

hms networks

INTERIM REPORT 2012

JANUARY - MARCH 2012

Last twelve months

- ❑ Net sales for the last twelve months totaled to SEK 389 m (360), corresponding to a 11 % increase in local currencies
- ❑ Operating profit for the last twelve months was SEK 69 m (83), equal to a 17.7 % (23.1) operating margin
- ❑ Order intake for the twelve month period was SEK 407 m (361)
- ❑ Cash flow from operating activities for the twelve month period amounted to SEK 55 m (63)
- ❑ Profit after tax for last twelve months amounted to SEK 52 m (61) and earnings per share was SEK 4.66 (5.36)

First quarter

- ❑ Net sales for the first quarter totaled to SEK 96 m (92) corresponding to a 5 % increase
- ❑ Operating profit amounted to SEK 14 m (18)
- ❑ Order intake for the first quarter was SEK 116 m (97)
- ❑ During the quarter HMS received the largest order in the company's history, SEK 16 m

Comment from the CEO

The previously communicated market uncertainty persists. On our major markets we see continuing positive signs on the American market. The German market is somewhat reserved and the Japanese market is still uncertain.

We see a continuing inflow of design-wins confirming our strong position on the market and the attractiveness of our product offering. However, the effect of these new customers will not materialize (on the income statement) until 2013 and going forward. The demand for customized solutions of the HMS technology is still high and during the first quarter, we received the biggest order in the company's history, amounting to SEK 16 m. The conditions for a continuing long-term growth are unchanged despite the short term uncertainty among our customers.

We have noticed that our effort to improve our purchase process and relationship to our suppliers is having effect, resulting in a strong gross margin on product sales.

We now strive to reach the full effect of our investment in new resources made during the previous years. So far, these investments have resulted in a continuous inflow of design-wins, a more efficient sale and marketing organization, a strengthened Development Department and several new partners adding to the HMS presence on important markets.

“Our effort is now to reach the full effect of our investment in new resources made the previous years.”



Staffan Dahlström
CEO for HMS Networks AB

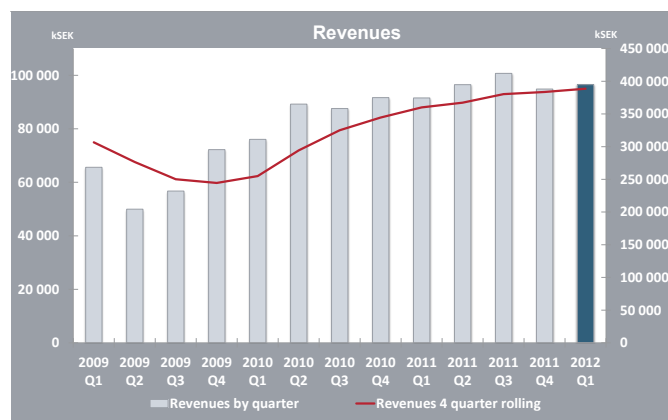


Quarterly data	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2012	2011	2011	2011	2011	2010	2010	2010
Net sales (SEK m)	96	95	101	97	92	92	88	89
Order intake (SEK m)	116	83	108	100	97	88	87	90
Operating profit (SEK m)	14	10	24	20	18	20	24	22
Gross margin (%)	61.9	60.8	60.6	61.3	59.6	60.4	61.6	60.2
Operating margin (%)	14.9	10.5	24.2	21.0	19.3	21.7	26.8	24.9
Return on capital (%)	17.6	18.6	21.6	22.1	22.6	23.2	23.0	21.2
Earnings per share (SEK)	0.94	0.71	1.67	1.34	1.11	1.31	1.46	1.48
Equity per share (SEK)	27.74	26.77	25.96	24.41	25.08	25.30	24.37	22.80
Cash flow for operating activities per share (SEK)	0.73	0.25	1.74	2.06	-0.08	2.27	1.86	1.64

Net sales

Net sales for the last twelve months amounted to SEK 388.6 m (360.0) corresponding to a 7.9 % increase. In total the revaluation of the Swedish currency in relation to the major HMS currencies had a SEK 12.6 m negative effect on net sales compared to the previous twelve month period. The order intake amounted to SEK 407.1 m (361.0).

Net sales for the first quarter 2012 was SEK 96.5 m (91.5), corresponding to a 5.4 % increase compared to the same quarter the previous year. Adjusted for SEK 1.5 m in currency effects, the increase amounted to 3.8 %. Order intake for the first quarter increased by SEK 19.5 m to SEK 116.3 m (96.8), of which SEK 96.1 m expected for delivery during the next twelve months.

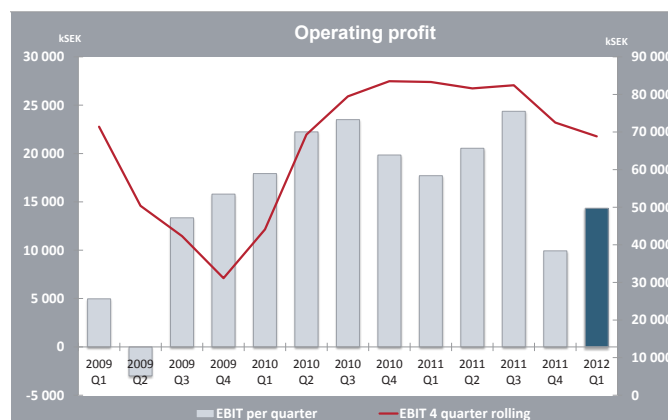


The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turnover for the latest 12 month period referring to the scale on the axis to the right.

Operating profit

Operating profit totaled to SEK 68.8 m (83.3) for the last twelve months, equivalent to an operating margin of 17.7 %. Currency effects had a negative impact on the operating result with SEK 5.9 m compared to the previous twelve month period.

The operating profit for the first quarter 2012 totaled to SEK 14.3 m (17.7), corresponding to a 14.9 % operating margin. Changes in exchange rates had a SEK 1.0 m positive impact compared with the same period the previous year.



The graph shows operating result per quarter in the bars referring to the scale on the left axis. The line shows operating result for the last 12 month period referring to the scale on the axis to the right.

Tax

The tax charge for the first quarter was SEK 3.9 m (4.6). The tax charge for the current period has been calculated on the basis of the tax situation applying to the Group at present and the profit development of the reporting entities belonging to the Group.

Equity

The Group's equity amounted to SEK 309.4 m (279.8). The total number of shares at the end of the year was 11,152,900. After full dilution, the total number of shares is 11,322,400. The Group's equity/assets ratio improved to 78.4 % (73.3).

Change in Group Equity (SEK 000s)	Mar 31 2012	Mar 31 2011	Dec 31 2011
Balance at 1 january	298,543	285,815	285,815
Total comprehensive income for the period	10,808	12,181	53,261
Dividends	0	0	-22,306
Acquisition non-controlling interests	0	-18,227	-18,227
Closing balance	309,351	279,769	298,543

Currency effects

Assets and liabilities in foreign currencies are revaluated at closing date. Currency hedging contracts are revaluated at the date of closing and are also affecting the result on the date of expiration. Changes in book value due to revaluation of operating balance sheet items and currency hedging contracts are disclosed as other operating income and other operating expenses. Changes in book value related to assets in foreign currencies i.e. liquid funds, are disclosed as financial income and expenses. Net sales and expenses are affected by changes in exchange rates. This will have an impact on income and costs. Net sales for the quarter consist of 59 % in EURO, 23 % in USD, 10 % in Japanese Yen and 8 % in SEK and other currencies. Cost of goods sold consists of 41 % in EURO, 14 % in USD and 1 % in Japanese Yen. Operating expenses consists of 16 % in EURO, 7 % in USD, 7 % in Japanese Yen and 70 % of SEK and other currencies. The Group applies a policy for currency hedging described in the annual report.

Cash flow, investments and financial position

Cash flow from operating activities in the first quarter 2012 amounted to SEK 8.1 m (-0.9).

The investments in tangible assets for the quarter totaled SEK 5.5 m (3.6). Investments in intangible assets for the period totaled SEK 4.8 m (3.4) and comprise internal development costs.

At the end of the period the cash equivalents totaled SEK 20.7 m (25.1) and unutilized credit facilities SEK 20.0 m. The Group's net debt amounted to SEK 0.7 m (10.5).

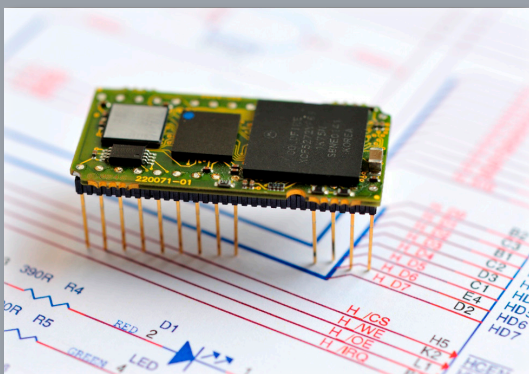
Important events

- ❑ In January, HMS moved into new and extended office premises in Halmstad.
- ❑ HMS received the largest single order in the company's history, SEK 16 m.
- ❑ HMS received a SEK 2 m order from one of the leading manufacturers of industrial energy metering and monitoring in Europe.

Outlook

The HMS long term growth is supported by a continuing inflow of design-wins, a wider product offering in the area of Gateway products and Remote Management, a stronger customer focus, and expansion of the HMS sales channels in line with our strategy.

The global economy is likely to continue to be weak. The effects on the market for HMS products and the currency effect are difficult to assess. Still, HMS long-term goals are unchanged: A long term average growth of 20 % per annum and a operating margin exceeding 20 %.



Accounting policies

This report has been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34, for Interim Reporting. Amendments to existing standards, new interpretations and new standards that came into effect as of January 1, 2012 did not affect the Groups reporting as of March 31, 2012.

As of the first quarter 2012 customer orders related to development projects including future volume commitments and blanket agreements with estimated future volumes, are included in the period's order intake. As clarification, information about which part of the order intake that will be shipped during the following twelve months, is disclosed.

HMS continues to apply the same accounting principles and valuation methods as those described in the most recent Annual Report. The parent company report is prepared in accordance with RFR 2, accounting for legal entities, and the Swedish Annual Accounts Act and accounting principles and the valuation methods as those described in the most recent Annual Report.

HMS Networks AB's share

HMS Networks AB (publ) is listed on the Nasdaq OMX Stockholm Small Cap list, in the Information Technology sector. The total number of shares amounted to 11,152,900.

Risk management

The HMS Group is exposed to business and financial risks through its operations. These risks have been described at length in the Company's annual report 2011. In addition to the risks described in these documents, no additional significant risks have been identified.

The parent company

The Parent Company's operations are primarily focused on Group-wide management and financing. Apart from the Group's CEO, the Parent Company has no employees. The operating profit for the first quarter 2012 amounted to SEK 0.1 m (0.2). Cash and cash equivalents amounted to SEK 0.5 m (0.0) and borrowing amounted to SEK 20.4 m (35.4).

HALMSJÖ
AD
GOthenBURGPUNE
COVENTRY
BEIJING
TOKYO
COPENHAGEN
KARLSRUHE
MILANO
MULHOUSE
CHICAGO

Short of the company

Strategies

Growth strategy - HMS's main focus is on organic growth. Expansion on existing markets will be through improved and extended product ranges, new technology, high level of service and new sales channels. A certain degree of growth can be through the selective acquisition of businesses that will be a valuable complement to the company's organic growth strategy.

Development strategy - The Company's core expertise is made up of an extensive understanding of industrial network communication.

Product strategy - HMS markets three product lines, which to a certain degree are based on a common technical platform:

- ☐ Anybus Embedded - Embedded network interface cards
- ☐ Anybus Gateways - Communication translators between different networks
- ☐ Netbiter Remote Management - Remote monitoring and controlling of industrial devices

Production strategy - HMS maintains an in-house low-volume production of Anybus products in Halmstad. Volume production takes place in close partnership with subcontractors in Europe and Asia in order to achieve flexible costs and to make use of economies of scale.

Marketing strategy - The Anybus network interface cards are marketed and sold to players in industrial and infrastructure automation and Anybus Gateways to system integrators, machine manufacturers and end-users in industrial and infrastructure automation. Netbiter products are marketed and sold to a wide range of customers, from device manufacturers to owners of installations in need of remote management.

Sales strategy - Sales take place via the company's sales offices on defined key markets in 10 countries. Sales on the company's other markets, in some 50 countries, takes place via agents/ distributors.

Business model

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.

Reporting occasions

- ☐ Half Year Report 2012 will be published on July 12, 2012
- ☐ Q3 Report 2012 will be published on October 23, 2012
- ☐ Year-end Report 2012 will be published on February 7, 2012

Halmstad April 18, 2012

Staffan Dahlström
Chief Executive Officer

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

Further information can be obtained from:
CEO Staffan Dahlström, telephone +46 (0) 35-17 29 01 or
CFO Gunnar Högberg, telephone +46 (0) 35-17 29 95

Financial accounts

	Q1 2012	Q1 2011	Q1-Q4 2011	1104-1203 12 months
Net increase in revenue (%)	5.4	20.3	11.3	7.9
Gross margin (%)	61.9	59.6	60.6	61.2
Operating margin EBIT (%)	14.9	19.3	18.8	17.7
Return on capital employed (%)*	22.3	27.4	23.2	22.3
Return on total equity (%)*	17.6	22.6	18.6	17.6
Working capital in relation to sales (%)*	11.1	8.9	8.3	11.1
Capital turnover rate	1.00	0.98	0.98	1.00
Debt/equity ratio	0.00	0.04	0.00	0.00
Equity/assets ratio (%)	78.4	73.3	76.3	78.4
Capital expenditure in property, plant and equipm. (SEK 000s)	5,455	3,605	9,341	11,186
Capital expenditure in intangible fixed assets (SEK 000s)	4,802	3,390	10,744	12,157
Depreciation of property, plant and equipment (SEK 000s)	-1,386	-1,123	-4,661	-4,924
Amortisation of intangible fixed assets (SEK 000s)	-1,115	-1,204	-5,539	-5,450
Number of employees (average)	233	197	213	222
Revenue per employee (SEK m)*	1.7	1.8	1.8	1.8
Cash flow from operating activities per share, SEK	27.74	25.08	26.77	27.74
Cash flow from operating activities per share, diluted, SEK	27.71	25.02	26.76	27.71
Cash flow from operations per share before dilution, SEK	0.73	-0.07	4.13	4.93
Cash flow from operations per share after dilution, SEK	0.73	-0.07	4.12	4.93
Basic number of shares, average, thousands	11,153	11,153	11,153	11,153
Number of shares, diluted average, thousands	11,163	11,182	11,169	11,165

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

Income statements

(SEK 000s)	Q1 2012	Q1 2011	Q1-Q4 2011	1104-1203 12 months
Revenue	96,493	91,527	383,592	388,558
Cost of goods and services sold	-36,727	-36,975	-151,099	-150,851
Gross profit	59,766	54,552	232,493	237,707
Sales and marketing costs	-25,732	-20,751	-92,543	-97,524
Administrative expenses	-9,304	-7,731	-30,643	-32,216
Research and development costs	-8,911	-8,337	-36,725	-37,299
Other operating income	307	1,101	1,120	325
Other costs	-1,787	-1,130	-1,490	-2,147
Operating profit	14,338	17,704	72,213	68,847
Financial income	143	17	2,591	2,717
Financial costs	-195	-748	-1,036	-483
Profit before tax	14,286	16,973	73,768	71,081
Tax	-3,857	-4,583	-19,839	-19,114
Profit for the period	10,429	12,390	53,929	51,967
Basic earnings per share, SEK	0.94	1.11	4.84	4.66
Earnings per share, diluted, SEK	0.93	1.11	4.83	4.65

Statements of comprehensive income

(SEK 000s)	Q1 2012	Q1 2011	Q1-Q4 2011	1104-1203 12 months
Profit for the period	10,429	12,390	53,929	51,967
Other comprehensive income				
Income/expense recognized directly in equity				
Cash flow hedges	624	-259	-1,035	-152
Translation differences	-81	-19	94	32
Income tax relating to components of other comprehensive income	-164	68	273	41
Other comprehensive income for the period, net of tax	379	-210	-668	-79
Total comprehensive income for the period	10,808	12,181	53,261	51,888

Balance Sheets

(SEK 000s)	Mar 31 2012	Mar 31 2011	Dec 31 2011
ASSETS			
Goodwill	236,071	236,071	236,071
Other intangible assets	26,630	20,336	23,353
Property, plant and equipment	19,298	13,048	15,347
Deferred tax assets	736	701	770
Total fixed assets	282,735	270,156	275,541
Inventories	31,673	29,376	35,584
Trade and other receivables	42,928	48,119	42,781
Other current receivables	16,485	9,141	10,634
Cash and cash equivalents	20,691	25,128	26,573
Total current assets	111,777	111,764	115,572
TOTAL ASSETS	394,512	381,920	391,113
EQUITY AND LIABILITIES			
Equity	309,351	279,769	298,543
Liabilities			
Non-current liabilities	21,370	35,599	25,192
Deferred income tax liabilities	21,744	17,102	20,705
Total non-current liabilities	43,114	52,701	45,897
Trade payables	17,764	25,048	22,216
Other current liabilities	24,283	24,403	24,457
Total current liabilities	42,047	49,450	46,673
TOTAL EQUITY AND LIABILITIES	394,512	381,920	391,113

Cash flow statements

(SEK 000s)	Q1 2012	Q1 2011	Q1-Q4 2011	1104-1203 12 months
Cash flow from operating activities before changes in working capital	6,307	15,486	64,986	55,807
Cash flow from changes in working capital	1,818	-16,370	-18,977	-789
Cash flow from operating activities	8,125	-884	46,009	55,018
Cash flow from investing activities	-10,257	-25,222	-37,114	-22,149
Cash flow from financing activities	-3,750	-3,750	-37,306	-37,306
Cash flow for the period	-5,882	-29,856	-28,411	-4,437
Cash and cash equivalents at beginning of the period	26,573	54,984	54,984	25,128
Cash and cash equivalents at end of period	20,691	25,128	26,573	20,691

Changes in current receivables/liabilities related to derivate financial instruments are reported as cash flow from operating activities before changes in working capital.

Quarterly data

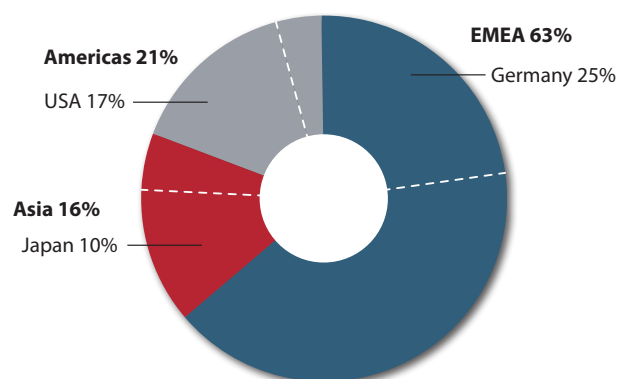
Revenue per region (SEK 000s)	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
EMEA	60,387	55,876	64,900	61,757	60,379	55,109	57,441	53,697	47,979	46,284	38,184	34,789
Americas	20,429	20,330	18,844	17,418	17,167	19,354	15,715	14,206	12,611	13,373	10,892	8,221
Asia	15,677	18,642	16,976	17,322	13,981	17,184	14,423	21,339	15,471	12,558	7,659	6,959
Income statement (SEK 000s)	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Revenue (SEK m)	96,493	94,848	100,720	96,498	91,527	91,647	87,579	89,242	76,061	72,215	56,735	49,969
Gross profit	59,766	57,686	61,062	59,193	54,552	55,385	53,931	53,723	44,518	43,408	34,245	26,752
Gross margin	61.9%	60.8%	60.6%	61.3%	59.6%	60.4%	61.6%	60.2%	58.5%	60.1%	60.4%	53.5%
Operating profit	14,338	9,925	24,360	20,224	17,704	19,848	23,502	22,242	17,932	15,802	13,349	-2,989
Operating margin	14.9%	10.5%	24.2%	21.0%	19.3%	21.7%	26.8%	24.9%	23.6%	21.9%	23.5%	-6.0%
Profit before tax	14,286	10,715	25,544	20,536	16,973	20,232	22,702	22,834	18,295	15,965	12,423	-4,964

Sales

Sales by geographical area for the first quarter 2012 are presented in the graph to the right.

Embedded products reached 69 % of the Group's total sales, Gateway products 25 % and Remote Management amounted to 3 %.

All product groups are based on a common technology platform and are marketed and sold in the common sales channels. Therefore, no complete segment follow-up is reported.



Parent company income statements

(SEK 000s)	Q1 2012	Q4 2011	Q1-Q4 2011	1104-1203 12 months
Revenue	1,891	1,735	7,428	7,584
Cost of sales and services	0	0	0	0
Gross profit	1,891	1,735	7,428	7,584
Administrative expenses	-1,745	-1,528	-6,589	-6,806
Operating profit	146	207	839	778
Interest expense and similar items	-146	-207	-839	-778
Profit before tax	0	0	0	0
Tax	0	0	-8	-8
Profit for the period	0	0	-8	-8

Parent company balance sheets

(SEK 000s)	Mar 31 2012	Mar 31 2011	Dec 31 2011
ASSETS			
Financial fixed assets	244,039	244,039	244,039
Total financial fixed assets	244,039	244,039	244,039
Other receivables	829	596	444
Cash and cash equivalents	542	5	18
Total current assets	1,371	601	462
TOTAL ASSETS	245,410	244,640	244,501
EQUITY AND LIABILITIES			
Equity	133,098	155,411	133,098
Untaxed reserves	8	8	8
Liabilities			
Non-current liabilities	20,368	35,368	24,118
Trade payables	150	124	525
Liabilities to Group companies	90,666	52,759	85,769
Other current liabilities	1,120	970	983
Total current liabilities	91,936	53,853	87,277
TOTAL EQITY AND LIABILITIES	245,410	244,640	244,501

Definitions

Return on shareholders' equity

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

Return on capital employed

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

Capital employed

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

Capital turnover rate

Operating income in relation to total assets.

Earnings per share

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

Earnings per share after dilution

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

Working capital

Current assets less cash equivalents and current liabilities.

Operating margin

Operating income in relation to net sales.

Equity/assets ratio

Shareholders' equity in relation to total assets.

Net debt

Long-term and current financial liabilities less financial assets.

Net debt/equity ratio

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

Total equity per share

Total equity attributable to the parent company's shareholders in relation to total outstanding shares by the end of the period.



HMS Networks (publ) is a world-leading supplier of communication technology for industrial automation. Sales for 2011 totaled SEK 384 million. Over 90% of these sales were to customers located outside Sweden. All product development and parts of the manufacturing are performed at the head office in Halmstad. Sales offices are located in Tokyo, Beijing, Karlsruhe, Chicago, Milan, Mulhouse, Pune, Coventry and Copenhagen. HMS has 240 employees and produces network interface cards and Gateways to interconnect different networks under the trademark Anybus® and products for remote management under the trademark Netbiter®. HMS is listed on the Nasdaq OMX Stockholm Small Cap list, in the Information Technology sector.



Our vision

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

Our purpose

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

Our mission

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