SweDeltaco

TriData

Transnordic Data

IAR Systems

Fiberdata

CityData

Network Innovation

Libro Datakonsult

1997

Annual Report

Contents

Annual General Meeting

The Annual General Meeting was held on March 31,1998 at the Garnisonen Conference Center, Karlavägen 100, in Stockholm.

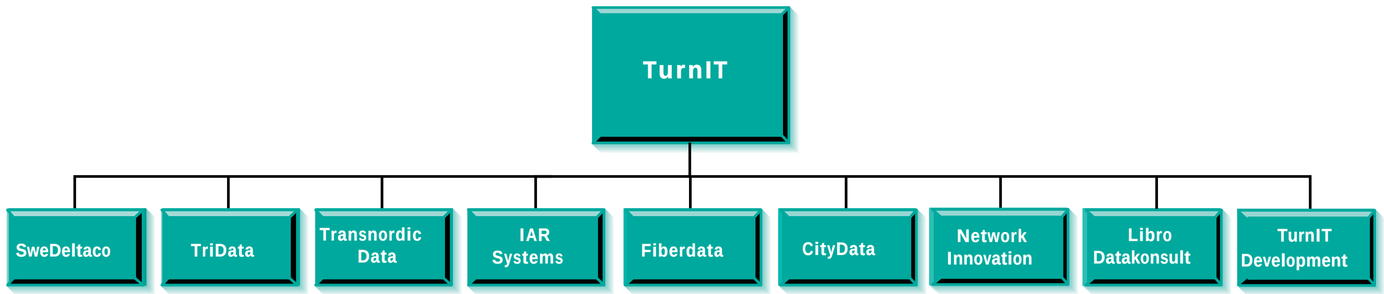
Financial Information from TurnIT AB

Annual General Meeting	March 31, 1998
First Quarter Report	May 7, 1998
Six-Months Interim Report	August 26, 1998
Third Quarter Report	October 22, 1998
Report on 1998 Operations	February 19, 1999

The Year in Brief

Seven companies were acquired.
•
Sales increased to SEK 386 M (50.8).
•
Operating income, before depreciation on intellectual capital, was SEK 44.3 M (5.0).
•
Income before tax was SEK 28.0 M (3.4).
•
Cash flow was SEK 6.71 per share.
•
Profit per share after standard tax was SEK 2.74 (0.84).
•
Shareholders' equity increased to SEK 168.4 M (59.2).

TurnIT's Organization



Statement by the President

1997 was a successful year. Sales increased more than seven-fold to SEK 386 M, and our profit before depreciation on intellectual capital increased strongly and was in excess of SEK 44 M, or eight times higher than last year. Seven companies were acquired during the year and all of them met the Group's target to achieve income corresponding to at least 10 percent of sales. Since the purchased companies operate in different sectors of the Information Technology (IT) market, our goal to spread risks must also be considered fulfilled.

During the year TurnIT was listed on SBI, the share information list of the Stockholm Stock Exchange, and trading in the TurnIT share was very favorable. In the beginning of 1997, the price of the company's share was SEK 27, and at year-end it was SEK 60, or 122 percent higher. Compared with the price in January 1995, when the company was restructured, the share increased 1,200 percent. Shareholders' equity has risen to SEK 168 M by means of several stock issues, and after the new stock issue approved by the Extraordinary Annual Meeting in January – to raise share capital a maximum of SEK 125 M – shareholders' equity is expected to exceed SEK 290 M during the spring.

TurnIT's business concept is to offer the stock market an IT share that involves a lower risk and more stable growth than the average performance of IT shares on the Stockholm Stock Exchange. This naturally puts great demands on TurnIT's ability to forecast the long-term profit potential of acquired companies while ensuring that revenues flow in from different sources in the IT market. Two of the companies purchased in the last few years operate in the software sector – IAR System and Network Innovation; two in hardware – TriData and Deltaco; two in the communications field – ETAB and AVA System; and one in the consulting market – Libro Datakonsult.

Market

On the whole, the IT market developed well in 1997. Demand for consulting services was much stronger in particular, primarily due to the millennium shift problem. However, other factors are impacting the consulting market which will have more long-term effects. For example, IT issues are tending to be driven in project form to a growing extent. These projects are being staffed with various types of consultants and the financier of the project can establish specific requirements and goals for activities. As a result, efficiency in general can be expected to be higher, and costs lower, compared with solving issues in the traditional way by hiring new personnel, for example. In my opinion, we can look forward to the consulting market developing in a very favorable way for a long time to come, which gives us a good reason to state that the profitability of the consulting services field will remain high.

In the software area, growth in the number of new products has been virtually explosive and the number of new software companies on the SBI list in Stockholm clearly indicates this trend. Companies marketing administrative software have also increased their sales sharply, although we cannot ignore the fact that this rapid growth also entails risks. One year ago Netscape was valued at SEK 20 or 30 billion, but after Microsoft clarified its strategy for its Internet Explorer browser, the value of Netscape plummeted 70 percent. In other words, TurnIT must be extremely cautious when evaluating software companies. Consequently, we are interested in companies that have niche products which the major software providers hardly consider to have long-term possibilities for achieving good profitability if they should develop these products themselves.

The hardware sector is more exciting than we can imagine, provided that we look beyond the personal computer market. Due to the strong growth in PCs, a price war has broken out as a natural consequence. This development has brought benefits in the form of new distribution channels in the marketplace, which in turn has provided cheaper products for users, and as a result, the range of accessory products has been broadened considerably. Deltaco's sales of cable products has increased more than tenfold in three years, and TriData's sales of CD-ROMs for computer applications increased 500 percent in 1997, relative to 1996. I believe that we can also expect continuing strong growth in the PC market, which is actually the locomotive of the IT market. Intel, especially in its role as the market leader in microprocessors, is now up against stiffer competition from AMD and Cyrix, two manufacturers of low-price processors. As a consequence, we can be quite sure, in every way, that the price of PCs will drop appreciably in the next few years.

Communications companies are building the infrastructure of the IT market. Without these companies, computers could not exchange information. Growth has also been very strong in this field, and a number of companies that had not even started operations in 1995 are now ranked among the world's leading IT providers today. Bay and Cisco are examples of companies with a market value of about, or exceeding, SEK 100 billion, which has been built up in approximately ten years.

TurnIT's subsidiaries

Our subsidiaries have developed very well in most cases. Deltaco, for example, increased its sales from SEK 48 M in 1996 to SEK 81 M in 1997, and the company's profits rose from SEK 10.8 M to SEK 20.3 M during the same period. IAR Systems boosted its earnings 115 percent to SEK 8.6 M, and Fiberdata has advanced from a loss of SEK 13.7 M to a profit of SEK 8.9 M. Libro Datakonsult's and TriData's profit margins have both been well over 10 percent.

Unfortunately, Open Networks has experienced bigger problems than anticipated, which were largely due to the fact that the company's scope of operations has been too small to meet overhead expenses. However, its volume of business can increase to about SEK 40 M in 1998 after the merger with Network Innovation. In my judgment, Network Innovation can meet our earnings target – a profit margin of at least 10 percent – already this year. CityData also had a difficult year. Earnings were negatively affected by late product releases, although deliveries picked up good speed in the beginning of 1998.

Only two of the Group's subsidiaries have interest-bearing liabilities – Fiberdata and Open Networks – which total around SEK 10 M. In other respects, our companies are not burdened by any long-term capital loans, which means that they have a large potential to expand on their own by making complementary acquisitions, for example.

TurnIT Development's 11-percent holding in Jeeves has developed well. In contrast to its competitors – Scala, IBS and others – Jeeves focuses on selling licenses, which is why we have a much lower ownership risk in this company, compared with other administrative software providers.

Future acquisitions

In general terms, it can be stated that the IT market is 40 percent hardware, 40 percent consulting services and 20 percent software. TurnIT does not strive to achieve the same distribution in its own operations but prefers that the Group's software companies account for an equally large percentage of business as the other two sectors. Together, these fields of activity should represent about 85 percent of our portfolio, while the remaining 15 percent should be in education and the after-sales market. The revenues of our communications subsidiaries are distributed by type of income. Today, hardware weighs heavily in TurnIT, which is why acquisitions of consulting and software companies are attractive to us in 1998. I hope to continue our active acquisition strategy in the current fiscal year, and we have entered into discussions with a number of companies that would fit excellently into the TurnIT Group.

Organization

I am frequently asked the following: ”How many companies can TurnIT buy without compromising management's ability to run subsidiaries effectively?” In TurnIT, the board is also involved in organizational matters, meaning that our directors, in addition to their normal board duties, also have a commitment to assist Group Management in studies and gathering information related to company acquisitions or their financing. Our board members also possess different types of competence that can be useful to subsidiaries when they deal with different management issues. Thus, each member of the board has a task to perform alongside his ordinary board duties, which in our case has resulted in more efficient management and substantially lower consulting expenses in connection with due diligence procedures.

Furthermore, the presidents of our subsidiaries are often requested to advise on acquisitions, enabling the right decision to be made in many cases. Their collective experience in the IT industry is considerable and a number of these managers are also major shareholders. Due to this situation, combined with the commercial competence of the board, I can state that our ability to make decisions about acquisitions is based on very high quality standards.

Intellectual capital

TurnIT acquires companies in the IT industry. Most companies in this field have a minor need to invest in fixed assets, since production processes cannot be automated to the same degree as for ordinary industrial products, for example. In most cases, industrial production is not dependent in any way on a single producer, but can be arranged with any company that can press the start button. This is the situation in the IT world, where the individual has a relatively bigger role to play, and where it can be very difficult to replace one person with another. Due to this circumstance, people in the IT industry, or knowledge companies, are basically looking for new terms to describe the value of this special asset. It must also be desirable for companies operating in the knowledge market to report the size of this asset to enable external analyses of their future profit potential. This requires, in turn, the introduction of new terms in the formal financial statements of annual reports. In TurnIT's case, the asset ”goodwill”, consisting of surplus values in relation to shareholders' equity, paid for by TurnIT when acquiring a company's shares, has been renamed ”intellectual capital” – the soft values that exist, and must exist, in IT companies, which must naturally have a price. But how should this capital be valued? In TurnIT's case, we have analyzed in particular the structure capital, consisting mainly of the organization, databases, agencies, patents, technologies and methods, strategic alliances, etc. These types of assets are considered to be relatively independent of the people who manage them. The other part of intellectual capital consists of human capital – people – which are a more liquid asset. Management can be a very big risk, and the same goes for sales personnel and product developers, with whom a company can stand or fall. The size of the risk in this capital depends completely on the way the company manages to present its basic employment conditions for employees – if these terms are attractive enough to keep them in the company. The main difference between goodwill in, for example, an industrial company, and intellectual capital in a knowledge company, is that the goodwill of an industrial company is utilized at the same rate as basic fixed assets are used, which means that it must be renewed to sustain profitability. Intellectual capital, on the other hand, is not consumed and might even be expanded, or increase in value, when it used in a knowledge company. As a consequence, depreciation needs can vary and should be shown in the balance sheet and income statement. These new terms have therefore been incorporated in TurnIT's balance sheet and income statement for 1997. On a Group basis, intellectual capital is to consist of 50 percent structure capital and 50 percent human capital. In our opinion, the operating income of knowledge companies is to be measured before depreciation of intellectual capital. This will provide a picture of the company's cash flow, which is the most important analytical measure of an IT company today.

Looking ahead

TurnIT does not have an expressed strategy to list a subsidiary on the stock exchange as soon as it reaches a certain size. Many development companies have a strategy to own and manage companies for a period of time, and then divest them when the time is ripe, but our strategy is based more on assessing the value of an asset – the subsidiary. If this value is not adequately reflected in the value of the TurnIT share, and if the company in other respects maintains stock exchange standards, we consider it necessary – from an owner's point of view – that the right value of the company is shown, and in such case, it is appropriate to do this by listing it on the exchange, but with TurnIT remaining a principal owner. A company cannot be listed until four years after we acquire it, since our acquisition agreements stipulate that cooperation has to be carried out for at least three years. The number of IT companies will increase at a faster rate than we have experienced to date. Demand will increasingly grow for companies of TurnIT's type, since fast-growth IT companies prefer to have a partner who can balance their development financially and commercially. Our own greatest risk – besides those related to changes in the market's structure – is that additional players enter the scene at the same time as the number of attractive acquisition candidates decreases. This is why we have decided to intensify our efforts to make acquisitions outside Sweden, and the first foreign company might be bought during 1998.

An Extraordinary Annual Meeting on January 28, 1998 approved the board's proposal to effect a new stock issue up to a maximum amount of SEK 125 M, with preferential rights for present shareholders. TurnIT needs capital when it makes acquisitions. We usually pay for companies with both cash and shares, and as a consequence, our balance sheet occasionally contains ”bridge credits”. These credits are basically to be paid off within one year and one has arisen in connection with the acquisition of Deltaco. In the near future it can be considered reasonable if the consolidated balance sheet consists of an average of 15-20 percent borrowed capital, but that limits in the short term can be exceeded in conjunction with acquisitions.

TurnIT's goal for 1998 is to continue its active acquisition strategy, with a sustained profit margin, by focusing on buying consulting and software companies. Organic growth is estimated to be 25 percent.

Peter Enström
President and CEO

Key Figures

	1993	1994	1995	1996	1997
Sales and earnings					
Net sales, SEK 000s	58,255	157,430	99,631	50,761	386,049
Operating income before depreciation of intellectual capital, SEK 000s	1,902	–4,372	–17,906	5,025	44,262
Operating income after depreciation of intellectual capital, SEK 000s	1,879	–7,639	–21,171	4,076	30,733
Net financial items, SEK 000s	–1,624	–1,585	–3,044	–695	–2,685
Income after net financial items, SEK 000s	255	–9,224	–24,215	3,381	28,048
Financial position					
Adjusted equity, SEK 000s	11,105	35,445	13,085	59,239	168,350
Total assets, SEK 000s	34,528	113,407	32,181	124,477	346,129
Equity/assets ratio, %	32.2	31.3	40.7	47.6	48.6
Acid-test ratio, %	152	92	218	124	77
Debt/equity ratio %	211	220	146	110	106
Profitability					
Return on adjusted equity, %	1.7	–28.5	–71.9	6.7	17.7
Return on total capital, %	5.1	–9.5	–28.7	5.3	13.5
Profit margin, %	0.4	–5.9	–24.3	6.5	7.3
Times interest earned, times	1.1	–3.2	–6.2	5.4	8.5
Profit per share after standard tax, SEK	0.31	–2.70	–7.08	0.84	2.74
Employees					
Average number of employees	86	286	179	16	205
Sales per employee, SEK 000s	677	550	557	3,172	1,883
Employees at year-end	73	255	1	57	227

Definitions

Return on adjusted equity
Income after financial items less 28 percent standard tax, divided by average adjusted equity.

Return on total capital
Income after financial items plus interest expenses, divided by total average capital.

Adjusted equity
Reported shareholders' equity, including 72 percent of untaxed reserves.

Acid-test ratio
Current assets, including unutilized bank overdraft facilities, less inventories and work-in-progress, divided by current liabilities.

Times interest earned
Income after financial items plus interest expenses, divided by interest expenses.

Debt/equity ratio
Total liabilities, including provisions, divided by adjusted equity.

Equity/assets ratio
Adjusted equity as a percentage of total assets.

Total capital
Total assets.

Profit margin
Income after financial items divided by revenues.

THE IT MARKET IN TU

Distributors	Hardware; manufacturers or distributors	Software; manufacturers or distributors	Communications

The Information Technology (IT) market is a broad term. The market contains companies from a variety of different segments which all have one thing in common – information technology plays a central role in the products and services they offer. Information technology is being developed to become a natural part of operations, instead of a support function. To obtain a correct picture of the market – and of the conditions that companies in different sectors of the IT market operate in – TurnIT has divided up the IT market into seven different areas of operation, or segments. The Group currently owns companies in four of these segments.

Distributors

This segment contains companies selling computers and computer-related accessories and equipment – what is termed "box moving". Products are often sold to end customers and operations are focused on logistics. There is a low level of value added and the segment is characterized by pressure on prices and margins. Since there are clear economies of scale in purchasing and logistics, there is a trend towards the formation of increasingly large units and the competition is being globalized. New distribution channels are also emerging. For example, computer manufacturers are selling directly to end users. In order to compensate for the pressure on prices and margins, many companies in this segment are increasing the service content of their sales. TurnIT does not own any companies in this segment today.

In the future TurnIT will continue to refrain from making investments in companies that only focus on distribution. This policy is being maintained for a number of reasons, but mostly because we do not believe that this type of business can achieve earnings corresponding to 10 percent of sales.

Hardware: manufacturers or distributors

Companies in this category are either manufacturers or distributors of hardware and they often deliver to distributors.

Due to rapid technological developments, the lifetime of products is becoming shorter and shorter. As a consequence of network integration, there are increasing requirements for compatibility and product standards. TurnIT assesses the risks to be relatively low for companies with strong market positions and established product brands. The Group currently owns three companies in this segment.

Software: manufacturers or distributors

The software segment is the largest in the IT market with regard to the number of products. Heavy demands are placed on this segment for developing products at a fast pace. The competition is tough, although successful companies can be very profitable. In TurnIT's opinion, owning and operating companies in this segment is of the utmost importance for an investor in the IT market. Three Group subsidiaries operate in the software segment.

Communications

The communications segment is showing the fastest growth in the IT market and is focused on building up the infrastructure for the emerging IT society. These operations provide the basis for the Internet and other networks, for example. In TurnIT's judgment, commercial risks for companies in this area are somewhat higher than those in other sectors of the IT market. At present, the Group owns one company in this segment.

Consulting operations

During the past few years the consulting market has been characterized by major

RNIT'S PERSPECTIVE

Consulting operations	Telecom	Operations

change and strong growth. The background to this trend is that information technology is playing an increasingly important role in the strategy of companies. The borders between IT consultants and management consultants have been erased as a result. Other strong market forces are currently the millennium shift problem and the EMU. TurnIT assesses commercial risks in this segment to be low, depending on how consulting companies divide their net profits for the year between employees and shareholders. The Group owns one company in this segment at present.

Telecom

Growth in the telecommunications market is very strong. Factors like the deregulation of national telecom markets, rapid technical developments and a higher standard of living in developing regions are all fueling this high growth rate. New transmission techniques, made possible by computer-telephony integration, are creating new services. The sector has been traditionally dominated by a small number of major companies, although the fast development of technology is allowing small companies to establish themselves as niche players in specific areas of the telecom market. However, niche companies usually depend directly, or indirectly, on the major telecom providers. TurnIT's opinion is therefore that risks involved in telecom investments are much higher than the average for the IT market. The Group currently owns no companies in this segment.

Operations

During the past few years companies have been increasingly tending to purchase operational and management services for their data processing departments from external IT companies. This outsourcing of services has been one of the most profitable segments of the IT market and several major national and international IT companies are now offering outsourcing services. The Swedish market for data operations is relatively mature and demand for outsourcing services is consequently becoming more and more selective, with customers hiring outside IT companies for handling only certain parts of their data-related needs, instead of the entire operation. System development and the maintenance of Internet/intranet networks are usually outsourced, while other competence is retained in the company. Sales of operational services are based on long-term relations with customers and demand will therefore be relatively stable in the short term. TurnIT considers risks in this area to be relatively low, although the profitability of this segment has a major potential to decline.

Overview

Segment	Distributor	Hardware	Software	Communications	Consulting operations	Telecom	Operations
TurnIT-companies		SweDeltaco TriData Transnordic	IAR Systems CityData Network Innovation	Fiberdata	Libro		
Example of other companies (primarily in Sweden)	Alfaskop IMS Lap Power Martinsson	Array Information Highway	Frontec Intentia Prosolvia Scala	Måldata Salcom Upnet	KnowIT Mandator Modul 1 Resco	Ericsson Netcom Netnet	Enator Responsor Sema Group WM–Data

Hardware

The hardware market is continuing to grow. There are expectations in particular for probable, strong growth in personal computers. Competition between chip manufacturers will cut the price of computers sharply, irrespective of the way the Swedish PC market develops. Despite Intel's superior financial position and competence, several companies, such as AMD and Cyrix, have captured large orders for their microprocessors, which are faster and less expensive than Intel's equivalent Pentium products. Parallel to this trend, a growing number of computer-literate students will be graduating from schools and seeking employment where computer competence is an obvious part of the job description.

Thus, there are many indications that growth will also be strong in the areas of the hardware market covered by TurnIT.

The position of large computers was also fortified during 1997. New client/server solutions are limited in performance and it now seems possible to increase the market share for mainframes. This affects Transnordic's future potential, since the company's products are highly dependent on mainframes. Investments in computer output equipment were limited in 1997, although the trend of the market seems to be much brighter this year.

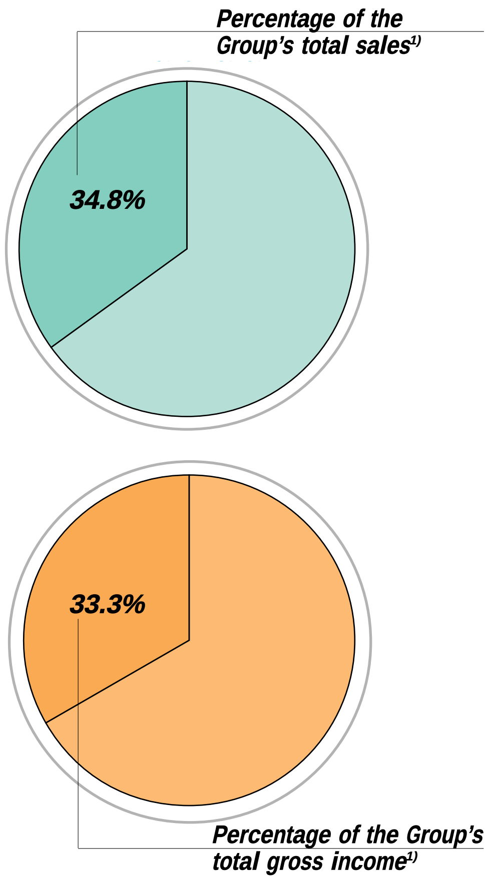
The overall market for diskettes decreased in 1997, since other types of storage media have taken over the role of information carrier at lower cost. Compact disc media are primarily capturing market shares. TriData has always been planning for this, and due to the way the market developed in 1997, TriData's strategy to maintain high readiness paid off and helped the company increase its earnings further.

Deltaco achieved very good growth in 1997 and the company's position was strengthened considerably. Deltaco is a market leader in cable products for PCs and the company advanced its positions considerably in the network products market. Deltaco was ISO 9002 certified in 1997, which must be considered quite an achievement, considering that the company also managed to expand operations at the same time as it implemented the certification process.

TurnIT remains interested in the hardware market. Companies with operations bordering TurnIT's are particularly attractive.

The commercial value of the after-sales market is increasing as the IT market expands. Today, no company dares to install large computer installations that will be used to manage business-critical functions; instead they seek security by contracting a reasonable support package. Up to now the market has perhaps been too occupied with the original functionality of offered products and has put off after-sales functions until later. As it is generally known, the after-sales market is a very profitable segment for large suppliers.

Consequently, it lies in TurnIT's interests to always follow up and complement a customer sale with after-sales products consisting of service and maintenance contracts, as well as training activities. Among TurnIT companies, Transnordic primarily enters maintenance and service agreements for its installed base of Kern products, although Network Innovation offers support agreements to customers for supplied hardware.



[1)] Excluding communications hardware, which is included in communications equipment sales.

Software

Demand for computer software is growing as personal computers are increasingly used. The number of software companies is also growing and attracting the interest of stock market investors. When people look for ways to systematize and structure their work, it is natural that they have differentiated needs for software. Thus, companies like Microsoft and Oracle have bright prospects, and it now seems more and more likely that new software providers will have a tough time to affect the market positions of these companies to any appreciable extent. However, the situation is different in the applications market, where there is much room to accommodate niche companies. If a company is successful, it has a good chance of becoming highly profitable, especially if customers can be committed to support or maintenance programs.

IAR Systems is a typical niche company which has been experiencing difficulties for many years in finding the right product mix, and consequently, the right market position. After this was solved in the beginning of the 1990s, IAR Systems began to focus its efforts on product development and marketing. Today, the company is uniquely positioned in its field and has many development projects in progress for many of the world's major manufacturers of computer processors.

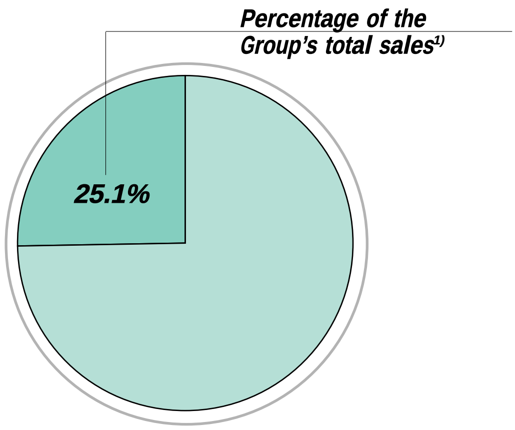
CityData is a leader in CAD systems, representing Autodesk in the Swedish market. Demand for CAD products is increasing, but perhaps not at the same speed as many other sectors of the market. With AutoCAD R14, a new product, CityData's personnel and training resources can be spread over a wider sales category, and consequently, the company is expected to report much higher earnings in 1998.

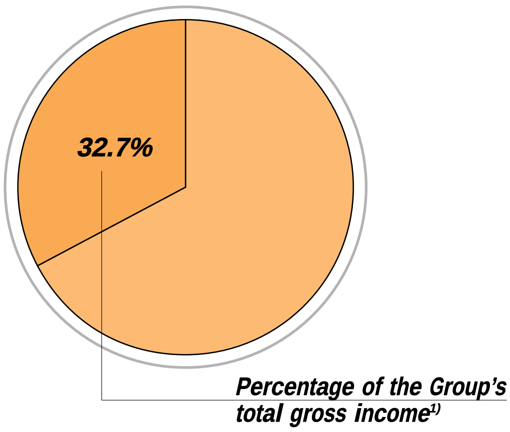
Unfortunately, Open Networks did not live up to expectations and it became necessary to restructure the company in the autumn. Network Innovation came up for acquisition, whose founder worker previously for Open Networks, and after a merger of the two companies, which resulted in the reduction of personnel, a new company could be formed with broader operations to serve the graphics industry. The new merged subsidiary, which adopted the Network Innovation name, has added several interesting website products to the Group's range. It is hoped that the acquisition of Network Innovation will generally strengthen TurnIT's positions in the rapidly expanding Internet market.

TurnIT is extremely interested in purchasing niche software companies, and it is an advantage if a product can be used in many markets without major modifications. Discussions are under way with two software companies that correspond well to TurnIT's concept of a suitable acquisition candidate.

The value of the after-sales market (training and support) is substantial for CityData and IAR Systems, which enter into support agreements with many customers. CityData has established a separate Help Desk function to which customers can call for assistance. Network Innovation also offers special support agreements for a few of its fastest-growing software products.

In the Group, CityData has invested in particular in educational activities. CAD Systems, for natural reasons, require much training. Since Autodesk's products are currently adapted to Windows®, many parts of training courses have been simplified. CityData's possibilities to invest in its own training company must therefore be considered good.





[1)] Excluding communications software, which is included in communications equipment sales.

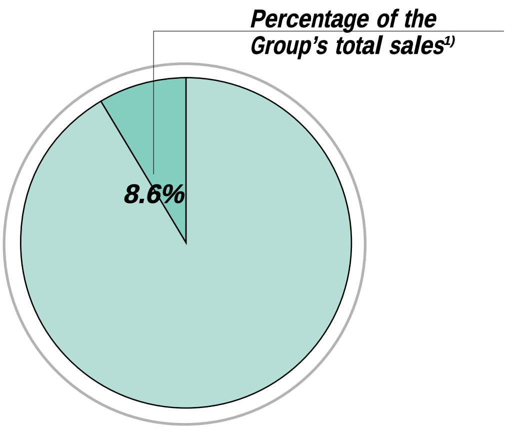
Consulting services

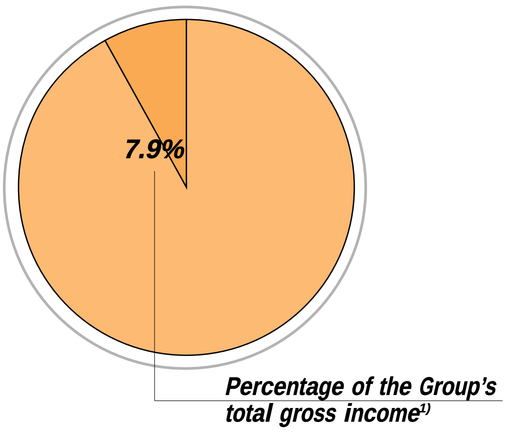
The market does not seem capable of satisfying the demand for consulting services without substantial cost increases. A basic study of the trend of hourly fees during the past two years indicates that demand is greater than supply. The main question will therefore be this: when and how will the market balance out? In TurnIT's opinion, it will take a long time because the attitude towards consulting work as such will require a somewhat different picture of the labor market in general, among other reasons. Many people feel that work performed by consultants is less stable than employing a person for the job, and they are not used to the conditions and security of working with outside consultants. However, as society's structure changes, with a growing number of public and private work being conducted as projects, the status of consultant work, and increased opportunities to earn good money, will improve the recruitment base for consultants.

Alongside these structural changes, which we feel are certain to develop, there are some special current issues that will consume substantial IT consulting resources. The millennium shift problem for computers is the biggest issue, although the more current question of the EMU also requires consultants for its solution. In TurnIT's opinion, the consulting market will encounter strong demand over a long period of time, and the conditions are such that it can be expected to be highly profitable. Risks associated with the acquisition of consulting firms are related to ways of keeping human capital in the company for a long period of time. When the market develops strongly, creating a large demand for competent consultants, it will be extremely necessary for companies to give top priority to the working conditions and salaries of each consultant on their staff. Otherwise the employees will quickly believe that the company focuses on short-term goals, which will not benefit an investor's long-term intentions.

Libro Datakonsult has previously focused on modeling and relation databases. During the year interest has grown appreciably in multimedia and business-critical applications for the Internet. Libro belongs to the elite category in its market and has a profit margin of 11.2 percent. With Libro's new strategy – to acquire small consulting companies with specialized operations – there are excellent prerequisites for good earnings growth for many years to come.

TurnIT is extremely interested in acquiring consulting companies. In 1997, a number of potential acquisitions were discussed and we hope that some will be realized in 1998.





[1)] Excluding consulting services related to communications systems, which is included in communications equipment sales.

Communications

The communications market is probably the fastest growing sector of the worldwide IT market. Depending somewhat on the telecommunications perspective, it could be said that no single market of global significance will be able to impact growth in information technology like the communications market for many years to come. It is therefore probable that many new companies will emerge with new technology, and that we can hardly be sure that present models and systems will be dominant in the future. We also believe that extreme caution should be exercised with regard to broadband techniques: some ten different solutions are already being tested around the world and everyone claims they are better and more cost-effective than today's ATM technology.

Communications companies are building the infrastructure of the IT market. To completely understand the importance of these companies, we can compare their operations with those of road construction firms. When traffic increases between two areas, an ordinary two-lane road is built, after which traffic immediately becomes more intense because the road has improved accessibility. As soon as the traffic intensity becomes high, circles are built instead of ordinary intersections, allowing vehicles to access the two-lane road in a simpler and safer way. More drivers start to discover the advantages and soon overpasses are built to reduce the number of cars lining up at road entrances. A few years later it is time to build a highway to manage the steadily growing traffic. This is an approximate description of the world Fiberdata operates in, and in our best judgment, you could say that we are now in the process of building circles.

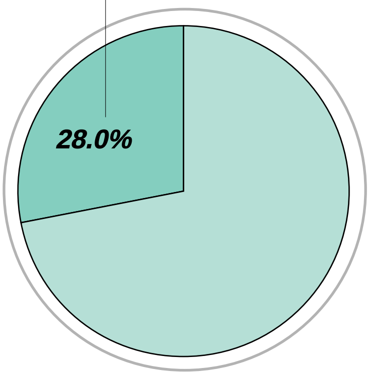
Fiberdata, the Group's communications company, was considerably restructured during the past year with the goal to become a major player in its market. Sales have risen more than 60 percent and earnings have increased approximately SEK 23 M. Part of Fiberdata's strategy is to expand geographically, and since the company was restructured, efforts have been focused on purchasing small companies with strong local market positions. Two of these acquisitions were made in 1997: AVA System and ETAB.

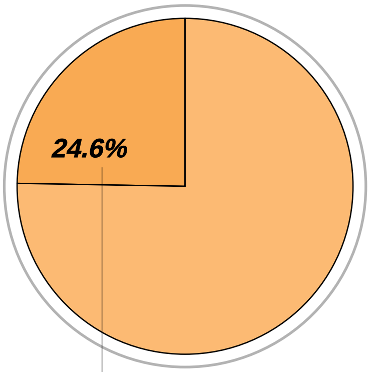
AVA System is a very skilled company with a fine reputation that operates in the Bergslagen area of Sweden. The company has offices in four locations and specializes in the installation of networks and supervisory systems in process environments.

ETAB specializes in designing and installing LAN networks. Since the company has contracts with a number of companies in the industry, ETAB can compete in tender offers on a nationwide basis in Sweden.

Fiberdata is strongly positioned in the market today and the company's prerequisites for achieving additional growth in 1998 must be considered good.

Percentage of the Group's total sales





Percentage of the Group's total gross income

President: Siamak Alian

SweDeltaco imports and distributes computer accessories. In a highly competitive industry, SweDeltaco has developed a commercially viable combination of services based on solid purchasing know-how, skilled inventory management and a strong delivery capability backed by a high level of customer service and low prices.

SweDeltaco was founded in 1991 as a trading company, although the company's present strategy was not established until a few years ago. SweDeltaco has focused on logistics and good inventory management to enable the company to always deliver products the same day orders are placed. SweDeltaco has operated with this business concept for four years, increasing its annual sales from SEK 1 M to SEK 81 M in 1997. SweDeltaco's operations are ISO 9002 certified and the company had 19 employees at year-end 1997.

Products and markets

SweDeltaco imports and distributes computer accessories, such as cables, switches, network products, PC cards and keyboards. The company focuses on maintaining depth instead of breadth in its product range, without having to be dependent on the model changes of a single manufacturer, meaning that SweDeltaco's ability to delivery quickly is given the highest priority. Compared with the competition, the company has a relatively large stock of products. However, since SweDeltaco makes bulk purchases of products on a continuous basis, the purchasing discounts it receives more than compensate for the cost of capital tied up in inventory. The company's inventory turnover rate was around 8.0 times in 1997, which must be considered high for this business. SweDeltaco's main clientele consists of computer retailers and the company has about 2,000 customers that are geographically spread all over Sweden. Approximately 80 percent of all orders come from present customers and 20 percent from new. The average value of an order is about SEK 3,000.

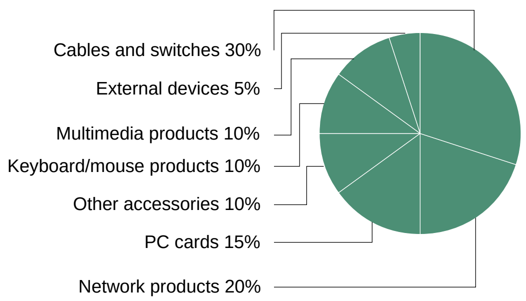
SweDeltaco buys most of its products from Asia, mainly from Taiwan, Hong Kong and the People's Republic of China. The market is in a strong growth phase and there is every indication that SweDeltaco will be able to continue its rapid expansion. As of 1998, SweDeltaco's market territory is the Nordic region. The company is also carefully monitoring developments in the Electronic Data Interchange (EDI) area and has already started to sell its products via the Internet, although only to distributors.

President's comments

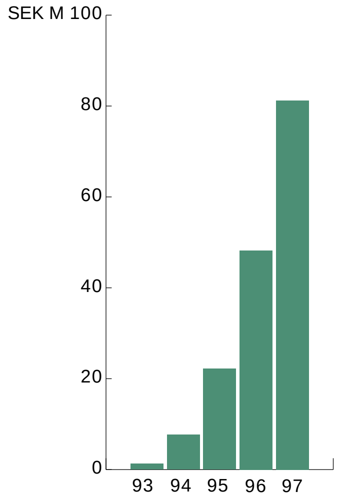
1997 was another successful year for SweDeltaco. Sales increased 67 percent with sustained margins. A number of studies indicate that the computer accessories market will continue to grow in the next few years. We will be expanding our product range with even more products in the biggest growth areas, such as networks, communications and the Internet. Quality, service and customized deliveries will remain our motto.

Siamak Alian

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	9.1	20.4
Number of employees	12	19

President: Anders Frankel

TriData specializes in selling products and services in the digital storage media area. The company's operations comprise trading in new unprocessed storage media and the duplication of primarily diskettes and CD media. In Sweden, TriData is also an agent for duplication machinery and equipment sold to customers that have their own media production operations.

TriData was established as a family-owned company in 1992 by Anders and Per Frankel. Prior to this, operations were conducted for a few years as a side business in their spare time. TurnIT acquired the company in 1997 and TriData's has been consolidated in the Group's financial statements for the full year. Sales totaled SEK 37 M, an increase of nearly 40 percent, compared with 1996. Income before tax and appropriations was SEK 4.7 M, 18 percent higher than last year's earnings of SEK 4.0 M.

TriData is headquartered in Lund, in the southwest of Sweden, but serves customers all over the country. TriData had 11 employees at year-end 1997.

Products and market

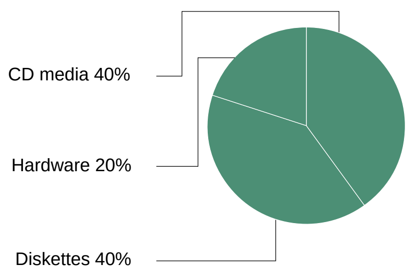
TriData currently has about 2,500 customers in different geographic locations all over Sweden. Computer retailers and distributors are the primary target groups for the company's trading business in unprocessed storage media, while TriData focuses on obtaining diskette and CD duplication orders from small and medium-size companies with large service requirements. TriData has completely refrained from duplicating music CDs and concentrates exclusively on computer application software instead. Orders vary from 50 to 100,000 copies, although TriData's production capacity is very high, enabling the company to duplicate more than 30,000 diskettes and 500,000 CD-ROMs per day. Fast deliveries can be made to customers as a result, and TriData considers this capability, along with its high quality and reliability, to be the company's main distinguishing features and key business concept in the marketplace. TriData has a market-leading position in Sweden in certain segments, such as media duplication, and growth in this industry is expected to be very strong over the next three or four years. Many new products are being launched to complement the Internet, for example. The need to transmit a combination of image, sound, text and video on CD is another development field where Digital Versatile Disc (DVD) media will play an increasingly important role.

President's comments

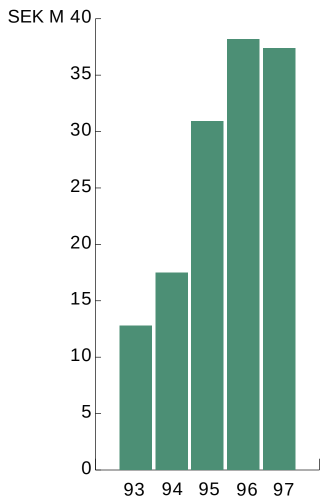
Sales of our CD products picked up considerably in 1997, confirming that we are offering customers the right products at the right price, backed by a high level of service. Our product range will be further broadened in 1998, as well as the application areas for CD media. We are therefore expecting our sales and earnings to increase further.

Anders Frankel

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	4.0	4.7
Number of employees	7	11

President: Christer Thorell

Transnordic Data sells machinery, equipment and technical solutions to customers that need automatic systems for managing output data. Computer output processing – the collective name for the distribution of computer-based information – comprises several processing stages, including printouts and the cutting and folding of such printouts, and their insertion in envelopes, prior to distribution. Transnordic Data also supplies software for managing and controlling output data processes.

Transnordic Data was founded in Stockholm as a family company in 1972. TurnIT acquired Transnordic in the fall of 1996 and the company has been operated as an independent business unit within the Parent Company ever since. Sales totaled SEK 20 M in 1997, compared with SEK 27 M in the preceding year. Earnings decreased by SEK 6.4 M, relative to 1996. In 1997, market investments in output data production facilities were the lowest in six years. Transnordic had 11 employees at year-end 1997.

Products and market

Automatic output data systems are especially well suited for companies and organizations that have a frequent and large need to distribute computer-based information. Payroll slips, bank account statements, insurance policies and similar computer-generated information are typical examples of this category, in which formats are often standardized while the information is personalized. Transnordic Data's customers are consequently large and medium-size companies, authorities and organizations. In Sweden, Transnordic Data represents the three leading European manufacturers of machinery and equipment: Kern, Hunkeler and KAS. Demand is strongest for Kern products, accounting for 75 percent of Transnordic's annual sales. Systems are dimensioned for widely varying needs, from 1,000 packaged envelopes per hour to more than 30,000 per hour.

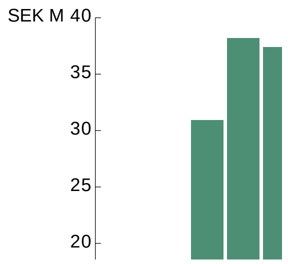
In addition to product sales, Transnordic Data installs equipment and systems, and also offers customers training, service and support. The company prefers to sign yearly contracts with customers and this business is a stable source of income for Transnordic.

In Sweden, Transnordic Data has a relatively well-defined market share of approximately 60 percent. The present level of demand indicates that companies and organizations are distributing more and more information, which is also creating a greater need for efficient handling systems. Approximately 80 percent of all products are sold to current customers, who invest in the systems to boost capacity or replace existing equipment, while new customers account for the remaining 20 percent.

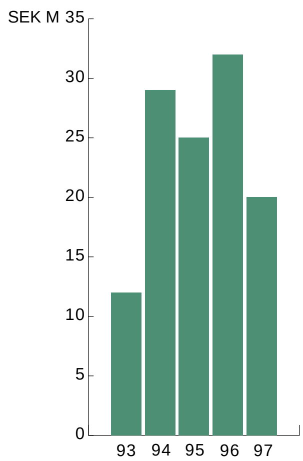
Presidents comments

Sales increased towards the end of 1997, primarily for systems to package computer output data in envelopes. This indicates to us that our products are best suited for meeting the market's requirements for dependable systems that can package finished products ready for distribution, which also function reliably and provide a flexible solution to handling materials. Order bookings started out well in 1998, indicating that sales and earnings will increase during the current fiscal year.

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	**8.4**	**2.0**
Number of employees	**9**	**9**

President: Tomas Wolf

IAR Systems develops and markets software for programming microchips. The company's products and services can be used by all companies that develop or produce products containing microchips, what is known as built-in systems. IAR's products are designed to reduce the customer's product development time and costs.

IAR was founded in 1983 and has its roots in R&D activities that were conducted at the University of Uppsala in Sweden. Three years later the company had developed and launched a C-compiler – a sophisticated tool for programming microchips in built-in systems. The tool, developed for a popular microchip made by Intel, was the first of its kind in the world. IAR gained a fine reputation as a result of this breakthrough, as well as many invaluable international contacts. TurnIT acquired IAR in the beginning of 1997, when the company was a member of the Pargon Group.

IAR is based in Uppsala. Due the presence of the university, there is a relatively good supply of skilled programmers, an important condition for IAR's growth and development.

Sales totaled SEK 57 M in 1997, compared with SEK 40 M in 1996, an increase of approximately 40 percent. Earnings rose to SEK 8.6 M, as against SEK 4.0 M last year, an increase of about 115 percent.

Products and markets

IAR currently develops and sells three basic products: C-compilers, debuggers and assemblers. Roughly described, a C-compiler is a software program that translates the C programming language into special machine codes required by various microchips.

A debugger is a troubleshooting program with the ability to do computer simulations. An assembler is a machine-related programming language. These products allow the programming of a microchip so it can perform important functions in various kinds of electronic systems that can be built into telephones, computers and other devices.

IAR's products are sold in approximately 35 countries and markets outside Sweden account for 95 percent of sales. IAR has subsidiaries in San Francisco, London and Munich. Since IAR cooperates with the majority of the world's leading microchip producers, the company often signs product development agreements that last a period of several years.

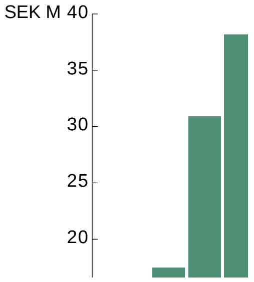
Up to now development efforts have been focused on 8 and 16 bit microchips but products are now starting to be designed for the 32 bit segment. This is an attractive market from a business viewpoint, since margins on these products are usually higher and 32-bit products also require a higher level of service and support.

President's comments

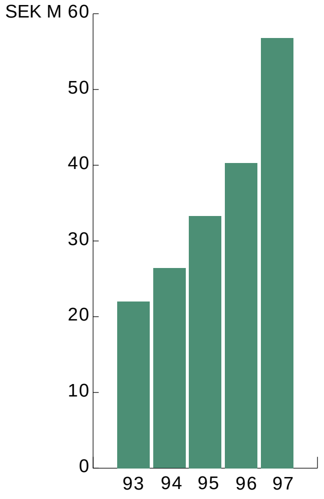
IAR developed very strongly in 1997, primarily due to earlier investments and efforts in product development. We are noting how the international market is showing greater trust in our company as a supplier, and we look confidently towards achieving additional strong growth in 1998.

Tomas Wolf

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	4.0	8.6
Number of employees	40	57

Fiberdata is a leading supplier of complete, integrated communications solutions. The company's operations are conducted through three business areas: Networks, Communications-Oriented System Development, and Messaging Systems. Fiberdata has offices in seven locations in Sweden.

Fiberdata was started in 1982 as a consulting company specializing in fiber optic technology. Fiberdata's present strategy, established in the beginning of the 1990s, focuses on network products. Today, the company integrates systems, offering solutions based on standard products combined with its own proprietary hardware components. Fiberdata has also built up substantial competence in ATM technology. TurnIT acquired Fiberdata in the fall of 1996, when the company had lost a major order, ended up in a difficult liquidity situation and needed help in restructuring its finances.

Fiberdata's sales totaled SEK 109 M in 1997, compared with SEK 71 M in 1996. Earnings were SEK 8.9 M, as against a loss of SEK 13.7 M the year before. Fiberdata's parent company had 33 employees at year-end. The company's two subsidiaries, AVA System and ETAB ‹ both acquired in 1997 ‹had 32 employees.

Products and markets

Fiberdata conducts operations in three business areas: Networks, Communications-Oriented System Development, and Messaging Systems. The company also offers control and supervisory systems, as well as security solutions, for process environments. Fiberdata's business concept is to sell both hardware and services in the form of engineering, design, installation, operational support, training and service.

In 1997, Fiberdata acquired AVA System and ETAB, which both specialize in communications systems and their installation. Through these two companies Fiberdata has expanded its nationwide coverage of the Swedish market. Market shares are expected to increase considerably during 1998.

Ninety percent of the hardware supplied by Fiberdata consists of standard products and 10 percent complementary products that are customer-specific.

The Networks business area offers LAN, MAN and WAN solutions based on ATM and Ethernet technology. These systems are designed for large and medium-size enterprises or organizations with personnel ranging from two to 300 employees or more. The networks use products from FORE Systems, Xylan, Madge, 3Com and Cisco, and are either fiber-based, wireless or built on traditional cable networks.

The Communications-Oriented System Development business area focuses on a concept for fiber-optic communications. Solutions are designed for video and audio transmission and are customized for retail computer systems, reservation systems or different types of radar applications. Fiberdata's proprietary products, used to complement standard products, give the company a competitive edge in this area.

The operations of the Messaging Systems business area are based on Fiberdata's agency for Isocor's products in Sweden. These include powerful and reliable e-mail communications systems and platforms for Electronic Data Interchange (EDI) and cataloging services. Security system concepts are also offered for encryption and applications for closed user groups.

The market for Fiberdata's products is in a strong development phase, with annual growth averaging between 30 and 40 percent, according to most analysts. However, the industry is highly competitive and the market's fast growth is also attracting new companies.

Fiberdata is making a conscientious effort to increase the service content of its product solutions and is working on broadening its customer base. About half of Fiberdata's customers are in the public sector today. In all probability, Fiberdata will build up a special sales channel for its proprietary products during 1998.

From left:
Jan Sundberg, President of AVA System;
Torbjörn Eriksen, President of Fiberdata;
Leif Österlund, President of ETAB.

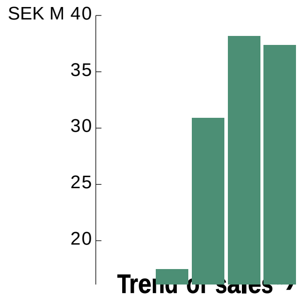
President's comments

The restructuring and focusing of Fiberdata's operations have produced good results and we have started to expand. These efforts resulted in very strong growth in sales and earnings during 1997. We recruited another ten qualified employees, although our strong expansion was realized primarily through the acquisition of two companies, AVA System and ETAB, which both know the business well and are very competent technically.

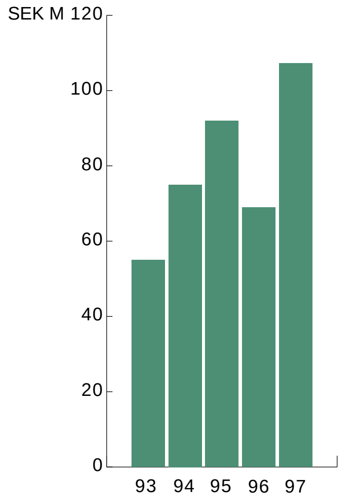
These two companies have strengthened Fiberdata's customer base, added resources for consulting and installation services, and given us a nationwide organization in Sweden. We are continuing to develop our operations based on what we know best: total solutions for powerful and reliable communications systems. Fiberdata has now entered a very exciting phase of continuing growth that is being achieved organically and by means of acquisitions.

Torbjörn Eriksen

Distribution of sales



Trend of sales*)



Key figures*)

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	–13.7	8.9
Number of employees	27	59

*Sales figures in the period prior to 1997 have not been adjusted to reflect the acquisition of AVA System AB and ETAB

President: Hans Engström

CityData specializes in Computer Aided Design (CAD) systems. The company sells CAD products and services to end users through a nationwide network of distributors in Sweden. CityData also translates software into Swedish and participates in projects to develop business-specific applications.

CityData was established in Stockholm in 1984 by Hans Engström, who has been the company's president ever since. CityData has consistently focused on the CAD segment for more than 12 years. In Sweden, the company has had the distribution rights for products from Autodesk, the fourth largest software producer in the world, since 1989.

CityData was acquired by TurnIT in the summer of 1996 to become the first company in the new TurnIT Group.

Sales totaled just under SEK 38 M in 1997. During the year CityData invested in new training facilities and hired new sales personnel to enable a more aggressive approach to cultivating new customers. The company's logistics and technical departments were also expanded and the number of employees was increased from 12 to 19. Due to the late release of products, these investments did not have a full impact on operations in 1997 and earnings were lower than in 1996 as a result. In 1998, CityData's earnings will most likely exceed the Group's goal of income corresponding to 10 percent of sales.

Products and markets

AutoCAD LT, a simplified version of Autodesk's more advanced CAD software, is the main product marketed by CityData. As of January 1998, however, CityData has also been granted the distribution rights for AutoCAD R14, a program designed for customers with more sophisticated design needs.

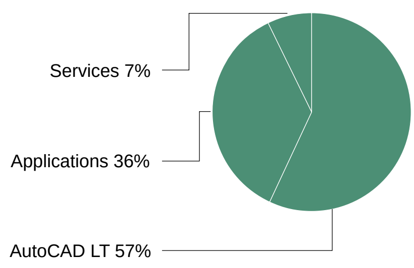
CAD software is normally used to design and produce drawings, such as schematics, blueprints for buildings and machine designs. CityData also offers some training and support services for technical users. Simply described, CAD software is a word processing program for drawing and design work. To date, CityData has supplied more than 25,000 Autodesk products in Sweden and the company has a marketing-leading position in the CAD software segment. Products are sold through distributors. End customers work mainly in the electrical and mechanical engineering industries, the construction industry, or at architectural firms or companies in the heating, ventilation and air conditioning industry. Schools are another important target group.

President's comments

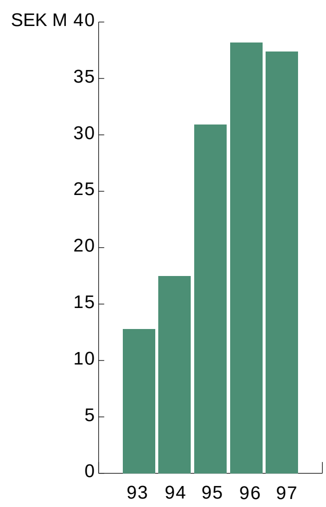
In 1997, we captured a market share of about 85 percent against competition from one multinational and two domestic distributors. Autodesk also appointed us as the world's best distributor of AutoCAD LT in 1997. In December we were granted the distribution rights for the mostly widely sold CAD program in the world, AutoCAD R14, which is also a global industrial standard. We also decided to start a special training company – CityData Utbildning AB – with the goal to boost our performance and improve the profitability of our educational activities. Due to our new distribution rights and other factors, we have great expectations for 1998.

Hans Engström

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	**5.1**	**1.5**
Number of employees	**14**	**19**

President: Joakim Arvidsson

Network Innovation imports and sells professional communications products and graphic tools. The company specializes in accessories for Macintosh-related computers and represents about 15 international manufacturers in the Swedish market.

Network Innovation was established in 1993 out of the Open Networks company to create a larger supplier of products for the graphics industry in the Swedish market. The new company was formed when Network Innovation acquired the assets and liabilities of Open Networks, whose products will continue to be a part of Network Innovation's range.

Network Innovation's sales totaled SEK 24 M in 1997. Open Networks' sales amounted to SEK 14 M. The merged operations have 12 employees.

Products and market

The range contains about 350 basic products that are sold through Network Innovation to nationwide distributorships in Sweden. Due to the concentration on Macintosh-related products, the company's end customers operate mostly in the graphics industry. Network Innovation divides its products into three main categories: advanced communications solutions, standard products and graphic tools.

The advanced communications solutions area, accounting for a substantial percentage of sales, comprises special products for telecommuting, ISDN communications, firewalls, image databases and OPI servers.

Standard products include monitor cards, scanners, modems and simple network products, which are often sold as a complement to sales of advanced communications solutions. Among other applications, graphic tools are used for the production of digital media, for communications, and for advanced graphic design.

In addition to product sales, Network Innovation provides telephone support and assistance for end customers. The company also trains the employees of distributors.

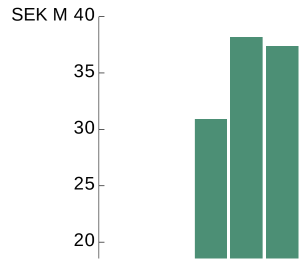
Network Innovation is a leader in its market segment, but due to technical developments, the differences between Macintosh computers and PCs might decline in importance. Consequently, Network Innovation is increasingly offering products designed for both computer environments, as well as products designed only for PCs.

President's comments

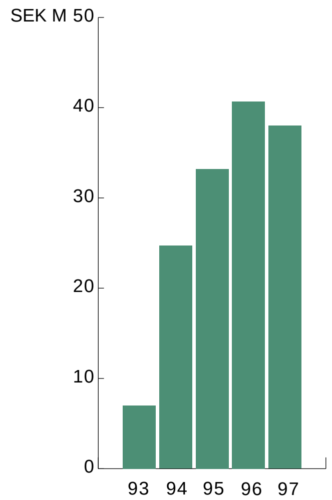
The merger between Network Innovation and Open Networks has laid the foundation for creating a large and strong distributor of products for the graphics industry. The "new" Network Innovation also has enough competitive products to allow us to launch a major drive to develop the PC market. As a result, Network Innovation will be able to increase its sales and profitability considerably in 1998, thanks to the synergistic benefits provided by the merger with Open Networks.

Joakim Arvidsson

Distribution of sales



Trend of sales*)



Key figures*)

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	**1**	**–1.7**
Number of employees	**15**	**16**

*Combined sales figures for both Open Networks and Network Innovation.

President: Knapp Lennart Pettersson

Libro Datakonsult operates primarily in the fields of computer modeling and relation database technology. The company focuses on achieving a knowledge-leading position in these segments so it can utilize new methods and modern technology to help customers create effective communications management systems designed specifically for their operations.

Libro was established in Uppsala, Sweden in 1982. During the 1990s the company has focused on client/server technology, modeling, object-oriented development and the design of graphic user interfaces as its specialties. Libro's operations have developed at a good pace and TurnIT acquired the company in the beginning of 1997 when it was a member of the Pargon Group. Libro's sales increased to SEK 33 M in 1997, compared with SEK 29 M the year before. Earnings also rose to SEK 3.7 M, as against SEK 3.0 in 1996. Thus, Libro's profit margin exceeds 11 percent. Nine more consultants were added to the company in 1997. Today, 39 of Libro's 44 employees are consultants, of whom 80 percent have university degrees. The consultants in the company have been working an average of 12 years in the business.

Services and market

Libro offers customers specialized consulting services in client/server technology, modeling, object-oriented development and the design of graphic user interfaces. The company is an expert in modeling and relation database technology. Libro has specialized in certain tool platforms and has cooperation agreements with Nocom, Oracle, SUN, BEA and other companies. Projects and assignments are carried out primarily in two categories: consulting services in resource competence, in which Libro's representatives participate in a customer's project group to solve and implement defined stages of projects; and turnkey projects, in which Libro builds up and supplies complete systems.

Libro's customers are based primarily in the Mälardalen area around the Stockholm region and consist of medium-size and large companies requiring customized administrative systems. The customer list also includes government bodies and authorities, of which several have framework agreements with Libro. During a fiscal year, present customers will account for approximately 80 percent of Libro's assignments, while about 20 percent will come from completely new clients. Libro plans to meet future growth requirements by acquiring companies or establishing subsidiaries that add new areas of competence in, for example, multimedia, system architecture and the development of business-critical applications for the Internet. The existing organization is considered to be optimal in size, since it is important to safeguard the flexibility, informal decision routes and good team spirit of a specialized knowledge company.

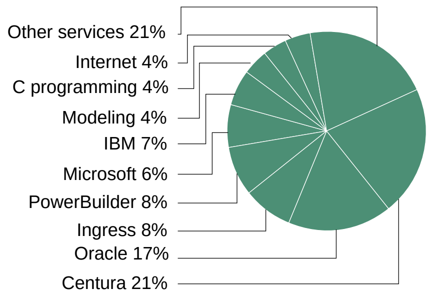
President's comments

Libro Datakonsult will further enhance its competence in the Internet and multilayered client/server technology.

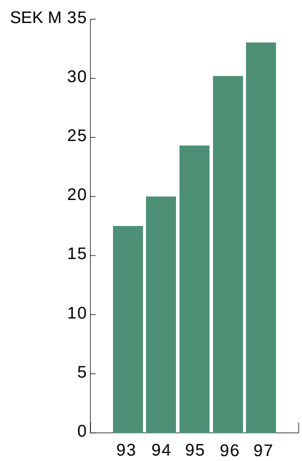
During 1998 we plan to form subsidiaries that complement present operations in, for example, multimedia environments or system architecture for transaction-intensive, business-critical client/server applications.

Knapp Lennart Pettersson

Distribution of sales



Trend of sales



Key figures

	1996	1997
Operating income before depreciation on intellectual capital, SEK M	3.0	3.7
Number of employees	34	44

Board of Directors' Report

The Board of Directors and President of TurnIT AB (publ), Swedish corporate identity number 556116-4384, herewith submit their report concerning the Group's and Parent Company's operations for fiscal 1997.

Group operations in 1997 were characterized by the Company's business concept – to operate as a development company for small and medium-size companies in the IT sector by maintaining an active acquisition strategy. The TurnIT Group had four companies at the beginning of the fiscal year and expanded to comprise approximately ten operating subsidiaries by December 31, 1997, as well as a number or more or less dormant companies. The Group consisted of the following companies at year-end:

CityData

The company operates in the CAD field by selling software and providing training and support services. AutoCad LT is CityData's main product, although the product range includes the more comprehensive program AutoCad R14. CityData's sales totaled SEK 37 M in 1997. Earnings before net financial items and Parent Company expenses were SEK 1.5 M.

Transnordic Data

Operations are conducted as a business under the Parent Company and comprise sales of equipment and associated support services for post-processing of computer-generated data. Transnordic Data has a number of Swiss and British suppliers. Customers include insurance companies, banks and authorities in Sweden. Sales totaled SEK 20 M in 1997. Earnings were SEK 2.0 M. Earnings include a profit guarantee from the seller of the business.

Fiberdata

The company focuses mainly on network solutions, messaging systems and communications-driven system development. Two companies were acquired in 1997. In addition to Fiberdata AB, the Fiberdata Group consists of AVA System AB (Avesta, Sweden) and Denix Finans AB and its subsidiary ETAB (Enskede Teleteknik AB) in Stockholm. AVA System has been consolidated in the TurnIT Group for the full year 1997. The Denix Group has been included in TurnIT's consolidated accounts since May 1, 1997. Sales of the Fiberdata Group totaled SEK 109 M. Earnings before net financial items and Parent Company expenses were SEK 8.9 M.

Network Innovation/Open Networks

The company imports and sells products for professional communications and graphic tools. Operations in 1997 were conducted within Open Networks. Network Innovation was acquired on December 31, 1997 to strengthen the Group's position in the graphics sector. After year-end, most of Open Networks' operations were transferred to Network Innovation and Open Networks is being discontinued. Consequently, earnings in 1997 only include income from Open Networks, since Network Innovation was purchased at year-end. Sales amounted to SEK 14 M and the result before net financial items and Parent Company expenses was a loss of SEK 1.8 M. Since operations are being expanded, sales are expected to increase more than two-fold in 1998.

Libro Datakonsult

Operations are focused on consulting services, primarily for relation databases, and modeling in the client/server area. The company was acquired in 1997 from the Pargon Group and has been consolidated for the full year 1997. Libro's personnel have extensive experience and approximately 85 percent of the employees have university degrees. Sales totaled SEK 33 M. Earnings before net financial items and Parent Company expenses were SEK 3.7 M.

IAR Systems

The company was also acquired from the Pargon Group in 1997 and has been consolidated for the full year 1997. IAR Systems develops the technology for tools used to program chips. Major customers include Hitachi and Motorola, among others. IAR Systems is currently in a strong phase of expansion in a brisk market. Sales totaled SEK 57 M. Earnings before net financial items and Parent Company expenses were SEK 8.6 M.

TriData

The company sells and duplicates storage media in the form of diskettes, CD-ROMs and CD receivables. TriData was only acquired in 1997 and has been consolidated for the full year. Sales amounted to SEK 37 M.

Earnings before net financial items and Parent Company expenses were SEK 4.7 M.

Deltaco

The company operates as a distributor of computer-related accessories, such as cables and switches. Products are purchased mainly from Asia and Deltaco's customers are distributors in Sweden. Operations in 1997 were conducted within Deltaco HB but were transferred to the parent, SweDeltaco AB, on December 31, 1997. Deltaco has been consolidated in the TurnIT Group for the full year 1997. Sales totaled SEK 81 M and earnings before net financial items and Parent Company expenses were SEK 20.4 M.

Financing

The Group's expansion in 1997 was financed by effecting a new stock issue and obtaining bridge credits in the amount of SEK 55 M. See Note 21 for information about stock option commitments.

Future acquisitions

TurnIT expects to continue the active acquisition strategy that distinguished the Group's operations in 1997. To maintain a balanced portfolio of IT companies, the next acquisitions will be made in the consulting and software sectors.

In the future, acquisitions might also be made outside Sweden, primarily in Scandinavia.

New stock issue in 1998 and share listing

To enable continuing growth and expansion based on TurnIT's business concept, a new stock issue will be effected with preferential rights for existing shareholders. Shares will be issued in a maximum amount of SEK 125 M and the issue will be completed during the spring of 1998. The Company's shares are currently quoted on the SBI list (Stockholms Börsinformation). TurnIT has applied for a listing on the O-list of the Stockholm Stock Exchange and is expected to be listed in April 1998.

Personnel

See Note 1 for information about personnel, wages, salaries and other compensation.

Millennium shift

Against the background of the millennium shift problem, the Group is currently analyzing its internal computer systems, equipment, products and services, as well as implementing measures.

Environment

Each TurnIT company has appointed an environmental manager whose tasks is to analyze local distribution, consumption, inventories and other activities on the basis of general environmental management standards.

Earnings, financial position and financing

Regarding the company's earnings, financial position and financing, please refer to the following income statements, balance sheets, statements of changes in financial position and notes to the financial statements.

Proposed allocation of profits

The Group's non-restricted equity totals SEK 20,295,000. Since the Company's share capital was reduced in 1996, dividends have been stopped. The share capital was restored after the new stock issue that was approved by an Extraordinary Meeting of shareholders on January 28, 1998 and now totals SEK 37,168,000, exceeding the share capital before last year's reduction by SEK 240,000. In light of the Company's current expansion phase, the Board and the President propose that funds available in the Parent Company, a total of SEK 9,333,202, be carried forward.

Income Statements

SEK 000s	Note	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Net sales	4	386,049	50,761	23,573	12,356
Cost of goods sold	3	–266,520	–33,750	–17,089	–7,375
Gross profit	4	**119,529**	**17,011**	**6,484**	**4,981**
Selling expenses		–55,060	–6,612	–3,463	–477
Administrative expenses		–22,229	–6,001	–2,989	–4,195
Other operating income	5	3,391	1,146	1,519	1,146
Other operating expenses	6	–1,369	–519	–926	–519
Operating income before depreciation on intellectual capital	2, 7	**44,262**	**5,025**	**625**	**936**
Depreciation on intellectual capital		–13,529	–949	–1,089	–142
Operating income after depreciation on intellectual capital		**30,733**	**4,076**	**–464**	**794**
Result from financial items					
Result from participations in Group companies	8	2	–	633	–
Other interest income and similar profit/loss items	9	1,054	161	873	86
Interest expense and similar profit/loss items	10	–3,741	–856	–2,419	–642
Profit/loss after financial items		**28,048**	**3,381**	**–1,377**	**237**
Appropriations					
Group contributions received		–	–	12,246	338
Group contributions paid		–	–	–2,111	–
Profit before tax		**28,048**	**3,381**	**8,758**	**575**
Tax on profit for the year	11	–11,933	–561	–	–
Net profit for the year		**16,115**	**2,820**	**8,758**	**575**

Balance Sheets

ASSETS (SEK 000s)	Note	Group 1997-12-31	Group 1996-12-31	Parent Company 1997-12-31	Parent Company 1996-12-31
Fixed assets					
Intangible assets					
Capitalized expenditures, etc.	12	481	519	–	–
Intellectual capital	13	149,480	40,300	15,811	16,900
		149,961	**40,819**	**15,811**	**16,900**
Tangible assets					
Land and buildings	14	10,419	9,457	9,348	9,457
Equipment	15	15,370	3,730	928	619
		25,789	**13,187**	**10,276**	**10,076**
Financial assets					
Participations in Group companies	16	–	–	180,606	32,303
Other securities held as fixed assets	17	6,076	1,076	76	1,076
Other long-term receivables		217	–	–	–
		6,293	**1,076**	**180,682**	**33,379**
Total fixed assets		**182,043**	**55,082**	**206,769**	**60,355**
Current assets					
Inventories, etc.					
Work in progress	18	10,311	–	–	–
Inventories		41,705	10,467	3,532	3,595
		52,016	**10,467**	**3,532**	**3,595**
Current receivables					
Accounts receivable – trade		64,372	40,686	2,694	17,801
Receivables from Group companies		–	–	32,762	–
Tax receivables		107	379	16	73
Other receivables		18,197	7,088	5,331	5,458
Prepaid expenses and accrued income	19	7,581	6,064	1,281	2,819
		90,257	**54,217**	**42,084**	**26,151**
Short-term investments	20	**1,047**	**–**	**–**	**–**
Cash and bank balances		**20,766**	**4,711**	**500**	**783**
Total current assets		**164,086**	**69,395**	**46,116**	**30,529**
TOTAL ASSETS		**346,129**	**124,477**	**252,885**	**90,884**

Balance Sheets

EQUITY AND LIABILITIES **(SEK 000s)**	**Note**	***Group*** **1997-12-31**	**1996-12-31**	***Parent Company*** **1997-12-31**	**1996-12-31**
Equity	21				
Restricted equity					
Share capital		36,168	25,059	36,168	25,059
New stock issue under registration		8,800	–	8,800	–
Share premium reserve		–	–	102,664	31,346
Restricted reserves		103,087	31,360	–	–
		148,055	56,419	147,632	56,405
Non-restricted equity					
Non-restricted reserves		4,180	–	575	–
Net profit for the year		16,115	2,820	8,758	575
		20,295	2,820	9,333	575
		168,350	**59,239**	**156,965**	**56,980**
Provisions					
Provisions for pensions	22	1,216	1,105	1,216	1,105
Provisions for deferred tax	11	5,397	654	–	–
		6,613	**1,759**	**1,216**	**1,105**
Long-term liabilities					
Bank overdraft facilities	23	8,884	11,528	8,884	11,333
Other liabilities to credit institutions		–	2,731	–	2,731
Other liabilities		4,077	464	–	–
		12,961	**14,723**	**8,884**	**14,064**
Current liabilities					
Bank overdraft facilities	23	4,994	–	4,994	–
Liabilities to credit institutions	24	67,748	7,929	57,465	–
Advance payments from customers		76	–	–	–
Accounts payable – trade		34,996	22,373	4,956	8,538
Liabilities to Group companies		–	–	13,102	3,072
Income tax liability		9,961	1,061	–	–
Other liabilities	25	23,551	6,863	2,895	3,026
Accrued expenses and deferred income	26	16,879	10,530	2,408	4,099
		158,205	**48,756**	**85,820**	**18,735**
TOTAL EQUITY AND LIABILITIES		**346,129**	**124,477**	**252,885**	**90,884**
PLEDGED ASSETS AND CONTINGENT LIABILITIES					
Pledged assets	27	**212,296**	**34,399**	**190,183**	**20,000**
Contingent liabilities	28	**6**	**6**	**777**	**1,081**

Statement of Changes in Financial Position

SEK 000s	Note	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Funds provided by operations					
Profit/loss after financial items		28,048	3,381	-1,377	237
Depreciation		18,722	1,474	1,591	431
Taxes paid		–7,190	–561	–	–
Total funds provided by year's operations		**39,580**	**4,294**	**214**	**668**
Change in working capital (excl. liquid funds)					
Increase(-)/Decrease(+) in inventories, etc.		–41,549	–10,467	63	–3,595
Increase(-)/Decrease(+) in current receivables		–36,040	–31,954	-15,933	–4,121
Increase(-)/Decrease(+) in current liabilities		109,449	38,475	67,086	6,811
Increase(-)/Decrease(+) in short-term investments		–1,047	–	–	–
		70,393	**348**	**51,430**	**–237**
New stock issue		90,699	43,334	88,651	43,334
Option commitments		2,575	–	2,575	–
Group contributions received		–	–	12,246	338
Increase in provisions, excl. deferred tax		111	100	111	100
Increase in long-term liabilities		–	7,567	–	6,254
Total funds provided		**163,778**	**51,349**	**155,013**	**49,789**
Funds utilized					
Investments in intangible assets		122,813	41,768	–	17,042
Investments in tangible assets		17,653	4,915	702	1,659
Investments in financial assets		5,217	1	147,303	30,306
Decrease in long-term liabilities		1,762	–	5,180	–
Translation difference		278	–	–	–
Group contributions paid		–	–	2,111	–
Total funds utilized		**147,723**	**46,684**	**155,296**	**49,007**
Change in liquid funds		***16,055***	***4,665***	***–283***	***782***

Accounting Principles

General accounting principles

As of 1997, TurnIT is following the new Swedish Annual Accounts Act, in which financial reporting standards have been adapted to the EU. This has resulted primarily in changes to the standard layout of the income statement and balance sheet. Income statements and balance sheets from comparative years have been adjusted according to the new regulations. The Company follows the recommendations of the Swedish Financial Accounting Standards Council.

Assets, provisions and liabilities have been valued at acquisition cost unless specified otherwise below.

Inventories

Inventories are valued at the lower of cost (in accordance with the first-in, first-out method) and net realizable value. Deductions have been made for the risk of obsolescence.

Work in progress

Work in progress is recognized as income on a gradual basis. In each period, an amount corresponding to the costs incurred to produce the work up to the end of the period is deducted from the estimated total revenue for the work. Changes in the estimated total revenues and costs for work are reported in the same period they arise.

Receivables and liabilities

Receivables are recorded in the amount they are expected to be paid after individual control. Receivables and liabilities in foreign currency have been translated at year-end exchange rates.

Principles for depreciation of fixed assets

Cost depreciation is based on original cost and the estimated economic life of the assets. Fixed assets are written down when their value declines permanently. Intellectual capital is distributed over structure capital – databases, agencies, strategic alliances, technology and methods, etc., and human capital – the people in companies. In contrast to manufacturing companies, which consume fixed assets, knowledge companies manufacture products without consuming assets. This situation, coupled with expectations for extremely good earnings in acquired companies, motivates the depreciation rates for intellectual capital. See also "Consolidated accounting" below. Against the background of TurnIT's business concept, intellectual capital is reported as a separate function in the income statement.

Leasing

Leasing is classified in the consolidated accounts either as financing leases or operating leases. Financing leasing is used when the economic risks and benefits associated with ownership are basically transferred to the lessee. If not, operating leases are used. In brief, the fixed asset in question is shown as an asset in the balance sheet when financing leasing is used, and a corresponding debt is recorded on the passive side of the balance sheet. In the income statement, the leasing cost is distributed partly among depreciation and partly among interest expenses for agreements entered into as of 1997. In operating leasing, briefly described, no asset or corresponding liability item is shown in the balance sheet.

Consolidated accounting

The consolidated accounts have been prepared in accordance with the recommendations (RR1.96) of the Swedish Financial Accounting Standards Council. The consolidated accounts comprise all companies in which the Parent Company owns more than 50 percent of the voting rights, or has a controlling interest in some other way. The item "goodwill" has been replaced with the term "intellectual capital", which is distributed over structure capital and human capital, as described above. Deferred tax is calculated on the basis of a tax rate of 28 percent.

Translation of foreign subsidiaries

The financial statements of foreign subsidiaries are translated in accordance with the current method, in which all assets, provisions and liabilities are translated at year-end rates, and all income statement items are translated at the average exchange rate for the year. Any resulting translation differences are reported directly under equity.

Companies acquired during 1997

January 1, 1997	IAR Systems AB, Libro Datakonsult AB, Pargon AB TriData AB, Swedeltaco AB (including the subsidiary Deltaco HB) and AVA System AB.
May 1, 1997	Denix Finans AB (including the subsidiary Enskede Teleteknik AB (ETAB).
December 31, 1997	Network Innovation AB.

The following depreciation rates are used:

Intangible assets	
Capitalized expenditures, development projects	3 years
Capitalized expenditures, leased premises	20 years
Intellectual capital and related depreciation rates:	
Fiberdata AB and IAR Systems AB and subsidiaries	14.3%
CityData AB, Open Networks AB, Network Innovation AB	10.0%
Transnordic Data, Libro Datakonsult AB, TriData AB, Swedeltaco AB	6.7%
Tangible assets	
Buildings	25 and 50 years
Land improvements (75% of acquisition value)	27 years
Computers	3 years
Other equipment	5 years

Notes

Note 1. Employees and personnel costs

Average number of employees

	1997	Of whom, men	1996	Of whom, men
Parent Company				
Sweden	11	73%	1	100%
Total in Parent Company	11	73%	1	100%
Subsidiaries				
Sweden	186	72%	15	67%
United States	4	75%	–	–
United Kingdom	3	67%	–	–
Germany	2	100%	–	–
Total in subsidiaries	195	72%	15	67%
Group total	206	72%	16	69%

Salaries, other compensation and social security

	1997		1996	
	Salaries and compensation	Social expenses	Salaries and compensation	Social expenses
Parent Company	5,631	2,346	1,136	224
(of which, pension expenses)[1]		(622)		(134)
Subsidiaries	57,223	23,074	3,484	1,405
(of which, pension expenses)		(2,618)		(159)
Group total	62,854	25,420	4,620	1,629
(of which, pension expenses)[2]		(3,240)		(293)

[1] Of the Parent Company's pension expenses, SEK 111,000 (1996: SEK 100,000) are for the Board of Directors and President. The company's outstanding pension commitments for earlier President total SEK 1,216,000 (1996: SEK 1,105,000).

[2] Of the Group's pension expenses, SEK 1,088,000 (1996: SEK 144,000) are for the Board of Directors and President. The Group's outstanding pension commitments for earlier President total SEK 1,216,000 (1996: SEK 1,105,000).

Salaries and other compensation by country and between board members and other employees

	1997 Board and President	Other employees	1996 Board and President	Other employees
Parent Company				
Sweden	1 594	4 037	750	386
Total in Parent Company	1,594	4,037	750	386
Subsidiaries in Sweden	6,741	46,830	667	2,817
(of which, bonus and similar compensation)	(1,045)		(–)	
Subsidiaries outside Sweden				
United States	–	1,868	–	–
United Kingdom	–	764	–	–
Germany	–	1,020	–	–
Total in subsidiaries	6,741	50,482	667	2,817
(of which, bonus and similar compensation)	(1,045)		(–)	
Total in Group	8,335	54,519	1,417	3,203
(of which, bonus and similar compensation)	(1,045)		(–)	

The Chairman of the Board has the right to receive SEK 300,000 during his term. There are no agreements covering his pension, severance pay or any other benefits. Board members are not entitled to severance pay. During the year the services of the President were hired on a project basis, but as of April 1, 1998 he was employed by the Company. The cost for the President as an employee is estimated to amount to SEK 1,470,000 per year, excluding a profit-based bonus. Pension benefits for the President were not paid for by TurnIT in 1997. The Company is required to give 36 months advance notice when terminating the employment of the President, during which time salaries and other benefits will be paid on an unchanged level. There are future commitments concerning pensions for earlier President. This liability totaled SEK 1,216,000 at December 31, 1997. Pension benefits are paid for Presidents of subsidiaries which basically correspond to the ITP plan. When their employment is terminated by the Company, subsidiary Presidents receive severance pay corresponding to 12-18 months salary.

Note 2. Intra-Group income and expenses

Of the Parent Company's total income and expenses for the year, 17 percent (0%) of income, and 2 percent (0%) of expenses, were related to companies in the Group.

Note 3. Cost of goods sold

Cost of goods sold has been reduced by SEK 2.9 M for profit guarantees in acquired operations.

Note 4. Net sales and gross profit by area of operation:

	Group		Parent Company	
	1997	1996	1997	1996
Net sales by area of operation				
Hardware	211,461	21,656	10,798	8,649
Software	101,999	21,941	–	–
Consulting services	48,573	1,927	–	–
After-sales market	23,646	5,237	8,825	–
Other operations	370	–	3,950	3,707
	386,049	**50,761**	**23,573**	**12,356**
Gross profit by area of operation				
Hardware	56,978	6,673	4,273	3,460
Software	40,975	7,816	–	–
Consulting services	13,851	590	–	–
After-sales market	8,561	1,932	2,211	1,521
Other operations	–836	–	–	–
	119,529	**17,011**	**6,484**	**4,981**

Export sales accounted for approximately 7 percent (0%) of Group sales. The export currencies are USD, GBP and DEM. Purchases in foreign currency, primarily in USD and CHF, accounted for approximately 28 percent (0%) of the cost of goods sold in the Group. Currencies are hedged only to a limited extent.

Note 5. Other operating income

	Group		Parent Company	
	1997	1996	1997	1996
Exchange gains on receivables/liabilities related to operations	1,056	–	–	–
Income from real estate properties, etc.	1,582	1,146	1,519	1,146
Insurance compensation	620	–	–	–
Other operating income	133	–	–	–
	3,391	**1,146**	**1,519**	**1,146**

Note 6. Other operating expenses

	Group		Parent Company	
	1997	1996	1997	1996
Exchange losses on receivables/liabilities related to operations	–443	–	–	–
Real estate property expenses, etc., excluding interest expense	–926	–519	–926	–519
	–1,369	**–519**	**–926**	**–519**

Note 7. Depreciation

Depreciation, excluding depreciation on intellectual capital is distributed over the following functions:

	Group		Parent Company	
	1997	1996	1997	1996
Cost of goods sold	–3,419	–129	–181	–9
Selling expenses	–1,051	–42	–26	–
Administration	–413	–116	–36	–42
Other expenses	–310	–238	–259	–238
	–5,193	**–525**	**–502**	**–289**

Note 8. Result from participations in Group companies

	1997	1996
Parent Company		
Dividends received	1,150	–
Capital gain on sales of subsidiaries	2	–
Write-down of shares in subsidiaries	–519	–
	633	**–**

Note 9. Other interest income and similar profit items

	Group		Parent Company	
	1997	1996	1997	1996
Interest income, Group companies	–	–	682	–
Interest income, others	1,011	161	191	85
Exchange gains	43	–	–	–
	1,054	**161**	**873**	**85**

Note 10. Interest expense and similar loss items

	Group		Parent Company	
	1997	1996	1997	1996
Portion of interest expense for the year, financial leasing agreements	–716	–	–	–
Interest expense, Group companies	–	–	–252	–642
Interest expense	–2,815	–765	–1,934	–
Other financial expense	–210	–91	–233	–
	–3,741	**–856**	**–2,419**	**–642**

Note 11. Tax

	Group		Parent Company	
	1997	1996	1997	1996
Paid tax	–7,190	–561	–	–
Deferred tax	–4,743	–	–	–
	–11,933	**–561**	**–**	**–**

Losses that can be deducted for tax purposes total SEK 35 M in the Parent Company and SEK 45 M in the Group. The future utilization of the Parent Company's deductible losses is basically limited by the so-called Group contribution block. There is unreported deferred tax in one Group company. Since this deferred tax is not expected to be realized within the foreseeable future, its present value is negligible.

Note 12. Capitalized expenditures

	Group		Parent Company	
	1997	1996	1997	1996
Development projects				
Accumulated acquisition value				
At January 1	496	–	–	–
Acquisitions of subsidiaries	–	496	–	–
	496	**496**	**–**	**–**
Accumulated cost depreciation				
At January 1	–27	–	–	–
Depreciation for the year	–137	–27	–	–
	–164	**–27**	**–**	**–**
Planned residual value at December 31, development projects	**332**	**469**	**–**	**–**

	Group		Parent Company	
	1997	1996	1997	1996
Leased premises				
Accumulated acquisition value				
At January 1	52	–	–	–
Acquisitions of subsidiaries	–	52	–	–
Capitalized expenditures for the year	104	–	–	–
	156	**52**	**–**	**–**
Accumulated cost depreciation				
At January 1	–2	–	–	–
Depreciation for the year	–5	–2	–	–
	–7	**–2**	**–**	**–**
Planned residual value at December 31, leased premises	**149**	**50**	**–**	**–**
Total planned residual value, capitalized expenditures	**481**	**519**	**–**	**–**

Note 13. Intellectual capital

	Group		Parent Company	
	1997	1996	1997	1996
Accumulated acquisition value				
At January 1	41,249	–	17,042	–
New acquisitions	122,709	41,249	–	17,042
	163,958	**41,249**	**17,042**	**17,042**
Accumulated cost depreciation				
At January 1	–949	–	–142	–
Depreciation for the year	–13,529	–949	–1,089	–142
	–14,478	**–949**	**–1,231**	**–142**
Planned residual value at December 31	**149,480**	**40,300**	**15,811**	**16,900**

Of the book value for intellectual capital, SEK 15,811,000 is deductible for tax purposes.

Note 14. Land and buildings

	Group		Parent Company	
	1997	1996	1997	1996
Accumulated acquisition value				
At January 1	12,435	11,356	12,435	11,356
New acquisitions	721	1,079	150	1,079
Acquisitions of subsidiaries	528	–	–	–
	13,684	**12,435**	**12,585**	**12,435**
Accumulated cost depreciation				
At January 1	–2,978	–2,739	–2,978	–2,739
Cost depreciation for the year on acquisition value	–287	–239	–259	–239
	–3,265	**–2,978**	**–3,237**	**–2,978**
Planned residual value at December 31	**10,419**	**9,457**	**9,348**	**9,457**
Tax assessment value, buildings	5,568	5,225	5,318	5,225
Tax assessment value, land	1,058	1,009	1,020	1,009

No property is being leased under an operational or financial leasing agreement.

An assessment company valued the Parent Company's office building in Umeå (Sweden) at SEK 12 M in May 1997.

Note 15. Equipment

		Group		Parent Company	
		1997	1996	1997	1996
Accumulated acquisition value					
At January 1		12,237	977	1,557	977
New acquisitions		5,205	1,309	552	580
Acquisitions of subsidiaries		16,606	9,951	–	–
Disposals and scrappings		–3,059	–	–	–
		30,989	**12,237**	**2,109**	**1,557**
Accumulated acquisition value					
At January 1		–8,507	–887	–938	–887
Acquisitions of subsidiaries		–10,667	–7,362	–	–
Disposals and scrappings		2,644	–	–	–
Cost depreciation for the year on acquisition value		–3,441	–258	–243	–51
		–19,971	**–8,507**	**–1,181**	**–938**
Planned residual value at December 31, excl. financial leasing		**11,018**	**3,730**	**928**	**619**
Equipment leased under financial leasing agreements			None	None	None
are included in the following amounts:					
Acquisition value		5,675	–	–	–
Accumulated cost depreciation		–1,323	–	–	–
		4,352	–	–	–
Planned residual value at December 31		**15,370**	**3,730**	**928**	**619**
Assets leased under operational leasing agreements			None	None	None
Estimated acquisition value of assets		765	–	–	–
Paid leasing fees during the fiscal year		156	–	–	–
Agreed future leasing fees:	1998	199	–	–	–
	1999	119	–	–	–
	2000	43	–	–	–

Information has only been included if substantial values are recovered in each Group company. Customary rental agreements for premises have not been included. Future payments in connection with financial leasing agreements have been included in current and long-term liabilities in the Group.

Note 16. Participations in Group companies

	1997	1996
Parent Company		
Accumulated acquisition value		
At January 1	32,303	1,998
Acquisitions	148,822	30,524
Divestments	–	–219
	181,125	32,303
Accumulated write-downs		
Write-downs for the year	–519	–
	–519	–
Book value at December 31	**180,606**	**32,303**

Specification of Parent Company and Group holdings of shares and participations in Group companies

Subsidiary / Corporate ID No. / Domicile	Number of participations	Percentage holding 1)	Book value 1997	Book value 1996
CityData AB, 556439-0036, Stockholm, Sweden	500	100.0	13,545	13,545
Fiberdata AB, 556216-8491, Stockholm, Sweden 2)	10,205	100.0	31,202	12,960
AVA System AB, 556318-5833, Avesta, Sweden		100.0	–	–
Denix Finans AB, 556535-9881, Stockholm, Sweden 3)		100.0	–	–
Enskede Teleteknik AB, 556195-9676, Stockholm, Sweden		100.0	–	–
I.A.R Systems AB, 556230-7107, Uppsala, Sweden	2,000	100.0	15,104	–
I.A.R. Systems Software Inc., San Fransisco, U.S.A.		100.0	–	–
I.A.R Systems GmbH, Munich, Germany		100.0	–	–
I.A.R Systems Ltd, London, England		100.0	–	–
Libro Datakonsult AB, 556215-8799, Uppsala, Sweden	2,000	100.0	10,933	–
Network Innovation AB, 556465-9497, Stockholm, Sweden	2,000	100.0	3,800	–
Open Networks AB, 556515-2336, Stockholm, Sweden	1,000	100.0	3,500	4,019
Pargon AB, 556050-1503, Uppsala, Sweden	678,520	100.0	11,196	–
Swedeltaco AB, 556509-3951, Stockholm, Sweden 3)	1,000	100.0	75,862	–
Deltaco HB, 916941-3474, Ludvika, Sweden		99.5	–	–
Tridata i Sverige AB, 556267-9752, Lund, Sweden	1,000	100.0	13,635	–
TurnIT Development AB, 556216-6776, Stockholm, Sweden	1,666	100.0	156	156
KällData Stockholm AB, 556207-2198, Umeå, Sweden	5,000	100.0	500	500
KällData Ekonomisystem AB, 556256-2487, Luleå, Sweden	5,000	100.0	642	642
KällData AB, 556241-1784, Ronneby, Sweden	1,000	100.0	100	100
KällData Konsult Syd AB, 556161-5864, Helsingborg, Sweden	5,000	100.0	331	331
Foresco AB, 556201-4810, Umeå, Sweden	500	100.0	100	50
			180,606	**32,303**

1) Refers to the percentage of share capital, which also corresponds to the percentage of votes for the total number of shares.

2) The book value increased in 1997 due to shareholders' contributions related to Fiberdata's acquisition of AVA System AB and Denix Finans AB/ETAB.

3) There are agreements concerning supplementary purchase prices. One is based on earnings in 1998 and can involve a maximum supplementary purchase price of SEK 25 M. The other supplementary purchase price is based on earnings up to December 31, 1999 and can involve a maximum payment of SEK 15 M. Any paid supplementary purchases prices will increase intellectual capital. In addition to the write-downs reported in Note 8, the book value of shares in Pargon AB, Libro Datakonsult AB and IAR Systems AB has been redistributed, due to the discontinuation of subgroups. The redistributed amount totals SEK 27,661,000.

Note 17. Other securities held as fixed assets

	Group		Parent Company	
	1997	1996	1997	1996
At January 1	1,076	1,075	1,076	1,075
Acquisitions	6,000	1	6,000	1
Divestments	–1,000	–	–7,000	–
Book value at December 31	**6,076**	**1,076**	**76**	**1,076**
Jeeves Information Systems AB	5,000	–	–	–
Minimax Data AB	1,000	–	–	–
Källvex System AB	–	1,000	–	1,000
FB Inedahl 8 Handelsbolag	76	76	76	76
	6,076	**1,076**	**76**	**1,076**

During the year the shareholding in Källvex AB was divested and investments were made in shares in Jeeves Information Systems AB and Minimax Data AB. TurnIT's participation in FB Inedahl Handelsbolag is also included among other securities held as fixed assets.

Note 18. Work in progress

	Group		Parent Company	
	1997	1996	1997	1996
Income related to work in progress	13,535	–	–	–
Less: invoiced work	–3,224	–	–	–
	10,311	**–**	**–**	**–**

Note 19. Prepaid expenses and accrued income

The item consists of prepaid rental charges and goods that have been delivered but not invoiced.

Note 20. Short-term investments

The Group has short-term investments in the form of participations in mutual funds. The book value of these holdings is SEK 1,047,000 and the market value was SEK 1,157,000 at December 31, 1997.

Note 21. Equity

Group	Share capital	Ongoing stock issue	Restricted reserves	Non-restricted reserves	Net profit for the year
At January 1	25,059	–	31,360	–	2,820
Appropriation of profits	–	–	–	2,820	–2,820
New stock issue	11,109	8,800	70,790	–	–
Option commitments	–	–	2,575	–	–
Change between restricted and non-restricted equity	–	–	–1,638	1,638	–
Translation difference	–	–	–	–278	–
Net profit for the year	–	–	–	–	16,115
At December 31	**36,168**	**8,800**	**103,087**	**4,180**	**16,115**

Parent Company	Share capital	Ongoing stock issue	Premium reserve	Retained earnings	Net profit for the year
At January 1	25,059	–	31,346	–	575
Appropriation of profits	–	–	–	575	–575
New stock issue	11,109	8,800	68,743	–	–
Option commitments	–	–	2,575	–	–
Net profit for the year	–	–	–	–	8,758
At December 31	**36,168**	**8,800**	**102,664**	**575**	**8,758**

The figures shown for new stock issues and restricted equity include deductions for SEK 1,033,000 in issue expenses. The number of registered shares in the Parent Company totaled 7,233,585 at December 31, 1997, of which 96,000 were Class A shares and 7,137,585 Class B shares. Each share has a par value of SEK 5.00.

Reporting of commitments concerning option rights

When issuing rights to subscribe for options, a commitment is first made. The commitments have been approved by the Annual General Meeting. Premiums received for option commitments have been allocated to the share premium reserve. These option commitments will be replaced later with debenture loans connected with option rights. Each option carries the right to subscribe for one Class B share. The following commitments have been made to date:

No. of options	Issue date	Premiums received (SEK 000s)	Subscription price	Increase in capital (SEK 000s)
125,000	98 11 30	825	30	3,750
100,000	98 12 31	250	45	4,500
150,000	00 03 15	1,500	60	9,000
375,000		2,575		17,250

The option commitments concern four Presidents of subsidiaries and the employees of one subsidiary.

Note 22. Provisions for pensions

	Group		Parent Company	
	1997	1996	1997	1996
For earlier President	**1,216**	**1,105**	**1,216**	**1,105**

Note 23. Bank overdraft facilities

	Group		Parent Company	
	1997	1996	1997	1996
Granted credit ceilings	23,500	13,100	20,000	11,500
Unutilized portion	–9,622	–1,572	–6,122	–167
Utilized credit amounts	13,878	11,528	13,878	11,333
of which, long-term portion	**8,884**	**11,528**	**8,884**	**11,333**
of which, short-term portion	**4,994**	**–**	**4,994**	**–**

The short-term portion of bank overdraft facilities consists of credits that are expected to be utilized in 1998. The collateral for these credits is shown in Note 27, Pledged assets.

Note 24. Other liabilities to credit institutions

Other liabilities to credit institutions consist of loans raised in connection with bridge financing of company acquisitions, factoring liabilities and loans for the Parent Company's office building in Umeå. Since the building is expected to be sold in 1998, all liabilities connected with the property are shown as current liabilities. Collateral for these loans is shown in Note 27, Pledged assets.

Note 25. Other liabilities, long-term and current

Other liabilities consist mainly of value added tax liabilities, liabilities related to personnel, liabilities in connection with company acquisitions and liabilities related to financial leases. No liabilities are due for payment later than 5 years after year-end 1997.

Future payments for financial leasing agreements per year:

1998 (reported under other current liabilities)	771
1999	451
2000	167
Total	1 389

Note 26. Accrued expenses and deferred income

This item basically consists of accrued personnel costs.

Note 27. Pledged assets

Pledged assets consist entirely of assets pledged as collateral for liabilities with credit institutions and bank overdraft facilities.

	Group		Parent Company	
	1997	1996	1997	1996
Real estate mortgages	14,850	14,450	14,450	14,450
Chattel mortgages	7,250	11,470	–	5,000
Shares in subsidiaries	181,448	550	175,733	550
Pledged accounts receivable – trade	8,748	7,929	–	–
	212,296	**34,399**	**190,183**	**20,000**

Note 28. Contingent liabilities

	Group		Parent Company	
	1997	1996	1997	1996
Guarantees on behalf of subsidiaries	–	–	771	1,075
Liability as partner in trading company	6	6	6	6
	6	**6**	**777**	**1,081**

In addition to the above contingent liabilities, there are Parent Company guarantees for subsidiary fulfillments towards suppliers and customary guarantees for finished work in subsidiaries.

Note 29. Disputes and conflicts

TurnIT is currently not involved in any disputes or lawsuits. There is a potential dispute concerning a so-called GAS deduction that the former subsidiary Facit Service made for personnel employed in 1995. TurnIT may be required to pay an amount up to SEK 3 M. No claim has been filed to date.

Stockholm, March 9, 1998

Christer Zetterberg
Chairman

Gunnar Mårtensson

Leif Nobel

Mats Olsson

Peter Enström
President

Auditors’ Report

To the Annual General Meeting of TurnIT AB (publ), Org. No. 556116-4384

We have examined the annual report, consolidated financial statements, the accounts and the administration of the Board of Directors and the President of TurnIT AB for the 1997 financial year. The financial statements and administration are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration, based on our audit.

The examination has been conducted in accordance with generally accepted auditing standards requiring that we plan and perform the audit to obtain reasonable assurance about whether 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 and their application by the Board of Directors and the President, as well as evaluating the overall financial statement presentation in the annual report and the consolidated 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 President, 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 below.

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

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

that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report.

In our opinion, the board members and the President have not committed any act or been negligent 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 President be discharged from liability for the financial year.

Stockholm, March 12, 1998

Anders Malmeby
Authorized Public Accountant

Olle Hällgren
Authorized Public Accountant

New Stock Issue

An Extraordinary General Meeting of stockholders on January 28, 1998 authorized the Board of Directors to establish the terms for a new stock issue for presentation at the Annual General Meeting. New shares will be issued in a maximum amount of SEK 125 M with preferential rights for present shareholders. On March 9, 1998, the board decided on the basic terms for the issue, in which shareholders can subscribe for one new TurnIT share for every two old shares held, at a price of SEK 33 per share. If fully subscribed, the company’s share capital will be increased by SEK 122.7 M. The conditions for the issue are described in greater detail in a prospectus that was distributed to the market (in Swedish only) in mid-April, 1998. The prospectus also constitutes the basis for TurnIT’s application for a listing on the O-list of the Stockholm Stock Exchange.

The TurnIT Share and Major Stockholders

Major shareholders

The listing of major shareholders below has been compiled on the basis of information contained in the shareholders register maintained by VPC (the Swedish Securities Register Center) as of January 18, 1998 and has been supplemented to include changes known by the Company.

	Class A share	*Class B share*	*% of shares*	*% of votes*
Gunnar Mårtensson, privately and through companies	4,800	536,000	7.5	7.2
Kjell Wallmark and family	48,000	42,590	1.3	6.6
Peter Enström, privately and through companies	33,600	146,400	2.5	6.0
Comorant Sales & Distribution	–	300,000	4.1	3.7
SHB Fonder	–	256,000	3.5	3.2
Unibank A/S	–	255,000	3.5	3.2
Cbi-Tdb Union Banciare	–	240,000	3.3	3.0
Siamak Alian	–	215,000	3.0	2.7
Mohsen Moosavian	–	215,000	3.0	2.7
Jan Kihlberg	–	200,000	2.8	2.5
Other owners	9,600	4,731,595	65.5	59.2
	96,000	**7,137,585**	**100.0**	**100.0**

Share data

	1993	*1994*	*1995*	*1996*	*1997*
Number of shares	584,899	2,461,899	2,461,899	5,011,899	7,233,585
Profit per share after standard tax, SEK	0.31	–2.70	–7.08	0.84	2.74
Profit per share after actual tax, SEK	0.49	–3.82	–9.41	0.96	2.19
Cash flow per share, SEK	6.33	–0.58	–6.29	1.89	6.71
Adjusted equity per share, SEK	18.99	14.40	5.32	11.83	23.28

Definitions

Profit per share after actual tax

Net profit for the year per average number of shares during the year.

Profit per share after standard tax

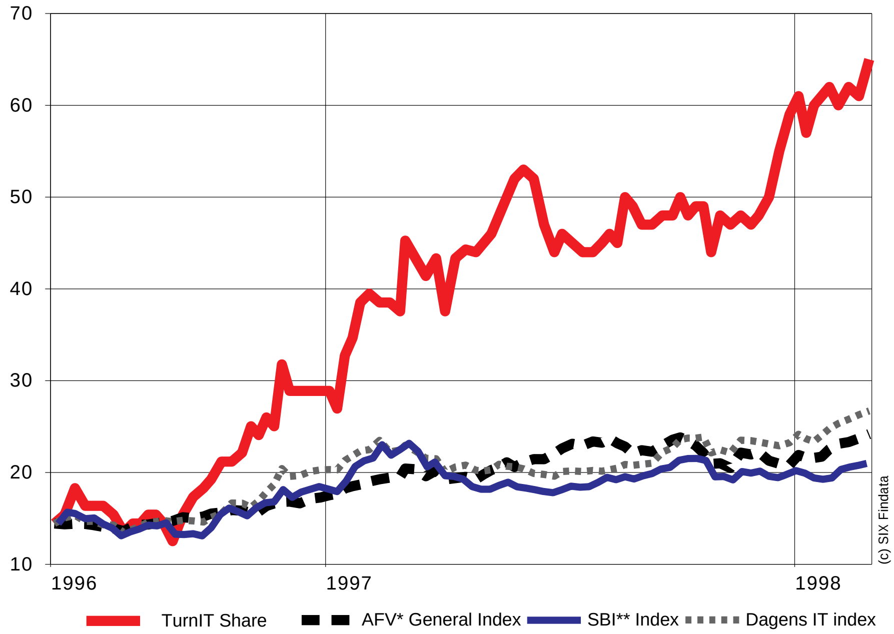
Result after financial items less standard tax per average number of shares during the year.

Cash flow per share

Result before depreciation per average number of shares during the year.

There were an average of 7,366,918 shares in 1997 (1996: 2,910,119). The calculation of the average number of shares includes increases in shares as of the date the shares start to generate a return. Against this background, the ongoing new stock issue at December 31, 1997 has been included.

Share index



* A leading Swedish business magazine. ** Stockholm Börsinformation.

Board, Management and Auditors

Board of Directors

Members:

Christer Zetterberg, born 1941.
Chairman of TurnIT as of January 28, 1998. Chairman, IDI, Segerström & Svensson, Ekman & Co. Board member, MoDo, LE Lundbergföretagen, Ghorton Line and other companies. Holds 100,000 stock options.

Peter Enström, born 1944.
Elected 1986. President of TurnIT AB and Chief Executive Officer of the TurnIT Group. Chairman, Tk Abstracta and Fastighets AB Värmdövik. Holds 180,000 shares, of which 33,600 Class A shares.

Gunnar Mårtensson, born 1944.
Elected 1996. Chief Executive Officer of the Minimax Data Group. Holds 540,800 shares, of which 4,800 Class A shares.

Leif Nobel, born 1940.
Elected 1996. Board member of IMS, KnowIT, Arete, Astrakan and other companies. Holds 29,600 shares, of which 9,600 Class A shares.

Mats Olsson, born 1948.
Elected 1996. Board member of Fjällräven, KnowIT, Traction and other companies. Holds 75,000 Class B shares.

Management

Parent Company:

Peter Enström, born 1944. President and CEO.
Elisabeth Koch, born 1959. Chief Financial Officer. Holds 720 B shares.

Auditors

Olle Hällgren, born 1938.
Authorized Public Accountant, Öhrlings Coopers & Lybrand AB. Auditor for the Company since 1992.

Anders Malmeby, born 1955.
Authorized Public Accountant, KPMG Bohlins AB. Auditor for the Company since 1995.

Deputy Auditors

Per Bergman, born 1946.
Authorized Public Accountant.
Sven-Erik Johansson, born 1935.
Authorized Public Accountant.

The board has no deputy members. Information about shareholdings and stock options include shares held through companies, spouses, and children under the age of 18.

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