ANNUAL REPORT

1997

Contents

Annual General Meeting

The Annual General Meeting will be held at the Sergel Plaza Hotel, Brunkebergs torg 9, Stockholm on Thursday, 14 May, 1998 at 6 p.m. to transact ordinary business. A light meal will be served from 5.15 p.m.

Shareholders wishing to participate are requested to give notice to IBS AB, Box 1350, S-171 26 Solna, Sweden no later than Monday, 11 May, 1998. Shareholders must be registered in the Swedish Central Securities Depository (VPC) on 4 May, 1998 in order to be entitled to vote at the meeting. Shares registered in the name of an agent must be registered in the owner's name by this date to qualify for voting. Proceedings will be conducted in the Swedish language.

Dividend policy

When deciding on a dividend proposal to the shareholders, the Board of Directors will consider profitability, solidity and growth of the company. The target for the dividend is approximately 25% of the profit after tax on the condition that the net assets to total assets ratio exceeds 30% and that revenue growth is less than 20% per year.

Dividends

Due to the rapid expansion during the year, the Board proposes no dividend for 1997.

Information schedule

From 1997 onwards, IBS complies with the new EU adapted Annual Accounts Act. IBS adheres to rules stipulated by the Swedish Financial Accounting Standards Council and, as far as possible, US accounting principles. Information from IBS will be distributed as follows:

- Information from the Annual General Meeting on 15 May, 1998
- Quarterly Reports on 21 April, 17 July, and 20 October, 1998
- The Year End Report for 1998 on 27 January, 1999.

All communication with shareholders, media or other interested parties should be conducted via the Managing Director.

Reports and other printed material can be obtained by writing to IBS AB, Investor Relations, Box 1350, S-171 26 Solna, Sweden.

Currencies

The Annual Report uses the Swedish Krona as the main currency.

10 Swedish Kronor (SEK) equal approximately:

0.8	British Pound
1.3	US Dollars
2.3	German Marks
6.9	Finnish Marks
7.6	French Francs
8.7	Danish Kronor
9.3	Norwegian Kronor
50	Belgian Francs
230	Portuguese Escudos
4.6	Polish Zloty

Printed on environmentally friendly paper.

1997 Highlights

CONTINUED GROWTH

During 1997 IBS' strong growth continued. For the first time in the company's history, Group revenue exceeded 1bn. Total revenue amounted to 1.3bn, an increase of 35%. Three percentage points of the expansion were attributable to changes in exchange rates and two points came from acquisitions.

CHANGES IN EQUITY AND OWNERSHIP

A shareholders' rights issue at SEK 50 per share increased IBS' equity by 107m. During the spring, Catella Holding AB acquired all A shares in IBS.

STRUCTURAL CHANGES

In October 1997, IBS' minority shareholdings in Poland and Portugal were increased to majority positions. The Swedish operations were reorganised to more efficiently match market opportunities. The new management in Sweden has quickly and forcefully adapted the operation towards the Group strategy for increased profitability and market segmentation. A one-time charge of 34m was booked to cover restructuring costs in the Swedish operations. These measures are estimated to increase the Swedish annual operating profits by some 30m.

CONTINUED SUCCESS FOR ASW

ASW, IBS' standard software, continued to sell well. During the year, a new module for integrated electronic commerce via Internet was successfully launched. Licence revenues grew by 45% to 294m. The project to develop the next generation of products based on Sun's JAVA technology continued according to plan.

PROFITS

Operating profits for continued operations were 62m, a growth of 100%. After restructuring charges in Sweden, profits before tax were 20m (25m).

INTERNATIONAL SUCCESS

Operations outside of Sweden, particularly in Belgium, the US and France, showed high and growing operating profits of 54m, an increase of 42m compared to last year.

SUMMARY (m indicates millions of Swedish Kronor)

	1997	1996	Change
Revenue (m)	**1 312**	969	35%
Number of employees on 31 December	**1 494**	1 176	27%
Operating income before restructuring items (m)	**62**	31	100%
Net income (m)	**9**	11	-21%
Net income/share (SEK)	**0.71**	1.02	-30%
Solidity %	**39**	29	10 p.p.

Business software for more efficient business processes

The IBS business idea is to develop and install business systems which improve the competitiveness of our customers. This may be achieved by cutting costs, reducing lead-times, improving sales support, increasing customer service, speeding up reports and analyses, and in a variety of other ways make business processes more efficient.

IBS' single vendor solution concept, encompassing software, related services and hardware, ensures maximum customer benefits from their IT investments. IBS solutions are based on the following main components:

Comprehensive range of business software

IBS has developed a complete and integrated range of software for business management. IBS' standard software, ASW, covers an extensive range of modules such as:

– management information and data warehousing
– sales and distribution management
– financial management
– manufacturing management.

IBS has also developed a number of industry specific systems.

Thanks to the flexible design of the software, the majority of customer installations require very little additional amendments or programming. Where customer demands are very specific, we use high level languages to develop tailor-made systems.

Network client/server solutions

IBS bases its software and services on the IBM AS/400 server integrated with PC networks. The IBM AS/400 is the most sold multi-user business computer in the world. Incorporating an AS/400 as a robust server results in the best of two worlds; the PC's interactive capability and intrinsic ease of use is greatly strengthened by the capacity of the AS/400 server for handling large data volumes, high reliability and low total cost of ownership.

Within two years, IBS will also be able to offer a new generation of software developed in JAVA and based on the San Francisco platform, which can run on NT servers, the AS/400 and Unix-based systems.

Installation resources and high service levels in 30 countries

IBS and its partners provide software and services from 70 offices in 30 countries. This extensive geographical presence helps customers in successful implementations of multi-national projects. It also enables us to give on-the-spot support to locally based companies requiring high quality IT solutions.

Single vendor solution concept

IBS can supply total solutions in order to achieve optimal end result for our customers. We take full responsibility for the complete information system, including software, hardware, services or any element of it.

Our mission is to deliver high quality information systems by skilled professionals in order to increase customer competitiveness and profitability.

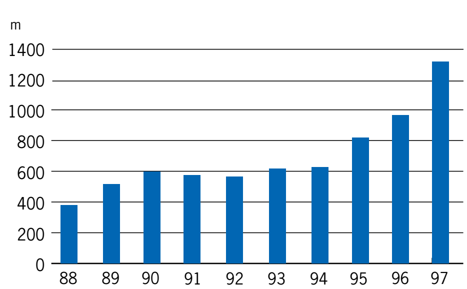
Ten year summary of the IBS Group

(m indicates SEK in millions, k indicates SEK in thousands, unless otherwise stated)

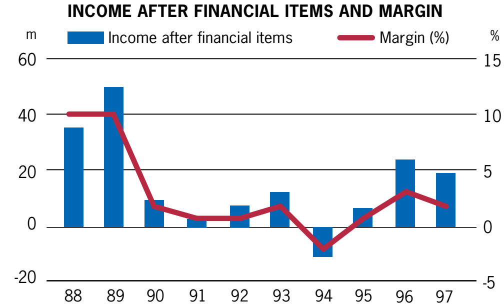
SALES VOLUME	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Revenue (m)	379	515	598	581	564	617	628	817	969	1 312
Change %	59	36	16	-3	-3	9	2	30	19	35
Non-Swedish revenue %	53	55	57	58	57	62	60	54	51	55
STAFF										
Average number of employees	689	930	1 055	972	861	831	811	945	1 087	1 328
Change %	36	35	13	-8	-11	-3	-2	17	15	22
Revenue/employee (k)	550	554	567	598	655	743	774	865	891	985
Change %	17	1	2	5	10	13	4	12	3	11
PROFITS										
Income after financial items (m)	37.5	51.8	10.1	2.9	7.7	12.9	-11.4	7.1	24.8	19.8
Change %	44	38	-81	-71	164	68	-	-	249	-21
Margin %	10	10	2	1	1	2	-2	1	3	1
Profit/employee (k)	54	56	10	3	9	15	-14	8	23	15
Value added/employee (k)	353	379	365	397	412	483	480	547	553	586
Change %	10	7	-4	9	4	17	-1	14	1	6
RETURN ON INVESTMENT										
Return on total capital %	20	20	5	3	3	4	-3	4	7	5
Return on capital employed %	39	37	9	6	6	8	-6	8	16	10
Return on shareholders' equity %	38	32	4	2	6	4	-7	-1	8	4
FINANCIAL POSITION										
Liquidity %	133	151	159	156	147	170	147	116	114	136
Adjusted shareholders' equity (m)	82	141	142	121	132	142	132	122	157	274
Total assets (m)	249	344	341	329	357	335	347	417	555	721
Capital turnover ratio	1.7	1.7	1.7	1.7	1.6	1.8	1.8	2.1	1.9	2.1
Ratio of risk capital %	40	49	50	44	43	48	40	33	31	39
Solidity %	35	43	43	38	38	44	38	31	29	39
Interest cost coverage	8	9	3	1	3	7	-	3	4	3

Financial terms used are defined on page 38.
Comparable figures from 1994 and forward are recalculated in accordance with US accounting policies.

REVENUE



INCOME AFTER FINANCIAL ITEMS AND MARGIN



Management discussion

Group Managing Director Staffan Ahlberg

STRONG GROWTH

During 1997, the Group's rapid growth continued. For the first time revenue exceeded 1 billion Kronor, reaching a total of 1,312m. Excluding currency fluctuations, in 1996 the growth rate was 25%, in 1997 increasing to 32%. During these years, IBS participated in the restructuring of the industry by acquiring similar companies. In both 1996 and 1997, the acquired part of the growth represented two percentage points.

STRONG MARKET

1997 was generally characterised by a very strong market for business systems, fuelled by the fact that the coming millennium shift will make many current systems obsolete. As the time for buying and installing a new system is quite long, this means that the major part of this particular demand was fulfilled last year. In 1998/99, a new surge in demand is expected, because of the need for dual currencies in countries joining the European Monetary Union. We are also convinced that demand for software supporting electronic commerce will increase rapidly. Finally, we foresee a continued strong and expanding market for systems supporting global business operations.

SEGMENTATION

As business systems become more and more sophisticated, customers are demanding that suppliers can handle not only global but also industry specific requirements.
At the same time, customers have little interest in overly complex and clumsy systems.

Taking this into account, we have developed a strategy focused at some specific market segments. Based on the excellent results achieved by this concept in the US, one of the world's most competitive markets, other IBS units have successfully adopted the same strategy. This means choosing supply-chain business as our specific market segment, i.e. mainly serving importers, wholesale dealers, sales subsidiaries and manufacturers with short delivery times. Within this segment, some prioritised niches have been distribution of electronics, chemicals, pharmaceuticals, durable consumer goods, automotive spare parts as well as service companies.

In general, a manufacturer of cosmetics and a steelworks have very different business system requirements, but may very well use the same operating system for the computer. Thus, suppliers of business systems have to focus more on certain industries, while developers of operating systems will become more universal. Therefore, there is little to suggest that the world market for business systems will become dominated by only two suppliers, like IBM and Microsoft in the field of operating and office systems. However, it will become increasingly important for a supplier to have global marketing channels as well as its own services capacity.

FOCUS ON SERVICES

The installation of a business system is a major and strategic investment for our customers. The technical development makes adaptation of the software and the installation of the hardware more and more complex, requiring specialists who are really able to understand the needs of each customer as well as knowing the different opportunities that are built into the standard software. Thus, as in so many other industries, the suppliers are increasingly being required to sell services in parallel to their products to ensure full customer satisfaction. With this integration, suppliers will also service the important after-market following the initial installation, thereby forming a long term partnership with key customers. Today, IBS is a world leader in this development, having more professional service resources per sold licence than any of our global competitors. This is a strategy bringing high customer satisfaction ratings.

COMPETITION

In our market, multi-user business systems, demand as well as competition is growing rapidly. In the global business system market, IBS is today number nine in revenue, trailing companies such as SAP, Baan, Oracle, Peoplesoft, JD Edwards, SSA, JBA and Intentia. Within our chosen segment, i.e. customers demanding integrated services and focused on sales and logistics systems, our main global competitors are JD Edwards and various local players. Within the chosen market sectors, our competitiveness is extremely strong, with a probability exceeding 50% to win an order against any competitor. Thereby, through market segmentation and focus on services, we are confident that our chosen strategic positioning is sound.

THE MARKET

During 1997, IBS' software sales increased rapidly, especially in the US, UK and the Nordic countries. Licence fees from new and existing customers increased by 45%, reaching 294m. The number of new customers increased by some 200, while the average software order value increased from about 0.75m to 1.0m.

Options to increase our minority shareholdings in Poland and Portugal, from 49% to 75% and 25% to 75%, respectively, were taken up on 1 October, 1997. Through these acquisitions, three additional offices were added to the Group, in Wroclaw, Porto and Lisbon, employing 27, 80 and 26 people, respectively.

Due to an unsatisfactory development in three out of ten Swedish units, the Swedish operations were restructured and a new management team appointed. The Board of Directors decided to book costs for this restructuring, 34m, as an exceptional charge in the 1997 accounts. These measures are estimated to increase future Swedish annual operating profits by some 30m.

Operations outside Sweden, totalling 55% of Group revenue, expanded strongly and showed a high level of profitability. Our Asian head-office, in co-operation with our local Business Partner, won its first major contract.

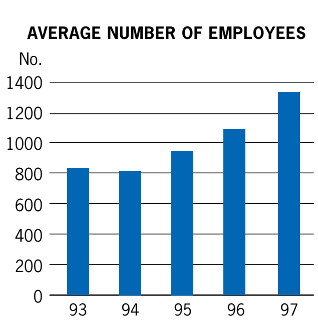
PRODUCTS

During 1997, a new JAVA based module integrating our ASW software and Internet was launched. This module enables IBS' customers, in a simple and safe manner, to connect existing information about products and customers to the Internet, thereby offering electronic product catalogues, order management or queries regarding delivery status to their customers.

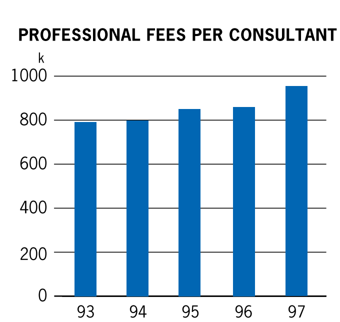
The development of a new EMU enabled module was concluded, with a planned launch in the spring of 1998. In this version, all client-based code is available in the JAVA language, enabling the use of a so-called thin clients or Network Computers. In parallel, work on further functions in a release based on existing technology continued, the target being to launch this product in the second quarter of 1999.

Our joint project with IBM, aiming at developing a new generation of an object oriented JAVA based software platform, continued according to plan. A first shipment was made in the autumn of 1997, with the aim to complete delivery of the platform during 1998. IBS also commenced its own development project (codenamed California), in order to add further functions to the basic platform for a commercial launch in 1999. With the combined two new product series, IBS will be well equipped in meeting the challenges of the next millennium.

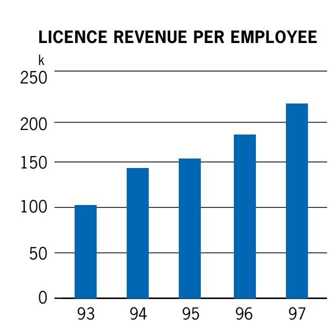
IBS' JAVA based product strategy has received considerable attention in the market, and a number of cooperation projects and product alliances are presently being discussed. A high-tech investor has already signed an agreement with IBS, granting IBS three options against an



The average number of full time emloyees grew by 22%.



Services revenue continued to grow.



Revenues from IBS' standard software are increasing faster than the number of staff.

unconditional remuneration of 10m per option, to sell future royalties of 2.5% of project California's net revenues during the years 2001-2006. In 1997, two of these options were used.

In all, the Group invested some 30% of the licence revenues or 91m in product development, whereof 18%, or 16m were capitalised in accordance with American accounting principles. Depreciation of existing software totalled 9m, resulting in an increase in the book value of IBS software of 7m, totalling 22m.

CUSTOMERS

During the year, new major contracts were signed with Volvo, Galenica, Bergen Brunswig, Pioneer, Miele, EACgraphics and Univar. Large systems were successfully implemented for customers such as Scribona and Constructor. A recent external customer survey gave our employees top marks, with comments such as "professional, enthusiastic and dedicated".

STAFF

The past year was characterised by record recruitment and training of new employees. Excluding acquisitions, the net staff increase was 16%, or 185 persons. The calculated investment for expanded capacity was approximately 46m, which was accounted for as costs.

The IBS Trainee Programme and IBS University for training and developing staff were very successful. The number of international staff transfers within the Group increased.

NEW ISSUES

In view of the volatility of the NASDAQ Stock Exchange during the last week of March 1997, when the US base rate was increased, the Board of Directors decided that it would not be in the interests of our shareholders to go through with the planned new issue. Instead, a shareholders' rights issue of one to five, at the price of SEK 50 per new share, was decided upon. At the same time, a warrants scheme to the management was introduced, each warrant carrying the right to subscribe to new shares within a three year period, at the price of SEK 114 each. Together, these two issues increased equity by 107m.

OWNERSHIP STRUCTURE AND THE IBS SHARE

During the past year, we were pleased to see Catella Holding AB becoming the major IBS shareholder. Catella, a wholly owned company within the InterIKEA group, acquired all IBS A shares, representing about 4% of the equity and 29% of the votes.

During 1997, the listed share price increased by 28%, reaching SEK 92. Over the last three years, our shareholders have seen the average value of their investments in IBS shares double every year.

RESULTS

Total revenue increased by 35% and software sales by 45%. Professional services revenue increased by 32%, partly because the average number of consultants grew by 21%, and also thanks to higher utilisation degree and higher fee rates.

Operating profits before exceptional and financial items doubled, reaching 62m, mainly due to increased software sales and higher mark-ups on services. Profits from IBS' European operations outside of Sweden increased from 12m to 54m, and profits from the rest of the world, mainly the US, increased from 1m to 12m. Profits after restructuring costs and financial items decreased from 25m to 20m, due to the above described exceptional charge for the Swedish operations in the amount of 34m.

Shareholders' equity totalled 274m, an increase mainly due to the two new issues. The net assets to total assets ratio increased from 29% to 39% and current assets over current liabilities increased from 114% to 136%.

THE FUTURE

The past year was characterised by international success and a substantial restructuring of the Swedish operations. Given that the efforts in Sweden will yield an estimated annual increase in profits of more than 30m and with no further structural costs occurring, Group profits are projected to improve significantly. As of 1998, IBM Europe changes from selling through commission agents to a reseller's channel in their distribution of AS/400 servers. Because of this change, IBS' revenue, and possibly also margins, are expected to increase. Also, the important professional services margin is estimated to improve further, driven by the continuing shortage of competent IT professionals. Internet and EMU-related requirements are expected to contribute to a growing demand for standard products. On the other hand, raised salaries and staff turnover as well as increased investments in marketing and product development have to be considered.

All in all, I am confident that for 1998 the Group's prospects are favourable and that IBS' 20th year of operation will be a prosperous one.

Finally, I and the Members of the Board wish to express our gratitude to all IBS staff for their hard work and passionate service commitment, as highlighted by our Customer Survey and deeply appreciated by our customers.

Solna, 29 January, 1998

Staffan Ahlberg
Group Managing Director

HI-LINE ELECTRIC

Warehouses on Wheels in the US

When people think of a warehouse, they usually imagine a building set aside for storage of goods and merchandise. But Hi-Line, a Dallas, Texas distributor of electrical maintenance parts, has added a new dimension to the word.

Thanks to IBS' software, they deliver their products around the United States with a fleet of 85 trucks, each one acting as a separate warehouse. "We have over 80 territory managers and they operate on a commission basis", says Brian Grzymkowsky, CFO of the company. "We supply the inventory, they supply the truck, and each one is considered a warehouse in our computer system."

Hi-Line Electric sells over 20,000 spare parts to a wide variety of markets, including aircraft maintenance, agricultural equipment, commercial appliances, repairs, transport, refrigeration, medical equipment, and power generating plants. The customers range from Fortune 500 companies to small, family operations.

"The IBS software has made our business more efficient and profitable, as well as providing improved support", says Mr Grzymkowsky. "The system went live with few problems and the benefits were quickly apparent. Every truck is treated as a separate warehouse, each generating a monthly profit and loss statement. The new system also allows Hi-Line to replenish stock on a weekly rather than on a monthly basis. We have also been able to reduce inventory in the warehouse and maintain a better sales history. We are selling convenience, so we want to keep the trucks amply stocked and IBS has gone a long way in helping us to do that.

SCRIBONA

Integrated Business Systems in the Nordic Countries

Scribona, the largest distributor of PCs and office equipment in the Nordic countries, chose IBS' business software ASW to plan and control their operations. The system covers the whole chain of logistics from purchase and sales to warehousing and distribution. It also includes modules for financial control and management information.

Scribona's requirement is to be able to do business in the Nordic countries in one integrated system. In the previous system, the products were spread out in four different countries with different product names, whereas the new system connects all orders into one common warehouse.

"In this way, we can decrease our logistics and warehousing costs. The degree of customer satisfaction will also increase with the improved availability and information about the products", says Magnus Johansson, Swedish Manager for Scribona Computer Products Division.

"This is an important investment in increasing our competitiveness, making our logistics more efficient and improving customer service", says Lars Palm, Area Manager for Scribona Computer Products.

"Distribution and warehouse management are crucial in our business, where the margins are low and the life cycle of products like PCs and printers is three to six months. The new system will bring major improvements with common and integrated processes in all the Nordic countries."

The first parts of the system are now live in Norway and Sweden. The next step is implementations in Denmark and Finland, starting up during 1998. The operative environment is based on one central IBM AS/400 server and PC networks.

GALENICA

Pharmaceutical Distribution in Switzerland

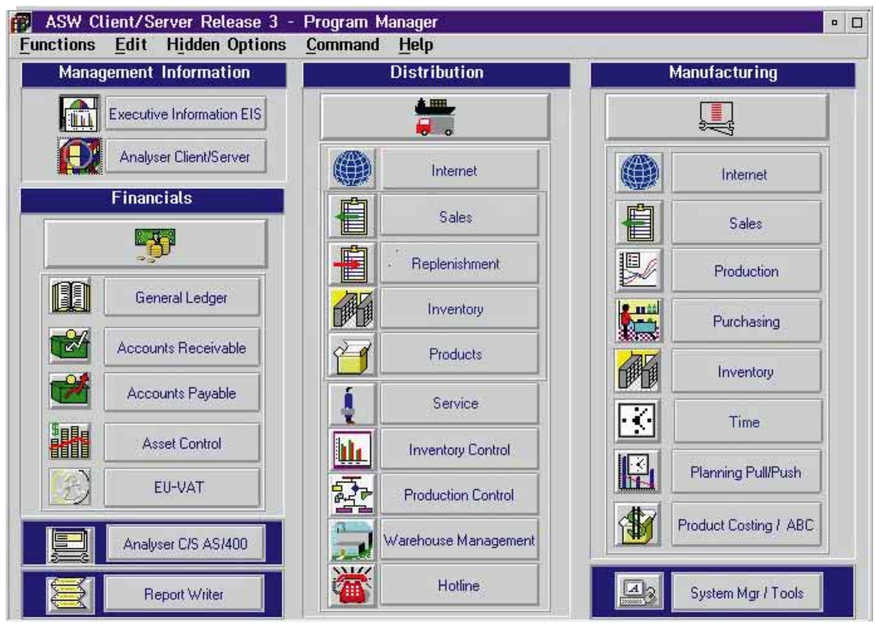
Few industries demand such precision in the delivery chain as the pharmaceuticals business. Getting the right drug to the right patient quickly is literally a matter of life and death. Bottlenecks or disruptions in communications or logistics are an unaffordable luxury.

These important considerations are an everyday concern for Galenica Distribution, Switzerland's leading pharmaceuticals distributor, with sales of around $ 1bn. Galenica's distribution network, encompassing roughly 10,000 clients, is serviced by about 150 delivery vans, running 22,000 kilometres per day.

Until now, Galenica Distribution has relied on mainframe computer technology to handle its sales and distribution networks, as well as to maintain databases and keep track of stock. Their own tailormade system served the company well for years. But in recent years it began to show limitations for the future. After an external audit, Galenica started to look for possible solutions based on a standard software. "It took us just nine weeks to find what we wanted", explains Michel Troyon, Galenica's logistics project manager. Galenica is now stepwise installing IBS ASW software. The first modules for purchase and sales were going live during the autumn of 1997. The total switch to the new system will be completed by mid-1998.

"The move is a quantum leap forward", says Philippe Milliet, IT & Logistics Manager of Galenica Distribution. The company's curent system can handle up to 30,000 orderlines per hour; the new IBS system will be able to handle 50-75,000 orderlines per hour. "We expect we will generate substantial annual savings when the new system is in full production."

Software for efficient business processes



IBS business software ASW is an integrated solution for efficient business processes.

During 1997, software licences increased by 45%. The increase is largely attributable to IBS' sales and distribution systems, and to areas such as financial management, management information support and manufacturing, where demand also was strong.

IBS' business software, ASW, is highly competitive in:

1. Sales and logistics systems for distribution companies, specialising in advanced warehouse management, customer service and integrated business processes.

2. Manufacturing control for companies with short delivery times and flow oriented manufacturing organisations.

3. Easily accessible management analysis and decision support systems, directly based on the business application.

ASW is used in systems with IBM AS/400 servers integrated with PC networks. IBS development strategy is to gradually replace the original ASW code and replace it with a JAVA-based, object oriented technology. This conversion is estimated to be completed over the next two years, by using the emerging technologies developed in the San Francisco project, in co-operation with IBM. This means that the next generation of ASW can be used in NT-servers, AS/400s as well as Unix-based computers. Already today, ASW is offered with a JAVA based graphical user interface which allows the systems to be used on so-called thin clients, or NCs (Network Computers) as well as connected to the Internet.

ASW may be utilised by anything from a few up to thousands of users.

The software is designed to allow speedy implementation and optimal performance.

ASW is specially developed to handle large transaction volumes. In recent tests, ASW Distribution was able to handle 75 000 order lines per hour with response times of less than a second.

For several years, ASW has had a structure enabling users to handle the turn of the millennium. The software is subject to continuous development in new so called releases. During 1997, new functionality was added for e.g. Internet-based sales and distribution, document handling and Lotus Notes integration. During the first half of 1998, new and extensive functionality will be introduced for handling the euro currency functionality.

THE SAN FRANCISCO PROJECT

The standard for JAVA based business software

San Francisco is a major IBM project carried out in close co-operation with IBS, to establish a completely new way of developing and maintaining business software using the JAVA language. This new standard will give increased productivity to the software industry and enable the construction of more flexible software with interchangeable components from different suppliers.

Most leading software developers today plan to use the new programming language, JAVA, in their development of future business systems. In order to take full advantage of this language, e.g. when combining features in the offering of various suppliers, a general industry standard is necessary.

The aim of IBM's San Francisco project is to introduce such an industry standard, including software tools and a number of reusable ”building blocks” which applications developers can utilise in constructing their own business software. IBS is the main external IBM partner in this project. Moreover, there are some 200 interested software companies closely following this project and taking part in various tests. IBS will base its next generation of business software on the San Francisco platform. This business software will be ready for delivery over the next two years. The finished software products may be used on most types of hardware platforms such as NT servers, AS/400 and UNIX-based computers. A joint IBS and IBM development team has been working on the San Francisco project since early 1996. During 1997, IBM and IBS have established international centres for the development in Stockholm, Oslo, Vienna and Rochester.

During 1997, the first San Francisco modules were delivered, covering development tools, standard modules and a basic module for accounting. During 1998, the platform's standard modules for sales and distribution will be ready for the market. The reception has been very positive, and a large number of software companies are now testing the system to evaluate the San Francisco platform as a starting point for their own future software development.

For the third consecutive year IBS was selected for IBM's "Star Stream Award" for innovative product development.

Competence and customer focus




Behind IBS' success in supplying high quality IT solutions and services you will find our employees' competence and keen customer focus. Apart from mastering the increasingly complex technology, our staff also needs to have a good knowledge of business processes. In addition, structured and well worked through methodologies and implementation processes are vital parts of our services.

In a recent survey amongst IBS' customers in different countries, it was shown that not only the software, but also the quality performance and customer focus of IBS' employees were especially appreciated. IBS' consultants are described in terms such as "extremely service and client oriented, professional, understanding customer requirements, people one really likes".

We thank our employees for this and promise to keep improving. Naturally, there are many fields where we need to increase the number of employees who can assist our customers in different situations as well as further increasing their competence.

With an expanded recruitment and trainee programme, coupled with a broad variation in client and development projects, we constantly enhance our employees' qualifications further. During 1997, these programmes have been intensified by establishing systematic development and training functions, the IBS University. We have also expanded our personnel and management development functions at Group level as well as at various subsidiaries.

IBS offers customers both software and services. The services offering includes analysis and systems specifications, project management, development and adaptation of software, installation, training and maintenance.

IBS' customer projects vary

extensively. They often consist of total IT solutions including software, hardware and professional services. Some customer projects cover delivery of just software or services. Increasingly, however, the market demands that we take total responsibility for the whole installation of a new IT system. Such integration, which also includes hardware, offers our customers the advantage of a single point of responsibility from one supplier. Such demands are also based on the ever increasing degree of technical complexity of the systems as well as the realisation that the internal specialist competence of customers sometimes is limited.

At the end of 1997, the IBS Group had 1 494 employees, an increase by 27% compared to last year. These include about 1 000 professional consultants in 46 offices in 14 countries. In addition, we have some 200 people working for IBS' independent business partners, installing IBS software.

32% of our employees are women, 68% men. The staff turnover during 1997 was less than 8%.

ICP – Implementation Control Process

The implementation of a new IT system, improving business processes and achieving the full benefit of an IT investment, means high demands on a thoroughly structured project and good co-operation. An efficient project control includes methods, standards, check-lists and quality assurance programs. IBS has further developed its Caseline methodology and packaged all further experience and knowledge into a new practical method, the Implementation Control Method (ICP). In combination with professionals from IBS, the ICP protocol ensures uniform quality installations of ASW systems.

Using the ICP methodology, the project will be planned and broken down into every detail with well defined activities and milestones. Ready-made templates and forms are designed for all project phases. The routines for follow-up, reporting and quality assurance are defined and followed. The project organisation, resource plans, responsibilities and competences are decided upon, and critical factors are identified and monitored.

This efficient project management gives the steering committee an outstanding tool for full control of all aspects of the project: time, cost, resources and quality.

Client/servers and networks

IBS' software and services are primarily based on IBM's AS/400 server integrated with various forms of networks. IBM AS/400 is the world-leading multi-user computer for business systems. Within the next two years, IBS' new JAVA based generation of business software can be used on AS/400, NT servers as well as on Unix based computers.

As IBM's international business partner, we can supply complete IT solutions which include hardware, networks, software and services.

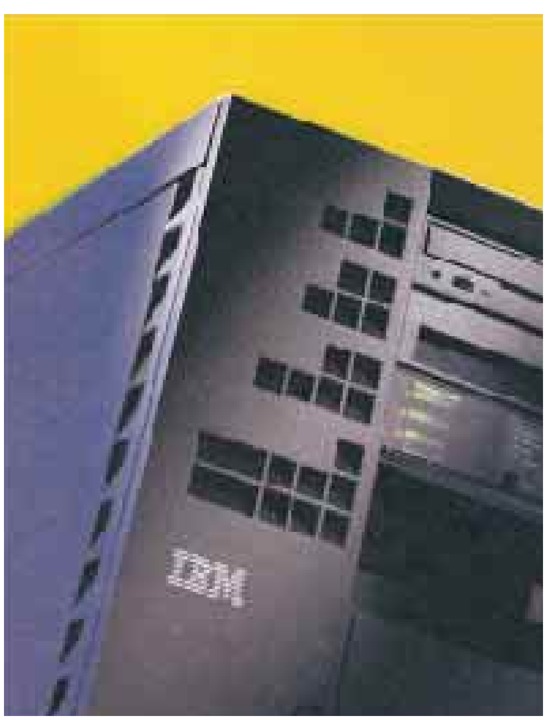
During 1997, the AS/400 strengthened its position as a powerful and open server. The latest generation of AS/400 has attained a forefront position, especially for its excellent Internet and e-business functionality. During the last quarter of 1997, IBM delivered a record number of new AS/400s to customers all around the world.

AS/400 is the multi-user server with by far the greatest number of applications. It is the only hardware platform allowing software suppliers to fully switch to 64-bit technology without reprogramming, adaptation or even re-compiling.

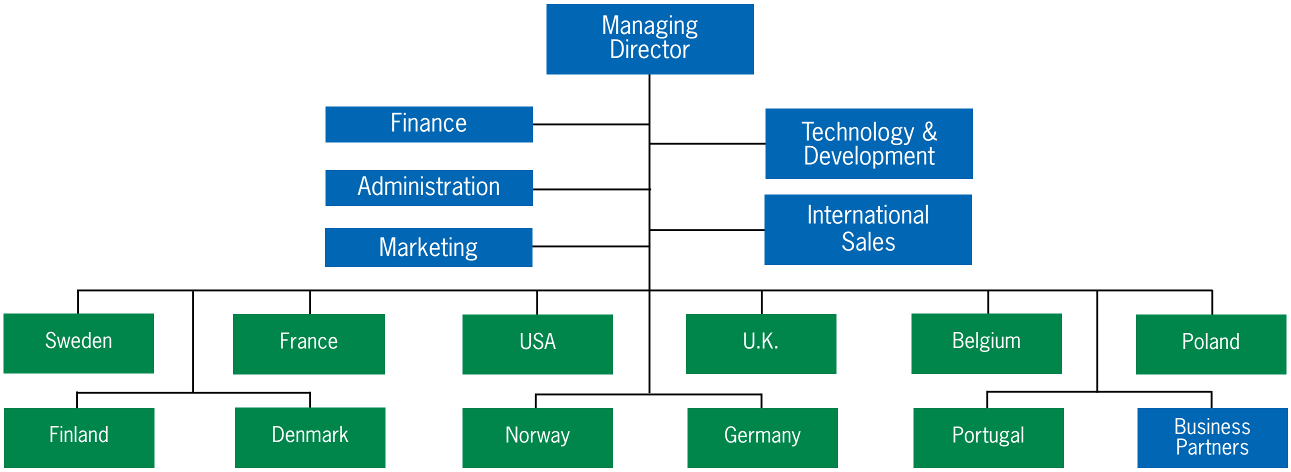
The AS/400 is available in a number of sizes, designed for a few users up to several thousands users. Most of the installed AS/400s are used in some form of client/server solution in an integrated PC network. From ASW Release 3.50 onwards, the JAVA based Graphical User Interface allows the customers to use so-called thin clients or NCs (Network Computers).

Starting in 1998, IBS and other IBM business partners will be selling IBM equipment directly as resellers, i.e. not just acting as IBM agents. This opens up possibilities for improved margins, compared to the limited commission portion received earlier. At the same time, our risk exposure increases when we need to manage invoicing, logistics and credit risks. Overall, however, this development should result in improved profitability as well as better customer service.

At the same time, a new agreement between IBS and IBM allows our customers to order ASW adapted AS/400 models directly from IBM's production units in Europe and the US. The machines are then delivered with the ASW applications preloaded from the factory.



The IBS Organisation



AREA MANAGERS:
Sweden: Peter Hörwing. **Finland:** Kari Merenheimo. **France:** Denis Pavillon. **Belgium:** Jos Vanhoutte. **The UK:** Magnus Wastenson. **USA, Germany, Denmark, Norway:** Knud Erik Lindbjerg. **Poland, Portugal and Business Partners:** Anders Hedbring.

STAFFAN AHLBERG
Group Managing Director
M.Sc., B.Adm

BJÖRN BONTIN
Financial Director
B.Adm.

ANDERS HEDBRING
Vice President, International Sales
Area Manager, Portugal and Poland
M.Sc., MBA

KNUD ERIK LINDBJERG
Vice President
Area Manager, USA, Germany, Denmark and Norway
B.Adm.

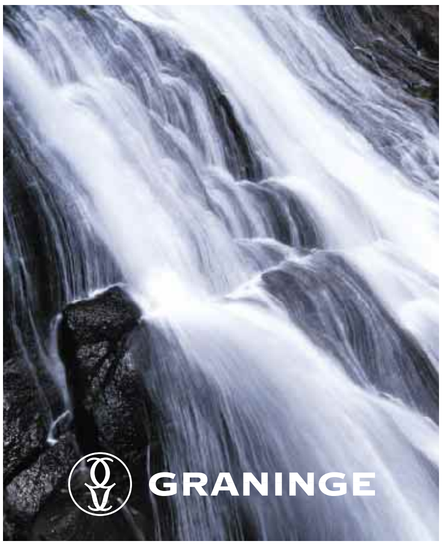
STIG MALMGREN
Vice President, Technology
M.Sc.

MAGNUS WASTENSON
Vice President, International Marketing
B.Adm.

STAFFAN WENSING
Administrative Director
B.Adm.

Sweden

(Change compared to the previous year is calculated in local currency to avoid effects of variations in currency exchange rates)



Graningeverken, one of Sweden's leading companies in the timber and energy industries, chose ASW for its financial management.

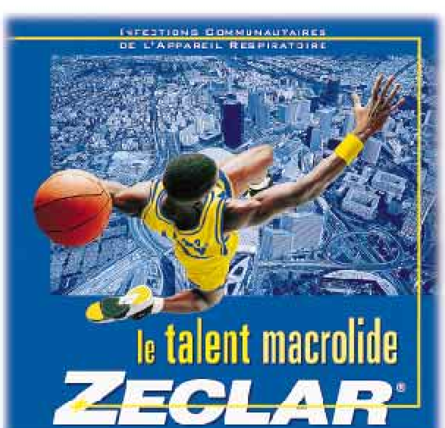
During the last quarter of 1997, IBS Sweden moved its market focus towards distribution companies and decentralised manufacturing companies, as well as certain niche areas. The non-ASW consultancy business was separated from IBS Sweden and integrated with the Technology & Development business area (please refer to page 23).

During 1997, in spite of fierce competition, IBS secured orders from ICA Menyföretagen, Bröderna Edstrand, Tylö, Volvo Penta Norden, Triumfglass, Boliden Bergsöe, Bostik, and Graningeverken. Demand for IBS' software and services is expected to remain high during 1998.

MD Peter Hörwing

Revenue	409m	+26%
Number of staff (31/12)	396	+5%
Revenue/employee	1028k	+1%
IBS ownership	100%	

France



ABBOTT FRANCE

Exclusively dedicated to the health industry, Abbott has chosen IBS to implement their financial systems in France.

During 1997 IBS France enjoyed a strong continued growth. IBS France is one of the leading suppliers of business software implementations in the French market. During the year, a new organisation was set up to handle ASW sales and services. Several new customer contracts were signed with large companies, such as Bristol Myers Squibb, Veuve Cliquot and AGF.

The outlook for 1998 is promising, both for services and software, with the growing underlying market demand for Year 2000 and EMU enabled software.

MD Denis Pavillon

Revenue	144m	+27%
Number of staff (31/12)	142	+12%
Revenue/employee	1043k	+15%
IBS ownership	85%	

Belgium

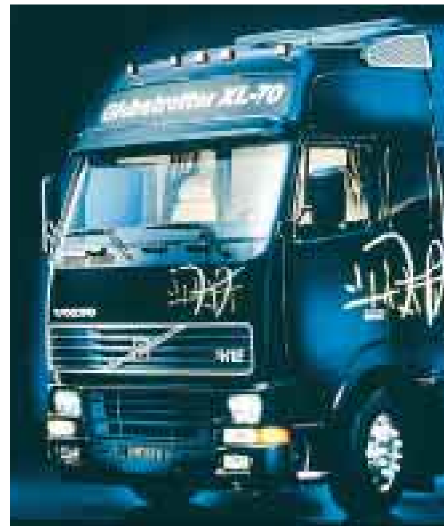
MD Jos Vanhoutte

Revenue[1]	125m	+20%
Number of staff (31/12)	137	+18%
Revenue/employee	982k	+8%
IBS ownership	100%	

[1]Comparable revenue for Proget, which was acquired in 1996, is the full year number.

IBS in Belgium grew substantially during 1997 while maintaining a high profit level. The acquisition of Proget during 1996 gave positive synergies with the other IBS operations.

Particularly in the Financial area, IBS was very successful with more than 40 new customer contracts signed during 1997. The customer project for Sylvania was successfully launched and will continue in 1998, and a major international deal in the Distribution area was signed with Qualitape. The outlook for 1998 is challenging with a high demand for services and software especially for implementation of the Euro functionality and Year 2000 requirements.



Volvo Trucks will meet with the Euro and Year 2000 requirements by installing ASW Finiancials for 30 dealers in Belgium.

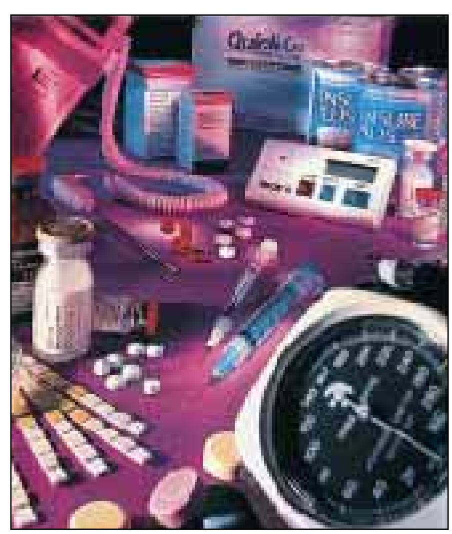
USA

MD Barry Christian

Revenue	120m	+36%
Number of staff (31/12)	110	+51%
Revenue/employee	1 309k	-1%
IBS ownership	100%	

IBS' fully integrated applications for the wholesale distribution industry resulted in many new sales, including Bearing Distributors (BDI), one of America's largest industrial distributors. Strategic client installations included a six-week implementation at a division of Bergen Brunswig, the third largest US pharmaceutical distributor.

IBS US will continue its successful focus on the distribution industry, with special emphasis in automotive, industrial, electronics, and pharmaceutical markets. ASW's strengths in customer service applications, inventory control, logistics management, e-business and business intelligence deliver superior value and competitive advantages to IBS clients.



Bergen Brunswig, one of the US's leading suppliers of both pharmaceutical and medical-surgical supplies, has selected IBS US to integrate and expand its distribution capabilities.

The UK

Pioneer Hi-Fidelity Ltd chose ASW software for their operations in the UK.

By targeting the wholesale distribution industry, IBS Ltd. achieved record growth in 1997 and ASW software sales grew by 400%. Pioneer Hi-Fidelity, Farnell Electronic Components, Premier Brands and Kawasaki are some of the new UK customers. IBS Ltd.'s Managing Director, John O'Connor, and his staff plan for rapid growth in 1998 as well.

IBS Public Services Ltd., IBS' specialist company for Local Government and Housing software, launched their new generation of Open Revenues and Open Housing software during 1997. The reception from the market of this new software has been very positive, and the target for the new managing director, Malcolm Carter, is to reinforce IBS as market leader in this sector.

MD, IBS UK Holdings, Magnus Wastenson

Revenue	104m	+31%
Number of staff (31/12)	122	+22%
Revenue/employee	945k	+9%
IBS ownership	100%	

Finland

Helkama Forste, an international manufacturer of domestic appliances, chose ASW for their factories in Finland, Norway and Hungary.

In 1997 IBS Finland increased their overall market share and ASW software sales grew by 130%. The growth was especially strong within the distribution software area. The first installations of the ASW software in the Baltic countries were implemented for a couple of Finnish groups. New customer contracts were signed with e.g. Securitas, Huhtamäki Polarcup, Luhta, Forste, and Machinery. Successful co-operation continued during the year with customers like ABB, Hilti, Planmeca, Finnish Fur Center, Cultor and Elcotec. During 1998, demand for ASW software is expected to continue on a high level, partly due to a growing economy and new customer requirements for EMU enabled software.

MD Kari Merenheimo

Revenue	79m	+35%
Number of staff (31/12)	111	+22%
Revenue/employee	777k	+21%
IBS ownership	100%	

Denmark

MD Allan Rotheisen

1997 was a very positive year for IBS Denmark with 100% growth in software licences and a steady growth in professional services. New major customer contracts were signed with companies like Miele, Jyda Sekvensa, NCB and A/S Jac. Engelbredt (JACO) as well as customers in the car dealer industry. The business outlook for 1998 is also very promising with a strong growth for Year 2000 compliant software and a steady growth of the Danish economy.

JACO chose IBS' systems for their distribution and manufacturing management.

Revenue	67m	+31%
Number of staff (31/12)	60	+ 3%
Revenue/employee	1104k	+20%
IBS ownership	100%	

Portugal

MD Luis Costa

IBS' operations in Portugal grew significantly in 1997, taking full advantage of the merger between IBS and Duosoft in 1996. Contracts were signed with important Portuguese groups like Ambar, Cabelte, Egor and Evicar. Notable existing customers include Sandvik, Electrolux, Miele, Securitas and Nedlloyd Road Cargo. In October, IBS AB increased its ownership in IBS Portugal from 25 to 75%. The Portuguese subsidiary is now also coordinating IBS' activities in Spain and Brazil. Strong demand for IBS/Duosoft's products and services makes the outlook for 1998 very promising.

Eccolet Portugal, a subsidiary of ECCO Denmark, selected ASW Financials for financial management and integration to the company's in-house developed business systems.

Revenue (3 months)[1]		19m
Number of staff (31/12)		106
Revenue/employee		450k
IBS ownership	75%[2]	+50

[1] The 12 month revenue was 42m.
[2] From 1 October 1997.

Germany

Galenica, the largest pharmaceutical distributor in Switzerland, chose ASW as their standard software to handle the distribution throughout the country.

During 1997 IBS Germany focused its operations on distribution systems, particularly in the area of pharmaceuticals, chemical and technical wholesale. Important customer implementations of IBS software were made for customers like Galenica, CIBA Vision and Miele. During the year IBS increased its ownership in IBS GmbH from 60 to 75%. Revenue continued to grow considerably, although the lack of available IT staff for recruitment hampered expansion. IBS GmbH outgrew its old office premises and moved to new modern offices which will enable continued growth. The outlook for 1998 is promising, both for software sales and services. The plan is to expand the operations in Germany further by new recruitment and possible acquisitions.


MD Andre Grigjanis

Revenue[1]	32m	+120%
Number of staff (31/12)	22	+57%
Revenue/employee	1 587k	+54%
IBS ownership[2]	75%	+15

[1] Comparable revenue in 1996 is the 12 month number.

[2] From 1 December 1997

Norway

Miele Norway, a leading supplier of domestic appliances, chose IBS' software for their financials and distribution management.

During 1997 IBS Norway continued its expansion. Notable large customers are Miele, Nissan, Glomma Papp and Gudbrandsdalen Uldvarefabrikk. ASW has been received very well by the market, especially by trading and distributing companies. During 1998, the market forecast is very favourable and IBS Norway plans for a continued positive development.


MD Georg Just

Revenue[1]	26m	+30%
Number of staff (31/12)[1]	27	+30%
Revenue/employee	935k	–2%
IBS ownership	100%	

[1] Comparable numbers for 1996 have been adjusted to reflect a reorganisation.

Poland

MD Regina Bisiekiewicz

Demand for high quality software increased significantly in the Polish market, driving the sales of IBS' standard software. Growth has been improved by increased focus on sales and distribution customer segments and by providing integrated software and services for these companies. In 1997, some of the largest customers were Impel, Orix, Honda, Stalexport and STO. In 1998, IBS Polska plans to start the geographic expansion by opening new up offices. The market for IBS' solutions in Poland is very favourable, and IBS Polska plans for a rapidly increased growth.

Honda selected IBS' systems for their operations in Poland.

Revenue (3 months)[1]	2m	–
Number of staff (31/12)	27	–
Revenue/employee	265k	–
IBS ownership[2]	75%	+26

[1] The full year revenue was 5.3m.
[2] From 1 October 1997.

Area Technology & Development

Area Manager
Stig Malmgren

During 1997, a new business area was created to strengthen IBS' product development and to further position IBS as a provider of advanced and complete IT solutions. This business area consists of the following units:

ASW Product Development (R&D): This unit designs and develops ASW for sales and logistics, financials, manufacturing, management information and analysis systems (see also page 12).

The San Francisco Project: Development centres are provided in Stockholm, Oslo, Vienna and Rochester, USA (see also page 13).

System development: Includes the three units IBS Konsult, IBS Industridata and IBS Norra Norrland, which develop advanced IT systems and work with integration projects in various environments such as OS/400, Microsoft NT, Obsydian, Visual Basic, JAVA and C++.

IBS is IBM's main supplier of professional services in the San Francisco Project.

Revenue	161m	+29%
Number of staff (31/12)	211	+23%

The IBS Share

During 1997, a new issue of one new in five old shares was performed, corresponding to 90 000 Class A shares and 2 206 398 Class B shares. The issue price was SEK 50 per share, corresponding to a total issue amount of SEK 114.8m. In July 1997, IBS AB issued a debenture loan to IBS Stichting, represented by a debenture certificate with a nominal value of SEK 500 000, together with 500 000 detachable warrants. The loan was repaid in December 1997. Each warrant gives the holder the right in June 2000, to subscribe to a new IBS B-share for SEK 114. The warrrants are offered to IBS' management. At the end of December 1997, a total of 331 050 warrants had been sold. A sum in the amount of SEK 2.5m was paid by IBS Stichting to IBS AB, which was booked as restricted equity.

Following these new issues, the company has issued 13 867 418 shares at SEK 1 per share. All shares are unrestricted, i.e. they can be held by non-Swedish citizens. The shares are divided into 540 000 A shares, each having ten votes, and 13 327 418 B shares, each having one vote. The average number of shares during 1997 was 12 719 219. If the issued warrants are included, the average number of shares would be 12 969 219.

LIQUIDITY

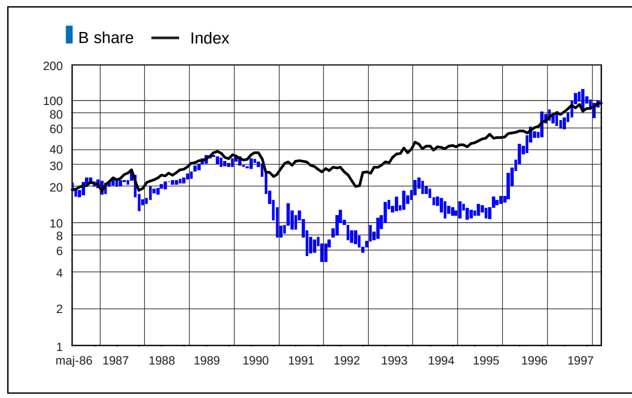
The IBS B share is quoted on the OTC list of the Stockholm Stock Exchange. During 1997 trading in IBS shares has been high with an average daily trade of SEK 4.1m and an annual turnover of 93%. Shares have been traded on every business day during 1997.

SHAREHOLDING

More than 80% of IBS' shares are held by non-Swedish citizens or institutions. This makes the IBS share the most internationally held stock at the Stockholm Stock Exchange.

As of 31 December, 1997, and updated as far as the information has reached IBS, there were 3 070 shareholder accounts with the following structure:

SIZE OF HOLDING 31 DEC. 1997	NUMBER OF OWNERS	%	NUMBER OF SHARES	%
1 - 1000	2 783	90	551 556	4
1001 - 10 000	245	9	537 134	4
10 001 - 100 000	26	1	765 680	6
100 001 -	16	0	12 013 048	86
Total	3 070	100	13 867 418	100



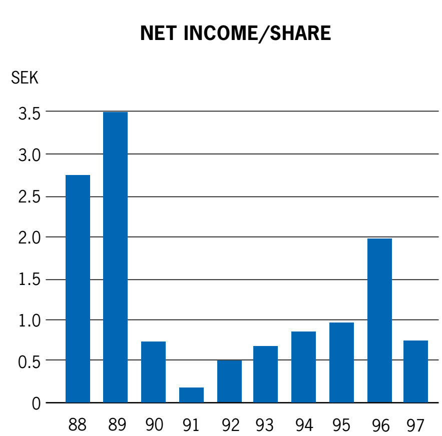
SHAREHOLDING ON 31 DECEMBER 1997

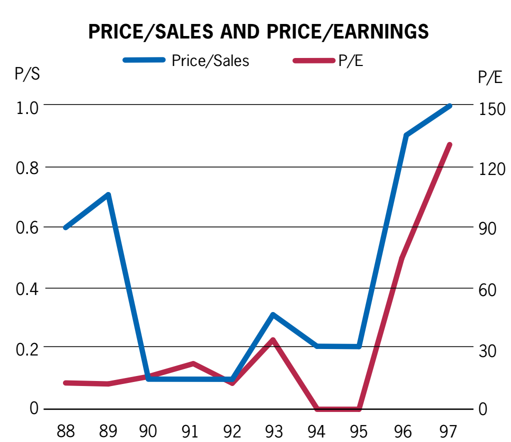
OWNERS	NUMBER OF OWNERS	A SHARES	B SHARES	SHARES %	VOTES %
Catella Holding AB	1	540 000	239 800	5.6	30.1
Munkenes AS (Öystein Tvenge)	1		2 068 800	14.9	11.1
Fidelity Investments	3		1 427 250	10.3	7.6
IS Torvald (Torstein Tvenge)	1		1 160 000	8.4	6.2
IBS Stichting	1		170 238	1.2	0.9
Uni Storebrand	1		110 000	0.8	0.6
Banco Fonder	2		95 659	0.7	0.5
Sv Miljöfond	1		39 420	0.3	0.2
Major institutions	**11**	**540 000**	**5 311 167**	**42.2**	**57.2**
Private holdings in excess of 50 000 shares	6		248 820	1.8	1.3
Chairman and MD	2		756 930	5.5	4.0
Other shareholders	3 051		7 010 501	50.5	37.5
Total	**3 070**	**540 000**	**13 327 418**	**100.0**	**100.0**

Data per share

1. STOCK PRICE, YIELD, CAPITALISATION	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Stock price at year end	25	34	8	5	7	16	12	15	72	92
Proposed dividend	0.18	0.23	0.23	0	0	0.23	0.23	0.27	0	0
Yield %	0.7	0.7	3.0	0	0	1.4	2.0	1.8	0	0
Average number of shares (k)	9 120	9 465	10 635	10 696	10 696	10 696	10 696	10 696	11 206	12 719
Total number of shares (k)	9 120	10 448	10 696	10 696	10 696	10 696	10 696	10 696	11 571	13 867
Market capitalisation (m)	228	355	86	53	73	171	130	160	833	1 276
2. EARNINGS, P/E RATIO (before dilution)										
Net income after full tax	2.25	3 .25	0.55	0.21	0.62	0.51	-0.85	-0.12	0.98	0.71
P/E ratio on historical earnings (full tax)	11	10	14	23	10	32	-	-	74	130
Net income after standard tax (28%)	2.63	3.36	0.70	0.17	0.48	0.65	-0.74	0.31	1.41	1.37
P/E ratio on historical earnings (standard tax)	9	10	11	28	13	25	-	50	51	67
Price/Sales (market value/historical turnover)	0.6	0.7	0.1	0.1	0.1	0.3	0.2	0.2	0.9	1.0
Adjusted shareholders' equity	9.23	12.93	12.7	10.89	11.81	12.71	13.28	10.92	13.00	19.75
Price/equity ratio %	269	257	60	44	55	130	88	141	554	466
3. EARNINGS, P/E RATIO (after dilution)										
Net income after full tax										0.70
P/E ratio on historical earnings (full tax)										131
Adjusted shareholders' equity										19.07
Price/equity ratio %										482
Average number of shares (k)										12 969
Total number of shares (k)										14 367
Market capitalisation (m)										1 322

Key figures for 1996 and earlier have been recalculated according to the 5:1 split, which was made on 20 January, 1997, and furthermore adjusted with the bonus issue part of the 1997 rights issue. This correction factor is calculated at 0.96.





Board of Directors

From left: Staffan Ahlberg, Lars V. Kylberg, Kåre Gilstring, Stig Nordfelt, Øystein Tvenge, Gunnar Rylander and Carl Hugo Bluhme.

STAFFAN AHLBERG
Aged 54. A Director since 1978 when the company was established. Group Managing Director of IBS since 1978. Shareholding (incl. that of family members): 328 530.

LARS V. KYLBERG
Aged 58. A Director since 1996. Chairman of Haldex. Deputy Chairman of ASG, Vasakronan, Civitas and SCANIA. Member of Morgan Crucibles (UK), Intrum Justitia (NL), Federation of Swedish Industries and NUTEK. Shareholding: 20 000

KÅRE GILSTRING
Aged 54. A Director since 1993. Chairman of Proact, RKS Data and Gesona. Member of Tryckindustri and Mariegården Investment. Shareholding: 60 000

STIG NORDFELT
Aged 58. A Director since 1984. Managing Director of Pilen. Member of H&M. Shareholding: 5 000

ØYSTEIN TVENGE
Aged 43. A Director since 1997. Managing Director of Intelco Holding. Chairman of Agresso Group. Shareholding: 2 068 800

CARL HUGO BLUHME
Aged 64. A Director since 1990. (Former President of IBM Sweden.) Chairman of Appelberg Group and Babybjörn. Member of Nordiska Holding. Shareholding: 1 000.

GUNNAR RYLANDER
Chairman. Aged 63. A Director since 1978 when the company was established. Managing Director of Catella Holding AB. Member of The Generics Group plc and JP Bank. Shareholding: 428 400

AUDITORS
KPMG BOHLINS AB

KARL-G. GIERTZ
Authorised Public Accountant

ANDERS MALMEBY
Authorised Public Accountant

Directors' Report

The Board of Directors of International Business Systems (IBS) Publikt Aktiebolag submits the following report for 1997. The currency used is the Swedish Krona.

The Operations

THE GROUP

Through the Parent Company, subsidiaries and business partners, the Group is engaged in development, sales, installation and servicing of business systems, supplying both standard software, professional services and hardware. During 1997, total revenue increased by 35%, totalling 1,312m. In addition, as an agent for IBM the Group sold hardware and software for some 323m, of which only the commission part, or 70m, is included as IBS' revenue.

THE PARENT COMPANY

The Parent Company manages and develops wholly or partly owned operative subsidiaries, develops an agent network for software products, and pursues development, maintenance and support of the Group's standard products as well as general marketing and international sales support. The Parent Company is largely financed by means of management fees from all operative units, calculated uniformly, and dividends as well as group contributions from the Swedish units. During 1997, the Parent Company used its option to increase ownership from 49% to 75% in IBS Polska S.p.z.o.o., Poland, and in IBS Portugal Lda, Portugal from 25% till 75%, in both cases per 1 October, 1997. During the past year, the Parent Company contributed to a reorganisation and re-structuring of the Swedish operations, for which the costs, amounting to 34m, have been taken as an exceptional charge in the 1997 accounts. Furthermore, an agreement has been signed with an external investor, to whom certain rights have been sold in return for future royalties for the years 2000-2006, emanating from the new generation of software. The agreement has the form of options in three tranches of 2.5% royalty each, for the amount of 10m per tranche. During 1997, two of these options have been exercised and duly accounted for as software license revenue.

FORECAST REGARDING FUTURE PROGRESS, INCLUDING RESEARCH AND DEVELOPMENT

In 1998, the strong market for business systems is anticipated to continue. The re-structuring measures taken in the Swedish operations are estimated to generate a considerable increase in profits. By new agreements with IBM, the commission status of IBS for computer hardware sales will be replaced by a remarketer agreement, which will substantially increase Group revenue, risk exposure, and probably increase profits as well. The margins for professional services are expected to show a positive development. Costs for product development will increase more than total revenue, especially in regard to development of a new generation of commercial products using the JAVA programming language. Joint development projects and product alliances based on a common base platform from IBM will be initiated.

OPERATING UNITS

Specifications of staff numbers per country and salaries including social security costs can be found in Note 1 in the Notes to the accounts.

NEW ISSUES

In June, a shareholders' rights issue of one to five was effectuated, totalling 90,000 A shares and 2,206,398 B shares. At the same time, 500,000 three-year warrants were issued to the management. The two issues increased shareholders' equity by 107m. Note 20 shows the effect of these issues on Parent Company equity.

Appropriation of funds

For 1997 the Board and the Managing Director propose that no dividend is to be paid.

Losses according to the Parent Company Balance Sheet amount to 4.9m. The Board and the Managing Director propose that the corresponding amount be transferred from Legal reserves.

The Group's unrestricted equity amounts to 48.8m. Regarding the Company's result and financial position, we refer to the enclosed Consolidated Income Statements, Balance Sheets, and the Notes to the Accounts.

Consolidated Statements of Income

(in SEK thousands)

		1997	1996
Software licences		293 749	202 299
Professional services		804 536	610 073
Other revenue		213 854	156 491
Total revenue	Note 2,3	**1 312 139**	**968 863**
Cost of revenue		-860 351	-613 795
Gross profit	Note 5	**451 788**	**355 068**
Sales and marketing costs		-156 095	-144 342
General and administrative costs		-176 015	-108 087
Product development costs		-91 917	-71 856
Income from operations	Note 1,3,4,5	**27 761**	**30 783**
Financial items			
Share of net income of associated companies		62	338
Interest revenue and miscellaneous items	Note 7	2 129	5 465
Interest costs and miscellaneous items	Note 8	-10 125	-11 820
Income after financial items		**19 827**	**24 766**
Provisions for income taxes	Note 11	-8 400	-11 536
Minority interests		-2 407	-1 819
Net income		**9 020**	**11 411**
Net income per share (SEK)		0.71	1.02
Net income per share after full dilution (SEK)		0.70	–
Average number of shares in thousands		12 719	11 206
Average number of shares in thousands after full dilution		12 969	–

Consolidated Statements of Cash Flows

(in SEK thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Income after financial items	19 827	24 766
+Depreciation and amortisation	56 658	39 186
±Gain (loss) on disposal of machinery and equipment	1 846	-71
-Taxes excluding deferred taxes	-2 522	-8 674
-Adjustments for other, non-liquid items	-12 594	-6 428
Internal cash flows from operating activities	**63 215**	**48 779**
CHANGES IN WORKING CAPITAL (EXCLUDING CASH AND CASH EQUIVALENTS)		
Increase(-)/decrease (+) in inventories	1 373	-1 816
Increase(-)/decrease(+) in current assets	-116 319	-84 807
Increase(+)/decrease(-) in current liabilities	42 393	94 083
Proceeds from sales of machinery and equipment	1 978	2 044
Decrease in financial receivables	1 766	2 664
New issue and other shareholders' contributions	107 311	27 650
Increase in long-term liabilities	11 578	9 556
Net cash flows from operations	**50 080**	**49 374**
CASH FLOWS USED		
Investments in immaterial assets	-33 158	-27 136
Investment in machinery and equipment	-40 251	-29 494
Investments in financial assets	-25 365	-20 336
Dividends	0	-2 995
Net cash used	**-98 774**	**-79 961**
Changes in liquid assets	**14 521**	**18 192**

Consolidated Balance Sheets

(in SEK thousands)

		1997	1996
ASSETS			
NON-CURRENT ASSETS			
Immaterial assets			
Capitalised software development costs, net	Note 12	23 588	15 718
Goodwill	Note 13	39 005	27 398
		62 593	**43 116**
Fixed assets			
Machinery and equipment	Note 15	66 780	58 291
Financial leasing contracts	Note 14	52 833	42 507
		119 613	**100 798**
Other non-current assets			
Investments in and advances to associated companies	Note 18	200	1 446
Other non-current asssets	Note 19	8 468	8 988
		8 668	**10 434**
Total non-current assets		**190 874**	**154 348**
CURRENT ASSETS			
Inventories		**1 023**	**2 397**
Current assets			
Accounts receivable		362 448	273 874
Prepaid taxes		9 342	0
Other current assets		20 113	16 595
Prepaid costs and accrued revenue		61 952	47 067
		453 855	**337 536**
Cash and cash equivalents		**75 110**	**60 589**
Total current assets		**529 988**	**400 522**
TOTAL ASSETS		**720 862**	**554 870**

(in SEK thousands)

		1997	1996
STOCKHOLDERS' EQUITY AND LIABILITIES			
STOCKHOLDERS' EQUITY	Note 20		
Restricted reserves			
Stockholders' equity (540 000 Class A Ordinary Shares with 10 votes per share; 13 327 418 Class B Ordinary Shares with 1 vote per share)		13 867	11 571
Restricted reserves		211 267	109 775
		225 134	**121 346**
Non-restricted equity			
Non-restricted reserves		39 772	23 910
Net income for the year		9 020	11 411
		48 792	**35 321**
Total stockholders' equity		**273 926**	**156 667**
Minority interests		**8 484**	**5 912**
Deferred taxes	Note 25	**100**	**7 910**
Long-term liabilities			
Long-term borrowings, net of current portion	Note 23	2 889	6 519
Other long-term liabilities	Note 24	45 373	30 165
		48 262	**36 684**
Current liabilities			
Short-term borrowings	Note 22	44 700	81 314
Accounts payable		78 103	44 098
Accrued income taxes	Note 25	8 717	0
Other short-term liabilities	Note 24	71 640	91 651
Accrued costs and prepaid revenue	Note 26	186 930	130 634
		390 090	**347 697**
Total liabilities		**438 452**	**384 381**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**720 862**	**554 870**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets			
Corporate mortgages		1 600	8 800
Assets charged with ownership reservation		32 365	26 376
Shares in subsidiaries		–	10 482
Accounts receivable		–	39 815
		33 965	**85 473**
Contingent liabilities			
Warranties		1 638	–
Guarantees to others		1 803	5 001
Sureties and other contingent liabilities		38 394	7 198
		41 835	**12 199**

Parent Company Statement of Income

(in SEK thousands)		1997	1996
Revenue		135 610	90 402
Cost of revenue		-1 553	-1 991
Gross profit		**134 057**	**88 412**
Sales and marketing costs		-33 628	-23 928
Administrative costs		-14 412	-12 844
Product development costs		-59 471	-43 962
Other operating revenue		5 714	3 511
Other operating costs		-8 980	-5 676
Income from operations	Note 1,4	**23 280**	**5 513**
Financial items			
Share of net income of consolidated companies	Note 6	13 785	3 210
Interest revenue	Note 7	2 772	4 372
Interest costs	Note 8	-5 276	-8 307
Income after financial items		**34 561**	**4 788**
Special adjustments			
Shareholders' addition	Note 9	-48 294	-1 430
Group contribution, received		7 560	16 768
Group contribution, paid		-40 499	-11 288
Other adjustments	Note 10	1 723	-2 745
Income before income taxes		**-44 949**	**6 093**
Provisions for income taxes	Note 11	-18	-1 461
Net income		**-44 967**	**4 632**

Parent Company Balance Sheet

(in SEK thousands)		December 31 1997	1996
ASSETS			
Non-current assets			
Immaterial assets			
Capitalised software development costs, net	Note 12	**15 829**	**13 450**
Fixed assets			
Machinery and equipment	Note 15	**3 409**	**3 139**
Other non-current assets			
Shareholdings in subsidiaries	Note 16	123 008	106 353
Long-term accounts receivable, subsidiaries	Note 17	151 951	0
Shareholdings in associated companies	Note 18	183	1 346
Other long-term shareholdings		336	336
Other non-current assets	Note 19	720	1 331
		276 198	**109 366**
Total non-current assets		**295 436**	**125 955**
Current assets			
Short-term receivables			
Accounts receivable, external		15 611	10 416
Accounts receivable, subsidiaries	Note 17	77 213	100 248
Other current assets		1 660	1 390
Prepaid costs and accrued revenue		5 051	1 142
		99 535	**113 196**
Cash and cash equivalents		**212**	**2 775**
Total current assets		**99 747**	**115 971**
TOTAL ASSETS		**395 183**	**241 926**
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' equity	Note 20		
Restricted equity			
Stockholders' equity (540 000 Class A shares with 10 votes per share; 13 327 418 Class B shares with 1 vote per share)		13 867	11 571
Restricted reserves		207 972	92 949
		221 839	**104 520**
Non-restricted equity			
Non-restricted reserves		40 058	35 424
Net income for the year		-44 967	4 632
		-4 909	**40 056**
TOTAL STOCKHOLDERS' EQUITY		**216 930**	**144 576**
Untaxed reserves			
Accumulated cost depreciation less book depreciation	Note 21	412	638
Profit adjustment fund	Note 21	0	1 723
Foreign exchange reserve		610	384
		1 022	**2 745**
Long-term liabilities			
Long-term liabilities, subsidiaries		114 042	5 598
Other long-term liabilities	Note 24	5 367	0
		119 409	**5 598**
Current liablities			
Short-term borrowings	Note 22	28 025	63 126
Interest bearing debt		0	3 314
Accounts payable, suppliers		4 467	4 080
Current liabilities, subsidiaries		7 886	0
Accrued income taxes		438	772
Other short-term liabilities	Note 24	3 588	5 425
Accrued costs and prepaid revenue	Note 26	13 418	12 290
		57 822	**89 007**
TOTAL LIABILITIES		**177 231**	**94 605**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**395 183**	**241 926**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets			
Shares in subsidiaries		–	**6 988**
Contingent liabilities			
Warranties		1 638	–
Guarantees to others		1 803	5 001
		3 441	**5 001**

Parent Company Statement of Cash Flows

(in SEK thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Income after financial items	34 561	4 788
+Depreciation and amortisation	9 748	6 493
- Taxes	-18	-1 461
Internal cash flows from operating activities	**44 291**	**9 820**
CHANGES IN WORKING CAPITAL (EXCLUDING CASH AND CASH EQUIVALENTS)		
Increase(-)/decrease(+) in current assets	13 661	-37 456
Increase(+)/decrease(-) in current liabilities	-31 185	27 029
Decrease in financial receivables	0	8 967
New issue and other shareholders' contribution	117 321	27 650
Received group contribution	7 560	16 768
Increase in long term liabilities	113 811	5 598
Net cash flows from operations	**221 168**	**48 556**
CASH FLOWS USED		
Investments in immaterial assets	-10 524	-8 928
Investments in machinery and equipment	-1 873	-906
Investments in financial assets	-166 832	-30 083
Given group and shareholders' contributions, subsidiaries	-88 793	-12 718
Dividends	0	-2 995
Net cash used	**-268 022**	**-55 630**
Changes in liquid assets	**-2 563**	**2 746**

Accounting Policies (Swedish)

(amounts in SEK unless otherwise stated)

GENERAL ACCOUNTING POLICIES

From 1997 onwards, the new, EU-adapted Annual Accounts Act is adopted. For the IBS Group, this change has principally resulted in altered presentations of the Consolidated Income Statements and Balance Sheets. Furthermore, the Consolidated Income Statements and Balance Sheets for earlier years have been recalculated according to the new rules. The new rules have only marginally affected the valuation principles of the company. IBS adheres to the rules stipulated by the Swedish Financial Accounting Standards Council and also, as far as possible, the US Accounting Principles.

VALUATION PRINCIPLES

Assets, reservations and liabilities are stated at acquisition values unless otherwise stated.

REVENUE RECOGNITION

Revenue includes billed professional services, software licence fees, IBM commission from AS/400 systems and other hardware sales. Furthermore, revenues in respect of re-invoiced goods and services as well as other maintenance and support services are recognised as revenue.

Revenues from initial licence fees are recognised either (i) upon execution of the contract and shipment of the relevant software, where there are no significant obligations to perform after the date of the sale, or (ii) where there are significant obligations to perform after the date of the sale, on methods which approximate the percentage-of-completion of modification or customisation work. The unrecognised part of billed licence fee income is reported as prepaid revenue. Provisions for losses on uncompleted contracts are recognised in the period such losses are determined.

Revenues related to maintenance and support services are recognised on a straight line basis over the contract period.

Hardware sales are recognised upon installation of the hardware. Commissions earned on sale of IBM hardware are recognised on delivery.

Revenues from implementation, training and consulting services are recognised when the relevant services are performed.

FEES FOR WORK IN PROGRESS

Most of the Group's services are carried out on a current basis.
Fees invoiced and related costs are charged to the current result.

PROFIT RECOGNITION FOR PROJECTS

Revenue recognition for fixed price projects or projects on a current account with a previously decided maximum fee is booked according to the percentage of completion method. For current accounts with a maximum fee, invoices are normally issued once a month corresponding to the amount of work done. At the end of a revenue recognition period, only the portion of revenue which match the corresponding project costs for the same period is recognised. Changes in calculated total revenue and costs are recorded in the same period as they are detected. In this way, current reservations are made for potential losses in risk projects.

COSTS FOR WARRANTIES

Estimated costs for product and project warranties are posted as costs when such reservations are deemed necessary.

PROFIT RECOGNITION OF CONTRACTUAL RENEWAL LICENCE FEES

The right to utilise IBS' software products is granted against licence fees, payable both initially and whenever utilisation is expanded, as well as on a periodical basis. The two former types of revenue are accounted for in accordance with the second paragraph under the heading "Revenue recognition" above. As far as the periodic payments are concerned, the customers have normally the right to cancel their utilisation at the latest three months before the initiation of a new 12 month licence period. Failing such cancellation in due time, the customers are obliged to pay for another 12 month licence period.

These payments, which are paid in advance, will be entered as revenue during the first month of each renewal period. The current value of these rights for future revenue without matching costs can be calculated at approximately SEK 173m, which amount is not shown in the balance sheet. The calculated corresponding amount in 1996 was approximately SEK 122m, i.e. a change during 1997 of approximately SEK 51m, which amount is not entered as revenue in the Income Statement.

RESEARCH AND DEVELOPMENT COSTS

IBS develops and sells its proprietary standard software. Costs for research and development work are charged to expense as incurred until "technological feasibility" has been established for the product. Thereafter, software production costs, up to the point of general release of the product to customers within 12 months, are capitalised. The capitalised amount is distributed over a three year period. The balanced development costs are specified in the balance sheet under "Capitalised software development costs, net" and are also specified in Note 12 to the Accounts.

CAPITALISED R&D WORK

In cases where research and development costs are capitalised and IBS' own staff is used in the development projects in question, costs for salaries, overheads plus an average 50% mark-up for general expenses are included.

TAXES ON 1997 PROFITS

Total Group tax expenses are computed by paid taxes and deferred taxes. Taxes are calculated in accordance with national legislation. Coupon taxes for dividends to the Parent Company are included. The tax rules in many countries differ from the rules used for financial accounting purposes, and hence timing differences occur between taxable profit and profit for financial reporting purposes. For instance:

- tax allowances for depreciation exceed normal financial depreciation of fixed assets
- in certain countries the tax rules permit that an amount can be appropriated to a Profit Adjustment Fund, to allow service companies to establish untaxed reserves and strengthen their financial position.

In the Consolidated Accounts, full allocation for deferred tax has been made according to the liability method. The tax rates used follow the national legislation in each country. Deferred taxes are shown under tax provisions.

The value of unused tax deductible losses carryforward are recognised only to the extent that they are likely be utilised.

EXCEPTIONAL CHARGES

Recommendation 4 from the Swedish Financial Accounting Standards Council is adoped, stating that the profit and loss effects by certain events and transactions should be specified under the specific item in question. Examples of such transactions are capital gains/losses from disposal of business operations and/or essential fixed assets, depreciations or restructuring costs (please refer to Note 3).

HEDGING OF COMMERCIAL TRANSACTIONS

When hedging contractual and budgeted forecasted currency flows, the exchange rate differences are acounted for during the same period of time as the underlying currency flows.

INVENTORY

Inventory, valued in accordance with Recommendation 2 of the Swedish Financial Accounting Standards Council, is booked at the lowest of the FIFO method value or the actual value.

ACCOUNTS RECEIVABLE

Accounts receivable are valued individually and accounted for as they are deemed to be received. Customer invoice amounts older than five months from expiry date are provided for and expensed.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES

Receivables and liabilities in foreign currencies have been recalculated at closing day rates, in accordance with Recommendation 7 of the Swedish Financial Accounting Standard Council. Exchange rate differences for current assets and liabilities are included in the Income Statements, while differences for financial income and expense are included in the financial items. In the Swedish subsidiaries, unrealised gains on long-term receivables and liabilities are transferred to exchange rate reserves. In the consolidated accounts, the exchange rate reserve is divided into deferred taxes and restricted equity.

DEPRECIATION PRINCIPLES FOR NON-CURRENT ASSETS

Cost depreciation is calculated on the original acquisition value and estimated lifetime of the assets. Write-offs are applied only for permanent depreciations in value.

The following depreciation periods are applied:

	The Group and Parent Company Number of years
Immaterial assets	
Capitalised software development costs	3
Operating systems software	4
Goodwill	10
Fixed assets	
Personal computers and mobile phones	3
Investment in rented premises	4
Computers	4
Computer peripherals	5
Cars	5
Equipment	6

The difference between the above described depreciation according to plan and tax depreciation is shown in the accounts for the various subsidiaries as "Special adjustments" and as changes in "Untaxed reserves". However, in the Consolidated Accounts, full allocation for deferred tax has been made using tax rates in respective country on changes in untaxed reserves. Tax depreciation has been charged in accordance with national legislation and practice of the respective countries. The aim has been to achieve the maximum depreciation amounts permitted by tax legislation.

GOODWILL

The Consolidated Balance Sheet has been prepared in accordance with the past equity method. Using this method, the acquisition value of shares in subsidiaries is eliminated against the equity in the subsidiaries, including untaxed reserves after deductions for estimated deferred tax liabilities. The difference is classified as goodwill. Normally, goodwill is depreciated during 10 years unless negligible or substantial, in which cases the amount is written off at once or according to an individual plan. Goodwill is depreciated during ten years as the estimated excess profitability in the form of professional services, maintenance agreements and additional licences from customers of the acquired companies is deemed to have such a duration.

INVESTMENTS IN OFFICES AND EXTERNAL SOFTWARE

Expenses for opening of new offices are normally charged as costs in the year in which they are incurred. Major rebuilding costs in rented offices are classified as investment and depreciated over four years. Acquired software, mainly operating systems and development tools, is depreciated over four years.

LEASING

In the Consolidated Statements, leasing is classified either as financial or operational leasing. The term financial leasing is used as the financial risks and benefits of ownership are essentially transferred to the lessee; all other cases are classified as operational leasing. In brief, in cases of financial leasing the objects are shown as assets in the balance sheet. At the same time, a corresponding liability is booked on the liabilities side of the balance sheet. In the Income Statement, the leasing cost is divided into a depreciation element included in Depreciations and an interest element entered under Interest costs. Operational leasing does not result in any postings on the assets or liabilities sides of the balance sheet. In the Income Statement, the leasing cost is divided over time, from the starting time of utilisation, which could differ from actual leasing costs during the year.

In the Parent Company, all leasing agreements are accounted for according to the rules of operational leasing and expensed.

CASH EQUIVALENTS

Cash equivalent investments are valued according to the Annual Accounts Act to the lowest of the two values acquisition value and actual value.

CHANGED ACCOUNTING POLICIES

It is IBS' intention to comply with Swedish as well as US accounting practices and at the same time try to minimise the differences.

The effect of applying US accounting practices on the 1996 closing balances and thus on the 1997 opening balances are as follows (please also refer to Note 15 in the 1996 Annual Report):

A. Consolidated Income Statements

	1996 According to Swedish accounting practice	Effect of the change	1996 US accounting practice
Revenue	996 542	-27 679	968 863
Operating costs	-958 088	20 008	-938 080
Financial items	-6 031	-324	-6 355
Share of income from associated companies	–	338	338
Taxes	-14 619	3 083	-11 536
Minority interest, net	-1 819	0	-1 819
Net income	**15 985**	**-4 574**	**11 411**

The effects of application of US accounting practices are mainly the following:

Deferred income from software licences	-7 813
Changed consolidation date for the acquisition of Proget SA, Belgium:	
- 1996 revenue before consolidation date according to US practice	-19 866
- 1996 costs before consolidation date according to US practice	19 788
Shorter depreciation periods of goodwill according to US practice	- 566
Application of the equity method for associated companies	338
Other	462
Taxes on changed amounts	3 083
Total changes	-4 574

B. Consolidated Balance Sheets

	1996 According to Swedish accounting practice	Effect of the change	1996 US accounting practice
Cash and cash equivalents	60 589		60 589
Accounts receivable	273 874		273 874
Accrued revenue	64 795	-33 848	30 947
Other current assets	35 112		35 112
Total current assets	**434 370**	**-33 848**	**400 522**
Goodwill	28 680	-1 282	27 398
Other fixed assets	127 013	-63	126 950
Total non-current assets	**155 693**	**-1 345**	**154 348**
Total assets	**590 063**	**-35 193**	**554 870**
Accrued costs	94 418	-803	93 615
Deferred revenue	30 266	6 753	37 019
Other current liabilities	217 063		217 063
Total current liabilities	**341 747**	**5 950**	**347 697**
Deferred taxes	20 103	-12 193	7 910
Other long term liabilities	36 272	412	36 684
Total long term liabilities	**56 375**	**-11 781**	**44 594**
Minority interests	**5 912**		**5 912**
Restricted equity	121 346		121 346
Retained earnings	64 683	-24 561	40 122
Accumulated exchange rate differences	–	-4 801	-4 801
Stockholders' equity	**186 029**	**-29 362**	**156 667**
Total liabilities and stockholders' equity	**590 063**	**-35 193**	**554 870**

The total effect on stockholders' equity of 29 362k when applying US accounting practice mainly reflects the difference in timing for revenue recognition of licence fees when tax effects are eliminated. Included are also the minor effects of changed depreciation periods for goodwill as well as the application of the equity method for investments in associated companies. Deferred revenue will be taken up as revenue during the coming periods.

CONSOLIDATED ACCOUNTS

The Consolidated Accounts are stated in accordance with the recommendations of the Swedish Financial Accounting Standards Council.(RR1:96). The consolidated accounts include companies in which the Parent Company, directly or via subsidiaries, holds more than 50% of the votes, or in which the Parent Company has a major influence according to the Annual Accounts Act, 1:4.

ASSOCIATED COMPANIES

Shareholdings in associated companies, i.e. companies where the IBS Group holds at least 20% but not exceeding 50% of the votes, or in which IBS has a major financial and/or operational interest, are normally accounted for according to the equity method. The equity method means that book value of the shares in associated companies is equal to the Group's share in the associated companies' stockholders' equity as well as in possible residual values in the consolidated surplus values or underestimates. The item "Share of net income of associated companies" in the Consolidated Income Statements shows the Group's share of the result in associated companies after financial income and expense and adjusted for possible depreciations of or dissolved acquired surplus values or underestimates. The Group's share in taxes paid by the associated companies is included in the Group tax expenses and Group minority interest in the result of associated companies is included in the item "Minority interests".

TRANSLATION OF FINANCIAL STATEMENTS OF SUBSIDIARIES

The year end financial statements of subsidiaries have been translated according to the current method. This method means that all assets, provisions and other liabilities are translated using the exchange rates on the closing day and that all items in the Income Statements are translated according to the average exchange rate of the year. Arising translation differences are recorded against stockholders' equity.

GROUP INFORMATION

The Parent Company's percentage of intercompany purchasing from subsidiaries, measured in Swedish Kronor, amounted to 12% (last year 17%) of total purchasing. Intercompany invoicing to subsidiaries amounted to 41% (48%) of total revenue.

All parts of the profits and losses of the below mentioned companies are accounted for to 100% in the consolidated financial statements from the date of acquisition. Payment for acquired shares has been made on the date of acquisition. The parts of the profits and losses attributable to minority shareholders have been eliminated under the headings "Attributable to minorities" and "Minority interests".

In January, 1997, 51% of the French consultancy company, Excelsius SA, employing 5 persons, were acquired. On 1 October, 1997, IBS increased its ownership in the Portuguese associated company, IBS Duosoft, from 25% to 75%. On 1 October, 1997, IBS increased its ownership in the Polish associated company, IBS Polska, from 49% to 75%. In December 1997, IBS increased its ownership in the Germany subsidiary, IBS GmbH, from 60% to 75%. On 29 December 1997, 100% of the shares in the Dutch company, IBS Benelux (subject to change of name) were acquired. The company has no employees.

Financial Terms Used

INCOME AFTER FINANCIAL ITEMS

Income after financial items refers to operating revenue minus operating costs. These include cost depreciation on fixed assets and amortisation of goodwill and capitalised research and development costs and financial items.

MARGIN

Income after financial items as a percentage of total revenue.

VALUE ADDED

The value added is calculated as income from operations plus cost of staff.

STANDARD TAX

28% of income after financial items and net minority interests.

FULL TAX

Taxes are computed as current tax expense for the year plus a deferred tax amount, calculated according to the national tax legislation in the respective countries, on deferred income.

RETURN ON TOTAL CAPITAL

Income after financial items increased by interest costs as a percentage of total average assets during the year.

RETURN ON CAPITAL EMPLOYED

Income after financial items increased by interest costs as a percentage of the average capital employed during the year.

Capital employed is total assets decreased by non-interest bearing liabilities including deferred tax.

RETURN ON SHAREHOLDERS' EQUITY

Net income as a percentage of adjusted shareholders' equity brought forward plus newly issued capital (adjusted pro rata if issued during the year).

LIQUIDITY

Current assets less inventories as a percentage of current liabilities.

ADJUSTED SHAREHOLDERS' EQUITY

Taxed shareholders' equity plus the net amount after tax calculation of the difference between market value and book value of listed shares.

TOTAL ASSETS

The sum of all posted assets.

CAPITAL TURNOVER RATIO

Total revenue for the year divided by average total assets.

RATIO OF RISK CAPITAL

Adjusted shareholders' equity, deferred taxes and minority interest as a percentage of total assets. Since the percentage of risk capital is used as a measure of the Group's real financial strength, i.e. its capacity to withstand losses over a long period of time, minority interests and deferred tax liabilities are included in equity.

SOLIDITY

Adjusted shareholders' equity and minority interests as a percentage of total assets.

INTEREST EXPENSE COVERAGE

The sum of income after financial items and interest costs divided by interest costs.

DATA PER SHARE

Since our shareholders subscribed to issues of new shares below market price, the number of shares and related data for 1996 and earlier has been recalculated with a correction factor of 0.96 reflecting this bonus. To facilitate comparison over time, all information concerning number of shares has been recalculated with respect to the split of 5:1 which was made on January 20, 1997.

EARNINGS PER SHARE

Net income divided by the average number of shares.

Notes to the Accounts (Swedish Acounting Principles)

Amounts in thousands unless otherwise stated

NOTE 1. STAFF AND REMUNERATION

Average number of staff and total number of staff

	Average 1997	Male	1996	Male	Total 31 Dec 1997	31 Dec 1996
Parent Company						
Sweden	78	71%	62	66%	86	68
Subsidiaries						
Sweden	539	70%	467	72%	544	499
France	138	69%	125	67%	142	127
Belgium	127	77%	94	72%	137	116
USA	92	57%	67	67%	110	73
UK	110	58%	91	54%	122	100
Finland	101	52%	90	56%	111	91
Denmark	61	74%	56	66%	60	58
Portugal (3 months -97)	27	63%			106	
Germany (6 months -96)	20	80%	7	86%	22	14
Norway	28	75%	28	79%	27	30
Poland (3 months -97)	7	71%			27	
Total number of staff in subsidiaries	1250	68%	1025	68%	1408	1108
Total Group	1328	68%	1087	68%	1494	1176

Salaries, remunerations and social security fees

	1997 Salaries and remun.	Social security fees	1996 Salaries and remun.	Social security fees
Parent company	30 051	14 921	26 221	11 884
Pension expenses thereof	[1]	4 515	[1]	2 934
Subsidiaries	503 264	217 428	411 635	121 170
Pension expenses thereof		31 906		24 900
Total Group	533 315	232 349	437 856	133 054
Pension expenses thereof	[2]	36 421	[2]	27 834

[1] Of the total pension premium costs of the Parent Company, 260 (last year 242) were attributable to the Board of Directors and the Managing Director.

[2] Of the Group total pension premium costs, 6 453 (last year 5 235) were attributable to the Board of Directors and the Managing Directors. The outstanding pension obligations to the Board of Directors and the Managing Directors are paid annually.

Salaries and remunerations distributed per country and specified for the Board of Directors, Managing Directors and other employees

	1997 BoD, MD Deputy MD	Other employees	1996 BoD, MD Deputy MD	Other employees
Parent Company:				
Sweden	2 864	27 187	2 028	24 193
Bonus parts thereof	1 733		818	
Subsidiaries in Sweden:				
Total	7 228	185 339	5 735	155 242
Bonus parts thereof	2 290		480	
Other European Subsidiaries:				
Total	19 935	259 296	17 710	203 234
Bonus part thereof	2 723		2 316	
Subsidiaries, rest of the world:				
Total	3 825	27 639	2 762	26 951
Bonus part thereof	1 047		694	
Total Group:				
Total	33 852	499 461	28 235	409 620
Bonus part thereof	7 793		4 308	

Remunerations to senior management

Chairman of the Board of Directors
Remuneration to the Chairman of the Board amounted to 150k. No other obligations in the form of pension agreements, severance payments or benefits exist.

Group Managing Director
During 1997, the Group Managing Director (GMD) received a fixed salary, including the benefits of a company car, amounting to 1 093k, as well as bonuses amounting to 798k. No other remunerations exist besides the generally accepted Swedish per diem allowances and pension benefits. The Board of Directors has the authority to dismiss the GMD from his duties without notice, in which case the GMD is to receive remunerations corresponding to two years' fixed salaries. In the event of changed ownership, resulting in new owners taking over the actual influence of the company, the GMD reserves the right to consider his contract terminated.

All other company management staff receive generally accepted Swedish pension benefits. In case of the company giving notice of termination, the staff is entitled to a severance pay of minimum 3 to maximum 24 fixed monthly salaries.

NOTE 2. REVENUE PER GEOGRAPHICAL MARKET

	1997	1996
Revenue per geographical market		
Sweden	706 046	539 081
France	143 906	114 040
Belgium	124 658	85 511
USA	120 425	77 881
UK	103 939	66 226
Finland	78 506	57 865
Denmark	67 363	51 468
Portugal (three months -97)	19 067	–
Germany (six months -96)	31 745	11 863
Norway	26 175	25 766
Poland (three months -97)	1 801	–
Eliminations	-111 492	-60 838
	1 312 139	968 863

NOTE 3. EXCEPTIONAL CHARGES

	1997	1996
The Group		
Restructuring costs in Sweden	-34 000	–

During the autumn of 1997, the Swedish operations were restructured and a new management team was appointed. The restructuring costs, including severance payments and write-offs for past development projects in the Swedish operations in the amount of 34m, are booked under the respective headings in the 1997 accounts.

NOTE 4. DEPRECIATION OF NON-CURRENT ASSETS

	1997	1996
The Group		
Depreciation according to plan		
distributed per asset		
Capitalised research and development costs	-9 198	-5 428
Goodwill	-4 483	-2 879
Financial leasing contracts	-15 039	-8 666
Machinery and equipment	-27 938	-22 213
	-56 658	-39 186
Depreciation according to plan		
distributed per function		
Total direct costs	-38 390	-27 207
Sales and marketing costs	-6 365	-3 886
Administrative costs	-7 638	-4 806
Product development costs	-4 265	-3 287
	-56 658	-39 186
Parent Company		
Depreciation according to plan		
distributed per asset		
Capitalised research and development costs	-8 145	-5 127
Machinery and equipment	-1 603	-1 366
	-9 748	-6 493
Depreciation according to plan		
distributed per function		
Sales and marketing cocts	-418	-366
Administrative costs	-107	-83
Product development costs	-1 064	-904
Other operating costs	-8 159	-5 140
	-9 748	-6 493

NOTE 5. GROSS PROFIT AND INCOME FROM OPERATIONS PER BUSINESS SEGMENT AND GEOGRAPHICAL MARKET

	1997	1996
The Group		
Gross Profit per business segment		
Software licences	255 814	180 306
Professional services	111 369	96 095
Other revenue	84 605	78 667
	451 788	355 068
Income from operations per geographical market		
Sweden	-28 362	21 702
Rest of Europe	43 431	7 863
Rest of the world	12 692	1 218
	27 761	30 783

NOTE 6. SHARE OF NET INCOME OF CONSOLIDATED COMPANIES

Parent company

	1997	1996
Received dividends	13 785	3 210

NOTE 7. INTEREST REVENUE AND MISCELLANEOUS ITEMS

	1997	1996
The Group		
Interest revenue	2 129	4 003
Exchange rates differences	–	1 462
	2 129	5 465
Parent Company		
Interest revenue, consolidated companies	2 745	3 196
Interest revenue, other	27	1 176
	2 772	4 372

NOTE 8. INTEREST COSTS AND MISCELLANEOUS ITEMS

	1997	1996
The Group		
Interest cocts related to		
financial leasing contracts	-3 410	-2 616
Other interest costs	-6 474	-8 981
Exchange rate differences related		
to financial liabilities	-241	0
Other	0	-223
	-10 125	-11 820
Parent company		
Interest costs, consolidated companies	-1 675	-2 887
Other	-3 601	-5 420
	-5 276	-8 307

NOTE 9. SHAREHOLDERS' ADDITION

	1997	1996
Parent Company		
Granted shareholders' addition to		
subsidiaries	-48 294	-1 430

NOTE 10. OTHER ADJUSTMENTS

	1997	1996
Parent Company		
Change in difference between book value		
and depreciation according to plan,		
machinery and equipment	226	-638
Change in profit adjustment fund	1 723	-1 723
Change in foreign exchange reserve	-226	-384
	1 723	-2 745

NOTE 11. PROVISIONS FOR INCOME TAXES

	1997	1996
The Group		
Paid taxes	-2 522	-8 674
Deferred taxes	-5 878	-2 862
	-8 400	-11 536

	1997	1996
Parent Company		
Paid taxes	-18	-1 461

NOTE 12. CAPITALISED SOFTWARE DEVELOPMENT COSTS, NET

	The Group	Parent Company
Accumulated acquisition values		
Opening balance	23 527	20 507
Capitalised software development costs for the year	15 602	10 525
Translation differences for the year	629	0
	39 758	31 032
Accumulated depreciation according to plan		
Opening balance	-7 757	-7 057
Reclassifications	917	0
Depreciation according to plan for the year	-9 198	-8 146
Translation differences for the year	-132	0
	-16 170	-15 203
Book value at year end	**23 588**	**15 829**

NOTE 13. GOODWILL

	The Group
Accumulated acquisition values	
Opening balance	32 289
Acquisitions for the year	15 271
Translation differences for the year	213
	47 773
Accumulated depreciation according to plan	
Opening balance	-4 891
Reclassifications	665
Depreciation according to plan for the year	-4 483
Translation differences for the year	-59
	-8 768
Book value at year end	**39 005**

NOTE 14. FINANCIAL LEASING CONTRACTS

	The Group
Machinery and equipment under financial leasing contracts are included with the following amounts	
Acquisition values	75 969
Accumulated depreciation	-23 136
	52 833
Assets under operational leasing contracts	
Leasing expenses paid during the year	25 654
Contractual future leasing expenses	115 980

NOTE 15. MACHINERY AND EQUIPMENT

	The Group	Parent Company
Accumulated acquisition values		
Opening balance	198 835	11 354
Acquisitions for the year	34 111	1 865
Acquisitions of subsidiaries	6 696	0
Disposals and sales	-23 072	-5 989
Reclassifications	0	299
Translation differences for the year	2 522	0
	219 092	7 529
Accumulated depreciation according to plan		
Opening balance	-140 544	-8 215
Acquisitions of subsidiaries	-1 091	0
Disposals and sales	18 227	5 864
Reclassifications	0	-167
Depreciation according to plan for the year	-27 938	-1 602
Translation differences for the year	-966	0
	-152 312	-4 120
Book value at year end	**66 780**	**3 409**

NOTE 16. SHARE HOLDINGS IN SUBSIDIARIES

Parent Company	1997
Accumulated acquisition values	
Opening balance	106 353
Acquisitions during the year	16 655
Book value at year end	123 008

Specification of shareholdings by the Parent Company and the Group in consolidated companies

Subsidiary/Registration No./Domicile	Number of shares	Holding in %	Book value
Parent Company shareholdings:			
IBS Stockholm AB// 556130-8312// Solna, Sweden	1 000	100	1 038
IBS Väst AB// 556049-2969// Gothenburg, Sweden	600	100	209
IBS Norr AB// 556254-4758// Söderhamn, Sweden	500	100	121
IBS Leasing AB// 556253-2902// Solna, Sweden	500	100	50
IBS Sverige AB// 556238-3686// Solna, Sweden	500	100	100
IBS Mellansverige AB// 556284-3812// Linköping, Sweden	500	100	232
IBS Syd AB// 556219-3291// Malmö, Sweden	500	100	339
IBS Göteborg Konsult AB// 556494-8148// Gothenburg, Sweden	500	100	100
Konsult AB Shima// 556460-2430// Solna, Sweden	500	100	376
IBS Norra Norrland AB// 556303-1458// Umeå, Sweden	700	100	5 000
IBS Industridata AB// 556303-8990// Vetlanda, Sweden	3 200	80	3 267
IBS Tietolinkki Oy// 01150908// Helsinki, Finland	40 000	100	16 358
International Business Systems N.V., // 426 362 015// Sint-Martens-Latem, Belgium	2 600	100	12 610
Informatique Proget// 417 249 953// Zaventhem, Belgium	1 250	100	26 810
IBS Errpege A/S// 71 13 32 14// Farum, Denmark	10	100	2 998
IBS (UK) Holdings Ltd. // 570 1990 37// Newbury, Berks., UK	254 000	100	11 923
IBS France SA// 62 309 844 918// Puteaux, France	237 309	85	15 036
IBS Norge A/S// 918 037 667// Oslo, Norway	751	100	4 045
International Business Systems United States Inc.// Folsom, California, USA	50 000	100	12 220
International Business Systems (IBS) GmbH.// 118 667 367// Hamburg, Germany		75	2 669
IBS Portugal SA// 502 183 012// Porto, Portugal	22 500	75	5 410
IBS Polska Spzoo// 8951008330// Wroclaw, Poland	189	75	1 309
IBS Benelux B.V., Amsterdam, The Netherlands	23 400	100	788
Total IBS AB			**123 008**

Subsidiary/Registration No./Domicile	Number of shares	Holding in %	Book value
Shareholdings by Subsidiaries:			
IBS Portugal S.A.: IBS Duosoft Informatica SA// PT 502 183 012// Porto, Portugal	3 000	100	774
IBS Duosoft S.A.: IBS Projectos e Sistemas Informatics Espania SL//ES 816 00 512// Madrid, Spain	1 000	95	49
IBS UK Holding: International Business Systems (Public Services) Ltd.//UK 2570253// Newbury, UK	359	100	4 711
IBS UK Holding: International Business Systems (IBS) Ltd.// UK 02670201// London, Borehamwood, UK	520	100	6 824
IBS France: AGI// FR66 300 569 068// Paris, France	19 976	99.88	4 838
IBS Consulting// FR23 314 269 754// Paris, France	20 294	99.97	9 646
Ilsys// FR 69 381 879 998// Lyon, France	8 497	84.97	4 228
Excelsius// FR 18 408 374 270// Paris, France	5 097	50.97	1 313

NOTE 17. LONG-TERM AND SHORT-TERM ACCOUNTS RECEIVABLE, SUBSIDIARIES

	Parent Company
Accumulated acquisition values	
Opening balance	100 248
Additional receivables	128 916
Book value at year end	**229 164**

The amount is divided in one long-term portion of 151 951 and one short-term portion of 77 213.

NOTE 18. SHAREHOLDINGS IN ASSOCIATED COMPANIES

	The Group	Parent Company
Accumulated acquisition values		
Opening balance	1 363	1 346
Reclassifications	-1 163	-1 163
Book value at year end	**200**	**183**

Specification of shareholdings by the Parent Company and the Group in associated companies

Assoc. companies/ Reg. No/Domicile	Adjusted equity/ 1997 profit [1]	Holdings in % [2]	Value of proportion of equity in the Group accounts	Book value in Parent Company accounts
Directly owned				
IBS Hungary	0	25%	183	183

[1] Adjusted equity denotes the portion held of the company's shareholders' equity including the equity portion of untaxed reserves. This year's profit denotes the portion held of the company's profits after tax including the equity portion of this year's changes in untaxed reserves. The Group accounting shows the share in profits of associated companies as two items. Partly as profit before tax including possible depreciation of surplus values in the operating result and partly as minority share of taxes which is included in Group taxes.

[2] The value in proportion of equity held is equal to the number of votes held in proportion to the total number of votes.

NOTE 19. OTHER NON-CURRENT ASSETS

The Group	1997	1996
Rent deposits, the UK	2 296	1 972
Chaid Neme Hermanos, Colombia	1 768	2 302
External loans, 1% Construction, France	1 016	0
Deposit, France	738	0
Other shares and holdings	1 326	1 806
IBS Portugal	0	918
Other	1 324	1 990
	8 468	8 988

Parent Company	1997	1996
IBS Portugal Lda	0	918
Rent deposits, IBS AB	110	0
Other	610	413
	720	1 331

NOTE 20. STOCKHOLDERS' EQUITY

	Share capital	Restricted reserves	Non-restricted equity	Total stock-holders' equity
The Group				
Opening balance[1]	11 571	109 775	35 321	156 667
New issues	2 296	105 015[2]		107 311
Change between restricted and non-restricted equity		-4 172	4 172	0
Net income for the year			9 020	9 020
Translation differences etc. for the year		649	279	928
At year end	**13 867**	**211 267**	**48 792**	**273 926**

[1]Please refer to "Changed Accounting Policies", page 36, where the changed accounting policies as per 1 January, 1997, are described.

[2] The provisions for restricted reserves are decreased by the new issue expenses, amounting to 10 009. In July 1997, IBS AB issued a debenture loan including 500 000 detachable stock options to IBS Stichting of 500k, which was paid back in December 1997. Each option with a price of SEK 9 gives the holder the right in June 2000 to purchase one IBS Class B Ordinary Share at the price of SEK 114. The stock options are offered to IBS' senior management. At the end of December 1997, IBS Stichting has sold 331 050 stock options. A net amount of 2.5m has been paid to IBS AB and is included in restricted reserves.

	Share capital	Legal reserve	Retained earning	Total stockholders' equity
Parent Company				
Opening balance	11 571	92 949	40 057	144 577
New issues	2 296	115 024		117 320
Result for the year			-44 967	-44 967
At year end	**13 867**	**207 973**	**-4 910**	**216 930**

NOTE 21. UNTAXED RESERVES

Accumulated cost depreciation less book depreciation

Parent Company	1997	1996
Machinery and equipment	412	638

Profit adjustment fund

Parent Company	1997	1996
Tax accruals, 1996	0	1 723

NOTE 22. BANK OVERDRAFT FACILITY

	The Group	Parent Company
Overdraft facilities granted	98 923	60 000
Unused portion thereof	59 357	31 975
Used overdraft facilities	39 566	28 025

NOTE 23. LONG-TERM BORROWINGS, NET OF CURRENT PORTION

	The Group	Parent Company
Falling due, 1-5 years from closing day	2 889	0
Falling due after 5 years from closing day	0	0

NOTE 24. OTHER LONG-TERM AND SHORT-TERM LIABILITIES

	The Group	Parent Company
Other long-term liabilities		
Unpaid consideration (for acquisitions)	7 769	5 367
Financial leasing contracts	35 585	–
Other	2 019	–
	45 373	5 367
Falling due after 5 years	112	–

	The Group	Parent Company
Other short-term liabilities		
Financial leasing contracts	16 746	–
Warranty provisions	2 535	–
Other short-term debt	52 359	3 588
	71 640	3 588

Financial leasing contracts cover the long term portion of the leasing expenses attributable to financial leasing. Payments falling due during 1998 are considered short-term debt. Future expenses fall due each year with the following amounts:

1998 (shown as short-term debt)	16 746
1999	15 983
2000	10 019
2001	6 988
2002	2 595
Later years	0
Total	52 331

NOTE 25. DEFERRED TAXES AND ACCRUED INCOME TAXES

In the Group accounting, deferred tax assets corresponding to 28% of unused tax deductible losses carryforward have decreased the booked tax debt. Total deferred tax assets amount to 15 929 divided into one long-term portion of 8 558 and one short-term portion of 7 371.

NOTE 26. ACCRUED COSTS AND PREPAID REVENUE

	1997	1996
The Group		
Accrued costs	146 772	93 615
Prepaid revenue	40 158	37 019
	186 930	130 634
Parent Company		
Accrued costs	13 418	6 883
Prepaid revenue	–	5 407
	13 418	12 290

Solna, 29 January, 1998

Gunnar Rylander　Lars V Kylberg　Carl Hugo Bluhme

Kåre Gilstring　Stig Nordfelt　Øystein Tvenge

Staffan Ahlberg

Auditor's Report

To the Annual General Meeting of the shareholders of International Business Systems (IBS) Publikt AB (Registered Number 556198-7289).

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the Managing Director of International Business Systems (IBS) Publikt AB for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board Member or the Managing Director or whether they have in some 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.

In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act. We recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the loss of the Parent Company be dealt with in accordance with the proposal in the Directors' Report.

In our opinion, the Board of Directors and the Managing Director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 16 February, 1998

KPMG Bohlins AB

Karl-G. Giertz
Authorised
Public Accountant

Anders Malmeby
Authorised
Public Accountant

Consolidated Financial Statements (US Accounting Principles)

As a service to the many foreign shareholders of IBS AB, the financial statements are presented in a format that is familiar to international readers. These consolidated financial statements are based on the Swedish statutory annual report. The accounting principles applied by IBS AB in the Swedish annual report materially conform with US accounting principles. However, full compliance with US accounting practice is not ascertained, and the information is unaudited.

Contents of the consolidated financial statements:

Consolidated Statements of Income (in SEK thousands, except per share data)

	1997	1996
Revenues		
Software licences	293 749	202 299
Professional services	804 536	610 073
Other revenues	213 854	156 491
Total revenues	1 312 139	968 863
Cost of revenues		
Software licences	-37 935	-21 993
Professional services	-693 167	-513 978
Other costs	-129 249	-77 824
Total cost of revenues	-860 351	-613 795
Gross profit	451 788	355 068
Operating expenses		
Product development	-91 917	-71 856
Sales and marketing	-156 095	-144 342
General and administrative	-176 015	-108 087
Total operating expenses	-424 027	-324 285
Income (loss) from operations	27 761	30 783
Other income (expense)		
Interest income	2 129	3 285
Interest expense	-9 863	-11 202
Miscellaneous income (expense)	-262	1 562
Share of net income (loss) of associated companies	62	338
Income (loss) from operations before income taxes (Note 11)	19 827	24 766
Benefit (provisions) for income taxes (Note 11)	-8 400	-11 536
Income (loss) after tax	11 427	13 230
Minority interests, net	-2 407	-1 819
Net income (loss)	9 020	11 411
Net income (loss) per share (SEK)	0.71	1.02
Net income (loss) per share after full dilution (SEK)	0.70	–
Shares in thousands (Notes 2 and 13)	12 719	11 206
Average number of shares in thousands after full dilution	12 969	–

Consolidated Balance Sheets (in SEK thousands)

	December 31	
ASSETS	1997	1996
Current Assets		
Cash and cash equivalents	75 110	60 589
Accounts receivable, less allowances for doubtful accounts of 11 982 and 7 424 at December 31, 1997 and 1996, respectively (Note 3)	362 448	273 874
Accrued receivables	41 680	30 947
Prepaid expenses	20 272	16 120
Other current assets	29 455	16 595
Inventories	1 023	2 397
Total current assets	529 988	400 522
Non-current assets		
Machinery and equipment, net (Note 6)	119 613	100 798
Investments in and advances to associated companies (Note 5)	200	2 202
Capitalised software development costs, net	23 588	15 718
Goodwill (Note 7)	39 005	27 398
Other non-current assets	8 468	8 232
Total non-current assets	190 874	154 348
Total assets	720 862	554 870
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings (Note 9)	44 700	81 314
Current portion of capital lease obligations (Note 8)	16 746	12 752
Accounts payable	78 103	44 098
Accrued income taxes	8 717	0
Accrued expenses	146 772	93 615
Other current liabilities (Note 12)	54 894	78 899
Deferred revenue	40 158	37 019
Total current liabilities	390 090	347 697
Long-term liabilities		
Capital lease obligations (Note 8)	35 585	30 165
Long-term borrowings, net of current portion (Note 10)	2 889	6 519
Other long-term liabilities	9 788	0
Deferred tax liabilities	100	7 910
Total long-term liabilities	48 362	44 594
Total liabilities	438 452	392 291
Minority interests	8 484	5 912
Stockholders' equity		
Common Stock, SEK 1.00 par value: Authorised: 540 000 Class A and 13 327 418 Class B Ordinary Shares. Issued and outstanding: 540 000 Class A and 13 327 418 Class B Ordinary Shares in 1997 and 450 000 Class A and 11 121 020 Class B Ordinary Shares in 1996	13 867	11 571
Restricted reserves	211 267	109 775
Retained earnings	52 665	40 122
Cumulative translation adjustments	-3 873	-4 801
Total stockholders' equity (Note 13)	273 926	156 667
Total liabilities and stockholders' equity	720 862	554 870

Consolidated Statements of Cash Flows (in SEK thousands, except share data)

	1997	1996
Cash flows from operating activities		
Net income (loss)	9 020	11 411
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortisation	41 619	30 520
Provisions for doubtful accounts	11 387	5 419
Deferred income taxes	-7 923	2 838
Gain (loss) on disposal of machinery and equipment	1 846	-71
Minority interest in income of consolidated subsidiaries, net of dividends paid	2 407	1 619
Changes in current assets and liabilities		
Accounts receivable	-85 835	-67 921
Accrued receivables	-10 447	-25 963
Prepaid expenses	-3 967	10 460
Other current assets	-12 887	-3 740
Accounts payable	33 460	-1 374
Accrued income taxes	8 605	-1 775
Accrued expenses	52 729	29 893
Other current liabilities	-17 753	41 760
Inventories	1 372	-1 827
Net cash provided by (used in) operations	23 633	31 249
Cash flows from investing activities		
Investments in machinery and equipment	-39 719	-28 525
Proceeds from sale of machinery and equipment	1 978	2 044
Other investments	-37 321	-20 848
Capitalised software development costs	-16 754	-9 807
Net cash flows provided by (used in) investing activities	-91 816	-57 136
Cash flows from financing activities		
New share issues	107 311	27 650
Dividends to shareholders	–	-2 995
Net borrowings (payments) under line of credit	-21 149	16 981
Short-term borrowings	-15 633	3 110
Long-term borrowings	-3 994	2 020
Other long-term receivables	1 849	1 573
Other long-term liabilities	15 146	-427
Net cash flows provided by (used in) financing activities	83 530	47 912
Translation differences on cash and cash equivalents	-826	-3 833
Net increase (decrease) in cash and cash equivalents	14 521	18 192
Cash and cash equivalents, beginning of year	60 589	42 397
Cash and cash equivalents, end of year	75 110	60 589

Consolidated Statements of Changes in Stockholders' Equity
(in SEK thousands)

	Class B Ordinary Shares	Class A Ordinary Shares	Restricted Reserves	Retained Earnings	Cumulative Translation Adjustment	Total Stockholders' Equity
Balance on January 1, 1996 Issuance of 10 246 020 shares of Class B Ordinary Shares; SEK 1.00 par value; one vote per share and issuance of 450 000 shares of Class A Ordinary Shares; SEK 1.00 par value; ten votes per share	10 246	450	90 194	24 512	-3 687	121 715
Issuance of 875 000 shares of Class B Ordinary Shares; SEK 1.00 par value; one vote per share	875		26 775			27 650
Dividends declared				-2 995		-2 995
Transfer to retained earnings			-7 194	7 194		0
Currency translation adjustments					-1 114	-1 114
Net income				11 411		11 411
Balance of December 31, 1996	11 121	450	109 775	40 122	-4 801	156 667
Issuance of 90 000 shares of Class A Ordinary Shares; SEK 1.00 par value; ten votes per share and 2 206 398 Shares of Class B Ordinary Shares; SEK 1.00 par value; one vote per share	2 206	90	112 524			114 820
Expenses for the new issues			-10 009			-10 009
Payment for 331 050 stock options sold [1]			2 500			2 500
Transfer to retained earnings			-3 523	3 523		0
Currency translation adjustments					928	928
Net income				9 020		9 020
Balance of December 31, 1997	13 327	540	211 267	52 665	-3 873	273 926

[1] In July 1997, IBS AB issued a debenture loan including 500 000 detachable stock options to IBS Stichting of SEK 500 000, which was paid back in December 1997. Each option at the price of SEK 9 gives the right in June 2000, to sign for one IBS Class B Ordinary Share at the price of SEK 114. The stock options are offered to IBS' senior management. At the end of December 1997, IBS Stichting has sold 331 050 stock options. A net amount of SEK 2 500 has been paid to IBS AB and is included in restricted reserves.

Notes to Consolidated Financial Statements
(all amounts in SEK thousands, except per share data)

NOTE 1. DESCRIPTION OF BUSINESS

IBS is an international provider of enterprise resource planning solutions for managing the distribution, manufacturing, logistics and financial operations of distribution and manufacturing companies worldwide. Founded in 1978, the Company developed and delivered its first software product in 1984 and introduced its first software product based on the IBM AS/400 in 1989. In October 1995, the Company introduced its current product release, ASW Client/Server (Release 3), which was designed for client/server environments and to meet the needs of multinational distributors and manufacturers.
The Company's principal source of revenues consists of software licence fees (initial licence fees and renewal fees) and related professional services, including consulting, implementation, training, maintenance and support. In addition, the Company is an agent of IBM for sales of the IBM AS/400, and a reseller of IBM and other third-party computer hardware products and related operating system software.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Basis of preparation
The Consolidated Financial Statements are stated in Swedish kronor (SEK) and based on the Swedish statutory annual report but presented in a format which is familiar to international readers. The accounting principles applied in the Swedish annual report materially conform with US accounting principles. However, full compliance with US accounting practice is not ascertained.

Principles of Consolidation
The consolidated financial statements include the financial statements of IBS and its Swedish and foreign subsidiaries. Subsidiaries are companies in which IBS owns more than 50% of the voting rights. All significant intercompany balances and transactions have been eliminated upon consolidation The effective date for incorporating the results of subsidiary companies acquired and disposed is generally the date on which consideration passes. The net of tax result attributable to outside shareholders of subsidiary companies is reflected as minority interests in the statements of income.

Revenue recognition
Initial software licence fees. Revenues from initial licence fees are recognised either (i) upon execution of the contract and shipment of the relevant software, where there are no significant obligations to perform after the date of the sale, or (ii) where there are significant obligations to perform after the date of the sale, on methods which approximate the percentage-of-completion of modification or customisation work. The unrecognised part of billed licence fee income is reported with deferred revenue. Provisions for losses on uncompleted contracts are recognised in the period such losses are determined.

Renewal fees. Renewal fees are payable in advance and are currently generally recognised as revenue in the first month of each renewal period.

Maintenance and support services. Revenues in respect of other maintenance and support services are recognised on a straight line basis over the contract period.

Hardware sales; Commissions on hardware sales. Hardware sales are recognised upon installation of the hardware. Commissions earned on the sale of third-party hardware are recognised on delivery of the related hardware.

Consulting Services
Revenue from implementation, training and consulting services are recognized when the relevant services are performed.

Cash Equivalents
The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents of 35 226k and 40 329k at December 31, 1996 and 1997, respectively, consist of overnight repurchase agreements and certificates of deposit with an initial term of less than three months.

Inventories
Inventories are stated at the lower of purchase value or market value.
The value is determined using the first-in, first-out method.

Investments in Associated Companies
Investments in the common stock of the associated companies are accounted for by the equity method. The excess of cost of the stock of those associated over the Company's share of their net assets at the acquisition date is amortized on the straight-line method over the expected periods to be benefited generally during 10 years.
Associated companies are companies in which IBS has a long-term interest and voting rights between 20% and 50%.

Machinery and Equipment
Machinery and equipment are stated at acquisition costs less accumulated depreciation.
Depreciation on machinery and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the principal items of machinery and equipment are as follows:

Computer equipment	3-5 years
Automobiles	5 years
Furniture and fittings	6 years

Machinery and equipment held under capital leases and leasehold improvements are amortized on a straight-line method over the shorter of the lease term or estimated useful life of the asset.

Goodwill
Goodwill, which represents the excess of purchase price over fair value of the net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally during 10 years.
The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through projected undiscounted future operating cash flows of the acquired operation.

Research and Development and Capitalised Software Development Costs
Costs incurred by the Company in creating a computer software product are research and development costs and as such are charged to expense as incurred until "technological feasibility" has been established for the product. Thereafter, software production costs up to the point of general release of the product to customers are capitalised and subsequently reported at the lower of amortized cost or net realisable value. Capitalised software costs are amortized on a straight-line basis over the expected useful life of the relevant software product, generally 3 years.
Software development costs amounted to 71 856k and 91 917k in 1996 and 1997, respectively.

Other Non-Current Assets
Other non-current assets consist principally of long-term deposits and receivables carried at cost less any allowances for diminution in value.

Income Taxes
Deferred income tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforward. Deferred tax assets relating to operating losses are recognised only if realisation is likely to occur. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date.

Pension Plans

The Company has defined benefit and defined contribution pension plans covering substantially all of its employees. The benefits under the defined benefit plans are based on years of service and the employees' compensation. The Company has entered annuity contracts with insurance companies which have unconditionally undertaken to provide these specified benefits to specific individuals in return for a fixed premium.

Pension premium expenses for 1996 and 1997 amounted to 27 834k and 36 421k, respectively.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with United States accounting principles. Actual results could differ from those estimates.

Foreign Currency Translation

Bank deposits, short-term receivables and short-term liabilities denominated in foreign currencies are translated into SEK at year-end exchange rates and the related exchange gains and losses are recorded in income.

In the consolidated financial statements, the balance sheets of foreign subsidiaries are translated into SEK at the exchange rate at the balance sheet date and the income statements are translated at the average rate of exchange prevailing during the year. Exchange rate differences arising on the translation into SEK of financial statements denominated in foreign currencies are recorded as a separate component of shareholders' equity.

Per Share Information

Net income (loss) per share is computed using the weighted average number of common shares before and after dilution.

NOTE 3. ACCOUNTS RECEIVABLE

Allowance for doubtful accounts at January 1, 1996	7 794
Arising from acquired and sold subsidiaries	-2 710
Additions charged to bad debt expense	5 419
Write-offs	-3 079
Allowance for doubtful accounts at December 31, 1996	7 424
Allowance for doubtful accounts at January 1, 1997	7 424
Arising from acquired and sold subsidiaries	547
Additions charged to bad debt expense	11 387
Write-offs	-7 376
Allowance for doubtful accounts at December 31, 1997	11 982

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	75 110	75 110	60 589	60 589
Accounts receivable	362 448	362 448	273 874	273 874
Other current assets	29 455	29 455	16 595	16 595
Other non-current assets	8 468	8 468	8 232	8 075
Financial liabilities:				
Short-term borrowings	44 700	44 700	81 314	81 314
Accounts payable	78 103	78 103	44 098	44 098
Long-term debt	2 889	2 889	6 519	6 519

The carrying amounts shown in the table above are included in the statement of financial position under the indicated captions.

NOTE 5. INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES

Investments in and advances to associated companies amounted to 2 202k and 200k at December 31, 1996 and 1997, respectively.

The unamortized portion of the excess of cost over the Company's share of net assets in associated companies was 1 177k at December 31, 1996, and 200k at 31 December, 1997.

NOTE 6. MACHINERY AND EQUIPMENT

	December 31	
	1997	1996
Machinery and equipment	295 061	257 772
Less accumulated depreciation	-175 448	-156 974
	119 613	100 798

The Company is obligated under various capital leasing contracts for machinery and equipment that expire at various dates during the next five years. At year end, the gross amount of machinery and equipment and related accumulated amortization recorded under capital leases included within machinery and equipment above were as follows:

	December 31	
	1997	1996
Machinery and equipment	75 969	58 937
Less accumulated depreciation	-23 638	-16 430
	52 331	42 507

Amortisation of assets held under capital leases of 8 666k in 1996 and 15 039k in 1997 is included within depreciation expense.

NOTE 7. GOODWILL

	December 31	
	1997	1996
Acquisition value	47 773	32 093
Less accumulated amortisation	-8 768	-4 695
	39 005	27 398

Amortisation of 2 879k in 1996 and 4 483k in 1997 is charged to the Statements of income.

NOTE 8. LEASES

The Company is, besides the capital lease commitments, obligated under several non-cancelable operating leases, primarily for computers and company cars, that expire over the next five years. Rental expenses for leases (except those with lease terms of a month or less that were not renewed) were:

	1997	1996
Minimum rental	44 164	37 457
Rental expense	44 164	37 457

The following is a schedule of future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 1997.

	Capital Leases	Operating Leases
Year ending December 31,		
1998	16 746	25 654
1999	15 983	18 626
2000	10 019	13 812
2001	6 988	12 117
2002	2 595	10 804
Later years	0	34 967
Total minimum lease payments	52 331	115 980
Less amount representing imputed interest (at rates ranging from 4% to 8%)	-3 414	
Present value of net minimum capital lease payments	48 917	
Less current instalments of obligations under capital leases	-15 096	
Obligations under capital leases excluding current instalments	33 821	

NOTE 9. SHORT-TERM BORROWINGS

	December 31	
	1997	1996
Short-term borrowings	44 700	78 823
Current portion of long-term borrowings	0	2 491
	44 700	81 314

Short-term borrowings consist primarily of overdraft facilities at variable interest rates. As of December 31, 1997, the Company had 59 357k in unutilized short-term overdraft facilities. The weighted average interest rates on short-term borrowings in 1996 and 1997 were 5.8% and 5.5%, respectively.

NOTE 10. LONG-TERM BORROWINGS

Long-term borrowings at year end consist of the following:

	December 31	
	1997	1996
Long-term borrowings	2 889	9 010
Less current portion	0	-2 491
	2 889	6 519

The weighted average interest rates on long-term borrowings for 1996 and 1997 were 4.9% and 8.5%, respectively.

NOTE 11. BENEFIT (PROVISION) FOR INCOME TAXES

Income from operations before income taxes was distributed as follows:

	1997	1996
Sweden	-21 055	8 379
Rest of the world (including Group adjustments)	40 882	16 387
	19 827	24 766

Income tax expense attributable to income from continuing operations consists of:

	Current	Deferred	Total
For 1996:			
Sweden	1 732	1 934	3 666
Rest of the world (including Group adjustments)	6 951	919	7 870
	8 683	2 853	11 536
For 1997:			
Sweden	244	0	244
Rest of the world (including Group adjustments)	2 278	5 878	8 156
	2 522	5 878	8 400

The principal reasons for the difference between the statutory income tax rate in Sweden of 28% and the Company's effective tax rate of 46% and 42%, for 1996 and 1997, respectively, are set forth below (described both as the approximate nominal amount thereof and the corresponding percentage of the Company's income before income taxes):

	1997	%	1996	%
Expected tax expense at statutory Swedish tax rate	5 552	28	6 934	28
Differences in statutory foreign tax rate	10 685	54	1 963	8
Utilization of tax loss carryforwards	-688	-3	-416	-2
Change in valuation allowance	–	—	-268	-1
Losses for which no benefit is recognized	–	–	546	2
Expenses not deductible/non taxable income	-7 878	-40	2 821	11
Other	729	3	-44	0
Income taxes/Effective income tax rate	8 400	42	11 536	46

At December 31, 1997, the Company has net operating losses carryforward for income tax purposes of 71 483k, which are indefinitely available to offset future taxable income through the respective loss carryforward period in Sweden, The Netherlands and in the United Kingdom.

NOTE 12. OTHER CURRENT LIABILITIES

	December 31	
	1997	1996
Value added tax liabilities	27 672	21 064
Employee withholding tax liabilities	16 326	13 305
Factoring liabilities	0	34 078
Other	10 896	10 452
	54 894	78 899

The company has entered into a factoring agreement with a Swedish finance company. Under the agreement, the finance company extends advances against security in trade receivables from Swedish customers up to a limit of 40m. Advances may not exceed 75% of the face amount of the invoice. At year end 1997, the amount utilised was 0 and the interest rate was 5.3%. A handling fee of 0.06% of the face amount of the invoice is paid for collection services.

NOTE 13. SHARE CAPITAL, RESTRICTED RESERVES AND EARNINGS PER SHARE

The company had 450 000 Class A Ordinary Shares and 10 246 020 Class B Ordinary Shares outstanding at January 1, 1996, all of nominal value SEK 1.00 each. Class A Ordinary Shares are entitled to 10 votes per share. Class B Ordinary Shares are entitled to 1 vote per share.

In May 1996, the Company issued 875 000 new Class B Ordinary Shares which were sold in a private placement. Upon completion of this transaction, the aggregate number of Class B Ordinary Shares outstanding was 11 121 020.

At an Extraordinary General Meeting held in December 1996, resolutions were approved to effectuate a five-for-one Stock-Split of the Company's Class A Ordinary Shares and Class B Ordinary Shares and to authorize a new issue of up to 6 000 000 Class B Ordinary Shares. The number of shares (and the nominal value) are stated after such Stock-Split of the Company's Class A Ordinary Shares and Class B Ordinary Shares, effected in January 1997. Earnings per Share calculations have been adjusted to reflect the Stock-Split. The weighted average number of Shares outstanding during 1996 and 1997, so computed, was 11 206 437 and 12 719 219, respectively.

In June 1997, the Company issued 90 000 shares of Class A Ordinary Shares and 2 206 398 shares of Class B Ordinary Shares which were sold to the existing shareholders. Upon completion of this transaction, the aggregate number of Class A Ordinary Shares outstanding was 540 000 and of Class B Ordinary Shares 13 327 418, respectively.

Restricted reserves consist of the Company's legal reserves (principally additional paid-in capital) and similar reserves of its subsidiaries which are not available for distribution to shareholders. Included are also such reserves which may be released to retained earnings after payment of related deferred taxes. There are no significant restrictions on the amounts reported as retained earnings.

In July 1997, IBS AB issued a debenture loan including 500 000 detachable stock options to IBS Stichting of 500k, which was paid back in December 1997. Each option with a price of SEK 9 gives the holder the right in June 2000, to purchase one IBS Class B Ordinary Share at the price of SEK 114. The stock options are offered to IBS' senior management. At the end of December 1997, IBS Stichting has sold 331 050 stock options. A net amount of 2.5m has been transferred to IBS AB and is included in restricted reserves.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have any material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

NOTE 15. SEGMENT DATA

The Company operates predominantly in a single business segment, the development and marketing of standard software packages and the sale of related services and hardware.

The table below summarises certain data by geographic area. Sales and operating income identified in the Swedish geographical area include sales to customers in Sweden and export sales from Sweden.

	Sweden	Rest of Europe	Rest of the world	Elimination	Consolidated
Year ended December 31, 1996:					
Total sales:					
Unaffiliated customers	487 186	406 039	75 638		968 863
Intercompany sales between areas	52 423	8 277	2 247	-62 947	
Total	539 609	414 316	77 885	-62 947	968 863
Operating income:					
Operating income (loss) excluding share of income (loss) of associated companies	21 702	7 863	1 218		30 783
Share of income (loss) of associated companies					338
Financial income and expenses					-6 355
Income before income taxes and minority interests					24 766
Identifiable assets	420 074	237 712	32 936	-135 852	554 870
Year ended December 31, 1997:					
Total sales:					
Unaffiliated customers	590 125	601 886	120 128		1 312 139
Intercompany sales between areas	115 921	6 517	297	-122 735	
Total	706 046	608 403	120 425	-122 735	1 312 139
Operating income:					
Operating income (loss) excluding share of income (loss) of associated companies	-28 362	43 431	12 692		27 761
Share of income (loss) of associated companies					62
Financial income and expenses					-7 996
Income before income taxes and minority interests					19 827
Identifiable assets	559 698	545 918	69 453	-454 207	720 862

IBS Business Partners

IBS' international customers require an international network of subsidiaries and partners to handle local installations and to adopt the standard system to the national language and legal requirements. IBS is building up a worldwide network, which is expanding rapidly. During 1997, focus has been placed on the Asian region as well as South America.

New Business Partners have been established in South Korea, Japan and Colombia. At the same time, training of the already operational partners has been intensified and a number of new customers are using the services of our Business Partners. In IBS' organisation, Business Partners are managed by the International Sales Department.

COMPETENCE CENTERS

During 1997, IBS established three Competence Centres as focus points for support of Business Partners in local and international sales, product know-how and services. In the Competence Centres, there is an established knowledge about IBS' concepts for quality and service, which forms the basis for further expansion.

PORTUGAL

IBS Duosoft has a thorough knowledge of ASW and a significant customer base. From Portugal, the operational control of IBS Spain is exercised based on common values in the Iberian peninsula. The operations in Brazil are also controlled from Portugal, based on the same language and experience from an associated Brazilian company.

KUALA LUMPUR

Earlier, IBS has been represented in Singapore. A new office is now established in Kuala Lumpur as a part of the Malaysian Multi-Media Super Corridor (MSC). The new company, International Business Systems (IBS) APCC (Asia Pacific Competence Centre) Sdn. Bhd., will run some large customer projects together with Business Partners and provide project management as well as specialised resources. Partners in Asia, Australia and South Africa will use this Competence Centre as their first line support.

COLOMBIA

In 1997, Grupo Tecnología Informática (GTI) was formed as a subsidiary of the Chaid Neme Hermanos Group. GTI, with the support of IBS managers, promotes the growth in the Spanish speaking Latin-American market. The present customer base is supported by this Competence Centre, and new Business Partners in the region rely on the services from this unit.

IBS has close working ties with all its partners and the philosophy is to form strong alliances where IBS' ownership is one of the parameters. During the year, the former Business Partners in Poland and Portugal were integrated into the IBS network of subsidiaries.

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