INDUSTRIAL AND FINANCIAL SYSTEMS, IFS AB

IFS

05

IFS

HIGHLIGHTS

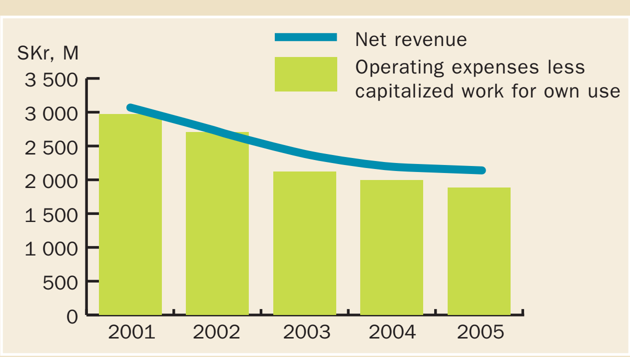
- In 2005, IFS turned loss to profit, with positive cash flow and positive results in all four quarters.
- The EMEA and North American regions developed well, whereas Growth Markets showed weaker progress in 2005.
- License agreements were signed with 203 new customers, 102 customers upgraded their solutions, and 319 invested in added functionality.
- Net revenue totaled SKr 2,149 (2,178) million.
- License revenue was SKr 383 (451) million, maintenance and support revenue SKr 528 (470) million, and consulting revenue, SKr 1,175 (1,174) million.
- EBIT amounted to SKr 97 (–128) million, with earnings before tax of SKr 67 (–204) million. Earnings for the year were SKr 50 (–229) million.
- Cash flow after investments amounted to SKr 28 (–76) million.
- Market growth in 2006 is expected to be in line with, or somewhat above, that of 2005.
- A new version of IFS Applications will be launched during 2006.
- For 2006, the board has set an operating margin target of 10% or more, with continued improvement in cash flow.
- In January 2006, the board appointed Alastair Sorbie as president and CEO, to take effect as of March 10, 2006.

5 YEAR

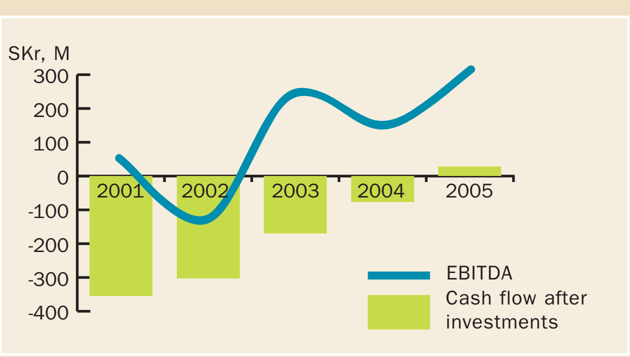
SUMMARY

Five-year summary[1]	2001	2002	2003	2004	2005
Net revenue, (SKr)	3 044	2 721	2 335	2 178	2 149
of which license revenue, (SKr)	841	705	513	451	383
of which maintenance & support revenue, (SKr)	396	354	406	470	528
of which consulting revenue, (SKr)	1 657	1 543	1 302	1 174	1 175
Net revenue outside Sweden, (%)	79	77	75	77	79
EBITDA, (SKr)	41	–140	224	136	289
EBIT, (SKr)	–217	–641	–29	–128	97
EBIT margin, (%)	–7	–24	–1	–6	5
Earnings after net financial items, (SKr)	–350	–760	–139	–204	67
Profit margin, %	–12	–28	–6	–9	3
License margin[2], (%)	–[3]	8	–12	–15	–13
Maintenance & support margin[3], %	–[3]	46	60	61	58
Consulting margin[2], (%)	–[3]	13	21	22	21
Research & development[2]/net revenue, (%)	–[3]	13	12	14	10
Administration expenses[2]/net revenue, (%)	–[3]	14	11	11	10
Return on capital employed, (%)	neg	neg	neg	neg	13
Equity/asset ratio, (%)	45	19	30	37	38
Interest coverage rate, (%)	neg	neg	neg	neg	2
Cash flow after investments, (SKr)	–355	–302	–169	–76	28
Days Sales Outstanding DSO, (days)	81	80	75	76	84
Average number of employees	3 443	3 181	2 846	2 661	2 453
No. of employees at year-end	3 216	3 144	2 684	2 583	2 600

1 Fiscal year 2001 is restated as a result of the change in accounting principles. Fiscal year 2004 is restated, and 2005 is reported in accordance with the new accounting principles recommended by the IFRS. See below under "Accounting principles".
2 Estimated margins exclude one-time items. See Definitions.
3 Reported by type of expense.



Revenue and operating expenses



EBIT and cash flow

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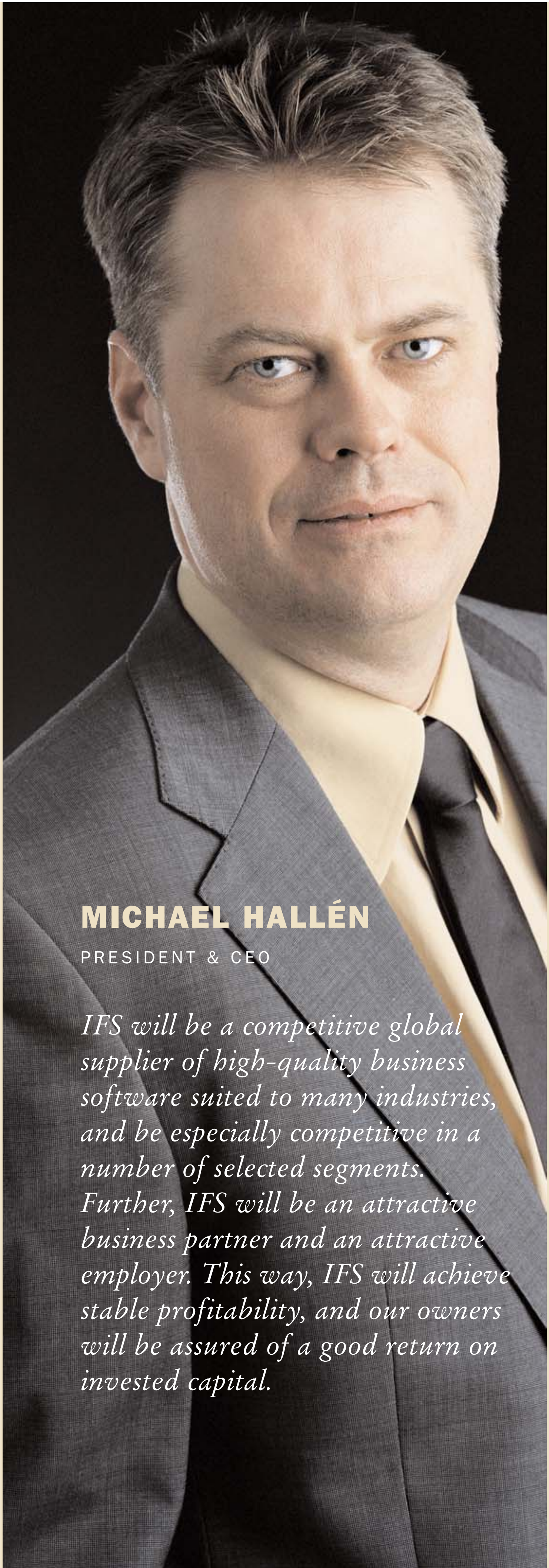
CONTENT

FINANCIAL REPORTS

Interim report January–March	April 27, 2006
Interim report January–June	July 19, 2006
Interim report January–September	October 19, 2006
Preliminary report on 2006 operations	February, 2007

ANNUAL GENERAL MEETING

The annual general meeting (AGM) will be held on April 5, 2006 in Stockholm, Sweden.



In recent years, we have worked purposefully with a number of important milestones. We changed our distribution strategy to use the most efficient distribution channel in each market. We adjusted and streamlined our existing structures. We divested non-core businesses and made selective acquisitions to create a better structure. And we invested in product development to guarantee long-term competitive strength.

Going into 2005, I said that we had laid the foundation for a profitable IFS that could generate a strong cash flow. Looking back, I can say that 2005 was the year IFS turned from loss to profit—with positive results in all four quarters. We also turned cash flow from negative to positive. And yet we are not satisfied. We did not achieve all our profitability targets for the year, and license revenue was weaker than expected.

Operational and financial targets for 2006 focus on stable profitability. We will achieve this by becoming more efficient, but also through gradually more aggressive market penetration in selected areas.

Strategic Investments and Opportunities

One of the most critical tasks in 2006 is to attain a strategic position as No.1 or No.2 in certain industries. These opportunities exist chiefly in capital-intensive industries and infrastructure—in particular certain segments in the aerospace & defense and energy industries. We have been successful, and see increasingly better opportunities, in project-based businesses; globalization and new business models are forcing product-based industries to learn from the more project-based sectors, such as aerospace & defense and heavy industrial manufacturing. IFS' product and competence are ideally suited to match this trend.

To benefit from IFS' strengths in products and markets, new, powerful industrial alliances are an important step forward because well-planned, efficient industrial alliances with the right partners is a significant factor for long-term sales growth.

IFS Applications™ 7

Having a competitive product is a key success factor. During the spring of 2006, IFS will hold its first major product launch for more than two years. IFS Applications 7 was completed in 2005, and an early version was introduced to 1,300 enthusiastic delegates at the IFS World Conference in September. The launch of IFS Applications 7 gives existing customers access to a generally improved version of our product, and takes a giant step forward in selected industries.

Product development in 2006 will primarily concentrate on strengthening our position in selected industries and on addressing the challenges we believe our customers will face. In many industries, future challenges include a continued need to improve efficiencies, increased quality requirements, greater demands for continuous availability, new legislation, and the opportunities and challenges resulting from increased globalization. In close collaboration with our customers, through product advisory councils, and in joint projects, we will ensure that our product is on the right track

Product development expenses are expected to be stable in the future. IFS has long experience of utilizing low-cost resources on a large scale, which is essential to retaining high levels of development, support and consulting capacity in a cost-effective manner.

Efficiency Drive Continues

During 2005, we drove a change project in the consulting organization to increase the utilization of consultants from low-cost countries. The change had a positive effect on earnings. We may see a successive increase in the use of low-cost resources in the future, and there is a significant profit potential in trimming related processes. Access to resources with IFS expertise in low-cost areas also increased with the acquisition of IFS' Indian partner toward the end of 2005.

One of the biggest change projects in 2005 was the centralization of most of our product support in four global support centers. The objective was to enhance cost-effectiveness while increasing customer satisfaction by improving availability. The process was more extensive than planned, but during late 2005, the positive effects became increasingly apparent.

As sales costs are a major expense, we are working intensely to improve efficiency in the long term. In the direct sales process, we are increasing quality with the help of structural and process-related changes and a clearer focus on selected industries. The formation of IFS Scandinavia—one goal of which is to become more competitive by making the sales organization more efficient—is one of the many major changes we made.

We expect the extensive streamlining of methods, structures and control we have commenced to lead to continued quality improvements in internal processes, resulting in successive reductions in expenses.

Regional Developments

During the year, EMEA operations generally met profitability targets, but volumes were somewhat lower than planned. Ongoing and implemented change projects contributed positively to earnings, with further positive effects expected in 2006. Moreover, IFS operations and presence in the Middle East and Africa were strengthened during the year.

For a number of years, the North American market has been unprofitable for IFS. However, extensive changes in strategy and a new management had the desired outcome. Operations were not only profitable in 2005, but even exceeded internal targets. In the North American market, we are particularly strong in the aerospace & defense industry.

The Growth Markets business unit did not develop as planned in the past year. While operations in Asia Pacific, Japan, and Latin America were mostly on track, Eastern Europe was considerably off target and burdened Group earnings for the year, even apart from potential and established bad debts. This is due in part to the postponement of large contracts, but we will retain our strong position in these industries. Management was changed and other measures were taken in several of the countries involved. The change process is expected to continue.

The Market

Continued consolidation led to a somewhat better competitive situation in several markets, with fewer active vendors. However, price pressure was greater in other markets, such as the North American, where the battle for market share is tough among the largest vendors.

With fewer vendors, the competitive situation changes. Those who remain clarify their role, either as mega-vendors of applications and technology platforms, as industry specialists, or as opportunistic vendors that focus on an existing customer base. IFS' position in this landscape is clear; we will continue to specialize in selected industries because the demand for industry-specific products and related competence is less price-sensitive and often grows more strongly.

The market for business applications in 2005 was stable, with some growth. This time round, customers appear to have waited long into the economic cycle before considering major investments. During 2005, some growth in activity was seen in early sales phases in certain markets, which might indicate that increasing investments are planned for 2006. Industry analysts forecast that the market in 2006 will generally see better growth, but with significant upward and downward variation in specific industries and markets.

A Critical Success Factor

The intensive changes made during 2005 tested the skills and capacity of our employees. The challenges they faced have given them valuable experience that they can build on in the future. Many have shouldered a heavy burden of responsibility. A number of key persons were recruited at different levels because the company's ability to attract new experienced staff from competitors and other industries grew as it gradually became stronger. The new perspectives these new employees bring with them are positive for the company. And by stimulating and challenging others, they contribute to competence development.

The work and composition of corporate management also underwent change. As management became more international, its work and more immediate functions were centered on Stockholm, Sweden, and London, in the U.K.

A New Phase

During the three exciting years I have been privileged to lead IFS, the company has gone through an incredibly intensive phase. With a profitable 2005, we can leave the many years of losses behind us and enter into a new phase. This phase will be characterized by improved profitability, and the extensive changes and strategic work of recent years will be increasingly replaced by efforts to strengthen revenue and the company's market position. This shift in phase is also a natural opportunity for a change in leadership. Therefore, as of March 10, 2006, Alastair Sorbie will take over as president and CEO, and I will leave the company. Alastair has worked with me in the senior management team for the past 18 months as head of the EMEA business unit and has shown that he has what is needed for this new phase: a strong business focus and a clear focus on sales.

When I assumed the post of president, I was given the task of turning the company around. In doing this, I have had the privilege of working with many skilled colleagues with a strong commitment to IFS, even during the difficulties of the past few years. Going into 2006, we expect to continue to strengthen profitability. As a result, I consider the turnaround complete, so it feels natural for me to move on to new challenges.

Finally, I would like to offer my sincerest thanks to all IFS employees, who engaged so whole-heartedly in making the company profitable, and to all our customers and partners, who demonstrated their belief in us and their satisfaction with our products and services in their dealings with us and others. This, if anything, ensures a solid foundation for future ventures.

Michael Hallén

IFS

AN INDEPENDENT GLOBAL SUPPLIER OF BUSINESS SOFTWARE

When IFS first began to provide business solutions 20 years ago, the company worked close to its customers. Since then, IFS and its product have grown and developed—but the fundamental principle remains unchanged. The focus is on customers' needs, and it is their business that IFS solutions are designed to develop and enhance.

Over the years, IFS has acquired a solid industry competence, in its organization and in its product. This has been reinforced by the company's focus on seven selected industries. To further develop its industry competence, IFS collaborates closely with its customers and partners in these seven industries. This is probably one of the reasons why the industry analysts, AMR, wrote during the year that "IFS is one of the few companies with a credible customer focus."

IFS continues the work of simplifying business for its customers. The increasingly global economy puts high demands on flexibility and the capability to collaborate with other companies and/or subsidiaries worldwide. IFS has a global presence and a product that is designed to meet rapid change. This puts IFS in an excellent position to become the partner that companies need, today and in the future.

Mission

In collaboration with partners, IFS develops and implements the component-based business solution, IFS Applications, which enables large and mid-size organizations worldwide to obtain greater returns.

Strategies in brief

- IFS is an independent software company that delivers a global product based on open standards and component architecture.
- IFS sells and installs its product, directly and indirectly, to large and mid-size companies in selected industries

Facts about IFS

IFS offices: 79
Distributors: 41
IFS Applications is available in 54 countries in 20 languages.
No. of customers: > 2,000
No. of users: > 500,000

IFS values

Simplicity, commitment and professionalism are the key words that form the basis for IFS' work and, more importantly, IFS' interaction with customers, partners and colleagues. Based on this, IFS develops products that give customers greater flexibility and increase their ability to deal with change. IFS solutions are easy to integrate, use, and upgrade. IFS continuously strives to satisfy its customers and seeks to nurture close, long-term collaboration with them.

in which IFS can gain significant market share.
- IFS has several industry alliances and a large number of regional and local partners who increase the number of sales and delivery channels, eliminate unprofitable direct sales channels, and reduce risk levels.
- IFS gains further economies of scale by offering prepackaged industry solutions backed by a cost-effective, centralized global support infrastructure and by locating an increasing proportion of its services and support in low-cost countries.
- IFS strives to gradually replace variable revenue and fixed costs with an increasing amount of recurring revenue.

A Global Organization

A global product requires a global organization. IFS coveres the entire globe, either with its own offices or in collaboration with partners.

The sales organizations in countries in which IFS has its own offices are divided into three regions: EMEA, North America, and Growth Markets. During 2005, IFS continued to strengthen the organization and increase synergies. Therefore, the Swedish, Danish and Norwegian organizations were merged to form a new entity, IFS Scandinavia, which will be part of EMEA.

A considerable amount of the company's research and development is done in Sri Lanka. Operations there were built up during the 1990s, and today make a major contribution to IFS' positive earnings.

During the end of 2004, IFS' operational management was reorganized and the three regional managers became part of the executive management committee. In 2005, further steps were taken to strengthen management.

IFS Partners

IFS has chosen to focus on a number of long-term alliances to produce the best value for its customers. Many partners are leading companies in their respective industries, which means that IFS can participate in major international sales cases with less risk and lower capital requirements.

IFS has developed alliances, partnerships and joint ventures with global companies that are market leaders in one or more industry segments. Distributors mainly represent IFS in geographical markets in which it has chosen not to use direct sales as its foremost distribution channel. Implementation partners strengthen and supplement IFS' own consulting organization. Technology partners deliver hardware, software, peripheral equipment, network products and platform solutions.

Global Alliances

IFS has several strategic alliances that guarantee customers the most benefits possible. These include:

ABB: ABB and IFS have collaborated for many years to furnish companies in the process industry with industry-specific solutions.

BAE SYSTEMS: IFS Defence is a joint venture with BAE SYSTEMS that delivers solutions to the defense industry and armed forces organizations worldwide.

IBM: Collaboration with IBM is wide-ranging, from technology development and benchmarking to product development and sales in certain market segments.

NEC: IFS and NEC collaborate in several areas, including the high-tech and automotive industries.

ORACLE: IFS and Oracle have collaborated on database technology for more than 20 years. IFS is one of Oracle's biggest development partners.

Other partners include:

Accenture	HP
Atos Origin	Lockheed Martin
Atrion	MSS
Bentley	Seeburger
ERGO	Siemens
Founder	UFIDA
General Dynamics	

IFS APPLICATIONS

THE SOLUTION FOR THE AGILE ENTERPRISE

IFS Applications is designed and developed using components; this is a considerable benefit. It gives customers flexibility and improves their ability to meet change, and it makes it easier for us to continue to develop the product.

IFS Applications is the result of many years of industry experience and continues to be developed in close collaboration with customers and partners to provide efficient, flexible support for modern companies today and in the future.

Many customers choose IFS because they see opportunities for rapid return on investment thanks to the component architecture. They can focus on their most critical processes and progress step by step when the first, often decisive, stage has been successfully implemented. Components are of particular benefit to companies whose operations are in a state of more or less continuous change, whose business processes must be constantly developed, and that have new units that need to be quickly integrated with global business areas.

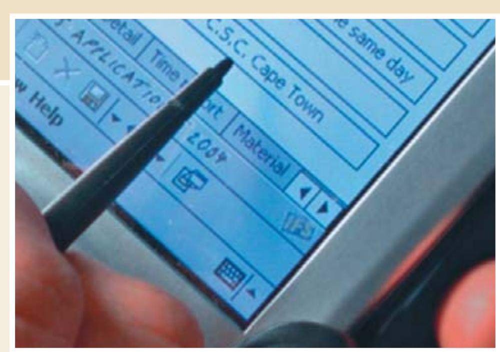
Tomorrow's Technology—Yesterday

A crucial element of the architecture is the integration of service-oriented architecture (SOA), which simplifies information exchange and integration between different systems. Most observers agree that SOA and component-based solutions are the way forward. This is evident in the fact that several ERP vendors are attempting to incorporate SOA in their business software. IFS Applications has been component-based from the very beginning, and SOA is already being used by our customers.

Faster ROI with Long-Term Strategies

When investing in business software, companies need to think long-term. Today, business software is considered one of a company's major assets and should generate benefits up to 20 years. Because they can implement components "one at a time", IFS customers can install parts of a solution and get a return on their investment before they add more components. This ensures better payback than if they had to implement the entire solution at once.

AGILITY THROUGH TECHNOLOGY



Technological Strength and Flexibility

IFS has a different approach to technology upgrades. The business applications industry offers many examples of vendors that have chosen a fixed technology base for their solution for many years and then launch an entirely new solution based on new technology after perhaps 10 years. In practice, it means that customers might have to wait up to 10 years before they can benefit from the new concepts and innovations. IFS, on the contrary, changes parts of its technology platform every year. This enables customers to benefit from new technology as early as their next upgrade.

IFS Applications is one of the most homogenous business solutions on the market. The design of both the technological platform and the applications architecture is consistent throughout the system. All components can use common services, and the business logic can be simplified, which reduces maintenance and facilitates further development. This keeps the total cost of ownership of business software at a lower level than that of rival solutions.

Lifecycle Support

A further strength of IFS Applications is its unique support for the entire product and service lifecycle, from product development, through various types of manufacturing processes, to comprehensive support for maintenance and service processes. Market demands for business software that can support a product's complete lifecycle have increased markedly in recent years, and IFS Applications is well positioned to meet such demands. Many customers see greater business opportunities in the service and after sales market, and can easily add more components to support these processes.

Powerful Support for Project-Driven Operations

Companies that can run their business in project form, and adapt their organization to current demand, have a head start in today's changing, global market. IFS Applications is an integrated solution with powerful project functionality, which contributes to better project management and helps companies capture new business opportunities.

New customers during the year include:

Arya Sasol (Middle East), Aviaservice (Russia), Banverket Industridivisionen (Sweden), C4 Systems (U.S.A.), Biwater (U.K.) Caillau (France), China Resources Power (Changsu) (China), EveGroup (U.K.), ExecuJet (Australia), Huadian Wuda Power Generation (China), FRIWO (Germany), General Dynamics (U.S.A.), Linamar (Canada), OKG (Sweden), SAAB Aerostructures (Sweden), Schlemmer (Germany), Spinal Concept (U.S.A.), Space Systems/Loral (U.S.A.).

Established Offshore Operations

IFS has a well-established, efficient offshore operation in Sri Lanka today. With approximately 500 employees in the country, IFS is one of Sri Lanka's biggest IT companies and one of the most popular employers among new university graduates. As a result, the supply of qualified personnel is good, and staff turnover, often a challenge in this part of the world, is small.

Global and Local Support

Four regional support centers provide product support, training and certification, offshore development services, and expert consulting services This focus means that both global and local customers receive consistently high levels of service regardless of whether the customer uses a purely standard system or one with minor or major customizations.

IFS also offers customers greater opportunities, through self-service solutions, to maintain and develop their business software.

Industry Competence—a Success Factor

By concentrating our efforts on seven selected industries we offer our customers long years industry experience and a product that meets their specific demands. The component architecture has enabled us to add industry-specific components to the solution without negatively affecting the whole. This enables IFS to offer a complete suite of business applications that also includes the specific functionality needed by companies in a particular industry—and based on the industry's own requirements.

We are investing actively in our product, in the competence of our consultants, and in collaboration with leading partners in these segments. This means that customers get greater benefits and a better total solution by choosing IFS Applications.

7 TARGETED INDUSTRIES

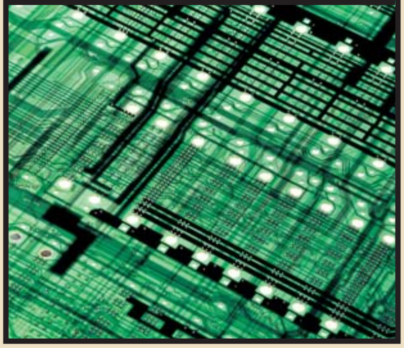
The component architecture of IFS Applications enables the solution to be configured for specific purposes while delivering full ERP functionality. To increase the benefits of the solution, IFS has chosen to focus its development, competence and partnerships on seven industries to provide its customers with the greatest possible value. IFS Applications is tailored to a company's operations—without requiring extensive customization.

AUTOMOTIVE

A Global Solution for a Global Industry

The automotive industry today is complex, global and subject to dramatic change. IFS' solution for the industry helps dealers, manufacturers, suppliers, and service providers cooperate and share experiences, plan their business, and be able to react rapidly to changes in the market. It's a flexible solution, combining specific automotive functionality with leading-edge technology to support lean manufacturing, quality and risk management, and other industry requirements such as regulations compliance. Covering the entire manufacturing supply chain, it also has full after sales functionality for a complete lifecycle solution. From design to scrapping.

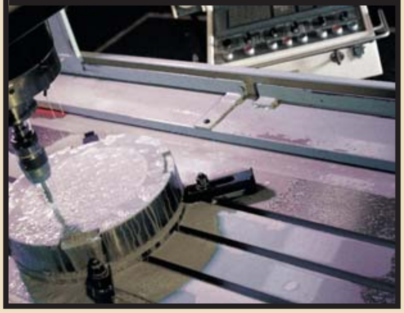
HIGH-TECH



Feedback from Customers is a Key Component

Faster product development cycles and increasing quality requirements mean that companies in the high-tech industry—producers of medical devices, electronics, and semiconductors—need to rapidly access and analyze operational data. IFS Applications covers the entire product and customer lifecycles and enables companies to collect, analyze and utilize data. They can more easily adapt their operations to the swiftly changing market and produce high-quality products while optimizing costs. Integrated support for legislative requirements makes compliance easier in different markets.

INDUSTRIAL MANUFACTURING



Project Management and Integrated After Sales

Efficient make-to-order production requires flexible support for information management, from design to after sales. IFS' solution for industrial manufacturing supports project-driven manufacturing of complex products from start to finish—and after. It allows suppliers to collaborate more easily and simplifies the work of globally distributed operations. Companies often have to run several different production models in parallel, or need to vary these as conditions change. IFS Applications offers manufacturing companies comprehensive, agile support whatever production models they apply.

UTILITIES AND TELECOM

Increasing Lifetime and Minimizing Costs

Utilities and telecom facilities are highly capital intensive and require effective operations management & maintenance to maximize reliability, availability and maintainability. For almost 20 years, IFS Applications has been helping companies worldwide to increase the lifetime of their facilities, minimize down time and reduce operating costs with advanced functionality in maintenance, work management, project, logistics and finance. IFS' future-proof component architecture also provides a solid platform and integrates easily with industry third-party applications.

PROCESS INDUSTRY

20 Years of Experience and Collaboration in One Solution

IFS' solution enables companies to cut costs while increasing the quality and efficiency of their production and distribution processes. The solution targets the asset-intensive industry and companies with batch-oriented production. It has been developed in close collaboration with leading companies and includes components that are specially designed for the industry, e.g. demand planning, batch process, and a world-class EAM solution combined with a leading ERP system. Therefore IFS offers its customers a solution that exactly matches their operations.

AEROSPACE & DEFENSE

Greater Availability and Increased Efficiency

IFS offers the aerospace & defense industry and armed forces worldwide full MRO and fleet management functionality through a fully integrated ERP backbone. The software helps shorten service time, increase reliability, and reduce spares usage. Furthermore, the supply chain visibility enables spares and equipment to be tracked. The result is greater operational capability at much lower costs and increased equipment availability. Extended collaboration and information exchange, e.g. portals, speed up internal processes. With efficient tools for retrieving information and providing feedback, planning and monitoring become easier, and decision-making is faster and more accurate.

SERVICE & FACILITIES MANAGEMENT

A Complete Solution for Facilities and Service Management

IFS Applications offers solutions for facilities and service management companies requiring simplicity and efficiency. The software supports the entire lifecycle from tender and contract negotiation to execution, operation, and maintenance. Industry-specific components such as sales support, contract-, project-, and issue management can be run as stand-alone or fully integrated with the complete ERP solution. Smart mobile solutions streamline reporting of completed jobs. The planning and control of projects and service is simplified by graphical overviews of key ratios, feedback capabilities from previous jobs, and the ability to configure the solution to the needs of individual users.

STOCK DATA

IFS Series B stock was listed on the Stockholm Stock Exchange on April 23, 1998 and is traded on the Attract40 list. On June 18, 1998, the Company's Series A stock was also listed on the same list. During 2004, the following issues were implemented: a share issue of SKr 69 million to be set off against liabilities; a rights issue of SKr 267 million; and a convertible bond issue (KV5B) of SKr 160 million to be set off against liabilities. In addition, convertible debentures (KV4B) were issued to employees in the company in an amount of SKr 46 million, of which SKr 20 million was subscribed for by a subsidiary and was divested in 2005.

As of December 31, 2005, IFS' capital stock amounted to SKr 447,524,050, represented by 223,762,025 shares, before dilution, with a par value of SKr 2 per share. These comprised 13,916,638 Series A shares and 209,825,814 Series B shares. After full dilution, the number of shares amounts to 270,709,459.

Each Series A share carries the right to one vote, and each Series B share carries the right to one tenth of a vote. All shares carry equal rights to dividends. During 2005 a total of 3.8 million Series A shares and 298.4 million Series B shares were traded. The trading thereby amounted to 138% of the average total number of listed shares. The principal owner is Gustaf Douglas and family with associated companies, who controlled 19.3% of the capital and 26.0% of the voting rights on December 31, 2005.

Terms and conditions for convertible debentures/bonds issued are detailed in Note 39.

STOCKHOLDERS

Stockholder	No. of Series A shares	No. of Series B Shares	% of capital	% of voting rights
Gustaf Douglas, and associated companies	5 299 278	37 870 620	19.3%	26.0%
Catella	0	13 892 650	6.2%	4.0%
AMF Pension Fund	0	13 590 000	6.1%	3.9%
Robur	0	12 318 284	5.5%	3.5%
ING Ferri SA	0	9 650 000	4.3%	2.8%
Skandia Liv	0	7 931 252	3.5%	2.3%
NEC Corporation	1 100 000	6 790 000	3.5%	5.1%
AMF Pension	0	6 800 000	3.0%	1.8%
Sif	0	5 546 800	2.5%	1.6%
Amplus Fund	0	4 380 000	2.0%	1.3%
Bengt Nilsson, and associated companies	3 479 703	500 000	1.8%	10.1%
SHB/SPP Funds	0	1 577 719	0.7%	0.5%
Other stockholders	4 037 657	88 998 062	41.6%	37.1%
Total	**13 916 638**	**209 845 387**	**100.0%**	**100.0%**

Source: SIS Ägarservice, Dec 31, 2005

SHARE CATEGORY

	No. of shares	No. of voting rights	% of capital	% of voting rights
Series A	13 916 638	13 916 638	6.2%	39.9%
Series B	209 845 387	20 984 539	93.8%	60.1%
Total	**223 762 025**	**34 901 177**	**100.0%**	**100.0%**

DISTRIBUTION OF STOCKHOLDERS

	% of capital	% of votes
Swedish individuals	44.2%	58.8%
Swedish mutual funds	22.6%	14.5%
Swedish institutional owners	11.9%	7.6%
International owners	21.3%	19.1%
Total	**100.0%**	**100.0%**

Source: SIS Ägarservice, Dec 31, 2005

STOCKHOLDER STATISTICS

No. of shares held	No. of stockholders	% of total no. of stockholders	No. of shares	% of capital	% of voting rights
1–1 000	8 330	58.3%	3 124 564	1.4%	1.1%
1 001–2 000	2 153	15.1%	3 768 541	1.7%	1.2%
2 001–5 000	1 732	12.1%	6 217 698	2.8%	1.9%
5 001–10 000	1 052	7.4%	8 245 282	3.7%	2.5%
10 001–50 000	763	5.3%	16 901 411	7.5%	5.4%
50 001–100 000	109	0.8%	8 111 360	3.6%	3.1%
101 001–	138	1.0%	177 393 169	79.3%	84.8%
Total	**14 277**	**100.0%**	**223 762 025**	**100.0%**	**100.0%**

Source: SIS Ägarservice, Dec 31, 2005

IFS SERIES B SHARE DEVELOPMENT AND VOLUME

JANUARY 1 2005 – DECEMBER 31 2005

Share turnover 000’s — OMX index — IFS B

The share price development is adjusted for stock issues.

Source: Stockholm Stock Exchange

2001–2005

Share turnover 000’s — OMX index — IFS B

The share price development is adjusted for stock issues.

Source: Stockholm Stock Exchange

SHARES AND CONVERTIBLE DEBENTURES/BONDS

	Series A	Series B	KV3B	KV4B	KV5B
Nominal amount, SKr			33	46	160
Conversion price, SKr			3.40	6.90	5.25
Term, date			March 14, 2007	Aug 15, 2007	March 18, 2008
Shares after dilution, no.	13 916 638	209 845 387	9 861 246	6 670 289	30 415 898

ANNUAL REPORT

CONTENT

BOARD OF DIRECTORS' REPORT

General

The board of directors and president of Industrial and Financial Systems, IFS AB (publ.), organization number 556122-0996, herewith submit the annual accounts and consolidated accounts for the fiscal year 2005. Unless otherwise stated, all amounts are in SKr million. Figures within parentheses refer to actuals for the preceding year. The terms "IFS", "Group", and "Company" all refer to the parent company, Industrial and Financial Systems, IFS AB (publ.), and its subsidiaries.

Summary

In 2004, IFS took extensive actions to change organizational structures, increase efficiency, and create conditions for future profitability. The sales strategy was changed, resulting in increased collaboration with partners, and operations and products outside core operations were divested.

During 2005, IFS' development was characterized by a strong focus on establishing a foundation for stable, sustained profitability in the Group. Cost-effectiveness and a continued product and customer focus combined to enable IFS, after several years of negative earnings, to report positive earnings for the year and for each of the four quarters. Net revenue amounted to SKr 2,149 (2,178) million, EBIT improved to SKr 97 (–128) million, while cash flow after investments totaled SKr 28 (–76) million.

Operations

IFS is a leading provider of component-based business software developed using open standards. By offering flexible business applications, IFS improves its customers' ability to make the right decisions and run their businesses more efficiently.

IFS Applications™ makes it easier to adapt to changing business conditions, simplifies integration with other systems, and gives customers the freedom to combine leading technologies. IFS has more than 20 years experience of implementing business applications, with consultants who possess extensive industry competence and understand its customers' business and needs. As a leader in component-based software, IFS delivers tangible business benefits for companies in the automotive, industrial manufacturing, construction & facility management, utilities & telecom, process, high-tech/medical devices, and aerospace & defense industries.

IFS is represented today in 54 countries through subsidiaries, joint ventures, associated companies, and partners. In 2005, internal and external accounting was divided into the three regions EMEA, North America, and Growth Markets, which have the operational responsibility for sales and delivery to customers. At the end of 2005, IFS had more than 2,000 customers and more than 500,000 users of IFS Applications. The Parent Company is listed on the Attract40 list of the Stockholm Stock Exchange, and the number of stockholders totaled 14,277 at the end of 2005.

The Market

The market for business software was stable in 2005, growing by 6–8% according to business analysts. The foremost growth driver in the industry was the globalization of customers' business. More and more companies are operating in an international market, which puts new demands on their business solutions. Other significant driving forces were new, more demanding regulations and legislation, such as Sarbanes-Oxley (SOX), that required faster, more accurate transparency in all parts of a company's operations. Furthermore, consolidation continued, meaning that companies are striving to achieve a more unified systems environment by coordinating their systems in as few locations as possible and standardizing on one set of business applications. This often leads to investment in new licenses. Sales cycles continue to be long, with investments being split over several, smaller projects.

For 2006, business analysts expect growth in line with, or somewhat over, what was attained in 2005. Factors driving growth are the same as those in 2005. Moreover, an increasing number of mid-size companies in the Western hemisphere are expected to replace legacy systems based on products and technologies that are no longer being upgraded.

Acquisitions and Structural Changes

During the year, IFS acquired its former associated company in India. The Indian operation, which was included in the consolidated accounts as of the fourth quarter, had only a minor impact on revenue and earnings for the year. As part of the continued streamlining of structures in IFS' Asian business, the outstanding shares in its operations in Thailand were acquired during the year. In Turkey, 25% of the shares in IFS' Turkish partner were acquired. Also, as part of its efforts to extend and streamline its distribution channels, IFS entered into distributor and partnership agreements with independent companies. Such agreements were signed with distributors in Canada, Bangladesh, Germany, Austria, Belgium, Taiwan, and Ukraine. In South Africa, personnel and business were transferred from the joint venture company, IFS Defence, to IFS' South African operations to enhance efficiency and profitability. In all, acquisitions resulted in an increase of 146 in the number of employees at the end of 2005 and added full-year revenue of approximately SKr 55 million, of which SKr 12 million affected revenue in 2005.

Target Margins

The following target margins were established for IFS during 2005:

	Outcome 2005	Target 2005	Outcome 2004
Margin on license revenue	–13%	6%	–15%
Maintenance and support margin	58%	67%	61%
Consulting margin	21%	25%	22%
Product development/net revenue, %	10%	11%	14%
Administration/net revenue, %	10%	11%	11%

Excluding the effects of one-time items.

The variance in the margin on license revenue generally reflects a lower volume of license sales than planned. North America exceeded its targets, whereas EMEA and, especially in relative terms, Growth Markets returned lower license revenue than projected.

Revenue from maintenance and support operations was higher than planned for the year, but expenses were negatively affected by start-up expenses related to the transition to a more centralized support organization, which meant that target margins were not met. The consulting margin was below the target for the year, mainly due to lower volumes and the resulting considerably lower consulting margin in Growth Markets, which could not be compensated for by the combined effect of development in line with plan within the other two regions and by reallocating resources to other markets. The respective targets for product development and administration as a percentage of net sales were somewhat exceeded.

Net Revenue

Net revenue during the year amounted to SKr 2,149 (2,178) million.

Of the difference compared with 2004, a fall of SKr 29 million, SKr 57 million pertains to exchange rate effects resulting from the weaker Swedish krona, whereas a SKr 35 million decrease is related to operations divested in 2004.

Product revenue, consisting of license revenue, and maintenance and support revenue, constituted 42% of net revenue, unchanged from 2004. Customers in industrial manufacturing accounted for 19% of product revenue, in the process industry for 16%, and in aerospace & defense, high-tech/medical devices and utilities & telecom for 14% each. Customers in the automotive industry accounted for 10% of product revenue, with the service and facilities management sector accounting for 9%. In 2005, license agreements were signed with 203 new customers, whereas 102 existing customers upgrade their software, and a further 319 invested in added functionality. EMEA contributed 61% (61) of Group license revenue, North America 16% (15), and Growth Markets 23% (24). License revenue decreased by 15% in the Group; EMEA fell by 15%, North America 6%, and Growth Markets 20%.

The fall in license revenue has two primary reasons: an increase in partner-generated sales and lower volumes generated via large orders. As part of the focus on core business, certain product sales have been transferred to independent partners. In such cases, IFS revenue is only part of the total license revenue, as the partner's share is deducted. IFS' share of the license revenue generated by partners during the year was 23% (17) of total Group license revenue. In EMEA, this portion amounted to 12% (16), North America 24% (0), and Growth Markets 49% (26).

License revenue during 2005 was further affected by a reduction in the number of major orders compared with 2004. During the year, the 10 largest license orders had a combined license value of SKr 72 million in net revenue; the corresponding figure for 2004 was SKr 117 million. This development is indicative of the purchasing pattern in the market for business software, in which sales are becoming more cyclical and more prolonged as customers increasingly tend to spread their purchases and system expansion over a longer period of time. The lower level of large contracts during the year primarily had a negative impact on Growth Markets.

EMEA generated 72% (73) of Group maintenance and support revenue, North America 17% (17), and Growth Markets 11% (10). Group maintenance and support revenue increased by 12%; for each region, the increase was: EMEA, 11%; North America, 12%; Growth Markets, 19%. The increase in maintenance and support revenue is related partly to continued growth in the customer base and partly to an increased internal focus on these types of agreements, which generate stable revenue with predictable cash flow. New and renegotiated agreements were entered into during the year on improved terms.

EMEA generated 75% (71) of the Group's consulting revenue, North America 17% (17), and Growth Markets 8% (11). Consulting revenue was unchanged compared with 2004; regionally, EMEA increased by 5%, North America was down 1%, and Growth Markets fell by 28%. Within EMEA, consulting revenue was affected by continued high volume of ongoing implementation projects, reflecting sales of new licenses, but also as a result of upgrades and other change projects in the customer base. Within Growth Markets, the fall in license revenue during the year had a negative impact on utilization of consultants.

Expenses and Efficiency

During the fourth quarter of 2004, IFS initiated a restructuring and streamlining program, which, combined with other actions taken during the year, was expected to lower operating expenses, excluding one-time items and adjusted for capitalized product development expenditure, in 2005 by SKr 300 million. This corresponds to a cost target of SKr 2,070 million for 2005.

In 2005, operating expenses, adjusted for one-time items and capitalization of product development expenditure, amounted to SKr 2,193 million. Adjusted for exchange rate effects and for operating expenses in acquired units, expenses were SKr 2,114 million for 2005, which corresponds to a reduction in expenses of SKr 256 million. Of the SKr 44 million deviation from established targets, maintenance and support operations accounted for the relatively largest portion as a result of start-up expenses, but consulting expenses and license-related expenses also exceeded overall targets, in the latter case as a result of bad debts in Eastern Europe.

Of the restructuring provisions of SKr 100 million, SKr 61 million has been utilized, whereas SKr 41 million remained at the close of 2005 after the addition of SKr 2 million net during the year. The remaining restructuring provisions pertain primarily to rental for unutilized offices. With respect to previously made provisions, SKr 8 million was resolved during the year, whereas restructuring expenses for the year, which were not covered by previous provisions and therefore directly affected earnings for the year, amounted to SKr 6 million.

In Growth Markets, costs were affected negatively by provisions related to potential and established bad debts in Eastern Europe that totaled SKr 34 million. Of these, SKr 25 million pertains to a potential bad debt and SKr 9 million to an established bad debt. SKr 30 million of the total amount of SKr 34 million was charged to license revenue, while SKr 4 million was charged to consulting revenue. Cost of licenses, including sales and marketing expenses amounted to SKr 432 (529) million, maintenance and support expenses totaled SKr 223 (185) million, whereas consulting expenses, SKr 926 (924) million, were in line with 2004. Expenses related to administration and corporate functions decreased to SKr 219 (230) million.

The number of employees increased from 2,583 at the end of 2004 to 2,600. Of the increase, acquisitions and structural changes accounted for 146 employees. The average number of employees during the year fell from 2,661 to 2,453. Efficiency, measured as net revenue divided by the average number of employees, grew by 7% in 2005 to SKr 876,000 (818,000). EMEA improved its efficiency by 16% and North America by 25%, whereas efficiency in Growth Markets decreased by 11%. Personnel-related expenses amounted to SKr 535,000 (522,000) per employee. Within corporate functions, including product development, expenses per employee were down 13%, whereas they increased in the regions.

Product development expenses decreased during the year to SKr 223 (329) million. Of product development expenditure, SKr 183 (256) million, during the year, SKr 121 (153) million was capitalized, and previously capitalized product development expenditure was amortized in an amount of SKr 158 (188) million. The reduction in expenditure levels results from continued cost-effectiveness arising from the location of an increasing amount of development in the Group's development center in Sri Lanka, lower translation expenses, and the use of development resources in customer projects. Product development staff was reduced by 43 during the year to 532 (575). The number of employees in product development in Sri Lanka increased by 44, whereas other development organizations reduced staff by 87.

EBIT

Before allocation of corporate expenses and one-time items, EBIT in EMEA was SKr 412 (371) million, in North America SKr 71 (20) million, whereas Growth Markets reported a loss of SKr 13 (–10) million.

Group EBIT amounted to SKr 97 million, compared with the outcome for 2004, which was a loss of SKr 128 million. Adjusted for one-time items in 2004 and 2005, EBIT improved by SKr 116 million.

Earnings for the Year

Net financial items improved by SKr 46 million during the year, from a loss of SKr 76 million in 2004 to a loss of SKr 30 million in 2005. Lower average borrowing requirements from credit institutions combined with lower financing expenses, consisting of interest and fees, reduced financing expenses related to such financing to SKr 22 (60) million. The effect of the lower volume of loans on the reduction is estimated as SKr 34 million. The convertible debenture bond issued toward the end of 2004 entailed an increase in expenses related to convertible debentures/bonds increased to SKr 37 (12) million, of which interest paid amounted to SKr 11 (7) million. Exchange rate effects had a positive impact of SKr 23 (–9) million on net financial items.

Earnings before tax amounted to SKr 67 (–204) million.

Taxes for the year amounted to SKr 17 (–25) million. Earnings after tax were SKr 50 (–229) million.

EMEA

The region consists of operations in Europe (excluding Eastern Europe), the Middle East, and Africa, and is represented in 20 countries, of which independently owned partners account for 5. The joint venture company, IFS Defence Ltd, is also included in the region. Within the region, an increasing share of new customers is being signed outside of Scandinavia. Moreover, the fastest growing area is the one most recently established—the Middle East and Africa. This combination of established and growing markets is a good basis for future stable growth.

Operations in EMEA were progressively consolidated in 2005 into fewer units under common management and coordination. This will continue in 2006. For example, the three separate businesses of Sweden, Norway and Denmark have been formed into one Scandinavian business unit. This process provides for increased effectiveness by the broadening of skills, an increase in cooperation, and the elimination of duplicated administration and management overheads.

EMEA has a broad market for all IFS product verticals, but there is an overall trend toward a declining manufacturing base. The region added 87 new customers during the year, 60 customers upgraded their solutions, and 179 invested in new functionality. Major new customers during 2005 included Schlemmer (Germany), a supplier to the automotive industry, Ultra Electronics Precision Air Systems (U.K.), which manufactures gas compressors for the defense industry, Banverket Industridivisionen, which services the Swedish rail network, and the aircraft manufacturer, Saab Aerostructures, in Sweden. In the latter case, license revenue will primarily be recognized as of 2006. In the Middle East and Africa, new agreements were signed with customers in the energy sector and the petrochemical industry. The recent focus in 2005 on the Project Enterprise has delivered good results and is expected to increase as IFS is able to exploit the very large project-based economy of the EMEA region.

Following early successes in 2004 there has been an increase in business coming from IFS' business group in the Middle East and Africa, and in 2006 IFS will incorporate its operations in India into this business group. This combination is intended to best develop the opportunities available within the Indian market and to provide access to increased offshore implementation resources for the markets of the Middle East and Africa.

License revenue and contribution per head increased in 2005 as it did in the previous year, which demonstrates that EMEA continues to improve in effectiveness. Extensive deployment of new and improved internal processes and systems throughout EMEA in 2005 has led to better support for customers, better sales force automation and better internal controls and reporting. These investments are expected to provide follow-on benefits in 2006.

The continued structural changes in the ERP market continued in 2005 and favored IFS in the region, which includes a large proportion of mid-tier businesses which are not well served by the fewer larger players remaining in the market.

In 2005, IFS Defence increased its market share in the EMEA defense market and participated in several major procurement processes.

North America

The region consists of operations via IFS' own subsidiaries and via seven independent partners in the United States and Canada.

In 2005, the business climate in the U.S.A. was stable, with signs of increasing business activity during the latter half of the year. IFS increased its market position during the year with several new customers, primarily in its prioritized industry verticals, including Space Systems/Loral, Linamar, Roper, and new facilities at General Dynamics and Deere & Co. IFS also completed implementations at several facilities for a variety of high-profile customers, such as GE, Rockwell Automation, Lockheed Martin, General Dynamics, and L-3 Communications. In all, some 29 customers were added, 26 upgraded their solutions, and a further 68 invested in added functionality. Compliance issues, especially SOX, and the U.S. Food and Drug Administration (FDA) regulations, are becoming increasingly important, and the global project-based economy continues to grow. More and more, customers are looking not only for low total cost of ownership but also for the flexibility to react quickly to changing market conditions and technologies. This is good for IFS because it has the solutions to help customers reduce the cost and complexity of regulatory compliance.

During the year, actions were taken to provide a more stable revenue stream by focusing on recurring maintenance and support revenue in addition to new licenses. Cost containment measures continued, further reducing operating expenses by moving additional back-office functions to lower-cost countries, among other things. The distribution channel continued to mature, with 35% of the stream of new business in North America coming from partners in 2005. The growth of the partner network is prioritized as it enables better penetration and a stronger market position, while reducing cost of sales for IFS. After several years of weak earnings trends, the region achieved operational profitability in all four quarters in 2005, exceeding profitability and revenue targets established while strengthening cash flow.

Growth Markets

The region consists of IFS' operations in Asia, Australia, Eastern Europe, and Latin America, with representation in 32 countries, in 14 of which IFS is represented by independently owned partners. During the year, 87 new customers were added in the region, 16 existing customers upgraded their applications, and a further 72 invested in added functionality. In Eastern Europe, the business climate during the year was tough.

In Poland, Ukraine, and Russia, demand was affected by political factors, including the change of government in Ukraine, the parliamentary elections in Poland, and the Russian government's restructuring of the energy sector, which has chiefly had a negative impact on the volume of large sales in the market. Nevertheless, IFS claimed a number of successes, including Russian airlines and a telecom provider in Poland. Management changes were made in Poland, the Czech Republic, and Slovakia, and sales resources were strengthened. Moreover, in collaboration with IFS Defence, operations targeting the aerospace and defense market were strengthened in the region.

The Turkish market, in which IFS is represented via a 25% ownership in a company, developed strongly, and 20 new customers were added during the year.

Business in Australia developed as planned in 2005, and IFS' already strong position in the aerospace and defense market was further enhanced by the signing of another Sydney-based customer and with JTS (a joint venture company between Qantas and Patrick Corporation) extending its use of components for complex MRO.

Operations in The People's Republic of China reported a good year, with 26 new customers and increased sales to the existing customer base of whom more and more are signing maintenance and support agreements. UFIDA (formerly UFSoft), an associated company of which IFS owns 25% and which targets the energy sector in P.R. China, also reported a strong year, signing 10 new customers.

A number of key projects were implemented in South-East Asia in 2005. One of the most important of these was Singer, which went live in Sri Lanka and will be followed up by deliveries to other Singer subsidiaries in the region. IFS is developing well in Pakistan and Bangladesh. During the year, IFS in Pakistan was selected to deliver a complete suite of business software to the leading automotive manufacturer, Millat Tractors, a significant order in the region's growing automotive industry.

In India, IFS rolled out a complex solution for Hindustan Aerospace Limited toward the end of the year. The project scope encompasses all aspects of design, manufacturing and overhaul of aircraft, aero-engines, helicopters, and all types of aggregates and avionics fitted to them.

In Latin America, 2005 was a year of consolidation for IFS. Operations mainly target complex manufacturing companies, and companies in the process and service industries in growing countries such as Brazil and Mexico.

Product Development

The Group's product development is carried out mainly in its development centers in Sri Lanka and Sweden.

The main focus within product development in 2005 has been the development of IFS Applications 7, in close collaboration with customers. IFS Applications 7 is a response to demands for increased industry focus and productivity by including innovations in applications design, graphical user interaction and information visualization. Based on completely open component-based service-oriented component architecture (SOA), IFS Applications 7 offers increased flexibility, giving users the ability to continuously revise and improve process as well as reshape applications as processes change. Some of the functional highlights in IFS Applications 7 include: market-leading support for the growing number of program and project-driven enterprises; new solutions for SCM planning and collaboration; and a number of new vertical market solutions supporting IFS' focus on seven key vertical industries.

In order to further improve cost efficiency in product development, more than 65% of the hours invested in IFS Applications 7 were assigned to Sri Lanka. Combined with continuous streamlining and quality improvements programs, product development expenses have been significantly reduced compared with 2004, making IFS Applications 7 the best, most cost-efficient release ever.

To meet its own and customers' demands for cost-effectiveness, IFS increased offshore development operations during 2005 to actively support customer projects worldwide.

During the year, these operations delivered more than 150,000 hours of development to more than 30 customer projects worldwide. During 2005, IFS has consolidated most of its support operations into a global organization to streamline operations, but also to develop customer offerings. A local presence is supported by four regional support centers, pooling competence and achieving scale of economy. Today, more than 70% of support is processed by the four regional support centers, which in turn are backed by product development, usually Sri Lanka. The consolidation has resulted in more consistent service levels and shorter response and resolution times. In addition, productivity has risen by 25%. The positive effects of this, combined with moving more support activities offshore, contribute to a lower total level of expense.

Cash Flow, Liquidity, and Financial Position

Cash flow from current operations before change in working capital during the year amounted to SKr 189 (94) million. The improved earnings, partly counteracted by the negative effects on liquidity of one-time items of SKr 71 million, are the main reason for the stronger cash flow. Cash flow from current operations after change in working capital was SKr 157 (0) million.

Tied-up working capital increased by SKr 32 million compared with the closing position in 2004. A high level of invoicing of maintenance and support fees during the latter part of December had a negative effect on the volume of receivables at year-end. The increase affected deferred income to a corresponding degree. Days of sales outstanding (DSO), defined as receivables at year-end, adjusted for value added tax (VAT), in relation to sales for 12 months rolling, was 84 days (76). Based on the monthly receivables positions during the year, the corresponding DSO was 65 days (62). The net sum of receivables and deferred income was SKr 370 (344) million. Investments totaled SKr 129 (76) million. Product development expenditure was capitalized in an amount of SKr 121 (153) million, and SKr 5 million was related to acquisitions. Ex post regulation of previous divestments contributed SKr 12 million to cash flow.

Cash flow after investments amounted to SKr 28 (–76) million. Items of a one-off nature affecting liquidity, such as severance pay and office rental, in 2005, and capital gains in 2004, affected comparison between years. Adjusted for such items in cash flow after investments, cash flow improved by SKr 230 million, from a loss of SKr 131 million in 2004 to a gain of SKr 99 million in 2005.

Cash flow from financial operations amounted to SKr 126 (97) million. Comparative figures for 2004 were affected by a rights issue implemented during the year, which contributed SKr 267 million, before issue expenses of approximately SKr 28 million. Borrowing during the year increased by SKr 163 million.

Liquid funds on December 31, 2005, totaled SKr 319 million, compared with SKr 152 million at the end of 2004. The increase results from better cash flow, increased borrowing, and exchange rate differences in liquid assets.

The Group's net debt, including convertible debentures/bonds, was SKr 294 (363) million, whereas cash and unutilized lines of credit amounted to SKr 370 (313) million. Total external financing totaled SKr 524 (412) million, of which the booked convertible debenture/bond debt constituted SKr 193 (244) million. During the year, a convertible debenture issued in 2000 was amortized in a total amount of SKr 45 million. Of outstanding convertible debentures/bonds, an amount corresponding to a nominal value of SKr 62 million was converted to shares. During 2005, IFS divested its holding of a nominal value of SKr 20 million in the KV4B convertible debenture. The nominal total value of the outstanding convertible debentures/bonds amounted to SKr 239 million at year-end.

CORPORATE GOVERNANCE

Ownership Structure

The principal owner of IFS is the Gustaf Douglas family and associated company (Förvaltnings AB Wasatornet), whose holding on December 31, 2005, was 19.3% of the capital and 26.0% of the voting rights.

Annual General Meeting of Stockholders

The Annual General Meeting of Stockholders (AGM) held on April 12, 2005, resolved to elect Gregory Gorman to the board of directors. Bernd Eberhardt declined re-election.

The AGM for 2006 will be held on April 5, in Stockholm. The nominations committee comprises Gustaf Douglas, representing the Douglas family and associated companies, Magnus Bakke, representing Robur, Ulf Strömsten, representing Catella Fonder, Bengt Nilsson, representing the founders, and Anders Böös in his capacity as chairman of the board. Gustaf Douglas convened and chaired the nominations committee.

The nominations committee proposes that Anders Böös, Gregory Gorman, Ulrika Hagdahl, Bengt Nilsson, Jacob Palmstierna, and Christina Stercken be re-elected, and that Alastair Sorbie be elected, to the board. The nominations committee further proposes that Anders Böös be elected chairman and Bengt Nilsson, deputy chairman.

For the AGM in 2006, the board has further proposed certain amendments to the articles of association in accordance with the revised Swedish Companies Act.

Board and Management

Since the AGM 2005, the board of directors of IFS has consisted of Anders Böös, Gregory Gorman, Ulrika Hagdahl, Michael Hallén, Bengt Nilsson, Jacob Palmstierna, and Christina Stercken.

Anders Böös is chairman of the board; Bengt Nilsson is deputy chairman.

Michael Hallén has been president and chief executive officer since January 2003.

Michael Hallén has been employed by IFS since 1994 and was previously responsible for IFS' research and development operations. In January 2006, the board appointed Alastair Sorbie president and CEO effective from March 10, 2006. Alastair Sorbie was formerly head of EMEA and has been employed by IFS since 1997.

The Board of Directors' Work

IFS is not formally part of the group of companies included in the initial introduction of the Swedish Code of Corporate Governance. However, its ambition is to fulfill applicable parts of the code and its guidelines.

The work of the board of directors is conducted in accordance with the requirements of the Swedish Companies Act, the listing agreement of the Stockholm Stock Exchange, other rules and regulations relevant to the company, and operating procedures adopted by the board. A specific instruction regulates the division of tasks between the board and the president, the forms of financial reporting to the board, and the presidents assignments and right to make decisions.

The board also establishes a finance policy that regulates risk related to financing, interest, liquidity, credit, and currency. It also determines an information policy that regulates the way in which IFS disseminates information. The operating procedures of the board and related instructions are reviewed annually. Other instructions are reviewed as required. In accordance with the current operating procedures, the board shall meet at least six times per year (in addition to the constitutory meeting held after the AGM). Each ordinary meeting treats issues related to business and market development, adherence to the business plan and earnings, cash flow and financing, the current outlook, and acquisitions, divestment and pledged guarantees. One board meeting is dedicated mainly to strategic issues, and one is dedicated to the business plan and budget. Auditors participate in two board meetings per year. Furthermore, the board is regularly informed by the president concerning developments in IFS.

Since the AGM in 2005 (until the issuance of the annual report), the board met nine times, of which two were per capsulam. In addition to the above, the work of the board in 2005 has focused on evaluating and managing IFS' profitability issues, financing, and strategic direction. During the year, regional managers and other senior executives, according to a rolling schedule, have presented and discussed their areas of responsibility with the board.

The work of the board in 2005 is scheduled for evaluation in connection with the board meeting to be held in April 2006. The evaluation will be conducted at a plenary session on the basis of an agenda established in advance. No external evaluation of the board was conducted during the year.

Committee Work

The board has decided not to appoint separate compensation and audit committees. Remuneration of the president is determined by the board as are the principles and earnings targets for variable remuneration of the president and senior executives reporting to the president. Other remuneration of senior executives reporting to the president is determined in consultation with the chairman of the board, and information is provided to the other members of the board.

Audit issues are treated by the entire board. Normally, the board and IFS' external auditors meet two times a year, in connection with the board meeting in September and at the year-end closing meeting in January. The meeting in September deals with specific items that are to be scrutinized, and the January meeting follows up the completed audit of these and other items.

Förvaltnings AB Wasatornet, the principal owners of IFS, convenes the nominations committee, which, in addition to the chairman of the board, shall consist of a representative of the principal owners, two representatives of the two largest institutional owners, and a representative of the other stockholders, who is elected from among the founders. Prior to an AGM that shall elect a board member and/or the chairman of the board and/or an auditor and/or resolve pertaining to remuneration of a board member and/or an auditor, the nominations committee shall prepare a resolution for the AGM in respect of such decisions. The nominations committee shall also propose a chairperson for the AGM. The finance committee ensures compliance with regulations and guidelines for handling financial risks in line with the finance policy adopted by the board. The finance committee can also propose changes and new guidelines for consideration by the board. The finance committee consists of the president, the chief financial officer, and a member of the board. During the year, changes have been made and work carried out to successively implement the finance policy. This work will continue in 2006.

External Audit

The auditors elected at the AGM in 2003 for a period of four years are Öhrlings Pricewaterhouse Coopers, represented by Lars Wennberg, as principal auditor, and Göran Tidström, authorized public accountants.

Fees paid to Öhrlings Pricewaterhouse Coopers and other auditors for 2005 amounted to SKr 7 (10) million, of which SKr 2 (3) million pertains to other assignments.

Remuneration and Incentive Programs

The chairman and members of the board are remunerated in accordance with the resolution adopted by the AGM. For 2005/2006, members of the board were paid SKr 1.15 million, of which the chairman received SKr 400,000, and the president, SKr 0. Remuneration of the president and other senior executives consists of a basic salary, variable remuneration, other benefits, and pension contributions.

In 2005, the president received a basic annual salary of SKr 1.9 million and pension contributions consisting of a defined-benefit plan and a defined-contribution plan. The total premium amounts to 10 times the Swedish standard subsistence rate. The entitlement to variable remuneration corresponds to 75% of the basic salary. Based on outcome related to earnings targets, variable remuneration has been set at 17% of the basic salary and will be paid during 2006.

The new president will receive a basic salary of £170,000 per annum and a premium-based pension with a premium corresponding to 15% of the basic salary. Variable remuneration shall not exceed 50% of the basic salary.

The outgoing president will receive salary, pension contributions, and other benefits during the period of notice (12 months), beginning as of January 16, 2006. Severance payment, consisting of salary, excluding pension contributions and other benefits, will be paid during the subsequent 12 months. Severance payment is subject to certain conditions.

In 2004, IFS issued a convertible debenture, KV4B, directed to employees of the Group. KV4B has a nominal value of SKr 46 million, matures on august 15, 2007, and can be converted to Series B shares at a conversion price of SKr 6.90. In 2005, Noonday Global Management Ltd., a London-based brokerage, acquired a nominal amount of SKr 20.2 million of KV4B and subsequently issued call options on market terms to the president and 34 other executives with the right to acquire a total of 2.4 million Series B shares at a strike price of SKr 6.90 per share no later than July 31, 2007. The outstanding portion of KV4B is held by employees in the Group.

See Note 14 for further information on members of the board and senior executives with respect to remuneration and benefits, and concerning shares and other financial instruments held.

Stock Market Information

IFS issues information in accordance with the information policy established by the board. The annual and quarterly reports are published in Swedish and English, and are distributed to stockholders and other parties who express their interest.

Corporate governance information, reports and press releases are available at www.ifsab.se or www.ifsworld.com, where information can be ordered or subscribed for.

The board, management, and certain other senior executives who are registered as insiders may trade in shares according to current market praxis. No additional internal regulations exist.

Press conferences for analysts and journalists were held in connection with the quarterly reports.

Financial Risk Management

In the course of its business, the Group is exposed to risk related to currency, financing and interest rates. Such risks and their management are described in Note 53.

Change in Accounting Principles

As of January 1, 2005, the Group applies the IFRS accounting principles approved by the European Commission. The introduction of the new standard has entailed a change in accounting principles and has affected the income statement and balance sheet. To enable comparison of the Group's performance and position, figures for the comparative year have been restated.

Parent Company

Parent Company, IFS AB, operations include certain corporate management and finance functions as well as the management of stockholdings in subsidiaries and associated companies. In 2005, net revenue amounted to SKr 13 (14) million, with a loss before tax of SKr 25 (–234).

Investments in stocks and shares amounted to SKr 0 (6) million. Investments in machinery and equipment amounted to SKr 0 (0) million. On December 31, 2005, Parent Company liquid funds, including unutilized lines of credit, totaled SKr 174 (95) million, whereas Parent Company debt was SKr 457 (332) million, of which SKr 161 (42) million was to credit institutions, SKr 193 (244) million pertained to convertible debentures/bonds, and intra-Group borrowing was SKr 103 (44) million. At year-end, the Parent Company had 4 employees (5).

Outlook

In 2006, the market is expected to be stable, with some growth. This situation, combined with IFS' increasingly stronger market position in several segments, the launch of IFS Applications 7, and a more solid financial position, forms the basis for growth in 2006, with higher license volumes than in 2005. Cost containment through more efficient internal processes, coordination, and more efficient utilization of available resources will continue to be prioritized in 2006. This means that an expected growth in volume can be effected with only marginal changes in expenses. Tied-up working capital is expected to be further reduced, which combined with better earnings is expected to contribute to continued positive developments for cash flow. In all, it is the objective of the board to achieve an EBIT margin of 10% or more and continued improvement of cash flow.

Significant Events after the End of the Report Period

The meeting of the board held on January 16, 2006, announced that Michael Hallén would step down as president of IFS AB and CEO of the IFS Group. Alastair Sorbie, head of EMEA, was appointed as the new president and CEO, effective as of March 10, 2006. Furthermore, Jan Moodh resigned as Head of Growth Markets in February 2006. No replacement has been appointed.

Additional Information
IFS is the subject of a number of disputes and claims that can be considered normal given the nature of its operations. In addition to such disputes, two disputes exist that cannot be considered a normal aspect of the Group's operations.

In Sri Lanka, IFS Sri Lanka and the members of its board of directors have been sued by partners in a jointly owned company, who claim that breach of the articles of association and stockholders' agreement has been committed. They also claim that IFS owes liabilities to IFS Sri Lanka, without stating a definite amount. The defendants have disputed the claims, which they consider unfounded.

IFS has a special insurance policy for employees in the Nordic region who are temporarily on assignment abroad to secure such employees' local Nordic pensions while they are abroad. This insurance policy was purchased via a Swedish insurance broker. According to IFS, this purchase was made in breach of the stipulations made by IFS, as a result of which breach IFS was liable for payments for the pension plans of a number of employees for a longer period than was intended. IFS considers the insurance broker to have acted in negligent manner, thereby causing IFS damage as a consequence of increased payment liabilities, and has initiated litigation against the insurance broker in question. The Company assesses provisions made to be sufficient, but Company liquidity can be affected by the outcome of such claims.

Proposed Disposition of Earnings
The board of directors and the president propose the following funds, SKr 59, 851,000 which are available for disposition in the Parent Company, be allocated as follows:

Carried forward	SKr 59,851,000
Accumulated profit	SKr 59,851,000

The financial reports were approved for issuance by the board of directors of the Parent Company on January 31, 2006.

Additional information on Group and Parent Company results and general position is available in the accompanying income statements and balance sheets, with related notes.

Consolidated income statement

SKr, million	Note	2005	2004
License revenue	3	383	451
Maintenance & support revenue	3	528	470
Consulting revenue		1 175	1 174
Other revenue	4	63	83
Net revenue	2, 5	**2 149**	**2 178**
License expenses	6	-432	-529
Maintenance & support expenses		-223	-185
Consulting expenses		-926	-924
Other expenses		-49	-63
Direct expenses		**-1 630**	**-1 701**
Gross earnings		**519**	**477**
Other operating revenue	7	36	80
Research & development expenditure	9	-223	-329
Administration expenses		-219	-230
Other operating expenses	8	-16	-126
EBIT	11, 12, 13, 14, 15, 16, 17	**97**	**-128**
Result from participation in associated companies	19	1	1
Interest revenue and similar items	20	30	7
Interest expenses and similar items	21	-61	-84
Profit/loss before tax		**67**	**-204**
Tax on profit/loss	22	-17	-25
Profit/loss for the year	23	**50**	**-229**
Profit/loss for the year is allocated as follows:			
Parent Company stockholders (SKr million)		50	-219
Minority interest (SKr million)		0	-10
Profit/loss per share pertaining to Parent Company stockholders (SKr)	23	0.23	-2.19
Number of shares (thousands)	23, 38		
On December 31		223 762	205 690
Average number of shares for the period		219 382	99 808
Average number of shares for the period after full dilution		269 405	125 122

Consolidated balance sheet – assets

SKr, million	Note	Dec 31, 05	Dec 31, 04
Capitalized expenditure for product development		509	543
Goodwill		235	206
Other intangible fixed assets		14	16
Intangible fixed assets	25	**758**	**765**
Tangible fixed assets	26, 27, 28	**95**	**110**
Participations in associated companies	30	6	6
Deferred tax receivables	32	112	118
Other long-term receivables	33	17	18
Financial fixed assets		**135**	**142**
Fixed assets		**988**	**1 017**
Inventories		6	4
Accounts receivable	34	615	565
Current tax receivable		18	15
Other receivables	36	159	127
Liquid assets	37	319	152
Current assets		**1 117**	**863**
Assets	24	**2 105**	**1 880**

Consolidated balance sheet – equity and liabilities

SKr, million	Note	Dec 31, 05	Dec 31, 04
Capital stock		448	411
Other capital contributed		572	791
Reserves		20	-7
Accumulated loss		-426	-710
Stockholders' equity pertaining to Parent Company stockholders		**614**	**485**
Minority interest		1	3
Stockholders' equity	38	**615**	**488**
Convertible debentures/bonds	39, 40	193	199
Liabilities to credit institutions	40, 43	164	52
Pension obligations	41	89	103
Deferred tax liabilities	32	2	2
Other provisions and other liabilities	42	20	47
Long-term liabilities		**468**	**403**
Accounts payable		146	153
Current tax liabilities		8	9
Convertible debentures/bonds	39, 40	-	45
Liabilities to credit institutions	40, 43	167	116
Other provisions	44	28	73
Other liabilities	45	673	593
Current liabilities		**1 022**	**989**
Liabilities	24	**1 490**	**1 392**
Stockholders' equity and liabilities		**2 105**	**1 880**
MEMORANDUM ITEMS			
Pledged assets	47	1 279	1 168
Contingent liabilities	48	2	18

Consolidated capital account

SKr, million	Note 38	Capital stock	Other contributed capital	Reserves	Accumulated loss	Minority interest	**Total stockholders' equity**
Amount on January 1, 2004		146	992	-	-876	14	**276**
Change in translation difference		-	-	-7	-	2	**-5**
Profit/loss for the year		-	-	-	-219	-10	**-229**
Management of loss as resolved by AGM 2004		-	-385	-	385	-	**0**
Change in minority interest		-	-	-	-	-3	**-3**
Option component of convertible debenture KV4B		-	6	-	-	-	**6**
Option component of convertible bond KV5B		-	46	-	-	-	**46**
Rights issue—Premature redemption of convertible debentures		48	33	-	-	-	**81**
Rights issue—Offset issue		11	58	-	-	-	**69**
Rights issue—Cash issue		206	41	-	-	-	**247**
Amount, December 31, 2004		**411**	**791**	**-7**	**-710**	**3**	**488**
Change in translation difference		-	-	27	-	-	**27**
Change in minority interest		-	-	-	-	-2	**-2**
Profit/loss for the year		-	-	-	50	-	**50**
Management of loss as resolved by AGM 2005		-	-234	-	234	-	**0**
Option component of convertible debenture KV4B		-	3	-	-	-	**3**
Rights issue—Premature redemption of convertible debentures		37	12	-	-	-	**49**
Amount, December 31, 2005		**448**	**572**	**20**	**-426**	**1**	**615**

Consolidated statement of cash flows

SKr, million	Note	2005	2004
CURRENT OPERATIONS			
Profit/loss after net financial items		67	-204
Adjustments for items not included in the cash flow, etc.	49	135	306
Income tax paid		-13	-8
Cash flow from operations before change in working capital		**189**	**94**
CHANGE IN WORKING CAPITAL			
Change in inventory		-1	0
Change in current receivables		-52	-13
Change in current non-interest-bearing liabilities		21	-81
Change in working capital		**-32**	**-94**
Cash flow from current operations		**157**	**0**
INVESTMENT OPERATIONS			
Acquisition of subsidiaries	50	-5	-7
External sale of subsidiaries/operations	51	10	92
Acquisition of intangible fixed assets		-128	-165
Divestment of intangible fixed assets		1	12
Acquisition of tangible fixed assets	52	-16	-22
Divestment of tangible fixed assets		3	2
Change in long-term receivables		6	12
Cash flow from investment operations		**-129**	**-76**
Cash flow after investment operations		**28**	**-76**
FINANCING OPERATIONS			
Rights issue		-	267
Divestment of convertible debentures		20	-
Issuance of convertible debenture		-	160
Redemption of convertible debenture		-45	-
Issue costs related to rights issue and issuance of convertible debentures		-	-28
Liability to credit institutions		191	168
Amortization of liability to credit institutions		-28	-543
Change in other long-term liabilities		-12	73
Cash flow from financing operations		**126**	**97**
Cash flow for the year		**154**	**21**
LIQUID FUNDS			
Liquid funds on January 1		152	137
Exchange rate differences in liquid funds		13	-6
Liquid funds, December 31		**319**	**152**

Income statement of the parent company

SKr, million	Note	2005	2004
Net revenue	4, 5	**13**	**14**
Gross earnings		**13**	**14**
Other operating revenue	7	17	12
Administration expenses		-21	-34
Other operating expenses	8	-26	-11
EBIT	10, 12, 13, 14, 15, 16	**-17**	**-19**
Result from participation in subsidiaries	18	-4	-171
Result from participation in associated companies	19	0	1
Interest revenue and similar items	20	150	92
Interest expenses and other items	21	-154	-137
Profit/loss before tax		**-25**	**-234**
Tax on profit/loss for the year	22	24	-
Profit/loss for the year		**-1**	**-234**

Balance sheet of the parent company – assets

SKr, million	Note	Dec 31, 05	Dec 31, 04
FIXED ASSETS			
Intangible fixed assets	25	**0**	**0**
Tangible fixed assets	26	**0**	**0**
Participations in subsidiaries	29	923	923
Participations in associated companies		4	4
Receivables in subsidiaries	31	41	203
Other securites held as fixed assets		1	1
Deferred tax receivables	32	93	93
Other long-term receivables	33	2	2
Financial fixed assets		**1 064**	**1 226**
Fixed assets		**1 064**	**1 226**
CURRENT ASSETS			
CURRENT RECEIVABLES			
Accounts receivable		0	0
Receivables in subsidiaries		967	829
Other receivables		3	2
Prepaid expenses and accrued revenue	35	1	1
Current receivables		**971**	**832**
Cash and bank balances		**166**	**17**
Current assets		**1 137**	**849**
Assets		**2 201**	**2 075**

Balance sheet of the parent company – equity and liabilities

SKr, million	Note	Dec 31, 05	Dec 31, 05
RESTRICTED STOCKHOLDERS' EQUITY			
Capital stock		448	411
Restricted reserves		572	791
Restricted stockholders' equity		**1 020**	**1 202**
Retained earnings/accumulated loss			
Retained earnings/accumulated loss		61	0
Profit/loss for the year		-1	-234
Retained earnings/accumulated loss		**60**	**-234**
Stockholders' equity	38	**1 080**	**968**
PROVISIONS			
Provisions for pensions and similar commitments	41	1	**-**
Other provisions		0	2
Provisions		**1**	**2**
LONG-TERM LIABILITIES			
Convertible debentures/bonds	39, 40	193	199
Liabilities to credit institutions	40, 43	140	29
Liabilities to subsidiaries		-	44
Other liabilities		-	2
Long-term liabilities		**333**	**274**
CURRENT LIABILITIES			
Convertible debentures/bonds	39, 40	-	45
Liabilities to credit institutions	40, 43	21	13
Accounts payable		7	22
Laibilities to subsidiaries		739	730
Other current liabilities		2	1
Accrued expenses and prepaid revenue	46	18	22
Current liabilities		**787**	**833**
Stockholders' equity and liabilities		**2 201**	**2 075**
MEMORANDUM ITEMS			
Pledged assets	47	800	801
Contingent liabilities	48	131	156

Capital account of the parent company

SKr, million	Capital stock	Reserve fund	Premium fund	Unrestricted stockholders' equity	**Total stockholders' equity**
Amount, Jan 1, 2004 according to adopted balance sheet	146	-	992	-385	**753**
Profit/loss for the year	-	-	-	-234	**-234**
Management of loss as resolved by AGM 2004	-	-	-385	385	**0**
Option component of convertible debenture KV4B	-	-	6	-	**6**
Option component of convertible bond KV5B	-	-	46	-	**46**
Rights issue—Premature redemption of convertible debentures	48	-	33	-	**81**
Rights issue—Offset issue	11	-	58	-	**69**
Rights issue—Cash issue	206	-	41	-	**247**
Amount, December 31, 2004	**411**	**0**	**791**	**-234**	**968**
Profit/loss for the year	-	-	-	-1	**-1**
Management of loss as resolved by AGM 2005	-	-	-234	234	**0**
Group Contributions	-	-	-	85	**85**
Deferred tax on group contributions	-	-	-	-24	**-24**
Option component of convertible debenture KV4B	-	-	3	-	**3**
Rights issue—Premature redemption of convertible debentures	37	-	12	-	**49**
Transfer of premium fund to reserve fund	-	572	-572	-	**0**
Amount, December 31, 2005	**448**	**572**	**0**	**60**	**1 080**

Statement of cash flows of the parent company

SKr, million	Note	2005	2004
CURRENT OPERATIONS			
Profit/loss after net financial items		-25	-234
Adjustments for items not included in the cash flow, etc.	49	10	181
Cash flow from operations before change in working capital		**-15**	**-53**
CHANGES IN WORKING CAPITAL			
Change in current receivables		3	13
Change in current non-interest-bearing liabilities		-51	53
Change in working capital		**-48**	**66**
Cash flow from current operations		**-63**	**13**
INVESTMENT OPERATIONS			
Divestment of intangible fixed assets		0	3
Change in net receivables in subsidiary		131	-54
Change in long-term receivables		-15	-87
Cash flow from investment operations		**116**	**-138**
Cash flow after investment operations		**53**	**-125**
FINANCING OPERATIONS			
Rights issue		-	267
Divestment of convertible debentures		20	-
Issuance of convertible debenture		-	160
Redemption of convertible debenture		-45	-
Issue costs related to rights issue and issuance of convertible debentures		-	-28
Liability to credit institutions		133	130
Amortization of liability to credit institutions		-12	-465
Change in other long-term liabilities		0	70
Cash flow from financing operations		**96**	**134**
Cash flow for the year		**149**	**9**
LIQUID FUNDS			
Liquid funds on January 1		17	8
Liquid funds, December 31		**166**	**17**

Notes to the financial statements

NOTE 1 – ACCOUNTING PRINCIPLES

GROUP ACCOUNTING PRINCIPLES

Conformity with Norms and Legislation
The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as approved by the European Union, the Swedish Annual Report Act, and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The present financial report is the first issued by the IFS Group in accordance with the IFRS. In connection with the transition from previously applied accounting principles to accounting in accordance with the IFRS, the Group has applied IFRS 1, which is the standard that describes how the transition to the IFRS shall be reported. Moreover, Recommendation RR 30, Supplementary Accounting Principles for Companies, of the Swedish Financial Accounting Standards Council has been applied.

The Parent Company applies the same accounting principles as the Group, except in the cases detailed below in the section entitled 'Parent Company Accounting Principles'. The variations existing between Parent Company and Group accounting principles arise from the limitations to applying the IFRS in the Parent Company as a result of the Swedish Annual Report Act and the Swedish Act on Safeguarding of Pension Commitments, and in certain cases for tax reasons.

Conditions Applying to the Preparation of Parent Company and Group Financial Reports
The Parent Company's functional currency is the Swedish krona (SKr), which is also the presentation currency for the Parent Company and the Group. Therefore the financial reports are presented in Swedish krona. All amounts, unless otherwise stated, are rounded off to the nearest million.

To present the financial reports in accordance with the IFRS, the management and board of IFS must make certain estimates and assumptions that affect the application of the accounting principles and the reported amounts pertaining to assets and liabilities, revenue and expenses. The estimates are based on historical experience and a number of other factors that are deemed reasonable in the prevailing circumstances. The result of such estimates and assumptions is then used to assess the reported value of assets and liabilities that cannot clearly be determined from other sources. Actuals may differ from the estimates.

The estimates and assumptions are regularly reviewed. Changes in estimates are reported in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

Assessments made by the management related to the application of the IFRS that have a significant impact on the financial reports and estimates that may entail significant adjustments in the financial reports of subsequent years are described in greater detail in the section entitled 'Critical Estimates and Assumptions'.

The Group accounting principles listed below have been consistently applied to all periods presented in the Group's financial reports, unless otherwise stated, and in preparing the Group's balance sheet as of January 1, 2004, which explains the transition from previously applied accounting principles to the IFRS. Group accounting principles have been consistently applied to the accounts and consolidation of the Parent Company, subsidiaries, associated companies, and joint venture companies.

New standards, recommendations and interpretations were published during the year and will become mandatory during 2006 and 2007. The Group has not applied these in advance. The following new standards are relevant for Group operations.

- Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures (The amendment has been approved by the European Commission). The amendment comes into force on January 1, 2007. At present, it is not deemed likely that this amendment will require additional information to be added to the annual report for the Group.
- Amendment to IAS 19, Employee Benefits (The amendment has been approved by the European Commission). IAS 19 was amended in December 2004. The amendments apply to fiscal years beginning as of January 1, 2006. At present, the Group has not decided whether to utilize the option to recognize actuarial profits and losses. However, the extended information requirements will affect the annual report in 2006.
- Amendment to IAS 21, Effects of Changes in Foreign Exchange Rates (The amendment has not been approved by the European Commission). IAS 21 was amended in December 2005. The amendments apply to fiscal years beginning as of January 1, 2006. At present, these amendments are deemed not to affect the Group.
- Amendment to IAS 39, The Fair Value Option (The amendment has been approved by the European Commission). An amendment to IAS 39 was issued in June 2005 concerning fair value option. This amendment is applicable as of January 1, 2006. It is the opinion of the Group that the amendment will not affect earnings or position.

- Amendment to IAS 39, Cash Flow Hedge Accounting of Forecast Intragroup Transactions (The amendment has not been approved by the European Commission). An amendment to IAS 39 was issued in April 2005 concerning cash flow hedging of intragroup transactions. This amendment is applicable as of January 1, 2006. It is the opinion of the Group that the amendment will not affect earnings or position.
- Amendment to IAS 39 and IFRS 4, Financial Guarantee Contracts (The amendments have been approved by the European Commission). The standard comes into force on January 1, 2006, but will not affect Group earnings and position. It may, however, affect the earnings and position of the Parent Company.
- IFRS 7, Financial Instruments: Disclosures (The standard has been approved by the European Commission). This standard will affect information concerning financial instruments. The standard is applicable as of January 1, 2007.
- IFRIC 4, Determining Whether an Arrangement Contains a Lease (The interpretation has been approved by the European Commission). IFRIC 4 is applicable to fiscal years beginning as of January 1, 2006. The Group has opted not to apply IFRIC 4 in advance, but will apply IFRIC 4 and the transition regulations in its accounts during 2006. Thus the Group will apply IFRIC 4 based on the conditions prevailing as of January 1, 2005. It is the opinion of the Group that the introduction of IFRIC 4 will not affect accounts for any of IFS' current agreements.

The Group is of the opinion that the following new standards will not be relevant to its operations:

- Amendments to IFRS 1 and IFRS 6. These amendments apply if a company chooses to apply IFRS 6 before January 1, 2006. (These amendments have been approved by the European Commission).
- IFRS 6, Exploration for and Evaluation of Mineral Assets (This standard has been approved by the European Commission and will come into force on January 1, 2006).
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (This interpretation has been approved by the European Commission).
- IFRIC 6, Liabilities Arising from Participating in a Specific Market (This interpretation has been approved by the European Commission). The interpretation applies to fiscal years beginning as of December 1, 2005.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (The interpretation has not been approved by the European Commission). The interpretation comes into force on March 1, 2006.
- IFRIC 8, Scope of IFRS 2 (The interpretation has not been approved by the European Commission). The interpretation applies to fiscal years beginning as of May 1, 2006.

Changes in Accounting Principles

Note 54 summarizes and explains how the transition to the IFRS has affected the Group's financial results and position, as well as the choices made in connection with the transition.

Consolidated Accounts

The Parent Company and all the subsidiaries constitute the Group. Subsidiaries are all companies in which the Group owns an interest and directly or indirectly holds a voting majority, or has a controlling interest through agreements.

The consolidated accounts are prepared in accordance with the purchase method, whereby consolidated stockholders' equity includes only that portion of the Group's share of the stockholders' equity in subsidiaries and associated companies accruing after the date of acquisition.

Subsidiaries

Subsidiaries are companies in which the Parent Company has a controlling interest. A controlling interest entails a direct or indirect right to form a company's financial and operational strategies for the purpose of gaining financial benefits. When assessing whether a controlling interest exists, potential shares with voting rights that can be utilized without delay shall be taken into account.

The subsidiary's financial reports are included in the consolidated accounts as of the day the controlling interest is transferred to the Group, i.e. on acquisition. They are excluded from the consolidated accounts as of the day the controlling interest no longer exists.

The purchase method is used to report Group acquisitions of companies, whereby the acquisition of a subsidiary is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. Initially, the valuation is set at the fair value on the acquisition day regardless of the extent of minority interest that may exist. The consolidated acquisition value is established by means of an acquisition analysis in connection with the acquisition of the business. The analysis establishes the acquisition value of the shares or business, and the fair value of acquired identifiable assets and assumed liabilities and contingent liabilities. The difference between the acquisition value of shares in subsidiaries and the fair value of acquired assets, assumed liabilities and contingent liabilities constitutes the consolidated goodwill. If the acquisition value is less than the fair value of the acquired company's net assets, the difference is reported directly in the income statement.

Associated companies

Associated companies are companies in which the Group has a significant, but not controlling, interest in the operational and financial management, generally through a holding of 20–50%

of the voting rights. From the point in time at which the significant interest is acquired, the interest in the associated company is reported in the consolidated accounts pursuant to the equity method. According to this method, the value of the shares in the associated companies reported in the consolidated accounts corresponds to the Group's interest in the associated companies' stockholders' equity, the consolidated goodwill, and other residual values that might exist in the consolidated fair value adjustments. In the Group income statement, the Group's share in the associated companies' net earnings after tax and minority interest adjusted for depreciation, write-downs and resolution of acquired fair value adjustments is reported under 'Participations in associated companies'. Dividends obtained from the associated company reduce the reported value of the investment.

On acquisition, any differences between the acquisition value of the holding and the owner's share of the net fair value of the associated company's identifiable assets, liabilities and contingent liabilities are reported in accordance with IFRS 3, Business combinations.

When the Group's share of reported losses in the associated company exceeds the reported value of the shares in the Group, the value of the shares is reduced to zero. Deductions for losses are also made against unsecured long-term financial transactions, which in their economic substance constitute part of the owning company's net investment in the associated company. Further losses are not reported unless the Group has undertaken to cover losses arising in the associated company. The equity method is applied until the significant interest ceases to exist.

Joint ventures

For accounting purposes, joint ventures are companies in which the Group has entered into collaboration agreements with one or several parties to share a controlling interest in their operational and financial management. In the consolidated accounts, holdings in joint ventures are reported according to the principle of proportional consolidation, whereby the Group's share of the joint venture's assets, liabilities, revenue and expenses, is reported in the Group's balance sheet and income statement. To do so, the joint owner's share of assets, liabilities, revenue and expenses in a joint venture is combined item by item with corresponding items in the joint owners' consolidated accounts. Only stockholders' equity accruing after acquisition is reported in the Group's stockholders' equity. The proportional consolidation principle is applied from the point in time at which the joint controlling interest is obtained until it ceases to exist.

Transactions to be eliminated on consolidation

Intra-Group receivables and payables, revenue or expenses, and unrealized profits or losses arising from intra-Group transactions between subsidiaries are eliminated in their entirety when the consolidated accounts are prepared. Unrealized profits arising from transactions with associated companies and jointly controlled companies are eliminated to an extent corresponding to the Group's share of the ownership of the company. Unrealized losses are eliminated in a similar fashion to unrealized profits, but only if there is no indication that a write-down is required.

Segment Reporting

Geographical segments offer products and services in a certain economic environment that is exposed to risks and opportunities that differ from those that apply to other geographical regions. A business area is a group of assets and operations that provides products or which is exposed to risks and opportunities that differ from those in other business areas.

The Group does not report secondary segments as there is only one line of business, the sale and implementation of IFS Applications.

Foreign Currency

Transactions in foreign currencies

Foreign currency transactions are translated to the functional currency at the exchange rate applying on the transaction day. Monetary assets and liabilities in foreign currency are translated to the functional currency at the rate prevailing on the balance sheet day. Exchange rate differences resulting from translations are reported in the income statement. Non-monetary assets and liabilities reported at their historical acquisition value are translated at the exchange rate applying on the transaction day. Non-monetary assets and liabilities reported at fair value are translated to the functional currency at the rate applying at the time the fair value was established. Exchange rate fluctuations are reported in the same fashion as other changes in value in respect of assets or liabilities.

Functional currency is the currency in the primary economic environments in which Group subsidiaries operate. The companies constituting the Group are the Parent Company, subsidiaries, associated companies, and joint ventures. The Parent Company's functional currency, also its presentation currency, is the Swedish Krona. The Group's presentation currency is the Swedish Krona.

Financial reports in foreign entities

Assets and liabilities in foreign entities, including goodwill and other corporate fair value adjustments, are translated to Swedish currency at the rate applying on the balance sheet day. Revenue and expenses in foreign entities are translated to Swedish currency at the average rate that constitutes an approximation of the rates applying when the transaction occurred. Differences that arise when translating currency in foreign entities are reported immediately in stockholders' equity as a translation reserve.

Net investments in a foreign entity

The differences that occur in connection with translating a foreign net investment and the related effects of hedging net investments are reported directly in the translation reserve in stockholders' equity. On disposal of a foreign entity, the cumulative translation difference relating to the entity, after deductions for currency hedges, where applicable, is realized in the Group's income statement.

The cumulative translation differences for foreign entities are presented as a separate capital category and include the translation differences accumulated as of January 1, 2004. The Group has decided to consider translation differences accumulated before January 1, 2004, as zero on transition to IFRS.

Revenue Accounting

License agreements for standard IFS software and third-party licenses are recognized as revenue when all of the following requirements are fulfilled:

- The license agreement, without termination clauses, has been signed and delivery has been made.
- Price and payment terms are established, and there are no other commitments apart from the license delivery.
- Payment is likely and is due within 180 days.

License agreements that include undelivered components that are required for the functionality of the software are recognized in their entirety when the components have been delivered.

IFS software licenses sold via partners and distributors are recognized as income when sold to the final customer. The exception is sales to partners where IFS Applications is included as part of the partner's total product offering and where IFS can be considered a supplier.

Maintenance revenue is the fees IFS customers pay for the right to upgrade software to new versions of IFS Applications and fees for customer support. These fees do not include consulting expenses for installation of updated software. Maintenance revenue is reported over the lifetime of the contract.

Consulting services and training related to implementation are reported separately from license revenue and are recognized as income as the services are supplied. If services, such as extensive customization, are a requirement for the functionality of the software, and if the services are part of the total delivery, license revenue and revenue from services are recognized as income successively as delivery is made.

Consulting services are mainly carried out on account, whereby income is reported as the work is performed. Non-invoiced work is reported as a current asset under 'Other receivables' in the balance sheet. Work at fixed price is also reported as the work is performed, after reservation for loss risks.

Revenue from hardware sales is reported on delivery.

Transfer Pricing

Fees due from sales companies to the product development company are based on a transfer pricing model applied for most subsidiaries in the Group based on the principle that the sales companies achieve a predetermined profit margin that is normal for comparable companies in the market. The method, called the Transactional Net Margin Method (TNMM), is a generally accepted model for transfer pricing. A profit margin of 2% for 2005 has been set for all subsidiaries, apart from IFS North America, for which the profit margin is 4%. This principle is based on the fact that the product development company is the entrepreneur and has the highest risk exposure in the company.

The following principles were applied to subsidiaries in Central and Eastern Europe, and a few subsidiaries in Asia:

- License fee of 40% of revenue from the sale of application licenses, after direct sales expenses.
- Maintenance fee of 50% of application maintenance revenue.
- A general fee of 3% of revenue, after direct sales expenses and other fees paid to the product development entity, to cover corporate expenses

In addition to the product development company in Sweden, there are several permanent product development centers, in Norway, the U.S.A., and Sri Lanka, among others. The product development company covers their actual expenses plus a general supplement of 10%. In certain projects, subsidiaries exchange consulting services with each other. These services are usually priced at a level slightly below the ordinary price a customer would pay the sales company.

In addition to the transfer pricing described, cost of capital is invoiced on intra-Group transactions. Each subsidiary receives/pays interest from/to the Parent Company based on the respective country's interest rate, with a supplement of 2.5 percentage points.

Operating Expenses and Financial Items

Fees pertaining to operating leases

Fees pertaining to operating leases are reported in the income statement on a straight-line basis over the period of the lease. Benefits obtained on signing a lease are reported as part of the total leasing expenses in the income statement.

Fees pertaining to finance leases

Minimum lease payments are allocated to interest expenses and amortization of the outstanding liability. Interest expenses are distributed over the period of the lease so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability reported in the respective period.

Financial revenue and expenses

Financial revenue and expenses include interest revenue from bank assets, receivables and interest-bearing securities, interest expenses related to loans, exchange rate differences, unrealized and realized gains on financial investments, and derivative instruments used in financial operations.

Interest revenue from receivables and interest expenses related to liabilities are estimated using the effective interest method. The effective interest is the rate that ensures that the present value of all future receipts or payments through the expected life of a financial instrument is the same as the reported value of the receivable or payable. The interest element of financial leasing payments is reported in the income statement by using the effective interest method. Interest revenue includes annualized amounts of transaction expenses and discounts, where applicable, premiums and other variations between the original value of the receivable and the amount received on maturity.

Issue expenses and similar direct transaction expenses related to borrowing are annualized over the term of the loan. If loans include an options element, transaction expenses are reported against stockholders' equity.

Borrowing expenses

Borrowing expenses directly pertaining to the purchase, design, or manufacture of an asset which requires considerable time to complete for its intended use or sale are included in the acquisition value of the asset. Borrowing expenses are capitalized on condition that they are likely to entail future economic benefits and expenses can be measured in a reliable manner. Capitalized product development expenditure includes interest. Other borrowing expenses are expensed and charged to earnings for the period to which they pertain.

Financial Instruments

Financial instruments reported as assets in the balance sheet include liquid assets, accounts receivable, shares, credit claims, and derivatives. Liabilities and stockholders' equity include accounts payable, instruments issued related to liabilities and stockholders' equity, credit liabilities, and derivatives.

Financial instruments are reported initially at an acquisition value corresponding to the fair value of the instrument plus transaction expenses, except those instruments categorized as financial assets reported at fair value in the income statement, which are reported at their fair value excluding transaction expenses. They are subsequently accounted for according to their classification (See below).

A financial asset or liability is recognized in the balance sheet when the Company becomes party to the contractual terms of the instrument. Accounts receivable are recognized in the balance sheet when an invoice is issued. Liabilities are recognized when a counterpart has delivered and a contractual obligation to pay exists, even if no invoice has been received. Accounts payable are recognized when an invoice has been received.

A financial asset is derecognized when the entitlements in the contract are realized, mature, or fall outside the control of the Company. This also applies to parts of a financial asset. A financial liability is derecognized when the obligations in the contract are complied with or are extinguished in another manner. This also applies to parts of a financial liability.

Financial instruments

IAS 39 classifies financial instruments in categories depending on the intention underlying the acquisition of the financial instrument. Corporate management determines the classification on acquisition.

The categories are as follows:

Financial assets valued at fair value through the income statement

This category has two subgroups: financial assets held for trading and other financial assets that the Company initially chose to include in this category. A financial asset is classified as being held for trading if it was acquired for the purpose of being sold in the short term. Stand-alone derivatives, such as embedded derivatives, are classified as being held for trading except when used for hedge accounting. Assets in this category are valued continuously at fair value, with changes in value being reported in the income statement.

Loans and receivables

Loans and receivable are non-derivative financial assets with fixed payments or determinable payments, which are not quoted on an active market. Receivables occur when companies provide money, goods or services directly to the borrower without intent to trade in receivables. The category also includes acquired receivables. Assets in this category are valued at the accrued acquisition value, which is determined based on the effective rate of interest calculated on acquisition.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payment flows, with a fixed term, and which a company intends and is able to hold to maturity. Assets in this category are valued at the accrued acquisition value, which is based on the effective interest rate calculated on acquisition. This means that fair value adjustments and direct transaction expenses are annualized over the term of the instrument.

Available-for-sales assets

The available-for-sale category includes financial assets that are not classified in any other category or financial assets that the Company initially classified in this category. Assets in this category are valued continuously at fair value, with changes in value reported against stockholders' equity. When the investments are derecognized, the previously reported accumulated gain or loss in stockholders' equity is restored to the income statement.

Financial liabilities at fair value through the income statement
This category consists of financial liabilities held for trade and derivatives not used for hedge accounting. Liabilities in the category are valued continuously at fair value, with changes in value being reported in the income statement.

Other financial liabilities
Financial liabilities not held for trading are valued at their accrued acquisition value, which is based on the effective interest rate calculated when the liability was recognized. Consequently, fair value adjustments and direct issue expenses are annualized over the term of the liability.

Liquid assets
Liquid assets are cash and immediately available credit in banks and similar institutions.

Financial investments
Financial investments are either financial fixed assets or current investments depending on why they are held. If the term or the expected period for which they are held is longer than one year, they are financial fixed assets; if they are to be held for less than one year, they are current investments.

Financial investments consisting of shares belong either to the category of financial assets valued at fair value through the income statement or available-for-sale financial assets.

On fair value valuation through the income statement, the change in value is reported in net financial items.

Long-term receivables and other receivables
These receivables are valued at the accrued acquisition value. The receivables, however, are recognized at present value if there is a significant difference between the nominal value and the calculated present value. If they are expected to be held for longer than one year, they are deemed long-term receivables, and if they are expected to be held for less than one year, they are categorized as other receivables. Such receivables are categorized under 'Loans and receivables'.

Accounts receivable
Accounts receivable are classified as 'Loans and receivables'. Accounts receivable are reported when the risk has been completed and the benefit transferred to the customer, and an invoice has been sent. Accounts receivable are reported initially at acquisition value and subsequently at the accrued acquisition value. As the term of customer receivables is short, their value is reported at its nominal amount without discount. Write-downs of accounts receivable are reported in operating expenses.

Liabilities
Liabilities are classified as other financial liabilities, which means that they are initially reported as the amount received after deductions for transaction expenses. After acquisition, the loans are valued at the accrued acquisition value according to the effective rate method. Long-term liabilities have an expected term of longer than one year, whereas current liabilities are expected to mature in less than one year.

Convertible debentures/bonds
Convertible debentures/bonds can be converted to shares when holders exercise their option to convert receivables to shares. These are reported as a compound financial instrument with a liability and equity component. The fair values of the liability and equity components are determined when the debentures/bonds are issued. The fair value of the liability component, included in long-term liabilities, is calculated by using market interest rates for the corresponding non-convertible debentures/bonds. The residual amount, representing the value of the equity component, is included in stockholders' equity.
Direct expenses related to issuing the convertible debentures/bonds are reported as a deduction related to the loan. The reported debt is indexed successively over the term of the loan with interest and issue expenses. The equity component, determined on issuance of the convertible debentures/bonds, is not changed over subsequent periods.

Accounts payable
Accounts payable are classified as other financial liabilities. Accounts payable have a short expected term and are valued without discount at nominal value.

Derivatives and Hedge Accounting
Currency futures are used to hedge assets, liabilities or forecast flows against exchange rate risks. Derivative instruments are reported in the balance sheet as of the contract day and are valued at their fair value, both initially and on subsequent revaluation. The method of reporting the profit or loss arising on revaluation depends on whether the derivative instrument is identified as a hedge instrument and, if such is the case, the nature of the hedged item. The Group can identify certain derivatives as either 1) fair-value hedging of an identified asset or liability or a binding commitment (fair-value hedge); 2) hedging of a very likely forecast transaction (cash flow hedge); or 3) hedging of a net investment in a foreign entity.

On entering into the transaction, the relationship between the hedge instrument and the hedged item is documented. Both at the outset of the hedging measure and while it is in effect, the Group also documents its assessment of the effectiveness of the derivative instruments employed in the hedge transaction in leveling out fluctuations in fair value or cash flow for hedged items.

Fluctuations in the fair value of derivatives that are identified as fair-value hedging are reported in operational earnings along with the fluctuation in fair value of the asset or liability underlying the hedged risk. Fluctuations in the fair value of derivatives identified as cash flow hedging and fulfilling the criteria for hedge accounting are reported in stockholders' equity. Fluctuations in the fair value of derivative instruments related to financial receivables and liabilities are reported in net financial items.

Tangible fixed assets

Owned assets

Tangible fixed assets are reported as assets in the balance sheet if it is likely that future financial benefits shall accrue to the Company and the acquisition value of the asset can be calculated in a reliable manner.

Tangible fixed assets are reported at acquisition value after deductions for accumulated depreciation according to plan.

All properties in the Group are business premises used for its own operations and are amortized over their period of use.

The acquisition value includes the purchase price and expenses directly pertaining to the asset, such as the cost of delivery and handling, installation, title deeds, consulting services, and legal services.

Leased assets

Most of the lease agreements are considered to be operating leasing as risks and benefits remain with the lessor, which means that leasing fees are expensed during the leasing period. When leasing contracts are considered to be finance leases, they are reported as acquisition of tangible fixed assets and as liabilities.

Depreciation is applied in the same manner as if the company owned the assets. In finance leases, current leasing fees are divided into an interest portion, which is expensed, and an amortization portion.

Intangible Fixed Assets

Goodwill

Goodwill represents the difference between the acquisition value of a business acquisition and the fair value of the acquired assets, assumed liabilities and contingent liabilities pertaining to acquired subsidiaries.

In respect of goodwill in acquisitions occurring before January 1, 2004, the Group did not apply the IFRS retroactively on transition to the IFRS. Instead, the reported value in the future will be the acquisition value for the Group, after amortization requirements are assessed. See Note 54.

Goodwill is valued at the acquisition value less any accumulated write-downs. Goodwill is reassessed annually and is amortized if the recoverable value is less than the book value. Amortization requirements related to goodwill were assessed as of January 1, 2005 (on transition to the IFRS) although there was no indication that amortization was required.

Goodwill arising from acquiring associated companies is included in the reported value of participations in associated companies.

In respect of business acquisitions in which the acquisition expenses are less than the net value of the acquired assets, assumed liabilities and contingent liabilities, the difference is reported directly in the income statement.

Research and development

The Group expenses research expenditure. IFS capitalizes product development expenditure when the following criteria are fulfilled:

- It shall be technically feasible to turn the development project into a marketable or internally usable product.
- The resources required to complete the project are available.
- The project is likely to entail financial benefits for IFS, either in the market where the product is to be sold or via internal savings.
- It is possible to calculate development expenditure in a reliable manner.

It must also have been decided that the development project is to be part of an IFS Applications release or will be used to streamline internal processes. This means that expenses related to research and support are not capitalized.

The Group works continuously with a number of product development projects, most of which focus on standard versions of IFS Applications. Product development expenditure refers mainly to personnel expenses. In addition, there are indirect expenses such as premises, travel, and office overheads. Interest directly related to acquiring or developing an asset that requires a substantial amount of time to complete is included in the acquisition value of the asset.

Indirect expenses do not include amortization of capitalized product development expenditure or administration expenses.

Capitalized development expenditure is amortized after the estimated economic lifetime of each product. This may not exceed five years. Continuous assessments are made to determine whether previous expenditure was validly capitalized and if required, a corresponding depreciation will be applied.

Other intangible fixed assets

Other intangible fixed assets mainly include customer lists, and acquired product rights and software licenses. These assets are reported at acquisition value less accumulated depreciation.

Depreciation of Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are reported at acquisition value after deductions for accumulated depreciation according to plan. Assets are depreciated straight-line across the estimated utilization period of the assets and based on the acquisition value of the fixed assets. The period of utilization of each component forms the basis for depreciation.

Depreciation occurs over the following periods:

Intangible Fixed Assets:

• Capitalized development expenditure	5 years
• Acquired product rights	5–10 years
• Software	5 years
• Customer lists and other intangible fixed assets	2–3 years

Tangible Assets:

• Buildings	50 years
• Certain components for buildings	5–10 years
• Equipment and computers	5 years

Write-Downs

The reported value of tangible and intangible assets is tested by use of an impairment test, which is based on expected future growth and margins. If there is an indication at the end of the fiscal year that a tangible or intangible fixed asset has decreased in value, the residual value of the asset is estimated, i.e. the higher of the net realizable value of the asset and its value in use. If the estimated residual value is less than the reported value, the asset is written down to its residual value.

Where goodwill pertains to a group of assets for which a write-down is required, the amount to be written down is first allocated to goodwill and subsequently to other assets in proportion to their reported value. Depending on the asset that is to be written down, the relevant item in the income statement is charged.

A write-down of an asset is reversed when there is a change in the assumptions used to establish the residual value of the asset. The reversed amount increases the reported value of the asset to a maximum of the value the asset would have had (after deductions for normal write-downs) if no write-downs had been made.

On assessing the need to write down an asset, the calculation is based on the affected cash-generating unit. A cash-generating unit is the smallest group of assets for which it is possible to establish regular payments that are largely independent of other assets or groups of assets.

The primary purpose of Group assets and investments is to provide and implement IFS Applications, which:

- Is developed by a central product development organization;
- Is sold on the global market, through sales companies in various countries that collaborate in sales to customers with multinational operations;
- Are supported by a central support organization.

As all payment flows in the Group are connected to those assets that are to be assessed for write-down, the Group is considered to be the smallest cash-generating unit.

Provisions

Provisions are reported when the following criteria are fulfilled:

- The Group has a legal or constructive obligation as a result of a past event.
- It is more likely than not that an outflow of resources will be required to settle an obligation.
- A reliable estimate can be made of the amount.

Provisions for restructuring are made when a detailed formal plan for these exists and a valid expectation has been created on the part of those affected. Provisions are not made for future losses.

Inventories

Inventories are reported in accordance with the first-in, first-out (FIFO) method. Valuation has been made at the lower of acquisition cost and net sale value, as assessed by the value in use, which means that the obsolescence risk has been taken into account.

Stockholders' Equity

Transaction expenses directly pertaining to the issuance of new shares or options are reported net after tax in stockholders' equity as a deduction from the proceeds of the issue.

Employee Benefits—Pension Obligations

Defined-contribution plans

In defined-contribution plans, the Company pays set contributions to a separate legal entity and has no obligation to pay further contributions. Group earnings are charged with expenses as the benefits accrue.

Defined-benefit plans

The Group reports defined-benefit pension plans according to common principles and calculation methods.

Several defined-contribution and defined-benefit pension plans exist within the Group. In Sweden, Norway, France, and the U.K., all employees are covered by defined-benefit pension plans. In other countries, the employees are covered by defined-contribution pension plans. Both defined-contribution and defined-benefit pension plans exist in Sweden and the U.K.

In defined-benefits plans, employees and former employees receive benefits based on their salary on retirement and years of service. The Group undertakes to ensure that benefits are paid.

The defined-benefit pension plans are both funded and unfunded. Where the plans are funded, the assets have been placed primarily in pension funds.

In the balance sheet, the net sum of the estimated present value of the obligations and the fair value of the plan assets is reported as a provision.

Concerning defined-benefit plans, pension expenses and pension obligations are estimated according to the Projected Unit Credit Method. The method distributes the pension expenses at the rate employees perform services for the company that increase their entitlement to future benefits. The estimates are made annually by independent actuaries. The Company's obligations are valued as the present value of expected future payments using a discount rate corresponding to the interest rate for first-class corporate bonds or government bonds with a term corresponding to the obligations in question. The most important actuarial assumptions are given in Note 41.

When determining the present value of the obligations and the fair value of the plan assets, actuarial profits and losses may arise, either because the real outcome deviates from the assumptions made or because the obligation changes. The portion of the accumulated actuarial profits and losses at the end of the previous year that exceed 10% of the highest of the obligation's present value and the plan asset's fair value is reported in the earnings over the employee's average remaining period of service.

Interest expense less the expected dividend on plan assets is classified as a financial expense. Other expense items in pension expenses are charged to operating earnings.

If the pension expense and pension provision established for Swedish plans according to IAS 39 deviates from the corresponding amount according to Recommendation 4 of the Swedish Institute of Authorised Public Accountants, Reporting Pension Liabilities and Pension Costs, an expense is also reported for a special employer's contribution for the difference in accordance with directive URA 43, issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council.

The accounting principles for defined-benefits pension plans described above are only applied to the consolidated accounts.

Income Tax

Income taxes consist of current tax and deferred tax. Income taxes are reported in the income statement except when the underlying transaction is reported directly against stockholders' equity, in which case the related tax effect is reported in stockholders' equity.

Current tax is tax that is to be paid or received for the current year by applying the tax rates that are determined, or in practice determined, on the balance sheet day. This also includes adjustment of current tax pertaining to previous periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences between reported and taxable values of assets and liabilities. The following temporary differences are not taken into account:

- Temporary differences arising when goodwill is first reported.
- Temporary differences pertaining to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future.

The valuation of deferred tax is based on how reported values of assets and liabilities are expected to be realized or paid. Deferred tax is calculated by applying the tax rates and tax legislation that has been determined, or in practice determined, on the balance sheet day.

Deferred tax is reported separately in the Group's income statement. Deferred tax receivables are reported as financial fixed assets, whereas deferred tax liabilities are reported as provisions. Deferred tax receivables that pertain to deficit deduction are reported as an asset if it is likely that the deficit deductions can be set off in coming years.

The Group reports losses carried forward pertaining to Swedish operations as an asset as the restructuring and streamlining of operations implemented in recent years are expected to lead to future taxable profits. The value of the deferred tax receivables is based on assessments of future taxable gains and the related expectations concerning future use of loss carry-forward.

A tax rate of 28% is applied in Swedish companies. The current tax rate in each country is applied for the Group's foreign entities.

Cash Flow Analysis

Cash flow is analyzed according to the indirect method. Reported cash flow comprises only transactions that entail payments and receipts.

PARENT COMPANY ACCOUNTING PRINCIPLES

Conformity with Norms and Legislation

The Parent Company accounts have been prepared in accordance with the Swedish Annual Report Act and Recommendation RR 32, Accounting for Legal Entities, of the Swedish Financial Accounting Standards Council. Pursuant to RR 32, the Parent Company in preparing the annual accounts for the legal entity shall apply all IFRS and statements approved by the European Union as far as possible within the framework of the Swedish Annual Report Act and taking into account the relationship between reporting and taxation. The recommendation states the exceptions and supplements that shall be made with respect to the IFRS. Differences between Group and Parent Company accounting principles are detailed below.

Pursuant to the transition regulations in RR 32, the Company has chosen not to apply Chapter 4, §14a–e of the Swedish Annual Report Act, which permits the valuation of certain financial instruments at fair value. As of January 1, 2006, the principles in Chapter 4, §14a–e of the Swedish Annual Report Act will be applied. This will entail a change in accounting principles.

The Parent Company accounting principles given below have been consistently applied during all the periods presented in the Parent Company's financial reports.

Change in Accounting Principles
The change in Parent Company accounting principles has been reported in accordance with the transition regulations in the respective standards or in accordance with the stipulations in IAS 8. Parent Company application of the changes in accounting principles is detailed in Note 41.

Participations in Associated Companies
Parent Company participations in associated companies constitute interests in limited partnership companies. The capital invested is reported as the acquisition value. The book value is changed annually in relation to the share of the limited partnership company's net earnings and the withdrawals and contributions made during the year. Participations are therefore reported in accordance with the equity method.

Financial Instruments
The Parent Company does not apply the valuation techniques in IAS 39. However, what has been written above in respect of financial instruments also applies to the Parent Company. Financial fixed assets are valued in the Parent Company at acquisition value less write-down, where applicable, and financial current assets are valued at the lower of cost or net realizable value.

Derivatives and Hedge Accounting
In the Parent Company, derivatives not used for hedging are valued at the lower of cost or net realizable value. Reporting of derivatives used for hedging is governed by the hedged item. Therefore, the derivative is treated as an off balance item as long as the hedged item is not in the balance sheet, or in the balance sheet at acquisition value. When the hedged item is reported in the balance sheet, the derivative instrument is reported in the balance sheet at fair value.

Tangible Fixed Assets

Owned assets
The Parent Company reports tangible fixed assets at acquisition value, less deductions for accumulated depreciation and write-down, where applicable, in the same manner as in the Group, but with the addition of revaluation, where applicable.

Leased assets
The Parent Company reports all lease agreements as operating lease agreements.

Borrowing Expenses
Borrowing expenses are charged to earnings for the period to which they pertain in the Parent Company.

Reversal of Impairment
Impairment of equity instruments classified as financial assets available for sale is not reversed through the income statement in the Group. In the Parent Company, the corresponding reversal is, however, made through the income statement.

Employee Benefits—Pension obligations
The Parent Company reports defined-benefit pension plans according to Recommendation 4 of the Swedish Institute of Authorised Public Accountants. The Parent Company provides defined-benefit pensions for employees. Thus, the Parent Company's obligations to pay pensions have a present value, which is determined for each employee by aspects such as pension level, age, and the extent to which a full pension has been earned. The present value has been estimated using actuarial principles and is based on salary and pension levels that applied on the balance sheet day. Pension obligations are reported as a provision in the balance sheet.

Group Contributions and Stockholder Contribution
Group contributions received and paid are reported directly against stockholders' equity and thus do not affect Parent Company earnings. Deferred tax on Group contributions has been reported against stockholders' equity.
Stockholder contributions in the Parent Company are reported as an increase in 'Participations in subsidiaries' in the balance sheet. To the extent that stockholder contributions pertain to loss coverage, an assessment is made concerning whether or not the value of the stock should be written down.

CRITICAL ESTIMATES AND ASSUMPTIONS
To present the accounts in accordance with generally accepted accounting principles, the management and board of directors must make certain estimates and assumptions that affect the assets and liabilities, revenue and costs, and other information, including that on contingent liabilities, reported in the accounts. The estimates are based on historical experience and the various assumptions the management and board deem reasonable and form the basis for decisions concerning the reported value of assets and liabilities unless such can be determined through information from other sources. Real outcomes may differ from the estimates if other assumptions are made or other conditions prevail. The estimate may have a significant effect on Group earnings and financial position especially in such areas as income reporting and bad debts, evaluation of goodwill and capitalized R&D expenditure, restructuring actions, pension provisions, taxes and legal disputes, and contingent liabilities.

NOTE 2 – SEGMENT REPORTING

Segment reports are prepared for the Group's geographical areas. The Group's internal accounting system is based on following up returns from Group operations in various countries or geographic areas. Therefore, geographical areas are the primary basis for classification. The primary business of the Group is to provide and implement IFS Applications, which:

- is developed by a central product development organization;
- is sold on the global market, through sales companies in various countries that collaborate in sales to customers with multinational operations;
- are supported by a central support organization.

Therefore, secondary segments are not reported.

The Group's sales companies are organized in the following three regions based on where assets and investments are located: EMEA, North America, and Growth Markets. EMEA consists of Europe, (excluding Eastern Europe), the Middle East, and Africa. IFS has sales offices in Sweden, Norway, Denmark, Finland, Germany, France, The Netherlands, Italy, Spain, England, the United Arab Emirates, and South Africa. In other countries in EMEA, IFS is represented by partners, jointly owned subsidiaries, or IFS offices in neighboring countries. In North America, IFS has sales offices in the U.S.A. and Canada. Growth Markets includes Asia, Australia, Eastern Europe, and Latin America. IFS has wholly or jointly owned subsidiaries in The Philippines, India, P.R. China, Malaysia, Singapore, Sri Lanka, Thailand, Australia, Poland, the Czech Republic, Slovakia, Hungary, Greece, Turkey, and Russia. In other countries in the region, IFS is represented by partners or IFS offices in neighboring countries.

Corporate items include the Group's product development organization, and the corporate management, financial, and marketing functions. Product development is carried out at permanent development centers in Sri Lanka, the U.S.A., Norway, and Sweden. Corporate management, financial and marketing functions are mainly located in Sweden.

Sales and other transactions take place between the segments. Transfer pricing for services between the various Group segments is market-based. Fees for most of the sales companies are determined by applying a generally accepted model for transfer pricing—the Transactional Net Margin Method— which is based on the principle that the sales companies achieve a predetermined profit margin. For further information on transfer pricing, see Accounting Principles, Note 1.

The segments' earnings, assets, and liabilities include directly referable items that can be distributed across the segments in a reasonable, reliable manner. Undistributed items include interest and dividend revenue, gains from divesting financial investments, interest expenses, losses on divesting financial investments, the Group's portion of losses in associated companies and joint ventures consolidated according to the equity method, and tax liabilities. Assets and liabilities that have not been distributed across the segments include deferred tax receivables and liabilities, corporate liquidity, and corporate financing.

The segments' investments in tangible and intangible fixed assets include all investments except investments in expendable equipment and equipment of minor value. Assets and investments are reported where such items exist.

The Group's organizational structure changed in 2005 in that the Nordic region was integrated into EMEA, with common management. This is reflected in the segment reporting for 2005. The comparative figures for 2004 have been recalculated in accordance with the new structure.

NOTE 2 – SEGMENT REPORTING (CONT.)

Income statement

SKr, million	EMEA 2005	EMEA 2004	North America 2005	North America 2004	Growth markets 2005	Growth markets 2004	Corporate items 2005	Corporate items 2004	Group adjustments/ eliminations 2005	Group adjustments/ eliminations 2004	GROUP 2005	GROUP 2004
License revenue	233	274	62	66	86	107	0	0	2	4	**383**	**451**
Maintenance and support revenue	379	341	91	81	57	48	0	0	1	0	**528**	**470**
Consulting revenue	878	837	203	205	94	130	0	2	0	0	**1 175**	**1 174**
Other revenue	15	19	5	5	40	56	3	2	0	1	**63**	**83**
Total external revenue	**1 505**	**1 471**	**361**	**357**	**277**	**341**	**3**	**4**	**3**	**5**	**2 149**	**2 178**
Internal revenue	17	42	16	31	16	12	51	59	-100	-144	**0**	**0**
Total revenue	**1 522**	**1 513**	**377**	**388**	**293**	**353**	**54**	**63**	**-97**	**-139**	**2 149**	**2 178**
External operating expenses	-1 050	-1 061	-294	-357	-307	-373	-435	-495	14	26	**-2 072**	**-2 260**
Internal operating expenses	-60	-81	-12	-11	1	8	-22	-58	93	142	**0**	**0**
Other operating items, net	14	-7	3	-20	-1	1	-6	-22	10	2	**20**	**-46**
Operating expenses	**-1 096**	**-1 149**	**-303**	**-388**	**-307**	**-364**	**-463**	**-575**	**117**	**170**	**-2 052**	**-2 306**
Operating profit/loss, undistributed	**426**	**364**	**74**	**0**	**-14**	**-11**	**-409**	**-512**	**20**	**31**	**97**	**-128**
Distribution of corporate items	-232	-286	-55	-74	-102	-121	409	512	-20	-31	**0**	**0**
Operating profit/loss, distributed	**194**	**78**	**19**	**-74**	**-116**	**-132**	**0**	**0**	**0**	**0**	**97**	**-128**
Result from participation in associated companies	-	-1	-	-	1	1	0	1	0	-	**1**	**1**
Other interest income and similar items											**30**	**7**
Interest expenses and similar items											**-61**	**-84**
Profit/loss before tax											**67**	**-204**
Tax on profit/loss for the year											**-17**	**-25**
Profit/loss for the year											**50**	**-229**

Other information

SKr, million	EMEA 2005	EMEA 2004	North America 2005	North America 2004	Growth markets 2005	Growth markets 2004	Corporate items 2005	Corporate items 2004	Group adjustments/ eliminations 2005	Group adjustments/ eliminations 2004	GROUP 2005	GROUP 2004
External assets	612	553	244	212	218	208	549	598	45	33	**1 668**	**1 604**
Participations in associated companies	-	-	-	-	2	2	4	4	-	-	**6**	**6**
Undistributed assets	0	0	0	0	0	0	0	0	431	270	**431**	**270**
Total assets	**612**	**553**	**244**	**212**	**220**	**210**	**553**	**602**	**476**	**303**	**2 105**	**1 880**
External liabilities	556	509	152	140	95	55	148	255	13	19	**964**	**978**
Undistributed liabilities	0	0	0	0	0	0	0	0	526	414	**526**	**414**
Total liabilities	**556**	**509**	**152**	**140**	**95**	**55**	**148**	**255**	**539**	**433**	**1 490**	**1 392**
Investments in fixed assets	18	15	4	1	17	19	119	162	-6	-13	**152**	**184**
Depreciation	18	27	5	7	12	18	164	198	-7	-6	**192**	**244**
Write-downs	-	-	-	-	0	12	-	8	-	-	**0**	**20**
Costs, besides depreciation and write-downs, to which payments do not correspond	8	4	1	8	26	12	3	5	-5	1	**33**	**30**
Average number of employees	1 025	1 162	244	303	451	493	733	703			**2 453**	**2 661**
No. of employees at year end	1 021	1 106	231	274	546	451	802	752			**2 600**	**2 583**

NOTE 3 – THIRD-PARTY REVENUE

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
License revenue	383	451	-	-
of which, third-party	*29*	*38*	-	-
Maintenance and support revenue	528	470	-	-
of which, third-party	*38*	*33*	-	-
Total	**911**	**921**	**-**	**-**

Third-party license revenue includes revenue that accrues when IFS sells software licenses from third-party suppliers, such as Oracle.

NOTE 4 – OTHER REVENUE

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Hardware	46	58	-	-
Parent Company fees	-	-	13	14
Hosting services	3	10	-	-
Miscellaneous	14	15	-	-
Total	**63**	**83**	**13**	**14**

NOTE 5 – NET REVENUE PER GEOGRAPHICAL AREA

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
EMEA	1 505	1 471	13	14
North America	361	357	-	-
Growth Markets	277	341	-	-
Corporate items and eliminations	6	9	-	-
Total	**2 149**	**2 178**	**13**	**14**

NOTE 6 – LICENSE EXPENSES

SKr, million	GROUP 2005	GROUP 2004
External costs to partners and third-party suppliers	-28	-43
External sales and marketing expenses	-37	-54
Corporate sales and marketing expenses	-49	-77
Local sales and marketing expenses	-318	-355
License expenses	**-432**	**-529**

NOTE 7 – OTHER OPERATING INCOME

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Gain on divestment of Swedish payroll software - IFS Lön	4	18	-	-
Gain on divestment of outsourcing operations in AtIFS AB	6	37	-	-
Additional consideration on divestment of rights of hardware sale	6	-	-	-
Gain on divestment of operations in IFS do Brazil Ltda	-	9	-	-
Reversal of unused restructuring reserve	8	-	-	-
Exchange rate gains	-	-	16	3
Recovered VAT	0	7	-	7
Rental income	6	3	-	-
Miscellaneous	6	6	1	2
Total	**36**	**80**	**17**	**12**

NOTE 8 – OTHER OPERATING EXPENSES

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Exchange rate losses	-1	-	-25	-7
Restructuring costs	-6	-105	-	-
Loss on divestment of operations in Argentina	-1	-4	-	-
Miscellaneous	-8	-17	-1	-4
Total	**-16**	**-126**	**-26**	**-11**

In fiscal year 2004, operating expenses were charged with provisions of SKr 43 million for restructuring, distributed as follows: expenses of SKr 9 million related to sales of new licenses; consulting expenses of SKr 15 million; and research and development expenditure of SKr 20 million.

NOTE 9 – RESEARCH AND DEVELOPMENT EXPENDITURE

SKr, million	GROUP 2005	GROUP 2004
Product development expenditure	-183	-256
Amortization of capitalized product development	-154	-188
Write-down of capitalized product development	-	-20
Other amortization	-7	-18
Capitalized product development expenditure, for own use	121	153
Total	**-223**	**-329**

NOTE 10 – TRANSACTIONS BETWEEN SUBSIDIARIES

In the Parent Company, SKr 13 (14) million, or 43% (54), of sales and SKr 0 (9) million, or 0% (20%), of purchases pertained to its own subsidiaries.

NOTE 11 – OPERATING EXPENSES PER TYPE OF COST

SKr, million	GROUP 2005	GROUP 2004
External costs	-691	-760
Personnel costs	-1 310	-1 389
Depreciation	-192	-244
Write-downs	0	-20
Other operating expenses	-16	-126
Total	**-2 209**	**-2 539**

Operating expenses include direct expenses, research and development expenditure, administration expenses, other operating expenses, and reversal of capitalized work for own use (See Note 9).

NOTE 12 – AUDITORS' FEES

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
AUDIT				
Öhrlings PricewaterhouseCoopers	-4	-6	-2	-2
Others	-1	-1	-	-
Total	**-5**	**-7**	**-2**	**-2**
SERVICES OTHER THAN AUDIT				
Öhrlings PricewaterhouseCoopers	-2	-3	0	-1
Others	0	0	-	-
Total	**-2**	**-3**	**0**	**-1**

"Audit" refers to the examination of the annual accounts, the accounting records and the administration by the Board of Directors and the President. It also includes other duties that are incumbent on the company's auditors, as well as advisory services and other types of support as a result of observations made through such an examination. All other tasks performed by the auditors are classified as "Services other than audit".

NOTE 13 – SALARIES, OTHER REMUNERATIONS, AND SOCIAL COSTS

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Salaries and other remunerations	-993	-1 039	-5	-9
Social costs	-207	-229	-3	-3
Pension costs	-67	-70	-2	-1
Other personnel costs	-43	-51	0	0
Total	**-1 310**	**-1 389**	**-10**	**-13**
Pension expenses reported as financial expenses	-2	-4	-	-
Total	**-1 312**	**-1 393**	**-10**	**-13**

Of the Parent Company's pension expenses, SKr 553,000 (549,000) pertain to the board of directors and CEO. The corresponding amount for the Group was SKr 3 (3) million.

Salaries and other remunerations per country

Costs reported as positive figures

SKr, million	2005 Board and CEO	Others	Total	2004 Board and CEO	Others	Total
SWEDEN						
Parent company	2	3	**5**	5	4	**9**
Subsidiaries	1	249	**250**	3	295	**298**
Sweden, total	**3**	**252**	**255**	**8**	**299**	**307**
SUBSIDIARIES ABROAD						
Argentina	0	0	**0**	0	1	**1**
Australia	1	8	**9**	1	10	**11**
Belgium	-	2	**2**	-	2	**2**
Brazil	-	-	**0**	0	17	**17**
Canada	0	11	**11**	1	12	**13**
China	1	7	**8**	1	5	**6**
Czech Republic	0	6	**6**	0	6	**6**
Denmark	2	14	**16**	2	17	**19**
Finland	1	32	**33**	2	25	**27**
France	2	15	**17**	2	23	**25**
Germany	2	66	**68**	2	58	**60**
Greece	1	8	**9**	1	9	**10**
Hungary	1	6	**7**	1	5	**6**
India	0	3	**3**	-	-	**0**
Italy	-	3	**3**	-	4	**4**
Japan	2	5	**7**	2	6	**8**
Malaysia	0	1	**1**	0	1	**1**
Netherlands	1	14	**15**	1	14	**15**
Norway	2	116	**118**	3	102	**105**
Philippines	-	0	**0**	-	0	**0**
Poland	3	47	**50**	3	40	**43**
Russia	0	2	**2**	-	0	**0**
Singapore	0	7	**7**	0	8	**8**
Slovakia	1	1	**2**	0	1	**1**
South Africa	1	9	**10**	1	7	**8**
Spain	1	5	**6**	1	5	**6**
Sri Lanka	-	26	**26**	-	18	**18**
Thailand	-	1	**1**	-	0	**0**
United Arab Emirates	2	5	**7**	0	4	**4**
United Kingdom (excl. joint venture)	2	89	**91**	2	89	**91**
U.S.A.	2	159	**161**	2	176	**178**
Subsidiaries abroad, total	**28**	**668**	**696**	**28**	**665**	**693**
Joint venture in the United Kingdom	1	41	**42**	1	38	**39**
Group, total	**32**	**961**	**993**	**37**	**1 002**	**1 039**

NOTE 14 – REMUNERATIONS PAID TO SENIOR EXECUTIVES

Definitions

The note concerning benefits for senior executives has been prepared in accordance with the recommendation issued by the Industry and Commerce Stock Exchange Committee on August 15, 2002. As of April 22, 2005, the board has consisted of Anders Böös (chairman), Gregory Gorman, Ulrika Hagdahl, Michael Hallén (president and CEO), Bengt Nilsson (deputy chairman), Jacob Palmstierna, and Christina Stercken.

Senior executives are those who, together with the president, Michael Hallén, constituted corporate management during all or part of the year. The senior executives were Alastair Sorbie, Jan Moodh, Cindy Jaudon, Hans Rune Rønningen, Fredrik vom Hofe, Håkan Gyrulf (as of Aug 15), Jan Eric Johansson (until July 31), and Tommy Johansson (until July 31).

Remuneration Principles

According to the resolution adopted by the annual general meeting of stockholders, board members received SKr 1,150,000 in fees during 2005, of which SKr 400,000 was paid to the chairman of the board and SKr 150,000 to members not employed by the Company. Committee work is not remunerated. The board has resolved not to appoint a separate compensation committee. The president's salary is determined by the board. Remuneration of senior executives who report to the president is determined in consultation with the chairman of the board. The board is continuously informed about the salary levels of other senior executives. Remuneration of the president and other senior executives consists of a basic salary, variable remuneration, other benefits, and pension contributions.

The relationship between basic salary and variable salary is proportionate to the executive's responsibility and powers. For 2005, variable remuneration shall not exceed 75% of the basic salary. The basis for the variable salary of the president and other senior executives is established by the board and is based on profitability goals set by the board for each year.

Pension contributions and other benefits paid to the president and other senior executives are part of their total remuneration. No remuneration has been made in the form of financial instruments.

Remuneration and benefits during the year

SKr, thousand	Basic salary	Bonus	Other benefits	Pension benefits	Total
President and CEO	1 991	300	47	553	**2 891**
Other senior executives	9 047	1 286	489	1 303	**12 125**
Total	**11 038**	**1 586**	**536**	**1 856**	**15 016**

Comments on the table:

- IFS entered into a consulting agreement with Asiabridge AB during 2004, according to which Bengt Nilsson, deputy chairman of the board, who is employed by Asiabridge AB, was to undertake consulting assignments during 2004/2005 that include monitoring market developments in Asia. During 2005, SKr 120,000, excluding VAT, was paid in accordance with the agreement, subsequent to which final settlement was made.
- Variable remuneration of the president and other senior executives was expensed in 2005 and is paid during 2006.
- Other benefits refer to company cars and telephones.

NOTE 14 – REMUNERATIONS PAID TO SENIOR EXECUTIVES (CONT.)

Stockholdings and financial instruments

	STOCKHOLDINGS		CONVERTIBLE DEBENTURES/BONDS AND OPTIONS							
			FROM PREVIOUS YEARS						ACQUIRED DURING 2005	
	Series A shares, no.	**Series B shares, no.**	**KV3B, SKr**	**KV4B, SKr**	**KV5B, SKr**	**KV3B (call), no.**	**KV5B (call), no.**	**KV5B (put), no.**	**KV5B, SKr**	**IFSB (call), no.**
BOARD OF DIRECTORS										
Anders Böös (Chairman)	664 000				5 000 000	1 470 588	952 381	952 381		
Gregory Gorman										
Ulrika Hagdahl										
Michael Hallén (CEO)	30 000	47 093			500 000		95 238	95 238		400 000
Bengt Nilsson	3 479 703	500 000	9 000							
Jacob Palmstierna					500 000		95 238	95 238		
Christina Stercken										
Total	**4 173 703**	**547 093**	**9 000**		**6 000 000**	**1 470 588**	**1 142 857**	**1 142 857**		**400 000**
OTHER SENIOR EXECUTIVES										
Håkan Gyrulf										
Cindy Jaudon										30 000
Jan Moodh	14 500		681 815	250 000					11 310	250 000
Hans Rune Rønningen										250 000
Alastair Sorbie		17 760								50 000
Fredrik vom Hofe										20 000
Total	**14 500**	**17 760**	**681 815**	**250 000**					**11 310**	**600 000**

Comments on the table:

- In 2004, IFS issued a convertible debenture, KV4B, directed to employees of the Group. KV4B has a nominal value of SKr 46 million, matures on august 15, 2007, and can be converted to Series B shares at a conversion price of SKr 6.90. In 2005, Noonday Global Management Ltd., a London-based brokerage, acquired a nominal amount of SKr 20.2 million of KV4B and subsequently issued call options on market terms to the president and 34 other executives with the right to acquire a total of 2.4 million Series B shares at a strike price of SKr 6.90 per share no later than July 31, 2007. The outstanding portion of KV4B is held by employees in the Group.
- The terms and conditions of the convertible debenture loans are given in Note 39.
- No options have been issued by IFS.
- Holdings of stock, convertible debentures/bonds, and options are reported net after acquisitions and divestments for the year.
- Holding including family and associated companies.
- Stock, convertible debentures, and options held as of January 31, 2006.

Period of notice and severance pay

If the company terminates the employment, the president is to receive 12 months' notice; if the president terminates the employment, the company is to receive 6 months' notice. In addition, the president shall receive 12 months' severance pay. For other senior executives, the notification period is between 6 and 12 months from the company and 6 months from the senior executive.

Pensions

The president is entitled to a pension in line with the corporate pension plan, a defined-benefit plan corresponding to the ITP plan, and a special IFS premium-based pension plan, for which the total premium shall amount to 10 times the Swedish price base amount. The retirement age for the president is 65, but the president and the company are entitled to invoke the right to retirement for the president at the age of 62, in which case the president shall receive the equivalent of 60% of the basic salary until he is 65. Other senior executives employed in Sweden are included in IFS' premium-based special pension plan. Other senior executives employed by foreign subsidiaries are included in the premium-based pension plans of the subsidiaries. One of the other senior executives is entitled to an additional service pension plan of not more than SKr 130,000 per annum. The retirement age for other members of the senior management is 65.

NOTE 15 – TRANSACTIONS WITH RELATED PARTIES

Separate notes contain information about:

Note 14	Remuneration of the board and CEO
Note 29	Shares in subsidiaries
Note 30	Participations in associated companies
Note 31	Liabilities to subsidiaries, associated companies, and joint ventures
Note 45	Other liabilities
Note 47	Pledged assets
Note 48	Contingent liabilities

Other than those contained in the above, no transactions exist with related parties.

NOTE 16 – AVERAGE NUMBER OF EMPLOYEES PER COUNTRY

	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Sweden	629	783	5	5
of whom, women	*212*	*267*	*1*	*1*
Argentina	2	6	-	-
Australia	19	21	-	-
Belgium	2	3	-	-
Brazil	-	78	-	-
Canada	13	20	-	-
China	46	45	-	-
Czech Republic	43	43	-	-
Denmark	24	30	-	-
Finland	62	64	-	-
France	42	64	-	-
Germany	118	118	-	-
Greece	24	33	-	-
Hungary	28	26	-	-
India	7	-	-	-
Italy	7	7	-	-
Japan	9	12	-	-
Malaysia	4	4	-	-
Netherlands	30	30	-	-
Norway	184	184	-	-
Philippines	2	2	-	-
Poland	166	165	-	-
Russia	30	7	-	-
Singapore	17	30	-	-
Slovakia	15	17	-	-
South Africa	25	16	-	-
Spain	14	15	-	-
Sri Lanka	430	321	-	-
Thailand	6	1	-	-
U.K. (excl. joint venture)	128	128	-	-
United Arab Emirates	8	4	-	-
U.S.A.	249	306	-	-
Total, subsidiaries abroad	**1 754**	**1 800**	**0**	**0**
of whom, women	*496*	*488*	-	-
Joint venture in U.K.	70	78	-	-
of whom, women	*8*	*16*	-	-
Total	**2 453**	**2 661**	**5**	**5**
of whom, women	*716*	*771*	*1*	*1*

Board members and senior executives

On Dec 31	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Board members	51	68	7	9
of whom, women	*6*	*11*	*2*	*2*
President and other senior executives	28	19	2	3
of whom, women	*2*	*2*	-	-

Sickness absence is not reported as the Parent Company has fewer than 10 employees.

NOTE 17 – EFFECTS OF DIVESTED OPERATIONS

SKr, million	2005	After divestment 2004	Divested operations 2004	Before divestment 2004
INCOME STATEMENT				
Net revenue	2 149	2 138	40	2 178
Expenses	-2 072	-2 206	-54	-2 260
Operating profit/loss before other one-time items	**77**	**-68**	**-14**	**-82**
Other operating items, net	20	-76	30	-46
Operating profit/loss	**97**	**-144**	**16**	**-128**
Profit/loss before tax	**67**	**-220**	**16**	**-204**
CASH FLOW STATEMENT				
Cash flow from current operations	157	14	-14	0
Cash flow from investment operations	-129	-121	45	-76
Cash flow after investment operations	**28**	**-107**	**31**	**-76**
Cash flow from financing operations	126	97	0	97
Cash flow for the year	**154**	**-10**	**31**	**21**

IFS do Brazil, AtIFS, and IFS' CAD applications have been excluded for January–December 2004. These operations were run by partners for full-year 2005. The items charge EBIT with a loss of SKr 16 million.

NOTE 18 – RESULTS FROM PARTICIPATIONS IN SUBSIDIARIES

SKr, million	PARENT COMPANY 2005	PARENT COMPANY 2004
Divestment of shares in subsidiaries	-	-28
Write-down of shares in subsidiaries	-	-198
Write-down of receivables in subsidiaries	-4	-
Reversal of write-down of shares in subsidiaries	-	55
Total	**-4**	**-171**

NOTE 19 – RESULTS FROM PARTICIPATIONS IN ASSOCIATED COMPANIES

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
Share in profit, Elsidor KB, Jönköping	0	1	0	1
Share in profit, IFS China	1	0	-	-
Share in profit, IFS Turkey	0	-	-	-
Share in profit, IFS Systems (Thailand)	-	0	-	-
Share in profit/loss, Manpower Service Center AB	-	-1	-	-
Share in profit, IFS India	-	1	-	-
Total	**1**	**1**	**0**	**1**

NOTE 20 – INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
External interest	6	7	0	1
Interest from subsidiaries	-	-	117	91
Exchange rate gains	23	-	33	0
Other financial income	1	0	-	-
Total	**30**	**7**	**150**	**92**

NOTE 21 – INTEREST COSTS AND SIMILAR PROFIT/LOSS ITEMS

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
External interest costs	-18	-57	-5	-32
Interest costs to subsidiaries	-	-	-110	-85
Exchange rate losses	-	-9	-	-3
Interest costs related to convertible debentures	-12	-7	-12	-7
Interest costs on option component of convertible debenture	-23	-4	-23	-4
Issue expenses, convertible debentures/bonds	-2	-1	-2	-1
Capitalized interest costs for development production	2	3	-	-
Write-down of financial assets	0	-6	-	-5
Other financial costs	-8	-3	-2	-
Total	**-61**	**-84**	**-154**	**-137**

NOTE 22 – TAXES ON PROFIT/LOSS FOR THE YEAR

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
Current tax	-9	-8	-	-
Current tax relating to previous years	-4	0	-	-
Deferred tax relating to loss carry forward	-	-	24	-
Deferred tax relating to temporary differences	-4	-17	-	-
Total	**-17**	**-25**	**24**	**-**

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
DIFFERENCES BETWEEN REPORTED TAX EXPENSES AND TAX EXPENSES BASED ON PREVAILING TAX RATES				
Recorded loss before tax	**67**	**-228**	**-25**	**-234**
Tax according to prevailing rate (28%)	-19	64	7	65
Non-deductible write-down of goodwill/stock in subsidiaries and associated companies	-	-	-1	-40
Decrease/increase in deductible temporary differences, without corresponding capitalization of deferred tax	15	-15	-	-
Divestment of subsidiaries/operations	-	-8	-	-8
Interest costs for convertible debenture	-6	-1	-6	-1
Other non-deductible expenses	-9	-12	0	-1
Tax-exempt income	3	10	0	2
Effect of foreign tax rates	0	-1	-	-
Utilized loss carry forward, not previously accounted for	22	-	24	-
Losses for which deferred tax has not been considered	-23	-62	-	-17
Total	**-17**	**-25**	**24**	**0**

NOT 23 – EARNINGS AND DIVIDEND PER SHARE

Earnings per share before dilution

Earnings per share before dilution are calculated by dividing the earnings that pertain to the Parent Company's stockholders by a weighted average number of outstanding shares during the period.

	2005	2004
Earnings pertaining to the stockholders of the Parent Company, SKr million	50	-219
Weighted average no. of shares outstanding, thousands	219 382	99 808
Earnings per share before dilution, SKr	0.23	-2.19

NOT 23 – EARNINGS AND DIVIDEND PER SHARE (CONT.)

Earnings per share after dilution

To calculate earnings per share after dilution, the weighted average number of outstanding shares is adjusted for the dilution effect of the total number of potential shares on full conversion of the outstanding convertible debentures/bonds. The convertible debentures/bonds are presumed to have been converted to Series B shares, and the net gain is adjusted to eliminate interest expenses minus tax.

	2005	2004
Earnings pertaining to the stockholders of the Parent Company, SKr million	50	-229
Interest cost after tax for convertible debentures/bonds, SKr million	27	12
Net profit used to determine earnings per share after dilution, thousands	**77**	**-217**
Weighted average no. of shares outstanding, thousands	219 382	99 808
Adjustment for assumed conversion of convertible debentures/bonds, thousands	50 023	25 314
Weighted average no. of shares for calculation of earnings per share after dilution, thousands	**269 405**	**125 122**
Earnings per share for the year after dilution, SKr m	0.23	-2.19

Pursuant to IAS 33, dilution is not calculated when it improves earnings.

Number of shares

	GROUP	
Thousands	2005	2004
By end of the period	223 762	205 690
By end of the period after full dilution	270 709	268 053
Weighted number of shares outstanding after dilution	219 382	99 808
Average during the period after dilution	269 405	125 122

Dividend per share

	GROUP	
SKr	2005	2004
Dividend accounted for during the year	-	-
Coming years' expected dividend	-	-

NOTE 24 - ACQUISITION OF OPERATIONS

In September 2005, IFS acquired 25% of the shares in Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S, an IFS partner. The purchase price amounted to SKr1m. Ownership is reported in 'Participations in associated companies and joint ventures' (Note 30).

In September the acquisition was agreed of the remaining 74% of the shares in IFS Solutions India Pvt. Ltd, which was consolidated as of October. The company was formed in 2003 and has operated in the local market. The company had an effect of SKr 6 million on Group revenue and SKr0m on Group earnings. It has 96 employees. The purchase price was SKr 5 million.

In September, the Group acquired the remaining 75% of the shares in IFS Systems, Co. Ltd. in Thailand. The company has been jointly owned since 2001 and has operated in the local market since then. The company added SKr 2 million to Group revenue and SKr 0 million to Group earnings. It has 20 employees. The purchase price was SKr 1 million.

In October, the 74% holding in Motswedi IFS Pty. Ltd was transferred from IFS Defence Limited to Applications Software IFS South Africa (Pty) Ltd. At the same time, 23% of the shares in Applications Software IFS South Africa (Pty) Ltd were transferred to minority owner, Motswedi Outsourcing (Pty) Ltd. The company added SKr 4 million to Group revenue and SKr 1 million to Group earnings. It has 61 employees.

Effects of the acquisitions

Net assets of the acquired companies on acquisition:

SKr, million	Booked value in acquired company before acquisition	Actual value accounted for in Group
Tangible fixed assets	1	1
Intangible fixed assets	2	5
Accounts receivable and other receivables	15	15
Liquid assets	5	5
Accounts payable and other liabilities	-18	-18
Identifiable assets and liabilities, net	**5**	**8**
Group goodwill	-	1
Change in minority interest	-	-1
Total acquired assets and liabilities	**-**	**8**
Purchase sum	-	-8
Cash, acquired	-	5
Net cash outflow	**-**	**-3**

NOTE 25 – INTANGIBLE FIXED ASSETS

Group SKr million	Capitalized expenditure for R&D	Capitalized interest costs	**Total capitalized expenditure for R&D**	Goodwill	Other intangible fixed assets	**Total**
ACCUMULATED ACQUISITION VALUE						
Opening balance	1 125	-	**1 125**	215	158	**1 498**
Purchases	159	3	**162**	6	4	**172**
Sales/disposals	-168	-	**-168**	-9	-16	**-193**
Reclassification	-15	15	**0**	-	0	**0**
Exchange differences during the year	0	-	**0**	-6	-1	**-7**
Closing balance Dec 31, 2004	**1 101**	**18**	**1 119**	**206**	**145**	**1 470**
ACCUMULATED DEPRECIATION						
Opening balance	-529	-	**-529**	-	-94	**-623**
Depreciation during the year	-185	-3	**-188**	-	-16	**-204**
Sales/disposals	153	-	**153**	-	7	**160**
Reclassification	4	-4	**0**	-	0	**0**
Exchange differences during the year	0	-	**0**	-	2	**2**
Closing balance Dec 31, 2004	**-557**	**-7**	**-564**	**0**	**-101**	**-665**
Book value according to plan	**544**	**11**	**555**	**206**	**44**	**805**
ACCUMULATED WRITE-DOWNS						
Opening balance	0	-	**0**	-	-21	**-21**
Write-downs during the year	-12	-	**-12**	-	-8	**-20**
Exchange differences during the year	0	-	**0**	-	1	**1**
Closing balance Dec 31, 2004	**-12**	**0**	**-12**	**0**	**-28**	**-40**
Book value Dec 31, 2004	**532**	**11**	**543**	**206**	**16**	**765**

NOTE 25 – INTANGIBLE FIXED ASSETS (CONT.)

Group SKr million	Capitalized expenditure for R&D	Capitalized interest costs	**Total capitalized expenditure for R&D**	Goodwill	Other intangible fixed assets	**Total**
ACCUMULATED ACQUISITION VALUE						
Opening balance	1 101	18	**1 119**	206	145	**1 470**
Purchases	123	2	**125**	-	7	**132**
Sales/disposals	-6	-	**-6**	-	0	**-6**
Reclassification	1	-	**1**	-	-	**1**
Exchange differences during the year	7	-	**7**	29	1	**37**
Closing balance Dec 31, 2005	**1 226**	**20**	**1 246**	**235**	**153**	**1 634**
ACCUMULATED DEPRECIATION						
Opening balance	-557	-7	**-564**	-	-101	**-665**
Depreciation during the year	-154	-4	**-158**	-	-8	**-166**
Sales/disposals	2	-	**2**	-	0	**2**
Reclassification	1	-	**1**	-	0	**1**
Exchange differences during the year	-5	-	**-5**	-	-2	**-7**
Closing balance Dec 31, 2005	**-713**	**-11**	**-724**	**0**	**-111**	**-835**
Book value according to plan	**513**	**9**	**522**	**235**	**42**	**799**
ACCUMULATED WRITE-DOWNS						
Opening balance	-12	-	**-12**	-	-28	**-40**
Exchange differences during the year	-1	-	**-1**	-	-	**-1**
Closing balance Dec 31, 2005	**-13**	**-**	**-13**	**-**	**-28**	**-41**
Book value Dec 31, 2005	**500**	**9**	**509**	**235**	**14**	**758**

Parent company SKr million	Capitalized expenditure for R&D	Capitalized interest costs	**Total capitalized expenditure for R&D**	Goodwill	Other intangible fixed assets	**Total**
ACCUMULATED ACQUISITION VALUE						
Opening balance	-	-	**-**	2	-	**2**
Closing balance Dec 31, 2004	**-**	**-**	**-**	**2**	**-**	**2**
ACCUMULATED DEPRECIATION						
Opening balance	-	-	**-**	-1	-	**-1**
Depreciation during the year	-	-	**-**	-1	-	**-1**
Closing balance Dec 31, 2004	**-**	**-**	**-**	**-2**	**-**	**-2**
Book value according to plan Dec 31, 2004	**-**	**-**	**-**	**0**	**-**	**0**
ACCUMULATED ACQUISITION VALUE						
Opening balance	-	-	**-**	2	-	**2**
Closing balance Dec 31, 2005	**-**	**-**	**-**	**2**	**-**	**2**
ACCUMULATED DEPRECIATION						
Opening balance	-	-	**-**	-2	-	**-2**
Depreciation during the year	-	-	**-**	0	-	**0**
Closing balance Dec 31, 2005	**-**	**-**	**-**	**-2**	**-**	**-2**
Book value according to plan Dec 31, 2005	**-**	**-**	**-**	**0**	**-**	**0**

- Other intangible fixed assets consist of product rights and software.
- An interest rate of 3.94 % has been used when calculating capitalized interest expenses.
- The reported value of intangible assets is tested by use of an impairment test, which is based on expected future growth and margins. On assessing the reported values, the discount rate was set at 13.2 % (20.6), before tax, corresponding to 10 % (15) after tax. The lower discount rate compared with the previous year reflects a combination of lower interest rates and lower risk premiums.

NOTE 25 – INTANGIBLE FIXED ASSETS (CONT.)

Amortization included in the income statement

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
License costs	-2	-4	-	-
Maintenance and support costs	0	-1	-	-
Consulting costs	-1	-1	-	-
Research and development expenditure	-162	-197	-	-
Administration costs	-1	-1	0	0
Total	**-166**	**-204**	**0**	**0**

Write downs included in the income statement

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Research and development expenditure	-	-20	-	-
Total	**-**	**-20**	**-**	**-**

NOTE 26 – TANGIBLE FIXED ASSETS

Group SKr million	Buildings and land	Leasing, inventories	Other inventories	**Total**
ACCUMULATED ACQUISITION VALUE				
Opening balance Jan 1, 2004	96	87	308	**491**
Purchases	1	2	15	**18**
Sales/disposals	-2	-29	-29	**-60**
Reclassifications	-2	0	1	**-1**
Exchange differences during the year	-6	0	-8	**-14**
Closing balance Dec 31, 2004	**87**	**60**	**287**	**434**
ACCUMULATED DEPRECIATION				
Opening balance Jan 1, 2004	-20	-69	-258	**-347**
Depreciation during the year	-4	-9	-27	**-40**
Sales/disposals	0	26	28	**54**
Reclassifications	0	0	1	**1**
Exchange differences during the year	1	0	7	**8**
Closing balance Dec 31, 2004	**-23**	**-52**	**-249**	**-324**
Book value Dec 31, 2004	**64**	**8**	**38**	**110**

Group SKr million	Buildings and land	Leasing, inventories	Other inventories	**Total**
ACCUMULATED ACQUISITION VALUE				
Opening balance Jan 1, 2005	87	60	287	**434**
Purchases	1	2	12	**15**
Sales/disposals	-9	-4	-18	**-31**
Reclassifications	-	0	0	**0**
Exchange differences during the year	9	2	21	**32**
Closing balance Dec 31, 2005	**88**	**60**	**302**	**450**
ACCUMULATED DEPRECIATION				
Opening balance Jan 1, 2005	-23	-52	-249	**-324**
Depreciation during the year	-5	-6	-19	**-30**
Sales/disposals	2	4	15	**21**
Reclassifications	0	0	0	**0**
Exchange differences during the year	-3	-2	-17	**-22**
Closing balance Dec 31, 2005	**-29**	**-56**	**-270**	**-355**
Book value 2005	**59**	**4**	**32**	**95**

Parent company SKr million	Buildings and land	Leasing, inventories	Other inventories	**Total**
ACCUMULATED ACQUISITION VALUE				
Opening balance Jan 1, 2004	1	-	4	**5**
Sales/disposals	-1	-	-2	**-3**
Closing balance Dec 31, 2004	**0**	**-**	**2**	**2**
ACCUMULATED DEPRECIATION				
Opening balance Jan 1, 2004	0	-	-3	**-3**
Depreciation during the year	0	-	0	**0**
Sales/disposals	0	-	1	**1**
Closing balance Dec 31, 2004	**0**	**-**	**-2**	**-2**
Book value according to plan Dec 31, 2004	**0**	**-**	**0**	**0**
ACCUMULATED ACQUISITION VALUE				
Opening balance Jan 1, 2005	0	-	2	**2**
Closing balance Dec 31, 2005	**0**	**-**	**2**	**2**
ACCUMULATED DEPRECIATION				
Opening balance Jan 1, 2005	-	-	-1	**-1**
Depreciation during the year	-	-	-1	**-1**
Closing balance Dec 31, 2005	**-**	**-**	**-2**	**-2**
Book value according to plan Dec 31, 2005	**0**	**0**	**0**	**0**

Tangible fixed assets do not include capitalized interest expenses.

NOTE 26 – TANGIBLE FIXED ASSETS (CONT.)

Depreciation included in the income statement

	GROUP		PARENT COMPANY	
SKr, million	**2005**	**2004**	**2005**	**2004**
License costs	-3	-3	-	-
Maintenance and support costs	-2	-1	-	-
Consulting costs	-12	-11	-	-
Reasearch and development expenditure	-3	-9	-	-
Administration costs	-10	-16	0	0
Total	**-30**	**-40**	**0**	**0**

Tangible fixed assets do not include any write-downs, neither in the Group nor in the Parent company.

Financial leasing agreements

The Group's tangible assets include leased items held under the terms of financial leasing agreements as follows:

SKr, million	Acquisition value	Accumulated depreciation	**Book value**
Office equipment	11	-10	**1**
Computers	48	-46	**2**
Other	1	0	**1**
Total	**60**	**-56**	**4**

Future minimum leasing payments fall due as follows:

SKr, million	Nominal value	**Current value**
Within one year	2	**2**
Later than one year but within five years	1	**1**
Later than five years	-	**-**
Total	**3**	**3**

The current value of the future minimum leasing payments is reported as a liability to credit institutions, partly as a current liability and partly as a long-term liability.

NOTE 27 – OPERATING LEASE AGREEMENTS

The nominal value of future minimum leasing payments with respect to non terminable leasing agreements is distributed as follows:

	GROUP		PARENT COMPANY	
SKr million	**2005**	**2004**	**2005**	**2004**
Due for payment within one year	18	15	0	0
Due for payment later than one year but within five years	14	15	0	0
Due for payment later than five years	-	-	-	-
Total	**32**	**30**	**0**	**0**

No objects are subleased.

NOTE 28 – TAX VALUES

The company owns two properties: one in France and one in Sri Lanka. The properties have not been allocated a tax value. Lärkfalken 2, in Värnamo, Sweden, belonging to IFS Softwind AB, was divested during the year.

NOTE 29 – PARTICIPATIONS IN SUBSIDIARIES

	Organization number	Registered office	Number of shares	Share of capital/votes	Book value, SKr, million
IFS Americas, Inc.		USA	100	100%	100
IFS North America, Inc.		USA	100	100%	-
IFS Industrial & Financial Systems Canada, Inc.		Canada	100	100%	-
IFS Central & Eastern Europe Sp. z o.o		Poland	42 248	100%	-
IFS Slovakia s.r.o.		Slovakia	1	100%	-
IFS Czech s.r.o.		Czech Republic	1	100%	-
IFS Hungary kft		Hungary	97	100%	-
IFS Poland Sp. z o.o		Poland	26 189	100%	-
Corporate Financial Systems ZAO		Russian Federation	151	50%	-
IFS Europe AB	556139-5541	Linköping, Sweden	7 500	100%	89
IFS Applications España, S.A.		Spain	10 017	100%	-
IFS Benelux BV		Netherlands	380	95%	-
IFS Belgium BVBA		Belgium	7 500	100%	-
IFS Netherlands BV		Netherlands	20 000	100%	-
IFS Verwaltungsgesellschaft mbH		Germany	20 000	100%	-
IFS Beteiligungsgesellschaft mbH		Germany	1	100%	-
IFS Deutschland GmbH & Co KG		Germany	2	99%	-
IFS France SA		France	44 998	100%	-
SCI Le Château		France	100	100%	-
IFS Italia Srl		Italy	1	100%	-
Industrial and Financial Systems, IFS UK Ltd		United Kingdom	200 000	100%	-
IFS Middle East FZ-LLC		United Arab Emirates	100	100%	-
Application Software IFS South Africa (Pty) Ltd		South Africa	100	100%	-
Motswedi IFS (Pty) Ltd		South Africa	9 169 194	51%	-
Application Software IFS Consulting Services (Pty) Ltd		South Africa	2	74%	-
Infiseuro, Serviços Informáticos Lda (in liquidation)		Portugal	1	100%	-
IFS Hellas SA		Greece	1 938 000	64%	-
IFS Systems (Cyprus) Ltd		Cyprus	119 700	90%	-
IFS World Operations AB	556040-6042	Linköping, Sweden	2 400	100%	587
RDLS i Linköping AB	556209-6528	Linköping, Sweden	1 000	100%	-
IFS R&D International Pte Ltd		Sri Lanka	300 000	100%	-
IFS Japan Inc.		Japan	16 200	100%	-
IFS Nordic AB	556248-4856	Linköping, Sweden	1 000	100%	136
At IFS AB	556221-7835	Linköping, Sweden	1 000	100%	-
IFS Danmark A/S		Denmark	50	100%	-
IFS Norge AS		Norway	2 200	100%	-
IFS Sverige AB	556211-7720	Linköping, Sweden	3 000	100%	-
Oy IFS Industrial Systems Finland AB		Finland	23 000	100%	-
IFS R&D Asia Pacific Sdn Bhd		Malaysia	2	100%	0
IFS R&D Ltd		Sri Lanka	300 000	100%	-
IFS Solutions Asia Pacific Pte Ltd		Singapore	300 000	100%	-
IFS (Beijing) Ltd		China	200 000	100%	-
IFS Philippines Inc.		Philippines	7 730 000	100%	-
IFS Solutions (Thailand) Ltd		Thailand	20 000	100%	-
IFS Systems (Thailand) Co. Ltd		Thailand	29 933	100%	-
IFS Australia Pty		Australia	76 500	51%	-
IFS Solution India Pvt Ltd		India	150 000	100%	-
IFS Solutions Pte Ltd		Singapore	1	100%	-
IFS Solutions Malaysia Sdn. Bhd		Malaysia	2	100%	-
IFS Solutions (Shanghai) Co. Ltd		China	150 000	100%	-
IFS Solutions Thai Ltd		Thailand	90 000	100%	-
IFS Sri Lanka Ltd		Sri Lanka	149 998	50%	-
IFS Svensk Idéutveckling AB	556150-5735	Linköping, Sweden	1 000	100%	0
IFS Softwind AB	556279-8370	Värnamo, Sweden	7 470	100%	-
Torron System AB	556457-8960	Linköping, Sweden	20	100%	0
Vendimo Business Solutions AB	556400-2946	Gothenburg, Sweden	1 754 393	100%	11
Total book value in the parent company					**923**

NOTE 29 – PARTICIPATIONS IN SUBSIDIARIES (CONT.)

SKr, million	PARENT COMPANY 2005	2004
ACCUMULATED ACQUISITION VALUE		
Opening balance	2 450	2 369
Stockholders' contribution in subsidiaries	-	83
Acquisition of stock in subsidiaries	-	6
Divestment of stock in subsidiaries	-	-8
Closing balance	**2 450**	**2 450**
ACCUMULATED DEPRECIATION		
Opening balance	-1 527	-1 391
Depreciation of stock in subsidiaries during the year	-	-198
Reversal of write-downs of shares in subsidiaries	-	55
Reversal of write-downs related to divestments	-	7
Closing balance	**-1 527**	**-1 527**
Book value	**923**	**923**

NOTE 30 – PARTICIPATIONS IN ASSOCIATED COMPANIES

SKr, million	GROUP 2005	2004
Opening balance	6	7
Acquisition of associated companies	1	-
Reclassification from associated company to subsidiary	-1	-
Divestment of associated company	0	-
Share in earnings of associated companies	1	1
Write-down of shares	0	-2
Exchange differences	-1	-
Closing balance	**6**	**6**

Corporate values in respect of share in revenue, earnings, assets and liabilities are specified below:

	Registered office	Revenue	Earnings	Assets	Liabilities	Equity	Number of shares	Share of capital/votes
2005								
DIRECTLY OWNED								
Elsidor KB, 916523-2126	Sweden	-	0	4	-	4	1/3	33%
INDIRECTLY OWNED								
IFS Defence (pty) Ltd.*	United Kingdom						2 500	50%
Beijing IFS UFIDA Co., Ltd	China	-	1	1	-	1	333 334	25%
Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S	Turkey	-	0	1	-	1	1 250	25%
2004								
DIRECTLY OWNED								
Elsidor KB, 916523-2126	Sweden	-	1	4	-	4	1/3	33%
IFS Malaysia Sdn Bhd	Malaysia	-	0	0	-	0	250 000	25%
INDIRECTLY OWNED								
IFS Defence (pty) Ltd.*	United Kingdom						2 500	50%
IFS Defence South Africa (pty) Ltd.	South Africa						13 320 694	74%
Beijing IFS UFIDA Co., Ltd	China	-	-1	1	-	1	333 334	25%
IFS Systems (Thailand), Co. Ltd.	Thailand	-	0	0	-	0	7 500	25%
IFS Solutions India Pte. Ltd.	India	-	1	1	-	1	210 000	26%

* Accounted for according to the Proportional Method. See below.

NOTE 30 – PARTICIPATIONS IN ASSOCIATED COMPANIES (CONT.)

Participations in joint ventures

IFS Defence (Pty) Ltd, headquartered in the U.K, is a 50/50 joint venture with BAE SYSTEMS PLC. The company is a limited company. The IFS Group owns 2,500 shares in the company, which corresponds to 50% of the capital and voting rights. The book value of the shares is SKr 38 (36) million. The following amounts constitute the Group's share of the assets, liabilities, revenue and expenses in the joint venture, and are included in the Group's balance sheet and income statement.

Income statements	GROUP	
SKr, million	2005	2004
License revenue	11	21
Maintenance and support revenue	13	16
Consulting revenue	71	57
Other revenue	3	0
Net sales	**98**	**94**
Other operating revenue	2	-
Operating revenue	**100**	**94**
Operating expenses	-90	-85
Earnings before depreciation	**10**	**9**
Depreciation	-5	-5
Operating profit	**5**	**4**
Financial items	2	0
Earnings after financial items	**7**	**4**
Tax	-4	-4
Profit/loss for the year	**3**	**0**

Balance sheets	GROUP	
SKr, million	2005	2004
Intangible assets	27	33
Other fixed assets	15	14
Accounts receivable	35	30
Other current assets	14	13
Liquid assets	36	23
Total assets	**127**	**113**
Stockholders' equity	38	36
Long-term non-interest-bearing liabilities	51	45
Interest-bearing liabilities	-	0
Accounts payable	7	5
Other current non-interest-bearing liabilities	31	27
Total stockholders' equity and liabilities	**127**	**113**

The Group has no contingent liabilities concerning its stockholding in joint ventures. No investment commitments are associated with stockholdings in the joint ventures.

NOTE 31 – RECEIVABLES IN SUBSIDIARIES

	PARENT COMPANY	
SKr million	2005	2004
Subordinated receivables	40	38
Other long-term receivables in subsidiaries	1	165
Total	**41**	**203**

NOTE 32 – DEFERRED TAX CLAIMS AND TAX LIABILITIES

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
DEFERRED TAX CLAIMS CONCERNING				
Temporary differences	19	25	-	-
Deficit deduction	93	93	93	93
Total	**112**	**118**	**93**	**93**
DEFERRED TAX LIABILITIES CONCERNING				
Temporary differences	2	2	-	-
Total	**2**	**2**	**-**	**-**

Deferred tax receipts and tax liabilities are set off when this is legally possible for particular tax receivables and tax liabilities and when deferred taxes refer to the same tax authority. The amounts above have resulted after such set-offs and are reported in the balance sheet. The figures in the table below are in gross amounts.

Temporary differences

Temporary differences arise when the reported value and tax value of assets and liabilities differ. Temporary differences with respect to the following items resulted in deferred tax liabilities and deferred tax receipts.

	GROUP		PARENT COMPANY	
SKr, million	2005	2004	2005	2004
DEFERRED TAX LIABILITIES				
Fixed assets	21	26	-	-
Long-term liabilities	3	-	-	-
Current claims and liabilities	8	5	-	-
Total deferred tax liabilities	**32**	**31**	**-**	**-**
DEFERRED TAX CLAIMS				
Fixed assets	29	50	-	-
Long-term liabilities	3	0	-	-
Current claims and liabilities	28	9	-	-
Provisions	20	61	-	-
Fiscal deficit deduction	495	486	93	120
Total deferred tax claims	**575**	**606**	**93**	**120**
Unreported deferred tax claims concerning deficit deductions	-402	-393	-	-27
Unreported deferred tax claims concerning temporary differences	-31	-66	-	-
Total unreported deferred tax claims	**-433**	**-459**	**-**	**-27**
Total deferred tax claims, net	**142**	**147**	**93**	**93**
Deferred tax claims, net	**110**	**116**	**93**	**93**

NOTE 32 – DEFERRED TAX CLAIMS AND TAX LIABILITIES (CONT.)

Loss carried forward

The total value of the loss carried forward on Dec 31, 2005 can be used at the latest during the following years:

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
2006 (2005)	6	5	-	-
2007 (2006)	3	5	-	-
2008 (2007)	2	7	-	-
2009 (2008)	13	7	-	-
2010 (2009)	17	5	-	-
Later	183	166	-	-
No time limit	271	291	93	120
Total	**495**	**486**	**93**	**120**

Exchange rate fluctuations of SKr 96 million had a positive effect on the total loss carried forward.

NOTE 33 – OTHER LONG-TERM RECEIVABLES

SKr, million	Deposits	Other financial assets	**Total**
GROUP			
Opening value, Jan 1, 2004	10	22	32
Changes during the year	1	-15	-14
Closing value, Dec 31, 2004	**11**	**7**	**18**
Changes during the year	-1	0	-1
Closing value, Dec 31, 2005	**10**	**7**	**17**
PARENT COMPANY			
Opening value, Jan 1, 2004	-	-	-
Changes during the year	2	-	2
Closing value, Dec 31, 2004	**2**	**-**	**2**
Changes during the year	-	-	-
Closing value, Dec 31, 2005	**2**	**-**	**2**

NOTE 34 – ACCOUNTS RECEIVABLE

Within the Group, the following subsidiaries pledge part of their accounts receivable: IFS Sverige AB, IFS Norge AS, IFS Danmark A/S, IFS North America, Inc., IFS Hellas SA, and IFS France SA. See Notes 43 and 47.

Write-downs of accounts receivable amounted to SKr 33 (43) million.

NOTE 35 - PREPAID EXPENSES AND ACCRUED INCOME

SKr, million	PARENT COMPANY 2005	PARENT COMPANY 2004
Other prepaid expenses	1	1
Total	**1**	**1**

NOTE 36 – OTHER RECEIVABLES

SKr, million	PARENT COMPANY 2005	PARENT COMPANY 2004
Receivables, subsidiaries	0	0
Receivables, associated companies	17	18
Ongoing assignments	32	22
Other prepaid expenses	57	45
Other accrued income	11	6
Other receivables	42	36
Total	**159**	**127**

NOTE 37 – LIQUID ASSETS

Liquid assets include cash and bank deposits.

NOTE 38 – CAPITAL STOCK

Number	Series A shares	Series B shares	**Total**
Shares on Jan 1, 2004	7 154 824	65 903 713	73 058 537
Conversion of convertible debenture loan KV3B		24 060 471	24 060 471
Offset issue	-	5 725 930	5 725 930
Cash issue	7 153 374	95 691 564	102 844 938
Conversion of Series A to Series B shares	-2 560	2 560	0
Shares on Dec 31, 2004	**14 305 638**	**191 384 238**	**205 689 876**
Conversion of convertible debenture loan KV3B		18 011 857	18 011 857
Conversion of convertible debenture loan KV5B		60 292	60 292
Conversion of Series A to Series B shares	-389 000	389 000	0
Shares on Dec 31, 2005	**13 916 638**	**209 845 387**	**223 762 025**
Nominal value per share, SKr			2.00
Stockholders' equity at end of period, SKr			447 524 050

In 2002, IFS received a loan of SKr 76 million from its principal owner, Förvaltnings AB Wasatornet. The extraordinary meeting of stockholders held on January 31, 2003, authorized the board of directors to resolve, on one or more occasions, to issue Series B shares in the company corresponding to an increase on subscription of no more than SKr 76 million in stockholders' equity. The authorization was exercised in

August 2003 in the form of an offset issue by which 1,150, 000 shares were issued at SKr 5.89 per share, totaling SKr 6.8 million. In March 2004, the outstanding portion of the authorization was exercised, on which 5,725,930 shares were issued at SKr 12.09 per share, realizing SKr 69.2 million, which was set off against liabilities.

In 2004, a new rights issue was implemented. The issue entailed an increase in capital stock of 205,689,879. The number of shares added totaled 102,844,938, of which 7,153,374 were Series A shares and 95,691,564 were Series B shares. The issue price was Skr 2.60 per share, which represented a capital infusion to IFS of 267,396,839 before deductions for issue expenses.

The KV3B convertible debenture loan was converted in a nominal amount of SKr 61.2 million and the KV5B convertible bond was converted in a nominal amount of SKr 0.3 million during the year.

Three convertible debenture/bond loans were outstanding at year-end. KV3B carries the right to convert 9,861,246 Series B shares between May 1, 2003 and February 20, 2007. KV4B carries the right to convert 6,670,290 Series B shares between January 1, 2005 and July 15, 2007. KV5B carries the right to convert 30,415,898 Series B shares between January 2, 2005 and March 18, 2008.

Number of shares, thousands	GROUP	
	2005	**2004**
At end of period	223 762	205 690
At end of period, after full dilution	270 709	268 053
Average during the period	219 382	99 808
Average during the period, after full dilution	269 405	125 122

Definition of items in the Group equity statement

Capital stock: Refers to the Parent Company's capital stock.

Other directly contributed capital: Refers to stockholders' equity that is contributed by the owners. This includes share premium reserves transferred to statutory reserves as of December 31, 2005. Provisions made to the share premium reserve from January 1, 2006 and in the future are reported as directly contributed capital.

Reserves/translation reserve: The translations reserve includes all exchange rate differences arising on translating financial reports from foreign entities that have prepared their financial reports in a currency other than that used by the Group for its financial reports. The Parent Company and Group present their financial reports in Swedish krona.

Accumulated loss: The accumulated loss includes earnings for the year and profits carried forward/accumulated losses in the Parent Company and its subsidiaries, associated companies, and joint ventures. Previous provisions made to statutory reserves are included in this equity item.

Share options

IFS has no outstanding share options program. The principal owner, Förvaltnings AB Wasatornet, and Noonday Global Management Ltd have issued call options on market terms to the president, senior executives and members of the board (see Note 14). The call options entitle holders to acquire Series B shares.

Changes in the number of outstanding share options and their weighted average strike price are as follows:

	2005		2004	
	Average strike price	**Options, thousands**	**Average strike price**	**Options, thousands**
On January 1	8.03	6 462	12.30	3 700
Allocated	6.90	2 400	5.25	1 238
Matured	10.77	-3 753	-	-
Adjustment of terms	-	-	-3.49	1 524
On December 31	**5.49**	**5 109**	**8.03**	**6 462**

Outstanding share options at year-end have the following date of maturity and strike prices:

		Shares, thousands	
Maturity, coming years	**Strike price**	**2005**	**2004**
2005	10.77	-	3 753
2007	3.40	1 471	1 471
2007	6.90	2 400	-
2008	5.25	1 238	1 238
Total		**5 109**	**6 462**

NOTE 39 – CONVERTIBLE DEBENTURES/BONDS

The KV1B convertible debenture loan of SKr 45 million was subscribed for by IFS employees in 2000. The annual interest rate on the loan corresponded to 12-month STIBOR less one percentage point and fell due on January 15, 2001–2005, April 30, 2005 and June 30, 2005. The original conversion price was SKr 243.00, but subsequent to new stock issues has been recalculated to SKr 166.10. The loan matured and was repaid on June 30, 2005.

In 2003, the convertible debenture loan, KV3B, in a nominal amount of SKr 215 million, was subscribed for in a pre-emptive rights issue and by Förvaltnings AB Wasatornet at a subscription price of five (5) Swedish krona. The annual interest rate on the loan is 5% as of March 15, 2003. Interest is paid retroactively on an annual basis commencing on March 14, 2004, and falls due for payment on March 14 in subsequent years. The loan expires on March 14, 2007 insofar as it has not been converted prior to this date. On conversion, no interest is paid for the period from the immediately preceding due date to the conversion day. The conversion rate was originally five

(5) Swedish krona, but in connection with a stock issue in 2004 it was recalculated to SKr 3.40. Fully converted, the convertible debentures will result in dilution by 9.9 million Series B shares, which is 4.4% of the capital and 2.8% of the voting rights.

A convertible debenture loan, KV4B, at a nominal amount of SKr 46 million, was raised in 2004. The loan was directed to holders of KV1B, who were invited to replace their convertible debentures with new debentures in KV4B, of which IFS Svensk Idéutveckling, an IFS subsidiary, subscribed for an amount of SKr 20 million. IFS Svensk Idéutveckling divested its holding in KV4B in 2005. The annual interest rate on the loan corresponds to SEB Basic Interest Rate, currently 1.50%, plus 1.5 percentage points. Interest is paid annually in arrears and falls due on January 15, 2005–2007, June 30, 2007, and on maturity, on August 30, 2007. The original conversion price was SKr 10.00, but in connection with a new stock issue was recalculated to SKr 6.90.Fully converted, the debenture loan entails dilution by 6.7 million Series B shares, which is 3% of the capital and 1.9% of the voting rights.

The KV5B convertible bond loan, at a nominal value of SKr 160 million, was raised during 2004. Förvaltnings AB Wasatornet and Skandinaviska Enskilda Banken AB (publ) (SEB) subscribed for the loan and paid for the issue by setting it off against receivables. Wasatornet acquired SEB's share of the loan and offered the convertible bonds for subscription in connection with the rights issue implemented in the fall of 2004. KV5B is secured thought secondary pledge. The security assets are primarily pledged to IFS' lending bank. The secondary pledge can be exercised to the extent that the value of the security is not required by IFS' lending bank. The annual interest rate is 5% and is paid annually in arrears, falling due for payment on March 15, 2006, March 15, 2007, March 15, 2008, and on maturity, on March 31, 2008. The conversion price is SKr5.25. Full conversion of the loan entails a dilution of 30.4 million Series B shares, corresponding to 13.6% of the capital and 8.7% of the voting rights.

The KV3B convertible debenture and the KV5B convertible bond are listed on the Stockholm Stock Exchange. On December 30, 2005, KV3B was listed at a rate of 267% and KV5B at a rate of 172%.

Four convertible debentures/bonds existed at the beginning of the year. During the year, KV1B was repaid. Thus, at year-end, three convertible debentures/bonds existed.

Convertible debenture/ bond	Targeted at	Issue price	Conversion price	Interest
KV1B	Employees	243.00	166.10	0.50%
KV3B	Stockholders	5.00	3.40	5.00%
KV4B	Holders of KV1B	10.00	6.90	3.50%
KV5B	Stockholders	2.60	5.25	5.00%

Convertible debenture/ bond	Duration	Additional number of shares at time of issue	Additional number of shares by end of period
KV1B	2000-06-15–2005-06-30	291 666	-
KV3B	2003-03-02–2007-03-14	43 092 366	9 861 246
KV4B	2004-08-16–2007-08-15	3 742 753	6 670 289
KV5B	2004-12-23–2008-03-18	30 476 190	30 415 898

	GROUP		PARENT COMPANY	
SKr, million	**2005**	**2004**	**2005**	**2004**
Convertible debenture/bond, KV1B	71	71	71	71
Capitalized issue expenses	0	0	0	0
Replacement of KV1B with KV4B	-26	-26	-26	-26
Repayment of KV1B	-45	-	-45	-
Total	**0**	**45**	**0**	**45**
Convertible debenture/bond, KV3B	215	215	215	215
Conversions	-182	-120	-182	-120
Capitalized issue expenses	0	-2	0	-2
Option component	-4	-21	-4	-21
Total	**29**	**72**	**29**	**72**
Convertible debenture/bond, KV4B	46	26	46	26
Capitalized issue expenses	-1	-1	-1	-1
Option component	-5	-5	-5	-5
Total	**40**	**20**	**40**	**20**
Convertible debenture/bond, KV5B	160	160	160	160
Capitalized issue expenses	-3	-5	-3	-5
Option component	-33	-48	-33	-48
Total	**124**	**107**	**124**	**107**
Total	**193**	**244**	**193**	**244**

NOTE 40 – RISK STRUCTURE PERTAINING TO INTEREST AND FINANCING

Change of interest in the interval

Nominal amount	0–6 MONTHS		7–12 MONTHS		13–60 MONTHS		MORE THAN 60 MONTHS		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Bank overdraft facilities	121	8	-	-	-	-	-	-	121	8
Factoring	129	88	-	0	3	2	-	-	132	90
Property loan	13	15	-	-	-	-	-	-	13	15
Financial leasing	1	1	1	0	1	2	-	-	3	3
Convertible debenture/bond KV1B	-	45	-	-	-	-	-	-	0	45
Convertible debenture/bond KV3B	-	-	-	-	33	95	-	-	33	95
Convertible debenture/bond KV4B	46	26	-	-	-	-	-	-	46	26
Convertible debenture/bond KV5B	-	-	-	-	160	160	-	-	160	160
Other loans to credit institutions	62	46	0	1	0	2	-	-	62	49
Other external loans	3	-	-	-	-	3	-	-	3	3
Total	**375**	**229**	**1**	**1**	**197**	**264**	**0**	**0**	**573**	**494**

Loan and credit maturity in the interval

Nominal amount	0–6 MONTHS		7–12 MONTHS		13–60 MONTHS		MORE THAN 60 MONTHS		TOTALT	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Bank overdraft facilities	35	14	13	31	91	85	-	-	139	130
Factoring	79	32	0	17	82	78	4	2	165	129
Property loan	4	1	1	1	7	10	1	3	13	15
Financial leasing	1	0	1	1	1	2	-	0	3	3
Convertible debenture/bond KV1B	-	45	-	-	-	-	-	-	0	45
Convertible debenture/bond KV3B	-	-	-	-	33	95	-	-	33	95
Convertible debenture/bond KV4B	-	-	-	-	46	26	-	-	46	26
Convertible debenture/bond KV5B	-	-	-	-	160	160	-	-	160	160
Other loans to credit institutions	8	24	22	5	32	20	-	-	62	49
Other external loans	1	-	1	-	1	3	-	-	3	3
Total	**128**	**116**	**38**	**55**	**453**	**479**	**5**	**5**	**624**	**655**

Includes unused bank overdraft and factoring

Terms and conditions for the convertible debentures/bonds: see Note 39.

NOTE 41 – PENSION COMMITMENTS

Provisions for defined-benefit pension plans

SKr, million	GROUP 2005	2004
Sweden	35	43
Norway	6	7
U.K.	46	43
Other countries	1	6
Total	**88**	**99**
Provisions for social security costs	1	4
Total provisions for pensions	**89**	**103**

The Group has a small number of defined-benefit pension plans, according to which employees are entitled to benefits on resignation based on their final salary and years of service. The largest plans are in Sweden, Norway, and the U.K. Most pension plans held by the Groups are premium-based.

Defined-benefit pension plans 2005

The amounts reported in the consolidated balance sheet have been calculated according to the following:

SKr, million	Sweden	Norway	U.K.	Other countries	Total
Present value of funded obligations	248	44	181	-	473
Real value of plan assets	-150	-38	-114	-	-302
Total	**98**	**6**	**67**	**-**	**171**
Present value of unfunded obligations	-	-	-	1	1
Unrecognized actuarial gains (+) and losses (-)	-62	-1	-21	-	-84
Total	**36**	**5**	**46**	**1**	**88**

NOTE 41 – PENSION COMMITMENTS (CONT.)

Pension costs

The total pension costs reported in the consolidated income statement are the following:

SKr, million	2005
Service costs during the present year	24
Actuarial losses	0
Interest expenses	12
Expected return on plan assets	-10
Total costs for defined-benefit plans	**26**
Total costs for defined-contribution plans	43
Total pension costs	**69**

Defined-benefit pension plans

The items in the income statement are reported under the following headings:

SKr, million	2005
Personnel-related costs	24
Financial expenses	2
Total	**26**

Defined-benefit pension plans, 2005

Specification of the changes in net liabilities reported in the consolidated balance sheet:

SKr, million	Sweden	Norway	U.K.	Other countries	Total
Net liability at beginning of year	43	7	43	5	98
Net cost reported in income statement	16	4	6	-	26
Funds contributed by employer to funded plans	-24	-6	-7	-	-37
Reclassification	-	-	-	-4	-4
Exchange rate differences in international plans	-	1	4	-	5
Net liability at end of year	**35**	**6**	**46**	**1**	**88**

Key actuarial assumptions

	2005	2004
Discount rate	4.00%	5.00%
Expected return on plan assets	5.00%	5.50%
Future annual salary increases	2.25%	2.50%
Increase in Swedish price base amount	2.25%	2.00%
Future annual pension increases	1.75%	2.00%
Personnel turnover	6.00%	4.00%

Provisions for defined-benefit pension plans

SKr, million	PARENT COMPANY 2005	PARENT COMPANY 2004
Provisions according to the Swedish Act on Income Security	1	-

NOTE 42 – OTHER PROVISIONS AND OTHER LIABILITIES

SKr million	GROUP 2005	GROUP 2004
Restructuring reserve	13	26
Other provisions	5	14
Other long-term liabilities	2	7
Total	**20**	**47**

Restructuring reserve

SKr, million	Group	Parent Company
Opening balance Dec 31, 2004	24	-
Transfer of restructuring reserve	-1	-
Provision, restructuring reserve	104	-
Use of restructuring reserve	-29	-
Effects of exchange rate fluctuations	2	-
Closing balance Dec 31, 2004	**100**	**0**
Reversal, restructuring reserve	-8	-
Provision, restructuring reserve	6	-
Use of restructuring reserve	-61	-
Effects of exchange rate fluctuations	4	-
Closing balance Dec 31, 2005	**41**	**0**
Less current portion (see note 44)	-28	-
Total restructuring reserve	**13**	**0**

NOTE 43 – LIABILITIES TO CREDIT INSTITUTIONS

SKr, million	GROUP 2005	GROUP 2004	PARENT COMPANY 2005	PARENT COMPANY 2004
Overdraft facility and factoring	253	98	108	7
Property loan	13	15	-	-
Other	65	55	53	35
Total	**331**	**168**	**161**	**42**
Granted overdraft facility and factoring	304	260	116	85
Unused overdraft facility and factoring	51	161	8	78

For external financing, agreements exist entailing certain obligations in respect of cash flow, liquidity, the ratio of receivables to revenue, and accounts payable. Some subsidiaries have factoring agreements with lenders according to which the volume of receivables and their age structure affect the volume of credit available.

NOTE 44 - OTHER PROVISIONS

SKr, million	GROUP 2005	2004
Current portion of restructuring reserve	28	73

NOTE 45 – OTHER LIABILITIES

SKr, million	GROUP 2005	2004
Liabilities to associated companies	2	6
VAT liabilities	56	49
Retained preliminary tax for employees	26	23
Liabilities to employees	18	15
Miscellaneous other liabilities	30	22
Accrued interest expenses	13	6
Accrued payroll expenses	123	108
Accrued social security contributions	59	55
Other accrued expenses	101	87
Prepaid maintenance revenue	227	195
Other prepaid revenue	18	27
Total	**673**	**593**

NOTE 46 – ACCRUED EXPENSES AND PREPAID INCOME

SKr, million	PARENT COMPANY 2005	2004
Accrued interest expenses	11	6
Accrued social security contributions	1	1
Accrued payroll expenses	2	2
Other accrued expenses	4	13
Total	**18**	**22**

NOTE 47 – PLEDGED ASSETS

SKr, million	GROUP 2005	2004	PARENT COMPANY 2005	2004
Real estate mortgages	55	59	-	-
Chattel mortgages	139	139	4	4
Equipment utilized according to financial leasing agreements	36	29	0	0
Accounts receivable (factoring)	284	273	-	-
Participations in limited partnerships	5	4	5	4
Blocked bank accounts	6	8	2	4
Shares in subsidiaries	401	447	789	789
Other	353	209	-	-
Total	**1 279**	**1 168**	**800**	**801**

IFS has issued warrants as security for credit that entitle the lender to acquire all of the stock in IFS R&D International Pte Ltd for one (1) Swedish krona unless the Company fulfills agreed commitments in respect of future interest rate and amortization transactions.

Mortgages, receivables and shares in subsidiaries have been pledged as security for check credits, factoring and loans. Liabilities to credit institutions are detailed in Note 43.

Pledged assets pertaining to shares in subsidiaries are recognized at amounts corresponding to the corporate net assets.

NOTE 48 – CONTINGENT LIABILITIES

SKr, million	GROUP 2005	2004	PARENT COMPANY 2005	2004
Sureties, external	2	18	1	15
General surety for subsidiaries	-	-	23	49
Parent Company guarantees	-	-	107	92
Total	**2**	**18**	**131**	**156**

NOTE 49 – ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW

SKr, million	GROUP 2005	2004	PARENT COMPANY 2005	2004
Depreciation	196	244	0	0
Restructuring costs, net	-63	74	-	-
Provisions for pensions	-17	-30	0	-
Bad debts	33	43	-	0
Write-down of capitalized research and development expenditure	-	20	-	-
Profit on disposals	-17	-65	0	-1
Loss on disposals	2	0	-	23
Exchange rate gains/losses, net	-23	9	-23	7
Revaluation of financial assets	-	-	-	-55
Write-down of financial assets	0	6	4	207
Interest costs for the year	61	72	7	44
Interest paid	-54	-78	-1	-50
Interest income for the year	-6	-8	0	-1
Interest received	6	8	0	1
Other adjustments	17	11	23	6
Total	**135**	**306**	**10**	**181**

NOTE 50 – ACQUISITION OF SUBSIDIARIES/OPERATIONS

Below are the shares acquired in subsidiaries during the year and their effect on Group liquid assets:

Company SKr, million	Date of acquisition	Share in equity and votes	GROUP 2005	2004
Vendimo Business Solutions AB	2004-03	40%	-	-6
IFS Italia Srl	2004-07	25%	-	0
Corporate Financial Systems ZAO	2004-10	31%	-	-4
Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S	2005-09	25%	-1	-
IFS Solution India Pvt Ltd	2005-10	74%	-6	-
IFS Systems (Thailand), Co. Ltd	2005-10	75%	-1	-
Motswedi IFS (Pty) Ltd	2005-10	14%	0	-
Total purchase sum			**-8**	**-10**
Portion of purchase sum not paid			-	3
Liquid assets in the acquired companies			5	1
Effect of the year's acquisitions on the Group's liquid assets			**-3**	**-6**
Payment of purchase price related to past acquisitions			-2	-1
Total cash flow pertaining to investments in subsidiaries			**-5**	**-7**

The purchase prices of all acquisitions during the year were paid in full in 2005.

Payment for the acquisition of Vendimo Business Solutions AB, made before 2005, was partially settled in 2005. Further payments pertaining to Vendimo Business Solutions AB are expected to be made in 2006, on which the acquisition will be finally settled. The estimated outstanding amount of the purchase price was reserved at the end of 2005.

All subsidiaries acquired are reported in the Group accounts in accordance with the purchase method. The share of the acquisition in Turkey is reported in Participations in Associated Companies.

NOTE 51 – EXTERNAL SALE OF SUBSIDIARIES/OPERATIONS

During the year, IFS divested Lärkfalken 2, its property in Värnamo, Sweden. A supplementary consideration was received for operations in AtIFS AB, for IFS' payroll components for the Swedish market, and for Intercim/TCM, which were divested during previous years. The outstanding liability to the Brazilian company divested in 2004 was settled in 2005.

The total value of divested assets and liabilities, purchase prices and their effect on Group liquid assets was as follows:

SKr, million	GROUP 2005	2004
Fixed assets	7	29
Accounts receivable	-	16
Other current assets	-	22
Current liabilities	-	-49
Long-term liabilities	-	-9
Provisions	-	8
Profit/loss on sale	-1	64
Total price	**6**	**81**
Additional purchase price	12	-
Reduction of claims in respect of divested subsidiaries	-8	6
Liquid assets in the divested subsidiaries	-	5
Total cash flow pertaining to divestment of subsidiaries	**10**	**92**

NOTE 52 – ACQUISITION OF TANGIBLE FIXED ASSETS

SKr, million	GROUP 2005	2004	PARENT COMPANY 2005	2004
Opening liability pertaining to contractual commitments	0	-4	-	-
Investments for the year	-16	-18	-	-
Total	**-16**	**-22**	**-**	**-**

NOTE 53 – FINANCIAL RISK MANAGEMENT AND DERIVATIVES

Via its business operations, the Group is exposed to a number of financial risks, including fluctuations in earnings, balance sheet, and cash flow resulting from changes in exchange rates, rates of interest, and risks related to refinancing and credit. Group financial policy for risk management has been determined by the board and forms a framework of guidelines and regulations in the form of risk mandates and limits for financial operations.

The board has the overall responsibility for financial risks, which is delegated to the CEO, the CFO, and a member of the board. The IFS Group has centralized financial management, which means that the chief responsibility for financial management resides with the Parent Company. The overall objective for the finance department is to minimize the negative effects of market fluctuations on Group earnings and stockholders' equity and to provide cost-effective financing.

Risk is managed by a central finance department (Group Finances) according to principles approved by the board. Current policy is being implemented gradually in line with IFRS and IAS 32. Group Finances shall identify, evaluate, and hedge against financial risks in close collaboration with operational units within the Group. The board establishes a financial policy for overall risk management and for specific areas that include risks related to exchange rates, interest rates, credit on investment in financial instruments, financing, and liquidity. The Group can use derivatives such as currency futures and interest rate swaps to reduce exposure to risk.

Exchange rate risks

As it operates internationally, the Group is exposed to transaction risks related to future business transactions and reported assets and liabilities. Exposure to exchange rate fluctuations refers primarily to the Euro, the U.S. dollar and the Polish zloty (PLN). Group financial policy stipulates that subsidiaries make and receive payments in the local currency whenever possible. Group Finances is responsible for reducing the net position in each currency by utilizing currency loans and currency futures.

The Parent Company has a number of holdings in foreign companies whose net assets are exposed to currency translation risks. Currency exposure of net assets in subsidiaries can be managed by borrowing in the respective foreign currency, for example.

The Group's risk management policy is to hedge the position reported that pertains to assets and liabilities. The policy also stipulates that, in respect of major exposure, the company hedge 70% of the cash flow exposure that is estimated to occur within 1–3 months, 50% of the cash flow exposure estimated to occur within 4–6 months, 15-30% of the cash flow exposure estimated to occur within 7–12 months, and 50–100% of confirmed cash flow exposure exceeding 12 months.

Interest rate risks

Group revenue and cash flow from operations are essentially independent of changes in interest levels in the market. The Group has no significant interest-bearing assets. As a principle, the Group aims for a duration of 6–18 months exposure in interest rates. At the end of 2005, the duration was 11 months. The Group can borrow at a floating interest rate and use interest rate swaps to secure cash flow pertaining to future interest payments. The financial effect of this is that it converts borrowing from floating to fixed interest rates. On the balance sheet day, the Group had no holdings in interest derivatives.

Credit risk related to investment in financial instruments

The Group has no substantial concentration of credit risks. If investments are made in financial instruments, this is done only in securities issued by institutions with a high credit rating. The Group applies principles that limit the amount of credit exposure to individual financial institutions.

Financing risks

The Group shall avoid having too much credit due for payment in the same 12-month period. The Group shall strive to ensure that a maximum of 25% of contracted loans and credit limits falls due in the same 12-month period. At year-end, the average term of contracted loans and credit facilities was 20 months; 21% of the loan portfolio matures within 12 months. Of this, 80% are credit facilities that normally have a 12-month term of contract.

Liquidity risk

Managing liquidity risks is characterized by a cautious approach, which entails retaining sufficient liquid assets and accessible financing via agreed credit facilities.

Fair-value hedge

The current portfolio of currency futures corresponds to a value of SKr 253 million, distributed as follows (corresponding value in SKr million): PLN 94, NKr 33, € 28 and US$ 25, whereas other currencies account for a value corresponding to SKr 74 million. The derivatives have a term of less than 3 months and are fair-value hedges. IFS did not hold any currency derivatives at the end of the past year. The effect of currency hedges amount to SKr 0 million in earnings.

Fair value estimation

Financial assets

Financial assets consist primarily of deferred tax receivables, minority interests in the Group and shares in subsidiaries held by the Parent Company. The fair value of the assets is calculated through the income statement.

Accounts receivable, other receivables, accounts payable, and other current liabilities

For receivables and payables with a residual term of less than one year, the reported value is considered to reflect the fair value. Other receivables and payables are estimated at present value with a discount rate corresponding to that used to estimate interest-bearing liabilities. There are no significant differences between fair value and reported value.

Currency futures contracts

The fair value of financial instruments traded on an active market based on listed market prices on the balance sheet day. Currency future contracts are valued at current market rates by using the listed market prices less the current spot rate. In the Parent Company, currency futures contracts were valued in accordance with IFRS. The difference between fair value and reported value is SKr 0 million.

Liabilities to credit institutions

The fair value is based on discounted future cash flows in respect of the principal and interest. There are no significant differences between fair value and reported value.

Convertible debentures/bonds

The fair value of the liability element and the warrant element is determined when the convertible debentures/bonds are issued. There is no essential difference between the fair value and the reported value in the liability element.

Warrants issued

IFS has issued warrants as security for credit that entitle the lender to acquire all of the stock in IFS R&D International Pte Ltd for one (1) Swedish krona unless the Company fulfils agreed commitments in respect of future interest rate and amortization transactions. The difference between fair value and reported value is SKr 0 million.

NOTE 54 – INFORMATION REGARDING TRANSITION TO IFRS

The effects on the consolidated income statement, balance sheet and capital equity are reported below:

Income statement

SKr, million	According to adopted income statement for 2004	Amortization of goodwill	Minority interest	Adjusted income statement
Net revenue	2 178	-	-	2 178
Operating profit/loss	-152	24	-	-128
Profit/loss before tax	-228	24	-	-204
Net profit/loss	**-243**	**24**	**-10**	**-229**

SKr, million	Profit/loss 2004
Key ratios according to previous accounting principles	
Earnings per share	-2.43
Key ratios according to IFRS	
Earnings per share	-2.19

Balance sheet on Jan 1, 2004

SKr, million	Amount on Jan 1, 2004 according to adopted balance sheet	Amortization of goodwill	Minority interest	Adjusted balance on Jan 1
ASSETS				
Intangible fixed assets	854	-	-	854
Total fixed assets	1 153	-	-	1 153
Current assets	923	-	-	923
Total assets	**2 076**	**-**	**-**	**2 076**
EQUITY AND LIABILITIES				
Equity	262	-	14	276
Total long-term and current liabilities	1 814	-	-14	1 800
Total equity and liabilities	**2 076**	**-**	**-**	**2 076**

Balance sheet on Dec 31, 2004

SKr, million	Amount on Dec 31, 2004 according to adopted balance sheet	Amortization of goodwill	Minority interest	Adjusted balance on Dec 31
ASSETS				
Intangible fixed assets	742	23	-	765
Total fixed assets	994	23	-	1 017
Current assets	863	-	-	863
Total assets	**1 857**	**23**	**-**	**1 880**
EQUITY AND LIABILITIES				
Equity	462	23	3	488
Total long-term and current liabilities	1 395	-	-3	1 392
Total equity and liabilities	**1 857**	**23**	**0**	**1 880**

Equity

SKr, million	Amount on Jan 1, 2004 according to adopted balance sheet	Adjustment of unrestricted equity	Adjustment of restricted equity	Amortization of goodwill	Minority interest	Adjusted balance on Jan 1
Capital stock	146	-	-	-	-	146
Restricted reserves	1 091	-1 091	-	-	-	-
Other contributed capital	-	992	-	-	-	992
Reserves	-	-	-	-	-	-
Unrestricted reserves	-975	-	975	-	-	-
Accumulated deficit	-	99	-975	-	-	-876
Minority interest	-	-	-	-	14	14
Total equity	**262**	**-**	**-**	**-**	**14**	**276**

NOTE 54 – INFORMATION REGARDING TRANSITION TO IFRS (CONT.)

SKr	Equity Jan 1, 2004	Equity Dec 31, 2004
Key ratios according to previous accounting principles		
Capital stock per share	3.78	2.26
Equity/assets ratio	13%	25%
Key ratios according to IFRS		
Capital stock per share	3.78	2.37
Equity/assets ratio	13%	26%

The transition to IFRS did not affect cash flow.

Significant Changes

The most significant changes in the Group's accounting principles related to the transition to IFRS are:

- IFRS 3, Business Combinations, stipulates that goodwill shall no longer be amortized straight-line. Instead, the booked value is to be tested annually to examine whether amortization is required. The Group tested the values reported on January 1, 2004 and December 31, 2004 and found that amortization was not required. Because the income statement has been recalculated to the average price and the balance sheet to the price at the end of the period, the differences reported in the income statement and balance sheet are not the same.
- IAS 27, Consolidated and Separate Financial Statement, stipulates that the minority share of the period's earnings be included in the net earnings. In connection with the income statement, information shall be provided concerning the amount of the earnings for the period that are attributable to the minority interest. As before, the minority interest's share of the reported earnings shall be considered when calculating earnings per share. The minority interest is reported as part of stockholders' equity in the balance sheet. Changes in the minority interest are specified in a note to stockholders' equity.

Miscellaneous

IAS 39, Financial Instruments: Recognition and Measurement, stipulates that currency futures and other derivative instruments be valued at their market price and reported at fair value, which entails more stringent demands in respect of when hedge accounting can be permitted. As the extent of such transactions in the Group is limited, the Group considers the effect of the change in principles to be negligible. The Group has applied IAS 39 as of January 1, 2005, but has not utilized the right of early application as of January 1, 2004.

The Group considers that the introduction of IFRS 2 has not affected reporting of its outstanding options programs and convertible debenture/bond loans.

The Group has utilized the voluntary exception permitted by IFRS 1. Thus, acquisitions made before January 1, 2004, are not recalculated. IFRS 3, Business Combinations, is applied to all acquisitions as of January 1, 2004.

The Group also utilizes the possibility not to recalculate accumulated translation differences for international subsidiaries. Thus, as of January 1, 2004, accumulated translation differences have been set to zero in the opening balance in accordance with IFRS. The Group has chosen to report intangible and tangible fixed assets at acquisition value less depreciation and write-downs. The Group reports such fixed assets at their acquisition value less depreciation and write-downs. The transition to IFRS has not entailed any effects in respect of capitalization of product development expenditure.

The Group has not utilized the right to early application of IFRIC recommendations.

Apart from the above options, IFS has not applied exceptions or alternative regulations that do not concur with the Company's previous principles.

Group financial reports have also been affected by the change in classification and information requirements stipulated in IFRS. No changes have been made to the income statement other than those mentioned above concerning minority interests. Certain items in the balance sheet have been reclassified, e.g. provisions are not reported as a separate item but are divided into current and long-term items. In other respects, only certain headings have been changed, and certain balance sheet items have been regrouped. The Group's cash flow statement and format have not been changed in connection with the transition to IFRS.

NOTE 55 – CONVERSION RATES

	Rate at year end		Average rate	
	2005	**2004**	**2005**	**2004**
EUR	9.46	9.03	9.29	9.13
GBP	13.95	12.91	13.60	13.46
NOK	1.19	1.09	1.16	1.09
PLN	2.45	2.22	2.32	2.03
USD	7.89	6.74	7.46	7.33

The above rates show:
- Year-end rates used to recalculate the balance sheets
- Average rates used to recalculate the income statements

NOTE 56 – INFORMATION ABOUT THE PARENT COMPANY

Industrial and Financial Systems IFS AB (publ.), the Parent Company, is a Swedish registered limited company headquartered in Linköping, Sweden. The address of the head office is Teknikringen 5, 583 30, Linköping, Sweden. Parent Company stock is listed on the Stockholm Stock Exchange.

The consolidated accounts for 2005 are reported for the Parent Company and its subsidiaries, which together comprise the Group. The Group also includes shares owned in associated companies and a joint venture company.

The income statement and balance sheet will be submitted for adoption by the annual general meeting of stockholders on April 5, 20065

Linköping January 31, 2006

Anders Böös
CHAIRMAN OF THE BOARD

Bengt Nilsson
DEPUTY CHAIRMAN

Jacob Palmstierna

Michael Hallén
PRESIDENT & CEO

Christina Stercken

Ulrika Hagdahl

Gregory Gorman

Our audit report was submitted on January 31, 2006

Öhrlings PricewaterhouseCoopers AB

Lars Wennberg
PRINCIPAL AUDITOR
AUTHORIZED PUBLIC ACCOUNTANT

Göran Tidström
AUTHORIZED PUBLIC ACCOUNTANT

AUDIT REPORT

To the general meeting of the stockholders of Industrial and Financial Systems, IFS AB (publ.) Corporate identity number 556122-0996.

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Industrial and Financial Systems, IFS AB for the year 2005. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

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

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm January 31, 2006

Öhrlings PricewaterhouseCoopers AB

Lars Wennberg
PRINCIPAL AUDITOR
AUTHORIZED PUBLIC ACCOUNTANT

Göran Tidström
AUTHORIZED PUBLIC ACCOUNTANT

BOARD OF DIRECTORS

ANDERS BÖÖS
Chairman of the board
Born: 1964
Principal occupation: Board directorships and consulting assignments.
Other assignments: Member of the board of Hagströmer & Qviberg AB, Investment AB Latour and Explorer Property Fund.

BENGT NILSSON
Deputy chairman of the board
Born: 1955
Principal occupation: Board directorships and consulting assignments.
Other assignments: Member of the board of Greenfield AB, Norelia AB, European Maintenance Service AB, Carmen System AB, Hikkadua Investments AB, European Flight Service AB, Industrial Design AB, Diamo AB, Homes and Villas Ltd, and Pointer AB.

GREGORY GORMAN
Born: 1972
Principal occupation: Manager, Corporate Business Development, NEC Corporation
Other assignments: –

ULRIKA HAGDAHL
Born: 1962
Principal occupation: Investment manager, Cancale Förvaltning.
Other assignments: Member of the board of Orc Software AB, Protect Data AB och Strålfors AB.

JACOB PALMSTIERNA
Born: 1934
Principal occupation: Board directorships.
Other assignments: Chairman of the board of Abaris AB.

CHRISTINA STERCKEN
Born: 1959
Principal occupation: Managing director, Corporate Finance Mergers & Acquisitions, Siemens AG.
Other assignments: Member of the board of Fujitsu Siemens Computers.

MICHAEL HALLÉN
President and CEO
Born: 1964
Other assignments: Member of the board of XDIN AB.

Photographs of the members of the board and senior management of the company are available for download at **www.IFSWORLD.com**

For information concerning stock, options, and convertible debentures/bonds held by board members and senior management, see Note 14.

SENIOR MANAGEMENT

MICHAEL HALLÉN
President and CEO (until March 9, 2006)
Born: 1964
Employed since 1994.

ALASTAIR SORBIE
President and CEO (as of March 10, 2006)
Responsible for Region EMEA
Born: 1953
Employed since 1997.

HÅKAN GYRULF
Chief Financial Officer
Born: 1950
Employed since 2005.

HANS RUNE RØNNINGEN
Responsible for Products
Born: 1968
Employed since 1993.

FREDRIK VOM HOFE
Responsible for Marketing & Industry Solutions
Born: 1966
Employed since 2003.

CINDY JAUDON
Responsible for Region North America
Born: 1962
Employed since 2002.

NO. OF SHARES AFTER FULL DILUTION BOARD AND SENIOR MANAGEMENT

	Series A	Series B
Anders Böös	664 000	3 375 349
Bengt Nilsson	3 479 703	502 647
Jacob Palmstierna		285 714
Michael Hallén)	30 000	732 807
Alastair Sorbie		17 760

Convertible debentures/bonds and options held on December 31, 2005 expressed as shares to enable comparison.

AUDITORS

Öhrlings PricewaterhouseCoopers AB
Auditor since 2001

LARS WENNBERG
Born: 1957
Principal auditor and authorized public accountant

GÖRAN TIDSTRÖM
Born: 1946
Authorized public accountant

Photographs of the members of the board and senior management of the company are available for download at **www.IFSWORLD.com**

For information concerning stock, options, and convertible debentures/bonds held by board members and senior management, see Note 14.

Financial trend

On January 1, 2002, IFS introduced new principles for revenue recognition and reporting product development. These changes have affected previous and subsequent earnings. Figures for 2001 have been restated and key ratios have been adjusted.

Fiscal year 2004 has been restated and fiscal year 2005 has been prepared in accordance with new accounting principles pursuant to IFRS stipulations. For further information, see Accounting Principles.

FROM THE INCOME STATEMENTS SKr, million	2001	2002	2003	2004	2005
License revenue	841	705	513	451	383
Maintenance & support revenue	396	354	406	470	528
Consulting revenue	1 657	1 543	1 302	1 174	1 175
Other revenue	150	119	115	83	63
Net revenue	**3 044**	**2 721**	**2 335**	**2 178**	**2 149**
Capitalized work for own use	249	223	173	153	121
Operating expenses	-3 219	-2 926	-2 293	-2 149	-2 001
EBITDA before other operating items	**74**	**18**	**215**	**182**	**269**
Other operating revenue[1]	21	16	16	80	36
Other operating expenses[1]	-54	-174	-7	-126	-16
EBITDA	**41**	**-140**	**224**	**136**	**289**
Depreciation, amortization, and write-downs[2]	-258	-501	-253	-264	-192
EBIT	**-217**	**-641**	**-29**	**-128**	**97**
Financial revenue	36	7	5	8	31
Financial expenses	-169	-126	-115	-84	-61
Profit/loss before tax	**-350**	**-760**	**-139**	**-204**	**67**
Taxes	-24	19	-17	-25	-17
Profit/loss for the year	**-374**	**-741**	**-156**	**-229**	**50**

[1] Other operating items pertain to items of a one-time nature such as gains and losses on divesting operations, and restructuring expenses

[2] The comparative figures for 2004 have been restated in compliance with accounting principles according to the IFRS. Thus 2001-2003 are not restated. Goodwill amortization amounts to SKr51m for 2001, SKr51m for 2002, and SKr27m for 2003.

FROM THE BALANCE SHEETS SKr, million	Dec 31, 01	Dec 31, 02	Dec 31, 03	Dec 31, 04	Dec 31, 05
Intangible fixed assets	1 157	912	854	765	758
Other fixed assets	400	342	299	252	230
Accounts receivable	841	741	599	565	615
Other current assets	266	198	187	146	183
Liquid assets	110	106	137	152	319
Total assets	**2 774**	**2 299**	**2 076**	**1 880**	**2 105**
Stockholders' equity including minority interest	1 243	444	329	488	615
Long-term liabilitiies	295	474	496	403	468
Accounts payable	222	211	163	153	146
Current interest-bearing liabilities	99	330	328	161	167
Other current liabilities	915	840	760	675	709
Total stockholders' equity and liabilities	**2 774**	**2 299**	**2 076**	**1 880**	**2 105**

FROM THE CASH FLOW STATEMENTS SKr, million	2001	2002	2003	2004	2005
Cash flow from operations before change in working capital	50	-57	72	94	189
Change in working capital	-57	18	-2	-94	-32
Cash flow from current operations	**-7**	**-39**	**70**	**0**	**157**
Cash flow from investment operations	-348	-263	-239	-76	-129
Cash flow after investment operations	**-355**	**-302**	**-169**	**-76**	**28**
Cash flow from financing operations	338	305	213	97	126
Cash flow for the year	**-17**	**3**	**44**	**21**	**154**
Liquid funds on January 1	124	110	106	137	152
Exchange rate differences in liquid funds	3	-7	-13	-6	13
Liquid funds at end of period	**110**	**106**	**137**	**152**	**319**

KEY FIGURES [1]		2001	2002	2003	2004	2005
Revenue indicator						
Net revenue growth	%	40%	-11%	-14%	-7%	-1%
Net revenue outside Sweden	%	79%	77%	75%	77%	79%
Net revenue per employee	SKr, '000	884	855	820	818	876
Expense and expenditure indicator						
Total research and development	SKr, million	550	410	269	256	183
of which, capitalized	SKr, million	249	223	173	153	121
Research & development expenditure/ net revenue	%	18%	15%	12%	12%	9%
Research & development expenditure/ license revenue	%	65%	58%	52%	57%	48%
Product development expenses/net revenue	%	-[2]	13%	12%	14%	10%
Administration expenses/net revenue	%	-[2]	14%	11%	11%	10%
Personnel expenses per employee	SKr, '000	609	581	533	523	535
Margin indicators						
Gross margin	%	-[2]	18%	21%	22%	24%
License margin	%	-[2]	8%	-12%	-15%	-13%
Maintenance & support margin	%	-[2]	46%	60%	61%	58%
Consulting margin	%	-[2]	13%	21%	22%	21%
Operating margin	%	-7%	-24%	-1%	-6%	5%
Profit margin	%	-12%	-28%	-6%	-9%	3%
Capital indicators						
Return on capital employed	%	neg.	neg.	neg.	neg.	13%
Return on stockholders' equity	%	neg.	neg.	neg.	neg.	9%
Equity/assets ratio	%	45%	19%	16%	26%	29%
Equity/assets ratio II	%	45%	19%	30%	37%	38%
Interest coverage ratio	times	neg.	neg.	neg.	neg.	2.1
Working capital	SKr, million	-30	-112	-137	-117	-57
Days of sales outstanding (DSO)	days	81	80	75	76	84
Liquidity indicators						
Net liquidity	times	-168	-448	-406	-16	-12
Debt/equity ratio	times	0.3	1.4	2.3	1.1	1.0
Net debt	SKr, million	272	526	634	363	294
Employees						
Average number of employees		3 443	3 181	2 846	2 661	2 453
Number of employees at the end of the period		3 216	3 144	2 684	2 583	2 600
Stock						
Average number of shares	million	57.2	71.7	71.9	99.8	219.4
Number of shars at the end of the period	million	70.5	71.8	73.1	205.7	223.8
Key data per share [4]						
Profit/loss	SKr	-6.54	-10.34	-2.17	-2.29	0.23
Stockholders' equity	SKr	17.63	6.18	4.50	2.37	2.75
Cash flow	SKr	-6.21	-4.21	-2.35	-0.76	0.13
Market price at end of accounting period	Skr	30.90	4.45	8.65	5.05	9.48
Market price/stockholders' equity	times	1.8	0.7	1.9	2.1	3.4
Net turnover	SKr	53.21	37.95	32.45	21.82	9.80
Market price/net turnover	times	0.6	0.1	0.3	0.2	1.0
Dividend	SKr	-	-	-	-	-

[1] For definitions of key ratios see page 78.

[2] Values not available.

[3] Data per share is reported regardless of the effect of the redemption of outstanding convertible debentures/bonds. In accordance with IAS 33, dilution is not estimated when it improves earnings. For information on outstanding convertible debentures/bonds, see note 39.

DEFINITIONS

Average number of shares: Average of the number of shares outstanding during the year.
Cash flow per share: Cash flow as a percentage of the average number of shares.
Consulting margin: Consulting revenue minus consulting expenses in relation to consulting revenue.
Days of Sales Outstanding (DSO): Average number of days of credit for receivables.
Debt/equity ratio: Interest-bearing provisions and liabilities, including convertible debentures/bonds, at year-end as a percentage of stockholders' equity.
Earnings per share: Net earnings as shown in the income statement as a percentage of the average number of shares.
Equity/assets ratio I: Stockholders' equity and minority interest at year-end as a percentage of total assets.
Equity/assets ratio II: Equity/assets ratio I including full conversion of the KV3B, KV4B, and KV5B convertible debenture and bond programs and full exercise of the offset issue.
Gross margin: Gross earnings as a percentage of net revenue.
Interest coverage ratio: Profit after net financial items plus interest expense as a percentage of interest expense.
License margin: Revenue from new licenses minus expenses, including sales and marketing expenses, related to license sales in relation to revenue from new licenses.
Maintenance and support margin: Maintenance and support revenue minus expenses related to maintenance and support in relation to maintenance and support revenue.
Market price: The share price has been established as a percentage of the number of outstanding Series B and Series A shares, respectively, and the share price of these shares at year-end.
Market price/net revenue per share: The market price per share as a percentage of net revenue per share.
Market price/stockholders' equity per share: The market price as a percentage of stockholders' equity per share.
Net debt: Interest-bearing provisions and liabilities, including convertible debentures/bonds, at year-end, less liquid funds.
Net liquidity: Liquid funds less interest-bearing liabilities to credit institutions at year-end.
Net revenue per share: Net revenue in relation to the average number of shares.
Operating margin: Operating profit related to net revenue.
Profit margin: Profit before tax and minority interest as a percentage of net revenue.
Return on capital employed: Profit after net financial items plus financial expenses as a percentage of average capital employed. Capital employed refers to total assets less non-interest-bearing liabilities and deferred tax liability.
Return on stockholders' equity: Net profit as shown in the income statement as a percentage of average stockholders' equity.
Stockholders' equity per share: Stockholders' equity, including minority interest, as a percentage of the number of outstanding shares at year-end.
Working capital: Accounts receivable and other current receivables, excluding liquid funds, less accounts payable and other short-term, non-interest-bearing liabilities.

GLOSSARY

Application: A program that helps a user deal with a specific task, e.g. purchasing, employee development or accounting.
Architecture: Architecture describes the manner in which the hardware, system software and applications software integrate to achieve a desired result.
Business Applications: A set of applications that covers all internal as well as external business processes a company is involved in.
Component-based Architecture: Refers to the design of any system composed of separate components that can be connected together. The benefit of component-based architecture is that you can replace or add any one component without affecting the rest of the system. The opposite of a component-based architecture is an integrated architecture, in which no clear divisions exist between components.
Enterprise Asset Management (EAM): A concept in the software industry to describe one or several applications designed to improve/optimize how a company utilizes its business processes and facilities. The designation is common in the asset-intensive industry.
Enterprise Resource Planning (ERP): A method of planning that originally comprised all internal business processes, such as financials, manufacturing and distribution, but which has been extended to cover a range of other functions from contact with suppliers to maintenance of delivered products.
Maintenance, Repair and Overhaul (MRO): A concept used in the software industry to describe software used in the maintenance of a company's equipment and facilities so as to maximize availability and efficiency.
Outsourcing: The procuring of services or products from an outside supplier or manufacturer
Platform: Component-based products or services require a platform that defines valid interfaces and common services to ensure maximum flexibility and configurability for the product/service without sacrificing economies of scale or recycling capabilities. This is necessary for managing internal dependencies and complexity in the product development of component-based products/services.
Utility: An organization of company that provides some form of infrastructure in a society, such as heating, electricity, or water.

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