

hms networks

A N N U A L R E P O R T 2 0 1 0

SALES RECORD!

**Net sales rose by SEK 100 million
to SEK 344.5 million**

NP40 Next generation
technology platform
being developed

Netbiter New product family
making remote monitoring and
remote controlling possible

More believe in the future
27 new colleagues

**Over 1.6 million Anybus
network cards installed
and more being ordered**

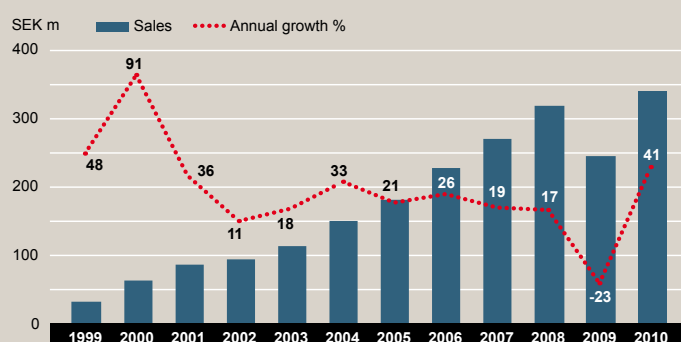


Anybus – a multi-lingual translator

Financial summary

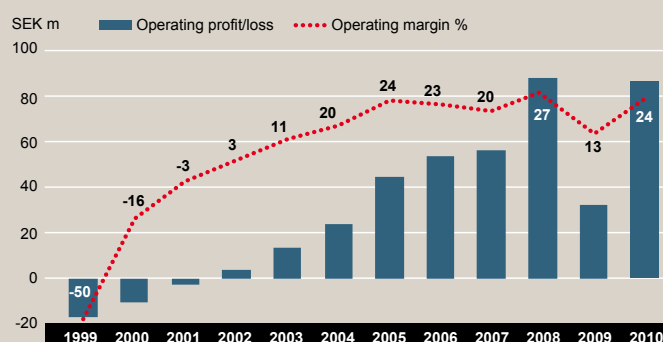
- Net sales rose to SEK 344.5 million (244.5), equivalent to a growth of 41%
- The operating profit increased to SEK 83.5 million (31.1), equivalent to an operating margin of 24.2% (12.7)
- The profit after tax was SEK 61.7 million (20.7) and the EPS was SEK 5.41 (1.88)
- Cash flow from operating activities was SEK 75.3 million (31.2)
- The Group's net cash holdings amounted to SEK 15.5 million (-30.3)
- Continued inflow of new design wins, contributing to long-term profitable growth
- The Board of Directors proposes a dividend of SEK 2.00 per share (1.00)

Sales performance



More than 90% of the Group's sales take place on markets outside Sweden. Embedded cards and Gateways both helped towards the recovery reported in 2010, though it was embedded network interface cards that reported the strongest volume growth.

Earnings trend



Thanks to the recovery in sales volumes and a stronger gross margin, the operating margin was better than last year's, despite the increased rate of the Company's expansion in resources.

Key figures

Financial data in summary (SEK m)	2010	2009	2008	2007	2006
Net sales	345	245	317	270	227
Growth in net sales, %	41	-23	17	19	26
Gross profit	208	143	182	142	116
Gross margin, %	60	58	57	53	51
Operating profit	84	31	85	55	52
Operating margin, %	24	13	27	20	23
Profit for the period	62	21	59	30	33
Earnings per share before dilution, SEK	5.41	1.88	5.43	2.81	3.16
Dividend per share, SEK	2.00*	1.00	1.50	1.00	0.00
Total assets	392	339	390	352	329
Shareholders' equity	286	240	224	182	153
Shareholders' equity per share before dilution, SEK	26	22	21	18	15
Equity/assets ratio, %	72	70	57	52	46
Net debt/equity ratio %	-5	13	19	52	79
Return on shareholders' equity, %	23	9	29	18	24
Return on capital employed, %	28	11	27	19	19
Investments in non-current assets	15	7	7	8	10
Cash flow from operating activities	75	31	68	34	29
Cash flow from operating activities per share before dilution, SEK	6.71	2.89	6.52	3.24	2.79
Average number of employees	164	153	154	144	119
Revenue per employee	2.1	1.6	2.1	1.9	1.9

* Board's proposal

2010 – a year of improved figures and smiles

Read about this year's most important events and figures in summary.

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A growth company with unique technology

HMS is a world-leading supplier of communication technology for industrial automation. We simplify communication between different automation networks.

HMS creates profit

Shareholder, customer or employee? Read more about what HMS can offer you.

3

“Return to growth – we see major future opportunities”

CEO Staffan Dahlström gives his views on HMS's position in the future.



4

An organization characterized by ambition and belief in the future

Employees have lots of opportunities to influence their careers in HMS's expanding organization. Read more about the corporate culture and HMS's core values.

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Vision, mission and strategies

HMS's main focus is on organic growth. The financial objectives are unchanged with an average annual growth of 20 per cent and an operating margin of more than 20 per cent. The chosen strategies are presented.

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HMS's business model

HMS has developed a well-defined business model for each of its product groups. The basis for each is built on being present at an early stage in customers' products and system development.

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Market

How automated can it get? The market has clear driving forces that create business opportunities and facilitate continued growth for HMS.

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Anybus®

HMS's products allow machines or devices to communicate with one or more other systems even if each use different language standards. In simple terms HMS's solution is an automatic language converter.

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Netbiter®

HMS's new Netbiter product family saves money and makes things simpler, from the start.

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Processing chain

From start to finish, HMS has full control of the entire process.

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2010 – a year of improved figures and smiles

Q1

- HMS's Japanese operation is expanded and moves into new premises in Shin-Yokohama.
- HMS signs agreements with four new partners to strengthen its market position, two in Eastern Europe and two in the Middle East.
- Customized network interface cards supporting Profibus-DPV1 and Ethernet (Modbus TCP and Ethernet/IP) for installation in electrical motor drives are launched.
- The company successfully recertifies its ISO 9001:2008 quality system.
- Orders in Q1 rise to SEK 79.8 million (57.0).

Q2

- HMS launched Anybus® Java-Communicator for Profibus-DP for a German customer for use with RFID solutions.
- New quarterly sales record in the history of HMS.
- Orders for Q2 rose to SEK 89.7 million (60.2).

Q3

- HMS receives a SEK 2.5 million order from one of the largest manufacturers of electrical motor drives in Japan.
- Subsidiary Intellicom Innovation AB receives breakthrough order for Netbiter® in the energy automation sector.
- Orders for Q3 rose to SEK 86.9 million (59.2).

Q4

- During the year 27 new people are employed at the Group, mainly to strengthen activities in marketing, sales and product development.
- The launch of the HMS Partner Program is initiated in France.
- New quarterly and annual sales record in HMS's history.
- Launch of ten new Gateway products.
- Launch of the Netbiter concept for remote monitoring (Machine-to-Machine).
- Orders for Q4 rise to SEK 87.5 million (81.0).
- Subsidiary Intellicom Innovation AB receives breakthrough order for Netbiter® in the Telecom sector.



A growth company with unique technology

HMS Networks is a world-leading supplier of communications technology for industrial automation with more than 90 per cent of sales to customers located outside Sweden. Over the past 10 years the company has shown average organic growth of 20 per cent annually.

The core of HMS's technology is designed to simplify handling the growing number of communication protocols in industrial automation networks. HMS develops and produces network interface cards and products for linking different networks under the Anybus® brand and products for remote monitoring/controlling under the Netbiter® brand.

The Anybus® products create effective, flexible automation systems with lower energy consumption. Manufacturers of automation equipment only need to adapt their equipment to one language in the network interface cards that are embedded into automation equipment like electrical motors, industrial robots, guidance systems and sensors. HMS also makes products

that allow networks with different languages to be linked together, thereby communicating with each other.

Netbiter® products allow remote monitoring/controlling of geographically diverse installations and devices. The customer benefits from improved monitoring independent of location and savings in on-site controls.

All product development and parts of the manufacturing are performed at the head office in Halmstad. Sales offices are located in 7 countries: Sweden, USA, Germany, Italy, France, Japan and China. HMS is also found in 44 other countries through retailers/distributors.

At year-end 2010 the company had 190 employees. HMS has been listed on the NASDAQ OMX Nordic Exchange in Stockholm in the Small Cap, Information Technology category since 2007.

“The small industrial automation company HMS Networks is a first rate Swedish listed company. The company has an impressive history and many attractive periods of growth. The long-term view is that this company has the potential of becoming a multi-billion kronor business.”

Dagens Industri 25 October 2010

HMS creates value

HMS is a world-leading supplier of communication technology for industrial automation, creating profit for the company's main interested parties.

FOR CUSTOMERS

HMS creates customer benefit through its unique know-how of limitless industrial communication.

Customers that need to adapt their products to numerous communication language standards can cut development times by up to 70 per cent, which decreases the time it takes for a market launch. No specific development tools are needed. Maintenance and development of network modules are carried out by HMS, which use a certified, tried and tested technology for this.

Customers wishing to integrate numerous industrial networks can use HMS's offer of a simple solution that solves the interface problem of communication protocol standards. Customers save development time, significantly improving the possibility of linking various network interfaces.

For customers needing remote management of geographically widespread equipment, the return on investment can be easily calculated since they no longer need to travel to equipment sites unless it is necessary. Monitoring is also location independent.

HMS also provides partnership for system integrators and machine manufacturers that benefit from HMS's market know-how and opportunities in new business deals.

FOR SHAREHOLDERS

HMS is a leading independent supplier with three unique product groups that facilitate product improvements and flexibility using patented technology to provide limitless industrial communication.

The market has clear driving forces that encourage continued growth for HMS.

Over the past five years the company has grown faster than the industrial automation market. Annual sales growth has been 16 per cent with an average annual operating margin of 21 per cent. The company has an explicit dividend policy of 30 per cent of the profit.

FOR EMPLOYEES

HMS provides a workplace with exciting new technology in an organization with a major international focus. The working climate is open and based on common values. Employees are given the opportunity to develop their skills and affect their own work.



“Return to growth – we foresee



2010 was a year of good sales developments on our markets, mainly thanks to a recovery from a weak 2009, but also as a result of our long-term work with product development and marketing. We have a broader product range with a new concept for our Gateways product area. We also added a further 100 design wins, i.e. new customers, to our portfolio over the year, thereby giving us more customers that will help towards our future growth.

Another reason why 2010 was a good year is that its customers regard HMS as a long-term player. Our constant focus on quality and the fact that we provide products that work year after year in tough industrial environments gives us a position as a long-term partner and supplier to our customers. Being able to provide value while strengthening our position as partner to our customers is naturally a condition for being able to continue growing with a broader and developed customer base.

Increased complexity

An increasingly complex world provides us with continued opportunities. Communication technology between machines and systems is becoming increasingly multi-functional and complicated, making it difficult for our customers to have this area as part of their core skills. This means there are opportunities for us to find new customers in segments where it was previously common for customers to develop communication solutions themselves.

Committed employees are crucial

To manage future growth we consciously work with a long-term approach to organizational expansion. Our new recruiting is not only governed by an immediate need for human resources but also our desire to find employees that share our values and that can develop within the company in the years to come. What we're looking for is mutual commitment with clear common and individual objectives.

major opportunities in the future”

“An increasingly complex world gives us the opportunity of providing our customers with valuable help with their communication needs.”

Staffan Dahlström
President and CEO,
HMS Networks AB



Investing in development to broaden the Anybus® range

Product development is another dimension for success. Technology and innovation have been at the core of our business since we started over 20 years ago. We're currently working with the next generation technology platform where our new NP40 microprocessor is an important ingredient. Using this as a basis we'll be able to develop new innovative products and solutions for demanding customers within industrial applications.

New business opportunities with Netbiter®

We've now entered the remote monitoring market with our Netbiter product family, which links systems and processes data. Netbiter allows us to help existing customers create greater value in their applications through more efficient service and operation of installed products with the help of remote monitoring and remote controlling: The Netbiter concept also allows us to cultivate completely new customer segments.

Increased market presence

We're continuing to increase our market presence. This means that apart from our important existing markets in Germany, Japan and the US we're also planning to expand into the growing economies of India and China.

We recently started our Partner Program that will strengthen our end customer presence and their solutions in the years to come.

An exciting future

We're leaving an eventful, successful year behind us and I would like to thank everyone who contributed their time, support and commitment in order to make this possible.

We're well equipped for an exciting future and continued profitable growth. I'd like to invite you to join us on this journey!

Staffan Dahlström
President and CEO, HMS Networks AB

An organization characterized by **ambition and belief in the future**

HMS is a highly value-added company with great production breadth in the value-added chain of a business focusing on expansion. Growing with the aim of taking on new challenges is therefore a natural part of employees' commitment.

Organizational structure

HMS has a flat organizational structure with few decision-making levels and delegated responsibility. Group management consists of six individuals and an operational level of 13 middle managers, who report directly to Group management. As the company has grown, the management structure has developed with clear areas of responsibility.

By year-end 2010, 132 of the Group's 190 employees were located at HMS's head office in Halmstad. 17 employees work at the Intellicom subsidiary in Halmstad and 41 employees are employed in six countries abroad, mainly in the Group's sales and

marketing organization. All employees abroad are recruited locally.

Professional breadth

HMS is a highly value-added company with great breadth in the value-added chain that covers everything from research and development (64 people) to production and purchasing (44 people), sales, marketing and support (61 people, of which 41 outside Sweden) and administration/finance/IT (21 people).

Employees are highly educated with 65 percent having completed college or university educations. In addition, many of the employees have various kinds of post-secondary education, such as advanced vocational training.

New recruitment investing in development and creating business

Over the years the headcount at HMS has grown and been on a par with sales growth, coupled with a low employee turnover rate of around 3 per cent annually.

27 new employees joined HMS in 2010. Expansion has mainly been in development, marketing and sales.

Long- and short-term recruitment

The company is facing continued expansion in 2011 with a continued need to recruit heavily. A long-term recruitment drive is also taking place to increase awareness of HMS via a number of planned labour market days at universities and university colleges in Southern Sweden.





This is being complemented with opportunities for completing degree work at HMS. Realizing the importance of being seen where students are, has led to the company also utilizing social media, with its own Group page on Facebook and videos on YouTube.

Clear values and transparency

HMS is deeply rooted in an entrepreneur-driven business, which strongly characterizes the business. The corporate culture is characterized by the opportunity to affect ones work, take responsibility, proximity to customers and exciting technical developments.

HMS consciously works to create a value-driven organization built on five core values, which are the foundation for employees' basic view of their day-to-day work and summarize the way the organization works towards its interested parties including customers, suppliers, employees and shareholders.

To measure employees' views of their work situation, the company carries out regular employee surveys, which includes

HMS's core values, Hi5

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

a brief survey once every three months and a more in-depth survey every 18 months. These surveys provide valuable suggestions on how HMS can improve its position as an attractive employer.

Major opportunities for influencing their career paths

The strategic choice of building the business on its own development means that HMS is a learning organization. This is complemented by providing external courses. Many of the employee functions are in specialist areas. Employees can to a great extent influence their own level of expertise. Lots of this training takes place in close partnership with customers, which also gives HMS an opportunity to establish contacts abroad.

Employees are constantly offered career advancement opportunities. All new positions are filled with the help of an open application process and the company has a very open attitude towards applicants from within the company.

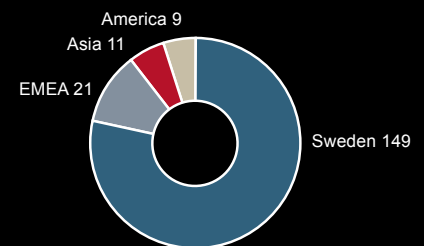
Induction for new employees is a matter of course

All new employees complete an induction program. This includes a half-day with Group management who introduce them to the Company's history, objectives, how it intends to realize these objectives and the company's core values and meaning. Each new employee is also appointed a mentor for their initial period with the company.

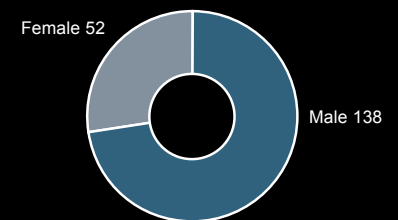
Work and health

In its role as employer HMS has a conscious view of the importance of psychological and physical health. Employees are offered preventative ergonomic workstations and membership at keep-fitness centres at reasonable prices. General keep-fitness and leisure activities are regularly organized and this is reflected well in the low level of sick leave, which is a mere 2 per cent (2).

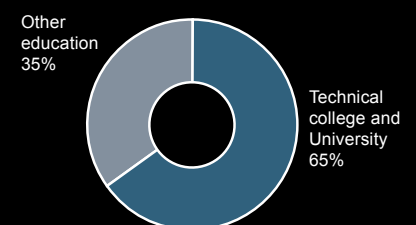
Employees per region



Gender division



Education level



"HMS is deeply rooted in an entrepreneur-driven business, which characterizes the business. The corporate culture is characterized by the opportunity to affect ones work, take responsibility and exciting technical developments."

Our Vision

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

Our Mission

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

Quality objective

- 98 per cent of deliveries must be delivered on time.
- Returns of delivered products shall be less than 0.05 per cent.

Financial objectives

- Average long-term annual growth of 20 per cent.
- Operating margin of over 20 per cent.

Dividend policy

- An annual dividend of around 30 per cent of the net profit.

Business plan that builds on
continued strong growth



Strategies

HMS's main focus is on organic growth. Expansion on existing markets will be through improved, extended product ranges, new technology, high level of service and new sales channels.

Establishing in new market segments will be through using and developing new and existing products and technology ranges.

Growth strategy – acquisition

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. The alignment of the development work is based on a developed network strategy. Development investments amount to around 12 per cent of net sales.

Product strategy

HMS is a niche player that markets three clear product groups, which to a certain degree are based on a common technical platform:

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

Short-term operational objectives for product groups

Embedded network interface cards

HMS is continuing to build up a strong portfolio of design wins. The customer base of low and medium-volume customers is continuing to develop for further sales of standardized communication solutions.

For high-volume customers, HMS also applies alternative business models in order to utilize Anybus® for customers with specific requirements.

Gateways

HMS is enhancing its focus on a network of distribution and integration partners.

By customizing Gateway products for major OEM customers and further extending the product range HMS will establish on new market segments and become the market leader in traditional market areas.

Remote management

The company will begin an extensive launch of Netbiter® in 2011 by marketing and selling through HMS's global sales organization.

Production strategy

HMS maintains an in-house low-volume production of Anybus® products in Halmstad in order to have the ability to produce prototypes in-house, produce more demanding customized products and for small volume flexible production. In-house production also allows HMS to build good relationships to with component suppliers and a constant update of production know-how, which is important for HMS's ability to develop its own and subcontractors' production systems.

Volume production for Anybus® products 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. Such partnerships aim at ensuring high quality – for products and production.

Market strategy

HMS created a new, divided sales and marketing organization in 2010. The marketing organization's job is to run marketing activities and support sales representatives with marketing material, which is mainly aimed at highlighting customer benefits and user requirements in offers aimed at defined segments.

The Anybus® network interface cards are marketed and sold to players in industrial and infrastructure automation. These are predominantly manufacturers of equipment that needs automating, e.g. connected in networks, and to manufacturers and installers of controlling and monitoring equipment for industrial infrastructures. Customers include all kinds of companies, from small and mid-sized to large multinationals.

Anybus® Gateways are marketed and sold 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 7 countries. Sales on the company's other markets, in 44 countries, takes place via agents/distributors. HMS will continue strengthening its sales organization in 2011, both via the company's subsidiaries and in support functions for agents/distributors.

Read more about how HMS creates business on page 10, about HMS's markets on page 12 and about HMS's products on pages 16-19.

HMS's business model

HMS's business model is built on being included at an early stage in customers' product and system development and, as much as possible, manufacturing to order with short delivery times.

Business model – Anybus® embedded network interface cards

The business model for embedded network interface cards is characterized by a close relationship between HMS and customers' development departments. Because HMS's products are to be integrated in customers' automation equipment strict demands are placed on HMS's ability to adapt to customers' products and

applications. HMS expects the time between the first contact being established and a new design win entering production and to generate a steady income to be 18 months. After a delivery is made it can take a further 2-3 years before achieving full volume. The ordinary product life cycle then takes over, which in the area of automation products can be a period of 7-10 years. The business model for Anybus® embedded network interface cards is illustrated in the diagram below showing the strength of a long product life cycle.



Embedded network interface cards

Business model – Anybus® Gateway

Gateway products are sold partly via HMS distribution channels and partly to existing OEM customers, who in turn sell them on as a complement to their own product ranges, but without the strong link that exists when selling embedded network interface cards. Anybus Gateways are manufactured to order and normally delivered 1-5 days after the order is received.



Gateways

Business model for embedded network interface cards

Evaluation phase

of Anybus and of HMS as a supplier. The customer buys a trial batch. The evaluation phase is usually relatively short, although the decision-making phase of choosing Anybus for product construction can take a long time.

Construction phase

The customer adapts their product to Anybus. Construction phase normally takes 6-18 months, depending on the customers launch plans.

Production year 1

The customer's product with embedded Anybus is launched. The launch is usually not on all markets at the same time. 50 per cent of the market potential is usually achieved by end of year 1.

Production year 2-3

The customer's product is further established and achieves full market potential at period's end.

... 50% of the potential



Netbiter Remote Management

Business model – Netbiter® – two business opportunities

Netbiter® is sold both as a communication module (Gateway) and as a subscription service (Netbiter®Argos). Netbiters are manufactured to order. When Netbiters are sold as a communication module they are invoiced on delivery.

The Netbiter®Argos internet service is available partly as a simple free service and as a subscription service. Invoicing is in advance for the chosen type of subscription and timeframe. The subscription cost usually depends on the number of linked Gateways.

Marketing aimed at customer benefit

Marketing takes place via many channels. The central coordinating channels are the company's website, which is available in six languages, adverts and brochures, partnership programs, taking part in trade fairs at the major international industry trade fairs plus technical documentation, training and support. These information channels are important support functions for customers' development engineers.

HMS's local sales and marketing organization is also responsible for personal contacts, mainly with customers and those taking part at local trade fairs.

Mutual business benefit with HMS's partner program

HMS's partnership program is directed at system integrators and machine manufacturers and is an important link in the value chain for Gateways. It aims at creating a close relationship with HMS, which provides marketing and product knowledge, including free product training at the HMS Academy. In addition it also provides technical support and the opportunity of sharing business opportunities by exchanging market information.



Production year 4-7

The customer's sales normally grow in line with market developments for industrial networks.

100% of
the potential

Production year 8-10

The customer launches a new product generation and sales of the old product phase out.

Production year 10 + aftermarket

Sales of replacement parts/replacement card.

Market with potential

HMS is active on a market with clear driving forces that are basically made up of the steadily increasing productivity. Conditions that provide HMS with opportunities for continued growth.

Anybus® has a clear niche with strong growth

With its Anybus®-products HMS's chose a clear niche in the market for industrial networks, which is part of the industrial automation market. The industrial automation market is estimated to be worth SEK 16 billion and can be divided into a number of sub markets, of which HMS is active in the following: network interface cards (including software) worth around SEK 7.5 billion and Gateways (connection points for data traffic between networks) worth around SEK 2.5 billion.

Other sub markets include everything from components such as cables and plugs to services, worth around SEK 6 billion.

Network interface card market with potential

The network interface card market is fragmented, consisting mainly of manufacturers of industrial production equipment who develop in-house network interface cards and customized for one of the many communication protocols. HMS estimates

that this share of the network interface card market is worth around SEK 6.2 billion, leaving a margin of SEK 1.3 billion for external suppliers like HMS.

The network interface card market is expected to continue growing at a rate of around 10 per cent annually in the years to come. This growth figure has a number of clear driving forces (see further into this article).

Players with their own patented communication protocols (network language standards) exist as internal and external producers of network interface cards, including Mitsubishi, Rockwell and Siemens.

High future growth rate for Gateways

The market for Gateways is also fragmented and is estimated to be worth around SEK 2.5 billion.

The growth rate of the Gateway market is estimated to be an average of 15 per cent annually in the coming years and this segment also has clearly defined driving forces.

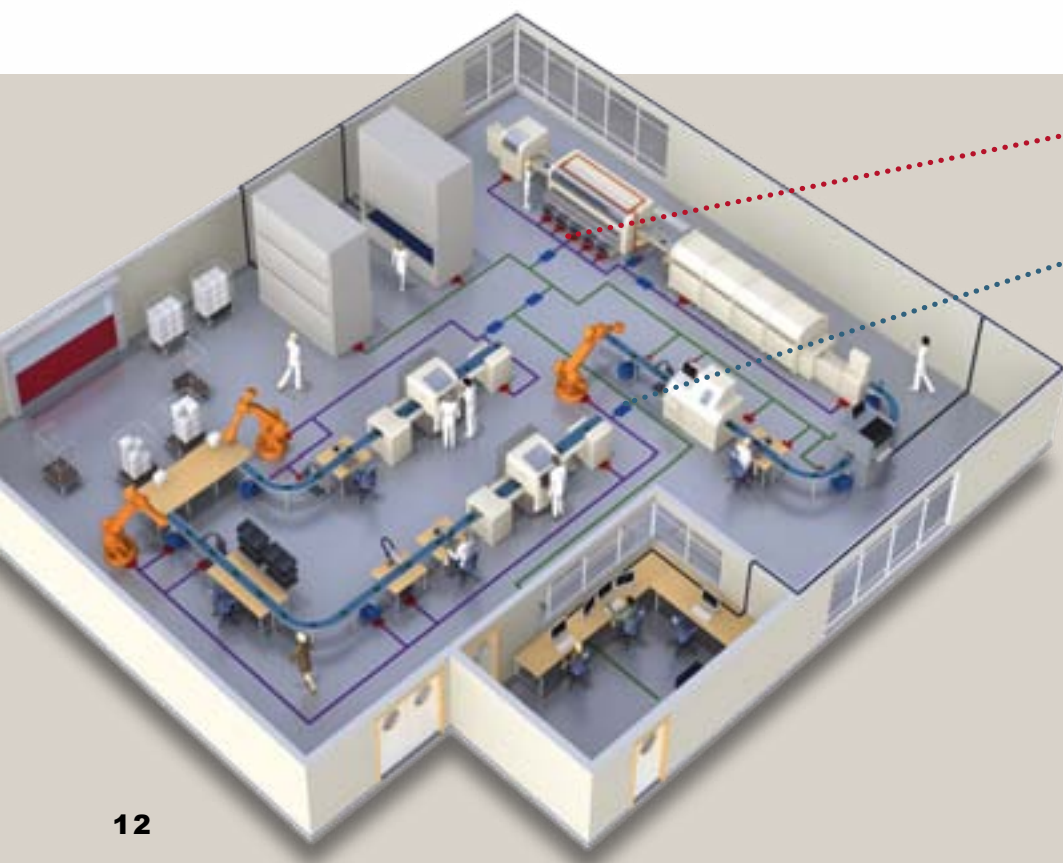
Netbiter® in a rapidly growing market niche

The market for remote monitoring/controlling is growing rapidly and with Netbiter® HMS is targeting the industrial parts of this market.

According to Beecham Research, the M2M market is undergoing strong growth, from USD 50 billion in 2009 to USD 250 billion by 2012. A large part of the market will be made up of wireless communication. Ericsson estimates that the market for connected units in 2020 will amount to 50 billion units. (According to an interview in Dagens Industri on 14 April 2010).

Internet, combined with the expansive mobile networks has created remote monitoring and remote controlling opportunities for a wide range of device applications. HMS's definition of the M2M (Machine-to-Machine) market is the communication equipment that link units via the internet or wirelessly over the mobile network.

The most common solutions on the market are customer-specific products sold



EMBEDDED PRODUCTS

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

GATEWAYS

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

ETHERNET TCP/IP

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

INDUSTRIAL CONTROL NETWORKS

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

DEVICE/SENSOR NETWORKS

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

MOTION CONTROL NETWORKS

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

Driving forces for growth in industrial automation per geographic region



through projects. HMS has a unique range with a user-friendly plug and play solution with huge application potential.

Broad customer base

HMS's network interface cards are sold for industrial and infrastructure automation, to system integrators (technical consultants that prescribe), OEMs (subcontractors) and manufacturers of industrial production equipment to be automated, e.g. able to be connected to networks. Sales are divided into standard products and customized products.

Customer companies can be found throughout the entire spectrum, from small and mid-sized companies to multinational companies. The trend is towards sales to larger companies that are also responsible for the largest volume demand, meaning volumes also vary.

Sales are also made to manufacturers and installers of infrastructure controlling and monitoring. Customers are also seen in growth countries like China and India.

HMS Gateways are also sold to players in the industrial and infrastructure automation sector. Sales are however more project-specific, depending on what networks need connecting.

HMS's M2M solutions are sold to a wide range of customers, from device manufacturers to owners of installations that need remote management.

Predominantly in the industrialized world

HMS's customers are mainly in the industrialized regions of the world – Europe, North America and Japan, which is where most machine and device manufacturers are located. Countries where the company has its own sales organization include Germany, which is HMS's most important market, Japan, the US, France and Italy. HMS is also active on new future growth markets. HMS established its own sales office in China in 2006 and is now establishing subsidiaries in India, the UK and Denmark. The growth markets will, over time, be increasingly important to HMS as these markets develop and the need for communication and automation increases.

Growth countries are starting to manufacture industrial equipment themselves

There has been a trend for mature industrialized countries to sell complete equipment for industrial and infrastructure automation to growth countries' with

increasingly growing production equipment. New players are however now appearing in growth countries like China, India and Brazil, which are investing in domestic manufacturing of industrial and automation equipment.

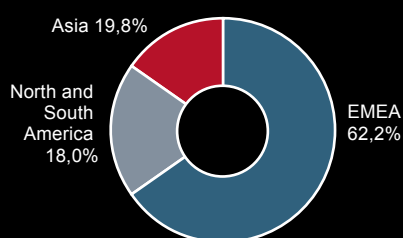
Customers needing remote management are considerably more globally spread. Less developed infrastructures mean an increased need for remote monitoring.

More, clearer driving forces

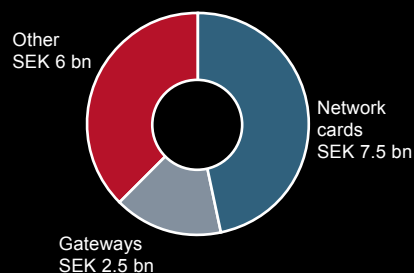
The market for industrial networks has a number of clear driving forces. On a general level it's constantly increasing volumes and demand, combined with cost awareness through increased productivity and flexibility that drives the need for industrial networks. This takes place in combination with technology development towards increasingly complex and intelligent networks. HMS's market-leading communications technology provides customers with the possibility of easily accessing flexible communication solutions. These are solutions that broaden their market and significantly boost their competitive strength as these solutions allow them to provide products that meet the market's driving forces in periods of both economic growth and recession.



**HMS product sales
per geographic area**



**Submarkets' share of the
total market (SEK 16 bn) for
industrial networks**



“HMS’s communication technology allows for improved control, a more effective use of resources and higher degree of energy efficiency by, for example, putting equipment into a state of idle mode when capacity isn’t needed.”

Variety of communication protocols

What drives HMS’s business is mainly the growing variety of communication protocols. There is no discerning standardization and a huge variety of communication protocols. Technology development in the respective protocols will continue, the reasons for which are numerous. There are different preferences among the primary companies on various geographic markets. Many functions and applications in current technology solutions are under constant development and are becoming increasingly complex. This includes a number of generations and versions of current standards.

Broad adaptation a success factor

Manufacturers of industrial automation equipment increase their competitive strength on the market if their products can be adapted to many current communication protocols. This fact is an important driving force for HMS’s sales.

Energy savings and effective energy production

The environment is often heavily impacted depending on the type of energy used. Energy costs also make up a considerable amount of many industrial companies’ overall costs. HMS’s communication technology allows for improved control, a more effective use of remote management and higher degree of energy efficiency by, for example, putting equipment into a state of rest when capacity isn’t needed.

The number of units in renewable energy production is significantly higher, more geographically widespread and more dependent on coordination with other kinds of energy. The expansion of wind farms is a good example.

Outsourcing means focus on core business

The market for external suppliers is favoured by the increasing number of communication protocol standards and that OEM manufacturers are choosing not to manufacture network solutions in-house, but instead focus on their core activities. HMS’s role here is to be the partner that helps OEMs to provide solutions, irrespective of which communication protocol standard is used.

Greater demand for flexibility

Manufacturers’ ability to better adapt production to customer requirements and thereby boost their competitive strength increases the need for flexible control and automation of manufacturing processes.

More nodes in more complex networks

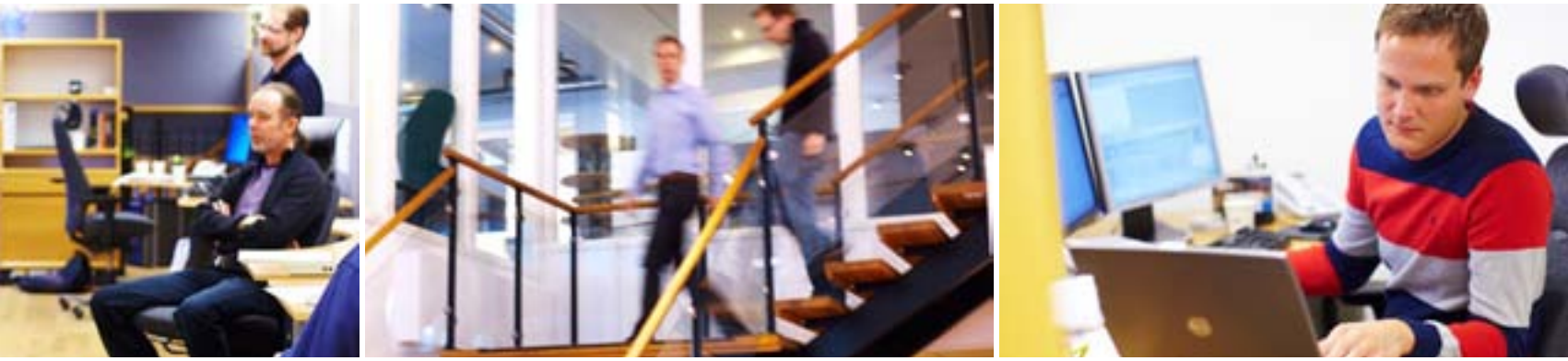
Industrial networks are becoming increasingly complex. The number of nodes, i.e. connection points for automation units, is steadily increasing. HMS is active in this area, mainly with embedded network interface cards.

New and old coupled together

The Gateways product group’s increasing growth is being driven by newer network technologies being installed at a higher rate, which is placing demands on communication with older, existing automation systems. This might also apply to systems with the same communication protocol, but of different generations.

High saving potential in remote monitoring and controlling

The possibility of simply connecting geographically widespread installations/devices is driven by major savings potential in operation and service as each installation



just needs to be visited when service needs are indicated and not like in many cases at the moment to check if measures are needed to be taken.

HMS provides technology applications for remote management in areas such as industrial automation, energy production, energy monitoring, construction automation and mobile equipment (e.g. containers and mobile electrical generators).

Some business-cycle dependency but no seasonal pattern

The general business cycle trend is now a factor that affects HMS's sales development. The market for industrial networks has historically been immune to business cycle fluctuations.

The financial crisis of 2008/2009 broke that trend and this market also fell for the first time in ten years. The insecurity in global market development, combined with uncertain financing possibilities, kept customers' activities on standstill. For HMS, growth in 2009 was negative for the first time, following annual growth of around 25 per cent over a ten-year period. The company did, however, report a positive operating margin of 13 per cent.

Strong position on a growing market

HMS's aim of achieving sales growth of 20 per cent is a reflection of the company's strong position on the market with increasing market shares and organic growth on a growing market.

Divided competition

Internal solutions for network interface cards

Taking the entire network interface card market into perspective the competition is mainly made up of OEM manufacturers

developing internal network interface card solutions.

HMS has very few immediate competitors for its wide-ranging solutions. A group of external suppliers include technology consultancy firms that solely develop customized solutions constructed for one or more communication protocols on behalf of a customer. There are also suppliers that provide network interface cards solely for one or a few communication protocols.

The closest competition comes from the German company Hilscher, which develops and manufactures embedded network interface cards and gateways. Hilscher's product range only partially competes with HMS. The gateway market has a number of specialist players that provide competing network combinations to HMS's Gateways. The company believes that there are no single competitors that can match HMS's extensive product range of Gateways. HMS's competitors mainly consist of independent manufacturers of customized solutions or manufacturers that compete with a small number of product models.

Promising market for remote management

HMS's remote monitoring/controlling solution is unique thanks to its plug-and-play capability, enabling cost-effective, quick installation. The company believes that there is currently no direct competition with the same concept. Most systems sold today are designed for unique solutions based on specific customer requirements. The supplier chain is therefore fragmented. Because this is a new market niche in industrial applications there is currently no widespread standardization or established competition.



Read more about
HMS's Anybus® and Netbiter®
products on pages 16-19.

Anybus® creates independence

HMS develops, manufactures and markets intelligent communication technology for machines and electrically controlled equipment.

The challenge with many communication protocols

Automation of modern production systems and other industrial systems presupposes coordinated controlling over a network. These automation systems are managed by a central computer, such as a PLC (Programmable Logic Controller). There are currently a growing variety of industrial network systems between control units and control systems. The industrial networks are called fieldbusses and industrial Ethernet, which are technologies for computerized communication in industrial networks. The variation depends on the PLC manufacturer, country or region,

plus what type of industrial application the network needs to control. There are also different generations of a single language standard. Examples of companies supplying these network languages include Siemens with Profibus and Profinet, Mitsubishi with CC-link and Rockwell with ControlNet, DeviceNet and EtherNet/IP. HMS can manage the 15 most common network systems.

Clear customer benefits with greater sales opportunities at a lower cost

The industrial communication market is very fragmented. Being able to supply a wide range of network systems is a significant success factor for automation manufacturers.

The benefit for HMS's customers is that they only need to adapt their equipment to one interface (language standard) customized to HMS's communication modules, which in turn are interfaced to the network. The products require no specific development tools; the customer gets a better use of its resources and can save up to 70 per cent in development costs. The customer's hardware and software is therefore independent of the industrial network to be used in the final application. HMS is responsible for the functionality and has also safeguarded that HMS's tried and tested products are certified according to the CE and RoHS EU directives (limiting the amount of harmful substances in electronic products) and the international safety standard according to UL (Underwriters Laboratory). HMS's products are also energy-efficient and perform outstandingly in computerized communication.

Complete solutions based on unique technology

The core of HMS's technology is a microprocessor based on an algorithm, i.e. well-defined instruction for translating network languages. The communications module is an interface between HMS's own Anybus product (the interface the customer's product communicates with) and any of the 15 major, established communications protocols on the market.

HMS uses these unique processors in its complete packaged solutions. The company's business is built on providing complete solutions and not separating components or hardware and software.



Jörgen Palmhager
Chief Operating Officer

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Industries' and infrastructures' use of automation is constantly on the increase. It relies on machinery and other electronically controlled equipment to communicate, i.e. talk to each other. There are more than 15 different language standards for this kind of communication. This is a problem for manufacturers



NP40 – next generation flexible microprocessors launched in 2011

HMS has further developed its microprocessor technology into a more flexible platform that includes FPGA technology (Field Programmable Gate Array). This means that it also contains programmable hardware so the function can be changed, thus improving flexibility when both hardware and software can be changed and therefore don't need the electronic circuitry to be changed when conditions change.

The NP40 allows all networks, despite major differences in functionality, to support (be implemented) with the same circuit. This is especially important for the Ethernet-based networks that share the same circuitry. Flexibility is also an advantage in terms of adapting to customers' interfaces. Providing customers with greater freedom when designing their product architecture.

Anybus® – solutions for both embedding and interconnecting

HMS's main products are marketed under the Anybus® brand. They are divided into two product groups: Anybus® embedded network interface cards (embedded solutions) and Anybus® Gateways.

Anybus® embedded network interface cards – “ready to use”

Anybus® embedded network interface cards come equipped with an interface function and are designed to be embedded into manufacturers' products, such as industrial robots, electrical motor control, instruments or control systems.

The network interface cards are sold in a large standard of designs to suit most current application areas requiring network connection. The versions are based on being able to adapt to common network languages, type of network connection/contact and operating environment, such as dusty and damp environments etc.

Design-wins – first step in supplying to a customer

HMS often gets involved at an early stage because network connections need to be defined as early as the construction phase in

customers' products. Design wins mean that customers decide to use HMS's embedded communication modules. This is the first stage where a decision is taken for an Anybus® product to be included in construction (design) and is considered a declaration of intent. Because Anybus® products are complete network connection solutions the time it takes for customers to launch their products onto the market is significantly cut. HMS starts supplying when customers' production starts.

The number of design wins indicates a growing future production volume. Orders and production usually start within two years after a design win has been signed.

By year-end 2010 HMS's design win portfolio consisted of 913 design wins – 750 in production and 163 in the design phase.

Customized Anybus® embedded solutions

HMS also comes up with customized solutions in close partnership with its customers. These solutions are a growing business as customers' requirement specifications often extend beyond the ordinary product range.

Anybus® Gateway

Anybus® Gateway products are stand-alone modules built on the same core technology as the embedded network interface cards. Gateways connect industrial networks and systems with different internal language standards whose task it is to maintain data communication at all levels in modern automation systems, irrespective of network protocol used.

Extended product program

Gateway products for a further 45 versions of language standards will be marketed in 2011 to customize the products to specific requirements and to boost the products' popularity as problem solvers for system integrators.



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who might need to customize their products to many different language standards.

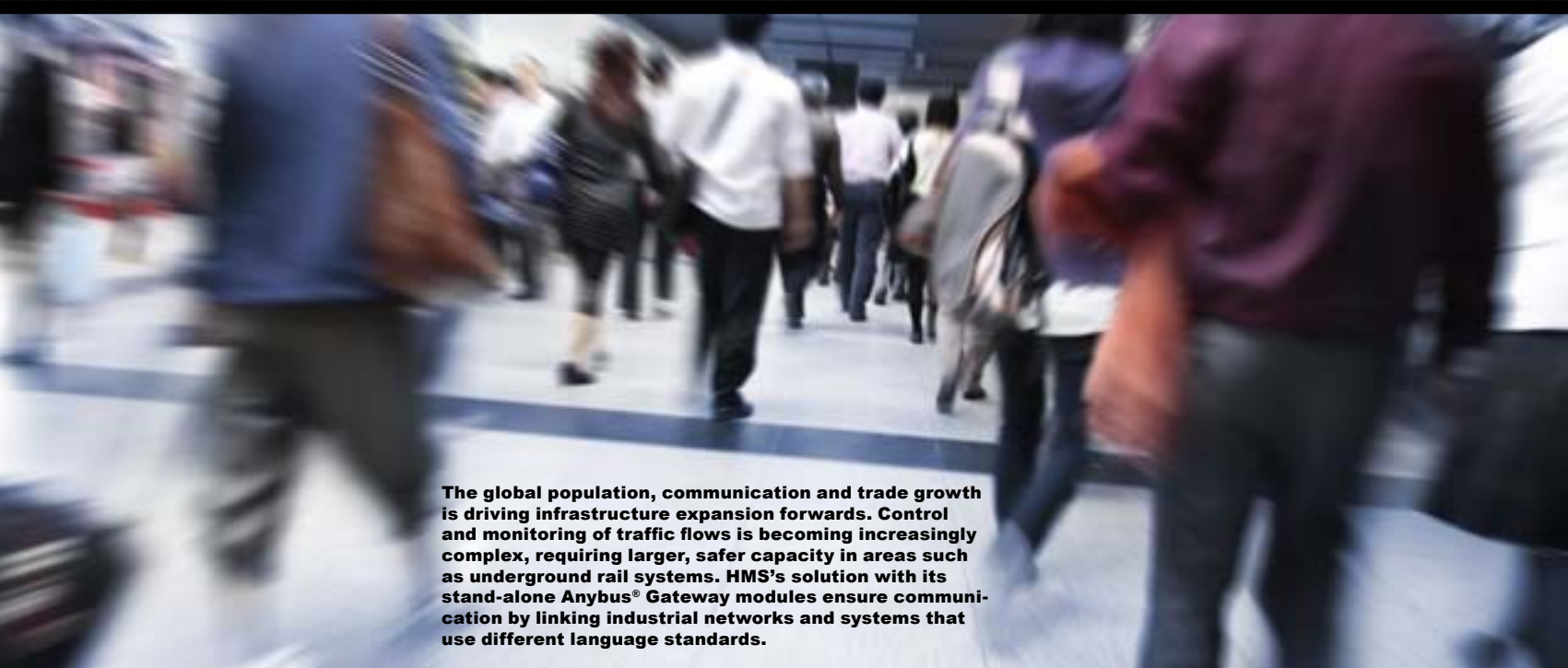
HMS has a solution to this problem. HMS's products make it possible for machines and electrically controlled equipment to easily communicate without needing to customize

to any of the different language standards. The benefit of this is that manufacturers can focus on their products and not need to waste resources on specially adapting them to a specific language/communication standard that the end user wants to use.

HMS also has products that allow two or more units of machines, that together form a system, communicate with one another with their specific language standard. In simple terms, HMS's solution is an automatic computer language translator. ►►►



HMS's Netbiter® solution facilitates remote management of geographically widespread units such as wind turbines. On-site visits are no longer needed on a regular basis; only when service of the unit is required or when indicated faults needs attending to. Monitoring is also completely non site-specific thanks to the user-friendly internet solution.



The global population, communication and trade growth is driving infrastructure expansion forwards. Control and monitoring of traffic flows is becoming increasingly complex, requiring larger, safer capacity in areas such as underground rail systems. HMS's solution with its stand-alone Anybus® Gateway modules ensure communication by linking industrial networks and systems that use different language standards.

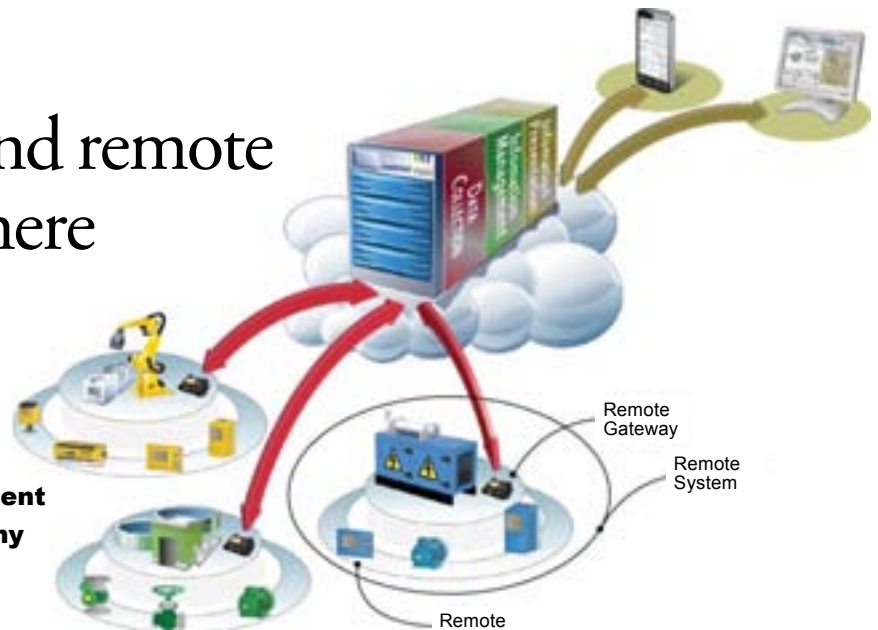


The potential for Anybus® embedded network interface cards lies with the OEM manufacturers who choose not to use in-house developed network solutions in order to focus their resources on their core activities. This is an area where HMS sees potential by being a partner that helps them provide solutions, irrespective of communication protocol standard.

Remote monitoring and remote control – the future's here

Netbiter®

HMS develops and sells communication equipment that facilitates remote management via the internet, either via the fixed telephony network or the mobile telephony network.



Facilitates operation and cuts costs

HMS provides a solution that facilitates remote monitoring and remote management of geographically widespread installations/devices whose operation was previously dependent on visits by operations technicians. On-site visits are no longer necessary on a regular basis; only when service is required or when indicated faults need fixing. This not only benefits customers' finances, but also has positive environmental effects.

Monitoring operation is site-dependent

The communication concept is marketed under the Netbiter® brand. The products are found in the M2M Remote Management (Machine-to-Machine) segment. They are applied to installations/devices and create network contact via the internet with operators/recipients who are site-dependent. The internet contact from the installation/device takes place via the fixed telephony network or mobile telephony network.

Secure connection

Apart from the hardware, the offer also includes software with a user-friendly internet interface and secure connection. The Netbiter system allows secure connection via the internet to customers' LAN

(local network). There is therefore no need for firewall solutions or customization such as VPN tunnel (a technology for creating secure connections).

Plug-and-play

The offer is a plug-and-play solution, which is a standardized solution that after installation of the hardware no longer requires further customization. Another benefit is that all data arranged is presented in a user-friendly, distinct interface on the screen.

Extensive application potential

The common denominator for applications is that what needs to be operationally monitored are geographically widespread and thereby difficult to monitor without a visit. HMS has applications for industrial automation, energy production (e.g. wind turbines), energy monitoring (e.g. electric meter reading), construction automation and mobile equipment (e.g. containers and mobile electricity generators).

Increased business opportunities even for HMS's customers

HMS's offer of a system solution with connection to servers and processing of data opens new business opportunities even for HMS's customers, who can now offer their customers operational monitoring and

servicing of supplied machines. A solution that also opens up for sales to more defined operation and service companies.

Broader launch 2011

The concept has been developed by HMS's subsidiary Intellicom, founded in 1997. Until 2010 sales have been under Intellicom's own management: The Netbiter® concept will now be launched on a broader front with the help of HMS's global sales organization.

Intellicom subsidiary awarded

Intellicom has been awarded "2010 Innovation company of the year in Halland" and "Super company" by Veckans Affärer 2008 and 2009, which is an award that means the company has performed better than the average company in the same industry and in terms of size during each of the past four years.



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HMS also has solutions for how to simply monitor machines and other electrical equipment that needs connecting wirelessly to the internet. Companies save money because technicians no longer need to be on site to check that everything is working, and can just get information

about when measures need to be taken. All the technicians need to do is to get internet access and monitor the status.

In other words: HMS develops, manufactures and markets flexible, reliable communications solutions. Solutions that connect production

equipment in and between industrial networks and other systems that need to talk to each other and to connect different industrial networks. These are solutions that make it easy to monitor machines spread over a large geographic area. HMS sells its products under the Anybus® and Netbiter® brands.

Full control throughout the entire processing chain

HMS can be characterized as a highly processing company well niched on the industrial communication market. One success factor is having full control throughout the entire processing chain. HMS's business is firstly built on providing complete solutions and not separate components, hardware or software. The processing chain covers in-house product development based on own patents to production, marketing, distribution and aftermarket service under the full control of the company.



In-house product development is a requirement

Major resources are spent on product and production development. These take place in-house at the head office in Halmstad. Of the 190 employees, 64 work with development. Development covers the entire chain, from basic research around algorithm development to programming, system integration, hardware construction and product design. As sales volumes increase so do the benefits of scale for development costs, meaning that future development might be given extra resources.

Many development projects take place in close partnership with customers. HMS has a well-cemented product development process that takes account of the opportunities of providing commercially popular solutions, both as standard products and as customized products for customers with specific requirements.

HMS also actively takes part in the industry's various technical development forums by participating in a number of international organizations and committees that work with future technology issues of joint interest.

Automation systems and process control are becoming increasingly complex. HMS's focus in 2011 is on profiles and solutions for energy control and energy awareness (information about use in factories, machines or processes). Other focus areas include specifications for energy distribution, clearer con-

trol from a security perspective driven by increasing market requirements, anti-hacker solutions and similar threats and continued development of wireless control.

Business-critical patents

HMS's patent portfolio consists of many business critical patents that provide full global protection. The patents cover things like Anybus® products' unique function.

The Anybus® and Netbiter® brands are internationally registered and also established among HMS' customer segment.

Well-adapted production

Great care is given to having the right production technology, processes and quality control, which is something that assures quality and effective production even with subcontractors.

Prototypes and small-scale production in-house

The production of the Anybus® products is split between three sites. Prototypes,



pilot runs and small-scale product runs are carried out at the company's site in Halmstad. HMS has developed highly effective final assembly lines that are well suited for rapid adjustments and extreme flexibility. The company's direct contacts with component suppliers safeguard planning component supply, as components are sometimes in short supply and thereby can cause a bottleneck in production.



Volume production among supply partners provide benefits of scale

The more volume-based products are surface mounted by HMS's subcontracted partners at their sites in Sweden and in China and then finally assembled and checked by HMS's own organization in Halmstad.

As volumes increased HMS sees potential cost savings through more production being outsourced to subcontractors.



"HMS has developed highly-effective final assembly lines that are well-suited for rapid adjustments and extreme flexibility."

Quality in both processes and end products

High and consistent quality is an important factor for HMS when customers' expectations need meeting. HMS has a structured work ethic with constant quality development according to the adopted quality policy, called "Constant quality improvements provide more pleased customers and create work satisfaction".

The company's site in Halmstad is ISO 9001:2008 certified. HMS also safeguards, when relevant, that the subcontractors' sites are ISO certified.



Customers confirm HMS's quality processes

HMS has also been audited and approved by a number of leading companies throughout the automation industry, including Yaskawa, Schneider Electric, Sony and ABB. The audits have included product quality, supply ability, partnership

conditions, logistics and technical support and each case resulted in positive feedback concerning HMS's quality system.

Environmental consideration a matter of course

HMS has adopted an environment policy that is well cemented in the organization. The company has followed the EU's RoHS directive (restriction of hazardous substances) for many years, which forbids or limits the use of certain heavy metals and flame retardant in electrical and electronic products on the market.

Customer and environmental benefits also arise due to the company's products helping towards improved efficiency and less energy use.

Reassuring figures

Quality is measurable by the number of on-time supplied orders, which in 2010 amounted to 98 per cent. Another pleasing figure is the number of field returns, which in 2010 amounted to less than 5 per thousand of a total supplied volume of more than 250,000 units.

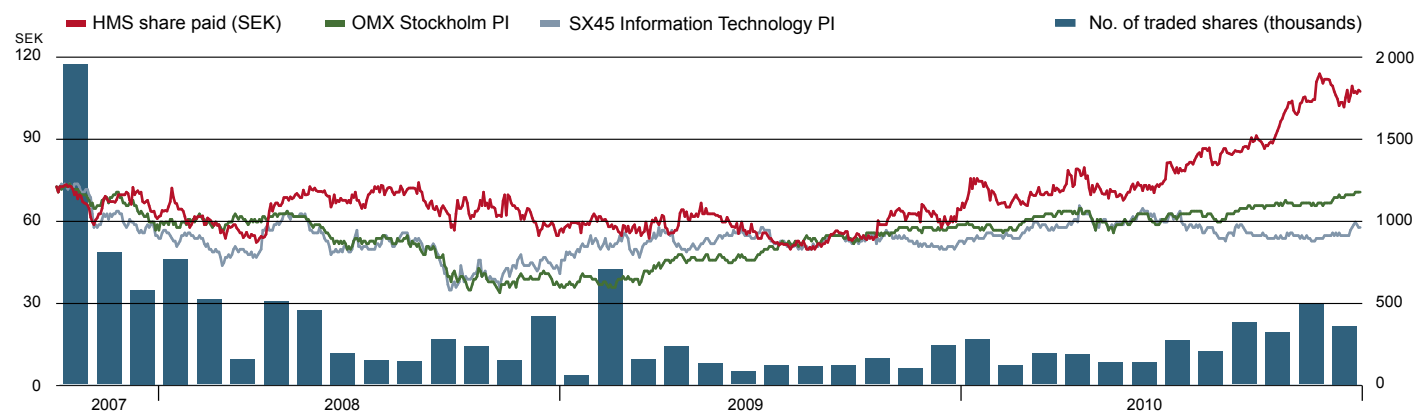


Cost structure and margins

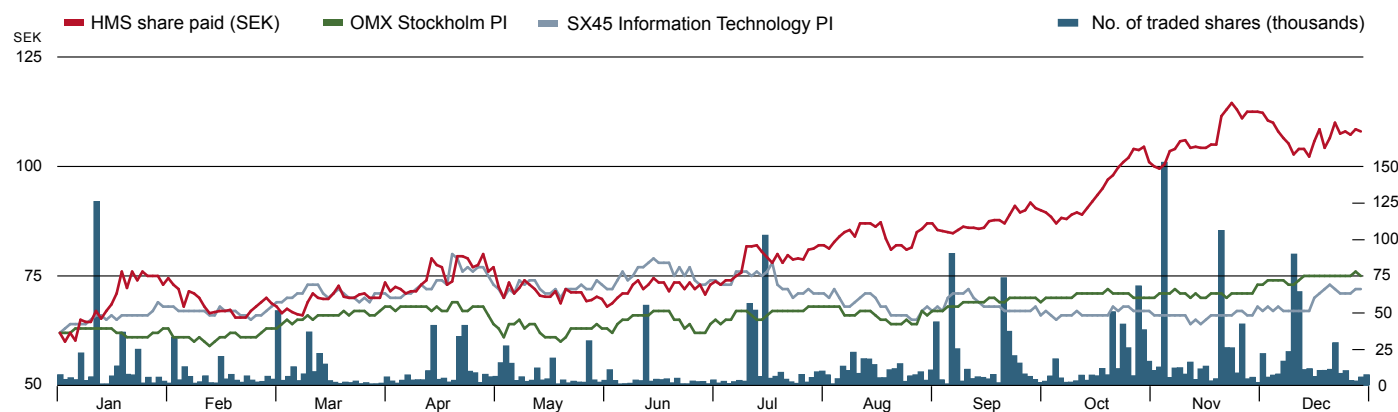
HMS is a highly value adding company. This is reflected in the gross margin that has been at around 56 per cent over the past five years. Component purchases make up 75 per cent of input goods, corresponding to the same level as previous years.

The HMS's shares

HMS's shares 2007-2010



HMS's shares 2010



HMS's shares have been listed on the NASDAQ OMX Stockholm Small Cap list, in the Information Technology sector, since 19 October 2007. The shares' ISIN code is SE0002136242. Shares are traded under the HMS ticker. A round lot consists of 1 share.

Number of shares and share capital

HMS has a total of 11,152,900 shares. The share capital is 1,115,290. All shares have equal voting rights.

Price trend

In 2010 HMS's share price rose by 81 per cent to SEK 108 (59.75). The OMX Industrial Index rose by 45 per cent during the same period. The highest price paid during the year for HMS's shares was SEK 119.5 and the lowest price paid was SEK 58. By year-end 2010 HMS's market value was SEK 1,204.5 million (666.4).

Trade volume

A total of 3,051,047 shares were traded over the year, valued at SEK 266 million, corresponding to an annual turnover rate of

27 per cent. An average of 12,059 shares valued at SEK 1,051,000 were traded per trading day.

Dividend policy

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

Warrants and options

On the closing day HMS had one outstanding warrant scheme. For further information see Note 20.

Shareholders

As of 31 December 2010 HMS Networks AB (publ) had around 3,300 (2,800) shareholders. The ten largest shareholders represented 73.3 per cent (73.5) of the voting rights and capital.

The following analysts monitor HMS on an ongoing basis

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

Key figures*

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

* HMS's shares quoted 2007

Share capital development

År	Transaction	Change in no. of shares	Total no. of shares	Change in share capital (SEK)	Total
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 31 December 2010

	No. of shares	Share of equity and voting rights
Investment AB Latour	1,851,000	16.6 %
Nicolas Hassbjer and company	1,601,872	14.4 %
Staffan Dahlström and company	1,592,873	14.3 %
Swedbank Robur fonder	1,146,500	10.3 %
SEB Fonder	1,034,700	9.3 %
Nykredit	232,307	2.1 %
AMF	221,933	2.0 %
JPM Chase	203,200	1.8 %
Avanza Pension	172,434	1.5 %
Didner & Gerge Småbolag	118,081	1.1 %
Martin Gren	110,000	1.0 %
Other	2,868,000	25.7 %
Total	11,152,900	100.0 %

Division according to shareholding 31 Dec. 2010

Shareholding	No. of shareholders	
1 - 500	2,631	79.0 %
501 - 1 000	363	10.9 %
1 001 - 5 000	233	7.0 %
5 001 - 10 000	54	1.6 %
10 001 - 15 000	7	0.2 %
15 001 - 20 000	3	0.1 %
20 001 -	39	1.2 %
Total	3,330	100.0 %



Chairman's comments

“Coaching with insight”

2010 was an eventful year for HMS, reporting strong development in terms of growth and profitability. As Chairman of the Board I know that this is due to the interaction of two factors. These being that market conditions improved considerably compared with 2009 and that HMS was determined to follow its strategy and focus on long-term profitable growth.

It's extremely stimulating to be part of the HMS family. Business is right. It's not just the figures that are telling us this, but also the growing number of customers and their loyalty. As members of the Board we must also be clear about our mission and our role, which is twofold.

We're coaches, whose job it is to provide support and energy to group management. We're also controllers whose job it is to ensure that the overall strategies are correctly formulated and followed and oversee the risks.

The Board members complement one another well. These individuals play active and executive roles and have a good understanding of the challenges HMS's management faces, as well as non-executive individuals with experience from different situations that might be new or challenging for HMS's management.

The work of the Board is structured with annually planned themed meetings. They often take place at HMS's premises in Halmstad, which, as soon as you enter, gives you a feeling of being at the heart of the business. At strategy meetings we try and think outside the box by a change of surroundings and by inviting the entire HMS management group to these strategy talks.

The Board's future challenges include helping and encouraging management in a number of significant focus areas:

Fundamentally to make sure HMS keeps up its competitive strength. The company's success depends on continued product development, customer focus and market expansion.

Furthermore, it's a question of monitoring and handling possible risks correctly. As the company grows so do the potential risks on a number of levels. It's therefore important to manage this, mainly through preventative measures.

HMS is a growth company, which requires tempo and determination. Because HMS is a knowledge-based company where access to expertise is business-critical, we need to attract and safeguard the provision of expertise.

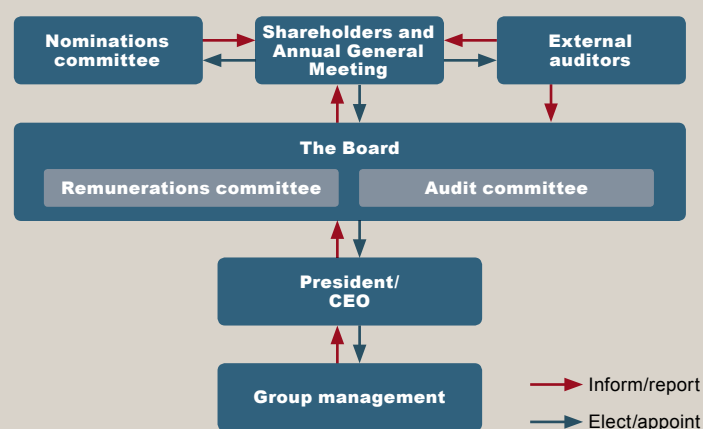
We respect these challenges, but are meanwhile encouraged to work hard to realize the continued successful development for HMS.

Urban Jansson
Chairman of the Board

Corporate governance report

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

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



Structure for corporate governance

HMS's shareholders are the highest decision-making body concerning the running of the Group. The Annual General Meeting elects the Board, Chairman of the Board and auditors and decides on choosing a nominations committee. The Board is responsible to the shareholders for the organization of the Group and the administration of the Group's affairs. The auditors report their findings at the Annual General Meeting.

Shareholders and Annual General Meeting

The shareholders' right to decide on the company's affairs is carried out by the Annual General Meeting, which is the company's highest decision-making body. The Annual General Meeting (AGM) decides, among other things, on the adoption of the financial statements, balance sheets, appropriation of profits, discharge of responsibility for the Board, new Board, new auditors and remuneration to the Chairman of the Board, other Board members and auditors. The meeting also decides on guidelines for remuneration to the management team.

In addition, the AGM decides on possible changes to the company's Articles of Association, possible new share issues and introduction of share-related incentive

schemes. The Articles of Association are the fundamental control document for the company determining what business the company may run, the size of the share capital, shareholders' right to attend the AGM and the agenda of the AGM.

For a shareholder to have an issue raised at the AGM he/she must submit a written request to the Board in good time so that the issue can be added to the notice to attend the AGM. Information concerning when such a request should be available to the Board is available on the company's website. Information prior to and minutes from the company's AGM are available on the company's website at www.hms.se.

The AGM will be held within six months after the end of the financial year. All shareholders registered in the shareholders' register on the record day (five calendar days before the day of the AGM) and who have applied, have the right to attend. Each share gives the shareholder the right to one vote. The notice to attend should be issued no earlier than six weeks and no later than four weeks in advance by advertising in Dagens Industri and the Swedish Gazette.

Annual General Meeting 2010

The AGM was held on 19 April 2010, at the company's offices in Halmstad. Present at the meeting were shareholders representing

62 per cent of the shares and voting rights. The Chairman of the Board, Urban Jansson, and Board members Göran Sigfridsson and Henrik Johansson were present at the meeting. Also at the meeting were the nominations committee's chairman Jan Svensson and Olof Enerbäck from the firm of auditors.

Shareholders at the AGM decided on the following:

- dividend of SEK 1.00 per share, totalling SEK 11,152,900
- the Board will consist of seven members
- to re-elect all Board members and elect Charlotte Brogren and Gunilla Wikman
- to re-elect Urban Jansson as Chairman of the Board
- remuneration to the Board would be SEK 825,000 for the current financial year, of which SEK 225,000 to the Chairman of the Board and SEK 100,000 each to board members not employed by the company
- guidelines for appointing a nominations committee
- guidelines for remuneration and other conditions of employment for the CEO and other group management.

Nominations committee

The AGM decides on how the nominations committee is appointed. It is the duty of the nominations committee to, prior to

Nominations committee and voting rights

Representative	Owner	Voting rights as a % on 31 Dec 2010
Nicolas Hassbjer	Representing Staffan Dahlström and own shareholding	28.6
Jan Svensson, Chairman	Investment AB Latour	16.6
KG Lindvall	Swedbank Robur Fonder	10.3
Urban Jansson, Chairman of the Board		

the next AGM, prepare and submit proposals for a Chairman of the Board and other Board members plus remuneration to the Chairman and other Board members.

It is the duty of the nominations committee to also evaluate the work of the Board, mainly from the report submitted by the Chairman to the nominations committee. The nominations committee also proposes the election of auditors and their remuneration.

At the Annual General Meeting in 2010 principles were decided on for the introduction of a nominations committee at HMS Networks AB. The AGM decided, in accordance with the nominations committee's proposals, that the Chairman of the Board, together with representatives of the largest shareholders (as of 30 September 2009) will constitute the nominations committee until the next AGM has been held, or when necessary, until such time as a new nominations committee has been appointed.

The nominations committee should appoint a chairman from its members (the chairman of the board or other member of the board should not be elected as chairman of the nominations committee). In a case where any of the three largest shareholders decline their right to appoint a representative, the right is transferred to the shareholder with the next largest shareholding on the specific date. If a member leaves the nominations committee in advance then, if appropriate, a replacement will be appointed by the same shareholder that appointed the one departing, or if this shareholder no longer ranks among the three largest shareholders, but the shareholder who in terms of shareholding is next in line.

The composition of the nominations committee will be published on the company's website no later than six months before the next AGM.

The nominations committee tries to attain an even division of gender on the

Board. The Board currently consists of 29 per cent women.

External auditors

Auditors are appointed by the AGM, currently for a four-year period, which guarantees consistency and depth of audits. The auditors are responsible to shareholders at the meeting and submit an auditors' report covering the annual accounts and administration of the Board. The auditors report verbally and in writing on an ongoing basis to the audit committee about how the audit has been carried out and give their views on the order and control in the company. Auditors also make a personal report twice a year to the entire board about their audit and state their views about internal controls.

The AGM chose PwC as its auditors in 2009, with authorized auditor Olof Enerbäck as the main auditor, 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 subject for disqualification.

The overall remuneration to HMS's auditors in 2010 was SEK 672,000 (697,000). Further information regarding auditors' remuneration is available in Note 7.

Board work follows a structure with fixed, recurring business, mainly:

Business	Month
Annual accounts and financial statement	February
Annual Report	March
Q1 report	April
Annual General Meeting	April
Q2 report	July
Strategy meeting	August
Q3 report	October
Budget meeting	December

Beside the scheduled meetings, the Board's work consists of regular financial follow ups, strategic product development, recommendations concerning remuneration levels, acquisition issues and issues concerning reports and audits.

The Board

The Board is responsible for the company's organization and administers 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 the company is organized so that bookkeeping, fund management and the company's financial conditions in general are checked to a satisfactory degree. The Board sets policies and instructions for how this is to be achieved and sets rules of procedure for the Board and instructions for the CEO. These central control documents state how responsibilities and authority is divided between the Board as a whole and committees, plus 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 provides the nominations committee with the results of the evaluation.

Basis for Board work

The fundamental issues concerning the division of responsibility between the Board, Board committees, Chairman and CEO are expressed in the Board's rules of procedure and instructions for the CEO. The rules of procedure regulate such things as how often the Board convenes and what is dealt with on the respective occasion. The

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

It is the Board's duty to determine strategies, business plans, budgets, quarterly reports, financial statements and the annual report. Furthermore, it is the duty of the Board to appoint and dismiss the CEO and decide on significant changes in the HMS organization and operations. The rules of procedure stipulate monetary limits for when the Board must decide on investments, corporate acquisitions, company ownership transfers, loans etc. An evaluation of the Board's work is carried out on an ongoing basis, partly concerning board work as a whole, and partly concerning individual members' contributions. The purpose is to ensure that HMS has a well-composed board in terms of expertise and dedication.

Board structure

The Board consists of seven members. The Board members have extensive professional experience and are or have at some time been CEOs and/or senior executives in large companies and many are also Board members in large companies. Some of the company's Board members have worked on the company's board for many years and 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 and at least two of the independent members must also be independent in relation to the shareholders that control ten per cent or more of the shares or voting rights in the company. The nominations committee has, during a joint assessment of each member's relationship to the company, Group management and major shareholders, found that two of the members are not independent in relationship to major shareholders (Nicolas Hassbjer, representing the two main owners, Nicolas Hassbjer and Staffan Dahlström, who together have 29 per cent of the shares and voting rights in the company and Henrik Johansson, representing Investment AB Latour, which has 17 per cent of the shares and voting rights in the company). Individual members' unique expertise and thereby also the Board's composition in terms of expertise appear in the description on pages 32 and 33.

The Board received remuneration totalling SEK 825,000 (625,000) in 2010. For a more detailed description of the Board members' attendance please see Note 27 on pages 66 and 67.



Chairman

The Board's rules of procedure stipulate that the Chairman must ensure that the Board's work is run effectively and that the Board meets its obligations. This includes organizing and running Board work and creating the best possible conditions so that this work can be carried out. It is also the duty of the Chairman to ensure that Board members regularly update and hone their know-how about the company and that new members receive the requisite introduction and training. The Chairman must be available in an advisory capacity and discussion partner for the CEO, but also evaluate the CEO's work and report these findings to the Board. In addition, it is the Chairman's duty to ensure that the work of the Board is evaluated annually and that the nominations committee is informed about the evaluation.

Urban Jansson was re-elected Chairman of the Board at the AGM on 19 April 2010. The Chairman of the Board does not participate in the operative management of the company.

Work of the Board in 2010

Since the AGM on 19 April 2010 the board has held eight minuted meetings up until the writing of this Annual Report. The CEO and CFO of HMS Networks AB take part in board meetings to submit reports and act as secretary respectively. At its meetings the Board has addressed the defined items that, in accordance with the Board's rules of procedure, applied for the respective board meetings. This involves the company's business position, budget, quarterly reports and annual accounts.

The work of the Board otherwise focused on the further development of previously established market and acquisition strategies.

Remuneration committee

The Board nominates a remuneration committee from its members that regularly evaluates group management's condi-

tions of employment compared with the market conditions for similar group management in other companies. The committee's tasks also includes processing the Board's proposals to the AGM concerning guidelines for remuneration to group management, as well as the Board's decision concerning such conditions for group management.

The remuneration committee includes the Chairman of the Board (Urban Jansson) and two Board members elected by the Board (Henrik Johansson and Ray Mauritsson) plus the CEO (Staffan Dahlström) as a co-opted member. Ray Mauritsson was elected as Chairman of the 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 the quality of the financial reporting. The committee also monitors the effectiveness of the company's and Group's internal controls, risk management systems and the external auditors' impartiality and self-government. The committee evaluates the audit and assists the nominations committee when choosing the auditors.

The committee also makes decisions regarding all purchases of consulting services from the company's auditor that do not fall within audit-related consulting.

The audit committee includes the Chairman of the Board (Urban Jansson) and three Board members elected by the Board (Nicolas Hassbjer, Göran Sigfridsson and Gunilla Wikman). Nicolas Hassbjer was elected as Chairman of the committee.

The committee has regular contact with external auditors, who report to the committee concerning important details that arose during the statutory audit, specifically concerning possible inconsistencies in the internal control concerning the financial reporting.

CEO and group management

The CEO is responsible for the business' development plus runs and coordinates the daily business in accordance with the instructions and directions adopted by the Board. This means, among other things, responsibility for the financial reporting, producing information and supporting data for decision-making and that obligations, contracts and other legal documents do not contravene Swedish or international laws and constitutions. The CEO must also check that all objectives, policies and strategic plans are followed and when necessary update them. The CEO appoints other group management members.

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

The Group management team is led by the CEO and consists of six members: Chief Financial Officer, Chief Operating Officer, HR Manager, Global Sales Director and Marketing Director. For further information about group management please see page 34 and 35.

Group management has overall responsibility for the business in the Group in accordance with the strategy and long-term objectives set out by HMS's Board.

The group management team convene once a month. These meetings deal with strategic issues and issues that concern the whole Group. The meetings are led by the CEO, who makes decisions after consulting with other members.

Total remuneration to the CEO in 2010 (including pension provisions) was SEK 1,519,000 (1,190,000). For more information about remuneration to the CEO and the Group management team, see Note 27 on page 66 and 67.

Board's internal control report

concerning financial reporting

HMS's work with internal control in 2010 was designed to ensure correct, reliable financial reporting and accounting in accordance with applicable laws and ordinances, financial accounting¹⁾ standards and other demands placed on listed companies. The internal control work adds value by illustrating roles and responsibilities, improved process efficiency, increased risk awareness and improved decision data, plus increased security in financial reporting and follow ups.

Description

Internal control of financial reporting at HMS is an integrated element of corporate governance. It contains processes and methods to secure the Group's assets and accuracy in financial reporting, and aims to protect the owners' investment in the

Control environment

The foundations for the internal controls are made up of an overall control environment set up by the Board and management. This is built on an organization with clear decision-making paths where authority and responsibility are defined with clear instructions and a corporate culture with common values and the individual's awareness of their role in maintaining good internal control.

The Board has the overall responsibility for the internal controls concerning financial reporting. The Board has established written rules of procedure that clarify the Board's responsibilities and regulate its committees' internal distribution of work. In addition, the Board has appointed an audit committee whose main task it is to safeguard the financial reporting and

is delegated to the CEO who in turn delegates function-specific responsibility to managers at different levels throughout the Group.

HMS's internal control work aims at safeguarding that the Group lives up to its financial reporting objectives. A minimum requirement is that the control activities carried out should cover the key risks identified in the Group.

Responsibility and authority are defined in instructions for authorization rights, manuals, policies and routines. Examples include HMS's manual for accounting and reporting, finance and credit policy, information policy, IT security policy and HR policies. These guidelines together with laws and other external regulations make up the control environment. Every employee must follow these guidelines.

To give the Board a basis from which to set levels concerning internal governance and control HMS continued in 2010 with its overview and analysis of existing governance processes and internal controls. The review is based on an analysis of how the COSO framework's important areas are reflected in the HMS organization. The work is expected to result in an evaluation and verification of the governance documents and guidelines that act as a basis for the Group's governance of its activities.

Risk assessment

Risk assessment stems from the Group's financial targets. The overall financial risks are defined as liquidity risk, currency risk, interest risk and customer risk. These are managed mainly by the economy and finance function in accordance with the Group's financial policy. For a detailed account, 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 can present a threat to the company achieving its business and financial targets. The risk assessment includes identifying



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.

¹⁾ Financial reporting relates to quarterly reports, financial reports, annual reports and internal reporting.

internal control and that the appropriate relationships with the company's auditors are maintained. The Board has also drawn up instructions for the CEO and instructions for financial reporting to the Board of HMS. Responsibility for maintaining an effective control environment and the ongoing work concerning internal controls

Internal control of financial reporting



Specific focus in 2010 concerning internal control and risk management

Follow ups

- Further development of the financial reporting to management and the Board

Information and communication

- Information security
- Overview and update of roles and division of responsibility in business systems

Control activities

- Increased controls in the annual accounts process
- Increased controls in the consolidation process
- Increased controls concerning IT security

Risk assessment

- Further development of the risk assessment process

Control environment

- Overview and update of the Group's policies, instructions and checklists

risks that can arise if the basic requirements for financial reporting (completeness, accuracy, value and reporting) in the Group are not met.

Focus is placed on risks in financial reporting concerning significant income statement items and balance sheet items, which are relatively higher depending on the complexity of the process or where the effects of any inaccuracies risk becoming major, when values in transactions are significant. The result of the inspections led to measures such as improved control routines for further safeguarding correct financial reporting.

Control activities

Control activities limit identified risks and safeguard correct, reliable financial reporting and process efficiency. The control activities include the overall and detailed controls and aim to prevent, discover and correct inaccuracies and deviation.

The central finance and economy department is responsible for the consolidated accounts and consolidated annual accounts, plus for financial and administrative control systems. The department's responsibilities also include ensuring that instructions of importance for the financial reporting are made known and available to the employees concerned.

The accounting and control functions carry out regular reviews and checks of reported amounts, plus analyses of the income statements and balance sheets. The control function carries out control activities at all levels within the company.

The function analyzes and follows up budget deviations, makes forecasts, follows up significant fluctuations over defined periods and reports findings to the rest of the company, minimizing the risk for inaccuracies in the financial reporting.

The financial managers in the subsidiaries are responsible for the control activities in the financial reporting in their respective units, e.g. that they are designed to prevent, discover and correct inaccuracies and deviations, and that they correspond to internal guidelines and instructions.

A high degree of IT security is a condition 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 business system. Access to the business system is limited according to authorization levels, responsibility and roles based on Segregation of Duties, in order to ensure against intentional/unintentional faulty registration.

To quality-assure financial reporting activities the Board has set up an audit committee consisting of the Chairman of the Board and three 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.

Guidelines for the financial reporting are communicated to the employees through policies, manuals and work instructions available on the group-wide intranet. The information includes methods, instructions and practical checklists, descriptions of roles and responsibilities and a comprehensive schedule.

The Board has set out an information policy, stating what should be communicated, by whom and in what way the information should be issued in order to ensure that the external information is correct and complete. There are also instructions for how the financial information is communicated between management and other employees.

A condition for the correct spread of information is also the presence of good routines concerning information security.

Financial reporting and information

HMS's information routines and systems aim at providing the market with relevant, reliable, correct and current information about the Group's development and financial position. HMS's information policy meets the requirements set for listed companies.

Financial information is regularly published in the form of:

- Quarterly reports and financial statements, published as press releases
- Annual reports
- Press releases concerning important news and events that can significantly affect the share price



- Presentations and tele-conferences 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 ups/Improvements

Follow ups and tests of control activities are carried out regularly to ensure that risks have been taken into account and dealt with satisfactorily. Follow ups include both formal and informal routines applied by managers, process owners and controllers. These routines include such things as following up results against budgets and plans, analyses and key ratios.

Controls that go wrong must be attended to, meaning that measures must be taken and implemented to fix the problems.

The Board deals with all the Group's quarterly reports, financial reports and annual reports before publication. The Board receives monthly financial reports concerning the Group's position and earnings trend and at each Board meeting deal with the Group's financial situation. The financial department and management carry out detailed monthly analyses of financial reporting.

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

The audit committee follows up the financial accounts and receives reports from the company's auditor with observations and recommendations. The effectiveness of the internal control activities is followed up regularly at different levels in the Group.

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

Halmstad, 17 March 2011

Urban Jansson, Charlotte Brogren,
Nicolas Hassbjer, Henrik Johansson,
Ray Mauritsson, Göran Sigfridsson
and Gunilla Wikman.

Auditor's report on the corporate governance report

To the Annual General Meeting of
HMS Networks AB (publ) co.reg.no.
556661-8954

The Board is responsible for the corporate governance report for 2010, which appears on pages 25-31 in the printed version of the Annual Report, and that it is prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the Annual Report and consolidated accounts, we have studied the corporate governance report and verified its legal content based on our knowledge of the company.

We believe that the corporate governance report has been prepared correctly, and that its statutory information is consistent with the Annual Report and consolidated accounts.

Halmstad, 17 March 2011
PricewaterhouseCoopers AB

Olof Enerbäck
Authorized Public Auditor

Board of Directors

Urban Jansson

born 1945

Chairman of the Board since 2007. Board member since 1999. Independent from the company and its main owners.

Other board assignments: Chairman of Bergendahls, Global Health Partner, Rezidor Hotel Group AB (publ), Svedbergs etc. Board member of Clas Ohlson AB (publ), Höganäs AB, Skandinaviska Enskilda Banken AB (publ) etc.

Qualifications: higher degree in banking business from Skandinaviska Banken.

Shareholding: 59,750 shares

Charlotte Brogren

born 1963

Board member since 2010. Independent from the company and its main owners.

Other Board assignments: General Director of Vinnova and Board member of Industifonden, KTH Holding, PTS and Vice President of IngenjörsvetenskapsAkademin.

Professional experience: Development Manager and Group Vice President of ABB Robotics until September 2009 before which she worked in senior positions within ABB's research organization.

Shareholding: 1,000 shares

Nicolas Hassbjer

born 1967

Vice Chairman and founder of HMS Networks AB (publ). Board member since 1988. Not independent of the company's main owners.

Other Board assignments: Management and strategy adviser in rapidly expanding companies throughout Hassbjer Development AB. Chairman of the Board of Genomatix Software GmbH (Munich) and Board member of the Chamber of Commerce and Industry of Southern Sweden, plus a number of private companies.

Professional experience: President and CEO of HMS from June 1988 to March 2009.

Qualifications: Degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad University and studied management of rapidly expanding companies through CEO-CF/IESE in Barcelona.

Shareholding: 1,601,872 shares

Henrik Johansson

born 1966

Board member of HMS Networks AB (publ) since April 2009. Not independent of the company's main owners.

Other Board assignments: Head of Investment AB Latour's, business area. Latour Industries. Chairman of the Board of Nord-Lock International AB, Pressmaster AB, Specma Seals AB and Aktiebolaget Sigfrid Stenbergs. Board member of Hultafor's AB, REAC AB and Långshyttans Slipservice etc.

Professional experience: Senior positions at Tradex Converting and Brady Corporation plus extensive experience of internationally expansive businesses.

Qualifications: B.Sc. in Industrial Economics from the Chalmers University of Technology.

Shareholding: 6,400 shares



Ray Mauritsson

born 1962

Board member since 2007. Independent of the company and its main owners.

Other assignments: CEO of Axis AB (publ). Qualifications: M.Sc. in Technical Physics and Executive Master of Business Administration from the Lund School of Economics and Management. Shareholding: 5,000 shares

Göran Sigfridsson

born 1948

Board member since 2008. Independent of the company and its main owners.

Other assignments: Runs his 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 former President of Beijer Electronics AB (publ) from 1981 to 2008. Qualifications: M.Eng. in Electronics. Shareholding: 1,000 shares

Gunilla Wikman

born 1959

Board member since 2010. Independent of the company and its main owners.

Other assignments: Communication consultant at Carrara Communication and consultant at Ekman & Partners. Other board assignments: Vice Chairman of the Swedish Equestrian Federation, Board member of AMF Fonder, Proffice AB, Barnguiden AB. Professional experience: Information Manager at Swedish Match, financial journalist at Veckans affärer and for SVT, Information Manager for Bankstödsnämnden, Information Manager for Riksbanken and Corporate Information Manager at SEB. Qualifications: Economics and business studies graduate. Shareholding: 0 shares



Group management

Gunnar Högberg

Chief Financial Officer

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

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

Staffan Dahlström

Chief Executive Officer

Born 1967. President and CEO of HMS, and formerly Global Sales & Marketing Director at HMS. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad University. Executive Master of Business Administration, Lund School of Economics and Management.

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

Niclas Johansson

Global Sales Director

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

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



Jörgen Palmhager*Chief Operating Officer*

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

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

Sabina Lindén*HR Manager*

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

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

Anders Hansson*Marketing Director*

Born 1968. Marketing Manager of HMS since 2010. He started at HMS in 2000 and since then has held a number of positions relating to 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; warrants with subscription rights to 5,000 shares.



Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Directors' report

Information about the business

The HMS Group is a world-leading industrial network technology company. The Group develops and manufactures flexible, reliable solutions for connecting 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 has seen an average organic growth of 20%. Sales are conducted from the head office in Halmstad and through the company's sales offices in Chicago, Tokyo, Peking, Karlsruhe, Milan and Mulhouse.

The Group's invoiced sales amounted to SEK 344.5 million (244.5). Exchange rate fluctuations negatively affected net sales during the year by SEK 26.5 million. Invoiced sales are divided between EMEA 62% (65), Asia 20% (15) and the Americas 18% (20). The Group's largest markets are Germany, the US and Japan.

The operating profit after depreciation was SEK 83.5 million (31.1) and cash flow from operating activities was SEK 75.3 million (31.2).

The Group's equity amounts to SEK 285.8 million (240.4) and liquidity at year-end was SEK 55.0 million (25.5) excluding unutilized overdraft facilities.

The Group's net cash holdings amounted to SEK 15.5 million (-30.3).

Group relationships

HMS Networks AB (publ), co. reg. no. 556661-8954, is the parent company of the wholly-owned subsidiary HMS Industrial Networks AB. HMS Industrial Networks AB is in turn the parent company of HMS Industrial Networks Inc, HMS Industrial Networks GmbH, HMS Electronics AB, HMS Industrial Networks SAS, HMS Industrial Networks S.r.l., HMS Industrial Networks K.K. and the partly-owned subsidiary Intellicom Innovation AB (68% of capital and voting rights).

Representative offices abroad

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

Important events during the year

The year was characterized by a global recovery and the markets in Germany, Japan and the US performed strongly.

At year-end the total number of design wins was 913 (814), of which 750 (656) were in the production phase. The average revenue per design win in the production phase amounted to SEK 0.32 million (0.26).

HMS held its AGM on 19 April 2010 with all of the Board's and nominations committee's proposals agreed by the meeting. Urban Jansson was re-elected as Chairman of the Board. Ray Mauritsson, Göran Sigfridsson, Henrik Johansson and Nicolas Hassbjer were re-elected to the Board. Charlotte Brogren and Gunilla Wikman were elected onto the Board. At the board meeting following election Nicolas Hassbjer was elected as Vice Chairman of HMS's board and Staffan Dahlström was appointed President and CEO of HMS Networks AB.

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

Important events in brief:

- HMS's Japanese operation is expanding and moving into new premises in Shin-Yokohama
- HMS signed agreements with a number of new partners to strengthen the market position in Eastern Europe and the Middle East
- Customized network interface cards for Profibus-DPV1 and Ethernet (Modbus TCP and Ethernet/IP) for installation in electrical motor drives were launched
- HMS received an order worth SEK 2.5 million from one of the largest manufacturers of frequency converters in Japan
- Intellicom Innovation AB, a member of the HMS Group, received breakthrough orders in the areas of energy, telecoms and construction automation
- The launch of the HMS Partner Program was initiated in France
- HMS's US operations moved into new premises in the centre of Chicago
- Embedded products accounted for 72% (66) of the Group's revenues and the number of Gateway products amounted to 24% (28).

Environment

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

Research and development

The Group has expensed SEK 31.5 million (29.2) for research and development. In addition, SEK 8.4 million (5.0) worth of development costs have been capitalized, of which SEK 8.2 million (4.9) is for in-house projects. Total research and development expenses make up 12% (14) of sales. The Group's policy is to only capitalize major development projects for the manufacture of the company's

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 190 employees (163). The increased headcount is due to the increased demand over the year for the company's products and the expansion that began during the year.

Principles for remuneration to Group management

The Board appointed a remuneration committee at a board meeting in 2010. The following principles proposed by the company's remuneration committee will be put before the AGM in 2011. Remuneration to the CEO and other individuals in the HMS Networks AB's Group management is made up of basic salary, short and long-term incentive schemes and pension. Other benefits and remuneration is received on corresponding grounds to those of 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 for HMS Networks AB. The basic salary is established on the basis that it shall be competitive in combination with short and long-term incentives. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is fixed by the Board based on the proposal from the remuneration committee. Remuneration to group management is established by the CEO after approval by the remuneration committee.

Short-term incentive schemes to the CEO and group management are based on the financial targets of the Group. Incentive schemes shall mainly be based on growth in combination with profitability, and in addition other personal targets can be set. For the CEO and group management the single highest incentive schemes amount is a maximum of 24% of basic salary in 2010.

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

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

For information on the composition of the remuneration committee, see page 28.

Risks and uncertainty factors

Market-related risks

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

Business cycle

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

Competitors

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

Operational risks

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

Suppliers

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

Customers

The company's sales are to professional companies. It is of the greatest importance for the company to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that the company has the capability to develop and market new products that are accepted by the market

and fulfil customers' requirements, as well as the capacity to improve existing products. If major changes should occur in purchasing patterns at the company's major customers, this would affect the company's profitability. The large number of customers limits dependency on any single customer. A limiting of the company's possibilities to maintain its relations with one or more customers can however negatively affect the company's business, profits and financial position.

Employees

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

Acquisitions

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

Risk related to new products

If HMS doesn't succeed in introducing new, innovative products or keeping up with technological development the business and revenues will be negatively affected. HMS considers that its successes are partly due to the company's ability to introduce new, innovative products and continuously further develop existing products. The company's revenues and market shares can be negatively affected if the company's competitors introduce new or improved products or services that customers consider attractive. If HMS doesn't succeed in keeping up with product development and technological developments, or fails to meet customers' requirements, it can have effects on the company's profits and position in general.

Product faults

Manufacturing and sales of products in industry carries the risk of guarantee requirements and product liability. Therefore, HMS normally designs its products according to detailed technical specifications in order to meet requirements within industry. Even

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

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

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

Legal risks

Legislation and regulation

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

Intellectual property rights

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

Disputes

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

Financial risks

The Group's international operations entail a number of financial risks, which are managed by policies established by the board. The overall objective is that the Group's financial function provides financing to group companies and manages financial risks so that the effects on the Group's profits are minimized. The Group is mainly exposed to financing, currency, interest and credit risks. For further information, see Note 3.

Currency exposure

Assets and liabilities in foreign currencies are reassessed every closing day. Currency hedging contracts are reassessed every closing day and also have an impact when redeemed. The change in value as a result of the reassessment of business-related balance sheet items and redemption of currency hedging contracts are reported in the "other operating income" and "other operating expenses" items. Changes in value of other balance sheet items in foreign currency, such as liquid assets, are reported as net financial items. Operating income and expenses are also affected by changes in currency exchange rates. These changes have a direct impact on income and expenses items. Of operating income, around 59% is in EUR, 19% in USD, 11% in JPY and 11% in SEK and other currencies. Of the cost of goods sold in foreign currencies, 50% is in EUR, 20% in USD and 2% in JPY. Of operating expenses, 17% is in EUR, 8% in USD, 9% in JPY and 66% in SEK. The Group's policy is to minimize currency exposure by means of forward contracts.

Future outlook

HMS's objective is for growth to average 20% and thereby continue growing faster than the market as a whole. HMS's overall objectives remain unchanged on previous years. The company's strategy to achieve these targets involves a continuing investment in building up a strong portfolio of design wins in the area of embedded network interface cards and a broadening of the offering to closely related areas in network technology based on the company's technology platform. In addition, the company might consider selective acquisitions if it deems to be justified from a business or technology aspect for the company's continued development.

HMS's shares

HMS Networks AB is listed on the NASDAQ-OMX Nordic Exchange in the Small Cap category within the Information Technology segment. The average turnover of shares was 12,059 (8,879) shares per day. The shares' volume-weighted average price in 2010 was SEK 87.20 (58.68). The total number of shares at year-end was 11,152,900. All shares have the same voting rights.

PARENT COMPANY

Information on the business

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

Ownership structure as of 31 December 2010

Owner	No. of shares	Share of capital and voting rights
Investment AB Latour	1,851,000	16.6%
Nicolas Hassbjer and companies	1,601,872	14.4%
Staffan Dahlström and companies	1,592,873	14.3%
Swedbank Robur fonder	1,146,500	10.3%
SEB fonder	1,034,700	9.3%
Other	3,925,955	35.1%
	11,152,900	100.0%

Proposed allocation of profits in the parent company

The following profits are at the disposal of the Annual General Meeting

Profit brought forward and other non-restricted reserves	134,889,464
Loss for the year	-39,322
Total non-restricted equity	134,850,142

The Board and CEO propose:

A dividend of SEK 2.00 per share to shareholders	22,305,800
Brought forward	112,544,342
	134,850,142

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

Consolidated income statement

SEK Thousands	Note	2010	2009
Net sales	5	344,530	244,536
Cost of goods and services sold		-136,973	-101,818
GROSS PROFIT		207,557	142,718
Selling expenses		-69,273	-54,983
Administrative expenses		-25,051	-20,854
Research and development expenses		-31,530	-29,211
Other operating income	10	6,076	5,991
Other operating expenses	10	-4,254	-12,535
OPERATING PROFIT	6, 7, 8, 27, 28	83,525	31,125
Financial income	10, 31	1,340	1,841
Financial costs	10, 32	-802	-4,514
Total income from net financial investments		538	-2,673
PROFIT BEFORE TAX		84,063	28,452
Income tax	9	-22,406	-7,782
PROFIT FOR THE YEAR		61,657	20,671
Profit attributable to:		60,288	20,116
Parent company's shareholders		1,369	555
Non-controlling interests		61,657	20,671
Earnings per share, basic, SEK	11	5,41	1,88
Earnings per share, diluted, SEK	11	5,40	1,81
Average number of shares, basic, thousands		11,153	10,717
Average number of shares, diluted, thousands		11,158	11,121
Dividends per share, SEK	12	1,00	1,50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK Thousands	2010	2009
Profit for the year	61,657	20,671
Other comprehensive income:		
Cash flow hedging	-234	11,469
Currency differences	-551	-163
Income tax attributable to components in other comprehensive income	62	-3,016
Other comprehensive income for the year, net after tax	-723	8,290
Total comprehensive income for the year	60,934	28,961
Total comprehensive income attributable to:		
Parent company's owners	59,565	28,406
Non-controlling interests	1,369	555
Total comprehensive income for the year	60,934	28,961

Consolidated balance sheet

SEK Thousands	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Non-current assets			
Intangible assets	13		
Patents		297	217
Capitalized development work		17,853	14,436
Goodwill		236,071	236,071
Total intangible assets		254,221	250,722
Tangible assets	14, 26		
Plant and machinery		3,401	2,995
Equipment, tools and other installations		7,285	5,569
Total tangible assets		10,685	8,564
Financial assets			
Deferred income tax assets	23	756	802
Total non-current assets		265,663	260,089
Current assets			
Inventories	18	23,679	13,043
Accounts receivable - trade	17	38,612	33,098
Derivative financial instruments	16	1,041	1,275
Other receivables	17	5,294	2,461
Prepaid expenses and accrued income	33	3,146	3,336
Cash and cash equivalents	19	54,984	25,512
Total current assets		126,757	78,725
TOTAL ASSETS		392,419	338,814

SEK Thousands	Note	31 Dec 2010	31 Dec 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,115	1,115
Other contributed capital	20	110,369	110,369
Reserves		1,790	2,513
Retained earnings		168,931	123,013
Total capital and reserves attributable to parent company's shareholders		282,207	237,011
Attributable to non-controlling interests		3,609	3,423
Total equity		285,815	240,434
Non-current liabilities			
Borrowings	22	24,118	39,509
Deferred income tax liabilities	23	16,484	11,319
Total non-current liabilities		40,602	50,828
Current liabilities			
Borrowings	22	15,391	16,320
Accounts payable - trade		28,714	16,432
Income tax liabilities		4,486	1,469
Other liabilities		3,127	2,842
Accrued expenses and deferred income	21, 34	14,284	10,490
Total current liabilities		66,002	47,553
TOTAL EQUITY AND LIABILITIES		392,419	338,814

Consolidated cash flow statement

SEK Thousands	Note	2010	2009
Operating activities			
Operating profit		83,525	31,125
Adjustment for items not included in cash flow:			
Depreciation/amortization		7,727	6,787
Cash flow hedging		-234	11,469
Other items not affecting liquidity		1,365	-494
Interest received	31	97	118
Interest paid	32	-802	-1,726
Income tax paid		-14,156	-9,933
Cash flow from operating activities before changes in operating capital		77,523	37,347
Changes in operating capital			
Change in inventories		-10,596	4,506
Change in trade receivables		-5,810	4,406
Change in other current receivables		-2,521	362
Change in trade payables		12,300	1,162
Change in other current liabilities		4,410	-16,534
Cash flow from operating activities		75,306	31,249
Investing activities			
Acquisition of non-controlling interests	35	-4,400	0
Purchase of tangible assets	14	-6,432	-2,423
Investment in intangible assets	13	-8,353	-4,956
Changes in current financial investments		199	1,179
Cash flow from investing activities		-18,988	-6,200
Financing activities			
Proceeds from issue of warrants	20	0	2,446
Cost of recently issued warrants	20	0	937
Repayment of debt		-15,000	-51,323
Dividend paid to parent company's shareholders	12	-11,153	-15,857
Dividend paid to non-controlling interests		0	-480
Cash flow from financing activities		-26,153	-64,277
CHANGE IN CASH AND CASH EQUIVALENTS		30,165	-39,228
Cash and cash equivalents at beginning of year	19	25,512	66,177
Exchange rate differences in cash and cash equivalents		-199	-1,179
Translation differences		-494	-258
Cash and cash equivalents at year-end	19	54,984	25,512

Consolidated statement of change in equity

SEK Thousands	Note	Attributable to owners of the parent					Non-controlling-interests	Total equity
		Share capital	Other contributed capital	Reserves	Retained earnings	Total		
Opening balance on 1 January 2009		1,057	107,043	-5,777	118,754	221,078	3,348	224,426
Comprehensive income								
Profit for the year					20,116	20,116	555	20,671
Other comprehensive income:								
Cash flow hedging				11,469		11,469		11,469
Currency differences				-163		-163		-163
Income tax attributable to components in other comprehensive income				-3,016		-3,016		-3,016
Total comprehensive income		0	0	8,290	20,116	28,406	555	28,961
Transactions with shareholders								
Options scheme:								
- Payment of issued shares	20	58	2,388			2,446		2,446
- Payment of warrants	20		937			937		937
Dividend for 2008	12				-15,857	-15,857	-480	-16,337
Total transactions with shareholders		58	3,326	0	-15,857	-12,473	-480	-12,953
Closing balance on 31 December 2009		1,115	110,369	2,513	123,013	237,011	3,423	240,434

SEK Thousands	Note	Attributable to owners of the parent					Non-controlling-interests	Total equity
		Share capital	Other contributed capital	Reserves	Retained earnings	Total		
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 hedging				-234		-234		-234
Currency differences				-551		-551		-551
Income tax attributable to components in other 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 contribution from and dividend 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 minority interests	35				-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

Parent company's income statement

SEK Thousands	Note	2010	2009
Net sales	5	6,769	7,284
GROSS PROFIT		6,769	7,284
Administrative expenses	7, 8, 27	-6,133	-5,784
OPERATING PROFIT		636	1,500
Profit from financial investments			
Profit from participation in Group companies	30	0	74,926
Interest expenses and other loss items	32	-636	-1,496
Total profit from financial investments		-636	73,430
PROFIT AFTER FINANCIAL ITEMS		0	74,931
Appropriations		0	-8
Tax on profit for the year		-39	-12
PROFIT/LOSS FOR THE YEAR		-39	74,911

Parent company's balance sheet

SEK Thousands	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	15, 29	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		97	0
Other receivables		168	565
Total current receivables		265	565
Cash and bank balances		99	143
Total current assets		364	708
TOTAL ASSETS		244,403	244,747
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	20	1,115	1,115
Statutory reserve		19,446	19,446
Total restricted equity		20,561	20,561
Non-restricted equity			
Retained earnings		131,564	67,806
Share premium reserve		3,326	3,326
Profit for the year		-39	74,911
Total non-restricted equity		134,850	146,042
Total equity		155,411	166,604
Untaxed reserves		8	8
Non-current liabilities			
Borrowings	22	24,118	39,118
Total non-current liabilities		24,118	39,118
Current liabilities			
Borrowings	22	15,000	15,000
Accounts payable - trade		131	972
Liabilities to Group companies		48,760	22,592
Tax liabilities		0	13
Other liabilities		268	286
Accrued expenses and deferred income	34	707	154
Total current liabilities		64,866	39,018
TOTAL EQUITY AND LIABILITIES		244,403	244,747
PLEDGED ASSETS	25	244,039	244,039
CONTINGENT LIABILITIES	25	19,912	19,934

Parent company's cash flow statement

SEK Thousands	Note	2010	2009
Operating activities			
Operating profit		636	1,500
Adjustment for items not included in cash flow:			
Dividend received		0	120,000
Interest paid	32	-636	-1,496
Income tax paid		-149	0
Cash flow from operating activities before changes in operating capital		-149	120,005
Changes in operating capital			
Changes in other current receivables		397	-553
Changes in trade payables		-841	972
Changes in other current liabilities		26,703	-56,599
Cash flow from operating activities		26,109	63,825
Financing activities			
Proceeds from issue of warrants		0	2,446
Cost of recently issued warrants		0	937
Repayment of debt		-15,000	-51,323
Dividend paid		-11,153	-15,857
Cash flow from financing activities		-26,153	-63,797
CHANGES IN CASH AND CASH EQUIVALENTS		-44	28
Cash and cash equivalents at beginning of year		143	115
Cash and cash equivalents at year-end		99	143

Parent company's statement of change in equity

SEK Thousands	Restricted equity		Non-restricted equity			Total
	Share capital	Statutory reserve	Retained earnings	Share premium reserve	Profit for the year	
Opening balance on 1 January 2009	1,057	19,446	83,662	0	0	104,166
Options scheme:						
- Payment of issued shares	58			2,388		2,446
- Payment of warrants				937		937
Dividend for 2008			-15,857			-15,857
Profit for the year					74,911	74,911
Closing balance on 31 December 2009	1,115	19,446	67,806	3,326	74,911	166,604

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

Notes

All amounts in SEK Thousands unless otherwise stated

Note 1 General information

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

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

The consolidated financial statements were approved for publication by the Board of Directors on 17 March 2011.

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 consolidated accounting regulations and International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU. The annual report has been prepared in accordance with the acquisition value method, with the exception of some financial assets valued at the fair value in other comprehensive income.

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

IFRS 3 (amendment), "Business Combinations" was applied in 2010 and thereby the amendment to IAS 27, "Consolidated and Separate Financial Statements". IFRS 3 requires that acquisition payments are reported at a fair value on the acquisition day, while the subsequent contingent payments classified as liabilities are subsequently revalued through the income statement. All transaction costs relating to acquisitions are carried as an expense. The introduction of this standard has not had any impact on the consolidated financial statements.

IAS 27 (amendment) "Consolidated and Separate Financial Statements", requires the effects of all transactions with owners who do not have a controlling influence are recorded in equity if they do not entail any changes in the controlling influence, and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies that when apparent company loses the controlling influence, any remaining shares are revalued at fair value and any gain or loss recognized in the income statement.

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

The Group has also analysed the IFRS standards and interpretations yet to come into force and not applied in the 2010 annual report.

IFRS 9 "Financial Instruments". This standard is the first step in the process of replacing IAS 39, "Financial Instruments: Recognition and Measurement". This standard introduces new requirements for valuation and classification of financial assets. The Group has not yet evaluated the full impact of IFRS 9 on the financial statements.

IAS 24 (amendment), "Related Party Disclosures". This standard clarifies and simplifies the definition of a related party. Other new standards and amendments to existing standards are not expected to have any effect on the consolidated financial statements.

The parent company's annual accounts have been prepared according to the Swedish Annual Accounts Act and RFR 2. The parent company's accounting policies therefore coincide with the Group's. The parent company has not drawn up an income statement or statement of change in equity in accordance with IAS 1 and IAS 7 as there were no items to report in accordance with these principles. In cases where different accounting policies are applied in the parent company then they are specifically stated in the respective sections below.

2.2 Consolidated accounts

a) Subsidiaries

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

The purchase method of accounting is used to report the acquisition of subsidiaries by the Group. The purchase price for the acquisition of a subsidiary is made up of the fair value of the assets

given, liabilities and 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. Acquisition – related costs are carried as an expense as they arise. Identifiable assets acquired and liabilities assumed in a company acquisition are measured initially at their true values on the acquisition date. For each acquisition the Group decides the extent of any non-controlling interest in the acquired company and reports it at its true value or proportionate to the share in the acquired company's net assets.

The amounts by which the purchase price, possible non-controlling interest and fair value on the acquisition date of existing shareholding exceeds the fair value of the Group's share of the identifiable net assets acquired, are recorded as goodwill. If the value of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

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

b) Transactions with non-controlling interests

The Group applies the principles of treating transactions with non-controlling interests as transactions with the Group's shareholders. On acquisition from non-controlling interests the difference between the purchase price paid and the actual acquired share of the reported value of the subsidiary's net assets, are reported in equity. Gains and losses on disposals to non-controlling interests are also reported in equity.

When the Group no longer has a controlling or significant influence, each remaining share is revalued to the fair value and the change of the reported value reported in the income statement. The fair value is used as the first reported value and is the basis of the remaining reporting of the remaining shares as associated company, joint venture or financial asset. All amounts concerning the divested unit formerly reported in other comprehensive income is reported as if the Group had directly divested the attributable assets or liabilities. This might mean that amounts formerly reported in other comprehensive income are reclassified as profit.

If ownership in an associated company drops, but significant influence remains then a proportional share of the amount formerly reported in other comprehensive income, is reclassified, in cases where it is relevant, as profit.

2.3 Reporting of segments

Segment disclosures must be presented from the management's perspective, meaning being presented as it is used in the internal reporting. The point of departure for identifying reportable seg-

ments is the internal reporting as reported to and followed up by the highest-ranking executive decision-maker. Management has analyzed the internal reporting and are satisfied that the Group's highest-ranking executive decision-maker, the CEO, regularly analyzed sales reports, quality follow-ups, consolidated income statement and cash flow. This reporting is based on the fact that he common technology platform, development process, manufacturing process, market strategy and common sales resources either permit or create a need for further division of the business. Therefore, no follow-up of the profit takes place for any single part (segment) of the business.

2.4 Translation of foreign currency

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

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

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

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

- assets and liabilities are translated at the closing rate of exchange,
- income and expenses are translated at average exchange rates, and
- all resulting exchange differences are recognized as a separate component of equity.

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

in equity are recognized in the income statement as part of the capital gain or loss.

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

2.5 Tangible assets

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

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

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

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

Plant and machinery	3-7 years
Equipment, fixtures and fittings	3-7 years

The assets' residual value and utilization period are tested at the end of every report period and adjusted accordingly. In cases where the reported value exceeds the estimated recoverable value then the asset is immediately written down to its recoverable value.

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

2.6 Intangible assets

a) Goodwill

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

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

The Group only has cash-generating units that are expected to benefit from the company acquisition from which the goodwill arose and which is examined for possible impairment needs.

b) Development work

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

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

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

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

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

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

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

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

Capitalized development work	5 years.
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2.7 Impairment

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

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

2.8 Financial instruments

2.8.1 Classification

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

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

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

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

b) Loans and receivables

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

c) Derivative financial instruments and hedging activities

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

Derivatives are recognized at fair value, initially on the date a derivative contract is entered into, and in subsequent revaluations. All derivative instruments are classified as current assets or short-term liabilities. Information about fair value for various derivative financial instruments, used for hedging activities, appear in Note 16.

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

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

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

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

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

2.8.2 Reporting and valuation

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

Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership. Financial assets that can be sold and financial assets valued at the fair value via the income statement are reported after the acquisition date at the fair value. Loans and receivables are carried at amortized cost using the effective interest method.

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

2.8.3 Offsetting financial instruments

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

2.9 Inventories

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

2.10 Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the HMS Group will not be able to collect all amounts due according to the original terms of the receivables.

2.11 Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet and cash flow statement and 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 incurred by redundancies and for severance pay. No provision is made for future operational losses.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required to settle the obligations of the Group and the amount has been reliably estimated. A provision is also reported if the likelihood for an outflow concerning a special item in this group of obligations is insignificant.

2.13 Trade payables

Trade payables are obligations to pay for goods or services acquired by suppliers from current activities. Trade payables are classified as current liabilities if they fall due for payment within 1 year or sooner (or over a normal business cycle if this is longer), otherwise they are reported as non-current liabilities.

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

2.14 Income tax

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

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

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

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

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

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

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

2.15 Remuneration to employees

a) Pension 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 into a separate entity. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Pension commitments for salaried employees in Sweden are secured through insurance in Alecia. According to a statement from the (Swedish Financial Reporting Board), UFR 3, this is a defined benefit plan, which covers a number of employers. For the financial year 2010 the company has not had access to sufficient information to enable it to report this plan as a defined benefit plan. The pension commitments are thus reported as a defined contribution plan.

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

b) Share-based remuneration

The Group has outstanding share option schemes for portions of its personnel. The option schemes aim to facilitate recruitment to leading positions and stimulate long-term commitment from employees regarding the Group's profit and business development. Warrants have been issued at market rates and thereafter transferred to the employees. The warrants give the owner the right

to acquire shares at a predetermined price. The payments that HMS has received at the transfer of the warrants have been allocated to total equity. The exercise of warrants has not meant a cost for the Group as all employees paid market prices for their warrants. Allocation of shares through the exercise of warrants will be made through a new share issue.

2.16 Revenue recognition

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

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

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

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

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

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

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

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

Interest income is recognized using the effective interest method. When the value of a receivable in the loan receivables and accounts receivable category is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated

future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan receivables is recognized using the original effective interest rate.

2.17 Leasing

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

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

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

2.18 Dividend

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

2.19 Borrowings

The company has no development projects of such importance that it is necessary to activate borrowings. All borrowings are expensed as they arise.

2.20 Cash flow statement

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

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

Note 3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and financing risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures and apply hedge accounting in accordance with IAS 39.

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

a) Financing and liquidity risk

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

Cash flow forecasts are drawn up by the Group's operating companies and aggregated by Group finance. The Group carefully follows rolling forecasts for the Group's liquidity reserve, which consists of unutilized credit lines and liquid funds to ensure that the Group has sufficient liquid funds to meet needs in current operations while retaining sufficient scope with agreed non-utilized credit facilities so the Group does not breach its credit limits, or conditions of credit, of any of the Group's credit facilities. This is done centrally for all operational units in the Group in accordance with the praxis and limits established for the company. This also includes liquidity management to calculate expected cash flow in major currencies and determine which amount of different liquid assets is required to meet this, to monitor balance sheet based liquidity measurement in relation to internal and external supervisory requirements and to draw up plans for financing of liabilities.

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

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

As of 31 December 2010	Less than 1 year
Currency forward agreements – Cash flow hedging	
- Inflow	
- Outflow	19,729
As of 31 December 2009	Less than 1 year
Currency forward agreements – Cash flow hedging	
- Inflow	
- Outflow	68,567

b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's financing policy states that the interest expense should be decreased as far as possible. In order to minimize the Group's interest expense, interest rate derivatives may be utilized. For 2010 it was assessed that the usage of interest rate derivatives would not decrease the Group's interest expense.

If interest rates on borrowings in SEK on 31 December 2010 were +/- 1% with all other variables constant then the profit before tax for the financial year would have been +/- SEK 0.5 million (2009: 0.9).

c) Currency risk

The Group operates internationally and is exposed to currency risks arising from currency exposure, principally with respect to the USD, EUR and JPY. The Group's currency risk consists partly of the transaction risk, which arises when purchasing or selling in foreign currencies and partly of the translation risk, which arises when the net assets of foreign subsidiaries are recalculated at the present exchange rate.

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

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

currency rate fluctuations on capital expenditure in subsidiaries. The Group assesses that sensitivity as a result of the currency risk is negligible.

If the SEK weakened/strengthened by 5% against the EUR with all other variables remaining constant, the operating profit/loss for the year would have been +/- SEK 5.6 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

If the SEK weakened/strengthened by 5% against the USD with all other variables remaining constant, the operating profit/loss for the year would have been SEK +/- 1.5 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

If the SEK weakened/strengthened by 5% against the JPY with all other variables remaining constant, the operating profit/loss for the year would have been SEK +/- 1.2 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

d) Credit risk

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

3.2 Managing capital risks

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

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

The Group considers the capital on the basis of the net debt/equity ratio. This key figure is calculated as the net debt divided

by the total equity including non-controlling interest. The net debt is calculated as the total borrowings (including Short-term borrowings and Long-term borrowings in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as Equity in the consolidated balance sheet plus net debt.

The Group's strategy in 2010 remained unchanged compared to 2009 with the aim of cutting borrowings in order to create room for manoeuvre in the future. The net debt/equity ratio on 31 December 2010 and 31 December 2009 respectfully were as follows:

	2010	2009
Total borrowings (note 22)	39,509	55,828
Less cash and cash equivalents (note 19)	-54,984	-25,512
Net debt	-15,475	30,316
Total equity	285,815	240,434
Total capital	270,340	270,750
Net debt/equity ratio	-5%	13%

3.3 Recognition of derivative instruments and hedging activities

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

Information concerning fair values for the various derivative instruments used for hedging is available in Note 16.

3.4 Fair value estimation

The following table shows the financial instruments valued at the fair value, from which a classification of a fair value hierarchy was carried out. 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 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 following table shows the Group's assets and liabilities valued at a fair value as of 31 December 2009:

Assets	Level 1	Level 2	Level 3	Total
Derivative instruments used for hedging		1,275		1,275
Total assets	0	1,275	0	1,275

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

Note 4 Important estimates and assessments for accounting purposes

Estimates and assessments are evaluated continuously and based on historical 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 estimates for accounting purposes that result from these, by definition, will rarely equate to the actual result. The estimates and assumptions that involve a significant risk of material adjustments to the carrying amounts of assets and liabilities during the next financial year are shown below.

a) Test of impairment requirement for goodwill

Each year the Group tests to evaluate if there is an impairment requirement for goodwill in accordance with the accounting principle explained in note 2.7. The recoverable amount for the Group's cash-generating units is established by calculating the value in use. Various estimates must be used to make

these calculations (note 13). Reported goodwill amounted to SEK 236.1 million (2009: 236.1).

The sensitivity analysis shows that an increased return requirement of 14 percentage points (i.e. return of 26.8%) does not imply that there is requirement for impairment.

b) Revenue recognition

The Group implements successive revenue recognition in reporting of fixed-price agreements for sales of development services. Successive revenue recognition means that the Group shall make an assess services already performed by the closing date as a proportion of the total service to be performed. If the proportion of the service performed should deviate from the estimate made by management, revenue reported for the year would increase by SEK 551,000 if the performed proportion was 10% higher, and decrease by SEK 148,000 if 10% lower.

Note 5 Segment information

The Group sells products primarily in five countries, as shown in the following table. These countries do not constitute geographic segments. For information about the Group's segments, see note 2.3. The following table is based on which country a product or service is delivered to.

Net sales per country	The Group		Parent company	
	2010	2009	2010	2009
Germany	68,086	51,244		
Japan	52,406	34,041		
USA	45,773	36,186		
Finland	41,892	27,172		
Sweden	32,685	24,413	6,769	7,284
Other countries	103,688	71,480		
Total	344,530	244,536	6,769	7,284

Reported amounts for assets and investments outside Sweden amount to less than 10% of the Group's total assets.

Note 6 Costs divided by type

	2010	2009
Costs for purchase and handling of additives	108,224	79,761
Costs for remuneration to employees (note 8)	104,304	87,459
Depreciation (note 13, 14)	9,046	8,229
Transport	2,812	2,297
Advertising	6,619	4,812
Other external costs	31,823	24,308
Total costs for goods sold, sales, administration, research and development	262,828	206,866

Note 7 Remuneration to auditors

	The Group		Parent company	
	2010	2009	2010	2009
PwC				
Audit assignment	387	387	330	330
Audit activities in addition to audit assignment	50	50	50	50
Other services	195	110	55	110
Total	632	547	435	490
Ernst & Young				
Other services	40	0	40	0
Total	40	0	40	0
Deloitte				
Other services	0	150	0	150
Total	0	150	0	150
Total	672	697	475	640

Note 8 Remuneration to employees, etc.

	The Group		Parent company	
	2010	2009	2010	2009
Salaries and other remuneration	75,830	62,649	1,988	1,815
Social fees	22,198	19,341	635	601
Pension costs	6,275	5,670	329	343
Total	104,304	87,660	2,952	2,759

Salaries in the parent company refer to the CEO and Board of directors.

	2010			2009		
	Salaries and other remuneration	Social fees (of which pension costs)		Salaries and other remuneration	Social fees (of which pension costs)	
Salaries, other remuneration and social fees						
Board members and CEO	3,767	1,662	(638)	3,454	1,806	(469)
Senior executives (Group management)	2,698	1,619	(621)	1,601	1,362	(383)
Other employees	69,366	25,193	(5,016)	57,595	21,843	(4,818)
The Group, total	75,830	28,474	(6,275)	62,649	25,011	(5,670)

	2010		2009	
	Average no. of employees	Of whom men	Average no. of employees	Of whom men
Average no. of employees				
Sweden	123	89	118	82
Germany	15	11	13	9
USA	9	7	8	6
France	3	2	2	2
Italy	3	2	3	2
Japan	7	4	6	4
China	4	4	3	3
The Group, total	164	119	153	108

	2010		2009	
	No. on closing date	Of whom men	No. on closing date	Of whom men
Gender of Board members and other senior executives				
Board members	7	5	5	5
CEO and other senior executives	8	7	5	5
The Group, total	15	12	10	10

Note 9 Income tax

	2010	2009
Current tax	17,179	9,033
Deferred tax (note 23)	5,227	-1,251
Tax	22,406	7,782

Income tax on Group earnings before tax differs from the theoretical amount that would have arisen if using the weighted average tax rate for earnings in the consolidated companies as follows:

	2010	2009
Earnings before tax	84,063	28,452
Income tax calculated using Swedish tax rates	22,109	7,483
Tax, previous year's tax rate	-68	-200
Non-taxable income, non-deductible costs	243	395
Differences in tax rates for foreign subsidiaries	121	104
Tax cost	22,406	7,782
Average tax rate (%)	26,7	27,4

Note 10 Exchange rate differences – net

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

	2010	2009
Cost of goods sold	-1,299	-3,574
Other operating income	6,076	5,991
Other operating expenses	-4,254	-12,535
Net financial items	1,243	-1,064
	1,766	-11,182

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.

	2010	2009
Earnings attributable to parent company shareholders	60,288	20,116
weighted average number of outstanding ordinary shares ('000)	11,153	10,717
Earnings per share before dilution (SEK per share)	5,41	1,88

(b) After dilution

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares are adjusted for the dilution effect of all potential ordinary shares. The parent company has established a warrants scheme for staff, which constitutes the sole potential dilution effect. For the share warrants, 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 linked with the outstanding share warrants. The number of shares estimated as above is compared

with the number of shares that would have been issued on the assumption that the warrants are utilised

	2010	2009
Weighted average no. of outstanding ordinary shares ('000)	11,153	10,717
Adjustments for share warrants ('000)	5	404
Weighted average no. of ordinary shares used to calculate EPS after dilution ('000)	11,158	11,121
Earnings per share (EPS) after dilution (SEK per share)	5,40	1,81

Note 12 Dividend per share

The dividend paid in 2010 was SEK 11,152,900 (SEK 1.00 per share), and in 2009 it was SEK 15,857,475 (SEK 1.50 per share). At the Annual General Meeting held on 14 April 2011, it will be

proposed that the dividend for the 2010 financial year be SEK 2.00 per share, a total of SEK 22,305,800. The proposed dividend has not been reported as a liability in these financial statements.

Note 13 Intangible non-current assets

	Patents	Capitalized development work	Goodwill	Total
Per 1 January 2009				
Acquisition value		32,914	236,071	268,985
Accumulated depreciation		-19,144		-19,144
Reported amount	0	13,770	236,071	249,841
Financial year 2009				
Opening balance		13,770	236,071	249,841
Purchases	237	4,719		4,956
Depreciation	-20	-4,053		-4,073
Closing balance	217	14,436	236,071	250,724
Per 31 December 2009				
Acquisition value	237	37,633	236,071	273,941
Accumulated depreciation	-20	-23,197		-23,217
Reported amount	217	14,436	236,071	250,722
Financial year 2010				
Opening balance	217	14,436	236,071	250,722
Purchases	115	8,238		8,353
Depreciation	-35	-4,821		-4,856
Closing balance	297	17,853	236,071	254,219
Per 31 December 2010				
Acquisition value	352	45,871	236,071	282,294
Accumulated depreciation	-55	-28,018		-28,073
Reported amount	297	17,853	236,071	254,221

The income statement includes depreciation of SEK 4,821,000 (2009: 4,053,000) in 'Costs of goods sold'.

Through the acquisition of HMS Networks AB in 2004 the Group gained access to competence that provided synergy effects in the form of management and financing opportunities. This led to enhanced growth prospects as shown in the value for goodwill.

Impairment test for goodwill

The Group's goodwill has been assessed in accordance with IAS 36. The recovery value for cash-generating units was based on its utilisation value. This has included estimates for growth, profit margin, tied-up capital, investment requirement and risk premium. The principles behind these estimates were unchanged compared with the previous year.

Financial forecasts are based on the company's budget for the coming year and on the company's long-term financial plans. 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 and do not include acquisitions.

The company's estimate of future growth is based on experience, external sources of information and the company's long-term business plans. Estimates also include predicted market growth and price development.

Estimates of future margins follow the company's financial plans and historic performance.

Investment during the period is based on the company's internal investment plan and is expected to be equivalent to the re-purchase value.

The need for operating capital (excluding cash and cash equivalents) is estimated over the long-term to amount to 11% of net sales.

These estimates form the basis for calculating utilisation value and the cash flow forecast for a period covering the fixed budget and the company's five-year financial plan. Cash flow has thereafter been extrapolated with an estimate of 3% annual growth. The return requirement, WACC, before tax was set at 12.7% (15).

The calculated recoverable value exceeds the reported value with a good margin. The company's managers consider that no reasonable possible change in key assumptions in the impairment test for cash-generating units would mean that the recoverable value would be lower than the reported value.

Note 14 Tangible assets

	Plant and machinery	Equipment, tools and other installations	Total
Per 1 January 2009			
Acquisition value	13,864	17,158	31,022
Accumulated depreciation	-9,702	-10,931	-20,633
Reported amount	4,162	6,226	10,389
Financial year 2009			
Opening balance	4,162	6,226	10,389
Exchange rate differences		-94	-94
Purchases	762	1,661	2,423
Depreciation	-1,930	-2,224	-4,154
Closing balance	2,995	5,569	8,564
Per 31 December 2009			
Acquisition value	14,626	18,725	33,351
Accumulated depreciation	-11,632	-13,155	-24,787
Reported amount	2,995	5,569	8,564
Financial year 2010			
Opening balance	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 balance	3,401	7,285	10,685
Per 31 December 2010			
Acquisition value	16,951	22,712	39,663
Accumulated depreciation	-13,550	-15,428	-28,978
Reported amount	3,401	7,285	10,685

Depreciation costs of SEK 1,953,000 (2009: 1,954,000) are included in costs for goods sold, SEK 746,000 (2009: 733,000) in selling costs, SEK 746,000 (2009: 733,000) in administration costs and SEK 746,000 (2009: 733,000) in research and development costs.

Note 15 Financial assets

Parent company Participations in Group companies	2010	2009
Opening balance	244,039	289,113
Dividend		-45,074
Closing balance	244,039	244,039

Note 16 Derivative instruments

The Group	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging, forward contracts	1,041		1,275	
Total	1,041	0	1,275	0

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

(a) Forward contracts

The nominal amount of outstanding forward contracts as of 31 December 2010 was SEK 19,729,000 (2009: 68,567,000).

The hedged, and highly probable forecast transactions in foreign currency are expected to occur at varying times over the coming 12 months. Profit and loss on forward contracts as of 31 December 2010, reported as equity, is reported in the income statement as operating profit for the periods when the hedged transaction affects earnings. The value of derivatives affected earnings in 2010 by SEK 4,651,000 (2009: -4,455,000).

Note 17 Accounts receivable and other receivables

	2010	2009
Accounts receivable	38,736	33,318
Reservation for uncertain receivables	-124	-221
Accounts receivable – net	38,612	33,098

The fair value of accounts receivables and other receivables is as follows:

	2010	2009
Accounts receivable	38,612	33,098
Other receivables	5,294	2,461
Prepaid costs and accrued income, see note 33	3,146	3,336
	47,053	38,895

As of 31 December 2010 the Group reported a profit concerning the return and impairment of accounts receivable amounting to SEK 33,000 (2009: loss of SEK 94,000). The reservation for uncertain receivables amounted to SEK 124,000 as of 31 December 2010 (2009: 221,000).

There is no impairment requirement for accounts receivable that have fallen due by less than 3 months. As of 31 December 2010 accounts receivable amounting to SEK 9,234,000 (2009: 8,577,000) have fallen due without an impairment requirement being considered necessary. This amount concerns customers that have not previously had difficulties making payments.

An age analysis is presented in the table below.

	2010	2009
1-15 days	7,451	4,008
15 days to 3 months	1,783	4,522
3 to 6 months		47
	9,234	8,577

As of 31 December 2010 the Group has accounts receivables for which there is an impairment requirement amounting to SEK 124,000 (2009: 447,000).

The reservation for uncertain receivables amounted to SEK 124,000 as of 31 December 2010 (2009: 221,000).

An age analysis is presented in the table below.

	2010	2009
3 to 6 months		
more than 6 months	124	447
	124	447

Allocations for each return of reservations for uncertain accounts receivable are included in the 'Selling expenses' item in the income statement. Amounts reported on the value reduction account are normally impaired when the Group expects to recover additional funds.

Other categories of accounts receivable and other receivables do not include assets for which there is an impairment requirement.

Reported amounts, per currency, for Group accounts receivable are as follows:

	2010	2009
EUR	18,229	18,252
USD	12,188	7,656
JPY	4,234	3,363
SEK	2,913	3,274
GBP	1,145	664
CAD	27	109
Total	38,736	33,318

Note 18 Inventories

The Group	2010	2009
Raw materials and consumables	17,614	9,947
Work in progress	707	264
Finished goods	5,359	2,832
	23,679	13,043

Costs for impairment of inventories (obsolescence) that affected last year's earnings are included in the 'Costs for goods sold' item and amounted to SEK 597,000 (2009: 325,000). The Group does not have sufficient financial information to calculate the proportion of material in goods sold.

Note 19 Cash and cash equivalents

The Group	2010	2009
Cash and bank	44,969	25,512
Current bank investments	10,015	
	54,984	25,512

Note 20 Share capital and other contributed capital

	No of shares (‘000)	Share capital (SEK ‘000)	Other contributed capital (SEK ‘000)	Total (SEK ‘000)
Per 1 January 2009	10,572	1,057	107,043	108,100
Warrants scheme				
- Payment for issued shares	581	58	2,388	2,446
- Payment for subscription warrants			937	937
Per 31 December 2009	11,153	1,115	110,369	111,484
Per 31 December 2010	11,153	1,115	110,369	111,484

The total number of shares is 11,152,900 (2009: 11,152,900) worth a nominal value of SEK 0.1 per share (2009: 0.1 per share).

Subscription warrants covering rights to subscribe for 169,500 shares were issued to employees in 2009. Payment in cash was made for subscription warrants based on a calculation using the Black & Scholes model whereby a market-based premium is calculated using the current value of the underlying share, the warrant's subscription price and period, risk-free interest for a

similar period to the warrant, volatility (risk level of the share) and the expected dividend during the warrant's period.

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. The value for a buy back will be at market price using the Black & Scholes model.

Receiver	Due date	Number	Subscription price	Acquisition price	Received funds
Staff, Sweden	12-05-31	169,500	90.20	5.53	937,335

Note 21 Allocations

	2010	2009
Reservation for rejects	1,021	1,021
Total	1,021	1,021

Note 22 Borrowings

	The Group		Parent company	
	2010	2009	2010	2009
Long-term				
Bank loans	24,118	39,118	24,118	39,118
Leasing, see note 26		391		
	24,118	39,509	24,118	39,118
Current				
Bank loans	15,000	15,000	15,000	15,000
Leasing, see note 26	391	1,320		
Total borrowings	39,509	55,828	39,118	54,118
Fall due for payment within one year	15,391	16,320	15,000	15,000
Fall due for payment within 2 to 5 years	24,118	39,509	24,118	39,118
	39,509	55,828	39,118	54,118

Note 23 Deferred tax

Deferred tax receivables	Tax deficit	Total
Per 1 January 2009	862	862
Exchange rate differences	-60	-60
Per 31 December 2009	802	802
Exchange rate differences	-46	-46
Per 31 December 2010	756	756

Deferred tax liabilities	Untaxed reserves	Intangible assets	Contracts	Total
Per 1 January 2009	8,726	826	0	9,554
Reported in income statement	1,807	-377	-2,681	-1,251
Reported in other comprehensive income			3,016	3,016
Per 31 December 2009	10,533	449	335	11,319
Reported in income statement	5,543	-316		5,227
Reported in other comprehensive income			-62	-62
Per 31 December 2010	16,076	133	273	16,484

Deferred tax receivables are reported for tax deficit deductions to the extent that it is probable that they can be utilised through future taxable profits. These deficit deductions do not fall due in the near future. The deferred tax receivable amounting to SEK 756,000

(802,000) refers to a deficit deduction by the US subsidiary. It is expected that this receivable can be fully utilised. There are no other deficit deductions in the Group. All deferred tax falls due after more than 12 months.

Note 24 Pension commitments**Pension benefits**

Old-age pension benefits and family pension benefits for most white-collar staff in Sweden are secured via insurance with Alecta. An earlier group of employees are covered with a pension plan taken out with Skandia. A few people in the Group have fee-based solutions. In accordance with a statement from the Swedish Financial Reporting Council, UFR 3, Alecta is a defined-benefit pension plan comprising several employers. For the 2010 financial year the Group has not had access to any information enabling this plan to be reported 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.

The fees for pension insurance with Alecta amounted for the year to SEK 2,187,000 (2009: 1,822,000). The year's fees for pension insurance with Skandia amounts to SEK 2,233,000 (2009: 1,901,000). Alecta's surplus can be divided among insurance beneficiaries and/or the insured. At the end of 2010 Alecta's surplus in the form of collective consolidated level was 134% (141%). The collective consolidated level is the market value of Alecta's assets as a percentage of the insurance commitments estimated using Alecta's model, which is not in agreement with IAS 19. Pension commitments for the foreign subsidiaries are classified as defined-contribution plans and they are reported in the income statement as a total of SEK 1,275,000 (2009: 1,218,000).

Note 25 Pledged securities and contingent liabilities

The Group		
Pledged securities	2010	2009
Floating charges	11,500	11,500
Contingent liabilities		
Contingent liabilities	11,500	11,500

Parent company		
Pledged securities	2010	2009
Shares in subsidiaries	244,039	244,039
Contingent liabilities		
Security for subsidiaries	19,912	19,934
	263,951	263,973

Note 26 Leasing**Financial leasing**

The Group's tangible assets include leasing items owned in accordance with financial leasing agreements.

Plant and machinery

	2010	2009
Accumulated acquisitions	10,140	10,140
Accumulated depreciation	-9,749	-8,429
Reported value	391	1,710

The current value of future payment commitments related to financial leasing agreements is reported as a liability to credit institutions as follows:

	2010	2009
Within 1 year	391	1,320
1 to 5 years		391
	391	1,710

Operational leasing

Operational leasing primarily comprises office and production premises and office machinery.

	2010	2009
Total minimum leasing fees in financial year	7,721	7,528
Total leasing costs for financial year	7,721	7,528

Future agreed leasing costs

	2010	2009
Within 1 year	10,278	8,418
1 to 5 years	36,937	32,844
Total future leasing fees	47,215	41,262

Note 27 Remuneration to the Board of directors and senior executives, etc**Remuneration to senior executives**

Fees for the chairman and Board members are decided by the Annual General Meeting. There is no separate remuneration for committee work. Employee representatives do not receive the Board fee.

Remuneration to the CEO and other senior executives in the operating company, HMS Industrial Networks AB, comprises 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 shall take into consideration the responsibilities and powers of the executive. For the CEO and other senior executives, variable remuneration is a maximum of 24% of basic salary. Variable remuneration is based on the outcome in relation to fixed targets. Pension benefits and other benefits for the CEO and other senior executives are a part of the total remuneration package.

	Basic salary/ Board fee	Variable remuneration	Pension costs	Total 2010	Warrants owned	Board attendance
Fees and other benefits 2010						
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%
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	

	Basic salary/ Board fee	Variable remuneration	Pension costs	Total 2010	Warrants owned	Board attendance
Fees and other benefits 2009						
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%
CEO Nicolas Hassbjer, up to end March 2009	222		76	298		
CEO Staffan Dahlström, from April 2009	651		242	892	20,000	
Other senior executives	1,558		383	1,941	40,000	
Total	3,056	0	701	3,757	60,000	

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

Ownership of warrants refers to the subscription warrants owned by each individual/group. Each subscription warrant gives the owner the right to acquire one share in HMS Networks AB (publ). For further information about the HMS warrants scheme, see note 2 and note 20.

At the HMS annual general meeting held on 19 April 2010 Urban Jansson was re-elected chairman of the Board on the same occasion, Gunilla Wikman and Charlotte Brogren were elected as new Board members.

Since the AGM of 19 April 2010 the Board has held 8 minutes meetings up to the adoption of this annual report.

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 2010 variable remuneration for the CEO represents 24% of basic salary (2009: 0%) and for other senior executives it was also 24% (2009: 0%). Variable remuneration for 2010 was a maximum of 24% of basic salary (2009: 24%).

Defined-benefit/Defined-contribution pension plans

The Group has both defined-benefit and defined-contribution pension plans. See section 2.16. Pension costs refer to the cost affecting the year's results.

Pensions

The retirement age for the CEO and other senior executives is 65.

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 normal salary will be paid. If the CEO resigns, no severance pay will be paid.

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

Decisions on remuneration

The compensation committee produced a proposal for the Board during the year concerning remuneration for senior executives. These proposals presented proportions between fixed and variable remuneration and the size of possible salary increases. Furthermore, the remuneration committee has proposed criteria for assessing bonuses, allocation and size in the form of financial instruments, etc., and pension conditions and severance pay. The committee made an assessment of remuneration for other Board members on consulting assignments in the Group.

The Board discussed the compensation committee's proposals and reached a decision based on the recommendations. Remuneration for the CEO for the 2010 financial year was decided by the Board based on the recommendations of the compensation committee. Remuneration for other senior executives was decided by the CEO after consultation with the compensation committee.

The compensation committee comprises the chairman of the Board and two Board members.

Note 28 Sick leave

	2010	2009
Total sick leave	2%	2%
- sick leave for men	2%	1%
- sick leave for women	3%	2%
- employees - 29 years	1%	2%
- employees 30 - 49 years	2%	1%
- employees 50 years-	1%	0%

Sick leave is shown for the Swedish subsidiaries.

Note 29 Participations in subsidiaries

Shares owned by parent company	Registered office	Corporate registration no.	Participation	No. of shares	Nominal value	31 Dec 2010	31 Dec 2009
HMS Industrial Networks AB	Halmstad, Sweden	556529-9251	100%	6,540	100	244,039	244,039
Shares owned by subsidiary	Registered office	Corporate registration no.	Participation	Equity	Profit		
HMS Industrial Networks GmbH	Karlsruhe, Germany	35006/39876	100%	4,108	1,029		
HMS Industrial Networks Inc	Chicago, USA	5983-659-5	100%	1,719	490		
Intellicom Innovation AB	Halmstad, Sweden	556537-7826	64%	7,826	2,152		
HMS Industrial Networks SAS	Mulhouse, France	489154476	100%	616	84		
HMS Industrial Networks S.r.l.	Milano, Italy	5260930960	100%	157	56		
HMS Electronics AB	Halmstad, Sweden	556463-9374	100%	247	0		
HMS Industrial Networks K.K.	Tokyo, Japan	0200-01-060118	100%	816	194		

Note 30 Earnings from participations in Group companies

Parent company	2010	2009
Dividend		74,926
Total	0	74,926

Note 31 Financial income

	The Group	
	2010	2009
Interest income	97	118
Exchange rate differences	1,243	1,723
Total	1,340	1,841

Note 32 Financial costs

	The Group		Parent company	
	2010	2009	2010	2009
Interest expenses	-802	-1,726	-636	-1 496
Exchange rate differences		-2,788		
Total	-802	-4,514	-636	-1 496

Note 33 Prepaid costs and accrued income

	The Group	
	2010	2009
Rents	1,299	1,244
Accrued income	630	775
Other items	1,218	1,318
Total	3,146	3,336

Note 34 Accrued costs and prepaid income

	The Group		Parent company	
	2010	2009	2010	2009
Accrued salary	2,412	286		
Holiday pay	3,904	3,445		
Social fees	5,117	3,906	257	154
Reservation for rejects	1,021	1,021		
Other items	1,830	1,831	450	
Total	14,284	10,490	707	154

Note 35 Acquisition of non-controlling interests

During 2010, 12% of the shares in Intellicom Innovation AB were acquired, which meant that at the end of the year HMS owned a total of 64% of shares and votes. The remaining shares were

acquired in January 2011. The subsidiary was consolidated prior to this in the Group.

Note 36 Events after the closing date

HMS acquired the remaining 36% of the shares in the subsidiary, Intellicom Innovations AB in January 2011. The shares were sold by the founders of the company, of whom three remain active in sales and development. Intellicom Innovation AB develops systems for remote management of industrial devices and machines. Intellicom has developed a product group, Netbiter®, which has recently been introduced onto the market for industrial M2M (Machine-to-Machine) communication and the company has a number of international customers.

As part of HMS' strategic plan for further expansion, three new sales offices have been established. To strengthen sales resources and provide high class service and technical support locally, HMS opened sales offices in India, the UK and Denmark. The company has a well-established customer base in Denmark and the UK going back several years, which can now be further developed. The market in India in coming years will develop strongly in this area of industrial communication. The presence in India will give the company the opportunity to offer HMS technology on a fast-growing market.

Note 37 Financial indicators

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 income according to income statement excluding items affecting comparability.

EBITA

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

EBITDA

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

Financial assets

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

Net debt

Long-term and current financial liabilities less financial assets.

Net debt/equity ratio

Net debt in relation to shareholders' equity including 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 with addition for the average number of shares that are added when converting the outstanding number of convertible securities and options.

Operating margin

Operating income in relation to net sales.

Equity/assets ratio

Shareholders' equity in relation to total assets.

Capital employed

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

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, 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, 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 to the Annual General Meeting of 14 April 2011 for adoption.

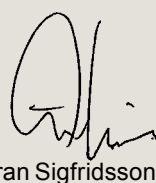
Halmstad 17 March 2011



Urban Jansson
Chairman



Staffan Dahlström
CEO



Göran Sigfridsson



Ray Mauritsson



Nicolas Hassbjer
Deputy chairman



Henrik Johansson

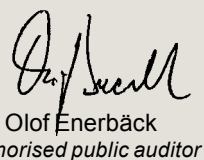


Gunilla Wikman



Charlotte Brogren

Our audit report was submitted
on 17 March 2011



Olof Enerbäck
Authorised public auditor

Audit report

To the Annual General Meeting of HMS Networks AB (publ) Corporate Registration Number 556661-8954

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of HMS Networks AB for 2010. The annual report and consolidated accounts are included in the printed version of this document on pages 37-69. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the con-

solidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Halmstad, 17 March 2011
PricewaterhouseCoopers AB



Olof Enerbäck
Authorised public auditor

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, 14 2011 at HMS headquarter, 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 shall be registered in the share register kept by Euroclear Sweden (the former VPC AB - the Swedish Central Securities Depository) on Friday 8 April 2011 and give notice of their intention to participate at the Meeting to the Company no later than 4 p.m. on Monday 11 April 2011.

Notification of participation should be made by telephone on +46 35-17 29 80 or in writing to HMS Networks AB (publ), Stationsgatan 37, 302 45 Halmstad, by fax on +46 35-17 29 09 or by e-mail to ir@hms.se. The notification should state the name, social security or corporate registration number, shareholding, address, daytime telephone number and information, if necessary, on representation, and if so, the relevant details on deputies. In this case, a certified copy of the registration certificate, power of attorney or other document demonstrating the signatory's authority to sign must be included in the notification of participation.

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 done at Euroclear Sweden no later than Friday 8 April 2011, which means that shareholders must notify their intentions on this matter to the nominee well in advance of the stated date.

Halmstad, March 2011
HMS Networks AB (publ)
The Board of Directors

Shareholder information

Future reports

- Q1 interim report 14 April 2011
- Q2 interim report 14 July 2011
- Q3 interim report 26 October 2011
- Year-end report February 2012

All interim reports, annual reports and other presentations are published on the HMS website, <http://investors.hms.se>. A printed version of the annual report will be distributed only to those shareholders and investors who request a copy. The annual report can be ordered by mailing complete address to ir@hms.se.



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Modbus, CANopen

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CANopen connectivity for SIMATIC ET200S



CANopen

Plug-in CANopen module from HMS for SIMATIC ET200S

The 1 SI CANopen module from HMS brings CANopen master/slave connectivity to the SIMATIC ET200S I/O system, allowing full integration between devices on CANopen and the Siemens, integrated automation architecture, with PROFIBUS and PROFINET.



- » Plug-in module for the ET200S
- » Supports CANopen master/slave
- » Connects up to 126 slave devices
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