and help make our customers' products more flexible and efficient. HMS's vast knowledge of communications technology and industrial automation pays off. It is very inspiring to not only see the financial results, but also how satisfied our customers are with our technology, delivery success and service.

The market is growing

In an increasingly complex world, we help our customers solve their communications problems. The requirements on productivity and reliability are becoming increasingly stringent in many areas, including traditional industry, infrastructure and energy. At the same time, rapid technological developments are opening up new opportunities for advanced control and monitoring systems. It is incredibly exciting to see how intelligent automation systems are gaining ground in new areas like traffic and transportation systems and energy distribution. This trend favors the market for industrial networks and our solutions for intelligent industrial communication.

Higher sales and excellent ratings

HMS's position as a global market leader for embedded network interface cards in automation equipment was further solidified in 2011 with 116 new design-wins. That results in a 15% larger customer base and a solid foundation for the growth of Embedded during the next few years.

Gateways also showed strong growth due to the demand for proven solutions that make communication within and between networks possible, independent of network protocols. During the year, we launched a large number of new Gateway products that enable us to be even more successful in delivering solutions that effectively solve connection problems between various types of network systems.

Netbiter Remote Management, which is our concept that combines our communications technology with IT solutions for database management and visualization, has also been well received by the market. I am very much looking forward to the results of our intensified sales effort to increase the volumes for this concept that can help many customers achieve considerable savings.

In that context, it is extra satisfying to see that our company and products have once again earned high ratings in the Customer and Distributor Survey that we conducted during the year. High quality reviews and higher sales send a strong message – HMS delivers value and benefits to its customers.

Innovation provides a competitive advantage

Development and innovation have been the core of HMS's operations from the very start and we constantly strive to refine our technology and develop new solutions that provide more value to us and our customers. One such example is our new innovative microprocessor, NP40, which makes it possible to program both hardware and software. It significantly simplifies the adaptation of network interface cards.

Another solution with a tremendous amount of potential is our new safety concept, Anybus Safety, that helps our customers meet the increasingly stringent directives and certification requirements on machine safety. The concept is an excellent example of how we are able to use our experience and knowledge of industrial communication to create new, value-enhancing solutions.

New business opportunities and sales channels

Remote management is a rapidly growing area throughout the world, largely due to the growing requirements on reliability for mission-critical systems. These are used in everything from energy plants, pump stations and telecommunications base systems, to the emergency power systems at data centers or hospitals. Netbiter Remote Management is our concept that enables us to help customers control and monitor such systems more efficiently and thus achieve both cost savings and higher reliability.

An important sales channel for both Remote Management and Gateways is system integrators. They are becoming increasingly important in assisting industry with communications and network solutions. In 2010, we introduced the HMS Partner Program, which is already proving to be a success. It offers closer cooperation with system integrators via product training, technical support and sales support.

Recruitment – an important challenge

We have continued to pursue our long-term growth objectives, not least by ensuring that we have skilled, committed employees who strengthen our competitiveness and company culture.

HMS delivers and grows”

During the year, we recruited 47 engineers to the development team, but investments were made in both sales and marketing as well. I'm pleased that our recruiting efforts have been so successful, even though we still have capacity for more new recruits.

We made another important strategic move during the year by setting up a development office in Gothenburg, where five newly employed engineers are now working.

More focus on environmental efforts

As part of our operational quality efforts, we are focusing even more on environmental and sustainability issues. This is important for many reasons – customers and other stakeholders are increasingly demanding products and solutions that promote sustainable development.

Our most significant contributions are helping industry improve productivity and energy efficiency, as well as ensuring that products do not contain hazardous materials and that they are resource efficient. Please read more about our environmental work and Eco Strategy Wheel on page 24.

Good long-term prospects

Although we expect lower investment levels in the short term due to uncertainty in the world economy, everything indicates continued long-term market growth. The driving forces for growth still exist – i.e. ever-increasing requirements on quality, productivity and energy efficiency in global industry, where the competition is intense. Furthermore, the energy sector and social infrastructures throughout the world are becoming more technology intensive and complex, while the requirements on reliability and efficiency become increasingly stringent. On the whole, this means that the business prospects going forward for our industrial communications solutions remain good.

The past year was one of intensive product development, sales, organizational development and recruitment. Our joint effort to prepare HMS for continued growth, while retaining competitiveness, is going on throughout the organization and it is paying off. All employees at HMS have made fantastic contributions to this effort. We never would have made it this far without being able to cooperate so well or without the dedication of all employees at all levels of the organization. I'm very much looking forward to working together in the new, stimulating year ahead.

Staffan Dahlström

President and CEO, HMS Networks AB

Entrepreneurial spirit and many

HMS is a growth and knowledge company with own operations at every stage of the process that adds value – from research and development, to purchasing, production, sales, marketing and customer support. This involves many interdependent professional roles and functions in a learning organization. HMS has recruited around 37 new employees each of the last two years, which has required continuous development and adaptation of the organization. In order to achieve common goals and growth, without sacrificing quality, you need a strong company culture and shared values.

Clear, shared values

HMS is a young, international, entrepreneurial company where there is high growth, exciting technological development and proximity to customers. This makes having shared values even more important, because it ensures consistent decisions and work methods that serve as the guiding stars when performing daily tasks and interacting with customers, suppliers, colleagues and other stakeholders.

HMS has formulated these shared values as five principles – HMS High Five. They are basically self-explanatory: We always prioritize our commitment to customers. We will grow and be innovative. We pursue our work with a long-term perspective. We believe in building relationships and being cost efficient.

We have few decision-making levels and we value everyone's opinion

HMS has a flat organization. Delegation of responsibilities is widespread, there are very few decision-making levels and every employee's opinion is valued. Employees at HMS are used to taking own responsibility, tackling new challenges and learning new skills.

This results in a dynamic work environment, where there are many opportunities for shaping and developing one's own professional career. It also creates a strong drive and commitment to continually improve, which is a critical success factor for a growth company that provides high value-added.

professional roles create dynamics

The right recruitments lead to growth and quality

HMS's growth strategy depends on employees with the right expertise. The task of recruiting development engineers is challenging for HMS and many other companies. HMS actively strives to profile the company in the labor market, with a special focus on technicians and engineers. For example, HMS participates in job fairs at universities and colleges, offers students opportunities for doing their thesis projects at HMS and promotes the company through various types of social media.

During 2011, 47 new employees joined the company, of which 16 are development engineers. Three of them are employed at HMS's newly opened development office in Gothenburg.

Insight leads to improvements

Employee surveys are regularly conducted. Status checks are carried out four times per year and a more comprehensive survey is conducted every 18 months. The aim is to follow up on and measure how employees feel about the company's values, work environment, climate for cooperation and leadership, as well as gathering their thoughts on the company as a whole.

The surveys provide valuable insight and ideas on how HMS can become even better as an organization and employer. For example, this year's surveys revealed that employees highly value a pleasant workplace and cooperation with their colleagues.

Work and career

HMS has a young work force and is a learning organization, which applies to our daily operations as well as our external and in-house training initiatives.

A large portion of development work is carried out jointly with customers, typically in an international network that provides new perspectives and personalized skill development.

In 2011, a special foreign exchange program for engineers was started up. It provides engineers from the development department with the opportunity of working in one of the company's other offices around the world.

All new positions are filled in a transparent recruitment process and applications from within the company are encouraged. Newly hired employees also take part in an introduction program, and career development discussions are held each year for all employees.

Health and lifestyle

In order to promote a healthy and good lifestyle, the company offers ergonomic workplace adaptations and subsidized fitness activities. Group activities for fun and fitness are arranged on a regular basis. In 2011, sick leave at the company was 3 (2)% and employee turnover was 6 (4)%.

Modern company culture

With stimulating work tasks, a flat organization and shared values as its guiding stars, HMS strives to be an attractive employer. Below, some of our employees share their thought on working at HMS.

Uran Hamzaj: I work as a production operator and I've been employed at HMS since April 2011. My job responsibilities involve making sure that the right materials are acquired and staffing for the surface mount assembly line. I think that HMS does everything right. The company has a modern way of thinking. Managers demonstrate that they have confidence in their employees rather than trying to control them. This creates job satisfaction and camaraderie, so you always feel motivated to do good work. HMS also invests a lot in employees, with everything from kick-offs, to after work gatherings and subsidized fitness activities. There are plenty of opportunities here for a person who wants to acquire new skills in a friendly, relaxed work environment.

Anna Ekenstjärna: In my role as sales assistant, I deal with new inquiries and manage some direct sales for regions where we don't have our own offices or distributors. I also provide back office support for International Sales, by supplying sales statistics, helping with project coordination, etc. I've been working at HMS for one and a half year and I'm very happy here. I have a nice variety of tasks and good interaction with others. But it's mainly my great colleagues and the modern, inspiring work environment that makes going to work each day such fun. It is also great that the company offers subsidized fitness activities, where I get to choose whatever appeals to me the most.

Martin Hoffert: I started as a product manager for customized solution after more than ten years at Ericsson with similar tasks. Since September 2011, I've held the position of Global Key Account Manager, with responsibility for several major global customers. My work involves such things as ensuring that we deliver the right products that provide the right benefits to the customer. I'm also responsible for making sure that both sides fulfill their contractual obligations. It is an exciting and challenging job, with plenty of responsibility and interaction at many levels of our customers' organizations worldwide. The atmosphere at the company is also very good, because there is flexibility and everyone's opinion matters. Also, with ten offices and customers all over the world, there are many opportunities for becoming acquainted with different cultures and ways of working.

and strong commitment

70% of all HMS employees have a college or university degree. 25% of HMS's employees are women and 75% are men.

Malin Karlsson: I've worked at HMS for 14 years, first as a trainee in the logistics department and, after that, at the reception desk. Now I work in the accounting department, where I've been for the last six years. The company has assisted me in furthering my education by letting me take some courses in accounting. I'm now responsible for accounts payable and the parent company's accounting. The main reason why I like my job is because of the friendly atmosphere in my department. We are a tight team, always supporting one another and sometimes even spending time together outside the office, which means a lot. It is also great to work in a company where there is a high rate of change, where new things are always happening and one's own initiative is appreciated.

Henrik Ehrnlund: HMS is a small but growing company. It's a place where you can develop your own skills and also help shape the company. For four and a half years I worked as a development engineer, mainly with software. I'm now a project manager for several development projects. My work involves time reporting and making sure that projects meet the quality system requirements, customer specifications, etc. A great deal of coordination is required, as well as interaction with both the internal and external contacts of several world-leading customers. I'm responsible for both hardware and software development, as well as the product development process up until the point when the product is ready to go to production. My job is a lot of fun. It involves a great deal of responsibility and multi-tasking.

HMS has received numerous awards over the years, such as being named 'Super Company of the Year' by Veckans Affärer three years in a row.

Strategies for profitable growth

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.

MISSION: We provide world class solutions to connect industrial devices to networks and products enabling interconnection between different industrial networks.

Organic growth – our main strategy

HMS strives to expand into related industrial areas and other parts of the value chain, primarily via Gateways and Remote Management. This will be done using the company's technology and by further solidifying its position in the market for embedded products.

HMS will primarily expand via organic growth by strengthening its position and developing its range of products and services. Selective acquisitions may also be made if they are a valuable addition to HMS's technology or product portfolio, thus strengthening the company's offering to the market.

Focused product development

HMS will develop products and solutions based on the company's technology and expertise in industrial network communications and remote management. The cornerstone of all development work is to create significant value using leading technology in order to meet market needs, while maintaining the focus on quality and environmental aspects.

Strategic product areas

HMS will provide products in the following three product lines: Embedded, Gateways and Remote Management. They will be marketed under the Anybus and Netbiter brands. The product portfolio for each area will continue to be further developed and expanded keeping pace with customer needs and technological developments in order to strengthen HMS's position as a leading supplier of proven, complete solutions for intelligent industrial communication.

QUALITY OBJECTIVE

98% of deliveries must be delivered on time.

Returns for delivered products must be less than 300 ppm (parts per million).

FINANCIAL OBJECTIVES

Long-term growth averaging 20% per year.

Operating margin higher than 20%.

DIVIDEND POLICY

Annual dividend that is approximately 50% of net profit for the year.

Optimal business models

HMS applies optimal business models based on market conditions and customer needs. For embedded network cards, most business is via framework agreements (also called 'design-wins') with manufacturers of automation equipment. This provides HMS with a strong foundation for growth. For Gateways and Remote Management, HMS manufactures and delivers products continually as orders are received from customers using distributors at various locations worldwide. The Netbiter Remote Management concept also includes a subscription service for providing customers with access to information.

Sales and distribution

HMS has its own sales offices in strategically important key markets, as well as a number of Global Key Account Managers working from the Halmstad office. In other countries, sales are conducted via an effective network of exclusive distributors in over 50 countries.

The HMS Partner Program is a new strategic sales channel that is in the start-up phase. It aims at increasing the sales for Gateways and Remote Management. The program is designed for system integrators who are responsible for connecting industrial networks and creating communications solutions for industry. Through this partner program, HMS can provide these key stakeholders with both product knowledge and training, as well as expand the company's experience and skills across more industrial sectors.

Full control over value-adding operations

HMS provides high-quality turnkey solutions that are easy to install and use. This requires full control over the entire chain of value-adding operations, i.e. from product development, components supply, manufacturing and distribution, to training and after-sales service. HMS uses its business management system (BMS) to ensure quality and continually improve its operations.

Manufacturing is performed in close cooperation with exclusive subcontractors in Sweden and China. The production of prototypes, small series, certain customized products, quality control and final assembly takes place at HMS's own facilities in Halmstad, in close proximity to the development department.

For several years already, HMS and its strategic suppliers have been certified according to the ISO 9001 quality management standard.

Environment and sustainability

All of HMS's operations comply with the company's environmental policy and apply its model for sustainable development – Eco Strategy Wheel – for all technology development, product development and manufacturing activities. HMS also adheres to the RoHS Directive adopted by the EU and the REACH regulations on the use of chemicals. HMS products are CE marked. Development work prioritizes solutions that contribute to sustainable development primarily via high productivity, energy efficiency and long service life.

HMS's business models

HMS has designed its business models to fit each market and product line. For the Embedded market, most business is via framework agreements (i.e. design-wins). The sales cycle is relatively long and the design phase is performed in close cooperation with the customer. After that, there is steady revenue over a long period of time. For Gateways and Remote Management, the business model is more traditional, with a short business cycle and manufacturing based on customer orders.

Embedded – design-wins

For Anybus Embedded, the business model is based on framework agreements (i.e. design-wins) with manufacturers of automation equipment. A growing number of design-wins provides HMS with a stronger customer base, higher volumes and steady revenue over a long period of time. At the end of 2011, the number of design-wins totaled 909 (830).

A design-win typically involves cooperation over a period of about ten years, with an initial development and design phase that is carried out in close cooperation with the customer. This is followed by the manufacturing phase, and invoicing based on orders, once the customer's product has been established right through to the end of the product life cycle. For this business model, there is a relatively long development period followed by steady long-term revenue, provided that the customer's product is successful in the market.

In most cases, standard products are offered that are quick and easy to integrate, as well as suitable for many applications. This helps the customer reach a wider market much faster.

For certain larger customers, fully customized hardware and software solutions are offered that meet specific requirements. This sometimes also involves issuing a manufacturing license so that the customer can manufacture the network interface card.

Gateways – more cooperation

Anybus Gateways are sold as independent communication ports and manufacturing is based on customer orders. They are sold via a network of approximately 50 distributors, either directly to the end user or to system integrators, installers or machine engineers who integrate networks and build communication solutions for industry.

HMS recently added to its business model by introducing the HMS Partner Program. It aims at increasing sales in key markets via cooperation with system integrators.

Remote Management – products and service subscriptions

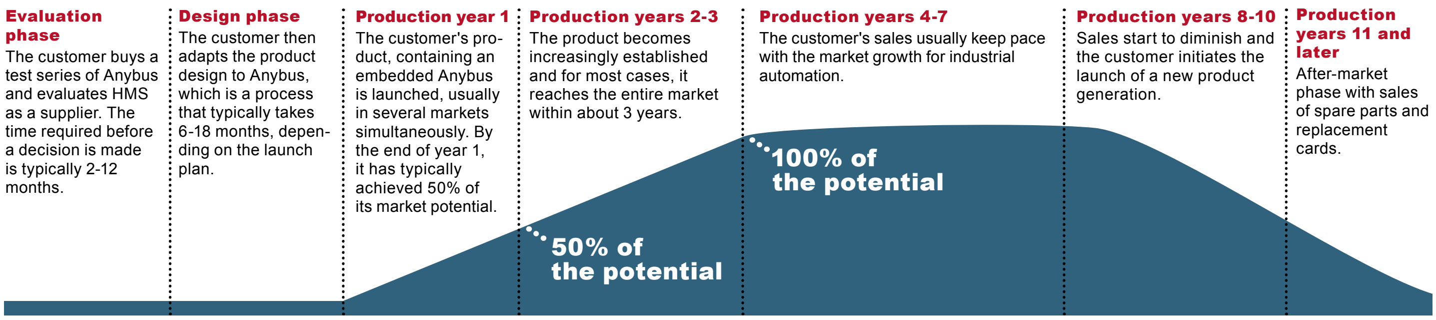
Netbiter Remote Management is primarily sold as independent communication ports, i.e. gateways, and the accompanying software for information management.

Access to collected information is provided via subscriptions to a web service. The company offers this as a free-of-charge standard solution, as well as a more advanced service with increased functionality via a paid subscription.

For Remote Management, the HMS Partner Program is also an important new sales channel that is expected to generate new business.

The HMS Partner Program aims at increasing the level of cooperation with system integrators, who are an important link to end-users in industry. By working directly with these key individuals in major customer projects, HMS will be able to contribute product knowledge and training, while simultaneously distributing its expertise across more customer segments.

The revenue cycle for embedded network interface cards in automation equipment



Strong, distinct driving forces

The market for intelligent industrial communication is growing. For HMS's most established product line, Embedded – embedded network interface cards – there is potential in important geographic markets as well as among manufacturers of automation equipment, who thus far have been developing their own industrial network interface cards. For Gateways, HMS has also identified new business opportunities through a combination of new sales channels and expanding the range of products even further. The third product line, Remote Management – remote monitoring and control – was recently launched and it is generating a great deal of interest in a number of growing industrial segments.

Global competition leads to more automation

The main driving forces for a growing market are the industry's need to continually improve productivity, flexibility, energy efficiency and information flows to ensure global competitiveness. This drives the demand for industrial automation and industrial networks, including smart communications solutions, all over the world.

More system interoperability in industry

End users in industry are demanding a higher degree of integration and interoperability between different subsystems and automation products, such as in the highly automated automotive industry. The goal is to achieve optimal efficiency and a better overview and control of the manufacturing process.

Another important trend that is getting increasingly stronger is industry's growing demand for cost-efficient, reliable safety solutions in the area of automation.

Requirements on reliable infrastructures

Another driving force has to do with the increasingly strict requirements on reliable, energy-efficient infrastructure. This applies to mature markets that are modernizing and upgrading their power systems and other infrastructure. It also applies to growth markets that are rapidly expanding their energy and infrastructure systems.

Technological development increases complexity

Rapid technological developments are making networks more complex and powerful. The control and monitoring processes for a growing number of applications are also becoming increasingly intelligent. The performance and capacity of microprocessors and other critical components is improving, at the same time that their size gets smaller. As a result, the manufacturers of automation equipment are demanding new, integrated communications solutions due to space, cost or performance requirements.

Processors with very high requirements on precision also put demands on special functionality and extra fast time-critical data flows. This applies to the Motion Control segment, for example.

Many different protocols

HMS benefits from the fact that there are so many different types and versions of network protocols on the market. A common industry standard is not expected any time soon, either. Manufacturers of auto-

More than 90% of HMS's sales are from markets outside Sweden – via our own sales offices in Denmark, France, India, Italy, Japan, China, Great Britain, Germany and USA, plus a network of distributors in around 50 countries. The driving forces in these geographic markets vary. In mature markets, demand is primarily driven by modernization and upgrades of industrial systems, along with stricter requirements on such things as safety and environmental aspects. In growth markets, major expansions of energy and infrastructure systems create a demand for industrial network and network communications technology.

in HMS's markets

mation equipment, machine engineers and end users will also continue to face requirements on connectivity to different industrial networks and the links between them.

Many preferences requires flexible solutions

Network technology and communication standard preferences vary due to the wide range of industrial standards with different specific requirements on performance, reliability and system architecture. For example, the communication requirements for an automation system that controls the process in a paper mill and for one that controls a packaging machine in the foodstuffs industry differ substantially.

Machine manufacturers are currently transitioning from CANopen, which has been the dominant network system up until now, to Ethernet-based EtherCAT, a network system that is gaining ground even in other automation segments.

HMS's unique expertise in a large number of industrial network systems enables the company to meet these requirements, which has made HMS a leading global supplier of communications solutions that meet customer needs of flexibility and independence.

Geographic variations

The requirements on connectivity to industrial networks also varies according to the geographic region that the product offering will target.

For example, in Japan, the industry preference is Mitsubishi's network technology, CC-Link, which is also available in a new Ethernet-based version, CC-Link IE. In Germany, however, the preference is for Siemen's Profibus and ProfiNet. These have also been available for quite some time as Ethernet-based systems. In USA the highest demand is for Rockwell-related networks, such as DeviceNet and Ethernet-based Ethernet/IP.

HMS benefits from the Ethernet trend

In recent years, Ethernet has increasingly been used as the basis for communication technology for industrial networks. Today, this development is central to automation and a number of more or less specialized networks based on Ethernet have come on the market over the last few years.

This is why solutions are needed that support the established systems, like Profibus and CANopen, as well as the new Ethernet-based systems. Two examples are ProfiNet and EtherCAT, both of which are based on Ethernet, but have been modified with special functions in order to work with demanding industrial applications.

For both system variations, HMS holds a strong position and the company benefits from the trend towards more system variations, rather than fewer.

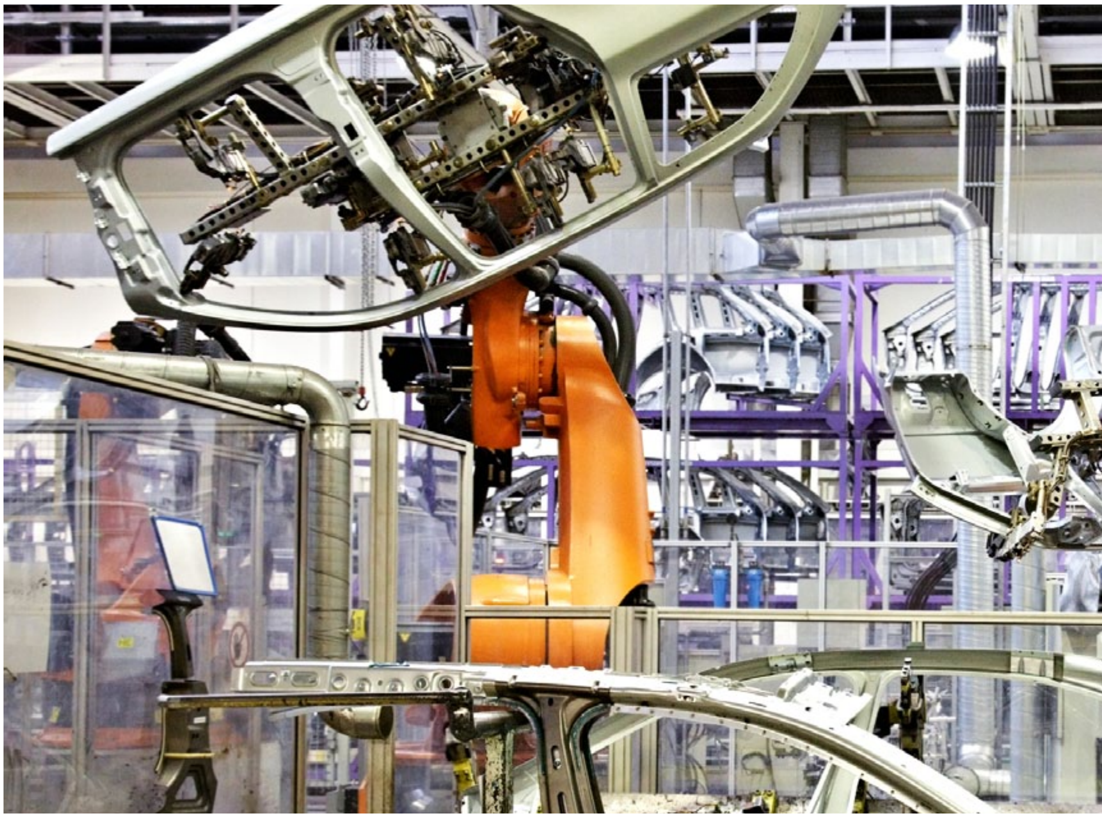
Complete offering provides customer benefits

HMS stands out not only for its competitive technical solutions, but also for coming up with products that can be manufactured with high quality either in small volumes by HMS or in large volumes by contracted manufacturers. This means that HMS can guarantee its customers cost-optimized production, no matter what volumes need to be manufactured.

HMS also provides customer benefits throughout the entire product life cycle via its good warranties, high service and free technical support and maintenance.

With its complete offering, HMS strives to be the right partner for customers by solving problems and being easy to work with in all situations.

Anybus® Embedded – flexibility requirements drive demand



Annual market growth of approximately 10%

The market for industrial network interface cards, which is the specific sub-market for the Anybus Embedded product line, is estimated to be worth approximately SEK 7.5 billion. Manufacturers of industrial automation equipment who make their own network cards represent the largest portion of the market, worth approximately SEK 6.0 billion. Other external suppliers, like HMS, share in the remaining portion, valued at approximately SEK 1.5 billion. This market is expected to continue growing by around 10% per year during the next few years.

HMS has a leading position in the market for external suppliers, with market share of nearly 20%. At the same time, there is considerable potential for growth within the portion of the market where manufacturers of industrial automation equipment come up with their own solutions.

Solutions creating independence

The use of automated machinery and production processes is growing for discrete manufacturing in both mature and growing markets. Increased automation increases the demand for communications solutions. Equipment, such as robots, motor drives, sensors, pumps and fans requires flexible solutions so that it can communicate in industrial networks, regardless of the protocol or protocol versions being used.

Diverse target group, many solutions

The buyers of embedded network interface cards are manufacturers of automation equipment for process and discrete manufacturing industries. The target group is thus easy to define, yet it is spread across a very large number of application areas, which is reflected in HMS's wide range of flexible solutions.

One of HMS's strengths has always been its ability to create high-performance communication solutions that can be used in many different types of automation equipment. This ensures high market penetration in relation to the development time required.

Customers all over the world

HMS's customers are small, medium and large companies all over the world, primarily in mature markets that are highly automated, such as Germany, USA and Japan. Recently, however, more and more customers are from growth markets like China, India and Brazil.

Competition and potential

Looking at the total market for network interface cards, HMS's largest competitors are manufacturers of automation equipment who make their own embedded network cards. Currently, this type of in-house development and manufacturing represents most of the total global volume of embedded network cards.

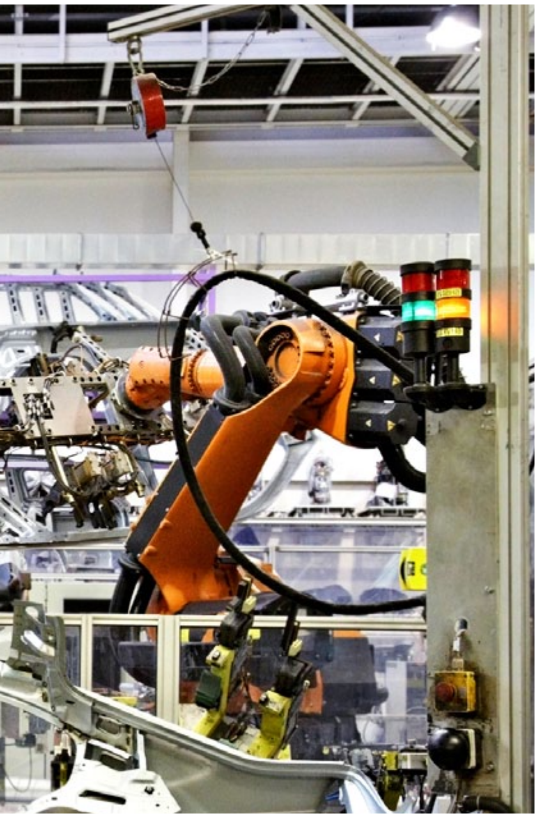
HMS feels that there is enormous potential in convincing more of these manufacturers to purchase their communications solutions from HMS. As a specialist in industrial communication, HMS can offer the best and most future-proof solutions so that customers can focus on their own core technology instead.

Few direct competitors

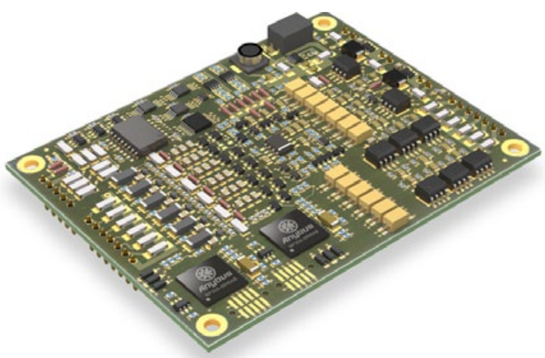
There are very few competitors to HMS's unique, wide-ranging product portfolio for Embedded. Its closest competitor is the German company Hilscher, which develops and manufactures network interface cards (and gateways). However, their offering is only comparable to a certain extent.

Some engineering consultants develop customized solutions designed for one or more network protocols. There are also manufacturers of network cards designed for a single, or small number of specific protocols.

Anybus® Gateways – higher interoperability creates a market



HMS's technology development currently focuses on a number of new market requirements, such as powerful solutions that can be used in increasingly large and complex network systems; solutions with embedded functions for energy control and machine safety; environmental solutions like green automation and energy-efficient solutions with the latest silicon architecture.



In 2011, HMS presented the **Anybus Safety** communication module. It assists manufacturers of automation devices in offering products that meet the latest requirements on Machine Safety. This first version of the product can connect to ProfiSafe.

Both stable and dynamic market

The market for gateways is estimated to be worth approximately SEK 3 billion, with an annual growth rate of around 15%.

Rapid technological developments result in an increasingly higher level of interoperability in industrial networks. Overall, this leads to a more stable and dynamic market for gateways. The market becomes more stable due to the increasingly higher level of automation along with a large installed base of automation equipment that must be connected to new or upgraded networks. The market also become more dynamic because of the lack of clear boundaries between the various technologies and network systems used for such purposes as factory automation, building automation and power plants. This creates a constant demand for new connection solutions.

Overall, this results in an increasing number of access points to automation devices and hence also a need for gateways as a protocol bridge and to ensure intelligent network communication at all levels.

Streamlining in industry

The underlying driving forces are the same as they are for Embedded, i.e. industry must continually streamline, upgrade and refine its production systems.

In certain industry segments where there is high growth, capacity is also being increased, which results in a higher demand for Gateways.

One specific driving force is that customers typically would like to retain automation equipment that is already installed and works fine in the factory. However, they also want to coordinate it with equipment that is connected to new networks. This creates an additional market for Anybus Gateways.

Further along in the value chain

Customers are primarily industrial and infrastructure facilities that need to become more automated and connect more networks and automation devices to each other. This usually involves connecting existing mechanical equipment to new network systems and integrating various sub-processes in a larger system.

Gateways usually contain two different network interfaces so that two different industrial networks can be connected. Other than that, the basic technology and technical functionality is the same as the embedded products. The difference is that gateways can be used to connect existing equipment to an automation solution that has been created by industry. Embedded products, on the other hand, are integrated when the equipment is designed and manufactured.

System integrators – an important target group

Gateways are thus used later on in the value chain compared to Embedded, so the target groups and sales channels differ.

For gateways, system integrators and machine engineers are an increasingly important target group. The trend of an increasingly higher level of interoperability and automation has created a growing market for specialized system integrators who assist industry with network and communication solutions. The newly launched HMS Partner Program is thus an important sales channel aimed at more cooperation with these target groups.

Nevertheless, the end user in industry is also an important target group when marketing Anybus Gateways, because this is how brand recognition is created.

No competitor can match HMS

For gateways, there are a number of suppliers offering specialized solutions that compete with one or more of the HMS products.

None of these competitors, however, is able to offer such a wide range of products as HMS, which currently offers around 200 protocol combinations. The competitors are primarily independent manufacturers of customized solutions, usually in local or regional markets, or manufacturers who only offer a few product models.

Netbiter® Remote Management – growing market

Advanced control and monitoring systems can be used to increase traffic safety in tunnels or on bridges, while simultaneously lowering energy consumption due to more efficient-energy control. Such systems retrieve important information from electronic weather stations and cameras, for example. They then control functions like traffic signs, barriers, fans and lighting.

Fragmented market

The market for remote monitoring and control of industrial machinery and systems (also called M2M – Machine-to-Machine) is young and fragmented, which makes it difficult to assess. However, several important driving forces indicate that the market is growing. HMS is currently investing in greater market recognition of the Netbiter brand and the unique Netbiter solution. At the same time, sales efforts are focused on a number of vertical segments where there is particularly high potential, such as emergency power systems, building automation and infrastructure systems.

Overcomes geographical distances

The requirements on reliability are becoming more stringent for mission-critical systems and this drives the demand for intelligent control and monitoring systems. Examples of such systems are telecommunications base systems, traffic systems, power plants and emergency power systems for data centers, hospitals and banks.

Technology development creates new opportunities

At the same time, the Internet and expansion of mobile networks, has opened up new opportunities for remote monitoring and control of geographically dispersed equipment. Intelligent remote control and monitoring systems are being introduced at a rapid pace in many new areas, such as mission-critical emergency power systems, traffic and transportation systems and other infrastructures.

The energy sector is another growth area due to more and more production of electricity using renewable energy sources like wind and water, as well as new advanced systems for energy distribution and management.

Lower total cost of ownership

The need for cost control, reliability and time savings is resulting in new solutions. With remote monitoring, it is no longer necessary to make unnecessary trips to remote facilities for the purpose of inspection.

In addition, an advanced solution for remote monitoring and control can provide the system owner with new, value-enhancing information for streamlining operations and increasing the service life of the investment.

Target groups

Like Gateways, Netbiter Remote Management is typically used at a later stage in the value chain. Important target groups are system integrators and machine engineers who integrate Netbiter support into their applications.

There is also sales potential for Netbiter in the manufacturing segment. By integrating Netbiter into their automation equipment, manufacturers can obtain a competitive advantage by equipping their products for remote monitoring in the systems where they will be used.

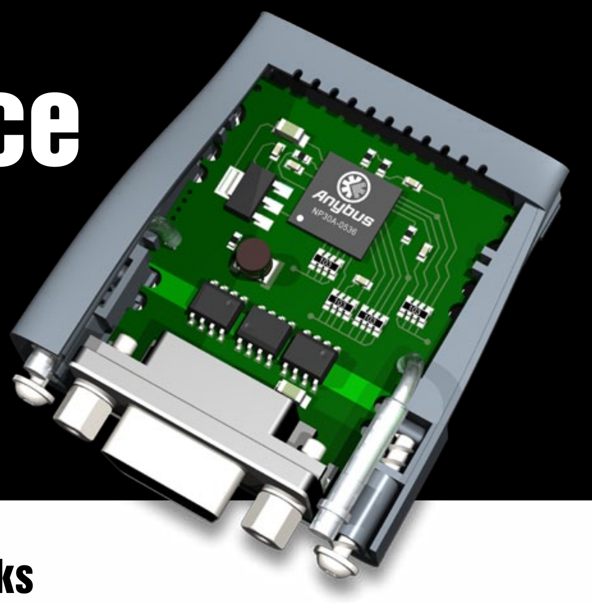
The concept is also marketed to end users in industry and for use in infrastructures with geographically dispersed equipment that could benefit greatly from being able to remotely monitor and control their installations. Netbiter provides a turnkey solution for collecting, storing, managing and graphically visualizing data, which helps improve operational reliability, while saving both time and costs.

Fragmented competition

There are many suppliers of sub-systems and products for remote management. However, none of these competitors is able to offer an equally cost-effective, fast and simple turnkey solution as Netbiter. Most of the other systems being sold today are customized solutions designed for specific needs.

Compact technology with high performance

HMS delivers proven technology that creates flexibility and independence for users of industrial networks, suppliers of automation equipment and system owners of remote installations. HMS's communications solutions are comprised of a wide range of embedded network cards and gateways, as well as a unique solution for remote control and monitoring.



Communication within and between industrial networks

Many network systems

The proliferation of industrial network systems (hardware) and protocols (software) makes it complicated and expensive for manufacturers of automation equipment to offer products on a wide, global market.

There are many different standards and they are continuously being developed for new application areas. This also makes it difficult to predict which connection technology the customer will request or know what the conformity and certification requirements will be.

End users and system integrators are faced with the same challenges when trying to further develop, modernize or expand automation systems and industrial networks in industry.

Anybus overcomes the problems

HMS technology overcomes the problems associated with the use of so many different systems and network protocols. With an Anybus Embedded network card, essentially all automation equipment can communicate with the leading network systems. In the same way, Anybus Gateways enable communication between a network and automation device that lacks an embedded network card, or between several networks with different protocols.

Anybus embedded network cards and gateways are certified and approved by all the leading OEM companies. The product range supports around 20 of the most widely used network protocols, such as Profibus, ControlNet, DeviceNet, CANopen and CC-Link, as well as the Ethernet-based Profinet, EtherNet/IP, Modbus-TCP and EtherCAT.

Flexibility creates value for customers

The flexibility that Anybus provides has created added-value for thousands of customers since it was launched in 1994. HMS is currently a world leader in communication technology for industrial networks, with more than two million installed network products in operation and the world's leading OEM companies as repeat customers.

HMS's range of approximately 1,000 items includes approximately 100 types of embedded network interface cards and gateways for more than 300 protocol combinations, as well as a large number of customized solutions. During 2011, HMS delivered approximately 320,000 network cards to customers all over the world. At year end, HMS had a total of 909 active design-wins.

Remote control and monitoring

Netbiter Remote Management

Netbiter Remote Management1) is a turnkey solution for online remote control and monitoring of geographically dispersed installations. The concept represents a small but growing portion of HMS's sales.

The solution provides network contact over the internet (fixed or mobile networks) and relays critical real-time data and reports from remote installations to their system owners, 24/7.

Lowers cost of ownership and environmental impact

Netbiter Remote Management creates value for customers in many ways. With remote control and monitoring, numerous visits to installations for the purpose of inspection and control become unnecessary, which saves resources and the environment.

It also improves efficiency and reliability through advanced real-time information on operations, which results in lower costs, higher availability and a longer service life of the investment.

In addition, the HMS concept is web based, which makes it easy and quick to install and use, without a lot of training or specific technology required.

1) The Netbiter Remote Management concept was developed by IntelliCom, a company which has been partly owned by HMS since 1997 and fully owned since 2011. The concept has been integrated into HMS's operations and sales since 2011.

Anybus® Embedded

Manufacturers of automation equipment become more competitive

Anybus embedded network cards enable an automation device to communicate with all network systems, largely independent of network protocols and connectivity technologies.

Manufacturers of automation equipment, such as motor drives, robots, drive systems and measuring equipment thus become more competitive in many ways. They save significantly on development cost – studies show that the savings are up to 70% – and thus shorten the time to market launch considerably. The can offer a shorter delivery time to the customer because the solution can be adapted to the end user's specifications more quickly. Above all, with Anybus, they can offer their customers a completely flexible product that can easily be configured, adapted and changed according to changing needs.

Connectable turnkey solutions

The Anybus embedded network card is primarily sold as a proven standard solution, with complete system functionality for industrial networks – including the physical connection, hardware interfaces, configuration files and protocol functionality. The products make it possible to immediately connect to all leading fieldbusses, industrial Ethernet systems as well as series, USB connected or wireless solutions. The products are certified for the various network standards and they fulfill CE, UL and RoHS standards for full interoperability.

HMS's wide range of around 100 standard products are grouped by product family – Anybus-CC, Anybus-IC, Anybus-S and Anybus-M – based on the application area and technical requirements.

The customer can adapt both the card and casing as desired and fully customized products are also offered to larger customers.

Patented technology

Early on, HMS focused on developing an optimized microprocessor for communication in industrial networks and in 2006, the company launched NP30, which is the compact communications processor that has provided the platform for Anybus since then.

The technology used in NP30 combines a powerful RISC processor with peripherals for the various industrial networks. An innovative combination of integrated memory, high performance, low energy consumption and small size – just 10x10 mm – makes this an optimal platform for industrial network interfaces.

NP40 – even more powerful and easier

In 2011, HMS presented NP40, which is its next generation of network processors. It combines a powerful ARM® kernel with the flexibility of an FPGA device, so that even the hardware becomes programmable. This means that a single circuit can be programmed according to different network standards in terms of both hardware and protocol. This is a major advantage for such reasons as the trend of an increasing number of communication solutions being based on industrial Ethernet, rather than conventional fieldbusses.

NP40 is based on the latest semiconductor technology and offers even higher performance with the same low energy consumption as NP30. NP40 has been introduced in some products for new, demanding network applications and will serve as the primary platform for new customized products.

Anybus® Gateways

Communication within and between industrial networks

Anybus Gateways are protocol converters with basically the same functionality and technology as embedded network interface cards. A gateway consists of two connected network cards and a communication interface between them for "traffic exchange".

Gateways are installed between industrial network and their task is to make communication possible at all levels of an automation system regardless of the existing communication standards.

They are also used to connect individual industrial apparatus that lack an embedded network card to a network. Examples are control devices, sensors, measuring equipment, actuators, circuit breakers and smaller PLCs in an industrial network.

Optimal solution for system integrators

HMS Gateways enable system integrators to quickly and easily connect two networks, or an automation device and a network, for quick and secure data transfer. No extra programming is required thanks to the gateway's embedded configuration interface.

Anybus Gateways are available for approximately 300 different protocol combinations and more are being introduced all the time based on the market needs. The products have been tested and verified by leading manufacturers of network systems, such as Siemens, Rockwell Automation, Schneider Electric, Mitsubishi, ABB, Omron, Hitachi, Beckhoff, Phoenix Contact, Bosch Rexroth and others.

Vertical or horizontal connection

The product range primarily consists of two product families with standardized products.

Anybus Communicator connects automation equipment with industrial networks, i.e. vertical connection. This applies to existing or new equipment without an embedded network interface card. Connection is quick and easy. No hardware or software adaptations are necessary.

Anybys X-gateway establishes communication between two industrial networks, i.e. horizontal connection. The products are designed and certified for tough industrial conditions, with standard DIN rail mounting and a port for 24 volt DC power. The product range supports more than 200 network combinations and 17 fieldbusses.

Current research shows that industrial networks play a key role in improving energy efficiency on the factory floor. HMS is providing more and more solutions for green automation, such as embedded network cards that support PROFIenergy. HMS Gateways facilitate optimal energy consumption in equipment that typically lack an embedded network card – such as circuit breakers or compressors – through intelligent control via a connected PLC. This saves energy, raises productivity and lowers costs.

green automation

Netbiter® Remote Management

Remote control and monitoring on the rise

Rapid technological development and higher demands on both functionality and reliability in critical systems are rapidly increasing the number of application areas for remote control and remote monitoring. Examples are emergency power systems, building automation, telecommunications base stations, wind farms and process equipment used by the petrochemical, water treatment and pulp & paper industries, to name just a few.

There is also a growing need within the area of infrastructure systems, such as monitoring of traffic systems and traffic flows like subways, roads, bridges and tunnels, as well as power infrastructure like power lines, substations and grids that are critical to society.

Savings and higher reliability

Netbiter Remote Management generates significant savings for system owners. Fewer site visits are necessary and they can be planned more efficiently. The solution also benefits the environment, due to the reduction in travel and energy-efficient monitoring processes.

At the same time, reliability and thus availability improves in these installations that are often critical to businesses and society thanks to reliable monitoring and control of critical parameters, 24/7. This increases the service life of the investment and reduces the total cost of ownership.

Reliability with high functionality

Other important benefits that customers all over the world have noticed are the solution's simplicity, reliability and functionality. The concept has also been praised for its flexible connectivity, powerful alarm function and for providing a graphic overview of data.

Simple turnkey solution

Netbiter Remote Management consists of a specially adapted gateway, Netbiter EasyConnect, which provides network contact via Internet or a mobile network. It automatically connects a facility to Netbiter Argos data center, which collects, processes and visualizes data from all monitored parameters. The operator receives real-time information, along with trend analyses and automatically generated reports, through the user-friendly and easy-to-grasp web interface in Netbiter Argos. Alarm reporting is via email or SMS.

The solution is standardized and simple to implement and use. No particular software or programming is required. Options are available for wired or wireless connection and all the required components are included to achieve a safe, seamless and scalable solution.

The system is web based and no extra security (such as firewall settings or VPN tunnels) is required.

Precise quality control critical for success

HMS is a company that provides high value-added. It offers a wide product range of advanced solutions for industrial communication. One important factor behind HMS's growing, loyal customer base is that the company delivers interoperable turnkey solutions with high delivery precision and quality. This requires precise control and quality management of the entire value chain.

Reliable and complete turnkey solutions

HMS has rapidly become a world-leading supplier of complete communications solutions for industrial networks. The company offers approximately 1,000 network products for a large number of application areas and network systems.

The products must be easy to install and they must work flawlessly in various types of automation equipment and industrial environments. To ensure the highest possible quality, all processes in the value chain are carefully controlled and coordinated – from design, development and manufacturing to sales, distribution, information, training and support.

Quality control pays off

HMS's quality policy is all about continual improvements and it provides the basis for how the company works with systematic process and quality control throughout the entire value chain.

HMS's operations in Sweden are certified according to the ISO 9001:2008 quality management standard, in accordance with the company's process-oriented operations.

HMS currently achieves delivery precision of 98% on average and returns are less than 300 ppm. Although this is proof of both high performance and quality, HMS aims to become even better.

Evaluated by leading automation companies

HMS is regularly evaluated by leading automation companies like Motoman Robotics, Pilz, Socomec, Yaskawa, Emerson and ABB.

These systematic evaluations cover ISO 9001 quality management standards and specific requirements related to customers, products, processes or other special issues. Requirements span everything from manufacturing and development processes, product quality and overall delivery/cooperation performance to reaction times, delivery precision, information and customer support.

The results of these evaluations are used when designing measures to continually improve.

Continual improvement with BMS

HMS uses its business management system (BMS) to assure the quality of its processes. The aim is to ensure that focus is on the customer and continual improvement in all cross-functional processes.

The BMS gives the company an overall grasp of its processes and how they interact, aspects that are important from the customer perspective, and how employees and tasks add value and enhance quality. Process maps help in identifying and evaluating improvement measures.

The BMS was introduced in 2010 and since then, process and work flows have been documented/clarified. This has resulted in updated process descriptions and activity support. Two improvement projects got underway on 1 July 2011. One aims to improve the process for qualifying suppliers through such measures as better adaptation of the supporting documentation to the type of supplier. The other aims to improve the process of moving a newly developed product into mass production via better control of the processes for test analysis, control planning and production optimization.

In-house development

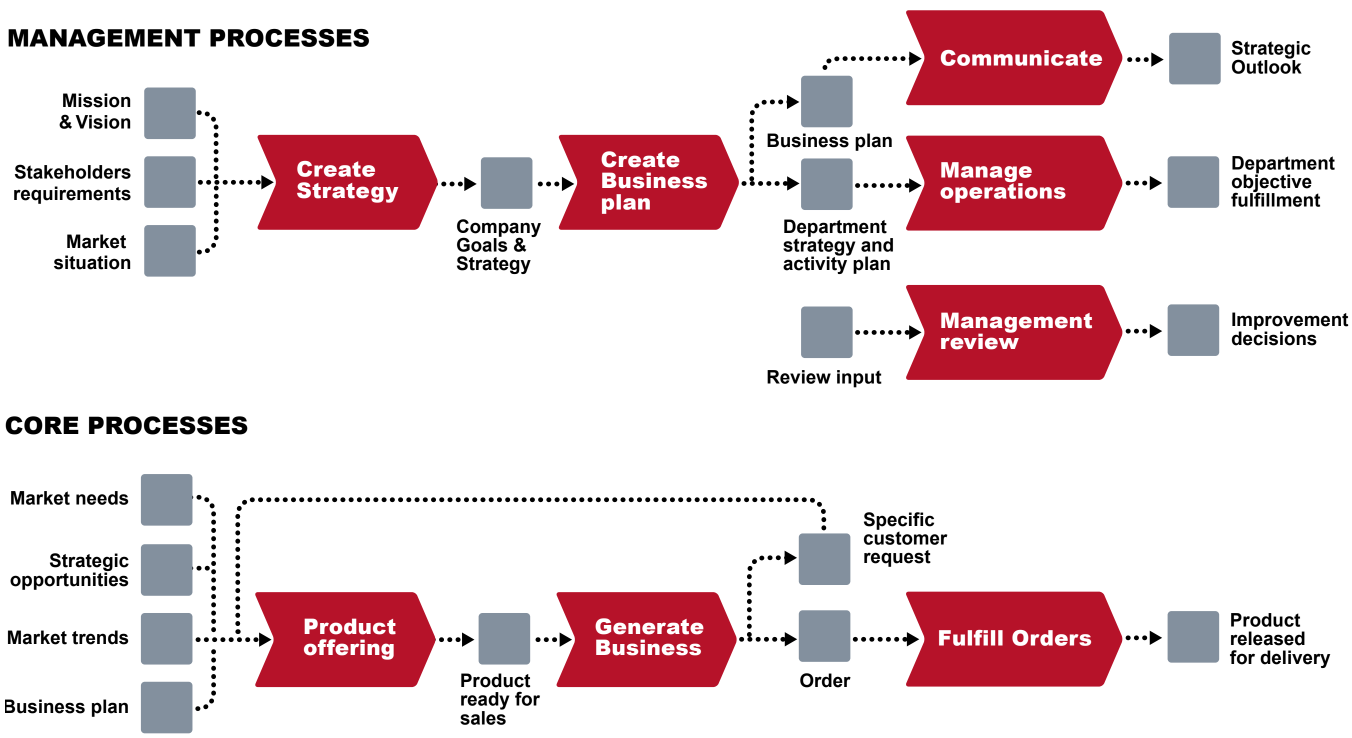
One important component of HMS's core competence is the company's technology and product development. All development efforts are performed in-house at Halmstad and the development office in Gothenburg. Of the total 240 employees, 64 work with development, which comprises the entire chain of events from specification of requirements and design, to hardware design, programming, system integration and verification.

Many development projects are performed in close cooperation with the customer, which contributes to ever-increasing industrial expertise and the ability to develop products that meet customers' commercial needs and requirements.

Industry-wide improvements

For many years, HMS has been involved in many of the sector's international organizations and other forums that strive to develop and diversify industrial communications standards. One example is the US-based organization ODVA, which is responsible for the specification and development of four different industrial networks that are all CIP-based (Common Industrial Protocol). HMS is a member of the organization's Technical Review Board and it is also active in several work groups that develop proposals for specification improvements in different areas.

This type of involvement enables the company to influence and remain up to date on important technology issues.



The process diagrams of the Business Management System (BMS) provide a concrete, easy-to-understand view of how value is created. In other words, they show the activities associated with various roles and the interfaces where activities are handed off. These interfaces are often where there are opportunities for improvement and a schematic diagram of the process flows makes it easier to identify them.

Controlled production

Prototypes, pilot series and shorter product series are manufactured at HMS's facilities in Halmstad. This is where final assembly takes place for most network interface cards using the company's specially developed assembly lines, which have been optimized for short lead times and high productivity.

High volume manufacturing is also performed by selected suppliers in Europe and Asia to achieve economies of scale and optimal balance in price, quality and flexibility. More tasks are performed in-house at higher levels in the value chain. For example, most final assembly and all delivery processing occurs at the Halmstad facilities in order to ensure control and quality.

Strategic component procurement

A network interface card consists of hundreds of sub-components. Strategic component procurement is thus an important success factor for HMS and the company has developed long-term relationships with component manufacturers and market-leading suppliers to ensure access to high quality components. All strategic suppliers are ISO certified and regularly evaluated by HMS to ensure high quality and efficient processes.

Optimized supply chain

Manufacturing and inventory are planned based on optimal order size and accurate forecasts. A new, simplified forecast tool was implemented at all HMS offices in 2011 to more quickly and accurately capture market fluctuations, with a particular focus on volume-critical projects.

Also in 2011, a new inventory lift machine was installed. This improvement measure was implemented to achieve higher inventory optimization, by reducing the risk of incorrect selection and improving the accuracy of stock levels.

In order to achieve cost-effective, environmentally efficient logistics solutions, HMS has shipping partnership agreements in place with a few freight companies. This helps the company achieve optimal volumes and set standards for quality and environmental performance.

For larger customers, an EDI connection is used to automatically process orders and generate forecasts, invoices and order confirmations. This results in efficient administrative flows.

For its major contract manufacturers, HMS has a system in place to reuse customized and ESD protected boxes for shipping and storage purposes.

HMS has a high level of material traceability from the point of receiving a customer order, all the way back in the supply chain to the production method and design.

Sales

For Swedish customers and major global customers, sales efforts are performed by the company's own sales organization in Halmstad. HMS also has its own sales offices in 9 countries, as well as exclusive distributors in over 50 countries.

The company recently introduced the HMS Partner Program, which aims to capture sales opportunities and increase sales particularly for gateways and remote management solutions. The program is primarily for system integrators all over the world who assist industries and other system owners with connecting equipment in order to achieve a higher level of automation. Besides increasing sales, the program is also designed to further improve the quality of installation, commissioning and support for HMS products.

High rating for HMS customer service

HMS has a high level of after sales service and the company is always working to improve it even further. A customer survey was conducted in 2011 and HMS received a very high service level rating for technical support (82 out of 100) and warranty administration (81 out of 100).

Every return is carefully analyzed to avoid repeat problems. This includes reporting back to the customer about corrective measures that have been implemented. The company has gathered customers' service expectations for warranty administration. In 2011, HMS nearly halved the lead time for warranty returns to an average of 7days, compared to an average of 13 days in 2010.

During the year, HMS also increased the warranty period for Gateways and Remote Management products from 12 to 36 months. This is proof of the company's continual improvements in quality and service.

Training and support

Training and good technical support are important quality aspects for retaining a world-leading position. This applies both externally to customers and distributors, as well as internally, in a growing, learning organization.

HMS continually develops and implements effective training programs as part of the HMS Academy concept. For customers, system integrators, distributors and HMS employees, the concept makes it easier to present and install HMS products and solutions.

In 2011, the number of courses and seminars offered was significantly increased. This applies to webinars as well as training provided at HMS's facilities or at the customer's site. Trainings are offered free-of-charge via HMS's webites anybus.com and netbiter.com.

Yet another of HMS's strengths is its local presence, particularly when it comes to local technical support. Free support in the local language, which HMS provides from its various sales and marketing offices, is highly appreciated and it is an important component of HMS's total offering to customers.

Eco Strategy Wheel – platform for

HMS cares about the environment and strives to achieve sustainability in all of its product development efforts, manufacturing and other operations. HMS main contribution is developing products that make energy conservation possible for its users, with the lowest possible environmental impact during the product's service life. The Eco Strategy Wheel is HMS's model for considering the environmental aspects associated with developing, manufacturing, shipping and using HMS products. In other words, it considers the entire product life cycle. The model is used for generating improvement suggestions as well as checking and following up on the Group's sustainability efforts.

Focus on energy efficiency

HMS strives to develop products and solutions that contribute to efficient energy consumption and resource-efficient production.

By using automated processes and intelligent industrial communication, it is possible to achieve more efficient energy consumption for industrial equipment, such as motor drives, pumps and fan systems.

Intelligent remote control of equipment also results in energy savings, due to more efficient operations and fewer necessary site visits for the purpose of inspection and control. This is how HMS's products lead to higher energy efficiency and thus lower environmental impact.

Product development and environmental aspects

During the product development process, HMS considers many environmental aspects.

HMS uses energy-efficient technology and low energy components in its products. NP30 and NP40, which are HMS microprocessors, have been designed using modern silicon geometry. This makes components more powerful, as well as more energy efficient.

Products are designed so that they are easy to repair and upgrade on site. This helps achieve a maximum service life, while avoiding unnecessary transportation.

They are also designed and packaged to be as compact as possible to save on packaging material and reduce the transport volume.

Packaging is designed to have the lowest possible environmental impact in terms of the materials used and to enable reuse and recycling.

Controlled material selection

There are routines and work methods in place for selecting the right materials during the design phase. Symbols are used to display the environmental category of all items.

HMS complies with the EU Directive on electronic products, RoHS, when it develops and manufactures its products. This means that no hazardous substances are used, such as lead or flame retardants. HMS also complies with REACH, the EU Directive on restricted used of chemicals and PFOS, which pertains to perflourinated substances.

our environmental efforts

"At HMS, environmental efforts are made at many levels, from selection of materials during the design phase and packaging design, control of the manufacturing process, selection of freight services and distribution solutions to waste management. The Eco Strategy Wheel is a good model because it provides an overview of the environmental aspects and helps us evaluate our environmental performance.

Katarina Lekander, *Head of Quality*

Green automation

More and more of HMS's products are now available with PROFIenergy, which is an open standard solution for energy management, i.e. green automation. This makes it possible to significantly reduce the energy consumption of machines and processes by turning them off when they are in standby mode. It also offers factories a standardized way of shutting down equipment during short or long production breaks rather than keeping them in standby mode, which consumes electricity.

Manufacturing – control and routines

There is also a number of important environmental aspects to consider in the manufacturing. Through careful control, it is possible to achieve an efficient production process with minimal use of materials, waste and energy consumption. The manufacturing process is also designed to minimize emissions and the use of human contact with chemicals.

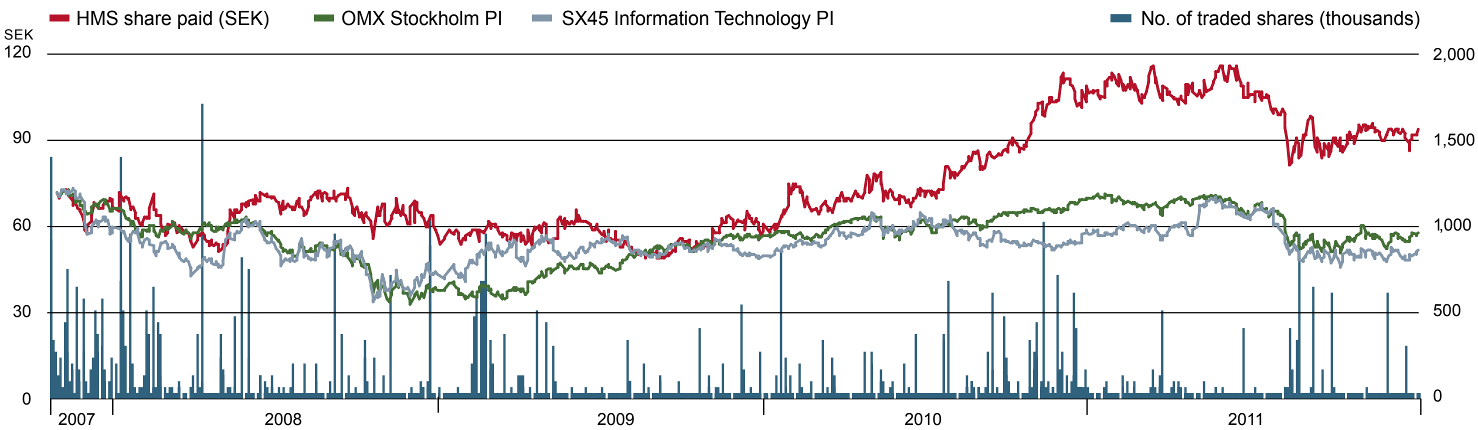
There are established routines for waste management so that there is as much recycling as possible.

Evaluation of suppliers

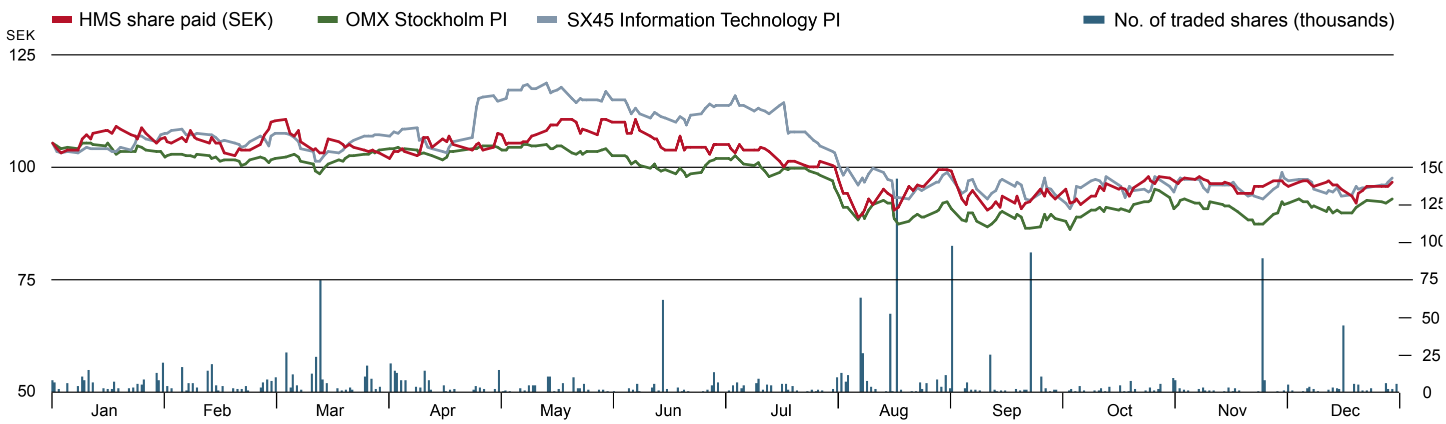
HMS uses around 75 suppliers and 15 of them represent approximately 95% of all purchases. These strategic suppliers are continually evaluated in terms of environmental certification, environmental performance and related policies, work environment and code of conduct.

The HMS share

The HMS share 2007–2011



The HMS share 2011



The HMS share has been listed on the Nasdaq OMX Stockholm Small Cap list, in the Information Technology sector, since 19 October 2007. The ISIN code is SE0002136242. Shares are traded under the HMS ticker. A trading lot is 1 share.

Number of shares and share capital

HMS has a total of 11,152,900 shares. Share capital amounts to SEK 1,115,290. All shares have the same voting rights.

Price trend

In 2011 HMS´s share price fell by 12% to SEK 94.75 (108). The OMX Industrial Index fell by 17% during the same period. The highest price paid during the year for HMS shares was SEK 119.5 and the lowest price paid was SEK 76. At year-end 2011, HMS's market capitalization was SEK 1,056.7 (1,204.5) million.

Trading volume

A total of 1,837,002 shares were traded during the year, valued at SEK 183 million, which corresponds to an annual turnover rate of 16%. On average, 7,204 shares valued at SEK 719 thousand were traded each trading day.

Dividend policy

HMS's policy is to pay annual dividends of approximately 50% of the net profit for the year.

Warrants and options

On the closing day, HMS had one outstanding warrant scheme. For further information see Note 19.

Shareholders and shareholding structure

As of 31 December 2011, HMS Networks AB (publ) had approximately 3,030 (3,300) shareholders. The ten largest shareholders represented 77.6 (73.3)% of the voting rights and capital.

The following analysts monitor HMS on an ongoing basis

Martin Nilsson, Handelsbanken Capital Markets, Andreas Joelsson, SEB Enskilda, Equity Research and Håkan Wranne, Swedbank Markets.

Key figures*

	2011	2010	2009	2008	2007
Share price (final day of trading)	**94.8**	108.0	59.8	57.5	72.8
Volume-weighted average share price	**99.8**	87.2	58.7	64.9	70.8
Average sales per day (SEK m)	**0.7**	1.1	0.5	1.0	4.9
Average number of shares traded per day	**7,204**	12,059	8,879	15,603	69,239
Number of shares (including dilution)	**11,169**	11,158	11,121	11,114	11,140
Earnings per share (including dilution)	**4.83**	5.40	1.81	5.17	2.65
Market capitalization (SEK m)	**1,057**	1,205	667	641	811
Enterprise value, EV (Market cap.+ net debt, SEK m)	**1,056**	1,189	697	684	906
P/E	**19.6**	20.0	33.0	11.1	27.5
Net debt/EBITDA	**N/A**	N/A	0.8	0.5	1.5
EV/EBITDA	**12.8**	12.8	17.7	7.3	14.8
EV/Net sales	**2.8**	3.5	2.9	2.2	3.4

* HMS's shares became listed in 2007

Share capital trend

Year	Transaction	Change in number of shares	Total number of shares	Change in share capital (SEK)	Total share capital (SEK)
2004	Company formed	100,000	100,000	100,000	100,000
2004	New share issue	900,000	1,000,000	900,000	1,000,000
2005	New share issue	22,100	1,022,100	22,100	1,022,100
2006	New share issue	1,900	1,024,000	1,900	1,024,000
2007	Warrants	33,165	1,057,165	33,165	1,057,165
2007	Split 10:1	9,514,485	10,571,650	0	1,057,165
2009	Warrants	581,250	11,152,900	58,125	1,115,290

HMS's largest shareholders on 31 December 2011

	No. of shares	Share of votes and equity
Investment AB Latour	2,473,522	22.2%
Nicolas Hassbjer	1,611,872	14.5%
Staffan Dahlström	1,597,073	14.3%
Swedbank Robur fonder	1,129,168	10.1%
SEB Fonder	1,070,340	9.6%
Deka Bank	203,200	1.8%
Nykredit	179,988	1.6%
Avanza Pension	165,648	1.5%
Martin Gren	119,427	1.1%
AMF	100,933	0.9%
Other	2,501,729	22.4%
Total	**11,152,900**	**100.0%**

Distribution according to shareholdings as of 31 December 2011

Shareholding	No. of shareholders	%
1 - 500	2,411	79.6
501 - 1 000	306	10.1
1 001 - 5 000	221	7.3
5 001 - 10 000	48	1.6
10 001 - 15 000	9	0.3
15 001 - 20 000	3	0.1
20 001 -	32	1.1
Total	**3,030**	**100.0**

Chairman's comments

2011 was another successful year for HMS, with strong growth of both sales and profit. Although there was an economic slowdown towards the end of the year, it is not expected to have much of an impact on the company's long-term strong performance.

As Chairman of the Board, I have been able to identify several factors behind the company's success. The markets have been strong, with stable growth in a number of areas and high growth in some others.

We are on the right track. Rapid technology and IT developments are quickly reaching many new areas of industry and society, which has a positive impact on the demand for HMS's products.

The proof is not only in the figures, but also in the growing number of customers and their loyalty.

At the same time, HMS has followed its strategy and strived to achieve its goals of long-term profitable growth by taking advantage of new business opportunities and doing its homework when it comes to technology, products and quality, in particular. The proof is not only in the figures, but also in the growing number of customers and their loyalty.

For a growth company in a rapidly growing sector, the Board of Directors plays an important role. We actively support the management team by listening and coaching on strategic matters. We also play an important role in the area of governance, by making sure that strategies are correctly formulated and followed up, and ensuring that there is both risk awareness and risk management.

The work performed by the Board basically follows a fixed annual cycle, with scheduled meetings and an allocation of tasks and responsibilities in accordance with the company's rules of procedure. Already at the first Board meeting held in conjunction with the AGM, we set the structure for the upcoming Board year.

The members of the Board complement each other well. Several of them hold top management positions and they understand and have insight into the challenges faced by the HMS management team. Others are able to contribute valuable input about such areas as the stock market, company acquisitions, technology development and marketing based on their own experience in top managerial positions. We invite the entire management team to take part in discussions about strategic issues and this mix results in exciting and valuable debates.

Each year, the work done by the Board is evaluated by having each member of the Board answer a number of questions, which I then compile and discuss with the entire Board. The results of these evaluations, which are also made available to the nomination committee, help ensure that the work done by the Board is efficient and they provide us with valuable feedback on whether the composition and competence of the Board is adequate. This year's evaluation revealed that the Board once again worked efficiently, with a good team spirit and desire by each member to ensure that its efforts are both constructive and meaningful.

During the year, the scope of committee work increased with the addition of a development committee. Its task is to monitor important issues having to do with product and technology development, as well as ensuring that HMS has the right expertise. HMS's other committees, as before, are the audit and remuneration committees.

Our task going forward is to support and challenge the management team on issues within a number of strategically important focus areas. We must ensure that HMS continues to have a competitive edge in a changing and growing market by making correct decisions on product development, market expansion, customer focus and human resources.

It is also necessary to monitor and manage the various risks associated with our growing company and its increasingly global operations – HMS now has customers in more than 50 countries – as well as giving appropriate consideration to environmental requirements and sustainability.

At the same time, we must monitor the increasingly turbulent macroeconomic situation and help in assessing how various developments impact the company.

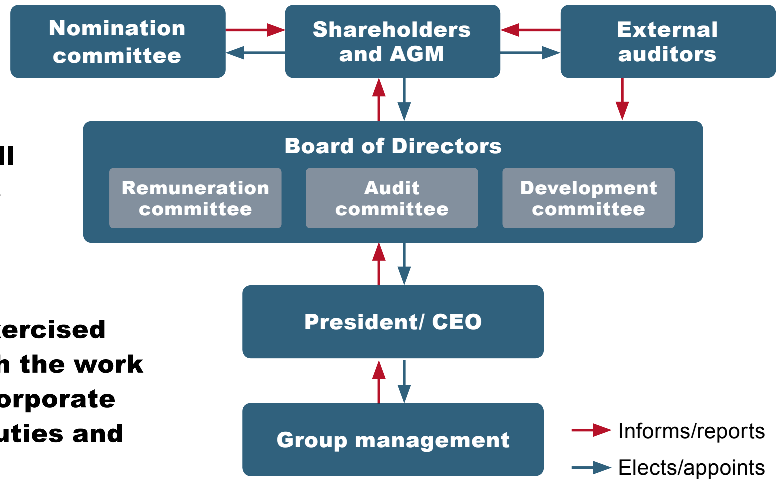
HMS is both a growth and knowledge company and its success depends on quick actions, goal-orientation and the right expertise. Those are difficult and important challenges that we have enormous respect for. It is, however, very stimulating to be a part of it all and assist HMS in meeting its goals and continuing on this successful journey.

Urban Jansson
Chairman of the Board

Corporate governance report

The HMS Board of Directors and management team strive to ensure that the company lives up to the demands of the OMX Nordic Exchange, the company's shareholders and other stakeholders. The Board also monitors all issues having to do with the recommendations and requirements from the company's stakeholders. HMS complies with the directives in the Swedish Code of Corporate Governance.

Corporate governance at HMS is primarily exercised at the Annual General Meeting and and through the work done by the Board. In a broader perspective, corporate governance also applies to management, its duties and the Group's control and reporting functions.



Structure for corporate governance

HMS's shareholders are ultimately responsible for making decisions on corporate governance. The Annual General Meeting elects the Board of Directors, the Chairman of the Board and the auditors. It also decides how the nomination committee will be elected. The Board is responsible to the shareholders for how the Group is organized and how its affairs are managed. The auditors report their findings at the AGM.

Shareholders and AGM

The shareholders exercise their right to decide on the company's affairs at the Annual General Meeting, which is the company's highest decision-making body. Items that are decided at the AGM include adoption of the income statement and balance sheet, appropriation of profits, discharge of responsibility for the Board of Directors, election of a new Board of Directors and new auditors and remuneration to the Chairman of the Board, other Board members and the auditors. The meeting also decides on guidelines for remuneration to the management team.

In addition, the AGM decides on any changes to the company's Articles of Association, new share issues and the introduction of any share- related incentive schemes. The Articles of Association are the company's fundamental governing documents. Among others, they specify the types of operations the company may run, the size of share capital, shareholders' right to attend the AGM and the agenda of the AGM.

Any shareholder who wishes to have a particular item dealt with at the AGM must submit a written request to the Board well in advance so that the item can be included in the notice of the AGM. Information on the deadline for submitting such requests to the Board is available on the company's website. Information relevant to the AGM and the minutes from the AGM are available on the company's website: www.hms.se.

The AGM must be held within six months following the end of the financial year. All shareholders who are registered in the shareholders' register on the record day (i.e. five calendar days before the date of the AGM) are entitled to participate in the AGM, provided that they have also registered to attend. Each share entitles the shareholder to one vote. Notice of the AGM must be issued no earlier than six weeks and no later than four weeks in advance by advertising in Dagens Industri and the Swedish Gazette.

Annual General Meeting 2011

The AGM was held on 14 April 2011 at the company's office in Halmstad. Present at the meeting were shareholders representing approximately 58% of the number of shares and votes. Those in attendance at the AGM were Chairman of the Board Urban Jansson and the following Board members: Nicolas Hassbjer, Göran Sigfridsson, Henrik Johansson, Charlotte Brogren and Gunilla Wikman. Also at the meeting were Jan Svensson, Chairman of the nomination committee and Olof Enerbäck from the firm of auditors. Shareholders at the AGM decided on the following:

- to issue dividends of SEK 2.00 per share, totaling SEK 22,305,800
- that the Board would consist of seven members
- to re-elect all of the Board members
- to re-elect Urban Jansson as Chairman of the Board
- that remuneration to the Board would be SEK 1,200,000 for the current financial year, of which SEK 300,000 to the Chairman of the Board and SEK 150,000 to each Board member who is not employed by the company
- on guidelines for appointing the nomination committee
- on guidelines for remuneration and other conditions of employment for the CEO and other senior executives.

Nomination committee

The AGM decides on how the nomination committee is appointed. It is the duty of the nomination committee to, prior to the next AGM, prepare and submit proposals for a Chairman of the Board and other Board members, as well as remuneration to

In 2011, HMS expanded its facilities in Halmstad by adding approximately 2,000 m^2. The new extension was opened in January 2012.

the Chairman and other Board members. The nomination committee is also responsible for evaluating the work done by the Board of Directors based on the report it receives from the Chairman. The nomination committee also proposes the election of auditors and their remuneration.

At the 2011 AGM, a decision was taken on the principles for establishing a nomination committee at HMS Networks AB. In accordance with the nomination committee's proposal, the shareholders at the AGM decided that the nomination committee would consist of the Chairman of Board, along with representatives from the largest shareholders (as of 31 August) up until the next AGM is held or, when necessary, until such time as a new nomination committee has been appointed.

The nomination committee appoints one of its members as chairman (however, neither the Chairman of the Board nor any other member of the Board of Directors may be elected as chairman of the nomination committee). If any of the three largest shareholders declines the right to appoint a representative, that right will pass to the next largest shareholder on the list (as of the date specified above). If a member resigns from the nomination committee early, a replacement will be appointed by the same shareholder that appointed the one who has resigned (if this is deemed appropriate). Or if that shareholder no longer ranks among the three largest shareholders, a replacement will be appointed by the shareholder who is next on the list of the largest shareholders.

Members of the nomination committee and voting rights

Representative	Shareholder	Voting rights (% of total) as of 31 Dec 2011
Nicolas Hassbjer	Representing Staffan Dahlström and own holdings	28.8
Jan Svensson, Chairman	Investment AB Latour	22.2
Evert Carlsson	Swedbank Robur Fonder	106
Urban Jansson, Chairman of the Board		

The composition of the nomination committee must be published on the company's website no later than six months prior to the next AGM.

The nomination committee strives to achieve gender balance on the Board of Directors. The Board of Directors currently has 29% women serving on it.

External auditors

Auditors are currently appointed to serve for a period of four years, which ensures continuity and depth of the audit work. The auditors are accountable to the shareholders at the AGM and they must provide an auditor's report on the financial statements and the administration by the Board of Directors. The auditors regularly provide both written and oral reports to the audit committee on how the audit has been carried out, as well as their assessment of the controls that are in place in the company. The auditors attend meetings of the Board of Directors twice per year to discuss the audit and provide their assessment of the internal controls.

At the 2009 AGM, shareholders elected PwC as the audit firm, with Authorized Accountant Olof Enberbäck as the auditor in charge, for a period of four years. In addition to the audit, PwC also provides advice concerning auditing and tax. This advice is not considered to be biased.

In 2011 total remuneration paid to HMS's auditors amounted to SEK 602 (672) thousand. Additional information about remuneration to the auditors is provided in Note 7.

Board of Directors

The Board is responsible for how the company is organized and for administration of the company's affairs on behalf of the owners. The Board assesses the company's financial situation on an ongoing basis and makes sure that it is organized such that there are adequate controls on its bookkeeping, fund management and other financial matters. The Board sets policies and instructions for how this is to be achieved. It also adopts rules of procedure for the Board and instructions for the CEO. These central governance documents specify how responsibilities and authority are allocated between the Board and its committees, as well as between the Chairman of the Board and the CEO. The Board appoints the CEO. The Chairman is responsible for evaluating the work of the Board and providing the nomination committee with the results of that evaluation.

Basis for Board work

Fundamental issues having to do with the allocation of responsibilities between the Board, its committees, the Chairman of the Board and the CEO are dealt with in the Board's rules of procedure and its instructions to the CEO. The rules of procedure regulate such things as how often the Board convenes and the items that it should address at Board meetings. The rules of procedure also explain the allocation of responsibility between the Board, its Chairman and the CEO.

The Board is responsible for adopting strategies, business plans, budgets, quarterly reports, financial statements and the annual report. The Board is also responsible for appointing and dismissing the CEO and decisions involving significant changes to the HMS organization and operations. The rules of procedure state the thresholds that apply when the Board must decide on investments, company mergers and acquisitions, loans, etc.

Evaluation of the work done by the Board occurs continually, in part on its overall efforts and in part on the contribution made by each individual member. The purpose is to ensure that the HMS Board of Directors has the right structure in terms of its expertise and dedication.

Board structure

The Board consists of seven members. Each member has extensive experience from industry and are or have at some time been CEOs and/or senior executives in large companies. Furthermore, many of them serve on the Board of one or more other large companies. Some of the company's Board members have served on the Board for quite some time and they are well acquainted with the company's operations.

The Swedish Code of Corporate Governance stipulates that the majority of elected Board members must be independent in relation to the company and Group management. Furthermore, at least two of the independent members must also be independent in relation to the shareholders that control 10% or more of the shares or voting rights in the company. The nomination committee performed an assessment of each Board member's relationship to the company, the Group management team and major shareholders. It found that two of the Board members do not have an independent relationship to major shareholders (Nicolas Hassbjer, who represents the two main owners, Nicolas Hassbjer and Staffan Dahlström, who together own 29% of the shares and votes in the company and Henrik Johansson who reppresents Investment AB Latour, which controls 22% of the shares and votes). The unique expertise of each individual Board member and the resulting competence of the entire Board is presented on pages 36-37.

The total of amount of fees paid to the Board in 2011 was SEK 1,103 (825) thousand. For a more detailed description of Board members' attendance at meetings, please see Note 26 on page 71.

Chairman of the Board

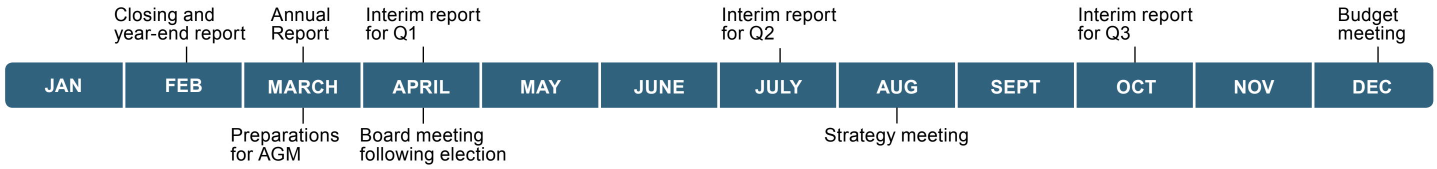
Among others, the Board's rules of procedure stipulate that the Chairman must ensure that the Boards work is conducted in an efficient manner and that the Board fulfills its obligations. This includes organizing and leading the Board's efforts and creating the best possible conditions for meeting its responsibilities. The Chairman is also responsible for ensuring that the members of the Board are always up to date and have in-depth knowledge of the company. Furthermore, the Chairman must ensure that new members are provided with training and a suitable introduction to the company. The Chairman must serve as an advisor to the CEO and regularly discuss important issues with him. He must also evaluate the CEO's work and present his assessment to the Board. In addition, it is the Chairman's duty to ensure that the work of the Board is evaluated annually and that a report on this evaluation is provided to the nomination committee.

At the AGM on 14 April 2011 Urban Jansson was re-elected as Chairman of the Board. The Chairman of the Board in not involved in the operational management of the company.

Work of the Board in 2011

During the period between the AGM on 14 April 2011 and the adoption of this annual report, the Board has held eight meetings at which the minutes were taken. Both the CEO and CFO of HMS Networks AB participate in Board meetings,

Board work follows a structure that includes certain standing items. It is depicted below:



with the CEO serving as rapporteur and the CFO serving as secretary. At each of its meetings, the Board has dealt with the mandatory standing items, as stipulated in the Board's rules of procedure. This includes discussion of the company's business situation, budgets, quarterly reports and annual financial statements. The work of the Board otherwise focused on the further development of previously established market and acquisition strategies. Besides its scheduled meetings, the Board's work consists of regular follow-up on financial matters, strategic product development, providing recommendations on remuneration levels, dealing with company acquisition issues and matters having to do with accounting and auditing.

Remuneration committee

The Board appoints a remuneration committee from its members that regularly evaluates group management's conditions of employment compared with the market conditions for similar group management in other companies. The Board decides on the principles for remuneration to senior executives and the CEO.

The remuneration committee consists of the Chairman of the Board (Urban Jansson) and two other appointed Board members (Ray Mauritsson and Nicolas Hassbjer). Ray Mauritsson was elected as Chairman of the remuneration committee.

Audit committee

The Board nominates an audit committee, which monitors the financial reporting by examining all critical audit issues and other conditions that might affect the content and quality of the financial statements. The committee also monitors the effectiveness of the company's and Group's internal controls, risk management systems and the external auditors' impartiality and independence. The audit committee evaluates the audit work and assists the nomination committee in the selection of auditor. The committee also makes decisions regarding all purchases of consulting services from the company's auditor that are not related to the audit.

The audit committee consists of the Chairman of the Board (Urban Jansson) and two other appointed Board members (Gunilla Wikman and Henrik Johansson). Gunilla Wikman was elected as Chairman of the audit committee.

The committee has regular contact with the external auditors, who report any irregularities that they became aware of while conducting the statutory audit, particularly possible weaknesses in the internal control concerning the financial reporting.

Development committee

The Board appoints some of its members to serve on the development committee. This committee is meant to serve as a sounding board for the HMS management team on issues having to do with research and development, specific projects and the company's portfolio of development projects, the organizational structure of the R&D department and how it is managed, as well as the training and development of employees. Furthermore, the committee should be a resource when it comes to planning and presenting R&D initiatives that require a decision by the Board due to the strategic importance, required investments or the need to cooperate with other partners. The committee should ensure that the HMS Board keeps up to date on R&D issues relevant to HMS's development. The development committee consists of Vice Chariman of the Board (Nicolas Hassbjer) and two other appointed Board members (Charlotte Brogren and Göran Sigfridsson). Charlotte Brogren was elected as Chairman of the development committee.

CEO and Group management

The CEO is responsible for developing the company's business, as well as leading and coordinating daily operations in accordance with the instructions and directions adopted by the Board. This means, among other things, responsibility for the financial reporting, compiling the supporting information for decisions and ensuring that obligations, contracts and other legal documents do not contravene Swedish or international laws and regulations. The CEO must also ensure that the company's goals, policies and strategic plans are being followed and that they are updated whenever necessary. The CEO appoints the other members of the Group management team.

Furthermore, the CEO is responsible for providing the Board with required information and supporting documentation for decisions. Such information must be sent to each Board member at least 7 days prior to a scheduled Board meeting, where the CEO serves as rapporteur. The CEO continually provides the Board and Chairman with updates on the company's and Group's financial position and growth.

The six member Group management team is headed by the CEO and its other members are the individuals who hold the following positions: Chief Financial Officer, Chief Operating Officer, HR Manager, Global Sales Director and Marketing Director. For additional information about the Group management team, please see pages 38-39.

The Group management team has overall responsibility for making sure that the operations conducted by the Group are in accordance with the strategy and long-term goals established by the HMS Board of Directors. The Group management team meets every month. These meetings deal with strategic issues that concern the entire Group. The meetings are led by the CEO, who makes decisions after consulting with the other members of the Group management team.

In 2011, the total remuneration (including pension provisions) to the CEO amounted to SEK 1,465 (1,519) thousand. For more information about remuneration to the CEO and Group management team, see Note 26.

Board's internal control report concerning financial reporting

HMS's work with internal control has been designed to ensure that the company provides reliable information in its financial statements[1] and that its financial reporting is in accordance with the applicable laws, regulations other requirements that apply to listed companies. The work with internal control provides value by clarifying roles and responsibilities, improving the efficiency of processes, increasing risk awareness and improving the reliability and quality of financial reporting and follow up.

Description

Internal control of financial reporting at HMS is an integral part of corporate governance. It consists of processes and methods for protecting the Group's assets and ensuring the accuracy of its financial reporting. The purpose of such internal control is to protect the owners' investment in the company. To organize and further improve this work HMS uses the COSO framework, which is a structured basis from which to carry out evaluations and follow ups of internal control of the financial reporting.

Control environment

The foundation for internal controls consists of the overall control environment that has been established by the Board and management team. It is built on an organization with unambiguous decision paths, clear instructions on the allocation of responsibilities and authority and a company culture with shared values and individual awareness of the role each person plays in maintaining effective internal controls.

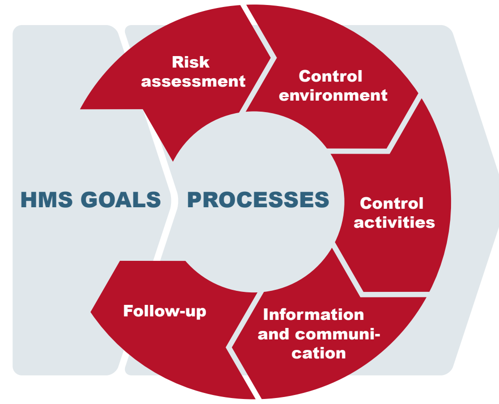
The Group strives to ensure that its values (page 6) are evident throughout the organization. There is much emphasis on applying these values in all company interactions, both internal and external. During 2011, HMS established a Code of Conduct. It explains the desired behavior in different situations.

The Board has overall responsibility for the internal controls concerning financial reporting. The Board has established written rules of procedure that clarify the Board's responsibilities and how work should be allocated within the committees. The Board has also appointed an audit committee, which is primarily responsible for ensuring the reliability of financial reporting and adequacy of internal controls. It also interacts with the company's auditors for that same purpose. Furthermore, the Board has drawn up instructions pertaining to financial reporting for both the CEO and the Board of HMS. Responsibility for maintaining an effective control environment and the day-to-day efforts related to internal controls have been delegated to the CEO, who in turn has delegated responsibility for specific functions to managers at various levels of the Group.

The purpose of HMS's internal control efforts is to ensure that the Group achieves it goals for financial reporting. A minimum requirement is for the control activities to address the key identified risks within the Group.

Responsibility and authority are defined in the instructions for the right to sign on behalf of the company, manuals, policies and routines. Examples include HMS's manual for accounting and reporting, the finance and credit policy, information policy, IT security policy and HR policies. These guidelines, together with laws and other external regulations, are the components of the control environment. Every employee must follow these guidelines.

During 2011, HMS continued its review and analysis of the existing governance processes and internal controls so that the Board has adequate supporting documentation for establishing the appropriate level of stringency. The review is based on analyses of how the COSO frameworks significant areas are reflected



in the HMS organization. The work is expected to result in an evaluation and verification of the governance documents and guidelines that form the basis for the Group's governance activities.

Risk assessment

Risk assessment stems from the Group's financial targets. The following have been identified as the overall financial risks: liquidity risk, currency risk, interest rate risk and credit risks. These are primarily dealt with via the accounting and finance functions, in accordance with the Group's financial policy. For more detailed information, please see Note 3. Through quantitative and qualitative risk analyses based on the Group's balance sheet and income statement, HMS identifies the key risks that could pose a threat to the company achieving its business and financial targets. Risk assessment involves identifying the risks that could arise if the fundamental requirements on financial reporting (completeness, accuracy, valuation and presentation) by the Group are not fulfilled.

The focus is on risks in the financial reporting related to significant income statement and balance sheet items, which, on the whole, are more dependent on an underlying complex process or where the effect of errors could be very large, since the transaction amounts are significant. The findings from tests of controls can be used to improve control routines such that there is an even higher level of assurance of the accuracy of financial reporting.

1) Financial reporting consists of interim reports, the year-end report, the annual report and internal reporting.

Control activities

Control activities mitigate the identified risks and ensure that financial reporting is both correct and reliable and that processes are efficient. The control activities include both overall controls and detailed ones. They aim at preventing, discovering and correcting any errors or deviations.

The central finance and accounting department is responsible for the consolidated financial statements, as well as the financial and administrative control systems. The department's responsibilities also include ensuring that relevant instructions for the financial reporting are made known and available to the employees concerned.

The accounting and control functions regularly perform reconciliations and checks of reported amounts, along with analyses of the income statements and balance sheets. The control function performs control activities at all levels of the company. The function analyzes and follows up on any budget deviations, makes forecasts, monitors significant fluctuations over defined periods and reports findings to the rest of the company, thus minimizing the risk of errors in the financial reporting.

The financial managers of the subsidiaries are responsible for ensuring that the control activities for the financial reporting of their respective units are adequate, which means that they have been designed to prevent, discover and correct errors and deviations, and that they correspond to internal guidelines and instructions.

A high degree of IT security is required for good internal control in financial reporting. Rules and guidelines are therefore in place to ensure accessibility, accuracy, confidentiality and traceability of the information in the ERP. Access to the various components of the ERP is limited, based on the employee's authorization level, responsibilities and position. Furthermore, segregation of duties helps prevent both intentional and unintentional entries.

As part of the effort to ensure the quality of the financial statements, the Board has set up an audit committee consisting of the Chairman of the Board and two additional Board members. The committee deals with critical auditing issues and monitors the effectiveness of internal controls and risk management concerning the financial reporting.

Information and communication

Information and communication about risks, controls and control results throughout the HMS Group help ensure that the right business decisions are made. The Group strives make certain that the information and communication routes for the internal controls pertaining to financial reporting work as intended and are known throughout the Group.

The guidelines for financial reporting are communicated to all employees concerned within the Group via policies, manuals and work instructions. The information includes methods, instructions, checklists, descriptions of roles and responsibilities and an overall schedule. The HMS Group's published financial statements for external reporting purposes are derived from all of its legal entities and they are prepared in accordance with standardized reporting routines.

The HMS Group's accounting policies and any changes that are made to them are always communicated by direct mail to all employees concerned within the organization. Furthermore, each month, all subsidiaries prepare a monthly report, which contains information about its financial status and development.

To ensure that information reported externally is correct and complete, the Board has established an information policy. It specifies which items must be communicated, who is responsible for communicating the information, and how this should be done. There are also instructions for how financial information should be communicated between managers and other employees.

There must also be adequate information security routines to ensure correct dissemination of information.

HMS's information routines and systems are designed to supply the market with relevant, reliable, correct and up-to-date information about the Group's growth and financial position. HMS's information policy meets the requirements that have been established for listed companies.

Financial information is regularly published in the form of:

- Quarterly and year-end reports, which are published as press releases
- Annual Report
- Press releases about important news and events that could have a significant impact on the share price
- Presentations and teleconferences for financial analysts, investors and the media on the same day as the financial statements and quarterly reports are published and in conjunction with the publication of other important information
- Meetings with financial analysts and investors

All reports, presentations and press releases are published simultaneously on the Group's website at: http://investors.hms.se.

Follow up

Follow up and tests of controls are regularly performed to ensure that all risks have been taken into account and dealt with satisfactorily. Follow up includes both formal and informal routines that are performed by managers, process owners and controllers. They include such things as comparing results to budgets and plans, analyses and key figures.

If controls fail, actions are are taken to address the problem and correct whatever weaknesses that have been identified.

The Board studies and approves all of the Group's quarterly reports, year-end reports and annual reports prior to publication. The Board also receives monthly financial reports concerning the Group's position and earnings trend and the Group's financial situation is discussed at each Board meeting. The finance department and management team carry out detailed monthly analyses of financial reports.

Rolling forecasts are another important component of Group-wide internal control. Product level sales forecasts are made quarterly with a 12-month horizon by managers from the sales organization. Sales forecasts are consolidated and validated in connection with compiling the forecasts for the entire business. Comprehensive forecasts are compiled twice per year. In addition to the comprehensive forecasts, a budget is also drawn up, which is presented to the Board for its approval in Q4. Besides the forecasts and budgets, Group management also works with overall strategic plans.

The audit committee follows up the financial reports and receives information from the company's auditor about their findings and recommendations. Checks on how well internal control activities are working are regularly performed at various levels within the Group.

Because of the scope of operations and the existing control activities, the Board has determined that it is not necessary to set up a special audit function.

Auditor's report on the Corporate Governance Statement

To the annual meeting of the shareholders of HMS Networks AB (publ), corporate identity number 556661-8954

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2011 on pages 29-35 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Halmstad, 15 March 2012
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Board of Directors

Nicolas Hassbjer born 1967
Vice Chairman and founder of HMS. Board member since 1988. Not independent of the company's major shareholders.
Other assignments: Management and strategy adviser in rapidly expanding companies throughout Hassbjer Development AB. Chairman of the Board for Genomatix Software GmbH (Munich) and Board member of Anoto Group (publ), Sigicom AB, Magnetic Components AB, Sydsvenska Handelskammaren and several privately held companies.
Professional experience: President and CEO of HMS from June 1988 until March 2009.
Education: Honorary Doctorate in Information Technology.
Shareholding: 1,611,872 shares

Charlotte Brogren born 1963
Board member since 2010. Independent from the company and its main owners.
Other assignments: General Director of Vinnova and Chairman of Industrifonden, Board member of KTH Holding, PTS and Q-Free AS.
Professional experience: Development Manager and Group Vice President of ABB Robotics until September 2009. Prior to that, she worked in senior positions within ABB's research organization.
Education: Ph.D. in Chemical Engineering, Lund University
Shareholding: 1,000 shares

Urban Jansson born 1945
Chairman of the Board 2007. Board member since 1999. Independent from the company and its main owners.
Other assignments: Chairman of the Board of EAB and Svedbergs.
Board member of Lindéngruppen AB, Clas Ohlson AB (publ), Höganäs AB, Skandinaviska Enskilda Banken AB (publ).
Education: Higher degree in banking from Skandinaviska Banken.
Shareholding: 59,750 shares

Ray Mauritsson born 1962
Board member since 2007. Independent from the company and its main owners.
Other assignments: CEO of Axis AB (publ).
Education: M.Sc. in Engineering Physics and Executive MBA from the Lund School of Economics and Management.
Shareholding: 5,000 shares

Göran Sigfridsson born 1948
Board member since 2008. Independent from the company and its main owners.
Other assignments: runs own management consulting company, SimaCon AB.
Other Board assignments: Chairman of Svep Design Center AB and Board member of Borgestad Industries ASA (publ), Capilon AB (publ), Scan Coin AB and Energy Converting Wind Sweden AB.
Professional experience: senior positions in industrial automation and President of Beijer Electronics AB (publ) från 1981 to 2008.
Education: M.Sc. in Electronics.
Shareholding: 1,000 shares

Henrik Johansson born 1966
Board member of HMS since 2009. Not independent of the company's major shareholders.
Other assignments: Head of Investment AB Latours business area Latour Industries. Chairman of the Board of Nord-Lock International AB, LSAB Group AB, REAC AB, Specma Seals AB and AVT Group AB. Board member of Hultafors AB.
Professional experience: senior positions at Tradex Converting and Brady Corporation and extensive experience of globally expanding businesses.
Education: B.Sc. in Industrial Economics from the Chalmers University of Technology.
Shareholding: 6,400 shares

Gunilla Wikman born 1959
Board member since 2010. Independent from the company and its main owners.
Other assignments: Communications Consultant at Carrara Communication and Consultant at Ekman & Partners.
Other board assignments: Vice Chairman of the Swedish Equestrian Federation, Board member of AMF Fonder, SJ AB and Flyinge AB.
Professional experience: Information Manager at Swedish Match, Financial Journalist at Veckans affärer and SVT, Information Manager at Bankstödsnämnden, Information Manager at Riksbanken, Corporate Information Manager at SEB.
Education: M.Sc. in Business and Economics
Shareholding: 0 shares

Group management

Staffan Dahlström
Chief Executive Officer
Born 1967. President and CEO of HMS. Staffan has previously worked as the head of global marketing and sales at HMS. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad University. Executive MBA, Lund School of Economics and Management. Shareholding: 1,597,073 shares and warrants to subscribe for 20,000 shares.

Anders Hansson
Marketing Director
Born 1968. Marketing Director at HMS since 2010. Anders started working at HMS in 2000 and since then he has held a number of positions in international sales and marketing, such as Product Manager, Sales and Marketing Manager for HMS France and Head of HMS Global Key Account Management. He has a M.Sc. in Industrial Management & Economics. Shareholding: 7,100 shares and warrants to subscribe for 5,000 shares.

Gunnar Högberg
Chief Financial Officer
Born 1956. CFO of HMS since August 2006. Gunnar has previously been the CFO for Roxtec AB, Kipling Holding AB (publ) and the Group Controller for Althin Medical AB (publ). Gunnar also has many years of accounting and auditing experience, such as Authorized Public Accountant at Ernst & Young. He has a B.Sc. in Business Administration and Economics, from Uppsala University.
Shareholding: 26,500 shares and warrants to subscribe for 20,000 shares.

Niclas Johansson
Global Sales Director
Born 1972. Global Sales Director at HMS since 2008. He has a M.Sc. in Business Administration & Economics and extensive experience of international sales.
Shareholding: 11,000 shares and warrants to subscribe for 10,000 shares.

Sabina Lindén
HR Manager
Born 1979. HR Manager of HMS since April 2006. She has a B.Sc. in Social Science from the University of Gothenburg.
Shareholding: 5,500 shares and warrants to subscribe for 10,000 shares.

Jörgen Palmhager
Chief Operating Officer
Born 1968. Chief Operating Officer at HMS since January 2007. Prior to that, Development Manager at HMS from 1992 until 2006. Since 2005, Jörgen has been a member of the Technical Review Board at Open Devicenet Vendor Association.
Jörgen has a B.Sc. in Computer Systems Engineering from Halmstad University.
Shareholding: 39,750 shares and warrants to subscribe for 20,000 shares.

Glossary

ARM – a family of 32-bit processor kernels with RISC architecture, developed by ARM Ltd. ARM is the most widely used RISC based architecture for high performance solutions and low energy consumption.

Design-win – a framework agreement with an OEM company. It enables a company to use Anybus in its products as long as the products are manufactured.

Discrete manufacturing – involves manufacturing volumes consisting of discrete units of a product, which are manufactured according to a description and component's list, such as computers, cars and toasters. This type of manufacturing is usually in batches and the final product can typically be disassembled into its original components.

ESD protection – Protection against electrostatic discharge.

FPGA – Field Programmable Gate Array, programmable semiconductor devices that are based around a matrix of configurable logic blocks. The FPGA circuit's logic function can be adapted to different functional requirements, which makes possible flexible solutions with high, optimal performance.

Gateway – a connection point between different types of networks. It serves as a protocol or data converter. It is actually a collection of hardware and software, such as routers that convert data between networks, or between networks and equipment with different standards.

High real time demands – involves knowing exactly when data arrives. There are high real time performance demands when the data is extremely time-critical and millisecond precision is required. Email has comparatively low real time demands, since not even second precision is required.

Network – a general term for a system with interconnected computers that can be designed in various ways. In an industrial network, such as a manufacturing facility, machines and equipment are connected and controlled by programmable logic controllers (PLCs), which enable the devices to interact with one another.

Network protocol – a collection of rules or a standard, for how two or more computer programs communicate and exchange information with each other. 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).

OEM – Original Equipment Manufacturer is a company that manufactures and sells products under its own brand, even though their products can contain products and components from other companies.

PFOS – EU Directive 2006/122/EG restricts the use of perfluorooctane sulfonates and substances that can be broken down into PFOS in chemical products and goods.

PLC – Programmable Logic Controller. Programmable control system that controls all or parts of an automation system or equipment in discreet manufacturing.

Port – 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.

Process manufacturing – a branch of manufacturing that is associated with formulas and manufacturing recipes, such as quantities of liquid, gas or powder. Once an output is produced by this process, in cannot be distilled back to its basic components.

RISC – Reduced Instruction Set Computing, a processor architecture that requires fewer logic levels and thus achieves higher clock speeds while consuming less silicon. It provides high performance and high cost effectiveness.

Reach – EU framework legislation (2006/1907/EG) the registration, evaluation, authorization and restriction of chemicals. This legislation into force on 18 December 2006.

RoHS – EU Directive (2002/95/EG) on the restriction of the use of certain hazardous substances in electrical or electronic equipment. The Directive has been in force since 1 July 2006. The banned substances are mercury, lead, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE). The government authority in charge of enforcing this in Sweden is the Swedish Chemicals Agency.

Serial port – 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 single PC typically has 2-4 serial ports. 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).

WEEE – EU Directive (2002/96/EG) on waste that is comprised of, or contains, electrical or electronic equipment. The Directive has been in force since 27 January 2003. The government authority in charge of enforcing this in Sweden is the Swedish Environmental Protection Agency.

VPN – virtual private network is a technology used for creating strong connections, or tunnels, between two points in a computer network.

Financial statements

Gunnar Högberg
Chief Financial Officer
Tel: +46 35-17 29 95
Email: guh@hms.se

Directors' report

Operations

HMS is one of the world's leading suppliers of communication technology for industrial automation. The Group develops and manufactures flexible, reliable solutions for connecting industrial products to networks and gateways enabling interconnection between various 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 Group also develops, markets and sells products for remote management under the Netbiter® brand. HMS was founded in 1988 and over the past 10 years the company has had average organic growth of 17% per year. Sales are conducted from the head office in Halmstad and through the company's sales offices in Chicago, Tokyo, Beijing, Karlsruhe, Milan, Mulhouse, Pune, Coventry and Copenhagen.

Seasonality

The business is not subject to any significant seasonal variations.

Significant events in 2011

The strategic investments, resource enhancements, product launches and other efforts to streamline the organization that were planned in 2010 and 2011 have now all been implemented. With the new resources in place, HMS is well equipped for continued long-term growth in accordance with the Group's established strategy.

There was a strong inflow during the year of new design-wins, which creates good conditions for even more growth with time. At year end, the total number of active design-wins was 909 (830). Of that number, 782 (683) are in the production phase. The average revenue per design-win in the production phase amounted to SEK 0.37 (0.35) million.

On 14 April 2011, HMS held its AGM. All of the proposals by the Board and nomination committee were adopted by the AGM. Urban Jansson was re-elected as Chairman of the Board. Ray Mauritsson, Göran Sigfridsson, Henrik Johansson, Nicolas Hassbjer, Gunilla Wikman and Charlotte Brogren were re-elected as Board members. At the first Board meeting, Nicolas Hassbjer was elected as Vice Chairman of HMS's board and Staffan Dahlström was appointed President and CEO of HMS Networks AB.

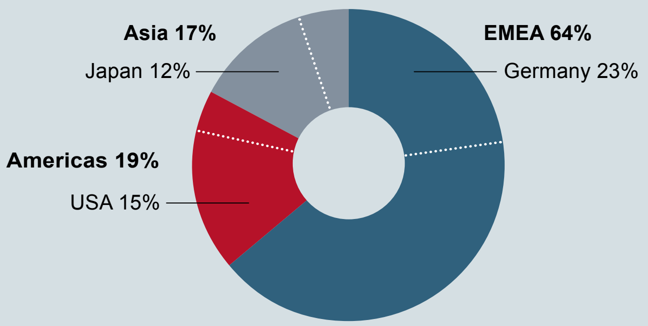
Significant events in brief:

- HMS acquired the remaining shares in the subsidiary, Intellicom Innovation AB, which develops communications solutions for monitoring industrial machinery.
- New subsidiaries were set up in India, Denmark and Great Britain.
- HMS signed a framework agreement with one of Europe's leading manufacturers of automation equipment for Industrial Ethernet communication solutions. The total order value amounted to SEK 7 million.
- A large number of new Gateway products were launched during the year, which has extended HMS's product range even further.
- The network protocol BACnet/IP was launched as a new member of the Anybus CompactCom family (embedded network cards).
- HMS signed a framework agreement with a manufacturer of automated assembly machines.
- In total, agreements were signed with 28 new system partners in 2011.
- HMS began a green automation initiative by launching solutions for energy control in automation systems.

Net sales

The Group's net sales increased by 11% and amounted to SEK 383.6 (344.5) million. Exchange rate fluctuations had a negative impact on net sales of SEK 23.3 million during the year. Invoiced sales by region were as follows: EMEA 64 (62)%, Americas 19 (18)% and the Asia 17 (20)%. The Group's largest markets are Germany, USA and Japan.

HMS Group's revenue distribution by market in 2011



Summary of results

	2011	2010
Net sales, SEK m	383.6	344.5
Operating profit, SEK m	72.2	83.5
Operating margin, %	18.8	24.2
Profit after financial items, SEK m	73.8	84.1
Profit for the year, SEK m	53.9	61.7
Earnings per share, SEK	4.84	5.41

Profit

Operating profit after depreciation amounted to SEK 72.2 (83.5) million. Operating margin was 18.8 (24.2)%. Financial items amounted to SEK 1.6 (0.5) million and profit after financial items amounted to SEK 73.8 (84.1) million. Tax expense was SEK -19.8 (-22.4) million and profit after tax amounted to SEK 53.9 (61.7) million.

Investments

Investments in items of property plant and equipment during the period amounted to SEK 9.3 (6.4) million and investments in intangible assets amounted to SEK 10.7 (8.4) million. The investments in intangible assets were the capitalization of development costs associated with internal projects.

Cash flow from investing activities also includes the acquisition of the remaining 36% of the shares in the subsidiary, Intellicom Innovation AB for SEK 18.2 million.

Financial position

As of 31 December 2011, the Group had cash and cash equivalents of 26.6 (55.0) million, excluding unutilized credit of SEK 20.0 million.

Cash flow from operating activities amounted to SEK 45.6 (75.3) million. After net investments of SEK -37.0 (-19.0) million plus amortization and dividends paid totaling SEK -37.3 (-26.2) million, cash flow for the year amounted to SEK -28.7 (30.2) million.

The Group's net cash decreased to SEK 1.4 (15.5) million. The net debt to equity ratio was 0.0 (-0.1) times and the equity to assets ratio was 76.3 (71.9)%.

Group structure

HMS Networks AB (publ), CIN 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., HMS Industrial Networks India Private Limited, HMS Industrial Networks Ltd, HMS Industrial Networks ApS and Intellicom Innovation AB.

Foreign branches

The Group has a Registered Representative Office in Peking. The office offers sales and support to the Chinese market.

Environmental impact and sustainable development

HMS cares about its impact on the environment and it strives to achieve sustainability in its product development efforts, manufacturing and all other business activities. HMS's main contribution is developing and manufacturing products that make energy conservation possible for its users, with the lowest possible environmental impact during the product's service life. The Eco Strategy Wheel is HMS's model for considering the environmental aspects associated with developing, manufacturing, shipping and using HMS products. In other words, it considers the entire product life cycle. The model is used for generating improvement suggestions as well as checks and follow-up on the Group's sustainability efforts.

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 early on to phase out lead, mercury, hexavalent chromium, cadmium and flame retardant agents from its Anybus® products and production processes. The Group does not conduct any activities that require compulsory registration or permits.

Research and development

The Group expensed SEK 36.7 (31.5) million for research and development during the year. In addition, development costs of SEK 10.7 (8.4) million were capitalized, of which SEK 10.6 (8.2) million was own work. Total investments in research and development amount to 12 (12)% of sales. The Group's policy is to only capitalize major projects for developing its own integrated circuits and new platforms for products intended for use in embedded systems. Development of additional products or applications based on these are not capitalized.

Personnel

At year-end the Group had 240 (190) employees. The increased headcount is due to the increased demand during the year for the company's products and the expansion that got underway already in 2010. The Group now has the resources in place for strengthening its market position over the long term even further.

Principles for remuneration to senior executives

At the first Board meeting of 2011, a remuneration committee was appointed by the Board. The following principles, which were proposed to the company's remuneration committee, will be brought forth for approval at the 2012 AGM. Remuneration to the CEO and other members of the HMS Group management team consists of basic salary, short-term and long-term incentive schemes and pension. Other benefits and remuneration are awarded on the same terms that apply to other employees.

The aim of the HMS remuneration policy for Group management is to offer remuneration that promotes the retention and recruitment of qualified expertise to HMS Networks AB. Basic salary is established on the basis that it must 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 established by the Board based on the proposal from the remuneration committee. Remuneration to other senior executives is decided by the CEO after approval by the remuneration committee.

Short-term incentive schemes to the CEO and senior executives are based on the financial targets for the Group. Incentive schemes must be primarily based on growth along with profitability. In addition to that, other personal goals may be established. For the CEO and other senior executives, the highest possible individual bonus amount is 30% of basic salary in 2011.

The retirement age for the CEO is 65 years. The pension premium must equal 35% of the fixed monthly salary. For other senior executives, 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 senior executives is six months.

For information on the members of the remuneration committee, see page 32.

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 Group's business.

Business cycle

The company's products are primarily 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 rates, currency exchange rates, inflation, deflation, political uncertainty, taxes, stock market trends, unemployment and other factors that impact the economic outlook. These factors can impact the Group's profit and overall financial situation.

Competitors

The market for HMS's products is competitive. HMS competes in local markets where there are a number of competitors and it is possible for new entrants to become established. HMS's strategy is to improve the Group's already strong market position and thereby prepare it for possibly tougher competition in the future. A change in the competitive situation affects both sales volumes and gross profit margins. HMS must be able to successfully compete because a failure to do so could affect the Group's profit and overall financial position.

Operational risks

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

Suppliers

HMS is dependent on satisfactory cooperation with suppliers. HMS is also dependent on its component suppliers, but other suppliers are important as well. If cooperation with these suppliers should deteriorate or be terminated, the Group would be forced to replace them with new suppliers, alternative components or it might possibly even need to redesign its products. This could have a negative effect on the Group's earnings and financial position.

Customers

The Group's sales are to professional firms. It is of the greatest importance for HMS to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that HMS is able to develop and market new products that are both accepted by the market and fulfill customer requirements. HMS must also have the capacity for improving its existing products. If major changes should occur in the purchasing patterns of the Group's largest customers, this would affect the company's profitability. However, because HMS has such a large number of customers, its dependence on any individual customer is limited. Nevertheless, if the Group were to encounter difficulty in maintaining its relations with one or more customers, this could negatively affect the company's business, earnings and financial position.

Employees

The Group's future growth is partly dependent on retaining key employees. There are no guarantees that HMS can succeed in retaining such individuals. The loss of one or more key employees could have a negative impact on the business. Thus far, HMS has not had difficulty recruiting qualified employees. However, the Group cannot guarantee that it will be able to recruit equally skilled individuals in the future. Going forward, if HMS is less successful in recruiting and retaining highly qualified managers and other skilled employees, it could find it difficult to maintain and further develop the business.

Acquisitions

In the future, HMS could acquire, divest or discontinue certain operations and/or companies. All such transactions are associated with uncertainties and risks. In order to reduce risks and avoid incorrect pricing of acquisitions, a thorough valuation is carried out prior to all such transactions. However, that is not always sufficient to ensure success or minimize the associated risks.

Risk related to new products

If HMS is unsuccessful in introducing new, innovative products or keeping up with technological developments, there could be a negative impact on the business and revenues. HMS is convinced that much of its success stems from the Group's ability to introduce new, innovative products and further develop its existing products continuously. There could be a negative impact on the Group's revenues and market shares if its competitors are more successful in introducing new or improved products or services that customers find attractive. If HMS doesn't succeed in keeping up with product development and technological developments, or fails to meet customers requirements, it could have an impact on the Group's earnings and financial position.

Defects in products

When manufacturing and selling industrial products there is an associated risk of warranty claims and product liability. Therefore, HMS typically designs its products according to detailed technical specifications in order to meet the requirements of industry. Even though the company tests its products thoroughly to ensure that they meet the relevant specifications, the activities in this area could nevertheless be associated with an increased risk of warranty claims and product liability. When HMS carries out detailed studies on product safety, it relies on both internal and external analyses to ensure that its products correspond to the agreed product specifications. Even though the Group considers that these measures are sufficient in each individual case, it cannot guarantee that warranty claims or product liability suits will not occur, despite its efforts to prevent this from happening.

The purchasing and ordering of components from subcontractors also carries a risk that defects in the supplied components are only discovered at a later stage of production or after the product has been sold. In these types of situations, it can be difficult to pinpoint where the defect occurred and obtaining compensation for lost revenue and the costs associated with warranty claims and product liability suits from the supplier who was responsible for the defect can also be difficult.

Even though HMS considers that it has adequate insurance protection for product liability, it still cannot guarantee that the insured amount will be sufficient to cover claims that could be brought forth against the Group in the future. Product liability or warranty claims can result in significant costs of litigation and damages. Claims successfully made on HMS that exceed the Group's insurance cover, or claims that entail considerable negative publicity, could significantly impact the Group's earnings and financial position.

Legal risks

Legislation and regulations

HMS and its markets are, to a certain extent, affected by applicable legislation and other directives that regulate the business. Changes in legislation, or political decisions, can thus negatively affect HMS's ability to run or develop its business.

Intellectual property rights

HMS's intellectual property rights are essential to its business. HMS has registered patents and brands in a number of countries. HMS has strived to protect its brand by registering it in each country where it currently has operations, or expects to soon become established. HMS has also sought patent protection where the company considers it to be commercially justified. Nevertheless, there is no guarantee that these measures are, or will be, sufficient to protect the company's intellectual property rights. HMS cannot prevent its competitors from using the HMS brand and logotype to market their own products in a way that infringes or in any other way poses a threat to the company's intellectual property rights. Accordingly, infringement of intellectual property rights, regardless of the reason, could have a negative impact on the company's operations.

Disputes

The company is not currently involved in any disputes. However, although no potential future disputes have been identified, the Group could nevertheless still become involved in disputes that could have a negative impact on its earnings and financial position.

Financial risks

The Group's international operations entail a number of financial risks, which are dealt with in accordance with policies that have been established by the Board. The overall objective is for the Group to be able to provide financing to its companies and manage its financial risks so that there is minimal effect on the Group's earnings. The Group is mainly exposed to liquidity, currency, interest rate and credit risks. For further information, see Note 3.

Currency exposure

Assets and liabilities in foreign currencies are revalued at each balance sheet date. Hedging contracts are also revalued at each balance sheet date and there is also an effect when they are settled. The revaluation of balance sheet items associated with operations and the result from settlement of any hedging contracts are reported in either "other operating income" or "other operating expenses". Changes in the value of other balance sheet items in foreign currency, such as cash and cash equivalents, are reported in net financial items. Operating income and expenses are also affected by changes in exchange rates. These changes have a direct impact on income and expenses items. The currency composition of operating income is approximately 60% in EUR, 22% in USD, 10% in JPY and 8% in SEK and other currencies. Of the total costs reported in costs of goods sold, 53% is EUR, 23% is USD and 1% is JPY. The composition of operating expenses is 17% in EUR, 8% in USD, 7% in JPY and 68% in SEK. The Group's policy is to minimize currency exposure by entering into forward exchange agreements.

Future outlook

The steady inflow of design-wins, a wider range of products (particularly within the Gateway product line), more customer focus (such as within the Remote Management product line) and expansion of the HMS sales channels supports the Group's long-term growth opportunities. The Group has implemented an expansion plan primarily via a number of key recruitments, which, to a certain extent, also involves higher costs. HMS has noticed that customers are behaving more cautiously, but the impact that this will have on the Group's future operations is uncertain.

It is difficult to assess the future economic situation and the effect that this will have on the market for HMS's products. Nevertheless, the Group's long-term goals are still the same: Long-term growth averaging 20% per year and an operating margin that exceeds 20%. The Group's strategy for achieving these goals requires continued investments in building up a strong profile of design-wins within the Embedded business area and expanding the product range within the Gateway product line in order to penetrate the existing market and expand into related areas of network technology.

HMS shares

HMS Networks AB is listed on the NASDAQ OMX Stockholm Small Cap list, in the Information Technology sector. On average, 7,204 (12,059) shares were traded each day. The HMS share's volume-weighted average price in 2011 was SEK 99.75 (87.20). The total number of shares at the end of the period was 11,152,900. All shares have the same voting rights.

Ownership structure as of 31 December 2011

Shareholder	Number of shares	Share of capital and voting rights
Investment AB Latour	2,473,522	22.2%
Nicolas Hassbjer and companies	1,611,872	14.5%
Staffan Dahlström and companies	1,597,073	14.3%
Swedbank Robur fonder	1,180,500	10.6%
SEB fonder	1,070,340	9.6%
Other	3,219,593	28.8%
	11,152,900	**100.0%**

PARENT COMPANY

Information about the business

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

Proposed distribution of profit in the parent company

The following profits are at the disposal of the AGM:

Profit brought forward and other non-restricted reserves	112,544,342
Profit (loss) for the year	- 8,148
Total equity	**112,536,194**

The Board of Directors and CEO propose:

Distributing dividends to shareholders of SEK 2.25 per share	25,094,025
Carried forward	87,442,169
	112,536,194

It is the Board's opinion that the proposed dividend would not inhibit the company, or any other Group company, from meeting its obligations over the short or long term, nor would it prevent the Group from being able to make necessary investments. The proposed dividend is thus justifiable, having considered what is stated in Chapter 17, Sections 2-3 of the Swedish Companies Act (prudence rule).

Consolidated income statement

SEK thousands	Note	2011	2010
Net sales	5	383,592	344,530
Cost of goods and services sold		-151,099	-136,973
GROSS PROFIT		**232,493**	**207,557**
Selling expenses		-92,543	-69,273
Administrative expenses		-30,643	-25,051
Research and development expenses		-36,725	-31,530
Other operating income	10	1,120	6,076
Other operating expenses	10	-1,490	-4,254
OPERATING PROFIT	6, 7, 8, 26, 27	**72,213**	**83,525**
Financial income	10, 29	2,591	1,340
Financial expenses	10, 30	-1,036	-802
Total income from financial investments		**1,555**	**538**
PROFIT BEFORE TAX		**73,768**	**84,063**
Income tax	9	-19,839	-22,406
PROFIT FOR THE YEAR		**53,929**	**61,657**
Profit attributable to:			
Parent company's shareholders		53,929	60,288
Non-controlling interests		0	1,369
		53,929	**61,657**
Earnings per share, basic, SEK	11	4.84	5.41
Earnings per share, diluted, SEK	11	4.83	5.40
Average number of shares, basic, thousands		11,153	11,153
Average number of shares, diluted, thousands		11,169	11,158
Dividends per share, SEK	12	2.00	1.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK thousands	2011	2010
Profit for the year	53,929	61,657
Other comprehensive income:		
Cash flow hedges	-1,035	-234
Exchange rate differences	94	-551
Income tax attributable to components in other comprehensive income	273	62
Other comprehensive income for the year, net after tax	**-668**	**-723**
Total comprehensive income for the year	**53,261**	**60,934**
Total comprehensive income attributable to:		
Parent company's shareholders	53,261	59,565
Non-controlling interests	0	1,369
Total comprehensive income for the year	**53,261**	**60,934**

Consolidated balance sheet

SEK thousands	Note	2011-12-31	2010-12-31
ASSETS			
Non-current assets			
Intangible assets	13		
Patents		358	297
Capitalized development work		22,996	17,853
Goodwill		236,071	236,071
Total intangible assets		**259,424**	**254,221**
Tangible assets	14, 25		
Plant and machinery		4,747	3,401
Equipment, tools and other installations		10,600	7,285
Total tangible assets		**15,347**	**10,685**
Deferred income tax assets	22	770	756
Total non-current assets		**275,541**	**265,663**
Current assets			
Inventories	17	35,584	23,679
Accounts receivable - trade	16	42,781	38,612
Derivatives	15	7	1,041
Other receivables	16	5,620	5,294
Prepaid expenses and accrued income	31	5,007	3,146
Cash and cash equivalents	18	26,573	54,984
Total current assets		**115,572**	**126,757**
TOTAL ASSETS		**391,113**	**392,419**

SEK thousands	Note	2011-12-31	2010-12-31
EQUITY AND LIABILITIES			
Equity			
Share capital	19	1,115	1,115
Other contributed capital	19	110,369	110,369
Reserves		1,122	1,790
Retained earnings		185,936	168,931
Total capital and reserves attributable to parent company's shareholders		**298,543**	**282,207**
Non-controlling interests		**0**	**3,609**
Total equity		**298,543**	**285,815**
Non-current liabilities			
Borrowings	21	788	24,118
Deferred income tax liabilities	22	20,705	16,484
Total non-current liabilities		**21,493**	**40,602**
Current liabilities			
Borrowings	21	24,404	15,391
Accounts payable - trade		22,216	28,714
Income tax liabilities		1,263	4,486
Other liabilities		6,036	3,127
Accrued expenses and deferred income	20, 32	17,158	14,284
Total current liabilities		**71,077**	**66,002**
TOTAL EQUITY AND LIABILITIES		**391,113**	**392,419**

Consolidated cash flow statement

SEK thousands	Note	2011	2010
Operating activities			
Operating profit		72,213	83,525
Adjustment for items not included in cash flow:			
Depreciation/amortization		9,685	7,727
Profit (loss) from the sale of tangible assets	14	-35	0
Disposals of tangible assets	14	15	0
Cash flow hedging		-1,035	-234
Exchange rate differences		2,442	1,365
Interest received	29	194	97
Interest paid	30	-1,036	-802
Income tax paid		-18,560	-14,156
Cash flow from operating activities before changes in working capital		**63,883**	**77,523**
Change in working capital			
Change in inventories		-11,915	-10,596
Change in accounts receivable - trade		-4,497	-5,810
Change in other current receivables		-1,122	-2,521
Change in accounts payable - trade		-6,488	12,300
Change in other current liabilities		5,753	4,410
Cash flow from operating activities		**45,614**	**75,306**
Investing activities			
Acquisition of non-controlling interests	33	-18,227	-4,400
Investments in tangible assets	14	-9,341	-6,432
Investments in intangible assets	13	-10,743	-8,353
Sales of tangible assets	14	84	0
Changes in current financial investments		3	199
Cash flow from investing activities		**-38,224**	**-18,988**
Financing activities			
Borrowings		1,197	0
Repayment of debt		-15,000	-15,000
Dividend paid to parent company's shareholders	12	-22,306	-11,153
Cash flow from financing activities		**-36,109**	**-26,153**
CHANGE IN CASH AND CASH EQUIVALENTS		-28,719	30,165
Cash and cash equivalents at beginning of year	18	54,984	25,512
Exchange rate differences in cash and cash equivalents		-3	-199
Translation differences		311	-494
Cash and cash equivalents at year-end	**18**	**26,573**	**54,984**

Consolidated statement of changes in equity

SEK thousands	Note	Attributable to parent company's shareholders Share-capital	Other contributed capital	Reserves	Profit (loss) carried forward	Total	Non-controlling interests	Total equity
Opening balance on 1 January 2010		**1,115**	**110,369**	**2,513**	**123,013**	**237,011**	**3,423**	**240,434**
Comprehensive income								
Profit for the year					60,288	60,288	1,369	61,657
Other comprehensive income:								
Cash flow hedges				-234		-234		-234
Exchange rate differences				-551		-551		-551
Income tax attributable to components of comprehensive income				62		62		62
Total comprehensive income		**0**	**0**	**-723**	**60,288**	**59,566**	**1,369**	**60,934**
Transactions with shareholders								
Dividend for 2009	12				-11,153	-11,153		-11,153
Total contributions by and distributions to shareholders		0	0	0	-11,153	-11,153	0	-11,153
Changes of ownership in subsidiaries that did not lead to a loss of control								
Acquisition of non-controlling interests	33				-3,218	-3,218	-1,182	-4,400
Total transactions with shareholders		**0**	**0**	**0**	**-14,371**	**-14,371**	**-1,182**	**-15,553**
Closing balance on 31 December 2010		**1,115**	**110,369**	**1,790**	**168,931**	**282,207**	**3,609**	**285,815**

SEK thousands	Note	Attributable to parent company's shareholders Share capital	Other contributed capital	Reserves	Profit (loss) carried forward	Total	Non-controlling interests	Total equity
Opening balance on 1 January 2011		**1,115**	**110,369**	**1,790**	**168,931**	**282,207**	**3,609**	**285,815**
Comprehensive income								
Profit for the year					53,929	53,929		53,929
Other comprehensive income:								
Cash flow hedges				-1,035		-1,035		-1,035
Exchange rate differences				94		94		94
Income tax attributable to components of comprehensive income				273		273		273
Total comprehensive income		**0**	**0**	**-668**	**53,929**	**53,262**	**0**	**53,261**
Transactions with shareholders								
Dividend for 2010	12				-22,306	-22,306		-22,306
Total contributions by and distributions to shareholders		0	0	0	-22,306	-22,306	0	-22,306
Changes of ownership in subsidiaries that did not lead to a loss of control								
Acquisition of non-controlling interests	33				-14,618	-14,618	-3,609	-18,227
Total transactions with shareholders		**0**	**0**	**0**	**-36,924**	**-36,924**	**-3,609**	**-40,533**
Closing balance on 31 December 2011		**1,115**	**110,369**	**1,122**	**185,936**	**298,543**	**0**	**298,543**

Parent company's income statement

SEK thousands	Note	2011	2010
Net sales	5	7,428	6,769
GROSS PROFIT		**7,428**	**6,769**
Administrative expenses	7, 8, 26	-6,589	-6,133
OPERATING PROFIT		**839**	**636**
Profit from financial investments			
Interest expenses and similar items	30	-839	-636
Total income from net financial investments		**-839**	**-636**
PROFIT AFTER FINANCIAL ITEMS		**0**	**0**
Tax on profit for the year		-8	-39
PROFIT (LOSS) FOR THE YEAR		**-8**	**-39**

Parent company's balance sheet

SEK thousands	Note	2011-12-31	2010-12-31
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	28	244,039	244,039
Total financial assets		**244,039**	**244,039**
Total non-current assets		**244,039**	**244,039**
Current assets			
Current receivables			
Tax receivables		100	97
Other receivables		344	168
Total current receivables		**444**	**265**
Cash and bank balances		**18**	**99**
Total current assets		**462**	**364**
TOTAL ASSETS		**244,501**	**244,403**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	19	1,115	1,115
Statutory reserve		19,446	19,446
Total restricted equity		**20,561**	**20,561**
Non-restricted equity			
Retained earnings		109,219	131,564
Share premium reserve		3,326	3,326
Profit (loss) for the year		-8	-39
Total non-restricted equity		**112,536**	**134,850**
Total equity		**133,097**	**155,411**
Untaxed reserves		**8**	**8**
Non-current liabilities			
Borrowings	21	0	24,118
Total non-current liabilities		**0**	**24,118**
Current liabilities			
Borrowings	21	24,118	15,000
Accounts payable - trade		525	131
Liabilities to Group companies		85,769	48,760
Other liabilities		290	268
Accrued expenses and deferred income	32	693	707
Total current liabilities		**111,395**	**64,866**
TOTAL EQUITY AND LIABILITIES		**244,501**	**244,403**
PLEDGED ASSETS	**24**	**244,039**	**244,039**
CONTINGENT LIABILITIES	**24**	**19,911**	**19,912**

Parent company's cash flow statement

SEK thousands	Note	2011	2010
Operating activities			
Operating profit		839	636
Interest paid	30	-839	-636
Income tax paid		-10	-149
Cash flow from operating activities before changes in working capital		**-11**	**-149**
Change in working capital			
Change in other current receivables		-176	397
Change in accounts payable - trade		394	-841
Change in other current liabilities		37,018	26,703
Cash flow from operating activities		**37,225**	**26,109**
Financing activities			
Repayment of debt		-15,000	-15,000
Dividend paid		-22,306	-11,153
Cash flow from financing activities		**-37,306**	**-26,153**
CHANGE IN CASH AND CASH EQUIVALENTS		**-81**	**-44**
Cash and cash equivalents at beginning of year		99	143
Cash and cash equivalents at year-end		**18**	**99**

Parent company's statement of changes in equity

	Restricted equity		Non-restricted equity			
SEK thousands	Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year	Total
Opening balance on 1 January 2010	**1,115**	**19,446**	**67,806**	**3,326**	**74,911**	**166,604**
Transfer of profit (loss) from 2009			74,911		-74,911	0
Dividend for 2009			-11,153			-11,153
Profit (loss) for the year					-39	-39
Closing balance on 31 December 2010	**1,115**	**19,446**	**131,564**	**3,326**	**-39**	**155,411**

	Restricted equity		Non-restricted equity			
SEK thousands	Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit (loss) for the year	Total
Opening balance on 1 January 2011	**1,115**	**19,446**	**131,564**	**3,326**	**-39**	**155,411**
Transfer of profit (loss) from 2010			-39		39	0
Dividend for 2010			-22,306			-22,306
Profit (loss) for the year					-8	-8
Closing balance on 31 December 2011	**1,115**	**19,446**	**109,219**	**3,326**	**-8**	**133,097**

Notes

All amounts are 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 under the Anybus brand, as well as products for remote monitoring under the Netbiter brand. 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, Milano, Pune, Coventry and Copenhagen.

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 Small Cap list, in the Information Technology sector.

This annual report and the consolidated financial statements were approved for publication by the Board of Directors on 15 March 2012.

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 Additional Accounting Regulations for Groups and the International Financial Reporting Standards (IFRS) as adopted by the EU. The annual report has been prepared in accordance with the cost method, with the exception of certain financial assets measured at fair value in other comprehensive income.

The parent company's financial statements have been prepared in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities. In cases where the parent company has applied different accounting policies than the Group, this is specifically stated in the respective sections below.

Preparing financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the management team to make certain judgments in the process of applying the accounting policies. Note disclosures are provided for areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

2.1.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the Group

None of the IFRS or IFRIC interpretations that became mandatory for financial years starting on 1 January 2011 have had a significant impact on the Group.

b) New standards, amendments and interpretations of existing standards that have not yet come into force and have not been early adopted by the Group

At the time when the consolidated financial statements for 31 December 2011 were prepared, several standards and interpretations applicable to the Group had been published, but had not yet come into force. The following are preliminary assessments of the effects that the standards relevant to the Group are expected to have:

IFRS 9 Financial instruments deals with the classification, measurement and recognition of financial assets and liabilities. There are two main measurement categories: amortized cost and fair value. Classification is based on the company's business model and the characteristics of contractual cash flows. This standards comes into force on 1 January 2015. The Group has not yet fully evaluated the full effects of this standard. This standard has not yet been adopted by the EU.

IFRS 13 Fair Value Measurement aims to make measurements at fair value more consistent and less complex by providing in the standard an exact definition and common source of information on IFRS fair value measurements and associated information. This standards comes into force on 1 January 2013. The Group has not yet fully evaluated the full effects of this standard. This standard has not yet been adopted by the EU.

None of the other IFRS or IFRIC interpretations that have still not come into force are expected to have a significant impact on the Group.

2.2 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. This typically occurs via a shareholding of more than half the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has a controlling influence over another company. The Group also assesses whether it has a controlling influence even though its shareholding is less than half of the voting rights. This can occur when it nevertheless is able to govern the financial and operational strategies via de facto control. De facto control may occur under circumstances where the proportion of the Group's voting rights in relation to the size and distribution of other shareholders' voting rights give the Group the ability to control financial and operational strategies.

Subsidiaries are fully consolidated as of the date when the Group obtains a controlling influence. They are no longer consolidated as of the date when the Group no longer has a controlling influence.

The purchase method is used for reporting the Group's business combinations. The purchase price for the acquisition of a subsidiary is the fair value of the transferred assets, liabilities that the Group incurs to former owners of the acquired company and the shares issued by the Group. The purchase price also includes the fair value of all assets or liabilities that are a result of an agreement on contingent payments. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value on the acquisition date. For each acquisition, the Group determines whether the non-controlling interest in the acquired company should be reported at fair value or at the holding's proportionate share of the carrying amount of the acquired company's identifiable net assets.

The costs associated with acquisitions are expensed as incurred.

If a business combination is carried out in several steps, the prior equity interests in the acquired company are remeasured at the fair value at the time of the acquisition. Any profit or loss that arises is reported in the income statement.

Any contingent consideration that will be paid by the Group is reported at fair value at the time of acquisition. Subsequent changes to the fair value of contingent consideration classified as an asset or liability are reported in accordance with IAS 39 Financial Instruments, either in the income statement or in other comprehensive income. Conditional consideration that is classified as equity is not remeasured and any adjustments to such amounts are also recognized in equity.

Goodwill is initially measured as the amount by which the total purchase price and fair value of the non-controlling interest exceeds the fair value of identifiable assets acquired and liabilities assumed. If the purchase price is lower than the fair value of the acquired company's net assets, the difference is reported directly to the income statement.

Intra-Group transactions, balance sheet items and the income and expenses from transactions between Group companies are eliminated. Gains and losses that arise from intra-Group transactions that are reported as assets are also eliminated. The accounting policies of subsidiaries have been adjusted, where necessary, to ensure consistency with the policies applied by the Group.

b) Changes in the ownership interest of a subsidiary without a change of controlling interest

Transactions with non-controlling interests that do not result in a loss of control are reported as equity transactions, i.e. as transactions with the owners in their role as owners. For acquisitions from non-controlling interests, the difference between the fair value of paid consideration and the actual acquired share of the carrying amount of the subsidiary's net assets, is reported in equity. Gains and losses on disposals to non-controlling interests are also reported in equity.

c) Divestment of a subsidiary

When the Group no longer has a controlling interest, each remaining holding is measured at fair value as of the point in time when the loss of control occurred. The change in carrying amount is reported in the income statement. The fair value is used as the first carrying amount and it provides the basis for future reporting of the remaining share in the associated company, joint venture or financial asset. All amounts concerning the divested unit previously reported in other comprehensive income are reported as if the Group had directly divested the attributable assets or liabilities. This could mean that amounts previously recognized in other comprehensive income are reclassified and recognized in profit or loss instead.

2.3 Reporting of segments

Segment disclosures must be presented from the management's perspective, i.e. in the same way that they are presented for internal reporting purposes. The point of departure for identifying reportable segments is the internal reporting used by the highest-ranking executive decision-maker. Management has analyzed the internal reporting and concluded that the Group's highest-ranking executive decision-maker regularly analyses the sales reports, quality reports, consolidated income statement and cash flow statement. This reporting is based on the fact that the common technology platform, development process, manufacturing process, market strategy and sales resources do not motivate further segmentation of the business. Therefore, there is no follow-up on the profit of any particular segment of the business.

2.4 Translation of foreign currency

a) Functional currency and reporting 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 (i.e. the functional currency). The consolidated financial statements are presented in Swedish kronor (SEK), which is the Group's reporting currency.

b) Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction dates or the date when items were remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of closing day rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. However, this does not apply to transactions that fulfill the requirements for hedge accounting of cash flows. Such gains or losses are recognized in other comprehensive income.

Foreign exchange gains and losses attributable to loans and cash equivalents are reported in the income statement as financial revenue or financial expenses. Foreign exchange gains and losses attributable to purchases of raw materials and products are reported in the income statement as cost of goods sold. Other foreign exchange gains and losses are reported in the income statement as ‘Other operating income’ and ‘Other operating expenses’ respectively.

c) Group companies

The profit or loss and financial position of all the Group entities (none of which has the functional currency of a hyperinflationary economy) that have a functional currency that is not the same as its reporting currency, are translated into the Group's reporting currency as follows:

a) assets and liabilities are translated at the closing rate of exchange,
b) income and expenses are translated at the average rate of exchange, and
c) all resulting exchange differences are recognized in other comprehensive income.

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 Tangible assets

Tangible assets are reported at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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 asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are expensed in the same period as they are incurred.

Depreciation is based on original cost and the estimated service life of the asset as follows:

Machinery and equipment	3-7 years
Equipment and other installations	3-7 years

The residual value and service life of assets are tested at the end of every reporting period and adjusted if necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is immediately written down to its recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are reported as 'Other operating income' or 'Other operating expenses'.

2.6 Intangible assets

a) Goodwill

Goodwill arises from the acquisition of subsidiaries, associated companies and joint ventures. Goodwill is the amount that the consideration exceeds the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company, along with the fair value of the non-controlling interest in the acquired company.

Goodwill is tested for impairment on an annual basis or more often if events or changed conditions indicate possible impairment. The carrying amount of goodwill is compared to the recoverable amount, which is equal to the value-in-use or fair value less selling expenses, whichever is higher. Impairment losses are immediately expensed and they are never reversed. The Group only has one cash-generating unit that is expected to benefit from the company acquisition that generated the goodwill and which is tested for impairment.

b) Development work

HMS’s 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 integrated 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 if the following criteria are fulfilled:

- 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 either use it or sell it,
- it is likely that the development results can be used or sold,

- it can be shown how the development results generate probable future economic benefits,
- there is access to adequate technical, financial and other resources to complete development and to either 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 a reasonable share of the indirect costs.

Intangible assets resulting from development work are reported at cost. In cases where the carrying amount exceeds the estimated recoverable amount, the asset is immediately written down to its recoverable amount.

The development of new product platforms is capitalized during the research phase. Maintenance of software and expansions of existing products and product lines are treated as adjustments of the core product and are not capitalized. Projects in the research phase are not capitalized.

Development costs that were previously expensed are not capitalized as assets in later periods.

Advances attributable to external development are reported as intangible assets provided that the company has control over the asset.

Amortization is calculated on the original cost and is based on the assessed service life of the asset as follows:

Capitalized development work	5-7 years

2.7 Impairment

Assets with an indefinite service life, such as goodwill or intangible assets not yet ready for use, are not subject to amortization but they are tested annually for impairment. Assets subject to amortization are tested 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 asset's fair value less selling expenses or its value-in-use, whichever is higher.

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 tested annually 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: financial assets measured at fair value through profit or loss, loan receivables, accounts receivable and derivatives.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets valued at fair value through profit or loss

Financial assets valued at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired primarily for the purpose of selling it in the short-term. Derivatives are classified as held for trading if they have not been identified as hedging instruments. Assets in this category are classified as current assets if they are expected to be settled within 12 months. Otherwise, they are classified as non-current assets.

b) Loan receivables and accounts receivable

Loan receivables and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, with the exception of items that mature more than 12 months after the balance sheet date. These are classified as non-current assets. Loan receivables and accounts receivable are comprised of 'Accounts receivable and other receivables' and 'Cash and cash equivalents' in the balance sheet (Note 2.10 and 2.11).

c) Derivative instruments and hedging

The Groups utilizes derivatives to cover the risks associated with exchange rate fluctuations on future commercial cash flows (both external and internal) in a foreign currency. The holdings of derivative financial instruments are currency forwards.

Derivatives are reported in the balance sheet on the contract date. They are measured at fair value both initially and upon subsequent revaluation. All derivative instruments are classified as either current assets or current liabilities. Information about the fair value of various derivative financial instruments used for hedging is provided in Note 15.

When determining the fair value of a hedging instrument, the quoted rate of the currency on the closing date is used. At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If there is objective evidence of impairment, the asset is written down to its fair value.

When the transaction is entered into, the relationship between the hedging instrument and the hedged item is documented, as well as the Group's objectives for risk management and its hedging strategy. 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 flows attributable to the hedged items.

Hedges are designed with the expectation that they will 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 operating profit (loss) in the income statement. The accumulated amount in equity is reversed to the income statement in the periods when the hedged item affects profit or loss.

Accumulated gains or losses in equity will be retained in equity when the hedging instrument expires, is sold, or when the hedge no longer meets the hedge accounting criteria. These gains and losses are taken to profit or loss when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gains or losses that have been retained in equity must be immediately reported in the income statement as part of operating profit or loss.

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 at fair value through profit or loss, are initially recognized at fair value plus transaction costs. Financial assets measured at fair value through profit or loss are initially recognized at fair value, and the associated transaction costs are reported in the income statement.

Financial assets are removed from the balance sheet 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. After initial recognition, financial assets held for trading and financial assets at fair value through profit or loss are reported at fair value. Loan receivables and accounts receivable are measured at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of any assets in the category ‘financial assets at fair value through profit or loss’ are reported in the income statement as 'Other operating income' or 'Other operating expenses' in the same period that the gain or loss arises.

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 is a legally enforceable right to set off the amounts and an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.9 Inventories

Inventories are measured at the lower of the cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) principle. Finished goods are measured at standard cost. The cost of finished goods consists of raw materials/components, direct labor, and other direct and indirect related manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. 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 is eliminated.

2.10 Accounts receivables - trade

Accounts receivable are amounts to be paid by customers for goods or services provided by the company as part of its operating activities. If payment is expected within one year or less (or during the normal business cycle, if it is longer than one year), they are classified as current assets. If not, they are reported as non-current assets.

Accounts receivable are initially measured at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of accounts receivable is set up when there is objective evidence that the Group will not be able to collect all amounts that have fallen due according to the original terms that applied.

2.11 Cash and cash equivalents

Cash and cash equivalents are reported in both the balance sheet and cash flow statement. They include 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 of layoffs and severance pay. No provision is made for future operating losses.

Where there are a number of similar obligations, an assessment is made of the likelihood that an outflow of resources will be required to settle the obligations. That assessment covers the entire collection of similar obligations. A provision is made for the entire collection of similar obligations even if the likelihood of an outflow of resources to settle a particular item in that group is low.

2.13 Accounts payable

Accounts payables are obligations to pay for goods or services acquired by suppliers as part of operating activities. Accounts payable are classified as current liabilities if they fall due within one year or sooner (or during the normal business cycle if it is longer than one year). If not, they are reported as non-current liabilities.

Accounts payable are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Income tax

Tax expense for the period includes 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 in other comprehensive income and equity respectively.

Current tax expense is calculated using the tax regulations that have been decided or announced at year-end in the countries where the parent company and its subsidiaries have operations and generate taxable income.

In accordance with the balance sheet method, deferred tax is reported in the consolidated financial statements on all differences arising between the tax base and the carrying amounts of assets and liabilities (temporary differences). However, deferred tax is not reported if it arises in conjunction with the initial recognition of goodwill. Furthermore, deferred tax is not recognized if it arises from a transaction associated with the initial recognition of an asset or liability that is not a business combination and which, at the time of the transaction, has no effect on either reported profit or taxable profit.

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 assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 assets and deferred tax liabilities should be offset on the balance sheet only if the entity has the legal right to settle on a net basis and they are levied by the same taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

2.15 Remuneration to employees

a) Pension commitments

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 to a separate legal 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 with 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 2011 financial year, 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 option schemes in place for some of its employees. 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 receives when warrants are transferred are reported in equity. The Group does not incur any costs when an employee exercises warrants, because the employee pays market price for them. New shares are issued when warrants are exercised.

2.16 Revenue recognition

Revenue is recognized at the fair value of the consideration received or to be received for goods and services sold as part of the Group's operating activities. Revenue is 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 probable that future economic benefits will flow to the company.

It is not possible to reliably measure an amount of revenue until all contingencies relating to the sale have been satisfied or expired. The Group bases its estimates on historical outcomes, the type of customer, the type of transaction and the particular circumstances of each case.

The Group manufactures and sells products to connect industrial equipment to networks and gateways to enable the interconnection of different networks, as well as products for remote monitoring.

Revenue is recognized upon 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 associated with industrial network technology. These services are invoiced based on time and material or as fixed price contracts. Revenue from time and material contracts is recognized at the contractual rates as labor hours are provided and direct expenses are incurred.

For services provided as part of a fixed price contract, revenue is recognized on the balance sheet date in accordance with the percentage of completion method. Percentage of completion is determined by comparing the services already rendered to the total amount of services to be performed.

Estimates are revised if any circumstances arise that could alter the original estimate of revenue, expenses or the percentage of completion. These reassessments could result in an increase or decrease to the estimated revenue or costs and the effect is on revenue during the period when management became aware of such circumstances.

Interest income is recognized using the effective interest method. When an item reported in loan receivables or accounts receivable becomes impaired, the carrying amount is lowered to the recoverable amount, which is equal to the estimated future cash flows discounted at the original effective interest rate for the instrument. The discounting effect then continues to be dissolved 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 operating leases. Payments made during the leasing period are expensed in the income statement linearly over the leasing period.

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

Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Corresponding payment obligations, after deductions for financial expenses are included in the balance sheet items 'Long-term borrowings' and 'Short-term borrowings'. The interest component of the financial expenses is recognized in the income statement over the leasing period so that the amount of the expense in each reporting period corresponds to a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment that are obtained through a finance lease agreement are depreciated over the asset's service life or the term of the lease, whichever is shorter.

2.18 Dividends

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

2.19 Borrowing costs

The company does not have any major development projects that would necessitate capitalization of borrowing costs. All borrowings costs are thus expensed as incurred.

2.20 Cash flow statement

The cash flow statement for the Group has been prepared in accordance with the indirect method. The year's change in the cash balance is apportioned between operating, investing and financing activities. The starting point for the indirect method is operating profit adjusted for items that did not involve actual cash receipts or payments.

Cash and cash equivalents include cash/bank balances and short-term financial investments with maturities 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 business activities are associated with a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and financing/liquidity 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 results. The Group uses derivative financial instruments to hedge certain risk exposures and its applies hedge accounting in accordance with IAS 39.

Risk management is carried out by a central finance department 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 has provided written policies for overall risk management and for specific areas such as currency risk, interest rate risk, credit risk, use of derivatives and non-derivative financial instruments and investment of excess liquidity.

a) Currency risk

The Group operates internationally and is exposed to currency risks arising from currency exposure to, primarily, 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 translated at the current exchange rate.

Transaction risk is minimized by hedging anticipated net cash flows in foreign currencies over the next twelve months. The Group's risk management policy states that 60% of the exposure should be hedged for the next three months and 10 to 40% of the anticipated exposure should be hedged for the three to nine months thereafter.

Translation risk arises because the Group's equity amount is affected by currency rate fluctuations on its investments in subsidiaries. The Group does not currently hedge the effects of currency rate fluctuations on investments in subsidiaries. The Group has concluded that its exposure to translation risk is negligible.

If the SEK had weakened/strengthened by 5% against the EUR with all other variables held constant, the operating profit/loss for the year would have been SEK 6.1 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the USD with all other variables held constant, the operating profit/loss for the year would have been SEK 1.8 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

If the SEK had weakened/strengthened by 5% against the JPY with all other variables held constant, the operating profit/loss for the year would have been SEK 1.4 million higher/lower, mainly as a result of purchases and sales in foreign currency, and from the gains/losses that would arise upon translation of accounts receivable and financial assets measured at fair value through profit or loss.

b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable interest rates expose the Group to interest rate risk on the cash flows. The Group's financing policy states that interest expenses should be as low as possible. In order to minimize the Group's interest expenses, interest rate derivatives may be utilized. For 2011, it was assessed that the use of interest rate derivatives would not decrease the Group's interest expenses.

If interest rates on borrowings in SEK as of 31 December 2011 had been 1% higher/lower, with all other variables held constant, then the profit before tax for the financial year would have been SEK 0.3 (0.5) million lower/higher.

c) Credit risk

Credit risk is dealt with at the Group level, except for credit risk associated with overdue accounts receivable. Each Group company is responsible for monitoring and analyzing credit risk for each customer before offering the standard terms for payment and delivery. There are clear guidelines in the Group's credit policy for when to grant credit to customers and when security is required. The Group management team has concluded that there is no significant credit risk associated with any particular customer, counterparty or geographical region.

According to the Group's financial policy, excess liquidity may be invested in interest-bearing securities with a maximum maturity of one year and an average maturity of six months. Counterparty risk is managed through regulations in the financial policy regarding the long-term rating of issuers. The policy states 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 mortgage institutions and the Swedish State. All borrowing is done in consultation with the parent company's finance function.

d) Financing and liquidity risk

Financing risk is the risk that maturing loans cannot be refinanced without difficulty or added expense and that this situation would make it difficult for the Group to fulfill its payment obligations. Liquidity risk is the risk of difficulties in fulfilling obligations that are associated with financial liabilities.

Cash flow forecasts are drawn up by the Group's operating companies and aggregated by Group finance. The Group carefully monitors rolling forecasts of its liquidity reserve (which consists of unused lines of credit and cash equivalents) to ensure that the Group has sufficient cash to meet the needs of its operating activities. At the same time, the Group must maintain a sufficient margin in its granted unused credit so that it does not breach any of its credit limits or loan terms. This is done centrally for all of the Group's operational units in accordance with the practices and limits established for the company. Liquidity management also involves calculating the expected cash flows in major currencies and determining the amount of various liquid assets thus required, monitoring solvency in relation to internal and external supervisory requirements and drawing up plans for debt financing.

Financing risk arises when, at a given point in time, it becomes difficult obtaining financing. To minimize the costs of the Group's borrowings and financing, the finance function must provide credit facilities that adequately meet the Group's need for working capital credit. HMS must always have access to cash equivalents, excess liquidity and unused credit facilities totaling approximately 10% of its sales.

The tables below show the Group's financial derivatives that will be settled gross within one year of each respective balance sheet date. The amounts reported in the tables are the contractual, undiscounted cash flows. The amounts that mature within 12 months are the same as the carrying amounts, because discounting is immaterial.

As of 31 December 2011	Less than 1 year
Exchange contracts	
Cash flow hedges	
- Inflow	
- Outflow	34,106

As of 31 December 2010	Less than 1 year
Exchange contracts	
Cash flow hedges	
- Inflow	
- Outflow	19,729

3.2 Managing capital risks

The Group's objective with regard to capital structure is to safeguard the Group's ability to continue operations, so that it can continue to generate returns for shareholders and benefits for other stakeholders. It also strives to maintain an optimal capital structure in order to keep the cost of capital down.

To maintain or adjust the capital structure, the Group can change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

The Group evaluates its capital structure by calculating and monitoring the net debt/equity ratio. This ratio is calculated as net debt divided by the total equity, including non-controlling interest. Net debt is calculated as total borrowings (i.e. both 'Short-term borrowings' and 'Long-term borrowings' from the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as Equity in the consolidated balance sheet plus net debt.

The Group's strategy in 2011 was the same as it was in 2010, i.e. to reduce the Group's total borrowings in order to create flexibility for the future. The net debt/equity ratios on 31 December 2011 and 31 December 2010 were as follows:

	2011	2010
Total borrowings (Note 21)	25,192	39,509
Less cash and cash equivalents (Note 18)	-26,573	-54,984
Net debt	-1,381	-15,475
Total equity	298,543	285,815
Total capital	**297,162**	**270,340**
Net debt/equity ratio	0%	-5%

3.3 Accounting for derivative instruments and hedging activities

The Group has financial derivatives in the form of foreign exchange contracts that hedge purchases and sales in foreign currency.

Information concerning fair values for the various derivative instruments used for hedging is available in Note 15

3.4 Calculation of fair value

The following table shows the financial instruments measured at fair value, based on how the classification in the fair value hierarchy was made. The various levels are defined as follows:

- 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 2011:

Assets	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging		7		7
Total assets	**0**	**7**	**0**	**7**

The following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2010:

Assets	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging		1,041		1,041
Total assets	**0**	**1,041**	**0**	**1,041**

The fair value of derivative instruments is determined using market prices for the currency on the closing date.

Note 4 Important estimates and assessments for accounting purposes

Estimates and assessments are evaluated continuously and they are based on past experience and other factors, including expectations of future events considered reasonable under the prevailing conditions.

The Group makes estimates and assumptions about the future. The resulting estimates used for accounting purposes are thus rarely the same as actual results. The estimates and assumptions that involve a considerable risk of needing to make significant adjustments to the carrying amounts of assets and liabilities during the next financial year are shown below.

a) Test of impairment for goodwill

Each year, in accordance with the accounting policies described in Note 2.7, the Group tests goodwill for impairment. The recoverable amount for the Group's cash generating unit is established by calculating its value-in-use. Various estimates must be made in order to make these calculations (Note 13). Reported goodwill amounted to SEK 236.1 (236.1) million.

The sensitivity analysis shows that increasing the required return after tax by 16 percentage points (i.e. return of 26%) would not result in an impairment of goodwill.

b) Revenue recognition

The Group uses successive revenue recognition when reporting fixed-price agreements for sales of development services. Successive revenue recognition requires the Group to assess the amount of services already performed as of the closing date and compare that figure to the total amount of services to be performed. If the proportion between services already performed and total services were to deviate by more than 10% from management's estimate, the amount reported for revenue for the year would increase by SEK 822 thousand if the amount of performed services is 10% higher. The amount of revenue would decrease by SEK 963 thousand if the amount of performed services is 10% lower.

Note 5 Segment information

The Group sells products primarily in five countries, as shown in the following table. These countries are not considered to be geographic segments. For information about the Group's segments, see Note 2.3. Categorization is based on the country that a product or service is delivered to.

	The Group		Parent company	
Net sales per country	**2011**	**2010**	**2011**	**2010**
Germany	88,472	68,086		
USA	58,473	45,773		
Japan	47,179	52,406		
Finland	40,223	41,892		
Sweden	34,362	32,685	7,428	6,769
Other countries	189,468	103,688		
Total	**383,592**	**344,530**	**7,428**	**6,769**

The carrying amounts for assets and investments outside Sweden amount to 14 (10)% of the Group's total assets.

Note 6 Categorization by type of cost

	2011	2010
Cost of purchasing and handling materials	121,119	108,224
Costs for remuneration to employees (Note 8)	127,571	104,304
Depreciation and Amortization (Note 13, 14)	10,215	9,046
Marketing costs	8,396	6,388
Freight costs	2,967	2,812
Other external costs	40,742	32,054
Total costs for goods sold, sales, administration, research and development	**311,010**	**262,828**

Note 7 Remuneration to auditors

	The Group 2011	The Group 2010	Parent company 2011	Parent company 2010
PwC				
Audit assignment	437	387	380	330
Audit activities other than the audit assignment	93	50	93	50
Tax advice	20		20	
Other services	13	195		55
Total	563	632	532	435
Ernst & Young				
Other services	39	40	39	40
Total	39	40	39	40
Total	**602**	**672**	**532**	**475**

Note 8 Remuneration to employees, etc.

	The Group 2011	The Group 2010	Parent company 2011	Parent company 2010
Salaries and other remuneration	92,504	75,830	2,200	1,988
Social security contributions	27,175	22,198	711	635
Pension costs	7,892	6,275	370	329
Total	**127,571**	**104,304**	**3,282**	**2,952**

Salaries in the parent company pertain to the CEO and Board of Directors.

Salaries, other remuneration and social security expenses	2011 Salaries and other remuneration	2011 Social security expenses (of which pension expenses)		2010 Salaries and other remuneration	2010 Social security expenses (of which pension expenses)	
Board members and CEO	3,863	1,801	(773)	3,767	1,662	(638)
Senior executives (Group Management)	3,482	2,241	(923)	2,698	1,619	(621)
Other employees	85,159	31,025	(6,196)	69,366	25,193	(5,016)
The Group, total	**92,504**	**35,067**	**(7,892)**	**75,830**	**28,474**	**(6,275)**

Average no. of employees	2011 Average no. of employees	2011 Of which men	2010 Average no. of employees	2010 Of which men
Sweden	170	128	123	89
Germany	20	15	15	11
USA	12	9	9	7
France	4	3	3	2
Italy	4	3	3	2
Japan	9	6	7	4
China	6	6	4	4
Great Britain	3	3	–	–
Denmark	1	1	–	–
India	3	3	–	–
The Group, total	**232**	**177**	**164**	**119**

Gender of Board members and other senior executives	2011 No. on closing date	2011 Of which men	2010 No. on closing date	2010 Of which men
Board members	7	5	7	5
CEO and other senior executives	8	7	8	7
The Group, total	**15**	**12**	**15**	**12**

Note 9 Income tax

	2011	2010
Current tax	15,345	17,179
Deferred tax (Note 22)	4,494	5,227
Tax	**19,839**	**22,406**

The following shows how income tax on the Group's profit before tax differs from the theoretical amounts that would have arisen if the weighted average tax rate had been applied to the profit of consolidated companies:

	2011	2010
Profit before tax	73,768	84,063
Income tax calculated using Swedish tax rates	19,401	22,109
Taxes, previous years' assessments		-68
Non-taxable income, non-deductible costs	425	243
Differences in tax rates for foreign subsidiaries	13	121
Tax expense	**19,839**	**22,406**
Average tax rate (%)	26.9	26.7

Note 10 Exchange rate differences – net

Exchange rate differences were reported in the income statement as follows:

	2011	2010
Cost of goods sold	2,451	-1,299
Other operating income	1,120	6,076
Other operating expenses	-1,490	-4,254
Net financial items	2,397	1,243
	4,479	**1,766**

Note 11 Earnings per share

a) Before dilution

Earnings per share before dilution are calculated by dividing earnings according to the income statement attributable to parent company shareholders by the weighted average number of outstanding ordinary shares during the period.

	2011	2010
Profit attributable to parent company shareholders	53,929	60,288
Weighted average number of outstanding ordinary shares (000s)	11,153	11,153
Earnings per share before dilution (SEK per share)	4.84	5.41

(b) After dilution

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilutive effect of all potential ordinary shares. The parent company has established a warrants scheme for staff, which constitutes the sole potential dilutive effect. For the share options, an estimate is made of the number of shares that could have been acquired at fair value (estimated as the year’s average market price for parent company shares), for an amount equivalent to the monetary value of the subscription rights associated with the outstanding share options. The number of shares estimated as above is compared with the number of shares that would have been issued on the assumption that the share options are utilized.

	2011	2010
Weighted average number of outstanding ordinary shares (000s)	11,153	11,153
Adjustments for share options (000s)	16	5
Weighted average no. of ordinary shares used to calculate EPS after dilution (000s)	11,169	11,158
Earnings per share (EPS) after dilution (SEK per share)	4.83	5.40

Note 12 Dividend per share

The dividend paid in 2011 was SEK 22,306 thousand and dividends per share were SEK 2.00 per share. In 2010, the dividend paid was SEK 11,153 thousand and dividends per share were SEK 1.00 per share.

At the AGM on 19 April 2012 a proposal will be made to distribute SEK 25,094 thousand as dividends for the 2011 financial year, which corresponds to SEK 2.25 per share. The proposed dividend has not been reported as a liability in these financial statements..

Note 13 Intangible assets

	Patents	Capitalized development work	Goodwill	Total
As of 1 January 2010				
Acquisition value	237	37,633	236,071	273,941
Accumulated amortization	-20	-23,197		-23,217
Carrying amount	**217**	**14,436**	**236,071**	**250,724**
Financial year 2010				
Opening carrying amount	217	14,436	236,071	250,724
Purchases	115	8,238		8,353
Amortization	-35	-4,821		-4,856
Closing carrying amount	**297**	**17,853**	**236,071**	**254,221**
As of 31 December 2010				
Acquisition value	352	45,871	236,071	282,294
Accumulated amortization	-55	-28,018		-28,073
Carrying amount	**297**	**17,853**	**236,071**	**254,221**
Financial year 2011				
Opening carrying amount	297	17,853	236,071	254,221
Purchases	96	10,648		10,743
Amortization	-35	-5,505		-5,539
Closing carrying amount	**358**	**22,996**	**236,071**	**259,424**
As of 31 December 2011				
Acquisition value	448	56,519	236,071	293,036
Accumulated amortization	-90	-33,523		-33,612
Carrying amount	**358**	**22,996**	**236,071**	**259,424**

The amount reported in the income statement for cost of goods sold includes amortization of SEK 5,539 (4,821) thousand.

Through the acquisition of HMS Networks AB in 2004, the Group acquired expertise that has provided synergy effects in the form of management and financing opportunities. This has resulted in enhanced growth prospects, which are reflected in the amount reported for goodwill.

a) Test of impairment for goodwill

The Group's goodwill has been evaluated in accordance with IAS 36. The recoverable amount for the cash generating unit has been based on its value-in-use. In order to calculate that amount, assumptions were made about growth, profit margin, tied-up capital, required investments and risk premium. The principles behind these assumptions were unchanged compared with the previous year.

Financial forecasts are based on the company's budget for the coming year and its long-term financial plan. The company's market assessment for each period is also considered. Estimates of future cash flows are based on the existing structure of the assets. Acquisitions are not included.

The company's assumptions about future growth are based on prior experience, external sources of information and its long-term business plan. For this assumption, expected market growth and price development were also considered.

Assumptions about future margins are in line with the company's financial plan and historic performance.

Investments that were made during the period are based on the company's internal investment plan and they correspond to the replacement need.

The long-term working capital requirement (excluding cash and cash equivalents) is estimated at 11% of the company's net sales.

These estimates form the basis for calculating value-in-use and the cash flow forecast for a period equal to the fixed budget and the company's five-year financial plan. Cash flow has then been extrapolated based on an assumption of 3% annual growth. The weighted average cost of capital (WACC) before tax is 12.7 (12.7)%.

The recoverable amount exceeds the carrying amount by a healthy margin. The management team has concluded that no reasonably significant adjustments are required to the assumptions that were made when testing for impairment of its cash generating unit such that the recoverable amount would fall below the carrying amount.

Note 14 Tangible assets

	Machinery and equipment	Equipment, tools and other installations	Total
As of 1 January 2010			
Acquisition value	14,626	18,725	33,351
Accumulated depreciation	-11,632	-13,155	-24,787
Carrying amount	**2,995**	**5,569**	**8,564**
Financial year 2010			
Opening carrying amount	2,995	5,569	8,564
Exchange rate differences		-120	-120
Purchases	2,325	4,108	6,432
Depreciation	-1,919	-2,272	-4,191
Closing carrying amount	**3,401**	**7,285**	**10,685**
As of 31 December 2010			
Acquisition value	16,951	22,712	39,663
Accumulated depreciation	-13,550	-15,428	-28,978
Carrying amount	**3,401**	**7,285**	**10,685**
Financial year 2011			
Opening carrying amount	3,401	7,285	10,685
Exchange rate differences		44	44
Purchases	2,936	6,405	9,341
Sales and disposals (cost)	-1,757	-3,798	-5,555
Depreciation	-1,589	-3,072	-4,661
Sales and disposals (accumulated depreciation)	1,757	3,735	5,492
Closing carrying amount	**4,747**	**10,600**	**15,347**
As of 31 December 2011			
Acquisition value	18,130	25,363	43,493
Accumulated depreciation	-13,383	-14,765	-28,147
Carrying amount	**4,747**	**10,600**	**15,347**

Depreciation costs of SEK 1,805 (1,953) thousand are included in costs of goods sold, and SEK 952 (746) thousand is included in selling costs, SEK 952 (746) thousand is included in administration costs and SEK 952 (746) thousand is included in research and development costs.

Note 15 Derivatives

	2011		2010	
The Group	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedging, forward contracts	7		1,041	
Total	**7**	**0**	**1,041**	**0**

Derivative held for trading are classified as either current assets or current liabilities. All of the fair value of a derivative instrument that constitutes a hedge instrument is classified as a non-current asset or non-current liability if the hedged item's remaining term is longer than 12 months, and as a current asset or current liability if the hedged item's remaining term is less than 12 months.

(a) Forward contracts

The nominal amount of outstanding foreign exchange contracts as of 31 December 2011 was SEK 34,106 (19,729) thousand.

The hedged (and highly probable forecast) transactions in foreign currency are expected to occur at varying times over the next 12 months. Gains and losses on forward exchange contracts and currency options as of 31 December 2011, which are reported in equity, are reported in the income statement as operating profit or loss in the periods that the hedged transaction affects profit.

The value of derivatives had a positive effect on profit for 2011 equal to SEK 1,120 (4,651) thousand.

Note 16 Accounts receivable and other receivables

	2011	2010
Accounts receivable - trade	42,941	38,736
Provision for doubtful debts	-160	-124
Accounts receivable – net	**42,781**	**38,612**

The fair value of accounts receivable and other receivables are as follows:	2011	2010
Accounts receivable - trade	42,781	38,612
Other receivables	5,620	5,294
Prepaid expenses and accrued income, see Note 32	5,007	3,146
	53,408	**47,053**

As of 31 December 2011, the Group reported a loss pertaining to a reversal and impairment of accounts receivable amounting to SEK 36 thousand (in 2010, a gain was reported of SEK 33 thousand). As of 31 December 2011, the provision for doubtful debts amounted to SEK 160 (124) thousand.

As of 31 December 2011, accounts receivable amounting to SEK 7,949 (9,234) thousand had fallen due and it was determined that a write-down requirement on that amount was not required. This amount concerns customers that have not previously had difficulties making payments. An age analysis is presented in the table below.

	2011	2010
1-15 days	6,232	7,451
15 days to 3 months	1,648	1,783
3 to 6 months	69	
	7,949	**9,234**

As of 31 December 2011, the Group reported accounts receivable for which there was a write-down requirement of SEK 353 (124) thousand.

As of 31 December 2011, the provision for doubtful debts amounted to SEK 160 (124) thousand. The assessment is that a portion of the receivables is expected to be paid.

An age analysis is presented in the table below.

	2011	2010
Less than 3 year	18	
3 to 6 months	11	
more than 6 months	324	124
	353	**124**

Provisions for each reversal of reserves for doubtful debt are included in the income statement under the item 'selling expenses'. Amounts reported as value reduction are typically written off when the Group no longer expects to recover any additional funds.

Other categories of accounts receivable and other receivables do not include assets for which there is a write-down requirement.

Carrying amounts (by currency) for the Group's accounts receivable are as follows.

	2011	2010
EUR	17,291	18,229
USD	12,629	12,188
JPY	6,871	4,234
SEK	4,675	2,913
GBP	1,226	1,145
CAD		27
DKK	242	
INR	8	
Total	**42,941**	**38,736**

Note 17 Inventories

The Group	2011	2010
Raw materials and consumables	27,559	17,614
Work in progress	764	707
Finished goods	7,261	5,359
	35,584	**23,679**

Costs for impairment of inventories (obsolescence) that affected the year's profit are included in 'cost of goods sold' for SEK 134 (597) thousand. The Group does not have sufficient financial information to calculate the proportion of material in cost of goods sold.

Note 18 Cash and cash equivalents

The Group	2011	2010
Cash and bank balances	26,573	44,969
Short-term bank deposits		10,015
	26,573	**54,984**

Note 19 Share capital and other contributed capital

	Number of shares (000s)	Share capital (000s)	Other contributed capital (000s)	Total (000s)
As of 1 January 2010	**11,153**	**1,115**	**110,369**	**111,484**
As of 31 December 2010	**11,153**	**1,115**	**110,369**	**111,484**
As of 31 December 2011	**11,153**	**1,115**	**110,369**	**111,484**

Warrants entitling the holder to subscribe for 169,500 shares were issued to employees in 2009. The warrants were paid for in cash based on a calculation using the Black & Scholes model. Valuation based on Black & Scholes involves calculating a market price based on the current value of the underlying shares, the option's exercise price, the option term, the risk-free rate for a term corresponding to the option term, volatility (risk level of the share) and the expected dividends during the option term.

The subscription period for outstanding warrants runs from 1 May 2012 to 31 May 2012 and amounts will be settled with equity. The Group has the right to buy back the warrants if an employee terminates employment. For such buy backs, valuation is at market price using the Black & Scholes model.

Recipient	Maturity date	Number	Issue price	Purchase price	Received funds
Employees, Sweden	12-05-31	169,500	90.20	5.53	937,335

Note 20 Provisions

	2011	2010
Provision for returned goods	1,021	1,021
Total	**1,021**	**1,021**

Note 21 Borrowings

	The Group		Parent company	
	2011	2010	2011	2010
Long-term				
Bank loans		24,118		24,118
Leasing, see Note 25	788			
	788	**24,118**	**0**	**24,118**
Short-term				
Bank loans	24,118	15,000	24,118	15,000
Leasing, see Note 25	286	391		
Total borrowings	**25,192**	**39,509**	**24,118**	**39,118**
Payment due within one year	24,404	15,391	24,118	15,000
Payment due within 2 to 5 years	788	24,118		24,118
	25,192	**39,509**	**24,118**	**39,118**

Bank loans

Bank loans mature by 2012 with a variable interest rate that is currently 2.50%. Total borrowings includes bank loans and other loans against movable property for SEK 11,500 (11,500) thousand.

Note 22 Deferred tax

Deferred tax assets	Tax deficit	Total
As of 1 January 2010	**802**	**802**
Exchange rate differences	-46	-46
As of 31 December 2010	**756**	**756**
Exchange rate differences	14	14
As of 31 December 2011	**770**	**770**

Deferred tax liabilities	Untaxed reserves	Intangible assets	Futures	Total
As of 1 January 2010	**10,533**	**449**	**335**	**11,319**
Reported in income statement	5,543	-316		5,227
Reported in other comprehensive income			-62	-62
As of 31 December 2010	**16,076**	**133**	**273**	**16,484**
Reported in income statement	4,533	-40		4,494
Reported in other comprehensive income			-272	-272
As of 31 December 2011	**20,610**	**93**	**1**	**20,705**

Deferred tax assets are reported for tax loss carryforwards to the extent that it is probable that they can be utilized through future taxable profits. These loss carryforwards do not expire in the foreseeable future. The deferred tax asset of SEK 770 (756) thousand pertains to loss carryforwards for the subsidiary in USA. Full utilization of this loss carryforward is expected. The Group does not have any other loss carryforwards. All deferred tax falls due more than 12 months in the future.

Note 23 Pension obligations

Pension benefits

Obligations for retirement and family pensions for most salaried employees in Sweden are secured via insurance with Alecta. For some of the company's first employees, retirement pension obligations have been secured via insurance with Skandia. For a few people in the Group, fee-based solutions are in place. In accordance with a statement from the Swedish Financial Reporting Council, UFR 3, Alecta is a defined-benefit pension plan covering several employers. For the 2011 financial year, the Group has not had access to information that would make it possible to report this plan as a defined-benefit plan. The pension plan according to the Swedish ITP plan secured through insurance with Alecta is therefore reported as a defined-contribution plan.

For 2011, the fees for pension insurance with Alecta amounted to SEK 2,934 (2 ,187) thousand. For 2011, the fees for pension insurance with Skandia amounted to SEK 2,474 (2,233) thousand. Alecta's surplus can be allocated to the insurance beneficiaries and/or the insured. At year-end 2011, Alecta's surplus at the collective consolidation level was 113 (134)%. The collective consolidation level is comprised of the market value of Alecta's assets as a percentage of the pension obligations calculated in accordance with Alecta's actuarial assumptions, which are not in accordance with IAS 19.

For the foreign units, the pension obligations are classified as defined contribution plans and the amount reported in the income statement is SEK 2,098 (1,275) thousand.

Note 24 Pledged assets and contingent liabilities

The Group **Pledged assets**	**2011**	**2010**
Chattel mortgages	11,500	11,500
Contingent liabilities		
Contingent liabilities	–	–

Parent company **Pledged assets**	**2011**	**2010**
Shares in subsidiaries	244,039	244,039
Contingent liabilities		
Security for subsidiaries	19,911	19,912

Note 25 Leasing

Finance leases

The Group's tangible assets includes leased items that are held in accordance with financial lease agreements.

Plant and machinery	**2011**	**2010**
Accumulated acquisitions	11,337	10,140
Accumulated depreciation	-10,263	-9,749
Carrying amount	**1,074**	**391**

The present value of future payment obligations related to financial lease agreements is reported as a liability to credit institutions as follows:

	2011	**2010**
Within 1 year	286	391
1 to 5 years	788	
	1,074	**391**

Operating leases

Operating leases primarily pertain to office and manufacturing facilities and office machinery.

	2011	**2010**
Total minimum leasing fees for the financial year	9,327	7,721
Total leasing costs for the financial year	**9,327**	**7,721**

Future contractual leasing payments	**2011**	**2010**
Within 1 year	10,269	10,278
1 to 5 years	42,113	36,937
Total future leasing payments	**52,382**	**47,215**

Note 26 Remuneration to the Board of Directors and senior executives, etc.

Remuneration to the Chairman and Board members is in accordance with the AGM decision. There is no separate remuneration for committee work. Board fees do not pertain to employee representatives.

Remuneration to the CEO and other senior executives at HMS Industrial Networks AB (the operating company) is comprised of basic salary, variable remuneration, other benefits and pension. The other senior executives are the five members of the Group management team that also includes the CEO.

The distribution between basic salary and variable remuneration must take into consideration the responsibilities and authority associated with the position. For the CEO and other senior executives, variable remuneration may not exceed 30% of basic salary. Variable remuneration is based on performance in relation to targets. Pension benefits and other benefits for the CEO and other senior executives are part of the total remuneration package.

Remuneration and other benefits 2011	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2011	Options held	Board attendance
Chairman of the Board, Urban Jansson	275			275		100%
Board member, Nicolas Hassbjer	138			138		100%
Board member, Ray Mauritsson	138			138		100%
Board member, Göran Sigfridsson	138			138		100%
Board member, Henrik Johansson	138			138		100%
Board member, Gunilla Wikman	138			138		100%
Board member, Charlotte Brogren	138			138		100%
Total	**1,103**			**1,103**		
CEO Staffan Dahlström	1,094		370	1,465	20,000	
Other senior executives	3,482		923	4,405	65,000	
Total	**5,679**	**0**	**1,293**	**6,973**	**85,000**	

Remuneration and other benefits 2010	Basic salary/ Board fees	Variable remuneration	Pension expenses	Total 2011	Options held	Board attendance
Chairman of the Board, Urban Jansson	225			225		100%
Board member, Nicolas Hassbjer	100			100		100%
Board member, Ray Mauritsson	100			100		88%
Board member, Göran Sigfridsson	100			100		100%
Board member, Henrik Johansson	100			100		100%
Board member, Gunilla Wikman	100			100		100%
Board member, Charlotte Brogren	100			100		60%
Total	**825**			**825**		
CEO Staffan Dahlström	961	230	329	1,519	20,000	
Other senior executives	2,235	463	621	3,318	65,000	
Total	**4,021**	**693**	**949**	**5,663**	**85,000**	

Variable remuneration for the financial year consists of expensed bonus, which is paid out in the coming year. For details of how the bonus is calculated, see below.

Options held refers to the number of warrants held by each individual/group. Each warrant entitles the holder to acquire one share in HMS Networks AB (publ). For further information about the HMS warrants scheme, see Note 2 and Note 19.

At the AGM on 14 April 2011 Urban Jansson was re-elected as Chairman of the Board. The following individuals were also re-elected at the AGM to serve on the Board of Directors: Nicolas Hassbjer, Ray Mauritsson, Göran Sigfridsson, Henrik Johansson, Gunilla Wikman and Charlotte Brogren.

During the period between the AGM on 14 April 2011 and the adoption of this annual report, the Board held eight meetings at which the minutes were taken.

Variable remuneration

Variable remuneration for the CEO and other senior executives is based primarily on growth and operating profit as determined by the Board. For 2011 variable remuneration for the CEO represents 0 (24)% of basic salary and for other senior executives it was also 0 (24)%. Bonus may not exceed 30 (24)% of basic salary.

Defined benefit/Defined contribution pension plans

The Group has both defined benefit and defined contribution pension plans. See section 2.15. Pension costs are costs that affect profit (loss) for the year.

Pensions

The retirement age for the CEO is 65 years. For other senior executive, the retirement age is 65 years.

Severance pay

The notification period for termination of employment of the CEO is 6 months for both sides. If the company initiates dismissal, severance pay amounting to 12 months' salary in addition to regular salary will be paid. In the case of notice of termination from the CEO's side, no severance payment is made.

The notification period for termination of employment of the other senior executives is 6 months for both sides.

Decisions on remuneration

During the year, the remuneration committee submitted a proposal to the Board on principles for remuneration to senior executives. The proposal specifies proportions between fixed and variable remuneration and the size of possible salary increases. The remuneration committee also proposed criteria for assessing outcomes, allocation and size of remuneration in the form of financial instruments, etc., as well as terms and conditions for pension and severance pay. The committee also assessed the feasibility of giving remuneration to other Board members who provide consulting services to the Group.

The Board discussed the remuneration committee's proposal and reached a decision based on the recommendations. Remuneration to the CEO for the 2011 financial year was decided by the Board based on the recommendations of the remuneration committee. Remuneration for other senior executives was decided by the CEO after consultation with the remuneration committee. The remuneration committee comprised of the Chairman of the Board and two additional Board members.

Note 27 Sick leave

	2011	2010
Total sick leave	3%	2%
- sick leave for men	2%	2%
- sick leave for women	4%	3%
- employees - 29 years	2%	1%
- employees 30-49 years	2%	2%
- employees 50 years -	0%	1%

Sick leave is shown for the Swedish subsidiaries.

Note 28 Shares in subsidiaries

Shares owned by parent company	Registered office	Corporate registration no.	Share of	Number of shares	With par value	31 Dec 2011	31 Dec 2010
HMS Industrial Networks AB	Halmstad, Sverige	556529-9251	100%	6,540	100	244,039	244,039

Shares owned by subsidiary	Registered office	Corporate registration no.	Share of	Equity	Profit (loss)
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%	5,360	1,290
HMS Industrial Networks Inc	Chicago, USA	5983-659-5	100%	1,351	508
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	100%	7,742	-84
HMS Industrial Networks SAS	Mulhouse, France	489154476	100%	794	184
HMS Industrial Networks S.r.l.	Milano, Italy	5260930960	100%	186	30
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%	247	0
HMS Industrial Networks K.K.	Tokyo, Japan	0200-01-060118	100%	1,130	237
HMS Industrial Networks ApS	Copenhagen, Denmark	33363842	100%	158	60
HMS Industrial Networks Ltd.	Coventry, Great Britain	7521411	100%	228	234
HMS Industrial Networks Pvt.Ltd.	Pune, India	138298	100%	75	5

Note 29 Financial income

	The Group	
	2011	2010
Interest income	194	97
Exchange rate differences	2,397	1,243
Total	**2,591**	**1,340**

Note 30 Financial expenses

	The Group		Parent company	
	2011	2010	2011	2010
Interest expenses	-1,036	-802	-839	-636
Exchange rate differences				
Total	**-1,036**	**-802**	**-839**	**-636**

Note 31 Prepaid expenses and accrued income

	The Group	
	2011	2010
Rents	2,059	1,299
Accrued income	837	630
Other items	2,111	1,218
Total	**5,007**	**3,146**

Note 32 Accrued expenses and deferred income

	The Group		Parent company	
	2011	2010	2011	2010
Accrued salaries	1,578	2,412		
Vacation pay	4,869	3,904	101	
Social security contributions	5,523	5,117	292	257
Provision for returned goods	1,021	1,021		
Other items	4,168	1,830	300	450
Total	**17,158**	**14,284**	**693**	**707**

Note 33 Transactions with non-controlling interests

On 14 January 2011 the Group acquired the remaining 36% of share capital in its subsidiary, Intellicom Innovation AB for SEK 18,227 thousand. The Group now owns 100% of the share capital in Intellicom Innovation AB. At the time of the acquisition, the carrying amount of the non-controlling interest was SEK 3,609 thousand. In conjunction with the acquisition, the Group made an accounting entry to remove its non-controlling interest of SEK 3,609 thousand from the books and simultaneously reduced equity attributable to parent company shareholders by SEK 14,618 thousand. The effect on equity is summarized as follows.

	2011	2010
Carrying amount of the acquired share of non-controlling interest	3,609	1,182
Purchase price paid to non-controlling interests	-18,227	-4,400
Amount that the paid purchase price exceeds the carrying amount, reported in equity	-14,618	-3,218

Note 34 Subsequent events

No significant events occurred subsequent to year-end that would need to be reported here.

Note 35 Key financial figures

Return on shareholders' equity – Share of profit after tax attributable to the parent company's shareholders in relation to the average shareholders' equity excluding non-controlling interests.

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 non-controlling interests.

EBIT – Operating profit (loss) as reported in the income statement excluding items affecting comparability.

EBITA – Operating profit (loss) excluding amortization of intangible assets and items affecting comparability.

EBITDA – Operating profit (loss) excluding depreciation of tangible assets, amortization of intangible assets and items affecting comparability.

Financial assets – Long-term and short-term financial receivables plus cash and cash equivalents.

Net debt – Long-term and short-term financial liabilities less financial assets.

Net debt/equity ratio – Net debt in relation to shareholders' equity including non-controlling interests.

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 plus an adjustment for the average number of shares that are added when converting the outstanding number of convertible securities and options.

Operating margin – Operating profit (loss) 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, provisions, and total deferred tax liabilities.

The Board of Directors and CEO affirm that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a true and fair view of the Group's financial position and results. The Annual Report has been prepared in accordance with generally accepted accounting principles and it provides a true and fair view of the and Parent Company's financial position and results.

The Board of Directors' report for the Group and parent company provides a true and fair overview of the Group's and parent company's operations, financial position and results and also describes material risks and uncertainties faced by the parent company and the companies that comprise the Group.

The income statement and balance sheets will be presented at the Annual General Meeting on 19 April 2012 for adoption.

Halmstad, 15 March 2012

Urban Jansson
Chairman

Staffan Dahlström
CEO

Göran Sigfridsson

Ray Mauritsson

Nicolas Hassbjer
Vice Chairman

Henrik Johansson

Gunilla Wikman

Charlotte Brogren

Our audit report was submitted on 15 March 2012
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Audit report

To the annual meeting of the shareholders of HMS Networks AB (publ), corporate identity number 556661-8954

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of HMS Networks AB (publ) for the year 2011.The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 42-75.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of HMS Networks AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Halmstad, 15 March 2012
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Accountant

Notice of Annual General Meeting for HMS Networks AB (publ)

The shareholders of HMS Networks AB (publ) are hereby invited to the Annual General Meeting, which will be held 10.00 a.m on Thursday April, 19 2012 at the HMS head office, Stationsgatan 37, Halmstad. Registration for the Annual General Meeting will begin at 9:00 a.m.

Right of participation in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden on Friday 13 April 2012 and give notice of their intention to participate at the Meeting to the Company no later than 4 p.m. on Monday 16 April 2012.

Notification of participation should be made by phone: +46 (0)35-17 29 80 in writing: HMS Networks AB (publ), Box 4126, 300 04 Halmstad, by fax: +46 (0)35-17 29 09 or by email: ir@hms.se. The notification must include the following information: name, personal ID number/CIN, shareholding, address, daytime telephone number and, when applicable, information on assistants or deputies who will be attending. The notification must include, where applicable, complete authorization documents such as registration certificate, power of attorney, or equivalent.

Proxies

If a shareholder is represented by a proxy, the proxy should be issued with a power of attorney dated for this day. If the power of attorney is issued by a legal entity, a certified copy of the registration certificate, or other document demonstrating the signatory's authority to sign for the legal entity, must be included. The power of attorney and any registration certificate may not be more than one year old. The power of attorney (original), and registration certificate must be sent to the Company in good time prior to the Meeting at the above stated address. The form is available on the Company's website: http://investors.hms.se and at the Company's head office.

Nominee registered shares

Shareholders whose shares are registered in the name of a nominee through a bank or Securities Register Centre must temporarily re-register the shares in their own name to be able to participate at the Meeting. Such registration must be recorded with Euroclear Sweden no later than Friday 13 April 2012, which means that shareholders must notify their intentions on this matter to the nominee well in advance of the stated date.

Halmstad, March 2012
HMS Networks AB (publ)
The Board of Directors

Shareholder information

Future reports

- Interim report for Q1, 18 April 2012
- Interim report for Q2, 12 July 2012
- Interim report for Q3, 23 October 2012
- Year-end report, February 2013

All interim reports, annual reports and certain presentation are available on the HMS website http://investors.hms.se. A printed version of the annual report is only distributed to shareholders and investors who have requested one. The annual report can be ordered by sending complete address information to: ir@hms.se.

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