Our vision: All automation devices will become intelligent and networked. HMS shall be the market leader in connectivity solutions for industrial devices.

Our mission: We provide world-class solutions to connect industrial devices to networks and products for inter-connection of different industrial networks.

Our purpose: To create long-term value for our customers, employees and investors.

One million installed Anybus® network interface cards worldwide. Sales reached €uro 33 million. Strong commitment to quality contributed to improved profitability and customer satisfaction. Own production in Sweden combined with contract manufacturing. Listed on the NASDAQ OMX Nordic Exchange in Stockholm, Small Cap, Information Technology. Winner of Sweden’s Grand Export Prize. Strong corporate culture with clear values. 30 per cent average growth over the past 10 years. Repeat sales to some 1,000 customers in 50 countries. Several patents on Anybus® base technology and developments. 160 employees split equally between development, sales and production. Anybus® technology contributes to more efficient and flexible automation systems with lower energy consumption.
### Key figures

<table>
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<tr>
<th>Financial data in summary (SEK m)</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>316.6</td>
<td>269.5</td>
<td>227.4</td>
<td>180.1</td>
</tr>
<tr>
<td>Growth in net sales, %</td>
<td>17</td>
<td>19</td>
<td>26</td>
<td>21</td>
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<tr>
<td>Gross profit</td>
<td>181.8</td>
<td>141.3</td>
<td>115.8</td>
<td>93.1</td>
</tr>
<tr>
<td>Gross margin, %</td>
<td>57</td>
<td>52</td>
<td>51</td>
<td>52</td>
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<tr>
<td>Operating profit</td>
<td>85</td>
<td>54.5</td>
<td>51.7</td>
<td>42.9</td>
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<tr>
<td>Operating margin, %</td>
<td>27</td>
<td>20</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>58.8</td>
<td>29.8</td>
<td>33.3</td>
<td>21.7</td>
</tr>
<tr>
<td>Shareholders’ equity*</td>
<td>224.4</td>
<td>182.2</td>
<td>153.2</td>
<td>119.3</td>
</tr>
<tr>
<td>Total assets</td>
<td>390.3</td>
<td>350.1</td>
<td>329.0</td>
<td>332.7</td>
</tr>
<tr>
<td>Equity/assets ratio* %</td>
<td>57</td>
<td>52</td>
<td>47</td>
<td>36</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>68.1</td>
<td>33.7</td>
<td>28.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>154</td>
<td>144</td>
<td>119</td>
<td>98</td>
</tr>
</tbody>
</table>

*Including minority interests.
2008 in summary

- Clear market leader with over 1,000,000 Anybus network interface cards (installed base) in automation systems worldwide.

- Net sales rose by 17.5% to sek 316.6 million (269.5).

- The operating profit improved by 56% to sek 85.0 million (54.5). Adjusted for currency effects the operating margin was 25.5% (20).

- Cash flow from operating activities advanced to sek 69.0 million (34.2).

- The profit after tax was sek 58.8 million (29.8) and the EPS increased by 93% to sek 5.43 (2.81).

- The Board of Directors proposes a dividend of sek 1.50 per share (1.00).

- HMS was presented with the Grand Export Prize by H.M. King Carl XVI Gustaf as the best export company in Sweden.

- Good effect from quality improvements. Field returns were halved to 295 ppm (674) and on-time delivery improved to 99% (98).

- A strong inflow of new design wins, which contributes to long-term growth.

Sales trend

The HMS Group is showing stable growth, which over the past 10 years measured an average of 30% annually. Over the last three years average annual growth has been 20%. Adjusted for changes to exchange rates compared to the previous year, growth in 2008 was 15%. More than 90% of the company’s sales are generated in markets outside Sweden.

Earnings trend

Economies of scale, further rationalization and a favourable exchange rate trend for HMS have improved the company’s operating margin. The operating margin for 2008 was 27%. The HMS Group has completed two significant phases of expansion. The first phase was in the period 1998-2001 and the second between 2006-2008. The increased resources are reflected in the Group’s margin trend during these periods.
Nicolas Hassbjörn founded HMS in 1988 after completing his degree project on enabling machines and components in production processes to communicate faster and more flexibly. His degree project at Halmstad University became the company’s first product and patent, which in turn led to network products that today account for the entire business of the company. The first Anybus products were launched in 1995 and net sales in 2008 amounted to SEK 317 million.

In 1989, Staffan Dahlström became joint owner. Together, Nicolas and Staffan have built up a company with 160 employees that generates as much as 90% of sales outside Sweden. Product development and the greatest part of production are based at the head office.
site in Halmstad, and sales offices have been established in Tokyo, Karlsruhe, Chicago, Milan, Beijing and Mulhouse.

HMS specializes in enabling communication, between a motor or industrial robot for example, and the entire company’s activities are based on this expertise. HMS develops and manufactures network interface cards enabling communication between automation devices and industrial networks, or between two networks.

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. Network interface cards for Embedded Products are designed for automation units, such as industrial robots or motor controls. Embedded Products are marketed directly to both Original Equipment Manufacturers (OEMs) and small specialist automation suppliers.

HMS developed its second product area, Gateways, using expertise from Embedded Products. A gateway can be compared to a packet switch that translates data from one network so it can be received by another network. However, a gateway is not part of the equipment, but stands alone, like a port between a network and a device, or between two networks. Gateways are marketed to end-customers, network integrators and distributors that serve owners of automation systems, usually within the discreet automation industry, or to OEM companies in automation that market the products under their own brands. HMS products are sold and marketed under the Anybus® brand.

More efficient production lines and shorter lead times
HMS products contribute to increased productivity and improved quality in customer’s production lines. For an automation manufacturer, it is more cost-effective to let a specialized network interface card manufacturer, like HMS, take care of card development. Lead times can be cut, because HMS can quickly supply customized solutions thanks to its advanced level of expertise and specialization.

One obstacle to communication within and between automation systems is the large number of industrial network protocols, i.e. languages. These are tending to increase rather than decrease, as no standard can satisfy all industries’ needs. 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. It is here that the size and experience of HMS creates unique possibilities for its customers and provides cost-effective access to a large number of different communication solutions.

HMS’S BUSINESS CONCEPT
is to develop, manufacture and market flexible, innovative and reliable communication solutions for connecting automation devices to industrial networks, and for connecting different industrial networks with each other.

HMS’S FINANCIAL TARGETS
• Average growth of 20% annually
• Operating margin of over 20%

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.
In 2008, HMS celebrated its 20th anniversary since the company was founded on 6 June 1988. That’s 20 years of growth in sales and number of employees each consecutive year, combined with strong progress in profitability. It was well timed to be rewarded for our long-term work with the Grand Export Prize by H.M. King Carl XVI Gustaf.

Summing up the year, we achieved a growth of 17% and to sales of SEK 317 million, despite the start of the recession. As we had already noted signs of a weaker market in Q4 of 2007, we have been cautious about increasing costs in 2008. In the same period, continuous improvements in all areas of the company led to higher efficiency and fewer faults.

Several factors have contributed to the positive performance during the year. The high efficiency and quality of our new factory in Hälmstad has resulted in increased gross margins due to the considerably improved production flow. In 2008 the new network processor, the NP30 chip, went into high-volume production, which also increased gross margins due to lower material costs. We see steady positive developments in terms of quality and process improvements. Field returns have improved to 295 ppm, i.e. less than three faults per 10,000 delivered products. In 2008, 120 of 188 improvement proposals have been implemented in our production process.

All in all, this resulted in a record earnings with an operating margin of just over 25%. Furthermore, we benefited from positive currency effects in Q4 linked to the weak Swedish krona, which further strengthened the financial position. Our financial strength gives us possibilities to continue our long-term approach in the considerably weaker market. Have we then invested too little? No, not when you bear in mind the depth of the recession that has arrived. In late 2008, recruitment was carried out to increase the sales organization. These resources will be in place in early 2009. In the course of 2009 we will also strengthen our resources in the development department in order to increase possibilities for customization of our base technology and to secure our internal product development. The recession has reduced sales to customers who regularly buy our products, but has increased demand for customized solutions intended for rapid market launches. As we now know the conditions we have to adapt to, we can recruit exactly the competence we need. These initiatives are completely in line with HMS’s long-term strategy and targets. We are continuing to build close partnerships with major OEM customers based on our technology platform. We are also continuing to expand our sales channels with distributors and system integrators. We are securing resources to develop next generation products, both in embedded network technology and Gateways.

At the end of the summer we brought together all our employees, including colleagues from our six offices abroad, to work jointly on our vision, objectives, values and strategic cornerstones. Over two intensive days everyone helped to shape these and identify how we can turn threats and weaknesses into opportunities and strengths. After the meeting, management spent the autumn working through all the material in order to draw up an updated strategy and targets for every department in the company. The level of ambition and commitment is very high, but the speed of implementation has of necessity been adapted to the weakened market situation. Our part-owned subsidiary, Intellicom, has also reported a positive performance for the year. Their new main product, which awakened great interest on its introduction in November at Germany’s most important trade fair, will start to be sold through HMS sales channels in 2009.

The prevailing market situation can create good opportunities for acquisitions. There are companies that complement HMS in both embedded products and gateways. We have strengthened our market position and will seize opportunities to acquire small companies. This applies to companies that have good sales channels or complementary technology/products that can be sold via our channels. The inflow of design wins, new customers who have decided to embed HMS technology in their products, has increased during the year. Overall, this contributes to a firm foundation for long-term growth along with the continuing positive effects from our work on continuous improvement.

After 21 years as CEO of HMS, I have decided to step down as CEO, yet will continue as a member of the board. I will continue to have a strong long-term commitment to HMS in my role as vice chairman. If required, I will take on project assignments for the company.

I would like to take this opportunity to express my deep gratitude to all the staff members who have helped me to make HMS what it is today. It is with a certain sadness that I take this step, but at the same time I am assured that our committed staff and strong corporate culture will advance the company further on its successful path. It will now be Staffan Dahlström who leads a highly competent and experienced management team in the continuing assignment to take HMS on to new successes and create long-term value for our customers, staff and shareholders.

Nicolas Hassbjer
CEO
On 13 May 2008, Nicolas Hassbjer, the CEO of HMS, had the honour of accepting the Grand Export Prize from H.M. King Carl XVI Gustaf at a ceremony with more than 1,000 attendees in Stockholm.
Growth creates possibilities in the global market

Correct and updated information in real time is a precondition for making good decisions and controlling your operations efficiently. Consequently, the trend among industrial operators is to link together systems, machines and equipment in industrial networks. This is the market – estimated to be worth around SEK 13.2 billion – that HMS serves.

Growth in the market HMS serves is driven by industry’s continuous need to reduce costs and increase productivity and efficiency. The demand for lower energy consumption is becoming an increasingly important growth-driving factor.

HMS operates in the industrial network segment of this market. Industrial networks are used to interconnect other automation devices so that they exchange information with each other, this can apply to drive systems, sensors, actuators and control systems. This market is a part of the process automation market and the discreet automation market. As demand for different products for industrial networks is greater within discreet automation, this area is more advanced in the use of modern communication technology.

Growth in the industrial network market can be measured by the rise in the number of network nodes, which are the connection points an automation device must have for connection to a network. A network interface card (embedded product) represents one node, whereas a gateway, an interconnection of two network interface cards, represents two nodes.

In the period 2002–2006, the average yearly increase in the number of nodes was 18%. However, due to the recession growth forecasts for the number of nodes has been revised downwards by IMS Research from a yearly average of 15% to 8% for the period 2009–2013.

The total global industrial network market is estimated to be worth around SEK 13.2 billion. This can in turn be divided into markets for industrial network interface cards, gateways, cables, contacts and other products. HMS’s submarkets (network interface cards and gateways) account for 62% of the value of this market. The value of the industrial network interface card market in 2008 amounted to around SEK 6.5 billion, while the market value for gateways amounted to SEK 1.7 billion. In the diagram on the left you can see the submarkets’ respective share of the total industrial network market.

In the network interface card area, HMS’s sales amounted to SEK 224.8 million (199.1), which corresponds to 3.5% of the total network interface card market. The market share in relation to directly competing solutions in this segment is considered to have climbed to 37%. HMS’s sales in the gateways market in 2008 amounted to SEK 82.3 million (59.9), corresponding to around 4.8% of the total market sales.

Growth in 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. Much of the demand for network interface cards for
industrial networks comes from manufacturers of automation equipment. These companies are increasingly tending to buy in network interface cards from external vendors instead of producing them in-house. 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.

The rising demand for externally sourced solutions from manufacturers of automation equipment is due to the increased complexity of industrial networks, as well as the growing number of languages, or protocols, for various networks. More networks on more levels and more ways of communicating involve higher demands for cutting-edge skills from the manufacturers of network interface cards. This applies not least to industrial Ethernet.

Driving forces for growth in industrial automation per geographic area

EUROPE
Established manufacturing countries have a major need to increase flexibility at production sites.

NORTH AND SOUTH AMERICA
An increased need to boost productivity and new investment in infrastructure are stimulating automation-related investments.

MIDDLE EAST AND AFRICA
Investments in raw material exploration is driving the need for automation, while countries are investing in other industries to diversify sources of income.

ASIA
Considerable needs exist for automation-related equipment in energy, working environments and infrastructure.

HMS product sales per geographic market 2008

- Germany 20.8%
- USA 16.7%
- Japan 15.6%
- Finland 13.7%
- Sweden 9.3%
- France 2.6%
- UK 2.9%
- Brazil 3.5%
- China 2.0%
- Italy 3.4%
- Other 9.4%
- Other 9.4%

Source: IMS Research
It has 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 is therefore becoming more profitable for automation equipment manufacturers to outsource the production of the network interface cards to an external manufacturer such as HMS. This means that the market for independent external manufacturers of network interface cards for industrial networks is growing more rapidly than the network interface card market as a whole, and this trend is expected to continue.

Until 2008 the development of the market had gone according to plan, but a weakening in sales was noted in Q4. However, net sales for Q4 did not mean a decline compared with the previous year. Order intake from large companies has fallen slightly, whereas it remains good from small and mid-size customers. This applies both to new customers who design HMS embedded products into their new product generations – design wins – and for product sales in the gateway area. While the recession has weakened larger customers, HMS has noted that small niche customers are continuing to develop. Furthermore, the market is growing within a number of small segments, such as the petrochemical industry. In this segment the large customers are system manufacturers who supply complete production and monitoring systems. The German market continues to be favourable for HMS, as its customer base has a wide range of small and mid-size companies. HMS considers that demand for new technology among major customers remains strong and many customizations of the technology have been carried out in 2008. This is expected to continue in 2009, which will lead to increased revenues in 2010 and beyond.

Active developer of industrial Ethernet

Many new industrial Ethernet-based technologies have been launched in recent years. However, traditional systems such as Profibus and DeviceNet predominate in terms of installations in new systems. The market analysis company, IMS Research, estimates that 5 million measurement and control units were fitted with interfaces for industrial Ethernet in 2008, compared with 24 million units adapted for traditional field buses.

Industrial Ethernet has developed from one standard, TCP/IP, into a handful of important industrial technologies that nonetheless differ greatly. The most important are Ethernet/IP, Modbus TCP, Profinet and EtherCAT. HMS has a leading position in this new field of technology, both in terms of development of the technologies and products on the market. HMS is not only involved in product development, but is also participating in the organizations developing standards and certifica-
HMS’s sales of gateways in 2008 amounted to USD 7.5 million, which represents a market share of 3-4 per cent. Previously, HMS had expected the gateways market at this time to be worth USD 133 million (base year 2005) or SEK 1 billion. The latest report from VDC indicates that the market has grown annually by 20-25 per cent and is now considerably bigger than HMS had forecasted in 2005.

As newer network technology gradually takes over from older networks the need for gateways increases in order to retain some of the automation devices when production plants are modernized. HMS also expects both Embedded Products and Gateways to take market shares from smaller competitors as a result of the company’s relative size. Competitive advantages such as established customer base, economies of scale and leading technology mean there are good conditions for this to succeed.

Largest independent vendor
HMS’s market is relatively fragmented in terms of the number of players and their size. There are two main groups of competitors. The first is made up of OEMs, i.e. manufacturers of automation equipment. OEMs 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 themselves. Essentially, they produce substitutes for HMS products internally. 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 only offer a few product models and there are no competitors that can match HMS’s wide product range in this area, with over 200 different gateways between various industrial protocols.
HMS develops network interface cards that are fitted in the automation devices of companies like Siemens, ABB, Panasonic and Schneider Electric. The network interface cards act as a switch that receives and transfers information, allowing 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 product area Embedded Products. Gateways 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.

Since its launch, the Embedded Products product group has accounted for the majority of HMS’s sales, and in 2008 this amounted to 71 per cent of HMS’s total sales. On the other hand, the Gateways product group has accounted for the highest growth and an increasing share of sales since its introduction in 2001. This product group accounted for 26 per cent of sales in 2008. The remainder is made up of revenues from developing customized network interface cards, components sold to subcontractors and other revenues.

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, where the network interface cards are embedded so that the motor control can be connected with an industrial network to allow centralized control. Robotics is also an important area that uses HMS network interface cards.

Network interface cards 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 network interface card supports all major industrial network protocols, for example, Ethernet, Profibus, ControlNet, DeviceNet, AS-Interface, LonWorks and CANopen.

HMS’ complete Embedded Products product range is suitable for all important, well-established protocols, i.e. network languages. This means that HMS can attract 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 has been 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 solutions
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 39 per cent of HMS’s network interface card sales are customized.

A growing product portfolio
HMS network interface cards are available in more than 100 different versions enabling communication between some 20 different industrial network protocols. Until 2006, the product range mainly consisted 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-CompactCom 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 during manufacturing. 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 Anybus-CC, 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 over a large number of manufactured products. Anybus-CC increases the relative cost benefits of outsourcing this activity to an external vendor.

The product range was expanded in 2008 with the launch of a new EtherCAT module. HMS is continuously broadening the Anybus CC product family with new versions. Products in the pipeline for 2009 include a Profinet IO 2-Port version and new modules for ControlNet, CompoNet and Sercos III.

**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 in-depth 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 this stage that revenues start to be generated for HMS.

Since automation devices that include HMS’s embedded products generally have a useful life of between seven and ten years, HMS’s network interface cards also have a long product lifecycle. Over time, HMS has built up a portfolio of more than 731 (651) design wins, which contribute to the company’s current and forecast turnover. It can be difficult to predict the revenue generated from a particular design win during a particular year.

**Communication between networks**

Gateways are communication solutions that are not embedded in automation devices, but assembled independently in, or between, industrial networks. 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

"Emotron develops solutions to control and monitor electrically-powered equipment, such as pumps, fans and taps. Our products are used in different applications in industries and local authorities worldwide, and offer energy savings and increased reliability combined with a user-friendly interface. As a global player, we must be flexible so as to meet the needs of various markets. Anybus technology means that our products can be fully connected to international network standards and protocols. This provides further value for the customer through faster control and more efficient monitoring and configuration.”

Philip Schwarz
Vice President
Sales & Marketing Emotron AB
same protocol as the industrial network. Gateways instead translate the protocol of the automation device to the industrial network’s protocol and vice versa. Second-ly, connecting a gateway between two industrial networks makes it possible for them to communicate with each other.

HMS launched its first series of gate-ways, Anybus Communicator, in 2001. Most automation devices have a serial port and the 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 further developed the Communicator concept with the launch of the Anybus-X Gateway to facilitate communication between industrial networks.

HMS launched Anybus RemoteCom in 2008. This completely new gateway product family for remote control of automation devices can be used to monitor and control industrial equipment via a standard web browser.

Anybus RemoteCom is equipped with a powerful internal web server, which via interconnection provides access to device data in the form of log information and forecasts. The integrated alarm and status management system automatically alerts the supervisor via SMS or e-mail if predefined events occur. It is easy to configure the units yourself, but templates can also be downloaded from the RemoteCom management server. Typical applications for Anybus RemoteCom include remote control of process equipment, power stations, and climate and ventilation systems.

A secure web server that collects all the data from every connected device makes it easier to search for, and manage, data.

**IntelliCom**

HMS owns 52% of IntelliCom Innovation AB which develops systems for remote control and monitoring of industrial products, such as Anybus RemoteCom. The technology builds on the interaction between industrial networks and various external communication 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 a mobile network. IntelliCom’s activities currently make up a small part of the Group with sales in 2008 of around sek 22 million. IntelliCom’s sales are reported in the Gateways product area.

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**The Anybus CompactCom products gives us the possibility to support any of the communications protocols different customers demand when using our CBX Series, this help us to target many markets for our CBX family, both for traditional fieldbuses as well as Industrial Ethernet.”**

**Daniele Fiorini,** Products Development Director of Unattended Scanning Systems & RFID at Datalogic Automation S.r.l.

**“Datalogic has been an early adopter of our embedded products. Time to Market is an important key point, but “Time to Volume” was even more an added value to our solutions.”**

**Paolo Sartori,** Sales Manager
HMS industrial Networks S.r.l. Italy

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Datalogic Automation is a leading supplier of solutions for barcode and RFID systems used in various manufacturing, transport and logistics applications. Datalogic’s CBX range consists of industrial junction boxes designed to speed up installation, configuration and maintenance of Datalogic’s barcode readers.
A strong corporate culture with clear values

The courage to try new ideas and the commitment to implement them: these are two of the strong values that drive HMS to continuously improve its products and strengthen its market position. HMS personnel submitted over 180 improvement proposals in 2008, and 120 of these had already been implemented by the end of the year.

The entrepreneurial spirit permeates HMS and the commitment of the founders spreads to the rest of the organization. The bar is set high at HMS, and people dare to say what they think. In combination with strong commitment, this has resulted in many suggestions for improvements. In fact, no fewer than 180 improvement proposals were submitted in 2008, and by the end of the year 120 has been successfully introduced.

A focused investment in training in 2008 means 25 operators are now specialists in quality evaluation. In addition, improvement groups were set up with responsibility to send back the results of increased random tests to the respective production teams and propose improvement measures. HMS also has an improvement group in which the production, development and quality departments can jointly discuss improvement work.

According to the latest employee survey, HMS staff members have a great deal of confidence in each other, their bosses and management. At HMS there is great equality at all levels and staff members feel they work in a secure and pleasant environment. The move to new premises in late 2007 gathered all personnel under one roof with common meeting places. In the new premises it is easier to create an ordered, effective workplace. The move has thus created conditions for higher efficiency and better communication, cooperation and flexibility. The location by the city’s central station also improves employee’s travel and commuting possibilities and makes things easier for visiting customers.

“HMS is driven by great commitment, to the customer, the assignment and to each other. You can really feel it in the air. It is not only those of us who work here who feel it, but our customers and other visitors too.

The company really invests in its employees, so if you want to, there are very good opportunities to develop within the company, whether you want to broaden your expertise or work abroad. It is exciting to have all these contacts with other cultures, but the most stimulating aspect is probably seeing our efforts lead to excellent results.”

Katarina Lecander
Quality Manager

“It feels satisfying to represent HMS both in the world market and in Sweden. You find that you are always well respected.

The most distinctive aspect of HMS is that growth creates opportunities. We are taking people on when others are laying people off. It is all about being bold – and we are.

The entire organization is permeated by a feeling of familiarity. During breaks everyone talks to each other in the large cafeteria. You are always welcome to present criticism, especially if you also have a suggestion for improvement.”

Niclas Johansson
Sales Manager
Specialization creates added value for shareholders

As a company with a clear specialization, HMS has gained experience and economies of scale that enable the company to further increase its lead over the competition. This specialized focus means HMS can achieve scale benefits and develop leading technology in its chosen niche.

**Leading technology**

HMS aims to be in the vanguard of technical advances. As a result, HMS today can provide communication solutions for more industrial network protocols than any of the company’s competitors. HMS began earlier than its competitors to develop communication products for industrial Ethernet protocols, which are currently the fastest-growing industrial network protocols.

The company’s internally developed NP30 processor replaces a number of large components on a circuit board, thus enabling the company to manufacture smaller, more cost-effective devices than today’s standard formats. In order to protect its technology and its products, HMS has patented a number of its solutions.

**Economies of scale**

With more than 1,100 customers, the company can achieve high production volumes and thereby attain lower marginal costs than its 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 factor leads not only to economies of scale, but also generates benefits in the form of experience the competition lacks. HMS can use this experience to further increase its lead over the competition, since experience is a critical knowledge base for development of new technology as well as better maintenance and service.

**Experience and expertise**

HMS has a large portfolio of more than 730 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 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. The geographic focus for HMS’s marketing efforts includes 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.

**Direct sales**

A direct sales model is used for Embedded Products and is characterized by close cooperation with the customer’s product 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 around 6–18 months.

Volume growth in the first few years can vary significantly from case to case. The reason is the vast variation in the complexity of customers’ product rollouts. The average product lifecycle for automation products is 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.
Historically, HMS’s sales focus for Embedded Products has been on small and mid-size 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 has strengthened its competitive advantage. The company therefore took a strategic decision to broaden its sales in order to move towards larger applications, preferably with existing customers.

Compared to the small and mid-size companies that until now have made up the largest proportion of customers, the major automation solution manufacturers produce significantly longer series of their automation equipment, which for HMS means substantial potential to increase volumes.

Indirect sales
Gateway products are sold today either via HMS’s own distribution channels or to OEM customers, who in turn sell them as a complement to their own product range. However, the company is now extending its sales of Gateway products via distributors 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 sales of Gateways from the sales organization for Embedded Products. This process is a gradual one and adapted to the prevailing conditions in different geographic markets. HMS has established specific global sales teams for major customers with global operations. The aim is to sell large volumes to these customers. HMS also sells Gateway products to major global customers who put their own brand on the products and sell them through their sales channels.

Development organization
HMS employs 44 people in development, which represents 30 per cent of the Group’s total workforce. The team is divided between software development (28), hardware development (9), and product management and technical documentation (7). The organization develops Anybus products for all major industrial networks.

Improvement work
Intensive improvement was a key theme in 2008. The entire organization has been involved in finding solutions that simplify processes and reduce risks. A uniquely high percentage of HMS operators are now specialists in quality evaluation of electronics, and satisfaction among customers has risen considerably.

The company’s dedicated quality work continued to produce results in 2008. Product deliveries according to schedule have increased from 97 per cent (2006) to 98.8 per cent (2008). The speed of quality work was increased two years ago and since the last customer satisfaction survey, which is carried out every other year, HMS has improved on 16 of 20 points. Product quality, technical support, rapid service and HMS’s reputation are in the top rankings with 80–85 on a 100-point scale. A strong contributory factor in this improvement is that more employees have been trained in quality evaluation. Now there are 25 operators who are quality evaluation specialists, compared with 12 when the training was initiated. This means the production teams can carry out their assignments without needing to consult quality managers so often. Working with step-by-step images has also improved the clarity of basic data. It should be easy to get things right.

Improvement groups were introduced in production in 2008. These groups have looked at working methods and ensured that workplaces function well. Weekly feedback has shown how much progress is being made.

Out of 180 improvement proposals in 2008, 120 have been implemented, and this has had a positive effect among customers. Customer satisfaction surveys carried out during the year showed the highest satisfaction ratings since these measurements were introduced.
Improvement work today involves everyone in the organization. Efficiency and productivity have improved without anyone having to do extra work. Solutions have been focused on simplifying processes. The development organization and production have improved cooperation and have a common understanding of prioritization issues.

Through close cooperation mainly with Japanese customers, who often have higher demands than European and American customers, HMS has learned what quality really means.

During the year, HMS worked on boosting quality-consciousness and the improvement culture within the organization. Within production, five improvement groups have been established that act as filters before a product is released to the customer. By giving feedback to the right production team, it has been possible to rectify faults faster and more effectively within one or two weeks.

The results have been a better more ordered structure, closer access to tools and material, better working methods and a simpler flow of products, faster production stages, a reduced risk of faults, and not least, greater satisfaction.

**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 manufacturing objectives**
HMS has a mix-based philosophy for product supply. 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 and assembling critical components and finished products itself, HMS ensures that the company can supply the most reliable and well-developed products.

**Component vendors**
A network interface card consists of a circuit board fitted with hundreds of components. HMS works strategically 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 is produced in Taiwan by TSMC, one of the world’s largest silicon manufacturers, as part of integrated circuits. In addition to its own production, HMS also outsources manufacturing to two other companies.
HMS’s shares were listed on the NASDAQ 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.

Dividend policy
HMS’ policy is to pay annual dividends of approximately 30% 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.

Outstanding options scheme 31 Dec 2008

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<th>No.</th>
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<th>Acquisition price</th>
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<td><strong>581,250</strong></td>
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</table>

Shareholders
As of 31 December 2008 HMS Networks AB (publ) had 3,100 shareholders. The ten largest shareholders represented 74.7% (65.4) of the voting rights and capital.

The following market analysts monitor HMS on a on-going basis
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 NASDAQ OMX Nordic Exchange, 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 its control and reporting functions within the Group.

Group structure and ownership 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 3,100 shareholders. The Board and senior management together own around 31 per cent of the voting rights and capital.

Annual General Meeting
HMS’s highest decision-making body is the Annual General Meeting (AGM). The meeting elects the Board and accountants, adopts the financial statements, decides on possible dividends and other allocations from profits and decides on discharge of responsibility for the board and CEO. In addition, the AGM decides on possible new share issues and the introduction of share-related incentive schemes. The AGM will be held within six months after the end of the financial year. All shareholders registered in the shareholders’ register on the record day (five calendar days before the day of the AGM) and who have applied, have the right to attend. Each share gives the shareholder the right to one vote. The notice to attend should be issued no earlier than six weeks and no later than four weeks in advance by advertising in Dagens Industri and the Swedish Gazette (which since 1 January 2007 is only available at www.bolagsverket.se/poit).

The AGM was held on 30 April 2008 at the company’s offices in Halmstad. Present at the meeting were shareholders representing 45.9 per cent of the shares and voting rights. The AGM decided to re-elect Urban Jansson, Sebastian Ehrnrooth, Staffan Dahlström and Ray Mauritsson, and elect Göran Sigfridsson. The Meeting decided to elect Urban Jansson as Chairman of the Board. Guidelines for appointing a nominations committee were established at the AGM on 30 April 2008. The AGM decided that remuneration to the Board should be SEK 525,000 for the current financial year, of which SEK 225,000 to the Chairman and SEK 100,000 each to board members not employed by the company. No remuneration was paid to board members employed by the company or to board members representing the main owners of the company.

The AGM also decided that a dividend of SEK 1.00 per share should be paid to shareholders.

The Board
Five board members were elected at the AGM in 2008 to HMS Networks AB’s board. The Board includes one person, Staffan Dahlström, who represents the two main owners (Nicolas Hassbjer and Staffan Dahlström) who together control 30% of the shares and votes in the company. Staffan Dahlström is also employed by the Group as Global sales & marketing director.

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

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 21.

Since the AGM on 30 April 2008 the board has held eight minuted 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 further development of previously established market and acquisition strategies.

Director’s fees for 2008 amounted to SEK 525,000.
Chairman
Urban Jansson was elected Chairman of the Board at the AGM on 30 April 2008. 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 the Annual General Meeting in 2008 a resolution was passed concerning the principles for the introduction of a nomination committee at HMS Networks AB. The AGM decided to adopt the nomination committee proposal that the Chairman of the Board, together with representatives of the largest shareholders will constitute the nomination committee until the next AGM has been 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 (the chairman of the board or other member of the board should not be elected as chairman of the nomination committee). In a case where any of the three largest shareholders decline their right to appoint a representative, the right is transferred to the shareholder with the next largest shareholding on the specific date. If a member leaves the 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 shareholdings 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 to be 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 2009 Annual General Meeting, the nomination committee consisted of: Urban Jansson, Nicolas Hassbjer, Johan Lannebo, Jan Svensson and Per Trygg, with Johan Lannebo acting as the Chairman of the committee. Nicolas Hassbjer is a member of the nomination committee as the representative of 30% of the shares and votes in the company, representing both Staffan Dahlström and his own shareholding.

The Board nominates a remuneration committee from its members, that processes 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 Nicolas Hassbjer.

The Board also nominates an audit committee from its members that deals with audit-related issues, such as planning, performed audits and observations from these audits. The committee also makes decisions regarding all purchases of consulting services from the company’s auditor that do not fall within audit-related consulting. The audit committee includes all board members.

CEO and senior management
The CEO leads 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 for decision-making, 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 2008 amounted to sek 1,377,000.

The Group’s senior management team consists of CEO, CFO, Chief Operating Officer and Sales & Marketing Director, who are presented on page 22. During the year, the management team held 18 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 twice a year to the entire board about their audit and state their views about internal controls. The company auditors also participate in audit committee meetings.

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 2008 was sek 943,000.

Internal control reports
The Board is responsible in accordance with the Swedish Companies Act and the Code for Corporate Governance for internal controls. The Board shall, according to the established working procedures, annually evaluate and describe the most important elements in the company’s system for internal controls and risk management regarding financial reporting as well as evaluate the need for internal auditing. This report does not constitute a part of the formal annual accounts and has not been examined by the company’s auditors.

Description
Internal control of financial reporting within HMS is an integrated element of corporate governance. It contains processes and methods to secure the Group's
assets and accuracy in financial reporting, and aims to protect the owners’ investment in the company. HMS has initiated a review based on the COSO framework in order to organize and further improve work in this area.

Control environment
The Board has overall responsibility for establishing and maintaining a well-functioning system for risk assessment and internal controls. The Board has established procedures for its work that identifies the internal distribution of work between board members. The ongoing work concerning the maintenance of an effective internal control environment and ongoing risk assessment regarding financial reporting is delegated to the CEO, who in turn delegates function-specific responsibilities to managers at various levels in the Group. Detailed delegation rules have been drawn up with well-defined authorization and decision-making levels that are applied throughout the Group.

The HMS organization is structured to enable a fast response to market changes. Operative decisions are therefore taken at department level, whereas decisions on strategy, direction, acquisitions and overall financial matters are made by the Board and senior management. The internal controls regarding financial reporting within HMS are designed to manage these basic conditions.

The foundations for the internal controls regarding financial reporting are made up of a control environment with organization, decision-making paths, authority and responsibilities documented and communicated by governance documents. Within HMS, some of the most important elements in the control environment are documented in the company’s policies and in operational descriptions. HMS policies include Policy for Accounting and Reporting, Finance Policy and HR policies.

The Board establishes working procedures every year that regulate areas such as the Chairman’s and CEO’s duties. The Board has established an audit committee to increase knowledge on observation and control of the company’s accounting, financial reporting and risk management, and a remuneration committee to manage senior management’s remuneration.

In 2008, HMS initiated an overview and analysis of existing governance processes and internal controls in order to give the Board a basis for establishing the level of internal governance and control. The review is based on an analysis of how the COSO framework’s important areas are reflected in the HMS organization. The work is expected to lead to an evaluation and verification of the governance documents and guidelines that act as a basis for the Group’s governance of its activities.

Risk assessment
Risk assessment stems from the Group’s financial targets. The overall financial risks are defined. Through quantitative and qualitative risk analyses based on the Group’s balance sheet and income statement, HMS identifies the key risks that can represent a threat to the company achieving its business and financial targets. These analyses form the basis for defining measures to minimize the identified risks.

Control activities
Identified risks concerning financial reporting are managed via the company’s control activities. There are, for example, automatic controls in IT based systems that manage authority and certification rights, and manual controls in ongoing bookkeeping and closing entries. Detailed financial analysis of results and follow-ups against budget and forecasts complement the business-specific controls and provide an overall confirmation of the reporting quality.

Information and communication
The Group has information and communication paths that aim to promote completeness and accuracy in financial reporting. Policies, handbooks and operational descriptions are available on the company’s intranet. Important guidelines, manuals and similar documents for financial reporting are updated and communicated to affected personnel on an ongoing basis.

The company’s auditors attend at least two board meetings per year at which the auditors present their assessments and observations on operational processes, the accounts and reporting.

Follow-ups and monitoring
The financial department and management carry out detailed monthly analyses of financial reporting.

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

The audit committee follows up the financial accounts and receives reports from the company’s auditor with observations and recommendations. The board receives monthly financial reports and reviews the company’s financial situation at each board meeting.

The effectiveness of the internal control activities is followed up regularly at different levels in the Group.

In view of the scope of the business and the existing control activities, the board has decided that there is no requirement to introduce a specific internal audit function.
Urban Jansson (born 1945)
Chairman of HMS Networks AB (publ).
Board member since May 1999.
Urban Jansson is Chairman of Global Health Partner, Rezidor Hotel Group AB (publ) etc. He is a board member of Addtech AB, Clas Ohlson AB (publ), Höganäs AB, Skandinaviska Enskilda Banken AB (publ) etc. Urban Jansson has a higher degree in banking business from Skandinaviska Banken.
Shareholding: 35,000 shares.
Option holding: 2,475 warrants with subscription rights to 24,750 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, Isaberg Holding AB, Dacke PMC Holding AB, and NEA Holding AB. He has a Civil Engineering degree in Industrial Economics from the Linköping Institute of Technology 1988 and a Master of Business Administration, degree from IMD in Lausanne, Switzerland, 2003.
Sebastian Ehrnrooth holds no shares or warrants.

Göran Sigfridsson (born 1948)
Board member of HMS Networks AB (publ) since May 2008. Göran Sigfridsson has long experience from leading positions in industrial automation and is the former CEO of Beijer Electronics AB (publ) 1981-2008. He is Chairman of Svep Design Center AB and a board member of ComPower AB and Borgestad Industries ASA (publ). Göran Sigfridsson also runs his own management consulting company, SimaCon AB. He has a Civil Engineering degree in Electronics from the Lund Institute of Technology 1973.
Shareholding: 1,000 shares.

Staffan Dahlström (born 1967)
Board member of HMS Networks AB (publ) and Global Sales & Marketing Director since August 1998. Staffan Dahlström has a degree in Computer Systems Engineering, specializing in Mechatronics, from the University of Halmstad.
Shareholding: 1,585,748 shares.
Option holding: 50% of 825 warrants with subscription rights to 8,250 shares.

Ray Mauritsson (born 1962)
Board member of HMS Networks AB (publ) since May 2007. Ray Mauritsson is CEO of Axis AB (publ.). He has a Master of Science degree in Technical Physics and an Executive Master of Business Administration degree from the Lund School of Economics and Management.
Shareholding: 5,000 shares in HMS Networks AB (publ).
Management team

Nicolas Hassbjer  
**Chief Executive Officer**  
Born 1967. President and CEO of HMS Networks AB (publ) since June 1988. Nicolas Hassbjer is the Chairman of the Board of Intellicom Innovation AB, and is a board member of the Chamber of Commerce and Industry of Southern Sweden. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from Halmstad University. Shareholding: 1,585,748 shares; warrants with subscription rights to 4,125 shares.

At the AGM on 2 April 2009 Nicolas Hassbjer leaves his operating role after 21 years as CEO of HMS and will be proposed as Vice Chairman of the Board of HMS.

Gunnar Högberg  
**Chief Financial Officer**  
Born 1956. Chief Financial Officer of HMS Networks AB (publ) since August 2006. Gunnar Högberg was previously CFO of Roxtec AB, Kipling Holding AB (publ) and Group Controller of Althin Medical AB (publ). He also has many years of experience in accounting, including a role as authorized auditor for Ernst & Young. Gunnar Högberg has a B.Sc. in Business Administration and Economics. Shareholding: 10,000 shares; warrants with subscription rights to 16,500 shares.

Jörgen Palmhager  
**Chief Operating Officer**  
Born 1968. Chief Operating Officer of HMS Networks AB (publ) since January 2007, and formerly Development Manager of HMS 1992-2006. Jörgen Palmhager has been a member of the Technical Review Board of the Open Devicenet Vendor Association since 2005. He has a B.Sc. in Computer Systems Engineering. Shareholding: 15,000 shares; warrants with subscription rights to 24,750 shares.

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

Staffan Dahlström  
**Sales & Marketing Director**  
Born 1967. Global Sales & Marketing Director of HMS Networks since 1998. Staffan Dahlström has been a board member of HMS since August 1989. He has a degree in Computer Systems Engineering, specializing in Mechatronics, from the University of Halmstad. Shareholding: 1,585,748 shares; warrants with subscription rights to 4,125 shares.

*Staffan Dahlström will take up his position as CEO of HMS at the AGM on 2 April 2009 and, in conjunction with this, leave his position as a board member of HMS.

Sabina Lindén  
**Human Resource Manager**  
Born 1979. Human Resource Manager of HMS since April 2006 and has a B.Sc. in Social Science from the University of Gothenburg. Shareholding: 2,200 shares; warrants with subscription rights to 3,300 shares.
Petra Jarhl
Supply Manager
Shareholding: 4,300 shares; warrants with subscription rights to 8,250 shares.

Katarina Lecander
Quality Manager
Born 1967. Quality Manager of HMS since 1999 and joined the company in 1997. When the new ISO standard 9001:2000 was introduced, she was the first in Sweden to carry out a certification at HMS. Katarina Lecander has a B.Sc. in Industrial Organization from the University of Halmstad.
Shareholding: 600 shares; warrants with subscription rights to 8,250 shares.

Linda Johansson
Group Controller
Born 1974. Group Controller of HMS since September 2008. She has previous experience as an auditor, Chief accountant and financial manager.
Linda Johansson has a B.Sc. in Business Administration and Economics.
Shareholding: 0

Magnus Hansson
Development Manager
Born 1975. Development Manager of HMS since January 2007 and was previously a project manager in development since 1997. He has an M.Sc. in Electronic Engineering from Halmstad University.
Shareholding: 5,300 shares; warrants with subscription rights to 8,250 shares.

Martin Falkman
Head of Product Management
Born 1971. Head of Product Management since 2007 and joined the company in 1999. He has a B.Sc. degree in Electronic Engineering and has previous experience of system integration within automation.
Shareholding: 1,500 shares; warrants with subscription rights to 7,650 shares.

International sales managers
Christian Bergdahl, Japan/Asia
Paolo Sartori, Italy
Jerry Zhao, China
Trevor Lang, USA
Michael Volz, Global Marketing
Matthias Oswald, Germany
Marc Richard, France
Staffan Dahlström, Global Sales Director
Kevin Knake, USA
Anders Hansson, Global Key Accounts
Glossary

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

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

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

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

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

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

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

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

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

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

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

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.
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 worldwide 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, Beijing, Karlsruhe, Milan and Mulhouse.

The Group’s invoiced sales rose to SEK 316.6 million (269.5). Exchange rate fluctuations positively affected net sales during the year by SEK 7.5 million. Invoiced sales are divided between Europe 59% (59), Asia 17% (19), North America 19% (19) and other markets 5% (3). The Group’s largest markets are Germany, the USA and Japan.

The operating profit after depreciation was SEK 85.0 million (54.5) and cash flow from operating activities was SEK 68.1 million (33.7).

The Group’s equity amounts to SEK 224.4 million (182.2) and liquidity at year-end was SEK 66.2 million (30.1) 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 Beijing. These offices deal with sales and support on the Japanese and Chinese markets respectively.

Important events during the year
All markets, except Japan, reported strong growth in 2008. Several markets, including the UK, the Netherlands and Brazil grew by more than 40%.

At year-end the total number of design wins was 731 (651). Of these, 553 (492) were in the production phase. 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 and will contribute to the company’s net sales. The average revenue per design win in the production phase amounted to SEK 0.43 million (0.44).

In May, HMS won the annual Stora Exportpriset (Grand Export Prize), which is awarded to the best export company in Sweden. The award was given by H.M. King Carl XVI Gustaf at a ceremony at The China Theater in Stockholm before an audience of 1,000 people from the Swedish export industry.

In February, HMS in Halmstad won an order worth around SEK 1 million for Anybus Gateways to connect together over 100 industrial robots in a new automotive production line.

In October, HMS was listed – for the third year in a row – by business magazine, Veckans Affärer, as one of Sweden’s “Super Companies”.

Also in October, HMS won an order worth SEK 1.3 million from a US customer for Anybus Gateways, which will be used in a control system designed for a marine environment.

During the year, one of the world’s largest producers of motor controls within industrial automation decided to embed HMS’s new Anybus technology in its products. The initial order for customization of HMS’s Anybus product, amounting to around SEK 1 million, was increased in December to encompass further development work for a total value of around SEK 3.5 million. Due to this increased order, HMS Anybus technology will be used in several variants of the customer’s motor controls. The development work on customization is estimated to be mostly completed during the first half of 2009. When the products are being produced at full volume, the annual sales are estimated to exceed SEK 30 million.

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

Research and development
The Group has expended SEK 27.0 million (25.7) for research and development. In addition, SEK 4.9 million (2.9) worth of development expenses have been capitalized, of which SEK 4.9 million (2.9) is for in-house projects. Total research and development expenses make up 10% (10) 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.
**Personnel**
At year-end the Group had 167 employees (158). The increase is mainly in sales and development resources and has occurred throughout the Group.

**Principles for remuneration to senior management**
The Board appointed a remuneration committee in 2008. The following principles proposed by the company’s remuneration committee will be put before the AGM in 2009. Remuneration to the CEO and other individuals in the HMS Networks AB's group management is made up of basic salary, short and long-term incentive programmes and pension. Other benefits and remuneration is received on corresponding grounds to those of other employees.

The aim of the HMS remuneration policy for senior management is to offer remuneration that promotes the retention and recruitment of qualified expertise for HMS Networks AB. The basic salary is established on the basis that it shall be competitive in combination with short and long-term incentives. The absolute level depends on the position in question and individual performance. Remuneration to the CEO is fixed by the Board based on the proposal from the remuneration committee. Remuneration to senior management is established by the CEO after approval by the remuneration committee.

Bonuses to the CEO and senior management are based on the financial targets of the Group. Bonuses shall mainly be based on growth in combination with profitability, and in addition other personal targets can be set. For the CEO and senior management the single highest bonus amount is a maximum of 24% of basic salary.

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

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

For information on the composition of the remuneration committee, see page 19.

**Risks and uncertainty factors**

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

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

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

**Risks relating to new products**
If HMS does not succeed in developing new and innovative products or keep pace with technical development, the business and revenues can be negatively affected. HMS considers that its success is partly dependent on the company’s ability to develop new and innovative products and to continuously enhance existing products. The company’s revenues and market shares can be affected negatively if the company’s competitors introduce new or improved products or services that customers perceive as attractive. If HMS does not succeed in keeping pace with product development and technology advances, or does not succeed in meeting customer’s needs, this can have effects on the company’s profits and position.

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

**Suppliers**
The company is dependent on satisfactory cooperation with suppliers. The company is dependent on its component suppliers, but other suppliers are also important. If cooperation with these suppliers should deteriorate or be terminated, the company would be forced to replace them with new suppliers, alternative components or possibly redesign the products. This could have a negative effect on the company’s profits and position.
Customers
The company’s sales are to professional companies. It is of the greatest importance for the company to be able to offer attractive and competitive products in order to maintain its market position. It is therefore essential that the company has the capability to develop and market new products that are accepted by the market and fulfil customers requirements, as well as the capacity to improve existing products. If major changes should occur in purchasing patterns at the company’s major customers, this would affect the company’s profitability. The large number of customers limits dependency on any single customer. A limiting of the company’s possibilities to maintain its relations with one or more customers can however negatively affect the company’s business, profits and financial position.

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

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

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

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

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

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

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

Disputes
The company is currently not involved in any disputes. Though no potential future disputes have been identified it cannot be ruled out that the company will become involved in disputes that would have a negative impact on the company’s profits and position.
Financial risks
The Group’s international operations entail a number of financial risks, which are managed by policies established by the board. The overall objective is that the Group’s financial function provides financing to group companies and manages financial risks so that effects on the Group’s profits are minimized. The Group is mainly exposed to financing, currency, interest and credit risks. For further information, see note 3.

Currency exposure
Of the Group’s invoicing, 19% (18) is in USD and 61% (63) in EUR. Other invoicing is mainly in SEK, JPY and GBP. The Group’s costs are divided as follows: 9% (8) in USD and 19% (15) in EUR. The Group’s policy is to minimize currency exposure by means of forward contracts.

Events after the balance sheet date
In order to further strengthen the local presence in Japan, the Japanese sales office was converted into a wholly-owned subsidiary in Q1, 2009. The Board of HMS Networks appointed Staffan Dahlström as the new CEO to succeed Nicolas Hassbjer who has chosen to leave the position of CEO and will be proposed as Vice Chairman of the HMS Board. Staffan Dahlström, who has been Sales & Marketing Director for the past 10 years, takes up his position as CEO on 2 April 2009. Nicolas Hassbjer will devote his time to board-related work for HMS and other growth companies. In addition to this work, he will, when required, support HMS on specific projects.

Future outlook
Historically, the underlying automation market has been less sensitive than other industries to changes in the business cycle. In strong business conditions, end-customers have focused on automation to increase capacity, whereas in weak business conditions the focus switches as automation becomes a means to reduce production costs. However, between these two phases there can be a period of lower volumes, and we consider that we are in such a period.

In parallel with lower order intake, the number of inquiries regarding customization has risen sharply. In combination with the continuing inflow of design wins, this supports the Group’s long-term growth.

The long-term targets of HMS are unchanged: long-term growth averaging 20% per year and an operating margin over 20%. The company’s strategy to achieve these targets involves a continuing investment in building up a strong portfolio of design wins in the area of embedded network interface cards and a broadening of the offering to closely related areas in network technology based on the company’s technology platform.

HMS’s shares
HMS Networks AB is listed on NASDAQ OMX Nordic Exchange in the Small Cap category within the Information Technology segment. The average turnover amounted to SEK 1.04 million (4.9) per day. The average turnover in number of shares was 15,603 shares (69,239) per day. The share’s volume-balanced average price in 2008 was SEK 64.91 (70.76). The total number of shares at year-end was 10,571,650. All shares have the same voting rights.

Parent company

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

Ownership structure as of 31 December 2008

<table>
<thead>
<tr>
<th>Owner</th>
<th>No. of shares</th>
<th>Share of capital and voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicolas Hassbjer and companies</td>
<td>1,585,748</td>
<td>15.0%</td>
</tr>
<tr>
<td>Staffan Dahlström and companies</td>
<td>1,585,748</td>
<td>15.0%</td>
</tr>
<tr>
<td>Investment AB Latour</td>
<td>1,330,000</td>
<td>12.6%</td>
</tr>
<tr>
<td>SEB Fonder</td>
<td>1,065,200</td>
<td>10.1%</td>
</tr>
<tr>
<td>Others</td>
<td>5,004,954</td>
<td>47.3%</td>
</tr>
<tr>
<td></td>
<td>10,571,650</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The total number of shares at year-end was 10,571,650. All shares have the same voting rights.

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

| Profit brought forward and other non-restricted reserves | 83,663,260 |
| Profit/Loss for the year                                  | 0          |
| Total equity                                             | 83,663,260 |

The Board and CEO propose:
A dividend of SEK 1.50 per share to shareholders
Brought forward                                           | -15,857,475 |
| Total                                                    | 83,663,260  |

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).

The following pages are a condensed version of the HMS Group’s Annual Report. For further information please visit HMS’s website at: www.hms.se or contact CFO Gunnar Högberg at: guh@hms.se
## Consolidated income statement

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>316,563</td>
<td>269,464</td>
</tr>
<tr>
<td><strong>Cost of goods and services sold</strong></td>
<td>-134,721</td>
<td>-128,193</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td><strong>181,842</strong></td>
<td><strong>141,271</strong></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-50,885</td>
<td>-42,355</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>-19,173</td>
<td>-14,496</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>-27,003</td>
<td>-25,710</td>
</tr>
<tr>
<td>Other gains – net</td>
<td>6,320</td>
<td>295</td>
</tr>
<tr>
<td>Other losses – net</td>
<td>-6,070</td>
<td>-4,496</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td><strong>85,031</strong></td>
<td><strong>54,509</strong></td>
</tr>
<tr>
<td>Financial income</td>
<td>1,881</td>
<td>720</td>
</tr>
<tr>
<td>Financial costs</td>
<td>-5,961</td>
<td>-12,817</td>
</tr>
<tr>
<td><strong>Total income from net financial items</strong></td>
<td><strong>-4,080</strong></td>
<td><strong>-12,097</strong></td>
</tr>
<tr>
<td><strong>PROFIT AFTER FINANCIAL ITEMS</strong></td>
<td><strong>80,951</strong></td>
<td><strong>42,413</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>-22,140</td>
<td>-12,645</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE YEAR</strong></td>
<td><strong>58,811</strong></td>
<td><strong>29,768</strong></td>
</tr>
<tr>
<td>Attributable to equity holders of the Parent Company</td>
<td>57,429</td>
<td>29,284</td>
</tr>
<tr>
<td>Attributable to minority interests</td>
<td>1,382</td>
<td>484</td>
</tr>
<tr>
<td>Earnings per share, basic, SEK</td>
<td>5.43</td>
<td>2.81</td>
</tr>
<tr>
<td>Earnings per share, diluted, SEK</td>
<td>5.17</td>
<td>2.65</td>
</tr>
<tr>
<td>Average number of shares, basic, thousands</td>
<td>10,572</td>
<td>10,406</td>
</tr>
<tr>
<td>Average number of shares, diluted, thousands</td>
<td>11,114</td>
<td>11,040</td>
</tr>
<tr>
<td>Dividends per share, SEK</td>
<td>1.00</td>
<td>0</td>
</tr>
<tr>
<td>ASSETS</td>
<td>31 Dec 2008</td>
<td>31 Dec 2007</td>
</tr>
<tr>
<td>--------------------------------------------</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>13,770</td>
<td>13,736</td>
</tr>
<tr>
<td>Goodwill</td>
<td>236,071</td>
<td>236,071</td>
</tr>
<tr>
<td><strong>Total intangible assets</strong></td>
<td>249,841</td>
<td>249,807</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>4,162</td>
<td>5,765</td>
</tr>
<tr>
<td>Equipment, tools, fixtures and equipment</td>
<td>6,226</td>
<td>6,103</td>
</tr>
<tr>
<td><strong>Total tangible fixed assets</strong></td>
<td>10,388</td>
<td>11,868</td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>862</td>
<td>828</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td>261,091</td>
<td>262,503</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories, etc.</td>
<td>17,549</td>
<td>18,255</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>37,952</td>
<td>30,150</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>0</td>
<td>402</td>
</tr>
<tr>
<td>Tax receivables</td>
<td>0</td>
<td>2,181</td>
</tr>
<tr>
<td>Other receivables</td>
<td>4,271</td>
<td>5,255</td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>3,228</td>
<td>3,387</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>66,177</td>
<td>30,117</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>129,177</td>
<td>89,747</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>390,268</td>
<td>352,250</td>
</tr>
<tr>
<td></td>
<td>31 Dec 2008</td>
<td>31 Dec 2007</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1,057</td>
<td>1,057</td>
</tr>
<tr>
<td>Other contributed capital</td>
<td>107,043</td>
<td>107,043</td>
</tr>
<tr>
<td>Reserves</td>
<td>254</td>
<td>254</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>112,724</td>
<td>71,897</td>
</tr>
<tr>
<td><strong>Total capital and reserves attributable to equity holders of the parent Company</strong></td>
<td>221,078</td>
<td>180,252</td>
</tr>
<tr>
<td>Minority interest in equity</td>
<td>3,348</td>
<td>1,959</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>224,426</td>
<td>182,211</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>92,151</td>
<td>108,591</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>9,554</td>
<td>6,358</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>101,705</td>
<td>114,949</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>16,441</td>
<td>16,547</td>
</tr>
<tr>
<td>Trade payables</td>
<td>15,292</td>
<td>21,558</td>
</tr>
<tr>
<td>Current income tax liabilities</td>
<td>2,375</td>
<td>0</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>3,237</td>
<td>2,632</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>10,784</td>
<td>1,340</td>
</tr>
<tr>
<td>Accrued expenses and deferred income</td>
<td>16,008</td>
<td>13,013</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>64,137</td>
<td>55,089</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td>390,268</td>
<td>352,250</td>
</tr>
</tbody>
</table>
Consolidated cash flow statement

<table>
<thead>
<tr>
<th>Operating activities</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>85,031</td>
<td>54,509</td>
</tr>
<tr>
<td>Adjustment for items not included in cash flow:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation/amortization</td>
<td>6,785</td>
<td>5,493</td>
</tr>
<tr>
<td>Losses on sales of tangible fixed assets</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>Disposals of tangible fixed assets</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Impairment of intangible fixed assets</td>
<td>580</td>
<td>0</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td>-10,194</td>
<td>0</td>
</tr>
<tr>
<td>Other items not affecting liquidity</td>
<td>-876</td>
<td>-540</td>
</tr>
<tr>
<td>Interest received</td>
<td>1,184</td>
<td>623</td>
</tr>
<tr>
<td>Interest paid incl. stock market listing costs</td>
<td>-6,170</td>
<td>-11,502</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>-10,306</td>
<td>-13,935</td>
</tr>
<tr>
<td>Cash flow from operating activities before changes in operating capital</td>
<td>66,074</td>
<td>34,648</td>
</tr>
</tbody>
</table>

| Changes in operating capital | | |
| Change in inventories | 707 | -1,006 |
| Change in trade receivables | -6,261 | -4,565 |
| Change in other current receivables | 1,249 | -2,044 |
| Change in trade payables | -6,315 | 851 |
| Change in other current liabilities | 12,644 | 5,815 |
| Cash flow from operating activities | 68,098 | 33,699 |

| Investing activities | | |
| Purchase of tangible fixed assets | -2,521 | -4,287 |
| Investment in intangible assets | -4,901 | -2,882 |
| Sale of tangible fixed assets | 78 | 13 |
| Changes in current financial investments | -1,921 | 97 |
| Cash flow from investing activities | -9,265 | -7,059 |

| Financing activities | | |
| New share issue | 0 | 33 |
| Borrowings | 0 | 796 |
| Repayment of debt | -15,000 | -14,565 |
| Redeemed warrants | 0 | -114 |
| Dividend paid to parent company’s shareholders | -10,572 | 0 |
| Cash flow from financing activities | -25,572 | -13,850 |

**CASH FLOW FOR THE YEAR**

| CASH FLOW FOR THE YEAR | 33,262 | 12,791 |

| Change in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of year | 30,117 | 17,326 |
| Exchange rate differences in cash and cash equivalents | 1,921 | 0 |
| Translation differences | 877 | 0 |
| Cash and cash equivalents at end of year | 66,177 | 30,117 |

**CHANGE FOR THE YEAR FOR CASH AND CASH EQUIVALENTS**

| CHANGE FOR THE YEAR FOR CASH AND CASH EQUIVALENTS | 36,060 | 12,791 |
## Consolidated statement of change in equity

<table>
<thead>
<tr>
<th>SEK Thousands</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>Opening balance on 1 January 2007</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>Change in currency differences regarding existing subsidiaries</td>
<td>36</td>
<td>-671</td>
<td>-635</td>
<td>-635</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment of minority interests</td>
<td>-181</td>
<td>-181</td>
<td>181</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions reported as equity</strong></td>
<td>0</td>
<td>0</td>
<td>36</td>
<td>-852</td>
<td>-816</td>
<td>181</td>
<td>-635</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
<td>29,284</td>
<td>29,284</td>
<td>484</td>
<td>29,768</td>
</tr>
<tr>
<td><strong>Total reported income and expenses</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>29,284</td>
<td>29,284</td>
<td>484</td>
<td>29,768</td>
</tr>
<tr>
<td>New share issue</td>
<td>33</td>
<td></td>
<td>33</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy-back of warrants</td>
<td>-114</td>
<td></td>
<td>-114</td>
<td>-114</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with equity holders</strong></td>
<td>33</td>
<td>-114</td>
<td>0</td>
<td>0</td>
<td>-81</td>
<td>0</td>
<td>-81</td>
</tr>
<tr>
<td><strong>Closing balance on 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 issues.

<table>
<thead>
<tr>
<th>SEK Thousands</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>Opening balance on 1 January 2008</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>
<tr>
<td>Effect on deferred tax and changes in Swedish tax rates</td>
<td>339</td>
<td>339</td>
<td>7</td>
<td>346</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in currency differences regarding existing subsidiaries</td>
<td>140</td>
<td>140</td>
<td></td>
<td>140</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions reported as equity</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>479</td>
<td>479</td>
<td>7</td>
<td>486</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td>-10,194</td>
<td>-10,194</td>
<td>-10,194</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax effect on cash flow hedging</td>
<td>2,681</td>
<td>2,681</td>
<td>2,681</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Settlement of tax</td>
<td>1,003</td>
<td>1,003</td>
<td>1,003</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>57,429</td>
<td>57,429</td>
<td>1,382</td>
<td>58,811</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total reported income and expenses</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>50,919</td>
<td>50,919</td>
<td>1,382</td>
<td>52,301</td>
</tr>
<tr>
<td>Dividend</td>
<td>-10,572</td>
<td>-10,572</td>
<td>-10,572</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with equity holders</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-10,572</td>
<td>-10,572</td>
<td>0</td>
<td>-10,572</td>
</tr>
<tr>
<td><strong>Closing balance on 31 December 2008</strong></td>
<td>1,057</td>
<td>107,043</td>
<td>254</td>
<td>112,724</td>
<td>221,078</td>
<td>3,348</td>
<td>224,426</td>
</tr>
</tbody>
</table>
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 2 March 2009.

Note 2 Accounting policies
The most important accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis for preparation of financial reports
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 RFR 1.1.

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.

Since 1 January 2006, HMS has prepared 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 total equity.

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 2008
* IAS39 (Amendment) and IFRS7 (Amendment), “Reclassification of financial instruments” (applies from 1 July 2008). The amendment to IAS 39 gives the company, in certain circumstances, the possibility to reclassify financial assets as held for trading. The amendment is not obligatory and is considered mainly to affect banks and similar companies. The Group does not apply the amendments in IAS39 and IFRS7 (Amendment).

Interpretations effective in 2008
* IFRIC 14, “IAS 19 – Limitations of a defined benefit asset, lowest funding requirement and interplay between them”. IFRIC 14 gives guidance on the assessment of limitations in IAS 19 in the valuation of a defined benefit asset. It also explains how a defined benefit asset, or liability, can be affected by an obligation relating to the lowest funding requirement. This interpretation has no effect in the Group’s financial reports, as there are no defined benefit assets in any of the Group’s pension plans and these plans do not mean that the Group is obligated regarding the lowest funding requirement.
* IFRIC 11, “IFRS 2 – Transactions involving own shares, including within the Group” covers share-related transactions involving own shares or that concern group companies (for example, warrants regarding a parent company’s shares). IFRIC 11 gives guidance on how these transactions shall be reported as share-related income regulated with own capital instruments or with cash in the separate financial reports the parent company and other affected group companies respectively.

A review of new standards and interpretations of existing standards that have not yet come into effect has been carried out to assess the consequences of these for the Group’s financial reports once they are introduced. The following standards are preliminarily considered relevant for the Group and could have an effect on the financial reports:
* IFRS 8 “Reporting of segments” – standard effective as of 1 January 2009, covers categorization of the Group’s business in different segments. According to the standard, the company shall use internal reporting as a basis, seen from the senior management perspective, and determine which segments shall be reported and the content of this reporting.
* IAS 1 (Revised) “Presentation of financial statements” – effective as of 1 January 2009 and means a change relating to presentation of revenues and expenses that were previously reported directly in equity. The Group will apply this standard as from 1 January 2009.

Other standards and interpretations that will come into effect in 2009 are not considered to have any material impact on the Group.
2.2 Consolidation
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to report the acquisition of subsidiaries by the Group. The 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 company acquisition 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 recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction forms evidence of an impairment need for the asset transferred. Accounting principles of subsidiaries have been changed where necessary to ensure consistency with the principles adopted by the Group.

The Group applies the principle of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recognized in the income statement. 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 recognized in the income statement.

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 Reporting of segments
HMS’s business is regulated and reported primarily by a division of sales in the respective product groups, Embedded and Gateways. The segments are consolidated according to the same principles as the Group as a whole.

Both product groups are based on the same technology platform, developed and produced by the company. Consequently for 2008, the operations’ overheads, assets and liabilities have not been divided according to the respective product groups.

2.4 Translation of foreign currency
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 parent company’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions or the date when items are revaluated. Foreign exchange gains 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 recognized in the income statement. The exception is hedge transactions that fulfill the conditions for hedge accounting of cash flow, then gains/losses are reported in equity.

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

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

a) assets and liabilities are translated at the exchange rate on balance sheet date
b) income and expenses are translated at average exchange rates, and
c) all resulting exchange differences are recognized as a separate component of equity

When consolidating, exchange rate fluctuations arising from the translation of the net investment in foreign operations are taken to shareholders’ equity. When a foreign operation is fully or partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the capital gain or loss.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is reported at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. 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:

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

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

2.6 Intangible assets

a) Goodwill

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

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

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 company acquisition from 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 are recognized as intangible assets when the following criteria are fulfilled:

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

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

The development of new product platforms is capitalized during the development phase. Network applications based on these product platforms are considered adjustments of the core product and are not capitalized. Projects in the development phase are not capitalized.

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

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

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

Capitalized development work 5 years

2.7 Impairment

Assets with an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.
For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash-generating units. Capitalized development work is annually tested for impairment before it is ready to be put into use.

2.8 Financial instruments

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

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

a) Financial assets valued at fair value via the income statement
This category has two sub-categories: financial assets held for trading and those initially classified as 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 in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market.

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.

2.8.2 Reporting and valuation
Purchases and sales of financial assets are recognized 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 recognized at fair value plus transaction costs. Financial assets carried at fair value via the income statement are initially recognized at fair value, and associated transaction costs are reported in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the HMS Group has substantially transferred all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method.

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

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

Derivatives are recognized at fair value, initially on the date a derivative contract is entered into, and in subsequent revaluations. All derivative instruments are classified among current assets or among short-term liabilities as derivative instruments.

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

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

Hedging is structured so that measures can be expected to be effective. Changes in fair value for such derivative instruments that do not fulfill conditions for hedge accounting are reported immediately in the income statement.

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

When a hedging instrument expires or is sold or when the hedging no longer fulfills conditions for hedge accounting accumulated profits or losses remain in equity and are taken up as income at the same time as forecast transactions are finally reported in the income statement.
2.9 Inventories
Inventories are stated at the lower of the cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) principle. Finished goods are valued at standard cost. The cost of finished goods comprises raw materials/components, direct labour, and other direct and indirect related production overheads (based on normal production capacity). The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Intercompany profit from sales between Group companies are eliminated.

2.10 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the HMS Group will not be able to collect all amounts due according to the original terms of the receivables. 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 asset’s reported value and the present value of the estimated cash flow, discounted with the original effective interest. The asset’s reported value is reduced and the amount of the loss is recognized in the income statement in selling and marketing costs.

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

2.11 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.

2.12 Provisions
Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events and 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.14 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. Income tax is recognized in the income statement, except when the tax relates to items reported directly in equity. In such cases the tax is also recognized in equity.

Valuation of all tax liabilities and receivables is made at nominal amounts, using tax rates and laws that have been enacted or substantially enacted and are expected to apply.

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 reported if it arises from initial recognition of an asset or liability in a transaction other than a business acquisition and if, at the time of the transaction, it affects neither accounting nor taxable profit or loss.

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

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

Deferred tax receivables attributable to losses carried forward are reported to the extent that it is likely that the loss can be settled against profit in future taxation.

Deferred tax receivables and deferred tax liabilities relating to the same tax authority are reported in net in the balance sheet.

2.15 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 Reporting Board), UFR 3, this is a defined benefit plan, which covers a number of employers.
For the financial year 2008 the company has not had access to sufficient information to enable it to report this plan as a defined benefit plan. The pension commitments are thus reported as a defined contribution plan.

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

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.

2.16 Revenue recognition

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

Revenue is recognized at the fair value of the consideration received or to be received. Sales are recognized 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 products are recognized on delivery of the products to the customer, in accordance with the sales conditions, at the point at which the material risks and benefits are transferred to the buyer.

The 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 recognized 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 recognized 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 recognized at the contractual rates as labour hours are delivered and direct expenses incurred.

Interest income is recognized 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 recognized using the original effective interest rate.

2.17 Leasing

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

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

Every leasing fee is divided between amortization of the liability and the financial costs for obtaining a fixed interest rate for the recognized liability. Corresponding payment obligations, after deductions for financial expenses are included in the balance sheet item Long-term borrowing and Short-term borrowing. The interest component of the financial expenses is recognized in the income statement divided over the leasing period. Tangible fixed assets that are held in accordance with financial leasing agreements are written off during the shorter of the asset’s period of utilization or the leasing period.

2.18 Borrowings

All borrowings are expensed as they arise.

2.19 Cash flow statement

The cash flow statement for the Group has been established in accordance with the indirect method. The year’s change of cash in hand is divided into operative, investing and financing activities. The starting point for the indirect method is the operating income modified by transactions that have not resulted in cash receipts or disbursements.
Cash and cash equivalents include cash and bank balances and current financial investments with durations of less than three months. All items within cash and cash equivalents can be converted into cash at relatively short notice.

**Note 3 Financial risk management**

**3.1 Financial risk factors**
The 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 policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures, and during 2008 chose to apply hedge accounting in accordance with IAS 39.

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

**Financing and liquidity risk**

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

HMS carefully follows rolling forecasts for the Group’s liquidity reserve, which consists of unutilized credit lines and liquid funds, on the basis of expected cash flow. This is done centrally for all operational units in the Group in accordance with the praxis and limits established for the company. This also includes liquidity management to calculate expected cash flow in major currencies and determine which amount of different liquid assets is required to meet this, to monitor balance sheet based liquidity measurement in relation to internal and external supervisory requirements and to draw up plans for financing of liabilities.

Financing risk arises when, at a given point in time, difficulties arise regarding the acquisition of financing. To minimize the cost for the Group’s borrowings and financing, the finance function should make credit promises available to cover the Group’s requirement for operating credit. HMS aims to always have credit facilities with multiple banks, 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>As of 31 December 2008</th>
<th>Less than 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency forward agreements</td>
<td>5,615</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td>136,035</td>
</tr>
<tr>
<td>Currency options</td>
<td>62,500</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As of 31 December 2007</th>
<th>Less than 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency forward agreements</td>
<td>77,631</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td></td>
</tr>
<tr>
<td>Currency options</td>
<td>85,753</td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td></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 minimize the Group’s interest expense, interest rate derivatives may be utilized. For 2008 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 2008 were +/- 1% with all other variables constant then the profit before tax for the financial year would have been +/- SEK 1.0 million (2007: 1.1 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 transaction risk, which arises when purchasing or selling in foreign currencies and partly of the translation risk, which arises when the net assets of foreign subsidiaries are recalculated at the present exchange rate.

The transaction risk is minimized through the currency hedging of anticipated net cash flows in each major foreign currencies for the next twelve months. 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 sensitivity as a result of the currency risk is negligible.

If the SEK weakened/strengthened by 5% against the EUR with all other variables remaining constant, the operating profit/loss for 2008 would have been +/- SEK 7.9 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement. Gains were more sensitive to changes in exchanges rates between SEK and EUR in 2008 than in 2007 as a result of the increased currency flow in EUR.

If the SEK weakened/strengthened by 5% against the USD with all other variables remaining constant, the operating profit/loss for 2008 would have been +/- 1.9 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

If the SEK weakened/strengthened by 5% against the JPY with all other variables remaining constant, the operating profit/loss for 2008 would have been SEK +/- 1.1 million, mainly as a result of purchases and sales in foreign currency, and of gains/losses when translating trade receivables and financial assets valued at the fair value via the income statement.

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

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

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

The Group considers the capital on the basis of the net debt/equity ratio. This key figure is calculated as the net debt divided by the total equity including minority interest. The net debt is calculated as the total borrowings (including Short-term borrowings and Long-term borrowings in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as Equity in the consolidated balance sheet plus net debt.

In 2008 the Group’s strategy was to cut the debt/equity ratio in order to create room for manoeuvre in the future.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total borrowings</td>
<td>108,592</td>
<td>125,139</td>
</tr>
<tr>
<td>Less cash and cash equivalents</td>
<td>-66,177</td>
<td>-30,117</td>
</tr>
<tr>
<td>Net debt</td>
<td>42,415</td>
<td>95,021</td>
</tr>
<tr>
<td>Total equity</td>
<td>224,426</td>
<td>182,211</td>
</tr>
<tr>
<td>Total capital</td>
<td>266,841</td>
<td>277,232</td>
</tr>
</tbody>
</table>

Net debt/equity ratio 19% 52%

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 financial derivative instruments 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.
Our vision: All automation devices will become intelligent and networked. HMS shall be the market leader in connectivity solutions for industrial devices.

Our mission: We provide world-class solutions to connect industrial devices to networks and products for inter-connection of different industrial networks.

Our purpose: To create long-term value for our customers, employees and investors.

One million installed Anybus® network interface cards worldwide. Sales reached €33 million. Strong commitment to quality contributed to improved profitability and customer satisfaction. Own production in Sweden combined with contract manufacturing. Listed on the NASDAQ OMX Nordic Exchange in Stockholm, Small Cap, Information Technology. Winner of Sweden’s Grand Export Prize. Strong corporate culture with clear values. 30 per cent average growth over the past 10 years. Repeat sales to some 1,000 customers in 50 countries. Several patents on Anybus® base technology and developments. 160 employees split equally between development, sales and production. Anybus® technology contributes to more efficient and flexible automation systems with lower energy consumption.