Interim Report January–September 2002

IFS

Q3 2002

JANUARY–SEPTEMBER 2002

Further costs cuts improve third-quarter results.

Profitability improved in the U.S.A. compared with previous quarters. U.S. operations made a positive contribution to the Group during the third quarter and reported positive cash flow.

A large number of significant contracts were signed within prioritized market segments: asset-intensive industries, manufacturing and supply chain management, service, and aviation & defense. A total of 65 contracts were signed in the third quarter.

Over the past 12 months, indirect costs were reduced by SEK 242 M compared with the corresponding period in 2001. Indirect costs were down SEK 179 M for the first nine months. Ongoing actions are expected to reduce costs by a further SEK 90 M during the fourth quarter compared with the corresponding period in 2001.

Work has continued to improve cash flow, resulting in lower Days Sales Outstanding (DSO). Based on rolling 12-month invoicing, DSO has been reduced to 81 to 66 days since the third quarter of 2001.

Cost-efficiency within R&D improved as a result of reallocating resources to countries with lower cost structures. The launch of IFS Applications 2003 will begin in November.

IFS Applications continues to win marketshare in a shrinking market. License sales were down 9%* during the period, adjusted for exchange rate effects and with respect to IFS Applications, in a market that fell by 22%.

MSEK	Q3 2002	Q3 2001	Change	Jan-Sept '02	Jan-Sept '01	Change
License revenue	216	309	-30% *	787	967	-19% *
Consulting revenue	340	369	-8%	1 142	1 194	-4%
Other	29	20	45%	85	99	-14%
Net revenue	**585**	**698**	**-16%**	**2 014**	**2 260**	**-11%**
Earnings before depreciation	**-4**	**-5**	**1**	**9**	**43**	**-34**
Operating loss	-74	-72	-2	-199	-151	-48
Loss after financial items	**-89**	**-102**	**13**	**-244**	**-207**	**-37**
Orders on hand				924	1 231	-25%

*If the comparable figures for license revenue with respect to the divestment of Intercim and TCM in the fourth quarter of 2001 as well as for exchange rate fluctuation are adjusted, the reduction in license revenue amounts to 16% for the third quarter and 9% for the period.

Group performance

In many important markets, the third quarter was characterized by continued reluctance to invest. Outcome in continental Europe and Japan has been particularly weak, whereas the Nordic region, the U.K. and Division Growth Markets reported increased sales volumes and improved earnings.

The market for business applications, including services, was down 4%, with license sales for the 10 largest business applications vendors falling 9% in the third quarter. For the first nine months of 2002, the market for license sales decreased by 22%. IFS Applications continues to win marketshare. Adjusted for exchange rate effects for comparable units and in respect of IFS Applications, license sales were down 9% for the first nine months.

The strengthening of the Swedish krona had a major effect on orders on hand, revenue and costs during the third quarter. Adjusted for a stronger Swedish krona against currencies in Latin America and Eastern Europe, orders on hand increased somewhat during the third quarter. Compared with the third quarter of 2001, the exchange rate effects due to the stronger krona amounted to 5%. However, the impact on earnings is insignificant as revenue and costs were affected in almost equal measure. Fluctuations in exchange rates over 12 and 9 months were negligible.

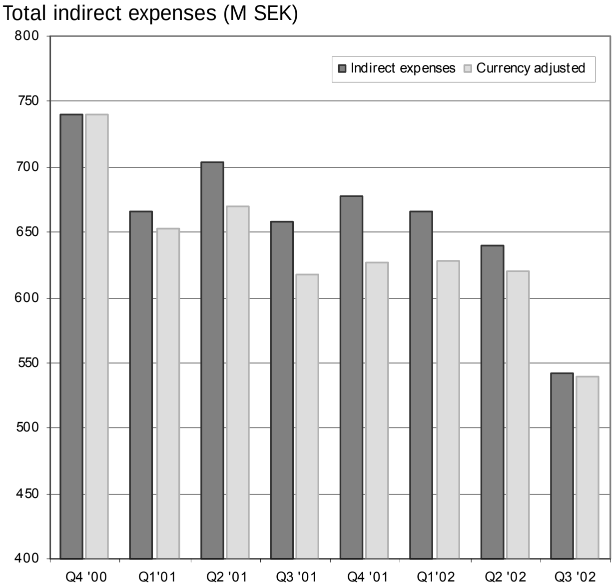
Of the Group's total sales during the period, consulting revenue accounted for 57%, license revenue for 39% and other revenue for 4%, compared with 53%, 43% and 4%, respectively, for the third quarter of 2001. Other revenue refers mainly to hardware sales and application service provider (ASP) services. No acquisitions were made during the period.

The focus on selected market segments intensified. Customers signed in the respective segments during the third quarter include: Manufacturing and logistics: Shanghai Hydraulics & Pneumatics Corporation, Scania Argentina, PT Lotus Indah Textile Industries (Indonesia), Southwall Technologies (USA), Biovitrum (Sweden), Banque de France, Hitachi Koki Imaging Systems (USA). Asset-intensive industries: Telsul Group (Brazil), Shanghai Petroleum Corporation, Byreiskaya Hydro Power Plant, (Russia), E-CO Vannkraft (Norway). Service: The Swedish Civil Aviation Authority, Sörmland County Council (Sweden), KPMG Auditores Independentes (Brazil), Fundação Sestet de Seguridade Social (Brazil), Mantena (Norway), Aviation and Defense; BE Aerospace (USA), Evergreen Air Center (USA), Bofors Defence (Sweden), Lockheed Martin (USA), Kamatics Corp. (USA).

The total number of employees at the end of the period was 3,150, compared with 3,456 at the end of the third quarter 2001, 3,216 at year-end 2001 and 3,171 at the end of the second quarter 2002. Sales per employee for the first nine months amounted to SEK 631,000, compared with SEK 634,000 during the corresponding period in 2001. Invoicing per consultant increased from SEK 695,000 to SEK 738,000, with a consulting margin of 14%, compared with 9% for the corresponding period in 2001. During the third quarter, the consulting margin was 12%, compared with 4% in the third quarter of 2001. Indirect costs during the third quarter (including non-recurring items) decreased by SEK 116 M.

Ongoing actions are expected to reduce indirect costs by SEK 90 M during the fourth quarter compared with the corresponding period in 2001. Implemented and planned actions will entail a further reduction of indirect costs during the beginning of 2003. Indirect costs are expected to amount to SEK 2,300M compared with SEK 2,500M in 2002 and SEK 2,700M in 2001.

Total indirect expenses (M SEK)



Division EMEA

Division EMEA comprises Europe (excluding eastern Europe), the Middle East, and Africa. The Nordic region and the U.K. continued to do well. In Sweden particularly, profitability was high. Consulting operations and license sales in continental Europe were weak, and the sales and consulting organizations in continental Europe have been extensively streamlined and restructured over the past year. The full effect will be seen in 2003 and is expected to result in considerably improved earnings.

A new office was opened in Dubai to ensure more efficient support for local partners in the region and to reinforce the sales capacity.

EMEA	Q3 2002	Chge**	Jan-Sept '02	Chge**
Net Sales* MSEK	336	-14%	1 244	-7%
License Revenue MSEK	102	-15%	408	-9%
Consulting Revenue MSEK	211	-12%	756	-3%
Operating Profit/Loss before Parent Company fees MSEK	-5	-23	120	-42
Employees (Average)	1 461	-107	1 486	-114
*of which interdivisional sales	9	-21	56	-60

**Change compared to corresponding period the previous year

Division Growth Markets

Division Growth Markets represents the regions where the biggest growth in IFS sales is expected and includes Asia, Australia, Japan, Latin America, and Eastern Europe. Greece, Cyprus and Turkey, previously part of Division EMEA, are now included in Division Growth Markets and will be consolidated as of 2003. A new partnership was established with Asia Soft in Kazakhstan targeting the energy and oil & gas industries.

The Chinese market continued to grow, with a number of new customers being signed and additional orders coming from existing customers. Although Southeast Asia remained weak, several new contracts were signed, and the collaboration with NEC has resulted in a large stock of prospects among Japanese companies with operations in the region. The domestic market in Japan has, however, been weak. One bright spot is the largest contract to date resulting from collaboration with NEC, with a license value of SEK 12 M. The continued instability of Latin American currencies has slowed down foreign investment. Nevertheless, IFS operations in the region reported positive earnings as a result of lower costs and several orders in Brazil, Argentina and Mexico. Eastern Europe displayed mixed trends. The markets in Poland, Hungary and the Czech Republic remained cautious, whereas developments in Russia and adjacent countries were positive. Several sizable contracts were signed, including Southern Energy Concern in Poland, which purchased licenses for a further 1,000 users, and an important initial order was received from Byreiskaya in Russia, one of the largest hydropower projects in the world.

GROWTH MARKETS	Q3 2002	Chge**	Jan-Sept '02	Chge**
Net Sales* MSEK	91	-13%	301	-3%
License Revenue MSEK	52	-17%	165	15%
Consulting Revenue MSEK	32	-3%	113	-3%
Operating Profit/Loss before Parent Company fees MSEK	15	20	34	59
Employees (Average)	578	-126	588	-130
*of which interdivisional sales	6	0	18	-6

**Change compared to corresponding period the previous year

Division North America

Division North America consists of the U.S.A. and Canada. The market was weak during the third quarter. IFS is impacted more than domestic vendors—who benefit from large customer bases and maintenance revenue—and therefore needs to sell a greater number of new projects to new customers. Nevertheless, profitability in the U.S.A. improved compared with the previous quarter, with U.S. operations contributing positively to Group earnings during the third quarter and reporting positive cash flow. IFS continued to win marketshare, especially with respect to new sales. Fourteen new customers signed contracts in the third quarter. Consulting revenue was slightly lower, but utilization of consultants improved as a result of staff reductions. Partnership channels continued to be nurtured. For example, a new partnership was established with Northrop Grumman in the defense sector to simultaneously approach the air forces in several countries. IFS has a strong position with a focused organization that covers all of North America and has a growing customer base. When the will to invest in industry returns, considerable growth and improved earnings are expected.

NORTH AMERICA	Q3 2002	Chge**	Jan-Sept '02	Chge**
Net Sales* MSEK	171	-13%	534	-14%
License Revenue MSEK	63	-39%	224	-28%
Consulting Revenue MSEK	100	10%	295	-2%
Operating Profit/Loss before Parent Company fees MSEK	13	-1	19	-48
Employees (Average)	411	-99	407	-103
*of which interdivisional sales	2	-1	6	-3

**Change compared to corresponding period the previous year, adjusted for the divestment of Intercim and TCM.

The market

As the market for business applications continued in a cautious vein during the third quarter of 2002, there were no major changes compared with the immediately preceding quarters. In respect of software sales, market activity is relatively high in the initial phases of the sales process. However, many customers choose to postpone the final investment decision. The investments that are made are often spread over several stages, with each stage expected to produce payback before subsequent decisions to invest are made. The background to such investment behavior is a general political and economic uncertainty that makes many companies reluctant to undertake major projects.

Instead of making major investments, many companies are opting for temporary enhancements to existing systems via customizations and minor upgrades. Consequently, consulting operations are doing better than license sales, 50% of which are new sales. The remainder consists of maintenance fees. Such a market benefits vendors with large customer bases. IFS, the fastest grower among the major vendors since the mid-1990s, has a smaller customer base than colleagues of similar size, which makes it more dependent on new sales to maintain volumes.

The fact that final decisions are being postponed makes it very difficult to forecast a turning point for the current trend despite the high levels of market activity. Previous forecasts of a slight upswing during the second half of the year appear not to have been met judging by vendors' third quarter outcomes and their forecasts for the fourth quarter. Our view of the need to modernize business applications remains, however, with penetration being very low in many markets. Business analysts also believe in growth during the coming years. For instance, AMR Research forecasts 12% growth in 2003 and 17% growth in 2004.

Alliances

Collaboration with partners continues to generate an increasing number of customers and prospects. There is, however, a strong variation between different regions and market segments. During the third quarter and the period as a whole, 9% and 15%, respectively, of sales of new license were generated via alliances. The amount of orders has not met expectations due to the prevailing market situation and the nature of the deals,

License Revenue Jan-Sept 2002	License Revenue Jan-Sept 2001	License Revenue Growth (%)	Vendor	Total Revenue Jan-Sept 2002	Total Revenue Jan-Sept 2001	Total Revenue Growth (%)
1 234.3	**1 436.1**	**-14**	**SAP**	**4 757.4**	**4 653.7**	**2**
708.1	**1 097.5**	**-35**	**Oracle**	**1 966.7**	**2 221.4**	**-11**
387.0	**471.0**	**-18**	**PeopleSoft**	**1 437.0**	**1 579.0**	**-9**
153.0	**195.0**	**-22**	**J.D. Edwards**	**657.0**	**653.0**	**1**
88.4	**117.0**	**-24**	**Baan**	**255.4**	**328.0**	**-22**
79.5	**97.7***	**-19**	**IFS**	**203.4**	**228.3***	**-11**
74.8	**76.6**	**-2**	**Intentia**	**267.9**	**276.3**	**-3**
42.7	**50.7**	**-16**	**QAD**	**143.1**	**161.2**	**-11**
27.8	**33.6**	**-17**	**GEAC**	**249.2**	**277.0**	**-10**
24.0	**34.0**	**-29**	**Epicor**	**107.0**	**135.0**	**-21**

Total sales and license sales for the largest business applications vendors, January-September 2002. (US$ million)

* Included Intercim and TCM licenses.

Source: Plant-Wide Research. The period ends on September 30, except for Oracle (August 31), J.D. Edwards (July 31), QAD (July 31) and GEAC (July 31).

which are often substantial with long decision-making processes. Generally, however, awareness of IFS has increased, and partners' sales organizations more frequently include IFS Applications in their bids.

IFS has entered into an agreement with Northrop Grumman Information Technology to target Northrop Grumman's international customer base and new customers in the defense segment.

The market for maintenance solutions within commercial aviation has not lifted. The collaboration agreement with GE has been renegotiated, and GE Engine Services is no longer the exclusive distributor to the commercial aviation market. GE and IFS continue to collaborate under the terms of a new agreement. Three contracts were signed with new customers during the period. The implementation of GE's internal systems, embracing more than 60 engine maintenance facilities, continues, with the first system going live during the period.

ABB and IFS have extended their collaboration with respect to the energy and utilities industry, where IFS has a very strong position in several markets. IFS Applications will be included in the ABB Utilities product profile, enabling IFS to reach a considerably larger part of the world market.

For the joint venture, BAE SYSTEMS-IFS, the Springboard project has become more extensive. IFS Applications is now a critical support system for major weapons systems being introduced by BAE SYSTEMS.

Collaboration with NEC is developing well, especially in respect of automotive suppliers. The alliance was extended to included markets outside Japan. As a result, IFS now has a large number of prospects in Southeast Asia and Europe, primarily in the Japanese automotive industry. During the period, a number of important contracts were signed, the biggest of which amounted to SEK 12 M in license value.

IFS began a project in collaboration with Cap Gemini Ernst & Young and Sun to target the shipbuilding industry, where IFS already has a strong position in Norway, among other places. Joint marketing efforts will be focused on new markets.

IBM and IFS are collaborating in many projects in several important markets, and the pool of prospects is growing. Marine Atlantic, in Canada, is a joint order where IBM Global Services is implementation partner.

IFS has collaborated with Sun Microsystems for many years. A global collaboration agreement has been signed to formalize the collaboration within marketing, sales and technology development. Sun has set up a center of excellence for IFS Applications in the Netherlands and will increase its involvement in joint marketing efforts within selected segments.

IFS will continue resolutely to pursue its alliances strategy. In collaboration with an increasing number of partners, IFS is packaging solutions where the respective products are combined with new interfaces and newly developed components. In this way, critical market segments are further developed since unique solutions can be offered to specific, often narrow, customer segments in a cost-effective way.

Product development

During the third quarter, the work of completing IFS Applications 2003 for its launch at the IFS World Conference in Orlando, Florida, during November was intensified. IFS Applications 2003 focuses on product, customer and asset lifecycle management in selected market segments. It also offers customer benefits based on new technology including mobile solutions and XML-based collaboration between companies.

The third quarter also involved continued intensive efforts with product and market development for service and maintenance solutions as well as for aviation and defense, where IFS and its partners continue to establish themselves as global leaders.

At the same time, a focus on cost-effectiveness has also characterized the third quarter. The reallocation of R&D resources from the U.S.A. and Sweden to Sri Lanka initiated in June was completed and resulted in lower costs without reducing the number of hours invested in R&D.

Product development expenditure during the first nine months amounted to SEK 315 M, of which SEK 168 M was capitalized, compared with SEK 395 M and SEK 181 M, respectively, for the corresponding period in 2001. Amortization of capitalized development costs amounted to SEK 97 M, compared with SEK 81 M in the first nine months of 2001. Other amortization charged to product development amounted to SEK 21 M. Product development expenditure amounted to 16% of Group net revenue and 40% of license revenue, compared with 17% and 41%, respectively, for the first nine months of 2001.

Financing and cash flow

Group cash flow from current operations amounted to SEK -54 M in the third quarter, compared with SEK –28 M, for the corresponding period in 2001. The biggest single change in cash flow compared with the previous year is that the major transactions with GE had a positive effect on cash flow in the third quarter of 2001.Cash flow from current operations for the first nine months amounted to SEK -55 M, compared with SEK –86 M for the first nine months of 2001. Receivables were reduced to SEK 644 M from SEK 841 M at the beginning of the year and SEK 831 M at the end of the third quarter 2001. DSO based on invoicing for 12 months rolling has been reduced from 81 to 66 days since the third period 2001. Cash flow after investments amounted to SEK –114 M for the third quarter, compared with SEK –89 M for the corresponding period in 2001. Investments amounted to SEK 60 M, compared with SEK 61 M for the corresponding period in 2001. Activities to improve cash flow continue. Financing operations contributed SEK 90 M, compared with SEK 81 M in the same period in 2001. Parts of the borrowing requirements have been underwritten by IFS' principal owner, Förvaltnings AB Wasatornet. During the third quarter, an agreement was reached with a bank in the U.S.A. concerning credit facilities up to SEK 140 M, with receivables in the U.S.A. as collateral.

As of September 30, 2002, liquid assets amounted to SEK 109 M, compared with SEK 81 M in the third quarter of 2001. The Group also had access to additional lines of credit and loan commitments in an amount of SEK 102 M, compared with SEK 154 M in the third quarter of 2001.

The equity/assets ratio on September 30, 2002, was 40%, compared with 54% on September 30, 2001.

Parent Company

The Parent Company reported net revenue of SEK 37 M, compared with SEK 41 M for the third quarter of 2001, with a loss after net financial items of SEK 479 M, compared with a loss of SEK 97 M for the same period the previous year. The results have been charged with a capital infusion of SEK 370 M to subsidiaries.

Investments in stocks and shares amounted to SEK 0 M, compared with SEK 4 M for the corresponding period in 2001. Investments in machinery and equipment amounted to SEK 15 M, compared with SEK 1 M for the third quarter of 2001. On September 30, the Parent Company's liquid funds, including unutilized lines of credit, totaled SEK 40 M, compared with SEK 27 M for the corresponding period in 2001.

Outlook

IFS expects the market for business applications to continue weak during the fourth quarter of 2002. The previous forecast of a positive result after net financial items for the second half of the year remains.

Linköping November 5 2002

Bengt Nilsson
President and Chief Executive Officer

This interim report is unaudited.

Financial information 2002

Preliminary Report on 2002 operations February 2003

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Consolidated Profit and Loss Account

SEK million	Note 1	Jan-Sept 2002	Jan-Sept 2001	Oct-Sept '01/'02	Oct-Sept '00/'01	Jan-Dec 2001
License revenue	2	787	967	1 057	1 271	1 237
Consulting revenue		1 142	1 194	1 604	1 551	1 657
Other revenue		85	99	136	140	150
Net sales		**2 014**	**2 260**	**2 797**	**2 962**	**3 044**
Capitalized work for own use		168	181	236	244	249
Direct external costs		-331	-402	-497	-505	-569
Indirect costs	3	-1 842	-1 992	-2 501	-2 669	-2 650
Depreciation		-208	-194	-272	-260	-258
Other operating items, net		0	-4	-18	-58	-22
Operating costs, net		**-2 213**	**-2 411**	**-3 052**	**-3 248**	**-3 250**
Operating profit / loss, net		**-199**	**-151**	**-255**	**-286**	**-206**
Financial items, net	4	-45	-56	-132	-37	-144
Profit / loss after financial items		**-244**	**-207**	**-387**	**-323**	**-350**
Tax on earnings for the period	5	64	-24	64	-12	-24
Monority interest		3	2	-1	-3	-3
Profit / loss for the period		**-177**	**-229**	**-324**	**-338**	**-377**

Consolidated balance sheet

SEK million	Note	Sept 30 2002	Sept 30 2001	Dec 31 2001
Capitalized development costs		539	444	467
Goodwill		504	628	596
Other intangible fixed assets		82	93	94
Total intangible fixed assets		**1 125**	**1 165**	**1 157**
Tangible fixed assets		190	266	243
Other financial fixed assets	6	198	91	157
Total fixed assets		**1 513**	**1 522**	**1 557**
Stock in trade		3	6	3
Accounts receivable		644	831	841
Other current receivables		96	109	118
Prepaid expenses and accrued income		138	117	133
Short-term investments		0	8	12
Cash and bank balances		109	81	110
Total current assets		**990**	**1 152**	**1 217**
Total assets		**2 503**	**2 674**	**2 774**
Shareholders' equity	7	979	1 062	1 220
Minority interest		17	19	23
Provisions		8	10	18
Convertible debenture loan	8	69	261	96
Interest-bearing liabilities	9	512	278	280
Accounts payable		184	227	222
Other liabilities		186	243	273
Accrued expenses and deferred income	10	548	574	642
Total shareholders' equity, provisions and liabilities		**2 503**	**2 674**	**2 774**

Cash flow statement

SEK million	Jan-Sept 2002	Jan-Sept 2001	July-Sept 2002	Juli-Sept 2001	Oct-Sept '01/'02	Jan-Dec 2001
Cash flow from current operations before change in working capital	-5	-3	-14	-10	49	50
Change in working capital	-50	-83	-40	-18	-25	-57
Cash flow from current operations	**-55**	**-86**	**-54**	**-28**	**24**	**-7**
Cash flow from investment operations	-179	-243	-60	-61	-285	-348
Cash flow after investment operations	**-234**	**-329**	**-114**	**-89**	**-261**	**-355**
Cash flow from financing operations	240	286	90	81	293	338
Cash flow for the period	**6**	**-43**	**-24**	**-8**	**32**	**-17**

Key figures	Jan-Sept 2002	Jan-Sept 2001	Oct-Sept '01/'02	Jan-Dec 2001
Change in license revenue	-19%	72%	-17%	43%
Change in consulting revenue	-4%	44%	4%	40%
Change in net sales	-11%	54%	-6%	40%
Product development/net sales	16%	17%	17%	18%
Product development/license revenue	40%	41%	44%	44%
Net sales per employee ('000 SEK)	631	634	863	884
Indirect costs per employee ('000 SEK)	577	559	771	770
Consulting margin	14%	9%	15%	12%
Days sales outstanding (DSO)	66	81	66	80
Equity/assets ratio	40%	54%	40%	46%
Closing orders on hand	924	1 231	924	1 280
Number of employees on September 30	3 150	3 456	3 150	3 216
Number of employees, average	3 193	3 562	3 242	3 443
Key data per share, SEK				
Profit per share - after tax	-2.47	-4.19	-4.65	-6.60
Shareholders' equity per share	14	24	14	18
Number of shares on September 30 (millions)	72	59	72	70
Average number of shares (millions)	72	55	70	57

Consolidated Profit and Loss per quarter

SEK million	3rd Quarter		2nd Quarter		1st Quarter		4th Quarter	
	July-Sept '02	July-Sept '01	Apr-June '02	Apr-June '01	Jan-Mar '02	Jan-Mar '01	Oct-Dec '01	Oct-Dec '00
License revenue	216	309	267	385	304	272	271	304
Consulting revenue	340	369	387	412	415	413	463	356
Other revenue	29	20	31	36	25	44	50	42
Net sales	**585**	**698**	**685**	**833**	**744**	**729**	**784**	**702**
Capitalized work for own use	49	57	60	63	58	61	68	63
Direct external costs	-98	-118	-112	-165	-120	-119	-167	-104
Indirect costs	-540	-649	-642	-690	-661	-653	-658	-676
Depreciation	-70	-67	-68	-65	-70	-62	-64	-66
Other operating items, net	0	7	4	-3	-3	-8	-18	-54
Operating costs, net	**-659**	**-770**	**-758**	**-860**	**-796**	**-781**	**-839**	**-837**
Operating profit/loss, net	**-74**	**-72**	**-73**	**-27**	**-52**	**-52**	**-55**	**-135**
Financial items, net	-15	-30	-14	-2	-16	-25	-87	19
Profit/loss after financial items	**-89**	**-102**	**-87**	**-29**	**-68**	**-77**	**-142**	**-116**
Tax on earnings for the period	-2	-15	-13	11	80	-19	-1	12
Monority interest	0	0	0	-1	2	2	-4	-4
Profit/loss for the period	**-91**	**-117**	**-100**	**-19**	**14**	**-94**	**-147**	**-108**

Key figures							
Change in license revenue	-30%	39%	-31%	102%	12%	82%	-11%
Change in consulting revenue	-8%	39%	-6%	57%	1%	38%	30%
Change in net sales	-16%	37%	-18%	69%	2%	57%	12%
Product development/net sales	14%	18%	17%	16%	15%	18%	20%
Product development/license revenue	38%	41%	45%	35%	37%	49%	57%
Net sales per employee ('000 SEK)	185	201	214	236	230	204	235
Indirect costs per employee ('000 SEK)	171	187	201	196	205	183	197
Days sales outstanding (DSO)	66	81	75	88	72	97	80
Consulting margin	12%	4%	14%	9%	15%	16%	19%
Closing orders on hand (MSEK)	924	1 231	1 013	1 214	1 068	1 104	1 280
Number of employees, average	3 156	3 472	3 197	3 527	3 228	3 572	3 360

Accounting principles

In order to comply with a number of new recommendations, IFS has chosen to introduce new accounting principles for reporting revenue and product development expenditure as of January 1, 2002. The changes affect previous and future financial results. In compliance with Recommendation RR 5 on the revision of accounting principles, the quarterly income statements, balance sheets and cash flow statements from 2000 and 2001 have been restated, and financial ratios adjusted.

As of January 1, 2001 and January 1, 2002, a number of recommendations from the Swedish Financial Accounting Standards Council (Redovisningsrådet, RR) took effect. The new recommendations are part of an effort to adapt Swedish accounting standards to International Accounting Standards (IAS). The most important changes for IFS took effect in 2001 and refer to a change in principles for reporting revenue (Recommendation RR 11) and income taxes (Recommendation RR 9). As of January 1, 2002, new recommendations apply for reporting intangible assets (Recommendation RR 15).

License revenue

When reporting license revenue, IFS applies Recommendation RR 11 and the guidelines issued by the Stockholm Stock Exchange. These are based partly on IAS Recommendation IAS 18 and partly on U.S. GAAP, including Recommendation SOP 97–2.

License revenue for standard IFS software and third-party licenses is recognized as revenue when all of the following requirements are fulfilled: the license agreement, without the right to return all or part of the software, has been signed: delivery has been made; a price and payment terms, based on time—not on assignment—are established; payment can be deemed likely and is due within 180 days. License revenue that includes undelivered components that are required for the functionality of the software is recognized in its entirety when the components have been delivered. Consulting services and training related to implementation are reported separately from license revenue and are recognized as income as the services are supplied. If the services, such as extensive customization, are requirement for the functionality of the software, and if the services are part of the total delivery, license revenue as well as revenue from services are recognized as income successively as delivery is made. Maintenance revenue is annualized over the lifetime of the contract.

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

Orders on hand

An examination of orders on hand concerning maintenance contracts has resulted in an upward adjustment, and comparative figures for the first quarter of 2002 and the second quarter of 2001 have been adjusted. Orders on hand comprise contract orders for licenses that have not been recognized as income. Maintenance contracts are included in outstanding orders, and maintenance contracts without time limits are calculated as two-yearly in each report.

Product development expenditure

IFS capitalizes product development expenditure in accordance with Recommendation RR 15, Intangible assets, when the following certain criteria are fulfilled: it shall be technically feasible to turn the development project into a marketable or internally usable product, the resources required to complete the project are available, and the project is likely to entail financial benefits for IFS, either in the market where the product is to be sold or via internal savings. Moreover, it must be possible to calculate development expenditure in a reliable manner. It must also have been decided that the development project is to be part of an IFS Applications release or will be used to streamline internal processes. This means that costs for research and support are not capitalized.

IFS works continuously with a number of product development projects, most of which focus on standard releases of IFS Applications. Product development expenditure refers mainly to personnel costs. In addition to these, there are indirect costs such as premises, interest payments, travel, and office overheads. Indirect costs do not include amortization of capitalized product development expenditure or administration costs.

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

Income taxes

IFS applies Recommendation RR 9, Income taxes. Deferred tax is reported separately in the Group's income statement. Deferred tax claims are reported as fixed assets, whereas deferred tax liabilities are reported as provisions. Deferred tax claims that pertain to deficit deduction are reported as an asset if it is likely that the deficit deductions can be set off within three years.

Notes

Note 1 Income statement by function	Jan-Sept 2002	July-Sept 2002
License revenue	787	216
Consulting revenue	1 142	340
Other revenue	85	29
Net revenue	**2 014**	**585**
License and support costs	-215	-59
Consulting expenses	-984	-299
Other expenses	-62	-22
Direct costs 2	**-1 261**	**-380**
Gross margin	**753**	**205**
Sales and marketing expenses	-405	-110
Research & development expenses	-265	-90
Administration expenses	-282	-79
Other operating expenses, net	0	0
Indirect costs 2	**-952**	**-279**
Operating loss	**-199**	**-74**
Financial ratios		
License margin	73%	73%
Consulting margin	14%	12%
Gross margin	37%	35%
Marketing / license revenue	51%	51%
Research & development / license revenue	34%	42%
Research & development / net sales	13%	15%
Administration / net sales	14%	14%

Note 2 License revenue	Jan-Sept 2002	Jan-Sept 2001
License fees	489	631
Maintenance fees	240	273
Third-party license and maintenance fees	58	63
Total	**787**	**967**

Note 3 Reimbursement to related company

IFS International Flight Service leases aircraft from Greenfield AB on an hourly basis and on market terms. Greenfield AB is 90% owned by Bengt Nilsson, president and CEO of IFS. During the period the volume of transactions amounted to SEK 10M, compared with SEK 7M during the corresponding period in 2001.

Note 4 Financial items, net	Jan-Sept 2002	Jan-Sept 2001
Interest revenue	4	2
Interest expenses	-30	-32
Capitalized interest expenses	4	0
Depreciation of financial assets	-1	-42
Exchange rate differences	-16	24
Results from participations in associated companies	-2	1
Other financial items	-4	-9
Total	**-45**	**-56**

Note 5 Taxes on earnings for the period	Jan-Sept 2002	Jan-Sept 2001
Current tax	-1	-10
Deferred tax	65	-14
Total	**64**	**-24**

Note 6 Other financial fixed assets	Sept 30 2002	Sept 30 2001
Participations in associated companies	7	6
Other investments held as fixed assets	9	8
Deferred tax receivables	135	36
Miscellaneous	47	41
Total	**198**	**91**

Note 7 Shareholders' equity	Sept 30 2002	Sept 30 2001
Opening balance according to the adopted balance sheet	1 575	1 299
Effect of the change in accounting principles	-355	-319
Opening balance adjusted according to the new accounting principles	1 220	980
Earnings for the period	-177	-229
New issue, net	27	291
Translation differences, etc.	-91	20
Closing balance	**979**	**1 062**

Note 8 Convertible debenture loan	Sept 30 2002	Sept 30 2001
Employee convertible debenture loan	69	68
Convertible debenture loan 2001/2002		193
Total	**69**	**261**

Note 9 Interest-bearing liabilities	Sept 30 2002	Sept 30 2001
Operating credit	372	117
Liabilities arising from factoring	60	45
Credit for leasing and property	42	71
Other interest-bearing liabilities	38	45
Total	**512**	**278**

Note 10 Accrued expenses and deferred income	Sept 30 2002	Sept 30 2001
Deferred license revenue	45	50
Deferred maintenance revenue	157	195
Accrued payroll expenses, including social security fees	253	241
Other accrued expenses and deferred income	92	88
Total	**548**	**574**