

Q4

IFS

PRELIMINARY REPORT ON 2003 OPERATIONS

JANUARY – DECEMBER 2003

Fourth quarter 2003

- Increased license revenue and lower costs led to improved earnings. IFS reported an operating profit of SKr50m, compared with a loss of SKr441m in Q4, 2002. After net financial items, profit amounted to SKr18m, compared with a loss of SKr516m in Q4, 2002. Profit after tax amounted to SKr14m, compared with a loss of SKr563m in Q4, 2002. Profit per share after tax amounted to SKr0.19, compared with a loss of SKr7.84 in Q4, 2002.
- Net sales amounted to SKr655m, compared with SKr707m in the fourth quarter of 2002. License sales totaled SKr300m, up from SKr272m in Q4, 2002. Consulting revenue was SKr324m, compared with SKr401m in Q4, 2002. Order intake was good, with the order backlog increasing to SKr952m from SKr934m in Q4, 2002.
- Cash flow from current operations was SKr56m, compared with SKr16m in Q4, 2002. Cash flow after investments amounted to SKr-26m, compared with SKr-69m in Q4, 2002. Excluding one-time payment, investments in real estate, and wage settlements totaling SKr32m, cash flow was SKr6m.
- Operating expenses, excluding items affecting comparability totaling SKr-388m in 2002, were reduced by SKr163m to SKr663m, compared with SKr826m in Q4, 2002.

Full year 2003

- IFS reported an operating loss of SKr29m, compared with a loss of SKr641m for 2002. The loss after net financial items totaled SKr139m, compared with SKr760m for 2002. The loss after tax amounted to SKr151m, compared with SKr740m in 2002. The loss per share after tax was SKr2.10, compared with SKr10.32 in 2002.
- Net sales totaled SKr2,335m, compared with SKr2,721m for 2002. License sales amounted to SKr918m compared with SKr1,059m in 2002. Consulting revenue was SKr1,302m, compared with SKr1,543m in '02.
- Cash flow from current operations was SKr70m, compared with SKr-39m for 2002. Cash flow after investments amounted to SKr-169m, compared with SKr-302m for 2002. Excluding one-time payments, investments in real estate, and wage settlements of SKr128m, cash flow was SKr-41m.
- Operating expenses, excluding items affecting comparability totaling SKr-388m during 2002, were reduced by SKr668m to SKr2,545m, from SKr3,213m in 2002.

Group performance

During the fourth quarter, the market for business applications improved somewhat. IFS' license revenue increased by 10% to SKr300m, compared with SKr272m in the fourth quarter of 2002. In fixed currency terms, license revenue increased by 19%, or SKr50m. License sales for 2003 totaled SKr918m, compared with SKr1,059 in 2002. Exchange rate effects account for SKr75m of the decline.

The positive trend in order intake seen in the third quarter continued. The license order backlog amounted to SKr952m in the fourth quarter, compared with SKr934m for the same period in 2002, and SKr954m at the end of the third quarter of 2003. Exchange rates, divestments, and write-downs had a negative effect of SKr45m on the order backlog for the fourth quarter and SKr163m for 2003.

During the fourth quarter, 53 new customers signed agreements for the delivery of IFS Applications. A total of 10 agreements were valued in excess of US \$1m each. In 2003, 158 new customers were signed, and the number of agreements in excess of US \$1m totaled 32. The percentage of new sales generated by partners was relatively constant; 8% for the fourth quarter and 8% for the whole year.

The consulting margin continued to improve, reaching 22% in the fourth quarter, compared with 11% in the same period in 2002 and 14% in the third quarter of 2003, which in turn was up from 12% in the third quarter of 2002. Apart from seasonal fluctuations, most geographical markets improved their billing rate and utilization of consultants compared with the third quarter. The consulting margin for 2003 was 21%, compared with 13% in 2002.

Net revenue during 2003 amounted to SKr2,335m, compared with SKr2,721m in 2002. Exchange rate effects account for SKr180m of the difference compared with 2002, corresponding to 8% of net revenue.

Cost containment program

Operating expenses, excluding items affecting comparability totaling SKr-388m in 2002, decreased by SKr668m, of which exchange rate effects account for SKr198m or 8% of operating expenses. The actions initiated in December 2002 reduced costs by approximately SKr300m. Moreover, in addition to lower direct costs, further cost cuts of SKr100m were made in response to weak demand during the first three quarters of 2003.

The number of employees was reduced by 460 during 2003, and the total number of employees on December 31 was 2,684. IFS International Flight Service AB and operations in Indonesia were divested, with a capital loss of SKr7m on the sale of IFS Flight being charged to first-quarter earnings. The capital gain of SKr4m from the sale of IFS Indonesia improved second-quarter earnings. In December, IFS divested its Czech subsidiary, Elanor, with 46 employees providing outsourced payroll services. The sale resulted in a capital loss of SKr5m.

The cost containment program has now been fully implemented and will achieve full effect during 2004, with break-even at approximately SKr2,400m. Operating expenses are expected to be below SKr2,450m, compared with SKr2,545m during 2003.

During the fourth quarter of 2002, provisions of SKr132m were made for restructuring costs. Of these, SKr108m were used in 2003. The remaining restructuring reserve of SKr24m refers to rental costs for premises that will not be utilized between 2004 and 2007. The effect of the program on cash flow was not fully realized during 2003, due to one-time payments and severance pay.

The market

The positive market trend that began in the third quarter continued into the fourth. The total volume of license revenue in the industry appears to have increased somewhat compared with the corresponding period in 2002. However, initial levels were low and were buoyed up by maintenance revenue from existing customers rather than sales of new licenses.

The ongoing consolidation in the industry is making it difficult to assess market trends. U.S. companies have acquired or merged businesses with large customer bases to form large "ERP conglomerates" with parallel, sometimes competing, product lines. Often, such conglomerates are created to reduce the cost of R&D, marketing, and sales to new customers, and to target sales to the acquired customer bases instead. Consequently, fewer companies are competing for sales to new customers. This has given IFS an increased competitive edge in several of its selected market segments. IFS believes that consolidation will continue, creating space that will enable companies like IFS, which focus on R&D and new sales, to grow at a faster rate than the market as a whole. Industry analysts are generally unanimous in forecasting growth of more than 5% in the market for license sales in 2004.

Product development

The development of IFS Applications 2004 was completed in the fourth quarter. The latest version, already installed at customer sites, has been positively received. Business analysts such as Gartner Group, Meta Group and ARC rate IFS Applications highly. Moreover, a recently published report from the U.S. analysts, AMR Research, awarded IFS the highest overall score for functionality covering the maintenance and service requirements of the aviation and defense industry.

The component architecture has been enhanced. A J2EE interface, IFS Service Oriented Component Architecture, makes it easier to integrate IFS components with other external and internal systems.

An increasing amount of R&D is being located in Sri Lanka, where IFS now has approximately 300 employees. This has reduced the Group's R&D expenditures by 21% for 2003 while hardly affecting capacity. In 2003, 64% of product development expenditures was capitalized. Capitalization amounted to SKr173m, and amortization totaled SKr176m, of which SKr152m is attributable to amortization of capitalized development expenses.

Financing and cash flow

Cash flow from current operations was strengthened during 2003. Days of Sales Outstanding (DSO) based on invoicing for 12 months rolling was 75 days at the end of the year, 5 days less than in 2002. Cash flow during the year was charged with restructuring costs, real/estate investments in Sri Lanka and non-recurring items amounting to SKr128m. Divestment of non-core operations is expected to improve cash flow over the coming quarters. Investments in machinery and equipment during the year amounted to SKr50m, compared with SKr58m during 2002. A convertible debenture loan of SKr200m, net, was issued, the proceeds of which accrued to IFS in February 2003. The convertible debenture is listed on the Stockholm Stock Exchange. As of December 31, 2003, liquid assets amounted to SKr137m, compared with SKr106m for 2002. The Group also had access to unutilized lines of credit amounting to SKr158m, compared with SKr35m in 2002.

Parent company

The parent company reported net revenue of SKr15m for 2003, compared with SKr54m in 2002, with a loss after net financial items of SKr384m, compared with a loss of SKr1,243m for 2002. Earnings were charged with a capital contribution of SKr154m to subsidiaries, a write-down of shares in subsidiaries of SKr148m, and SKr19m in write-downs of receivables from subsidiaries. Investments in machinery and equipment amounted to SKr0m, compared with SKr20m in 2002. On December 31, parent company liquid funds, including unutilized lines of credit, amounted to SKr82m, compared with SKr16m at year-end 2002.

Events occurring after the end of the report period

IFS has entered into a partnership with ErgoGroup (Norway). Within the framework of this cooperation, ErgoGroup has acquired the operations of AtIFS, which delivers application provider services based on IFS Applications. The operations of AtIFS will become part of ErgoIntegration, a subsidiary of ErgoGroup that focuses entirely on infrastructure and operational services. This acquisition of the assets and liabilities of AtIFS will be finalized during the first quarter of 2004. IFS will receive Nkr42m on March 1, 2004, when ErgoIntegration formally acquires the business. Additional payments will be made between 2005 and 2007; these will amount to a maximum of Nkr13m altogether, based on how the business develops. The capital gain—excluding the additional payments—will be recognized as income during the first quarter of 2004 and is expected to amount to approximately SKr37m.

Förvaltnings AB Wasatornet converted the debenture IFS KV3B, valued at a nominal value of SKr50m to Series B shares in January, 2004, increasing its ownership of IFS to 22.3% of the voting rights and 15.3% of the capital.

Outlook

IFS believes that the market for business applications will pick up during 2004 and that IFS' revenue will increase at the same rate as the market. Earnings and cash flow are expected to continue to improve as a result of the good order intake during the second half of 2003, lower costs, and a focus on selected market segments.

Linköping February 3, 2004

Michael Hallén – President and Chief Executive Officer

DEVELOPMENT BY REGION

In the Nordic region, profitability continued to improve during the fourth quarter as a result of lower costs. Margins were good thanks to a high level of efficiency, better utilization of consultants, and a high billing rate in the consulting organization. The foundation for the good margins is the customer base that provides stability in the form of add-on sales and upgrades, and increasing maintenance fees.

EMEA consists of continental Europe—excluding Eastern Europe—the British Isles, the Middle East, and Africa. The consulting margin continued to be good in most markets, with an increase in order intake and number of prospects. The biggest improvements in profitability occurred in Germany and the Benelux countries as a result of streamlining and restructuring the sales and consulting organizations. Competitiveness has increased. This resulted, among other things, in an order from the Swiss corporation Franke, one of IFS' biggest contracts ever. IFS operations in Italy and Spain improved their earnings in the fourth quarter, but profitability in Southern Europe was generally unsatisfactory. Actions to rectify this situation continue.

License sales in North America increased substantially during the fourth quarter compared with the corresponding period in 2002; in fixed currency terms, by 71%. Consulting revenue fell as a result of reducing the number of consultants and write-downs in consulting projects. Actions to reduce operating expenses in the third quarter began to produce effects during the fourth. However, the total cost level did not decrease as expected during the fourth quarter because of bad debts and one-time costs. As of the first quarter of 2004, the actions are expected to produce full effect. During the fourth quarter, contracts were signed with 10 new customers, the biggest of which was the agreement with the Toronto Transit Commission, valued in excess of US \$5m. IFS retains its strategy of maintaining a strong presence in the U.S.A.

Growth markets represent the regions where the biggest growth in IFS sales is expected. They include Asia, Australia, Japan, Latin America, and Eastern Europe. Order intake was good, particularly in Asia. License sales in Eastern Europe did not reach expected levels. All geographic regions apart from Latin America reported improved earnings. IFS intensified its focus on Russia, where a major contract was signed with the operator of the national grid. The joint venture company in PR China, IFS-UFSOft, successfully completed the implementation of its project with the Three Gorges Power Plant, the largest hydropower plant in the world.

January–December (SKr m)	Nordic		EMEA		North America		Growth markets		Group and eliminations		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	License revenue	311	328	262	255	179	258	160	214	6	4	918
Consulting revenue	582	603	320	380	256	377	139	171	5	12	1 302	1 543
Other revenue	68	47	4	11	6	15	30	29	7	17	115	119
Total external revenue	961	978	586	646	441	650	329	414	18	33	2 335	2 721
Internal revenue	38	59	32	46	23	19	13	30	-106	-154	0	0
Total revenue	999	1 037	618	692	464	669	342	444	-88	-121	2 335	2 721
Operating profit/loss	264	196	108	3	0	19	33	25	-434	-496	-29	-253
Number of employees, average	782	843	479	582	356	405	565	644	664	707	2 846	3 181

The operating loss has been adjusted for items affecting comparability amounting to SKr388 that were incurred in the fourth quarter of 2002.

Accounting principles

This interim report has been established in conformity with Recommendation RR 20, Interim Reports, of the Swedish Financial Accounting Standards Council. As of January 1, 2003, IFS applies the following new recommendations of the Swedish Financial Accounting Standards Council: RR 2:02, Inventory; RR 22 Drawing up of Financial Reports; RR 25, Accounting of Segments, Business Areas and Geographical Areas; RR 26, Events Occurring after the End of the Report Period; RR 27, Information Concerning, and Classification of, Financial Instruments; and RR 28, Government Subsidies. The application of these principles has not entailed any significant effect on IFS' accounting.

In 2004, IFS' accounting procedures will be affected by new recommendations from the Swedish Financial Accounting Standards Council. The greatest affect on accounting for 2004 is the introduction of recommendation RR 29 (Remuneration of Employees). The introduction of RR 29 as of January 2004 is expected to entail an increase of SKr30m in provisions for pensions, which reduces shareholders' capital correspondingly.

This interim report is unaudited.

ORDER BACKLOG (SKr m)December
2003 December
2002

Order backlog by the end of the period	952	934
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INCOME STATEMENT (SKr m)Oct-Dec
2003 Oct-Dec
2002 Jan-Dec
2003 Jan-Dec
2002

License revenue	300	272	918	1 059
Consulting revenue	324	401	1 302	1 543
Other revenue	31	34	115	119
Net sales	655	707	2 335	2 721
Capitalized work for own use	55	56	173	223
Other operating income	3	10	8	16
Total operating income	713	773	2 516	2 960
External costs	227	311	776	1 082
Personnel costs	370	441	1 517	1 844
Depreciation	60	72	253	280
Items affecting comparability	4	388	-6	388
Other operating expenses	2	2	5	7
Total operating expenses	663	1 214	2 545	3 601
Operating profit/loss	50	-441	-29	-641
Financial items, net	-32	-75	-110	-119
Profit/loss after financial items	18	-516	-139	-760
Tax on profit/loss for the period	-4	-45	-17	19
Minority interest	0	-2	5	1
Profit/loss for the period	14	-563	-151	-740

Key ratios per share (SKr)

Profit/loss after tax	0.19	-7.84	-2.10	-10.32
Shareholders' equity	4.50	6.18	4.50	6.18
Profit/loss after tax, after full dilution *	0.11	-7.84	-1.24	-10.32
Shareholders' equity, after full dilution *	5.02	6.18	5.04	6.19

Number of shares (thousands)

At the end of the accounting period	73 059	71 821	73 059	71 821
Average for the period	72 283	71 821	71 942	71 696
Average for the period, after full dilution *	122 220	71 821	121 879	71 696

* Including implemented offset share issue in respect of IFS' liability to Förvaltnings AB Wasatornet (SKr16/share).

INCOME STATEMENT BY FUNCTION (SKr m)Oct-Dec
2003 Oct-Dec
2002 Jan-Dec
2003 Jan-Dec
2002

License revenue	300	272	918	1 059
Consulting revenue	324	401	1 302	1 543
Other revenue	31	34	115	119
Net sales	655	707	2 335	2 721
Costs of licenses and support	75	92	264	307
Costs of consulting	252	355	1 031	1 338
Other costs	24	30	83	93
Total direct costs	351	477	1 378	1 738
Gross profit/loss	304	230	957	983
Costs of sales and marketing	120	120	472	525
Costs of research and development	72	81	272	346
Costs of administration	59	90	251	374
Items affecting comparability	4	388	-6	388
Other operating items, net	-1	-8	-3	-9
Total indirect costs	254	671	986	1 624
Operating profit/loss	50	-441	-29	-641

BALANCE SHEET (SKr m)

Dec 31, 03 Dec 31, 02

ASSETS		
Capitalized development costs	596	566
Goodwill	215	285
Other intangible fixed assets	43	61
Total intangible fixed assets	854	912
Tangible fixed assets	146	191
Other financial fixed assets	153	151
Total fixed assets	1 153	1 254
Inventories	4	2
Accounts receivable	599	741
Other current receivables	94	66
Prepaid expenses and accrued income	89	130
Total current receivables	782	937
Short-term investments	0	0
Cash and bank	137	106
Total current assets	923	1 045
Total assets	2 076	2 299

License revenue (SKr m)

Jan-Dec 2003 Jan-Dec 2002

License fees	463	644
Maintenance fees	375	325
Third-party license and maintenance fees	80	90
Total	918	1059

Reimbursement to related company

During the year, IFS assumed the claim concerning SKr3m owed to IFS International Flight Service by Greenfield AB. Greenfield is 90% owned by Bengt Nilsson deputy executive chairman (formerly president and CEO) of IFS, and 10% owned by Jan Moodh, COO of IFS.

Current liabilities to credit institutions include interest-bearing liabilities to Förvaltnings AB Wasatornet of SKr84m. The current rate of interest is 5.25%. Förvaltnings AB Wasatornet has underwritten credit facilities of SKr127m. The underwriter's fee is 2.5%. Interest expenses and financial reimbursements amount to SKr11m.

STOCKHOLDERS' EQUITY AND LIABILITIES

Dec 31, 03 Dec 31, 02

Stockholders' equity	315	428
Minority interest	14	16
Restructuring reserve	24	132
Other provisions	18	20
Total provisions	42	152
Convertible debenture loan	220	69
Long-term liabilities to credit institutions	216	226
Other long-term liabilities	18	27
Total long-term liabilities	454	322
Accounts payable	163	211
Current liabilities to credit institutions	328	329
Other current liabilities	175	233
Accrued expenses and deferred income	585	608
Total current liabilities	1 251	1 381
Total stockholders' equity and liabilities	2 076	2 299

Stockholders' equity (SKr m)

Dec 31, 03 Dec 31, 02

Opening balance according to the adopted balance sheet	428	1 575
Effect of change in accounting principles	-	-355
Opening balance adjusted according to the new accounting principles	428	1 220
Profit/loss for the period	-151	-740
Convertible debenture, warrant component	64	-
New capital issue	7	27
Translation differences, etc.	-33	-79
Closing balance	315	428

Accrued expenses and deferred income (SKr m)

Dec 31, 03 Dec 31, 02

Deferred license revenue	3	12
Deferred maintenance revenue	214	226
Accrued payroll expenses, including social security fees	241	241
Other accrued expenses & deferred income	127	129
Total	585	608

Pledged assets and contingent liabilities (SKr m)

Dec 31, 03 Dec 31, 02

Accounts receivable (factoring)	122	159
Chattel mortgages	139	142
Shares in subsidiaries	531	132
Other pledged assets	112	88
Contingent liabilities	5	4
Total	909	525

CASH FLOW STATEMENT (SKr m)

	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002
Cash flow from current operations before changes in working capital	95	-51	72	-57
Changes in working capital	-39	67	-2	18
Cash flow from current operations	56	16	70	-39
Cash flow from investment operations	-82	-85	-239	-263
Cash flow after investment operations	-26	-69	-169	-302
Cash flow from financing operations	56	65	213	305
Cash flow for the period	30	-4	44	3
Liquid funds by the beginning of the period	110	109	106	110
Exchange rate difference in liquid funds	-3	1	-13	-7
Liquid funds by the end of the period	137	106	137	106

KEY RATIOS

	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002
Change in license revenue	10%	0%	-13%	-14%
License margin	75%	66%	71%	71%
Change in consulting revenue	-19%	-13%	-16%	-7%
Consulting margin	22%	11%	21%	13%
Change in net sales	-7%	-10%	-14%	-11%
Gross margin	46%	33%	41%	36%
Research and development expenses/net sales	13%	13%	12%	15%
Costs of research and development/net sales	11%	11%	12%	13%
Research and development expenses/license revenue	28%	35%	29%	39%
Costs of research and development/license revenue	24%	30%	30%	33%
Costs of marketing/license revenue	40%	44%	51%	50%
Costs of administration/net sales	9%	13%	11%	14%
Net sales per employee (SKr thousands)	241	225	820	855
External costs per employee (SKr thousands)	83	99	273	340
Costs of personnel per employee (SKr thousands)	136	140	533	581
Days sales outstanding (DSO)	75	80	75	80
Equity/assets ratio 1 *	16%	19%	16%	19%
Equity/assets ratio 2 *	30%	19%	30%	19%
Number of employees by the end of the period	2 684	3 144	2 684	3 144
Average number of employees	2 719	3 144	2 846	3 181

* Equity/assets ratio 1: Stockholders' equity, including minority interests, on December 31 in relation to total assets.

* Equity/assets ratio 2: Equity/assets ratio 1 including full conversion of the convertible debenture loan KV3B (SKr215m) and fully implemented offset share issue (SKr69m).

FINANCIAL TREND (SKr m)

	Oct-Dec 2003	July-Sept 2003	Apr-June 2003	Jan-Mar 2003	Oct-Dec 2002	July-Sep 2002	Apr-June 2002	Jan-Mar 2002
License revenue	300	191	212	216	272	216	267	304
Consulting revenue	324	272	351	355	401	340	387	415
Other revenue	31	29	31	23	34	29	31	25
Net sales	655	492	594	594	707	585	685	744
Capitalized work for own use	55	37	38	43	56	49	60	58
Other operating income	3	1	1	3	10	2	2	1
Total operating income	713	530	633	640	773	636	747	803
External costs	227	184	179	186	311	219	271	281
Personnel costs	370	340	389	418	441	419	483	500
Depreciation	60	62	64	67	72	70	68	70
Items affecting comparability	4	-2	-15	7	388	-	-	-
Other operating expenses	2	1	1	1	2	2	-2	4
Total operating expenses	663	585	618	679	1 214	710	820	855
Operating profit/loss	50	-55	15	-39	-441	-74	-73	-52
Financial items, net	-32	-29	-27	-22	-75	-15	-14	-16
Profit/loss after financial items	18	-84	-12	-61	-516	-89	-87	-68
Order backlog by the end of the period	952	954	853	904	934	924	1 013	1 068

Financial information 2004

Annual report	March 9
Annual general meeting	April 21
Quarterly report January–March	April 27

For additional information, please contact

Michael Hallén, President & CEO

Tel: 031-726 30 00, e-mail: michael.hallen@ifsworld.com

Jan Eric Johansson, Chief Financial Officer

Tel: 013-460 40 00, e-mail: jan-eric.johansson@ifsworld.com

Manni Svensson, Media & Investor Relations

Tel: 08-587 845 00, e-mail: manni.svensson@ifsworld.com

Industrial and Financial Systems, IFS AB (publ.)

Corporate identity number 556122-0996

Head Office

Teknikringen 5, SE-583 30 Linköping, Sweden

About IFS and IFS Applications

IFS develops and supplies component-based business applications for medium and large enterprises and organizations. IFS Applications, which can be implemented step by step, is based on web and portal technology. The solution offers 60+ enterprise application components used in manufacturing, supply chain management, customer relationship management, service provision, financials, product development, maintenance and human resource administration. IFS offers customers an easier, more open alternative. IFS is a leading global business applications supplier with sales in 45 countries and more than 350,000 users worldwide. The company is listed on the Stockholm Stock Exchange (XSSE: IFS).

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