

# Half year report from IBS

January – June 1999

- Pre-tax profits increased by 63% to SEK 67m
- Revenue grew by 38% to SEK 1.2bn
- Strong demand for systems linked to Internet and Supply Chain Management
- New product version with a Javabased user interface completed
- Cash flow positive, and the IBS Group's financial position is strengthened

(The currency used in this report is the Swedish krona)

16 July, 1999



# Revenue grew by 38% and pre-tax profits by 63%

## The market

Following the strong increase in software revenue during the first half of last year, amounting to 42%, revenue for the equivalent period this year has increased by a further 8%. At the same time, pre-tax profits have grown by 63% during the first half of 1999, mainly due to a substantial increase in professional services revenue and margin. This increase has compensated the slower growth of software revenue, which proves the strength and stability of IBS' business concept, with integrated software, services and hardware.

Demand for new business software licences was limited during the second quarter, due to the millennium issue. However, the market has shown considerable interest in IBS' integrated Internet solutions. Internet projects have, for example, been started for the Expert group, the Swedish Association of Property Owners and Mitsubishi Motors.

DAC-Data A/S in Denmark, with some 100 employees, was consolidated per 1 May. An Italian subsidiary has been established in Milano, in co-operation with a local business partner.

During the first six months, revenue grew by 38%, mainly stemming from Middle and Southern Europe. Countries such as the USA and the UK, where our units traditionally have a larger share of software revenue, have shown a slower development, due to the temporarily slower market caused by the millennium issue. 32% of the first six month's revenue increase come from organic growth, and 2% from 1999 acquisitions. Exchange rates calculated in Swedish krona increase revenue by 2%. On 30 June, the number of employees was 2,201, an increase of 177 persons over the last three months.

## Software

Development of the new Release 4 version of IBS' business software, ASW, was completed according to plan at the end of June. After national modifications and translation, Release 4 will be launched this autumn. The focus of development has been on extended functionality within distribution, supply chain management and Internet-based commerce. In addition, all client software has been re-written in the new Java language. Our long-term project for developing the next generation of software, called California, has been further promoted by IBM's decision to incorporate IBS' chosen platform, SanFrancisco, as a strategic element in IBM's new development architecture, WebSphere. IBS' California software will be launched during 2000, while the present software, ASW, will continue to be sold for many years to come.

## Results

Compared to the first half of 1998, pre-tax profits increased by 63%, from 41m to 67m, whereof the Swedish operations contributed 35m (21m), the rest of Europe 53m (32m), the rest of the world -1m (13m) and Headquarters, including elimination of Group transactions, -20m (-25m).

The result has been charged with goodwill depreciation to a sum of 7m (2m), mainly due to the acquisition of Consist. Only a small portion of the 32m millennium reserve has been released as yet. At present, we estimate that the reserve will more than cover Group costs regarding the millennium issue. The positive development of gross margins for professional services continues. According to plan, the period has been charged with steeply rising costs for product development (+87%) due to the parallel efforts put into both final testing of the current product and the long-term development of a whole new product generation.

## Financial position

During the period, Group investment in machinery and equipment amounted to 38m (20m). An agreement has been signed with Den Danske Bank for a credit facility totalling 270m, to replace a previous facility of 120m. Cash and liquid assets per 30 June amounted to 264m (118m). In addition, the Group has unused credit facilities amounting to 220m (90m). The current assets to current liabilities ratio is 147% (135%). Group equity amounted to 491m (301m) and adjusted equity covered 39% (38%) of total assets.

## Future prospects

Due to the millennium issue, the market for new sales of business systems during the second half of the year is not expected to be as strong as during a normal year. Despite this, our previous forecasts for a continued positive development for IBS' 1999 revenue and profits remain unchanged. This means that IBS' targets for growth (+35%) and margins (5-8%) are expected to be met or exceeded, whereby IBS would increase its market share. Most market observers agree that the year 2000 will bring generally growing demand for new business systems, especially with integrated support for Internet as well as supply chain management – a market situation that IBS is well prepared to exploit.

## Financial information

- An interim report is due on 18 October, 1999.
- The year end report is scheduled for 24 January, 2000.

Solna, 16 July, 1999

Staffan Ahlberg

GROUP MANAGING DIRECTOR

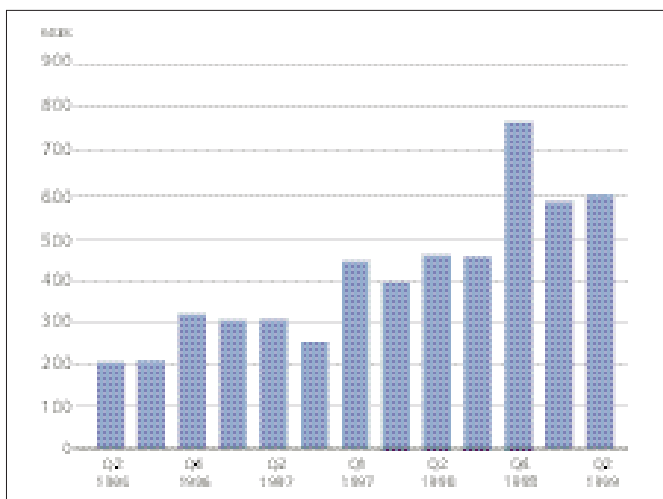
*Questions concerning this report should be directed to Group MD Staffan Ahlberg, tel +46-8-627 2420, [staffan.ahlberg@ibs.se](mailto:staffan.ahlberg@ibs.se) or Christina Wågström, Head of Investor Relations, tel +46-8-627 2460, [christina.wagstrom@ibs.se](mailto:christina.wagstrom@ibs.se)*

*This interim report has not been audited.*

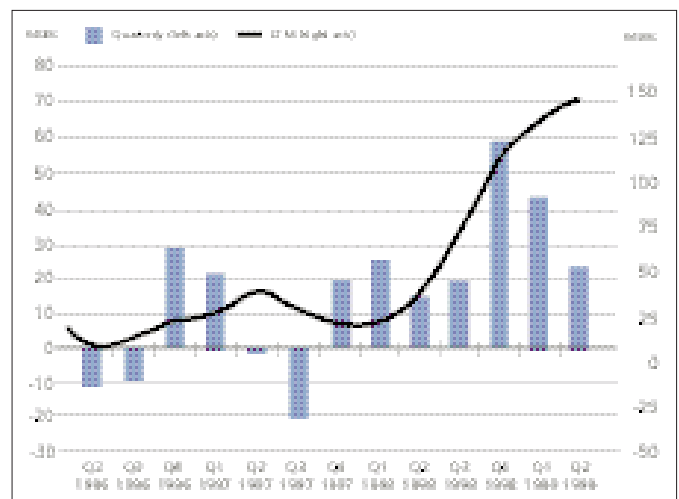
# Consolidated Statements of Income

(MSEK)	1999 Apr-June	1998 Apr-June	99/98 Change	1999 Jan-June	1998 Jan-June	99/98 Change	Last 12 months	1998 Full year
<i>Revenue</i>								
Software licences	89.1	102.8	-13%	197.7	182.5	8%	445.2	430.0
Professional services	386.2	261.0	48%	743.6	498.8	49%	1,362.9	1,118.1
Hardware and other revenue	124.7	96.0	30%	236.7	174.7	35%	596.9	534.9
<b>Total revenue</b>	<b>600.0</b>	<b>459.8</b>	<b>30%</b>	<b>1,178.0</b>	<b>856.0</b>	<b>38%</b>	<b>2,405.0</b>	<b>2,083.0</b>
<i>Cost of revenue</i>								
Software licences	-7.7	-7.0	10%	-19.2	-20.2	-5%	-38.4	-39.4
Professional services	-278.6	-213.6	30%	-542.0	-397.7	36%	-1,044.8	-900.5
Hardware and other costs	-100.3	-69.7	44%	-184.7	-124.4	48%	-457.7	-397.4
<b>Total cost of revenue</b>	<b>-386.6</b>	<b>-290.3</b>	<b>33%</b>	<b>-745.9</b>	<b>-542.3</b>	<b>38%</b>	<b>-1,540.9</b>	<b>-1,337.3</b>
<b>Gross profit</b>	<b>213.4</b>	<b>169.5</b>	<b>26%</b>	<b>432.1</b>	<b>313.7</b>	<b>38%</b>	<b>864.1</b>	<b>745.7</b>
<i>Operating costs</i>								
Product development costs	-44.7	-23.4	91%	-85.5	-45.7	87%	-160.8	-121.0
Sales and marketing costs	-72.9	-70.8	3%	-143.5	-121.0	19%	-299.3	-276.8
General and administrative costs	-70.3	-59.2	19%	-135.3	-103.7	30%	-255.6	-224.0
<b>Total operating costs</b>	<b>-187.9</b>	<b>-153.4</b>	<b>23%</b>	<b>-364.3</b>	<b>-270.4</b>	<b>35%</b>	<b>-715.7</b>	<b>-621.8</b>
<b>Operating income</b>	<b>25.5</b>	<b>16.1</b>	<b>58%</b>	<b>67.8</b>	<b>43.3</b>	<b>57%</b>	<b>148.4</b>	<b>123.9</b>
<i>Financial items</i>								
Interest revenue	1.4	1.0	40%	3.2	1.6	100%	6.6	5.0
Interest costs	-3.5	-2.2	59%	-7.2	-4.2	71%	-13.2	-10.2
Miscellaneous revenue (costs)	0.2	0.1	100%	2.7	0.0	-	3.8	1.1
<b>Income after financial items</b>	<b>23.6</b>	<b>15.0</b>	<b>57%</b>	<b>66.5</b>	<b>40.7</b>	<b>63%</b>	<b>145.6</b>	<b>119.8</b>
Income taxes	-13.7	-8.4	63%	-23.7	-11.2	112%	-58.4	-45.9
Minority interest, net	-3.3	-0.5	560%	-5.8	-1.0	480%	-10.5	-5.7
<b>Net income</b>	<b>6.6</b>	<b>6.1</b>	<b>8%</b>	<b>37.0</b>	<b>28.5</b>	<b>30%</b>	<b>76.7</b>	<b>68.2</b>
Net income per share (SEK)	0.45	0.44	2%	2.50	2.05	22%	5.23	4.83
Net income per share after partial dilution (SEK)	0.45	0.44	2%	2.47	2.05	20%	5.19	4.81
<b>Data used in net income per share calculation</b>								
Average number of shares (k)	14,823	13,867	7%	14,823	13,867	7%	14,664	14,106
Average number of shares after partial dilution (k)	15,323	14,367	7%	15,323	14,367	7%	15,164	14,606

REVENUE PER QUARTER



QUARTERLY AND LTM PRE-TAX PROFITS



# Consolidated Balance Sheets

(MSEK)	1999 June 30	1998 June 30	1998 Dec 31		1999 June 30	1998 June 30	1998 Dec 31
<b>ASSETS</b>				<b>EQUITY AND LIABILITIES</b>			
NON-CURRENT ASSETS				EQUITY			
<i>Intangible assets</i>				<i>Restricted equity</i>			
Capitalised software development costs	26.7	22.1	20.3	Share capital	14.8	13.9	14.8
Goodwill	214.8	38.3	182.9	Restricted reserves	320.1	214.2	321.3
	<b>241.5</b>	<b>60.4</b>	<b>203.2</b>		<b>334.9</b>	<b>228.1</b>	<b>336.1</b>
<i>Tangible assets</i>				<i>Unrestricted equity</i>			
Equipment	103.2	71.7	99.9	Free reserves	119.5	44.2	62.9
Financial leasing contracts	47.3	54.9	43.8	Net income	37.0	28.5	68.2
	<b>150.5</b>	<b>126.6</b>	<b>143.7</b>	<b>Total equity</b>	<b>491.4</b>	<b>300.8</b>	<b>467.2</b>
<i>Financial assets</i>				MINORITY INTERESTS	<b>14.1</b>	<b>6.2</b>	<b>11.8</b>
Investments in and adv. to assoc. comp.	0.1	0.1	0.1	PROVISIONS			
Other long-term receivables	13.4	7.2	17.5	Deferred income taxes	0.0	0.2	0.0
	<b>13.5</b>	<b>7.3</b>	<b>17.6</b>	Millennium reserve	32.0	-	32.2
<b>Total non-current assets</b>	<b>405.5</b>	<b>194.3</b>	<b>364.5</b>		<b>32.0</b>	<b>0.2</b>	<b>32.2</b>
CURRENT ASSETS				LIABILITIES			
<i>Inventories</i>	<b>1.0</b>	<b>10.4</b>	<b>2.2</b>	<i>Long-term liabilities</i>			
<i>Current receivables</i>				Long-term borrowings	133.5	43.9	31.9
Accounts receivable	479.5	359.7	610.1	Other long-term liabilities	18.9	10.1	20.2
Income tax receivable	18.4	14.3	22.1		<b>152.4</b>	<b>54.0</b>	<b>52.1</b>
Other receivables	23.9	26.5	24.4	<i>Current liabilities</i>			
Prepaid expenses and accrued revenue	103.5	89.0	80.3	Short-term borrowings	88.9	57.2	144.7
	<b>625.3</b>	<b>489.5</b>	<b>736.9</b>	Accounts payable	114.6	87.6	154.0
<i>Cash and short-term investments</i>	<b>263.9</b>	<b>118.4</b>	<b>212.8</b>	Income taxes payable	17.8	1.0	23.1
<b>Total current assets</b>	<b>890.2</b>	<b>618.3</b>	<b>951.9</b>	Other short-term liabilities	87.9	64.3	127.5
<b>TOTAL ASSETS</b>	<b>1,295.7</b>	<b>812.6</b>	<b>1,316.4</b>	Accrued expenses and prepaid revenue	296.6	241.3	303.8
				<b>Total liabilities</b>	<b>605.8</b>	<b>451.4</b>	<b>753.1</b>
				<b>TOTAL EQUITY AND LIABILITIES</b>	<b>758.2</b>	<b>505.4</b>	<b>805.2</b>
					<b>1,295.7</b>	<b>812.6</b>	<b>1,316.4</b>

## Cash Flow Analysis

(MSEK)	1999 June 30	1998 June 30	1998 Full year
Net income	37.0	28.5	68.2
Depreciations	43.8	32.3	75.9
Change in working capital	21.3	20.5	-4.5
<b>Cash flow before investments</b>	<b>102.1</b>	<b>81.3</b>	<b>139.6</b>
Investment in acquisitions, net	-31.9	0.0	-155.4
Other investments, net	-52.9	-35.6	-94.1
<b>Cash flow after investments</b>	<b>17.3</b>	<b>45.7</b>	<b>-109.9</b>
Loans, interest bearing	45.8	1.2	76.7
New share issues	1.5	0.0	111.5
Other long-term liabilities	-13.5	-3.6	59.4
<b>Change in liquid funds</b>	<b>51.1</b>	<b>43.3</b>	<b>137.7</b>

## Key figures

	1999 Jan- June	1998 Jan- June	1997 Jan- June	Last 12 months	1998 Full year
Revenue (m)	1,178	856	610	2,405	2,083
Average no. of employees	2,071	1,525	1,260	1,931	1,658
Income after fin. items (m)	66.5	40.7	20.4	145.6	119.8
Operating margin %	5.8	5.1	3.9	6.2	6.0
Return on total capital %	6	6	4	15	13
Return on capital employed %	11	11	8	28	25
Return on shareh. capital %	8	10	8	20	23
Capital turnover ratio	-	-	-	2.3	2.0
Liquidity %	147	135	162	147	126
Ratio of risk capital %	41	38	48	41	39
Solidity %	39	38	46	39	36
Profit per share after tax	2.50	2.05	1.11	5.23	4.83
Profit per share after tax after partial dilution	2.47	2.05	-	5.19	4.81
Adjusted equity (m)	494	301	275	494	469
Adjusted equity/share	33.33	21.69	19.84	33.33	31.66
Average no. of shares (k)	14,823	13,867	11,571	14,664	14,106
Average no. of shares after partial dilution (k)	15,323	14,367	-	15,164	14,606
Total no. of shares (k)	14,823	13,867	13,867	14,823	14,823
Total no. of warrants (k)	1,500	500	-	1,500	1,500
Pro forma interest after tax on share capital for subscribed warrants (m)	1.0	1.0	-	2.0	2.0

## Analysis of 2<sup>nd</sup> quarter (accumulated values)

### ANALYSIS OF REVENUE GROWTH BETWEEN THE YEARS

%	1999/98	1998/97	1997/96
Volume growth (average number of employees)	32%	22%	23%
Price/efficiency increase	2%	8%	11%
Acquisition during the year	2%	0%	1%
<b>Growth rate generated internally</b>	<b>36%</b>	<b>30%</b>	<b>35%</b>
Effect of exchange rate differences	2%	0%	4%
Changed IBM invoicing	-	10%	-
<b>Total growth rate (SEK)</b>	<b>38%</b>	<b>40%</b>	<b>39%</b>

### DIRECT COSTS FOR SOLD GOODS AND SERVICES, EXPRESSED AS A PERCENTAGE OF TOTAL REVENUE

%	1999	1998	1997
Software licences	2%	2%	3%
Professional services	46%	46%	53%
Hardware and other costs	15%	15%	6%
<b>Total</b>	<b>63%</b>	<b>63%</b>	<b>62%</b>

### OPERATING COSTS, EXPRESSED AS A PERCENTAGE OF TOTAL REVENUE

%	1999	1998	1997
Product development costs	7%	5%	7%
Sales and marketing costs	12%	14%	14%
General and administrative costs	11%	12%	13%
<b>Total</b>	<b>31%</b>	<b>32%</b>	<b>34%</b>

### INCOME AFTER FINANCIAL ITEMS PER AREA

(MSEK)	1999	1998	1997
Sweden	35	21	-6
Europe outside Sweden	53	32	22
Rest of the world	-1	13	-4
Parent Company including Group adjustments	-20	-25	8
<b>Total</b>	<b>67</b>	<b>41</b>	<b>20</b>

### Revenue

### Number of employees

### GROSS MARGIN PER TYPE OF REVENUE

%	1999	1998	1997
Software licences	90%	89%	87%
Professional services	27%	20%	19%
Hardware and other sales	22%	29%	55%
<b>Total</b>	<b>37%</b>	<b>37%</b>	<b>38%</b>

### GROSS PROFIT PER TYPE OF REVENUE

(MSEK)	1999	1998	1997
Software licences	178	162	111
Professional services	202	101	74
Hardware and other sales	52	51	47
<b>Total</b>	<b>432</b>	<b>314</b>	<b>232</b>

Country	1999 Jan-June	1998 Jan-June	99/98 %	1998 Full year	1999 June 30	1998 June 30	99/98 %	1998 Dec 31
(MSEK)								
Sweden	361	342	6	734	544	532	2	516
Belgium	155	100	55	286	197	149	32	190
France	153	105	46	247	197	152	30	171
Holland (5 mos. 1998)	109	-	-	122	176	-	-	179
USA	94	97	-3	205	209	129	62	167
Denmark	86	44	95	107	183	69	165	75
UK	77	67	15	151	152	118	29	135
Finland	67	49	37	108	136	108	26	120
Portugal	48	25	92	74	161	114	41	116
Norway	25	20	25	45	34	34	0	33
Germany	24	18	33	37	28	23	22	22
Poland	15	5	200	15	47	31	52	40
Malaysia	5	5	0	12	12	3	-	11
Parent Comp./ Eliminations	-41	-21	95	-60	125	91	37	116
<b>Total</b>	<b>1,178</b>	<b>856</b>	<b>38</b>	<b>2,083</b>	<b>2,201</b>	<b>1,553</b>	<b>42</b>	<b>1,891</b>

# Business Software for a Competitive Edge

IBS, International Business Systems, with headquarters in Stockholm, Sweden, is one of the leading international suppliers of business software and professional services. The IBS business idea is to develop and install IT systems which improve the competitiveness of our customers.

As a total solution vendor, we offer IT solutions with both software and hardware as well as professional services, training and methodology to ensure fast and efficient implementation. Our customers are mainly middle to large size distribution and manufacturing companies, which require advanced logistics and warehouse management systems.

Our business software, ASW, is a complete and integrated product for business management and administration. It covers all the major business processes within a company, such as purchasing, sales, distribution, customer service and manufacturing, as well as financials and business management.

ASW is developed for the international market, and is available in many local languages in more than 30 countries worldwide.



IBS AB (publ.)

P.O. Box 1350, SE-171 26 Solna, Sweden. Visitors: Hemvärnsgatan 8, Solna

Tel: +46-8-627 23 00 Fax: +46-8-764 59 65

Email: [infoibs@ibs.se](mailto:infoibs@ibs.se) Internet: [www.ibs.se](http://www.ibs.se)

SUBSIDIARIES AND BUSINESS PARTNERS IN: AUSTRALIA, BELGIUM, BRAZIL, CANADA, CHINA, COLOMBIA, DENMARK, GERMANY, FINLAND, FRANCE, HOLLAND, HONG KONG, HUNGARY, INDONESIA, ITALY, JAPAN, MALAYSIA, MEXICO, NORWAY, POLAND, PORTUGAL, SINGAPORE, SOUTH AFRICA, SOUTH KOREA, SPAIN, SWITZERLAND, SWEDEN, THAILAND, UK, USA