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<th>former HMS Networks</th>
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<td>(IFRS) 2007/8</td>
<td>(IFRS) 2006/7</td>
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<tr>
<td>Net sales</td>
<td>289.5</td>
<td>227.4</td>
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<tr>
<td>Growth in net sales, %</td>
<td>19%</td>
<td>26%</td>
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<tr>
<td>Gross profit</td>
<td>141.3</td>
<td>115.8</td>
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<tr>
<td>Gross margin, %</td>
<td>52%</td>
<td>51%</td>
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<tr>
<td>Operating profit</td>
<td>54.5</td>
<td>51.7</td>
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<tr>
<td>Operating margin, %</td>
<td>20%</td>
<td>23%</td>
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<td>Profit for the period</td>
<td>29.8</td>
<td>33.3</td>
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<td>Shareholders' equity</td>
<td>182.2</td>
<td>153.2</td>
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<tr>
<td>Total assets</td>
<td>350.1</td>
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<td>Equity/assets ratio, %</td>
<td>52%</td>
<td>47%</td>
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<tr>
<td>Cash flow from operating activities</td>
<td>33.7</td>
<td>28.5</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>144</td>
<td>119</td>
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</table>

1) Former HMS Networks is the company’s predecessor. Former HMS Networks constitutes the equivalent of the company from an operating perspective and constituted the parent company that was the predecessor of the company. By presenting financial information for the former HMS Networks, investors are given a picture of the operational development of the company.
2) Including minority interests.
3) In HMS’s case the differences in the reports according to IFRS and SFA consist mainly of the reporting of intangible assets in accordance with IAS 38 as well as reporting of financial instruments in accordance with IAS 39.
4) Examined audited statements.
2007 in summary

- Net sales rose to SEK 269.5 million (227.4). Adjusted for negative currency effects of SEK 7.5 million the rise was 21.8%.
- The operating profit improved to SEK 54.5 million (51.7). Adjusted for one-off costs for relocating the company, the operating margin was 21.6% (22.7).
- Cash flow from operating activities advanced to SEK 33.7 million (28.5).
- The profit after tax, including stock market listing costs, was SEK 29.8 million (33.3) and the EPS was SEK 2.81 (3.21).
- The Board of Directors proposes a dividend of SEK 1.00 per share.
- HMS completed a long-term investment during the year to strengthen the sales and marketing organization.
- The company’s shares have been listed on the OMX Nordic Exchange Stockholm since October 2007.
- HMS moved its Swedish activities, including its head office, to new premises in Halmstad during the year.

Sales trend

The HMS Group is showing stable growth, which over the past 10 years measured an average of 30% annually. Adjusted for changes to exchange rates growth in 2007 amounted to 22% compared to last year. More than 90% of the company’s sales are generated on markets outside Sweden.

Earnings trend

Between 1998 and 2000 the company invested heavily by providing extra resources for sales, marketing, development, manufacturing and an expansion of the Group’s organization. Costs for this investment mainly affected profits. The company completed a similar expansion of the Group’s business in 2007. A reinforcement of the company’s resources in the form of a larger sales and marketing organization, investments in the development department and production capacity and a stronger administration have been carried out to prepare the company for further expansion.
HMS Networks AB develops and manufactures communication technology products and solutions for industrial automation equipment. The company was founded in 1988 and has its headquarters in Halmstad, where all development and the majority of manufacturing take place. HMS has 155 employees and sales offices in Tokyo, Peking, Chicago, Karlsruhe (Germany), Milan (Italy) and Mulhouse (France). Sales in 2007 amounted to SEK 270 million, of which more than 90% were generated outside Sweden. The company’s shares have been listed on the OMX Nordic Exchange Stockholm since October 2007.

**Network communication for industry**

HMS develops and manufactures network interface cards enabling communication between automation devices and industrial networks or between two networks. In simple terms it means that HMS specializes in how to control a motor or industrial robot, for example. The company’s activities are based on this expertise. A network interface card acts as a communications center in equipment or network.

HMS’s products can be split into two product categories, namely Embedded Products and Gateways. The term embedded means that the product is built into another product. Embedded Products network interface cards are designed for automation units, such as industrial robots or motor control. HMS developed its second product area, Gateways, using expertise from Embedded Products. While a gateway is not a network interface card but rather two combined cards, it works in a similar way. It is however not part of the equipment but stands alone, like a port between a network and a device or between two networks. A Gateway can be compared to a packet switch that translates data from one network so it can be received by another network.

HMS products are sold and marketed under the Anybus® brand. Overall, HMS products enable complete interconnection and thereby, control and monitoring of industrial automation production units.

**HMS communication solutions for industrial networks**

- **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 translates data between two different protocols, thereby enabling communication between two industrial networks.
HMS customers
HMS has a customer base of over 1,100 companies. Embedded Products are marketed directly towards both OEMs and small, specialized automation vendors. Gateways are marketed towards end-customers, network integrators, distributors that serve automation systems owners, usually within discrete manufacturing industry, or to OEMs which are active within automation and market the products under their own brands.

Effective networks
provide greater productivity
The benefit of HMS products for end customers is that they promote effective use of industrial networks, which leads to increased productivity and improved quality in production. For automation manufacturers it costs less to let a specialized network interface card manufacturer, like HMS, take care of the development of the cards. Lead times can be cut because HMS can quickly supply customized solutions thanks to its advanced level of expertise and specialization. The number of industrial network protocols, i.e. languages, is increasing and the trend is heading towards a higher degree of variation rather than standardization. There is also a vast regional variation concerning what protocol is used. A global vendor of automation devices must therefore have access to a wide range of communication solutions for industrial networks. Achieving this internally is costly.

HMS’s business concept is to develop, manufacture and market flexible, innovative and reliable communication solutions for connecting production equipment to industrial networks and for connecting different industrial networks with each other.

HMS’s financial targets:
• Average growth of 20 per cent annually
• Operating margin of over 20 per cent

HMS’s overall strategy is to continue focusing on network communication, mainly in industrial environments. HMS will grow with existing customers and develop distribution and sales channels in order to reach new customers cost-effectively.

Product sales per geographic market 2007

- Japan: 21%
- Germany: 20%
- USA: 18%
- Finland: 12%
- Sweden: 6%
- Other countries: 33%

THIS IS HMS
Nicolas Hassbjer is not only the CEO of HMS, but also its founder. In 2008 he’ll be able to celebrate twenty years with the company that has managed to become an internationally leading company with over 150 employees.
2007 was a milestone in the company’s development, with a significant strengthening of the company’s organization and stock market introduction. Despite these initiatives the company achieved its set profitability and growth targets.

“We started strengthening the organization back in 2006 after going through a period of concentrating on growth and focusing on profitability. We quite simply needed a new suit to grow into,” says Nicolas Hassbjer, who explains that it’s a natural development for a company like HMS to have periods with efforts towards increased profits mixed with periods where the company plans and adapts for future growth.

The strengthening Nicolas is talking about is a growth plan adopted in 2005 under which the company increased its workforce from 100 to 155 in two years and the entire Swedish business moved to new premises. With support of the growth plan HMS also set up two new sales offices, one in Italy and one in France over the past two years. In addition, a completely new product platform was developed with major investments in, for example, our own network chip.

“It’s mainly on the sales side that we’ve reinforced the workforce,” he says and explains that the number of sales staff has doubled in two years, and production now works an extra shift. He adds that he’s pleased with the fact that the company has improved net sales and profits.

“Many of the most costly changes that our growth plan caused were introduced in 2007 and had a negative impact on the year’s results. This period was when we had the most recruitment and when we moved our entire Swedish operations to new premises. We still achieved an operating margin of 20.2 per cent, which exceeded the set target.

Sales rose by 18.5 per cent and 21.8 per cent adjusted for negative currency effects. It’s very satisfying and enjoyable to prove to our new shareholders that HMS is developing in the right direction.”

HMS shares were listed on the OMX Nordic Exchange Stockholm last autumn. This also meant a lot of work and costs that had a negative impact on the net profit for 2007. That HMS is now on the stock market pleases Nicolas, although it does involve more responsibility.

“As the founder I’m obviously very honoured and a little proud of the shareholders’ belief in HMS. In the end it’s people that allow the company I started to manage their money. This instills respect and also a responsibility. I want them to have value for their investment and hope for long-term ownership from as many investors as possible. This will be a mutual dependency, just like with employees.”

“Two challenges stand out in the years ahead. The first is to achieve set profitability and growth targets of 20 per cent per year. HMS products have long sales cycles, meaning it takes time to see the full effect of new products and strengthening of the sales organization. Investments in 2007 means increased costs over the short term. Focus in 2008 will therefore be to compound the effect of our strengthening initiatives by improving our processes. The second challenge is linked with the first, which is to get all employees to feel like a natural part of HMS and that we use our resources correctly by optimizing the organization.”

Nicolas says that it’s extremely important that HMS employees can work together and feel as though they are part of a family. HMS has therefore been very careful from the start to recruit people whose values are the same as ours. Commitment, growth, humility, a long-term view and courage are a few of the company’s guiding lights. All new employees also take part in an introductory course.

“We have consciously recruited the right employees and strive to help them fit into their new roles and understand the entire company. Meanwhile, I think that we have succeeded very well in training our existing employees and managers in their roles. Many experienced employees have grown within the organization throughout the year and developed well in their new roles. I believe that we now have the right conditions to continue our growth,” says Nicolas and concludes:

“Thanks to all employees, customers, vendors and shareholders for your enthusiasm and trust!”

Halmstad, Sweden, 31 March 2008
Long-term growth – HMS markets

HMS’s environment mainly includes the industrial network market, which in 2007 had an estimated value of SEK 12.5 billion globally.

The use of industrial networks is increasing globally while more manufacturers of automation equipment are choosing to use independent external vendors of network solutions. This situation creates favourable conditions for long-term growth for HMS.

The entire global industrial automation market is estimated to be worth around SEK 665 billion and can be divided into a number of submarkets.

Two main categories are the market for process automation and discreet automation, which are each responsible for around half of the total market value. Process automation refers to automation of a complete manufacturing process that is not stopped or frequently changed. Examples of industries with fully automated manufacturing processes include the paper industry and chemicals industry. These industries mainly require complete automation systems for manufacturing, control and monitoring.

Discreet automation refers to automation of individual manufacturing stages. The automotive industry is one example of an industry where discreet automation is common. There is a conspicuous demand for individual automation products like drives and robots in discreet automation. However, it is impossible to draw a line between different industries in terms of demand since many manufacturing companies combine process automation and discreet automation.

HMS operates on the submarket industrial network market. Industrial networks are used to interconnect drives and monitoring systems or other automation devices with one another. This market is a part of the process automation market and the discreet automation market. Demand for different products for industrial networks is however greater within the framework for discreet automation.

The total global industrial network market in 2006 was estimated to be worth around SEK 12.5 billion. This can in turn be divided into markets for industrial network interface cards, gateways, cables, contacts and miscellaneous. HMS’s submarkets answer for 60 per cent of the value of this market. The value of the market for industrial network interface cards in 2006 amounted to around SEK 6 billion, while the value for gateways amounted to SEK 1.5 billion. In the diagram on the left you can see the submarkets’ respective share of the total industrial network market.

HMS’s two major product areas are network interface cards and gateways. In the network interface card area HMS’s sales amounted to SEK 199.1 million (165.2), which corresponds to 3.3 per cent of the total network interface card market. The market share in relation to direct competing solutions in this segment is considered to have climbed to 36 per cent.

HMS’s sales on the gateways market amounted to SEK 59.9 million (48.7), corresponding to around 4 per cent of the total market sales.

Conditions for growth

Growth on HMS’s market is mainly affected by three factors, namely growth in industrial automation, the degree of use of industrial networks and the degree of use of independent external vendors of network solutions.
**Growth of industrial automation**

Growth of industrial automation is closely linked to the growth in the manufacturing industry. Between 1997 and 2006 the average annual growth for industrial production throughout the world was 4.3 per cent. This can be compared with a GDP growth for the same period of 3.9 per cent per year. The forecast for the average market growth for industrial automation between 2007 and 2009 shows an annual growth of around 5 per cent per year.

**Driving forces for growth in industrial automation per geographic area**

**EUROPE**
Established manufacturing countries with a major need for finding productivity and efficiency gains.

**NORTH AND SOUTH AMERICA**
Productivity needs stimulate automation-related investments.

**BRASIL**
High market growth for industrial automation.

**MIDDLE EAST AND AFRICA**
Significant investments in oil and gas are driving the need for automation while countries are investing in other industries to diversify sources of income.

**ASIA**
Major need to improve efficiency in energy, environment and manufacturing.

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**Industrial production 1997-2009**

![Graph showing industrial production growth from 1997 to 2009 for different regions.](image-url)
There are mainly two reasons for this: Firstly, demand is expected to increase for new production equipment as a result of manufacturing companies’ need to improve productivity and quality in the manufacturing processes. Secondly, demand is expected to increase for automation equipment in rapidly expanding economies like China as a result of a vast number of companies setting up new production plants.

**Growing market for industrial networks**

Industrial networks have grown in significance since first introduced in the 1980s. This is due in part to the fact that alternatives are expensive and in part that industrial networks are more effective than the alternatives.

Using cables to transfer information between different automation devices or between control systems and automation devices means costs for equipment and maintenance.

Industrial networks allow large amounts of information to be transferred between devices, meaning that more intelligence can be built into the automation devices so that they can carry out certain control assignments independently. This leads in turn to making it simpler to build complex systems and simpler to maintain the systems. For example, more complex, intelligent automation devices independently carry out diagnostic tests and relay information that lies at the core of service decisions. More complex devices also raise the option of decentralizing production processes, making it possible to carry out local fault-finding and stop and change parts of the process without disrupting other parts.

Between 2002 and 2006 the average increase in the number of nodes was 18 per cent. Between 2007 and 2010 the average demand is expected to increase by 15 per cent per year. The reason is the continued increase in the number of industrial networks, both in existing and in new factories.

**Greater demand for external network interface card vendors**

Much of the demand for network interface cards for industrial networks comes from the manufacturers of automation equipment. These companies are increasingly tending to buy in network interface cards from external vendors instead of manufacturing them themselves. This mainly concerns manufacturers of automation equipment with embedded network interface cards and to a lesser extent to manufacturers of industrial personal computers. HMS mainly focuses on the first of these customer groups.

That demand for externally manufactured cards is increasing is due to the increased complexity of the industrial networks and the greater variation of languages, or protocol, for different networks. More networks on more levels
and more ways of communicating involve higher demands for cutting-edge skills from the manufacturers of the network interface cards. It’s become more important, but also more demanding, for manufacturers of automation equipment to develop communication solutions that are compatible with all significant network protocols. It’s therefore becoming more profitable for automation equipment manufacturers to outsource the production of the network interface cards. This means that the market for independent external manufacturers of network interface cards for industrial networks, like HMS, is growing more rapidly than the network interface card market as a whole and this trend is expected to continue.

**Total annual growth**

Backed by developments in the market for industrial automation and industrial networks and coupled with the trend toward increased external manufacturing of network interface cards, HMS estimates average growth for the entire network interface card market and gateways to around 15 per cent for the period up to 2010. For Gateways HMS expects a more rapid percentage growth for itself than the market as a whole, as a result of the company in recent years carrying out significant investments in this relatively new area. HMS is now expecting strong developments from a relatively small base. As newer network technology gradually takes over from older networks the need for gateways increases in order to retain some of the automation devices as factories are modernized. HMS also expects both Embedded Solutions and Gateways to take market shares from smaller competitors as a result of the company’s relative size. Competitive advantages in the form of an established customer base, economies of scale and leading technology mean there are excellent conditions for this to succeed.

**Competition**

HMS’s market is relatively fragmented in terms of the number of players and their size. There are two major groups of competitors.

The first is made up of OEMs, i.e. manufacturers of automation equipment. These may choose to develop their own solutions for network communication, through an in-house development department or with the help of consultants and then produce the network interface cards for themselves. When this is done it makes them a competitor of HMS. The second group of competitors is made up of external vendors that develop and produce solutions for network communication.

The competition differs slightly in terms of Embedded Products and Gateways.

For Embedded Products, HMS’s customers either choose to buy network communication solutions externally from vendors like HMS, or develop their own. In this respect HMS considers itself to be the largest independent vendor, with at least twice the turnover as its closest competitor. For Gateways, HMS mainly competes with independent manufacturers of expensive, often customized equipment. These independent manufacturers usually compete with a few product models and there are no competitors that can match HMS’s wide product range in this area.

Anybus Communicator translates the automation unit’s protocol to an industrial network.
HMS’s core expertise is made up of a wide-ranging, extensive understanding of industrial network communication. Using this expertise as a basis the company develops products that facilitate communication between automation devices and industrial networks. Examples of automation devices include industrial robots and motor control systems used in industrial production. HMS develops network interface cards fitted in automation devices and then sold to companies like Siemens, ABB, Panasonic and Schneider Electric. The network interface cards act as a switch that receives and transfers information and allows the automation devices to communicate with each other and with control systems via the industrial networks at the production sites.

HMS offers a wide range of network products that are marketed under the joint Anybus brand, or under the customer’s own brands. The company has two product groups, namely Embedded Products and Gateways. Business with network interface cards embedded in automation devices is part of the Embedded Products product area. By taking advantage of its core expertise HMS has also developed Gateways, which facilitate communication between different industrial networks. These devices are assembled between industrial networks and sold either via HMS’s own distribution channels or via existing customers that are active in automation production and who in turn sell the devices as a complement to their own product range.

In other words, HMS products facilitate a complete interconnection and thereby control and monitoring of production devices in industrial automation. Embedded Products make up 74 per cent of HMS’s total sales, while Gateways makes up 22 per cent. The remainder is made up of revenues from developing customized network interface cards, components sold to subcontractors and other revenues. Since its launch, the Embedded Products product group has accounted for the majority of HMS’s sales. On the other hand, the Gateways product group has accounted for the largest growth and an increasing share of sales since its introduction in 2001.

**Embedded Products**

**Flexible range**

For Embedded Products HMS offers a complete range of exchangeable network interface cards for industrial automation equipment, e.g. motor control systems, robots, instruments and control panels. The most important application for Embedded Products is motor control systems, where the network interface cards are embedded so that the motor control can be connected together with an industrial network and then controlled centrally. Robotics is also an important area that uses HMS network interface cards.

Network interface cards that are marketed under the Anybus name consist of both hardware and software configured and integrated in the customers’ production equipment in order to connect a particular device to an industrial network. The embedded Anybus network interface card supports all major industrial networks, for example, Ethernet, Profinet, ControlNet, DeviceNet, AS-Interface, LonWorks and CANopen.

HMS’s complete Embedded Products product range is suitable for all important, well-established protocols, i.e. network languages. This means that HMS can attract the most automation equipment manufacturers as customers. In addition to network interface cards HMS has also developed modules in which one can change protocol after the automation product being installed in a facility. This leads to enhanced flexibility for the customer because it enables network technology to be changed without needing to replace automation devices.

**Customized solution**

Network interface cards can be either standardized embedded interface cards or customized embedded network interface cards. When a customer asks for a large quantity of network interface cards with special requirements of some kind HMS customizes the network interface cards according to customer specifications. Customization of network interface cards is firstly done by customizing size and switches and secondly by customizing software. Around 40 per cent of HMS’s network interface cards are customized.

**From Anybus-S to Anybus-CC**

HMS network interface cards are available in 80 different versions enabling communication between 18 different industrial network protocols. Until 2006, the product range mainly con-
sisted of the Anybus-S platform, which still represents the majority of HMS’s sales revenue from network interface cards. HMS also produces the Anybus-IC for automation devices with limited functionality.

The first network interface card product based on HMS’s new Anybus-CC Embedded Products platform was delivered in 2006. Anybus-CC has been developed so that HMS can also target major automation manufacturers with higher volumes. There are a number of significant advantages with Anybus-CC compared to Anybus-S. Anybus-CC is modular and can be post-assembled, while Anybus-S must be embedded in automation devices when manufactured. Anybus-CC is smaller with greater performance. From a customer perspective this means increased flexibility, simplified logistics and lower conversion costs when changing network systems.

With the launch of the new Anybus-CC product family HMS can also provide a cost-effective alternative for major automation manufacturers, which have so far principally opted to develop their own communication solutions since these costs have been spread out between many manufactured products. Anybus-CC increases the relative cost benefits of outsourcing this activity to external vendors.

Panasonic Electronic Works has chosen HMS as its preferred partner for industrial communication and recognizes HMS as one of the technological leaders in this segment. We decided to concentrate on our core expertise and trust in HMS to provide us with reliable, proven solutions for industrial communication. Compared to internal development activities, HMS’s Anybus technology cuts costs by around 70 per cent. Moreover, we cut our time-to-market dramatically and minimize development risks.

Ralf Wohlschlager
Senior General Manager at Automation Control Devices

Anybus-CC in Panasonic’s new compact control system.
**Design wins**

When a company decides to use HMS’s embedded products in their automation devices it’s called a "design win". A design win leads to the start of a close and extensive partnership between HMS and the customer in order to adapt the products to one another. When the development process is finished and the customer’s device can begin to be sold, HMS’s integrated network interface cards will be used to the extent that the end-customer wishes to connect their automation device to the network. As long as the customer sells their automation device, HMS will normally receive orders for a corresponding amount of network interface cards and it is only at that stage that revenues start to be generated.

Since automation devices where HMS’s embedded products are used generally have a useful life of between seven and ten years, the product lifecycle of HMS’s network interface cards is also long. Over time, HMS has built up a portfolio of more than 651 (581) design wins, which contribute to the company’s current and forecasted turnover. It can be difficult to predict the revenue generated from a particular design win during a particular year.

**Gateways**

Gateways are communication solutions that are not embedded in automation devices, but assembled independently in or between industrial networks. A gateway serves as a translator between different industrial network protocols. In simple terms, a gateway is made up of two network interface cards with two separate protocols and a solution that translates the first protocol to the second and vice versa. A gateway can be used in two ways.

Firstly, an automation device can be connected to an industrial network without the automation device having a network interface card that uses the same protocol as the industrial network. Gateways instead translate the protocol of the automation device to the industrial network’s protocol and vice versa.

Secondly, connecting a gateway between two industrial networks makes it possible for them to communicate with each other. HMS launched its first series of gateways, Anybus Communicator in 2001. Most automation devices have a serial port and Communicator makes it possible to connect these products with most industrial networks using their existing serial ports. Communicator requires no special modification and can be used for new automation devices as well as for older automation devices already installed on the factory floor. In 2002, HMS launched the Anybus-X Gateway to facilitate communication between industrial networks.

**IntelliCom**

HMS owns 52 per cent of IntelliCom, which develops systems for remote control and monitoring of industrial products. The technology builds on the interaction between industrial networks and various external communications channels like the internet or mobile network. These are used to transport data from a factory to a central server, which in turn is linked to the user via the internet or mobile network. IntelliCom’s activities currently make up a small part of the Group with sales in 2007 of around SEK 16 million, of which SEK 14 million was for products. IntelliCom’s sales are reported in the Gateways product area.
Genuine dedication from HMS employees

The headcount at HMS has climbed from 100 to 155 in two years. In 2007, a further 20 people joined the organization. A rapid, considerable increase in the headcount like this places demands on the management as well as new and old employees. For the integration of new employees to be as smooth as possible HMS puts major emphasis on maintaining quality in its recruitment process.

Integration for maximum effect
HMS is conscious of the importance of integration in order to achieve full effect of new recruitments. To get a new employee to achieve full potential as quickly as possible it’s important to encourage their self-confidence within the organization. Getting every employee to understand the organization as a whole and discovering the importance of their role in the company for its development are central to this process. When a major organizational change like the one in 2006 and 2007 is carried out, pre-change employees must also be given the opportunity to find their new roles. It’s not a given fact that roles will be the same after a change.

Values and introductory course
HMS has two methods for succeeding with the integration of new employees and thereby maximize the benefits of each employee. Firstly, the company is careful in selecting the right employees so that their personality and values match the company’s and secondly, new employees attend an introductory course. Fitting into the organization as a person can sometimes take precedence over technical skills. The company believes that people can develop their professional skills while employed in the company if the individual finds his/her role quickly. It’s more difficult to reshape a personality.

The core values are commitment, humility, a long-term view, cost-awareness, courage and a desire for growth and development. The company handles recruitment internally because it is convinced that it’s important to get to know the candidates well from the start of the recruitment process.

The introductory course covers a general introduction to the company and an individual program that provides the individual with the information required to get to know their new duties. HMS regularly conducts employee satisfaction surveys in order to remain updated on what the employees think about their place of work.

Organization
HMS’s group management team consists of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Sales & Marketing Director. Including other senior executives, the group management team consisted of four women and six men. HMS had 155 employees at year-end 2007, of which 40 per cent women and 60 per cent men. Staff turnover was 3.4 per cent during 2007 (4.4) and the average age was 34. Sick leave amounted to 2.1 per cent in 2007 (1.8). HMS is a member of Almega IT, complies with the rules of the sector and has a labour union agreement in place. The educational level among HMS employees is high with 70 per cent having a university or college degree. The company runs extensive internal training courses within for example soldering/soldering standards and various types of network techniques and works continuously on different kinds of enhancement projects.

Looking after current and future employees
To safeguard tomorrow’s recruitment needs HMS also works very closely with Halmstad University and the engineering programs it provides.

HMS believes that it is important to have a good working environment for the employees and the company invests significantly in creating a workplace that focuses on wellbeing, safety and ergonomics. HMS also provides various types of fitness and preventative healthcare activities and advocates a healthy balance between leisure and work.

Level of education at HMS

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<th>Level of Education</th>
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<td>University M. Sc.</td>
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<tr>
<td>University B. Sc.</td>
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<tr>
<td>University Other</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>31%</td>
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Development creates added value for shareholders

HMS is fully focused on communication solutions for industrial automation networks. This means that the company can develop leading technology in its niche. This clear specialization has also meant that HMS has achieved economies of scale and experience making it possible to further increase its lead on the competition.

**HMS’s strengths**
HMS is fully focused on communication solutions for industrial automation networks. This means that HMS can develop leading technology in its niche and achieve benefits of scale.

*Leading technology*
HMS aims to be at the vanguard of technical advances in terms of hardware and software. As a result, HMS today can provide communication solutions for all important industrial network protocols, more than any of the company’s competitors. HMS began earlier than its competitors to develop communication products for industrial Ethernet protocols, which today are the most rapidly expanding industrial network protocols.

HMS has also placed a lot of emphasis on developing cost-effective hardware, resulting in the internally developed NP30 processor. This processor replaces a number of major components on one circuit board, thus enabling the company in future to manufacture more cost-effective devices smaller than are standard today. In order to protect its technology and its products, HMS has patented a number of its solutions.

*Economies of scale*
Since HMS sells its products to a very large number of production equipment manufacturers the company can achieve production volumes and thereby cut margins more than their competitors. For the same reason, product development costs per unit will also be lower. HMS also achieves economies of scale in the service and support organization because the company supports and assists many customers. The size leads not only to economies of scale, but also generates benefits in the form of experience lacking by the competition. HMS can use this experience to further increase
its lead over the competition since experience is a critical knowledge base for both development of new technology as well as maintenance and better service. 

**Documented experience and expertise**

HMS currently has a portfolio comprised of more than 650 design wins within Embedded Products. This means that HMS has amassed extensive experience and expertise in network solutions that few other players can compete with. Historically speaking, HMS has lost very few customers and customer satisfaction among HMS’s customers is very high.

**Marketing and sales**

**Marketing**

HMS’s main marketing channels are, apart from the sales organizations’ contacts with existing and potential customers, major trade fairs for the automation industry, regional trade fairs for user organizations or distributors and industry publications for technical products. HMS also has more than 20,000 unique visitors to its website every month. Geographic focus for HMS’s marketing efforts include the major automation markets of North America, Japan and Western Europe.

**Sales**

HMS’s sales activities are conducted globally by the sales organization in Sweden and by six sales offices in the US, Germany, Japan, China, Italy and France. In addition, HMS has distributors in 30 countries, primarily for sales of Gateway products.

**Sales models**

The sales models for Embedded Products and Gateways differ in that the first is direct while the second is indirect.

The sales model for Embedded Products is characterized by a close collaboration with the customers’ development department. Because HMS’s products are integrated in customers’ automation equipment, rigorous demands are placed on HMS’ ability to understand and adapt to the customers’ products and their application areas. The trust between customer and supplier in this type of sale takes time to build up and HMS typically estimates that the period between the initial contact and the production start of a new design win when the collaboration starts to generate revenues is 18 months.

Volume growth from year to year can vary significantly from case to case. The reason is the vast variation in complexity of customers’ product rollout.

The average product lifecycle for automation products is equivalent to a period of 7-10 years. HMS therefore conducts very long-term sales and marketing activities. The company’s management decided in 2005 to extend the company’s sales organization in order to meet the expected volume growth from Anybus-CC. The effect on revenue of this expansion, which meant almost twice the sales and marketing resources, is meanwhile not expected until 2008.

Gateway products are sold today partly via HMS’s own distribution channels and partly to OEM customers, who in turn, sell them as a complement to their own product range. Meanwhile, the company is now extending its sales of Gateway products via distribution and other indirect sales channels in order to quickly reach a broader customer base. This will require a different form of sales activity, which has meant that the company has gradually started to separate the sales of Gateways from the sales organization for Embedded Products. This process is a gradual one and adapted to the prevailing conditions on different geographic markets.

HMS has established specific global sales teams for major customers with global operations. The aim is to sell major volumes to these customers. HMS also sells Gateways products to the major global customers who put their own brand on the products and sell them through their sales channels.

Historically, HMS’s sales focus for Embedded Products has been on small and mid-sized applications, which is explained by the fact that Anybus-S has provided customers with significant cost benefits within these applications. With the launch of Anybus-CC, HMS can strengthen its competitive advantage.
This compelled the company to take a strategic decision to extend sales in order to move towards larger applications, preferably with existing customers. Compared to the small and mid-sized companies that until now have been the largest proportion of customers, the major automation solutions manufacturers are producing significantly longer series of their automation equipment, which means substantial potential for increased volumes for HMS.

**Product development**

*Development organization*

HMS’s development organization develops Anybus products for all major industrial networks. HMS employs 44 people in development, which represents 30 per cent of the Group’s total workforce. Of these, 28 work with software development, 9 with hardware development and 7 with product management and technical documentation.

**Product supply**

Since the beginning, HMS has worked strategically on developing its product supply according to four main principles. These principles are:

- quality
- short lead times
- high flexibility
- using benchmarking to continuously compare in-house and external production

At this time, the company believes that it lives up to its set quality objectives in the form of field returns, lead times and delivery precision. Despite this HMS constantly works towards new objectives to improve these levels.

**HMS’s manufacturing objectives**

HMS’s philosophy for product supply is based on a combination of in-house and external production capacity in the form of contract manufacturing. The company has opted to have a defined mix of in-house and external manufacturing for each step of the production chain. The idea is to find the right balance between the lowest price and highest quality for each step of the production chain, measured in terms of flexibility and reliability. The share of in-house resources increases for every step of the production chain. Function testing, packaging and delivery handling is carried out using in-house resources only. HMS production is small-scale in so much as the company’s products are manufactured in so many versions that each is manufactured in relatively small series. This type of production places strict demands on employees, customized automated equipment and high flexibility. By partly producing, quality controlling, assembling critical components and finished products itself HMS ensures that the company can supply the most reliable and well-developed product.

**Component vendors**

A network interface card consists of a circuit board fitted with hundreds of components. HMS works actively with purchasing components and has developed relationships with vendors who are all market leaders in their area. HMS works with a total of 80 component vendors. The components used in HMS products are standard with manufacturers around the world supplying similar products. None of its vendors are therefore considered critical for HMS’s continued development. The five largest component vendors account for 24 per cent of HMS’s total purchasing costs. The company’s own network processor, Anybus-NP30, has been developed with one of the leading semiconductor companies in California and manufactured by TSMC in Taiwan, which is one of the world’s largest manufacturers of silicon in integrated circuits. In addition to its own production HMS also outsources manufacturing to two other companies.

**New facilities**

HMS moved to new facilities close to the central station in Halmstad in November 2007. All the company’s operations will be housed under the same roof in the new building. This creates conditions for greater efficiency, improved communication, cooperation and flexibility. Its location in the city’s intended travel hub also makes it easier for visiting customers and improves employees’ commuting options.
HMS’s shares

HMS’s shares were listed on the OMX Nordic Exchange Stockholm Small Cap for the first time on 19 October 2007. Shares are traded under the HMS ticker.

Share structure
HMS has a total of 10,571,650 shares. All shares have equal voting rights.

Price trend and turnover 2007
The price trend has been affected by the general stock market performance. The shares’ volume-weighted average price in 2007 was SEK 70.76. At year-end the share price was SEK 72.75, which is SEK 1.25 lower than when it was introduced on 19 October 2007.

Dividend policy
HMS’s objective is to pay annual dividends of 30 per cent of the net profit.

Warrants and options
At year-end HMS had two outstanding warrant schemes and one employee option scheme. These three schemes cover 581,250 shares. Conditions for the various schemes are described in the accompanying table.

Shareholders
As of 31 December 2007 HMS Networks AB (publ) had 3,104 shareholders. The ten largest shareholders represented 65.4 per cent of the voting rights and capital.

The following market analysts constantly monitor HMS:
Fredrik Agardh, Handelsbanken Capital Markets
Andreas Joelsson, SEB Enskilda, Equity Research
Håkan Wranne, Swedbank Markets
HMS’s corporate governance

HMS’s board and management works to ensure that the company lives up to the demands that the OMX Nordic Exchange Stockholm, shareholders and other interested parties have on the company. The board also follows the debate on the subject and the 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 control and reporting functions within the Group.

**Group structure**

The majority of the Group’s operations are run by HMS Industrial Networks AB, which is a wholly owned subsidiary of HMS Networks AB.

HMS’s main owner is Nicolas Hassbjer (15 per cent of capital and voting rights) and Staffan Dahlström (15 per cent of capital and voting rights). At year-end there were around 3,000 shareholders. The Board and senior management together own around 31 per cent of the voting rights and capital.

**and ownership structure**

The AGM was held on 29 June 2007 at the company’s offices in Halmstad. Present at the meeting were shareholders representing around 98 per cent of the shares and voting rights. The AGM decided to re-elect Jörgen Centerman, Urban Jansson, Sebastian Ehrnrooth, Staffan Dahlström and elect Ray Mauritsson. The Meeting decided to elect Urban Jansson as Chairman of the Board. The decision to introduce a nominations committee was taken at an EGM on 20 July 2007. A new wording for HMS’s Articles of Association was adopted at an EGM on 17 August 2007.

The AGM decided that remuneration to the board should be sek 360,000 for the current financial year, of which sek 200,000 to the Chairman and sek 80,000 each to board members not employed by the company.

The AGM also decided that no dividend be paid for the 2006 financial year.

**Annual General Meeting**

The AGM decided that no dividend be paid for the 2006 financial year.

The Board

Five board members were elected at the AGM in 2007 to HMS Networks AB’s board. The board includes one person, Staffan Dahlström, who is employed by the Group as Global sales and marketing director.

The CEO and CFO of HMS take part in board meetings to submit reports and act as secretary.

The board’s main duty is to exercise shareholders’ control of the management and its way of running the company. The work of the board is governed by the rules of procedure adopted at the board meeting following elections every year. The rules of procedure regulate such things as how often the board convenes and what is dealt with on the respective occasions. 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 and financial statements. Furthermore, it is the duty of the board to appoint and dismiss CEOs 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.

Individual members’ unique expertise and thereby also the board’s composition in terms of expertise appear in the description on page 20. Since the AGM on 29 June 2007, the board has held 12 minute meetings up until the writing of this Annual Report. 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 involved the company’s business position, budget, quarterly reports and annual accounts. The work of the board otherwise focused on the stock market introduction carried out during the year.

**Chairman**

Urban Jansson was elected chairman of the board at the AGM on 29 June 2007. It is the chairman’s duty to follow the development of the business and be responsible for other members receiving the information required on an ongoing basis so that the work of the board can be exercised with a retained level of quality and in accordance with the Swedish Companies Act. The chairman of the board does not participate in the operative management of the company.

**Nomination committee and other committees**

At an EGM in 2007, a decision was made concerning the principles for the introduction of a nomination committee at HMS Networks AB. The chairman of the board, together with representatives of the three largest shareholders will constitute the nomination committee until the next AGM is held, or when necessary, until such time as a new nomination committee has been appointed. The nomination committee should appoint a chairman from its members. In case any of the three largest shareholders decline their right to appoint a representative the right is transferred to the shareholder, after the affected shareholders, with the next largest shareholding on the specific date. If the member leaves the nomination 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, by the shareholder who in terms of share size is next in line. The composition of the nomination committee will be published on the company’s website no later than six months before the next AGM.

It is the duty of the nomination committee, prior to the Annual General Meeting, to provide proposals on the number of board members elected at the meeting, board fees, the composition of the board, chairman of the board, chairman of the AGM, new instructions to the nomination committee and, in certain cases, also the election of auditors and their remuneration. Prior to the 2008 Annual General Meeting, the nomination committee consisted of Urban Jansson, Nicolas Hassbjer and Johan Lannebo, with Urban Jansson acting as the chairman of the committee.

The board nominates a remunerations committee from its members, who process issues concerning salaried employees and other employees’ employment and pension provisions. The committee also deals with issues concerning incentive schemes for employees. Members of the committee are Urban Jansson, Ray Mauritsson and Niclas Hassbjer.

The board also nominates an audit committee from its members that deal with audit-related issues, such as planning, performed audits and observations made from these audits. The audit committee is comprised of all board members.

**CEO and senior management**

The CEO runs the business in accordance with the instructions accepted by the board. The CEO is also responsible for ensuring that the board receives information and the requisite supporting data on which decisions are made, sent to each board member seven days before the board meetings, and 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. Total remuneration to the CEO in 2007 amounted to SEK 1,082,000.

The Group’s senior management team consists of four individuals who are presented on page 21. During the year, the management team held eleven meetings. The meetings were led by the CEO who makes decisions after consulting with other members.

**External audits**

The company’s auditors make a personal report once a year to the entire board about their audit and state their views about the internal control.

In conjunction with this year’s audit the auditors focused on internal controls and IT security. In addition to the audit, Öhrlings PricewaterhouseCoopers 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 2007 was SEK 1,222,000 (403).
Urban Jansson (born 1945)
Chairman of HMS Networks AB (publ).
Board member since May 1999.

Urban Jansson is chairman of Global Health Partner Plc, Jetpak Group AB, Rezidor Hotel Group AB (publ), Aktiebolaget Elspiralet. He is a board member of Addtech AB (publ), Clas Ohlson AB (publ), Ferda A/S, Höganas AB (publ), AB Wilh. Becker, Skandinaviska Enskilda Banken AB (publ) and a member of the OMX Nordic Exchange Stockholm’s company’s committee. He has a higher degree in banking business from Skandinaviska Banken.

Shareholding: 35,000 shares in HMS Networks AB (publ).
Option holding: 2,475 warrants in HMS Networks AB (publ) with subscription rights to 24,750 shares.

Jörgen Centerman (born 1948)
Board member of HMS Networks AB (publ), since September 2004.

Jörgen Centerman is chairman of Dacke PMC AB and Kemetyl AB. Jörgen Centerman is also board member of Micronic Laser Systems AB (publ), Segulah Advisor AB, Telelogic AB (publ) and XPonCard AB (publ).

He has a Master of Science degree in Electronics from Lund University of Technology from 1976.

Shareholding: 40,000 shares in HMS Networks AB (publ).
Option holding: 6,600 warrants in HMS Networks AB (publ) with subscription rights to 66,000 shares.

Staffan Dahlström (born 1967)
Board member and global sales and marketing director of HMS Networks AB (publ), since August 1989. He is a board member of CSD Förvaltning AB.

Staffan Dahlström has an engineering degree in computer science, mechatronics from Halmstad University.

Shareholding: 1,585,748 shares in HMS Networks AB (publ).
Option holding: 50 per cent of 825 warrants in HMS Networks AB (publ) with subscription rights to 8,250 shares.

Sebastian Ehrnrooth (born 1963)
Board member of HMS Networks AB (publ), since September 2004.

Sebastian Ehrnrooth is a board member of Segulah Advisor AB, Närkes Elektriska AB, Isaberg Holding AB, Dacke PMCHolding AB, Zetacap AB, Zetacap Ltd, Segulah III Investment AB and NEA Holding AB.

He has a Master of Science degree in Electronics within Industrial Economy from the University of Technology in Linköping, Sweden 1988, and a Master of Business Administration, degree from IMD in Lausanne, Switzerland 2003.

Sebastian Ehrnrooth holds no shares or warrants in HMS Networks AB (publ).

Ray Mauritsson (born 1962)
Board member of HMS Networks AB (publ), since May 2007.

Ray Mauritsson is CEO of Axis AB. He has a Master of Science degree in Technical Physics and an Executive Master of Business Administration degree from the University of Economy in Lund.

Shareholding: 5,000 shares in HMS Networks AB (publ).

Auditors
Öhrlings PricewaterhouseCoopers AB was appointed auditor of the company at the Annual General Meeting of shareholders on 7 June 2005 with Olof Enerbäck as principal auditor. Olof Enerbäck was born in 1956 and is a member of FAR SRS.

Öhrlings PricewaterhouseCoopers AB’s address is Brogatan 1, 30108, Halmstad, Sweden.
Nicolas Hassbjer (born 1967)
President and CEO of HMS Networks AB (publ), since June 1988.
Nicolas Hassbjer is the chairman of the board of SEB in Halmstad and IntelliCom Innovation AB. He is a board member of the Chamber of Commerce and Industry of Southern Sweden and chairman of the board of Region Halland.
He has a degree in Computer System Technology (specializing in Mechatronics) from the University of Halmstad, Sweden.
Shareholding: 1,585,748 shares in HMS Networks AB (publ).
Option holding: 50 per cent of 825 warrants in HMS Networks AB (publ) with subscription rights to 8,250 shares.

Staffan Dahlström (born 1967)
Global sales and marketing director of HMS Networks AB (publ), since August 1989. For further information see, "Board of Directors".

Gunnar Högberg (born 1956)
Chief Financial Officer of HMS Networks AB (publ), since August 2006.
Gunnar Högberg has a Bachelor of Science degree in Business Administration and Economics.
Shareholding: 10,000 shares in HMS Networks AB (publ).
Option holding: 1,650 warrants in HMS Networks AB (publ) with subscription rights to 16,500 shares.

Jörgen Palmhager (born 1968)
Chief Operating Officer of HMS Networks AB (publ), since January 2007 and formerly development director of HMS Industrial Networks AB from 1992 to 2006.
Jörgen Palmhager is a member of the Technical Review Board of the Open Devicenet Vendor Association since 2005.
He has a Bachelor of Science in Computer Systems Engineering.
Shareholding: 15,000 shares in HMS Networks AB (publ).
Option holding: 2,475 warrants in HMS Networks AB (publ) with subscription rights to 24,750 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 of different standards and 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.

**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 their 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 an 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 are 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).

**High real time demands,** means that you know exactly when the data will arrive and that the transfer of data is extremely time critical. In this scenario, 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.
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 product to networks, and gateways for connecting different 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 company was voted Sweden’s best electronics firm by the Electronics Industry Association and the Elektronik I Norden publication. HMS was founded in 1988 and over the past 10 years has seen an average organic growth of 30 per cent. Between 1992 and 2002 HMS was the fastest growing manufacturing company in Sweden according to Ahrens and SvD’s growth list. 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 rose to SEK 269.5 million (227.4). Exchange rate fluctuations negatively affected net sales during the year by SEK 7.5 million. Invoiced sales are divided between Europe 59% (50), Asia 19% (25), North America 19% (23) and other markets 3% (2). The Group’s single largest market is Japan.

The operating profit after depreciation was SEK 54.5 million and cash flow from operating activities was SEK 33.7 million (28.5). The Group’s equity amounts to SEK 182.2 million (153.2) and liquidity at year-end was SEK 30.1 million (17.3) excluding unutilized overdraft facilities.

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. and the partly-owned subsidiary IntelliCom Innovation AB (52% of capital and voting rights).

Representative offices abroad
The Group has Registered Representative Offices in Shin-Yokohama and Peking. These offices deal with sales and support on the Japanese and Chinese markets respectively.

Important events during the year
HMS Networks AB (publ) was listed on the OMX Nordic Exchange Stockholm in 2007.

Sales of the company’s patented AnyBus® products passed the 800,000 unit mark during the year, which were delivered to over 1,100 customers in 48 countries.

The introduction of the company’s new network processor, AnyBus®-NP30, continued throughout the year. AnyBus®-NP30 is a very small, high performance, energy-efficient, single chip network processor. The network processor will be put into serial production over the next year of new and some existing products.

All key markets showed growth. The strongest growth was seen in Germany, Brazil and China.

The company has completed its long-term investment to strengthen the sales and marketing organization. During the fourth quarter marketing activities were intensified through participation at a number of international automation trade fairs in November.

Mitsubishi Electric, which is the leading manufacturer of control systems in Asia, presented its new CC-Link IE network system at the System Control Fair in Tokyo.

Gunnar Högberg
Chief Financial Officer
Direct: +46 35 17 29 95
Email: guh@hms.se
At year-end the total number of design wins was 651 (581). Of these, 492 (412) were in the production phase and generated revenue in 2007. The company estimates that the present portfolio of design wins in the development phase is stronger than the design wins that went into production phase. The average revenue per design win in the production phase amounted to SEK 0.43 million (0.45).

The company successfully relocated the Swedish operations to new premises in Halmstad in November. As previously announced, this decision was taken to secure the needs for expansion and gather the Swedish operations in one building to improve communication, cooperation and efficiency.

Research and development
The Group has expensed SEK 25.7 million (19.5) for research and development. In addition SEK 2.9 million (1.8) worth of development expenses have been capitalized, of which SEK 2.9 million (0.8) is for in-house projects. Total research and development expenses make up 10 per cent (9) 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 to be used in embedded systems. Development of resulting products or applications based on these are not capitalized.

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

Future outlook
In January 2007 IMS published a new market survey for industrial networks for the period between 2006 and 2010. The underlying growth is expected to be somewhat above 10 per cent annually. HMS’ objective is an average annual growth of 20 per cent and to thereby continue growing faster than the market as a whole. HMS’ overall objective remains unchanged. The company’s strategy for achieving these goals involves a continued investment in building up a strong portfolio of design wins in the area of embedded network interface cards and extending the range to comparable areas of network technology based on the company’s technology platform.

Proposed allocation of profits in the parent company
The following profits are at the disposal of the Annual General Meeting:

| Description                        | Amount  
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Profit brought forward and other</td>
<td>SEK 103,577,329</td>
</tr>
<tr>
<td>non-restricted reserves</td>
<td>-9,342,419</td>
</tr>
<tr>
<td>Total equity</td>
<td>SEK 94,234,910</td>
</tr>
</tbody>
</table>

The Board and CEO propose:

A dividend of SEK 1 per share

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>to shareholders</td>
<td>SEK -10,571,650</td>
</tr>
<tr>
<td>Brought forward</td>
<td>SEK 83,663,260</td>
</tr>
<tr>
<td>Total</td>
<td>SEK 94,234,910</td>
</tr>
</tbody>
</table>

The company has received Group contributions of SEK 12,970,000 from subsidiaries.

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

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>269,464</td>
<td>227,438</td>
</tr>
<tr>
<td>Cost of goods and services sold</td>
<td>-128,193</td>
<td>-111,594</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>141,271</td>
<td>115,844</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-42,355</td>
<td>-32,167</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>-14,496</td>
<td>-9,903</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>-25,710</td>
<td>-19,487</td>
</tr>
<tr>
<td>Other gains – net</td>
<td>295</td>
<td>0</td>
</tr>
<tr>
<td>Other losses – net</td>
<td>-4,496</td>
<td>-2,550</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td>54,509</td>
<td>51,737</td>
</tr>
<tr>
<td>Financial income</td>
<td>720</td>
<td>556</td>
</tr>
<tr>
<td>Financial costs</td>
<td>-12,817</td>
<td>-6,662</td>
</tr>
<tr>
<td><strong>Total income from net financial items</strong></td>
<td>-12,097</td>
<td>-6,106</td>
</tr>
<tr>
<td><strong>PROFIT AFTER FINANCIAL ITEMS</strong></td>
<td>42,413</td>
<td>45,631</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>12,645</td>
<td>-12,357</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE YEAR</strong></td>
<td>29,768</td>
<td>33,274</td>
</tr>
<tr>
<td>Attributable to equity holders of the Parent Company</td>
<td>29,284</td>
<td>32,783</td>
</tr>
<tr>
<td>Attributable to minority interests</td>
<td>484</td>
<td>491</td>
</tr>
<tr>
<td>Earnings per share, basic, SEK</td>
<td>2.81</td>
<td>32.01</td>
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<tr>
<td>Earnings per share, diluted, SEK</td>
<td>2.65</td>
<td>29.33</td>
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<tr>
<td>Average number of shares, basic, thousands</td>
<td>10,406</td>
<td>1,022</td>
</tr>
<tr>
<td>Average number of shares, diluted, thousands</td>
<td>11,040</td>
<td>1,102</td>
</tr>
<tr>
<td>Dividends per share, SEK</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
### Consolidated balance sheet

#### ASSETS

**Non-current assets**

**Intangible non-current assets**
- Capitalized development work: 13,736
- Advance regarding intangible non-current assets: 6,818
- Goodwill: 236,071
- **Total intangible assets**: 249,807

**Property, plant and equipment**
- Plant and machinery: 5,765
- Equipment, tools, fixtures and equipment: 6,103
- **Total tangible assets**: 11,868

**Financial assets**
- Deferred income tax assets: 828
- **Total non-current assets**: 262,503

**Current assets**
- Inventories, etc.: 18,255
- Trade and other receivables: 30,150
- Derivative financial instruments: 402
- Tax receivables: 2,181
- Other receivables: 5,255
- Prepaid expenses and accrued income: 3,387
- Cash and cash equivalents: 30,117
- **Total current assets**: 89,747

**TOTAL ASSETS**: 352,250

---

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2007</th>
<th>31 Dec 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intangible non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized development work</td>
<td>13,736</td>
<td>7,704</td>
</tr>
<tr>
<td>Advance regarding intangible non-current assets</td>
<td>6,818</td>
<td>6,818</td>
</tr>
<tr>
<td>Goodwill</td>
<td>236,071</td>
<td>236,071</td>
</tr>
<tr>
<td><strong>Total intangible assets</strong></td>
<td>249,807</td>
<td>250,593</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>5,765</td>
<td>6,431</td>
</tr>
<tr>
<td>Equipment, tools, fixtures and equipment</td>
<td>6,103</td>
<td>3,628</td>
</tr>
<tr>
<td><strong>Total tangible assets</strong></td>
<td>11,868</td>
<td>10,059</td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>828</td>
<td>1,155</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>262,503</td>
<td>261,807</td>
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<tr>
<td>Current assets</td>
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</tr>
<tr>
<td>Inventories, etc.</td>
<td>18,255</td>
<td>17,249</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>30,150</td>
<td>25,057</td>
</tr>
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<td>Derivative financial instruments</td>
<td>402</td>
<td>930</td>
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<tr>
<td>Tax receivables</td>
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<tr>
<td>Other receivables</td>
<td>5,255</td>
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<tr>
<td>Prepaid expenses and accrued income</td>
<td>3,387</td>
<td>404</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>30,117</td>
<td>17,326</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>89,747</td>
<td>67,160</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>352,250</td>
<td>328,967</td>
</tr>
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</table>
### EQUITY AND LIABILITIES

#### Equity

<table>
<thead>
<tr>
<th>Item</th>
<th>31 Dec 2007</th>
<th>31 Dec 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>1,057</td>
<td>1,024</td>
</tr>
<tr>
<td>Other contributed capital</td>
<td>107,043</td>
<td>107,157</td>
</tr>
<tr>
<td>Reserves</td>
<td>254</td>
<td>218</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>71,897</td>
<td>43,465</td>
</tr>
<tr>
<td><strong>Total capital and reserves</strong></td>
<td><strong>180,252</strong></td>
<td><strong>151,864</strong></td>
</tr>
<tr>
<td>attributable to equity holders of the Parent Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority interest in equity</td>
<td>1,959</td>
<td>1,294</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>182,211</strong></td>
<td><strong>153,158</strong></td>
</tr>
</tbody>
</table>

#### Non-current liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>31 Dec 2007</th>
<th>31 Dec 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings</td>
<td>108,591</td>
<td>113,854</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>6,358</td>
<td>3,329</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>114,949</strong></td>
<td><strong>117,183</strong></td>
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#### Current liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>31 Dec 2007</th>
<th>31 Dec 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings</td>
<td>16,547</td>
<td>24,319</td>
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<td>Trade payables</td>
<td>21,558</td>
<td>20,707</td>
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<td>Current income tax liabilities</td>
<td>2,428</td>
<td>2,428</td>
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<td>Other liabilities</td>
<td>2,632</td>
<td>1,198</td>
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<tr>
<td>Derivative financial instruments</td>
<td>1,340</td>
<td></td>
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<tr>
<td>Accrued expenses and deferred income</td>
<td>13,013</td>
<td>9,973</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>55,089</strong></td>
<td><strong>58,625</strong></td>
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</tbody>
</table>

#### TOTAL EQUITY AND LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2007</th>
<th>31 Dec 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>352,250</strong></td>
<td><strong>328,967</strong></td>
</tr>
</tbody>
</table>
## Consolidated cash flow statement

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>54,509</td>
<td>51,737</td>
</tr>
<tr>
<td>Depreciation/amortisation</td>
<td>5,493</td>
<td>5,138</td>
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<tr>
<td>Other items not tested for liquidity</td>
<td>-540</td>
<td>344</td>
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<tr>
<td>Interest received</td>
<td>623</td>
<td>556</td>
</tr>
<tr>
<td>Interest paid incl. stock market listing costs</td>
<td>-11,502</td>
<td>-6,662</td>
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<tr>
<td>Income tax paid</td>
<td>-13,935</td>
<td>-14,605</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities before changes in operating capital</strong></td>
<td>34,648</td>
<td>36,508</td>
</tr>
<tr>
<td><strong>Changes in operating capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in inventories</td>
<td>-1,006</td>
<td>-7,191</td>
</tr>
<tr>
<td>Change in trade receivables</td>
<td>-4,565</td>
<td>-2,832</td>
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<tr>
<td>Change in current receivables</td>
<td>-2,044</td>
<td>-1,421</td>
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<tr>
<td>Change in trade payables</td>
<td>851</td>
<td>2,463</td>
</tr>
<tr>
<td>Change in other current liabilities</td>
<td>5,815</td>
<td>994</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>33,699</td>
<td>28,520</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
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<tr>
<td>Purchases of property, plant and equipment (PPE)</td>
<td>-4,287</td>
<td>-8,643</td>
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<tr>
<td>Purchases of intangible assets</td>
<td>-2,882</td>
<td>-2,632</td>
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<tr>
<td>Sale of property, plant and equipment</td>
<td>13</td>
<td></td>
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<tr>
<td>Additional purchase price, acquired subsidiary</td>
<td></td>
<td>-25,674</td>
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<tr>
<td>Decrease of current financial investments</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>-7,059</td>
<td>-36,949</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New share issue</td>
<td>33</td>
<td>262</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>796</td>
<td>33,238</td>
</tr>
<tr>
<td>Repayments of debt</td>
<td>-14,565</td>
<td>-47,347</td>
</tr>
<tr>
<td>Redeemed warrants</td>
<td>-114</td>
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<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td>-13,850</td>
<td>-13,847</td>
</tr>
<tr>
<td><strong>CASH FLOW FOR THE YEAR</strong></td>
<td>12,791</td>
<td>-22,276</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>17,326</td>
<td>39,602</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>30,117</td>
<td>17,326</td>
</tr>
<tr>
<td><strong>CHANGE FOR THE YEAR FOR CASH AND CASH EQUIVALENTS</strong></td>
<td>12,791</td>
<td>-22,276</td>
</tr>
</tbody>
</table>
## Consolidated statement of change in equity

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Other contributed capital</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Minority interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January 2006</strong></td>
<td>1,022</td>
<td>97,345</td>
<td>38</td>
<td>20,086</td>
<td>118,491</td>
<td>803</td>
<td>119,294</td>
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<tr>
<td>Currency differences regarding existing subsidiaries</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions recognised in equity</strong></td>
<td>0</td>
<td>0</td>
<td>179</td>
<td>179</td>
<td>0</td>
<td>179</td>
<td></td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32,783</td>
</tr>
<tr>
<td><strong>Total recognised income and expense</strong></td>
<td>0</td>
<td>0</td>
<td></td>
<td>32,783</td>
<td>0</td>
<td>32,783</td>
<td>491</td>
</tr>
<tr>
<td>New share issue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9,552</td>
<td>-9,403</td>
<td>149</td>
</tr>
<tr>
<td>Payment of warrants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>260</td>
<td>260</td>
<td>260</td>
</tr>
<tr>
<td><strong>Total transactions with equity holders</strong></td>
<td>2</td>
<td>9,812</td>
<td>0</td>
<td>-9,403</td>
<td>411</td>
<td>0</td>
<td>411</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2006</strong></td>
<td>1,024</td>
<td>107,157</td>
<td>218</td>
<td>43,465</td>
<td>151,864</td>
<td>1,294</td>
<td>153,158</td>
</tr>
<tr>
<td>Currency translation differences regarding existing subsidiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36</td>
<td>-671</td>
<td>-635</td>
</tr>
<tr>
<td>Minority adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-181</td>
<td>-181</td>
<td>181</td>
</tr>
<tr>
<td><strong>Total transactions recognised in equity</strong></td>
<td>0</td>
<td>0</td>
<td>36</td>
<td>-852</td>
<td>-816</td>
<td>181</td>
<td>-635</td>
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<tr>
<td><strong>Profit for the year</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>29,284</td>
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<tr>
<td><strong>Total recognised income and expense</strong></td>
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<td>29,284</td>
<td>484</td>
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<tr>
<td>New share issue</td>
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<td>Buy-back of warrants</td>
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<td></td>
<td></td>
<td>-114</td>
<td>-114</td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with equity holders</strong></td>
<td>33</td>
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<td>0</td>
<td>0</td>
<td>-81</td>
<td>0</td>
<td>-81</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2007</strong></td>
<td>1,057</td>
<td>107,043</td>
<td>254</td>
<td>71,897</td>
<td>180,252</td>
<td>1,959</td>
<td>182,211</td>
</tr>
</tbody>
</table>

The Parent Company has not incurred any issue expenses in connection with the new share issue.
Note 1 General information

The HMS Group (parent company HMS Networks AB (publ.), co. reg. no. 556661-8954 and its subsidiaries) is one of the world’s leading industrial network technology companies. The Group develops and manufactures flexible, innovative and reliable solutions to connect products to networks and gateways, enabling interconnection between various networks.

The Group’s production facility is located in Halmstad. Sales are conducted from the head office in Halmstad and from sales offices in Chicago, Karlsruhe, Tokyo, Beijing, Mulhouse and Milan.

The head office address is Stationsgatan 37, Halmstad, Sweden.

HMS Networks AB (publ.) has its registered offices in Halmstad, Sweden and is a listed Swedish limited liability company. The consolidated financial statements were approved by the Board of Directors on 31 March.

Note 2 Accounting policies

The principle 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

The consolidated financial statements of the HMS Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and in accordance with the Swedish Annual Accounts Act and RR30:06.

The preparation of financial statements in conformity with 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 to the consolidated financial statements are disclosed when appropriate in the notes.

The parent company’s financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council’s recommendation RR32:06.

The parent company’s principles correspond to the Group’s unless otherwise stated below.

Effective 1 January 2006, HMS will prepare its consolidated financial statements in accordance with IFRS. The annual report has been prepared in accordance with the cost method, except concerning certain financial instruments, which are valued at their fair value in the income statement.

In applying IAS39 the Group has decided to recognise changes in value of currency futures, used to reduce risk in future cash flows, in the income statement as they arise. Changes in value are reported as part of revenues. HMS currently has no identified hedges attributable to net assets in foreign subsidiaries, known as equity hedges.

Potential future hedges of net assets in foreign subsidiaries will be reported as a translation difference in total equity.

Amendments to published standards effective in 2007

IFRS 7, Financial instrument: Disclosure and the complementary amendments to IAS 1, Presentation of Financial Statements – Capital Disclosures introduces new disclosures relating to financial instruments. IFRS 7 has no impact on the classification and valuation of the Group’s financial instruments.

IFRIC 8, “Scope of IFRS 2”, requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group’s financial statements.

IFRIC 10, “Interim Financial Reporting and Impairment”, prohibits the impairment losses recognised in an interim report for goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group’s financial statements.

2.2 Consolidation

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. At acquisition of minority shares where the paid purchase sum exceeds the acquired portion of the reported value of the subsidiaries’ net assets, the difference in amount is reported as goodwill. Disposals of minority interests, in which the received purchase sum deviates from the reported value of the portion of the net assets sold, result in gains or losses for the Group that are recognised in the income statement.

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 account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

At different valuation of assets and liabilities on Group and company level, tax effects are considered and reported as non-current receivables or liabilities, respectively. However, deferred tax on Group goodwill is not considered.

### 2.3 Foreign currency translation

Items included in the financial statements of each of the HMS 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 company’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at each date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised 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 different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the exchange rate on balance sheet date
- income and expenses are translated at average exchange rates, and
- all resulting exchange differences are recognised 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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

### 2.4 Inventories

Inventories are stated at the lower of the cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) principle. Finished goods are valued at standard cost. Inter-company profit from sales between Group companies are eliminated.

The cost of finished goods comprises raw materials/components, direct labour, and other direct and indirect related production overheads. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.5 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised 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. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the assets is reduced and the amount of the loss is recognised in the income statement with selling and marketing costs.

Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 recognised 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 derecognised. 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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery</td>
<td>3-7 years</td>
</tr>
<tr>
<td>Equipment, fixtures and fittings</td>
<td>3-7 years</td>
</tr>
</tbody>
</table>

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

### 2.7 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/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### 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 and platforms controlled by the HMS Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

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 capitalised during the development phase. Network applications based on product platforms are considered adjustments of the core product and are not capitalised. Projects in the development phase are not capitalised.

Development expenditures previously written off are not capitalised 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.

Amortisation is calculated on the original acquisition cost and is based on the assessed useful lifetime.

Capitalised development work: 5 years

### 2.8 Impairment

Assets with an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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-generating units. Capitalised development work is annually tested for impairment before it is ready to be put into use.

### 2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held in bank accounts and other short-term, highly liquid investments with original maturities of three months of less.

### 2.10 Financial assets

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
This category has two sub-categories: financial assets held for trading and those initially classified assets valued at fair value via the income statement.

A financial asset is classified in this category if acquired principally for the purpose of selling over 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.

Their distinguishing characteristic is that they arise when the Group supplies money, goods or services directly to a customer without the intention to trade in the resulting receivable. 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 ‘Trade and other receivables’ in the balance sheet.

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the HMS Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised 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.

c) Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value. The HMS Group does not apply hedge accounting.

All derivative instruments are classified as derivative instruments among current assets or liabilities. Gains and losses from derivatives are classified as revenue in the income statement.

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.

2.11 Provisions
Provisions for legal claims are recognised when the Group has a present legal or constructive 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. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.12 Income tax
Reported tax charge comprises tax to be paid or received, attributable to the current year, adjustments of previous years’ paid taxes and changes in deferred tax. Valuation of all tax debts and receivables is made at nominal amounts, using tax rates and laws that have been enacted or substantially enacted and are expected to apply.

For items reported in the balance sheet, associated tax effects are reported in the income statement. Tax effects of items reported against equity are also reported against equity.

Deferred income tax is calculated using the balance sheet method on temporary differences arising between the reported and taxable values of assets and liabilities.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination 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 realised or income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the HMS Group and it is probable that the temporary difference will not reverse in the foreseeable future.
Deferred tax receivables and deferred tax liabilities towards the same tax authority are reported in net in the balance sheet. Deferred tax receivables attributable to losses carried forward are reported to the extent that it is likely that the loss can be settles against profit during future taxation.

2.13 Cash flow statement
The cash flow statement for the Group has been established in accordance with IAS 7, Cash Flow Statements, using 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.

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

Revenue is recognised at the fair value of the consideration received or receivable.

Sales are recognised after deductions for VAT, returns, rebates and discounts and after the elimination of intra-Group sales.

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 company sells products to connect industrial equipment to networks and gateways to enable the interconnection of different networks. Sales of goods are terms of sale, at the point at which the material risks and benefits are transferred to the buyer.

The HMS 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 and associated costs from fixed price contracts for conducted service assignments are recognised under the percentage of completion (POC) method at balance sheet date. The percentage of completion of an assignment is assessed through the comparison of expenses at balance sheet date to estimate total expenses. When the outcome of a service assignment cannot be reliably estimated, revenue is recognised only to the extent corresponding to contract costs incurred that are likely to be recoverable. An expected loss from an assignment is immediately reported as a cost. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred.

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable 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 loans is recognised using the original effective interest rate.

2.15 Borrowings
All borrowings are expensed as they arise.

2.16 Employee benefits

Pension obligations
The HMS Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the HMS 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 Alecta. According to a statement from the Swedish Financial Accounting Standards Council’s Emerging Issues Task Force, URA42, this is a defined benefit plan, which covers a number of employers. For the financial year 2007, 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 recognised as employee benefit expense when they fall due for payment.

Share-based remuneration
The HMS Group has outstanding share option schemes for portions of its personnel and the Board of Directors. Share options have been issued on three occasions. 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. Repurchase of warrants is booked against total equity.
The company retains the right to repurchase the options at the market value if the employee leaves the company.

Allocation of shares through the exercise of warrants will be made through a new share issue.

2.17 Leases
Leases in which a significant portion of the risks and rewards associated with the leasing object fall to the HMS Group as lessee are classified as fixed assets in the consolidated balance sheet. The corresponding obligation to pay leasing fees in the future is reported as a liability.

Note 3 Financial risk management

3.1 Financial risk factors
The HMS 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 program 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, but these hedges do not fulfill the requirements for hedge accounting under IAS 39.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The Group's treasury department 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, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, counterparty risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

The HMS Group's international operations entail exposure to a number of financial market risks, which are handled in accordance with the Board of Directors' stated policies. The HMS Group's overall goal is for its financing function to provide ongoing financing to Group companies and to manage financial risks so that the effects on the Group's profit are minimised.

The Group is primarily exposed to financing, currency and credit risks.

Financing risk
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 credits. HMS aims to always have credit facilities with multiple banks, and that these should not fall due within the same quarter. 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 HMS 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.

<table>
<thead>
<tr>
<th>Less than 1 year</th>
<th>As of 31 December 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Currency forward agreements</td>
</tr>
<tr>
<td></td>
<td>Cash flow hedging</td>
</tr>
<tr>
<td></td>
<td>Currency options</td>
</tr>
<tr>
<td></td>
<td>Cash flow hedging</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Less than 1 year</th>
<th>As of 31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Currency forward agreements</td>
</tr>
<tr>
<td></td>
<td>Cash flow hedging</td>
</tr>
</tbody>
</table>

Interest rate risk
The HMS Group's financing policy states that the interest expense should be decreased as far as possible. In order to minimise the Group's interest expense, interest rate derivatives may be utilised. For 2007, it was assessed that the usage of interest rate derivatives would not decrease the Group's interest expense. The HMS Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the HMS Group to cash flow interest rate risk.

If interest rates on borrowings in SEK on 31 December 2007 were +/- 1% with all other variables constant then the profit before tax for the financial year would have been +/- SEK 1.1 million (1.2 m), principally as an effect of increased/decreased interest expenses for borrowings with variable interest.

Currency risk
The HMS Group operates internationally and is exposed to currency risks arising from currency exposure, principally with respect to the USD and EUR.

The Group's currency risk consists partly of the translation 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 cash flows in each major foreign currencies for the next twelve months. 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 20%-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 HMS Group currently conducts no active hedging of the effects of currency rate fluctuations on capital expenditure in subsidiaries. The company assesses that no sensitivity exists as a result of the currency risk.

If the SEK weakened/strengthened by 5% against the EUR with all other variables remaining constant, the profit before tax for 2007 would have been +/- SEK 6.6 million, mainly as a result of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement. Gains were more sensitive to changes in currency exchange rates between the SEK and EUR in 2007 than in 2006 as a result of the increased currency flows in EUR.

If the SEK weakened/strengthened by 5% against the USD with all other variables remaining constant, the profit before tax for 2007 would have been +/- SEK 1.5 million, mainly as a result 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 profit before tax for 2007 would have been +/- SEK 0.6 million, mainly as a result of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

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. Excess liquidity is 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. 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.

In 2007 the Group’s strategy was to cut the debt/equity ratio in order to create room for manoeuvre in future.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total borrowings (Note 22)</td>
<td>125,139</td>
<td>138,173</td>
</tr>
<tr>
<td>Less cash and cash equivalents (Note 19)</td>
<td>-30,117</td>
<td>-17,326</td>
</tr>
<tr>
<td>Net debt</td>
<td>95,021</td>
<td>120,847</td>
</tr>
<tr>
<td>Total equity</td>
<td>182,211</td>
<td>153,158</td>
</tr>
<tr>
<td>Total capital</td>
<td>277,232</td>
<td>274,005</td>
</tr>
<tr>
<td>Net debt/equity ratio</td>
<td>52%</td>
<td>79%</td>
</tr>
</tbody>
</table>

3.3 Recognition of derivative instruments and hedging activities

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

3.4 Fair value estimation

The fair value of forward foreign exchange contracts is determined using market rates for the currency at the balance sheet date.

The nominal values less impairment provision of trade receivables and payables are assumed to approximate their fair values.
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Key figures

<table>
<thead>
<tr>
<th>Financial data in summary (SEK m)</th>
<th>HMS Networks</th>
<th>former HMS Networks1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(IFRS) 2007*</td>
<td>(IFRS) 2006*</td>
</tr>
<tr>
<td>Net sales</td>
<td>269.5</td>
<td>227.4</td>
</tr>
<tr>
<td>Growth in net sales, %</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>Gross profit</td>
<td>141.3</td>
<td>115.8</td>
</tr>
<tr>
<td>Gross margin, %</td>
<td>52</td>
<td>51</td>
</tr>
<tr>
<td>Operating profit</td>
<td>54.5</td>
<td>51.7</td>
</tr>
<tr>
<td>Operating margin, %</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>29.8</td>
<td>33.3</td>
</tr>
<tr>
<td>Shareholders' equity2)</td>
<td>182.2</td>
<td>153.2</td>
</tr>
<tr>
<td>Total assets</td>
<td>350.1</td>
<td>329.0</td>
</tr>
<tr>
<td>Equity/assets ratio, %</td>
<td>52</td>
<td>47</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>33.7</td>
<td>28.5</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>144</td>
<td>119</td>
</tr>
</tbody>
</table>

1) Former HMS Networks is the company’s predecessor. Former HMS Networks constitutes the equivalent of the company from an operating perspective and constituted the parent company that was the predecessor of the company. By presenting financial information for the former HMS Networks, investors are given a picture of the operational development of the company.

2) Including minority interests.

3) In HMS’s case the differences in the reports according to IFRS and SFA consist mainly of the reporting of intangible assets in accordance with IAS 38 as well as reporting of financial instruments in accordance with IAS 39.

4) Examined financial statements.