IFS ANNUAL REPORT 2018

WE'RE FOR THE CHALLENGERS

CHANGE DOESN'T JUST HAPPEN

CONTENTS

Behind change are people and companies who refuse to fit into the norm, and who dare to think differently.

They are the people who challenge the status quo and find new ways of solving problems.

They may not always make a lot of noise, but their radical ideas transform the foundation of business. Yet rarely do they go it alone. Challengers also need help.

They need someone who shares their vision about doing things differently and truly wants them to succeed. That's IFS.

We live to help challengers achieve their true potential... now, and into the future.

#forthechallengers

OUR BUSINESS AT A GLANCE

IFS develops and delivers enterprise software for customers around the world who manufacture and distribute goods, maintain assets, and manage service-focused operations. The industry expertise of our people and solutions, together with their commitment to our customers, has made us a recognized leader and the most recommended supplier in our sector.

Net revenue (SEK, million)

Net revenue up

25% year-on-year

A (Europe) B (Americas) C (APJME&A)

Product revenue (SEK, million)

Product revenue up

33% year-on-year

Cloud and SaaS revenue (SEK, million)

Cloud and SaaS revenue increase of

309% year-on-year

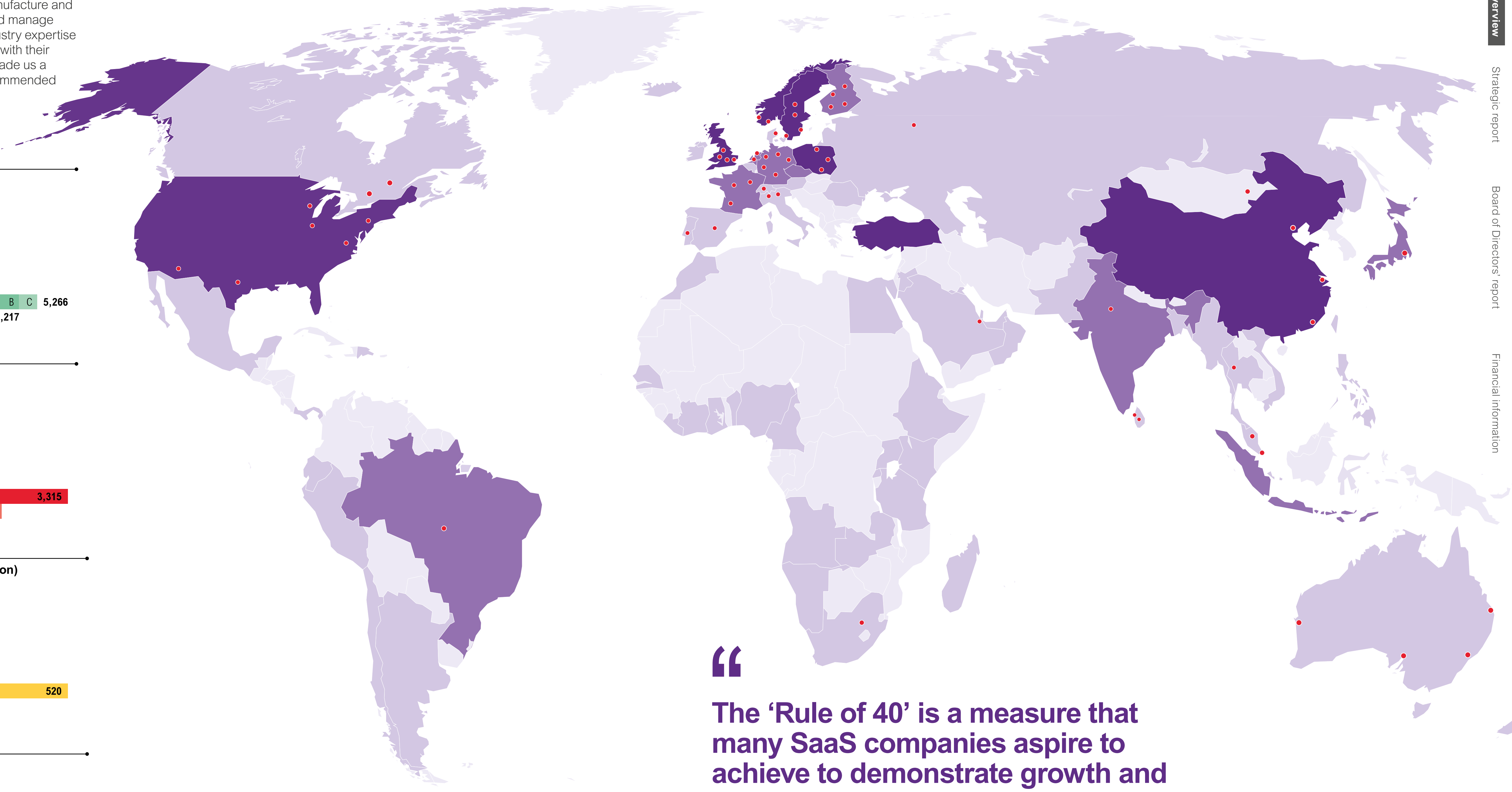
Adjusted EBITDA (SEK, million)

Adjusted EBITDA increase of

29% year-on-year

Our business in numbers

Employees 3,622	Offices 65	Customer satisfaction +90%	Recurring revenue 67% of total product revenue
Customers 10,000+	Partners 400+	Average employee tenure 8.6 years	Customer retention 97%



"The 'Rule of 40' is a measure that many SaaS companies aspire to achieve to demonstrate growth and profitability. 2018 saw IFS achieve that and more – in fact 10% more.

DARREN ROOS
CEO

WELCOME FROM OUR CHAIRMAN

“

IFS yet again proved its mettle in 2018 in delivering the strongest set of results in company history. By growing net revenue year-on-year by 25%, IFS is outpacing market growth by more than double, and in so doing, is gaining market share.

JONAS PERSSON
CHAIRMAN

In a year that was planned to be transitional, with the appointment of Darren Roos as CEO, 2018 has in fact materialized to be transformational for the business. Darren joined IFS with a track record in building strong enterprise sotware businesses and teams. By recruiting the highest caliber talent from across the industry, Darren has established a hugely credible, engaged and diverse management team. That team has actively managed the redesign of the internal structure of IFS around a set of global processes and principles that is enabling the company to grow by attracting and satisfying bigger global customers and partners. Key to this has been enacting the transformation whilst still delivering on the business fundamentals and embracing the strong IFS culture that continues to attract and retain employees, partners and customers.

Following an active year of acquisitions in 2017, it was important for all stakeholders to see value from the investments that were made. The alignment of Workwave and integration of mplsystems into the Field Service Management area of the business has been successful in terms of having a clearly articulated proposition for different segments of the service management market. Not only has this made IFS more attractive to prospective customers, but success has been seen in offering these new solutions to existing customers – an area that has been relatively untapped to date. Similarly, Mxi which was acquired in 2016 has now been fully integrated into the Aerospace & Defense area of the business which is attracting leading civil aviation and defense organizations from around the world.

IFS develops and delivers enterprise software globally for customers who manufacture and distribute goods, maintain critical assets and manage service focused operations. Continued investment in products, as well as business fundamentals such as consulting, maintenance and support is delivering immediate and long-term results. This will continue to have a positive impact on revenue, specifically with more customers choosing to deploy in the Cloud, and it also extends to long-term customer retention and satisfaction.

It is clear to my fellow Board of Directors and I that whilst the business continues to deliver, there is still significant untapped value for IFS to capture. Not only is IFS operating in boyant and growing markets, but the business is competitively differenciated and well positioned to address customers’ needs and buying behaviours. We have every confidence that with their enthused employee base and active partner ecosystem IFS can capitalize on this opportunity and deliver strong growth in 2019 and beyond.

Jonas Persson
Chairman

WELCOME FROM OUR CEO

"It has been an absolute honor to lead the exceptionally talented women and men at IFS over the past year. In taking the role of CEO at the beginning of Q2 I invested significant time with our people, partners and customers, to understand the business. IFS is a company with solid foundations... but also one with amazing potential.

DARREN ROOS
CEO

In 2018 we launched our internal 'True North' initiative that clearly articulates a future guided by our customers. The priority was to become laser focused on what we would be truly great at. While many recognized the capability IFS had in the ERP and EAM space, this did not capture the incredible value we deliver to our customers.

Our unique brand of industry focused ERP and FSM resulted in IFS being rated as #1 ERP and FSM solution by customers on Gartner Peer Insights at the end of 2018. While our peers may claim to be the bigger or the market leader, we lead in the metric we care most about: our customer.

Globalization for growth
Based on successes to date, we aspire to serve more global customers in the industries where we focus. Evolving the previous organization design that centered around regional capabilities to one of global best practices not only means we are now offering consistent and exemplary service to our customers, but we are also able to achieve efficiencies in operations. This approach is reflected in all areas of the business, from pre-sales, sales, consulting and support through to product management, marketing, HR, and finance.

To bring this level of discipline into the business, it has been a priority for me to recruit and retain the best talent in the industry. I am proud the team has started to deliver immediate results as well as set us up for sustained growth in the long term. Part of this has been thanks to the more diverse nature of the management team, which I believe cannot be undervalued. Women now represent over 40% of the executive team, up from 8% in 2017.

In light of IFS having captured just 4% of the total addressable market, the opportunity to exponentially grow now that the right people, structures and process are in place is evident.

Outstanding performance
Driven by a double-digit increase in product revenue, net revenue growth soared to 25% in 2018. Cloud and SaaS saw a revenue increase of over 300%. This is due to a dedicated Cloud team being established to support customers who want to deploy systems in the Cloud with a world class solution. IFS offers the same functionally rich solutions to customers and gives them the choice of whether they want the full flexibility of deploying on premise or the fully managed service of a Cloud deployment. This is a differenciator in the market as our competition continues to force customers to the Cloud despite their Cloud offering, in most cases, being functionally inferior in this asset intensive industry segment.

One trend that sits well with IFS's growth journey is the appetite for customers to move their software investments from a capital expenditure (CAPEX) to an operational one (OPEX) by way of paying by subscription. For IFS, this provides a predictable revenue stream and increases annual recurring revenue (ARR). In 2018, 67% of our product revenue was recurring and we anticipate this growing over the coming years to be nearer 100% subscription.

In tandem with growing revenue, effective management of the business has helped improve profitability. In 2018, EBITDA was 21%, which is a 29% improvement on 2017. We are confident in our ability to continue to expand margins at a similar rate through the next three years.

Whilst peers in the sector might be able to offer investors an opportunity of a fast growth business or a highly profitable business, IFS is able to offer both. With our strong foundations, I am confident that we are set to leverage our diamonds in order to continue on this growth trajectory into 2019 and beyond.

I want to end by thanking the dedicated team at IFS and recognize the great collaboration we have had with our customers and partners over this past year. I am looking forward to our journey ahead!

Darren Roos
CEO

FOCUSED STRATEGY

Revenue growth:
1. Target larger customers
2. Invest in sales and marketing
3. Sell Field Service Management and Aerospace & Defense proposition in all geographies
4. Improve support and maintenance offering for global customers

Margin improvement:
1. Leverage partners for consulting
2. Globalize support and maintenance
3. Leverage IFS's own technology to power General & Administration

THE IFS DIFFERENTIATOR

CUSTOMER CENTRICITY

Customers are at the center of every decision we make. Putting this approach into practice means that our customers are enabled to realize their competitive advantage now, and into the future.

China Airlines is Taiwan's largest airline. Over the years, the passenger and cargo airliner has developed an international reputation for delivering superior customer service, having recently been voted airline with the top mind-share, according to a leading business management magazine.

CASE STUDY

CHINA AIRLINES

"Collectively, the positive results we have experienced to date with IFS cannot be undersold. Factoring in the cost reductions achieved to date, we are setting ourselves up well for stronger financial performance. IFS technology supports our unending commitment to delivering the safest and most reliable passenger and cargo service in the industry.

MR. HOUNG WANG
SENIOR VICE PRESIDENT, ENGINEERING & MAINTENANCE ORGANIZATION
CHINA AIRLINES

CHINA AIRLINES

CUSTOMER FACTS

China Airlines operates a mixed fleet of 88 Boeing and Airbus aircraft, including A350-900, A330-300, 777-300ER, B737-800, 747-400 and B747-400F.

Owns and operates one of the largest, most modern aircraft maintenance facilities in Asia, servicing its own fleet of aircraft as well as aircraft from several other airlines.

INDUSTRY

Aerospace & Defense

GLOBAL HEADQUARTERS

CUSTOMER SINCE

2008

TOTAL USERS

3,000

SOLUTIONS

IFS Maintenix

BENEFITS REALIZED FROM IFS

IFS Maintenix full-footprint deployment, including functionality for maintenance program and configuration management; engineering; planning, control, and execution for line, heavy and shop maintenance; and materials management

Real-time Insights
- IFS Maintenix supports China Airlines' move to real-time management of line and heavy maintenance events as data is captured at the point of maintenance execution

Standardized Operations
- IFS Maintenix is the MRO IT solution across the entire organization – including third party MRO operations – and operating fleet

Operational Excellence
- 11.4% increase in line management process efficiencies, resulting in an annual cost savings of US $485,000
- 4% increase in A Checks delivery efficiencies, resulting in annual cost savings of US $327,000, an average reduction of 30 days layover in scheduled and unscheduled aircraft maintenance

THE IFS DIFFERENTIATOR

PRODUCTS

We are committed to innovation that matters. Our unwavering commitment to highly usable products that deliver customers business value differentiates IFS from industry peers. Customers can navigate change and take advantage of opportunity.

Anticimex Smart is an intelligent system that keeps an eye on things you don't want to see. By constantly monitoring and instantly reacting, it prevents costly infestations in an environmentally-friendly way.

CASE STUDY

ANTICIMEX

"By integrating IFS Applications with our IoT platform we are able to have a completely different dialogue with our customers, we can analyze our own field technician services and approach the marketplace in a completely different way.

JUSSI YLINEN

CEO, ANTICIMEX, FINLAND

Anticimex®

CUSTOMER FACTS

Anticimex is one of the world's largest pest control companies, with a vision to be the global leader in preventive pest control.

INDUSTRY

Service

GLOBAL HEADQUARTERS

CUSTOMER SINCE

1998

CONNECTED DEVICES

3,000

SOLUTIONS

IFS IoT Business Connector and IFS Applications.

BENEFITS REALIZED FROM IFS

- Highly robust solution
- Scalable
- Efficient route planning tool
- Integrated with IoT platform

THE IFS DIFFERENTIATOR

INDUSTRY FOCUS

We're not for everyone, but we are for the challengers in:

- Aerospace & Defense
- Energy, Utilities & Resources
- Engineering, Construction & Infrastructure
- Manufacturing
- Service

And for companies in those industries, having industry expertise counts.

CASE STUDY

LINAMAR

> **"The capabilities IFS has in handling of different processes for the sectors we work in is a big help to us. It allows us to track all of our information in one system, which enables us to make informed decisions.**

GARY TAI
ERP IMPLEMENTATION MANAGER
LINAMAR

LINAMAR
Power to Perform

CUSTOMER FACTS

Linamar designs, develops and manufactures precision-machined components, modules and systems for engine, transmission and chassis systems. Running 41 locations worldwide on a single instance.

INDUSTRY

Manufacturing

GLOBAL HEADQUARTERS

CUSTOMER SINCE

2005

TOTAL USERS

4,200

SOLUTIONS

IFS Applications

BENEFITS REALIZED FROM IFS

- Ability to support individual facility needs while keeping within global standards
- Implementation across global sites

THE IFS DIFFERENTIATOR

PEOPLE & PARTNERS

Keeping great company keeps us growing. Attracting and retaining the industry's best means that our customers get unprecedented knowledge and support – no matter whether IFS or an approved partner undertakes the implementation.

CASE STUDY

BABCOCK INTERNATIONAL GROUP

> "IFS emerged as a clear winner. The company showed that it understood the business, and the presentation was more relevant to our requirement for project-based engineering-to-order programs.

ALAN GILMOUR
PROJECT MANAGER
BABCOCK MARINE

babcock

CUSTOMER FACTS

Babcock BES is a strategic UK provider of engineering and support services to the Royal Navy. Babcock International Group PLC is a leading support services company. Its £1.2bn market capitalization ranks it among the top 200 quoted companies in the UK.

INDUSTRY

Engineering, Construction & Infrastructure

GLOBAL HEADQUARTERS

CUSTOMER SINCE

2002

CONNECTED DEVICES

10,000

SOLUTIONS

IFS Applications

BENEFITS REALIZED FROM IFS

- Reduced inventory
- Wider availability of information
- Faster project planning and review
- Integration with third-party software
- Simpler processes and procedures
- Better overview of costs and trends
- Increased visibility

THE IFS DIFFERENTIATOR

TIME TO VALUE

As part of a global courier network, the need for DHL franchisees to achieve efficiencies in logistical planning is crucial. Connectivity between dispatchers, drivers and back office is essential in keeping business flowing and getting the most value out of assets. As a conduit between eCommerce companies and the end consumer, DHL's customers rely on its efficiency and accuracy in parcel delivery. Understanding this dynamic is why WorkWave Route Manager is a perfect partner to serve DHL's unique needs, in a market with little room for error.

CASE STUDY

DHL

> **"WorkWave Route Manager has been a powerful, easy to use solution that enables our company to fully optimize our routes – from route optimization, to GPS tracking, to providing customer notifications. WorkWave Route Manager is easy to use and rapidly enabled us to save time, money and resources.**

WILL MCCAULEY
TRANSPORTATION SUPERVISOR, DHL WESTERVILLE OH

CUSTOMER FACTS

DHL provides standard domestic and international parcel pick-up, delivery and return solutions for business customers. In addition, they provide eCommerce logistics and fulfillment services in selected markets within the Americas, Asia Pacific and the Middle East & Africa. The DHL family is composed of independent divisions that are connected by the same core values, principles, and a common management approach. DHL offers a wide range of products, solutions and logistics services.

INDUSTRY

Service

GLOBAL HEADQUARTERS

CUSTOMER SINCE

2017

STOPS PER DAY

120

SOLUTIONS

WorkWave Route Manager

BENEFITS REALIZED FROM IFS

- Ease of use
- Driver location and time window tracking
- Communication between drivers and back office through mobile app

OUR MARKET

With the backdrop of traditional market boundaries blurring, and the associated opportunities and threats this poses, organizations continue to turn to technology for ways to transform their business models, drive efficiencies, and create competitive advantages.

In 2018, the need to replace legacy systems with modern technologies became more prevalent, as companies overhauled outdated systems of record. Under pressure to execute on complex business transformation strategies, savvy buyers sought solutions that promised reduced costs and the ability to grow and deliver value in ways that traditional solutions could not provide. Internal struggles such as demand for scalability and the move away from the static job roles attached to legacy systems caused businesses to rethink the way that enterprise applications must propel the business forward, and support growth ambitions. This level of business transformation, and the elevated pressure from competitors, has caused buyers to find new ways to make their businesses smarter, more automated and more efficient by integrating innovations in robotic process automation (RPA), artificial intelligence (AI) and Internet of Things (IoT).

> **"The addition of WorkWave means that IFS now offers the most complete, connected service management solutions for all sizes of service-centric businesses.**

ENTERPRISE SOFTWARE MARKET REPORTED STRONG GROWTH IN Q2 2018

ARC ADVISORY GROUP

RAJKUMAR PAIRA, DECEMBER 13, 2018

ERP

According to Gartner Research, "ERP represents the single largest category of enterprise software spending, at $37.3 billion in 2018[1]" and is forecast to grow to $44 billion in 2022[2]. Gartner forecasts an annual rate of growth at just under 7% through 2022. Taking a deeper look at what is going on within the broader ERP market, we can see Cloud and SaaS spend increase. More and more operational ERP buyers will be moving to the Cloud: "Cloud services will account for more than 65% of total spend by 2025[3]." Nearly a quarter of spend in manufacturing and operations through 2022 will come from SMBs. By 2022, SaaS[4] spend will represent 9% of the total ERP manufacturing and operations market[5].

[1] Gartner, Magic Quadrant for Cloud ERP for Product-Centric Midsize Enterprises, 31 October 20182 Ibid.
[2] Gartner, Forecast: ERP – SaaS and On-Premises, Worldwide, 2017-2022, 4 February 2019.
[3] Ibid.
[4] Ibid.
[5] Ibid.

EAM

Enterprise asset management (EAM) is a highly mature market with some estimates of market saturation as high as 86% within large enterprises in the next 1-2 years. Average replacement cycles can be well over 10 years[6]. EAM software is considered a subset of the overall ERP market. Looking at expected growth through 2022, IDC forecasts the market to have a CAGR of 6% and reach $2.5 billion globally[7]. While on-premises licenses continue to be the majority of deployments in EAM, as with the broader ERP market, industry experts expect a shift to Cloud. In the next 3 years, close to half of EAM deployments are expected to be Cloud-based[8].

[6] Gartner, Forecast: ERP – SaaS and On-Premises, Worldwide, 2017-2022, 4 February 2019.
[7] IDC, Worldwide Enterprise Asset Management Applications Forecast, 2018–2022: EAM and Its Emerging Role in Customer Service, 29 June 2018.
[8] Ibid.

FSM

While field service management software is a less mature market than markets like broader ERP and especially EAM, it is an exciting growth space where competition is accelerating as larger players look to increase their presense. While estimates of total FSM global market opportunity can vary significantly, ARC Advisory Group estimates the global FSM market will be around $1.7 billion in 2022[9]. Among the technologies that will most impact the growth and breadth of FSM solutions in the coming years are AI and mobile applications, all of which ultimately will provide better customer experience from call center to field.

[9] ARC Advisory, Field Service Manaal Market, June 2018.

CLOUD

> **"According to IDC, demand for Cloud-based Enterprise Resource Management (ERM) systems continues to grow because of the ability to access and analyze massive amounts of data in near real time. Cloud computing and Cloud-based ERM systems are growing rapidly and are currently projected to account for more than 59.9% of the market in 2022.**

Worldwide Enterprise Resource Management Applications Market Shares, 2017: The Shift to Cloud Is Here, IDC – DOC #US43265818, Mickey North Rizza, Jordan Jewell, Kevin Permenter, July 9, 2018

CONVERSATIONAL AI TO HELP CALL CENTERS

AI is one of the most powerful tools for companies that wish to increase the efficiency of their contact centers while maintaining or improving the customer experience. IFS Customer Engagement has been engineered to relieve customer service agents by distinguishing simple queries such as confirming appointments and subscription details from more complex problems. By applying AI triage to customer requests submitted via email, chat, phone, social and more, companies can offer intelligent AI-powered self-service options for simpler requests while routing all other issues to service desk operators. Customers adopting an AI-powered customer service strategy typically report 35% reduction in volume of emails for agent processing, a reduction in response times from hours to seconds, as well as improved customer and employee satisfaction.

MARKET GROWTH FORECASTS

ERP

Source: Gartner Forecast: ERP – SaaS and On-Premises, Worldwide, 2017-2022, 4 February 2019

EAM forecast

Source: Worldwide Enterprise Asset Management Applications Forecast, 2018-2022: EAM and Its Emerging Role in Customer Service June 2018, IDC #US43265618

FSM

Source: ARC Market Analysis, Field Service Management Global Market 2017-2022, June 2018

Total Addressable Market

35 BILLION USD

Source: Boston Consulting Group, 2018

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BUSINESS MODEL
DELIVERING THE FIRST YEAR OF A 4-YEAR PLAN

IFS offers a global software platform that can be deployed in the Cloud or on-premise, with capabilities for automation, AI and IoT. Having deep industry know-how to derive business value for our customers is what makes IFS stand out.

ADDRESSING KEY MARKET DRIVERS

1 **Demand for next-gen solutions**
Market pressure for more automation, customization and real-time decision making is driving the need for modular integrated ERP with next-gen automation and analytics capabilities and flexible deployment options

2 **Product segmentation**
The addressable market has historically grown at a rate of 12%* in the last 4 years, and is expected to grow 10% in the coming years

3 **Market growth in all geographies**
Largest absolute growth in Europe and Americas (~80% of addressable market growth; Europe at 10%; Americas at 9%). APJ ME&A has the highest growth (10%) fueled by emergence of new, high growth companies in IFS's focus markets

4 **Replacement of legacy systems**
80% of the addressable market growth is driven from companies replacing old systems that do not fit their business needs and processes, and hence lack the ability to deliver value

5 **Competitive dynamics**
IFS's success is based on being a customer-centric provider of highly functional, easy-to-deploy software that offers quick time-to-value

* Source: The Boston Consulting Group, 2018

THE IFS PROPOSITION:

1 **Flexible modular technology**
IFS offers an easy-to-deploy, modular, secure architecture that can be accessed in the Cloud or deployed on-premise. The result for customers is quick time-to-value and low total cost of ownership (TCO)

2 **Innovative, vertical specific solutions**
IFS is constantly investing in new technologies such as Artificial Intelligence (AI) and intelligent autonomous assistance, and Existing solutions include vendor-agnostic interfaces to IoT platforms enabling Digital Twins of a customer's organization

3 **Global footprint, with strongholds in Europe and North America**
Mature stronghold in Europe (55% of revenue) with Americas growing faster (38% of revenue). APJ, ME&A still small but expanding with high growth driven by leveraging partners (6% of revenue)

4 **Employees differentiated with industry expertise**
IFS consists of passional specialists whose outstanding loyalty allows IFS to build industry experience to differentiate from other vendors (8.6 years average tenure in 2018 vs. ~5 years of industry peers)

5 **Strong financial performance**
IFS drove product growth of 13% per annum from 2015-2018, with 67% of product revenue being annually recurring revenue

IMPLEMENTATION

Gartner peerinsights

Scores and claims as of December 2018
www.gartner.com/reviews/

ERP
#1
IFS is the most recommended vendor (70% of reviews) compared to the largest 5 vendors in the market

EAM
Top 3
IFS is rated as a top 3 vendor by customers in the Enterprise Asset Management market

FSM
4.4/5
IFS has the highest overall score on Gartner Peer Insights vs. vendors listed in the Gartner Magic Quadrant for Field Service Management

IMPLEMENTED BY

IFS EXPERTISE

The experience and industry expertise of IFS consultants ensures that customers achieve fast time-to-value from their implementation in the short-term, while being set up for success in the long-term as their business needs evolve. IFS is proud to attract and retain the most talented consultants who share a commitment to our customers.

OUR PARTNERS

We recognize and value the importance technology and implementation partners play for IFS Increased market share by outperforming. The IFS Partner Network has been created to provide partners a path to success with recognized training, certification and opportunities to ensure customers derive full value from their implementation of IFS solutions. The IFS Partner Network program received a 5-Star rating from CRN, recognizing it for providing compelling support to partners in the channel.

It is on these foundations that IFS will continue to build on and invest in its thriving ecosystem of 400+ partners.

SUBSCRIPTION, LICENCE, MAINTENANCE AND CONSULTING REVENUE

VALUE CREATION

INVESTORS
Increased market share by outperforming competitors in the growth markets where IFS operates.

25% growth of total revenue YoY

CUSTOMERS
Empower customers to derive competitive advantage and business value from IFS solutions.

97% customer retention

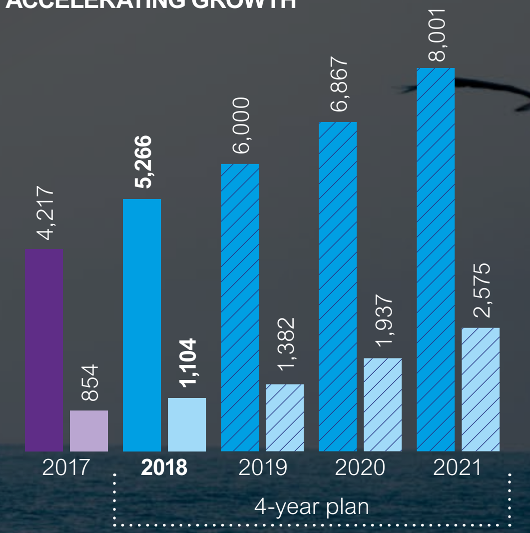
PARTNERS
Give parters the ability and motivation to empower more customers with IFS products and solutions.

400+ partners

EMPLOYEES
Offer rewarding careers to employees who are trusted and encouraged to make an impact.

8.6 years average tenure

PROVEN TRACK RECORD WITH ACCELERATING GROWTH



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OUR STRATEGY

OUR APPROACH

Revenue Growth

1. Target larger customers ($500m-$5bn) in addition to the current mid-market customer base ($200m-$1bn). Engage global system integrators in parallel to a new internal methodology of business value engineering – these partners will be instrumental in driving new incremental product revenue for IFS and undertaking customer implementations.
2. Invest circa 30% more in sales and marketing focused on our core markets.
3. Sell Field Service Management and Aerospace & Defense solutions in all geographies. IFS is recognized as a leader by industry analysts in these high-growth sectors. Business Units have been created as global centers of excellence that provide focus and domain expertise.
4. Create opportunities with support and maintenance, with the benefit of customers enjoying a consistent experience no matter where in the world they are.

Margin Improvement

1. Reduce the share of revenue from consulting and ensure the consulting business is more profitable by focusing on higher margin, repeatable business using skilled talent in lower cost markets. Partners will play an important role in this evolution.
2. Reduce the cost of delivering customer support from a regional practice to a globally consistent offering. This will also involve providing customers with self-service support.
3. Leveraging IFS's own technology to power more General & Administration functions from cost effective locations.

WHY WE WILL SUCCEED

A. IFS will continue to put customers' needs first. Whilst competitors focus internally on how to appease pressure to become Cloud only businesses, IFS will offer customers choice in what they buy and where they deploy it (in the Cloud or on-premise).

B. IFS solutions are modern, integrated, and functionally-rich, which means customers derive value faster than competitors' solutions, and have a lower TCO thanks to a commitment to 'evergreen capabilities'.

C. Over 50% of license revenue comes from new customers, which unlike our competition who rely on ~80% of revenue being generated from existing customers. Our customer base is being set up for success rather than negotiation after negotiation.

D. IFS has a loyal, passionate and experienced employee base with an average tenure of 8.6 years.

E. Customers are our best advocates, which is demonstrated in Net Promoter Score and customer satisfaction scores, as well as third-party sources such as Gartner Peer Insights, where IFS continues to trump its peers.

Supplemented by M&A

RISKS

Like any global company, IFS is exposed to a broad range of risks across its business and the broader macro-environment. Recognizing that risks which are not dealt with properly can cause damage and losses, whereas risks that are managed well can lead to opportunities and create value. In line with its governance processes, IFS invests time to identify, assess, manage, and monitor risks across its operations.

The risk-management process includes

- STRATEGIC RISKS
- OPERATIONAL RISKS
- FINANCIAL RISKS

IFS has a good underlying risk diversification in the form of a geographically varied customer base and is not dependent on one specific industry or a few customers. The company has established internal-control and risk-management structures designed to recognize, analyze, and reduce risks that could have an adverse effect on earnings and cash flow, brand and reputation, or long-term competitiveness. This process provides reasonable assurance regarding the operating effectiveness over IFS's financial reporting while ensuring the achievement of the company's objectives.

The Board of Directors has overall responsibility for ensuring that IFS has appropriate risk-management structures in place and for monitoring strategic risks. The Audit Committee is responsible for evaluating the efficacy of the structure and risk-management processes as well as for monitoring financial risks in accordance with the Committee's instructions. The CEO is responsible for managing risks in accordance with the guidelines adopted by the Board. Risk planning and risk identification for both internal and external risks are conducted in cooperation with the subsidiaries across the Group.

> **"IFS has a good underlying risk diversification in the form of a geographically varied customer base and is not dependent on one specific industry or a few customers.**
>
> **Milena Roveda,**
> Chief Financial Officer

GROWTH MARKET FOCUS

AEROSPACE & DEFENSE

For the past 10 years, ARC Advisory Group has named IFS as the global leader in EAM software for the A&D market. With the mantra of empowering through-life availability of critical assets for commercial aviation, defense integrators and industry manufacturers, IFS counts the industry's largest organizations as customers. These customers leverage IFS's end-to-end and best-of-breed solutions, on-premise and in the Cloud, to ensure their assets perform effectively and efficiently.

OUR STRATEGY APPLIED:

– Focusing on growing the customer base globally, with tier-one organizations from around the world. With a successful track record in the Americas and Europe, IFS will build its A&D Center of Excellence with additional resources to capture untapped opportunities in Asia, the Middle-East and Africa

– Collaborating with existing A&D customers to ensure IFS supports the full breadth of their needs and digital transformation opportunities

– Continuing to offer customers the most advanced technologies to support their operations. This will involve investment in our product and ensuring implementations deliver fast time-to-value.

> "IFS is particularly strong in the Aerospace and Defense market worldwide.
>
> RALPH RIO, RESEARCH DIRECTOR FOR ENTERPRISE SOFTWARE
>
> ARC ADVISORY GROUP

FIELD SERVICE MANAGEMENT

IFS is recognized by industry analysts as a market leader in the Field Service Management (FSM) market. This follows investment in innovation and product development, as well as well-integrated acquisitions, which have helped create the most complete, connected field service solution on the market. Not only have existing customers extended their use of IFS's service solutions, but new, larger customers are helping fuel the growth of IFS in this high growth sector (current market growth is 15% YoY, Gartner 2018).

OUR STRATEGY APPLIED:

– Investing in product capabilities, specifically applying emerging technology such as AI and Robotic process Automation (RPA) in practical ways that create competitive advantage and business value for customers.

– Increasing sales and marketing efforts to build awareness, generate demand and onboard more customers to IFS's popular, evergreen Cloud FSM proposition.

– Engaging more partners to increase sales and provide customers with more delivery options wherever they are in the world.

> "IFS is setting a new horizon for FSM technology.
>
> YU CHEN, SENIOR ANALYST
>
> TECHNOLOGY EVALUATION CENTERS

CORPORATE SUSTAINABILITY

CORPORATE SUSTAINABILITY

The basis of IFS's sustainability agenda is to create long-term sustainable value and, through technology, transform and improve entire industries as well as individual lives. One of the strongest driving forces at IFS is to provide first-class products and services to customers and users. As a rapidly growing organization, the company has a great responsibility as an employer. IFS's employees should have a stimulating and sustainable work life, and every individual should act in accordance with the company's values and principles of business ethics. Moreover, IFS should advocate good work conditions among its partners and assume environmental responsibility in its operations.

EMPLOYEES

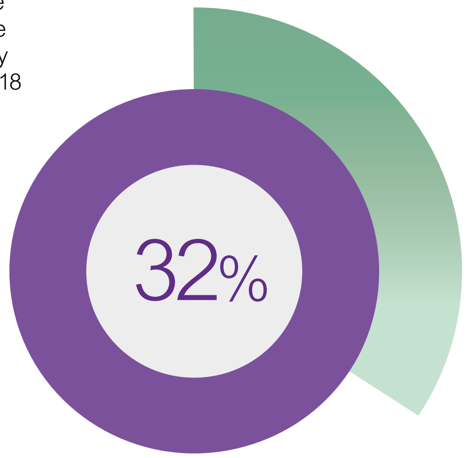
IFS's foremost success factors are its ambitious and passionate employees combined with the open, innovative, and dedicated culture that is reflected throughout the entire organization. All employees are given a high degree of freedom and responsibility, empowering them to work toward IFS's long-term vision: to create a world where technology works in harmony with natural human behavior. In order to continue to attract top talent and deliver on the group's ambitious goals, a central focus for IFS is to offer its employees a sustainable and inspiring work life.

Building trust with customers and partners is central to IFS's business success. Earning that trust starts with a foundation of principles to guide the company's own operations and how it impacts the rights of people around the globe. Those principles are based on:

- Human rights. IFS implements international standards to ensure that everyone's rights are respected – from employees, to partners, to communities worldwide.
- Responsible practices. IFS sets high expectations for meeting responsible business practices – for itself and the partners who work with the company.
- Work environment. IFS strives to create a respectful, rewarding, diverse, and inclusive work environment – empowering its employees to create products and services that help others achieve more.

WOMEN IN BUSINESS

Women make up 32% of the employees by the end of 2018



Learning culture and skills development

All IFS employees are encouraged to develop and learn new things, both to improve their own skills and also to bring new knowledge to IFS. Development can arise from challenging work tasks and the opportunity to transition between projects and roles, as well as through in-house and external training and conferences. Employees can rotate among business units of the group to learn new industries, broaden the exchange of knowledge, and enable further career development.

Diversity and inclusion

IFS is a highly international workplace characterized by diversity – something the company considers to be a strength for both its performance and work environment. A mix of individuals who have different backgrounds, experience and perspectives is key in both attracting and retaining employees and bringing new ideas and viewpoints. The knowledge, skills, and abilities of every individual is respected and valued, regardless of gender, gender identity, ethnicity, religion, disability, sexual orientation, or age.

IFS has zero tolerance for bullying and harassment, and takes a very serious stand should anyone be exposed to such treatment. The company's work-environment policy clearly stipulates how such situations are to be handled. These guidelines are explained to all employees through introductory lectures and courses regarding IFS's Code of Conduct.

Gender equality

IFS has high ambitions in terms of gender equality and diversity. A good mix of men and women is important to create a workplace where everyone feels comfortable and to attract new top talents to IFS. In the group, women made up 32% of the employees by the end of 2018 (2017: 26%), although this varies greatly between the different business units and teams.

The group is working actively with equality and wants to set a good example to inspire the entire IT industry to improve equality and attract more women to enter the industry. The basis of this is a gender-neutral view of the workplace, including discussions in workshops and in conjunction with the annual salary revision.

Health and fitness

IFS strives to provide employees with a fun place to work and an excellent physical and psychosocial work environment. The company wants to make it easy for its employees to have time for exercise and physical activity in their daily lives. The opportunities offered by IFS vary from one country to another; in Sweden, all employees are offered, for example, health and fitness benefits, and subsidized gym memberships.

> **"Fostering a diverse and inclusive workforce fuels innovation, connects us with customers, and brings us closer to the communities where we operate.**
>
> **Jane Keith,**
> CHRO

CORPORATE SUSTAINABILITY cont.

ACHIEVEMENTS OVER THE YEAR

IFS VOLUNTEER DAY

IFS sponsors youth skills development initiative in South Africa

IFS Volunteer Day
All IFS employees are encouraged to invest one work day a year in supporting a charitable cause of their choice. Guidance in deciding what cause to support is provided in the form of the United Nations' sustainable development goals, which offer a broad and well structured way for employees to ensure their efforts make a difference.

EDUCATION IN SRI LANKA

IFS lecturing to students in Sri Lanka

Education
In Sri Lanka, IFS collaborates with more than 15 universities to promote IT and technology among the next generation of co-workers. Our staff members lecture on enterprise software and IFS has also built computer labs at local universities. Our engagement with the education sector starts early on with staff supporting children with basic reading and writing.

HUMAN RIGHTS AND LABOR CONDITIONS

IFS complies with and is dedicated to putting into practice the UN Guiding Principles on Business and Human Rights. Human rights, including the ILO Core Conventions pertaining to labor conditions, must be respected in IFS's operations, and the company will work to ensure they are respected by its partners. Companies, including IFS, should support freedom of association and the right to collective bargaining. IFS does not accept any form of forced labor, child labor, or discrimination in respect of employment and occupation.

BUSINESS ETHICS

Responsible business practices
IFS's responsibility focuses mainly on managing sustainability risks in its day-to-day operations. The aim is that the company meets its stakeholders' expectations and requirements for responsible operations. International guidelines are used as guidance for IFS's assumption of responsibility. The company divides its work into the areas of anti-corruption and business ethics, environmental and climate concerns, and human rights and labor conditions.

IFS strives to be a transparent and responsible company that cultivates confidence, collaboration, and commitment. High standards in terms of business ethics are crucial in maintaining a good reputation and repeat customers. Accordingly, IFS is steadfast in advocating good work conditions for its employees and partners, and has zero tolerance for corruption and violations of human rights.

Anti-corruption and business ethics
IFS adheres to the OECD's Anti-Bribery Convention together with other international anti-corruption guidelines. The company takes a stand against all forms of corrupt behavior, and adheres to the recommendations and initiatives of the International Chamber of Commerce and Transparency International. IFS does not accept corruption in any form in its transactions, and partners and customers are expected to comply with the company's requirements in this area.

CORPORATE CITIZENSHIP

IFS Education Program
With a waning interest in attending technical university programs, global companies like IFS – indeed, the entire IT industry – run the risk of a shortage of skilled employees. The IFS Education Program aims to counter this trend by encouraging enthusiasm for technology among students and young people. Collaborating with circa 90 universities across the globe, IFS wants to inspire students by providing the necessary resources. The group works globally to offer scholarships, grants, IT equipment for classroom teaching, as well as practical knowledge through internships and mentorships for graduate students. The education program strengthens this commitment by enabling direct collaboration with lecturers and professors to help them design courses and programs that are founded on real-world experience of what it means to work in IT.

Volunteer day
In 2018, over 600 employees participated in various charitable activities, a number that is expected to double in 2019 with the introduction of a Corporate Social Responsibility (CSR) volunteer day. All IFS employees will be entitled to take one day a year off to pursue the charity project of their choice. The mandate includes any activity that falls within the remit of the UN's sustainable development goals and the aim is to make a difference in an area that matters most to each employee. By harnessing the personal commitment of each employee, IFS hopes to achieve results that complement and diversify IFS's engagement in sustainability areas covered by, for instance, the IFS Education Program.

Sri Lanka
In many parts of the world, education is not a matter of course, and many times it is economic conditions that determine whether a person can receive training or not. IFS has therefore made significant investments in helping financially vulnerable people get training that leads to work, which in turn affects the wider community in a positive way. The company's efforts have mainly been concentrated to Sri Lanka, where the group has a large number of its employees and where access to a highly educated workforce with good expertise in IT and business systems has previously not been a given.

IFS collaborates with the country's largest universities through various initiatives to offer more people the opportunity to study at university level. Through one of the programs, the company covers tuition fees and living costs during the time the student is studying for a university degree. IFS also sponsors a professorship at the University of Moratuwa.

> “We believe we have responsibility to the communities IFS is part of. There is clear enthusiasm from our people to get involved, and that motivation shines through in how we are having an impact.

STEPHEN KEYS

REGIONAL PRESIDENT, APJ ME&A AND EXECUTIVE SPONSOR OF SUSTAINABILITY

SUSTAINABLE FARMING WITH MATSEI

IFS is investigating the possibility to leverage its enterprise solutions for the benefit of sustainable development. One pilot project where its asset management and project planning solutions were included was a joint effort with Matsei Technologies, a South African partner focusing on sustainable farming. With the help of IFS's technology, Matsei has successfully built an urban farming site where ecological farming of vegetables is combined with fish farming into an aquaponics ecosystem. The system uses waste from the fish tanks as nutrients for the vegetable beds, which in turn produces food for the fish. By combining these two methods of farming into a circular system, Matsei is able to sustainably farm both fish meat and vegetables for Africa's growing population using the latest technology. The pilot installation is intended to be used as a template for more aquaponics sites around the continent and IFS is proud to be Matsei's partner in enabling smarter farming for rural communities.

IFS powers sustainable farms run by Matsei in South Africa.

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTORS

DARREN ROOS
CHIEF EXECUTIVE OFFICER (CEO)

As CEO, Darren leads the talented team at IFS to further scale the company's global business and extend its leadership position in the field service management, enterprise asset management and enterprise resource planning markets. Prior to joining IFS, Darren was the President of SAP's global ERP Cloud business, where he had end-to-end responsibility for all product and go-to-market functions, and an organization of over 5,000 staff. Darren lives in the UK, where he enjoys spending time outside of work with his family.

MILENA ROVEDA
CHIEF FINANCIAL OFFICER (CFO)

As CFO, Milena is responsible for aligning IFS's financial and administrative functions to support the company's growth as well as identifying the most strategically suitable resource allocation and investments to achieve the company's value creation objectives. This includes effectively supporting the commercial and development areas of the organization and providing them with transparency and the necessary tools to achieve their goals as well as mastering operational KPIs to ensure that every department, and the company as a whole, understands what drives performance. Outside of work, Milena enjoys golf and spending time volunteering for charitable causes.

MICHAEL OUISSI
CHIEF CUSTOMER OFFICER (CCO)

Michael Ouissi is IFS's Chief Customer Officer (CCO), a global role that brings together all of the company's customer-facing functions in order to deliver to each customer a globally harmonized, superior customer experience and maximum business value from their investment in IFS. As part of this customer value approach, Michael is responsible for IFS's commercial strategy and revenue-generating activities. Prior to joining IFS, Michael worked for more than a decade at Software AG, where he was most recently a member of the Group Executive Board responsible for Customer Engagement Excellence. Michael holds an MBA from Manchester University and an economics degree from the University of Applied Sciences Dortmund.

JANE KEITH
CHIEF PEOPLE AND CULTURE OFFICER

In her role at IFS, Jane leads the human resources program to ensure optimal employee engagement, recruitment, talent management, and business HR across the global organization. With trust, quality, and transparency as guiding principles, Jane's aim is to create a cohesive and collaborative HR team that has its finger on the pulse of the business and that works in partnership with business leaders to grow the organization. Prior to joining IFS, Jane worked for more than 24 years at Hewlett Packard and Hewlett Packard Enterprise, most recently as the UKI HR Director and the HR Vice President for Europe, Middle East and Africa. Jane also worked for two years as HR leader for the European Services and Consulting business at SAP.

BOARD DIRECTORS*

JONAS PERSSON
CHAIRMAN OF THE BOARD

Principal occupation:
Directorships and advisor in software development
Other assignments:
Chairman of Peltarion, Sitecore, and StormGeo; board director of Skandia and Tia Technologies.
Previous assignments and work experience:
Former CEO of Microsoft Sweden and has held a number of senior positions within Microsoft, including as COO of Cloud services and software development engagements. Has also worked as a sales leader for consumer mobility solutions and vertical industry solutions in Europe. Board director of Automic Software.
Born 1968.
Elected 2016.

JOHANNES REICHEL
BOARD DIRECTOR

Principal occupation:
Director at EQT Partners
Previous assignments and work experience:
Deutsche Bank. Deputy board director of Automic Software, CBR Fashion Group, and Lima Corporate.
Education:
B.Sc in Business Administration and Economics and MBA from the University of St Gallen, Switzerland.
Born 1981.
Elected 2016.

CRAIG CONWAY
BOARD DIRECTOR

Principal occupation:
Directorships
Other assignments:
Board director of Guidewire, Nutanix, and Salesforce.com.
Previous assignments and work experience:
Chairman of Achievers; board director of AMD, eMeter, Kazeon, Pegasystems, Success Factors, and Unisys; CEO of One Touch Systems, PeopleSoft, and TGV Software; executive at Oracle.
Born 1954.
Elected 2017.

NEIL MASOM OBE
BOARD DIRECTOR

Principal occupation:
Directorships
Other assignments:
Board director of CQC Holdings, High Speed Two (HS2), and WYG Group.
Previous assignments and work experience:
Chairman of the board of IFS Defence and UK Foreign & Commonwealth Office Services Agency; board director of the UK Information Commissioner's Office and Solutions SK; CEO for Logistics and Information Systems in BAE Systems.
Education:
B.Sc. (Eng) Hons Imperial College, London
Born 1959.
Elected 2009.

MÅNS HULTMAN
BOARD DIRECTOR

Principal occupation:
Investments and directorships
Other assignments:
Board director of Ikano Group, itslearning, iZettle, MotorK, and Zobito.
Previous assignments and work experience:
Chairman and CEO of Qlik Technologies; partner in Sundet Investment; board director of Apptus, Automic Holding, Digital Route, Hybris, Mamut, NetAdmin, StormGeo, and Terranet.
Born 1961.
Elected 2016.

* Board of Directors are of IFS's operating entity IGT Holding III AB.

BOARD OF DIRECTORS' REPORT

GENERAL

The board of directors of IGT Holding III AB, corporate identity number 559033-9742, herewith submit the annual accounts and consolidated accounts for the fiscal year 2018. Unless otherwise stated, all amounts are in SKr million. Information in parentheses refers to the preceding fiscal year. The terms "IGT III", "Group", and "Company" all refer to the Parent Company – IGT Holding III AB – and its subsidiaries. IGT Holdings only investment is the IFS Group. When IFS and IFS Group is mentioned below it is the same as IGT.

SUMMARY

The overall objective for 2018 was to achieve good growth in both licenses and EBITDA; both objectives were reached by far. IFS continued its focus on project-oriented industry and markets with a strong need for well-functioning processes within logistics, maintenance, and service and the Company won highly-competitive contracts in its target sectors during the year. Net revenue increased by 21 percent in constant currency. Licenses grew by 20 percent in constant currency, which underlines that IFS's strategy of focusing on targeted sectors is paying off. Maintenance revenue increased by 11 percent in constant currency, resulting from license sales and strong customer loyalty, the ongoing development of which remains a priority. Consulting revenue grew by 8 percent in constant currency, with a steadily larger proportion of services being delivered from a growing partner ecosystem. The company's revenue from cloud-related services (Software as a Service) increased by 301 percent and is expected to grow in the future, also as a result of the acquisition of WorkWave. Net revenue amounted to SKr 5,266 million ('17: SKr 4,217 million). Adjusted EBITDA increased by 29% from Skr 854 million to 1,104 Skr million.

OPERATIONS

IFS is a leading provider of component-based business software developed using open standards and based on service-oriented architecture (SOA). The solutions enable companies to respond quickly to market changes and use resources in a more agile way to achieve better business performance and competitive advantage.

Founded in 1983, IFS has more than 3,600 employees worldwide. With IFS Applications™, in its tenth generation in 2018, IFS has pioneered component-based ERP software. The component architecture provides solutions that are easier to implement, run and upgrade. IFS Applications is installed in more than 60 countries in about 20 languages.

With IFS Applications and powerful service management and mobile functionality, IFS has pioneered component-based service management and ERP software. IFS Enterprise Service Management in the meantime is a leader in field service management, mobile workforce management, reverse logistics and more. Our business philosophy and architecture provide solutions that are easier to implement, run, and upgrade. IFS Applications business software provides increased ERP functionality, including CRM, SCM, PLM, EOI, enterprise asset management, and MRO capabilities.

IFS is today represented in approximately 50 countries through wholly and jointly owned subsidiaries, joint ventures, and partners. Operations are divided into three operating segments: Europe; Americas; and Asia, Pacific, Japan and Middle East, Africa (APJ, ME&A). This is a consolidation from last year when Europe had four segments. Europe also had minor divestments. The Companies in Hungary, Czech Republic and Slovakia were sold to a partner. This has no material impact on the Group.

These segments have the operational responsibility for sales and delivery to customers. Product development and support are included in corporate functions.

MARKET ANALYSIS

With the backdrop of traditional market boundaries blurring, and the associated opportunities and threats this poses, organizations continue to turn to technology for ways to transform their business models, drive efficiencies, and create competitive advantages. In 2018, the need to replace legacy systems with modern technologies became more prevalent, as companies overhauled outdated systems of record. Under the pressure to execute on complex business transformation strategies, savvy buyers sought solutions that not only promised reduced costs, but also the ability to grow and deliver value in ways that traditional solutions could not provide. Internal struggles such as demand for scalability and the move away from the static job roles attached to legacy systems caused businesses to rethink the way that enterprise applications must propel the business forward, and support growth ambitions. This level of business transformation, and the elevated pressure from competitors, has caused buyers to find new ways to make their businesses smarter, more automated and more efficient by integrating innovations in robotic process automation (RPA), artificial intelligence (AI) and Internet of Things (IoT).

According to research analyst Gartner, in 2018 the enterprise resource planning (ERP) market grew around 8.5 percent, the enterprise asset management (EAM) market grew at 6.6 percent, and ARC Advisory published that the field service management (FSM) market would grow at 11.8 percent. Cloud adoption continues to rise across the sector, with analyst firm IDC estimating 25% of companies are currently opting to deploy in the Cloud. Fueling this push to the cloud are technologies like machine learning (ML), AI, blockchain, and connected analytics with IoT.

The competitive landscape for IFS has remained consistent throughout 2018. In a year when IFS has outpaced market growth, industry peers have been active with acquisitions as they look to find ways to grow (e.g. SAP of Qualtrics and Workday of Adaptive Insights). Based on market share, SAP, Oracle, and Microsoft are the principle global ERP and EAM competitors in the industries where IFS is focused. With the high growth of the field service sector, the ownership of the major vendors is expected to remain in the spotlight – for example, in 2019 GE Digital sold a majority stake of its field service management (FSM) solution, ServiceMax, to a private equity investor. IFS continues to compete with several best-of-breed vendors in the customer engagement sector, and maintenance repair & operations (MRO) for aerospace & defense.

[1] Gartner, Forecast: Enterprise Application Software, Worldwide, 2016-2022, 4Q18 Update
[2] Ibid.
[3] ARC Advisory, Field Service Management Global Market Research 2017-2022
[4] IDC, Worldwide Enterprise Resource Planning Software Forecast, 2018-2022

SKr, million	2018 actual	Translation effect	Structural changes	2018 adjusted	2017 actual	Organic change	Reported change
NET REVENUE							
License revenue	1 154	-37	-15	1 102	935	18%	23%
Maintenance and support revenue	1 641	-52	-20	1 569	1 429	10%	15%
Cloud and SaaS revenue	520	-11	-347	162	127	28%	309%
Total product revenue	**3 315**	**-100**	**-382**	**2 833**	**2 491**	**14%**	**33%**
Consulting revenue	1 903	-58	-16	1 829	1 705	7%	12%
Net revenue (including other revenue)	**5 266**	**-158**	**-448**	**4 660**	**4 217**	**11%**	**25%**
OPERATING EXPENSES							
Operating expenses	5 154	-151	-610	4 393	4 063	8%	27%
Operating result	**112**	**-7**	**162**	**267**	**154**	**73%**	**-27%**
Other operating income/costs net	-113	1	0	-112	-128		
Capital gains/losses	0	–	–	0	-1		
Exchange rate gains/losses	-2	–	–	-2	-15		
Restructuring costs/redundancy costs	-99	2	6	-91	-40		
Reversal of restructuring costs	–	–	–	0	–		
Amortization of capitalized product development	-163	–	–	-163	-106		
Amortization of acquired intangibles	-553	5	184	-364	-357		
Other amortization/depreciation	-65	1	7	-57	-53		
Result from associated companies and joint venture	3	–	–	3	–		
Adjusted operating expenses	**4 162**	**-142**	**-413**	**3 607**	**3 363**	**7%**	**24%**
Adjusted EBITDA	**1 104**	**-16**	**-35**	**1 053**	**854**	**23%**	**29%**
Adjusted EBITDA/net revenue	**21%**			**23%**	**20%**		

NET REVENUE

License revenue for 2018 was 20 percent higher than in the previous year in constant currency. During the year, the ten largest license deals had a total value of SKr 188 million; the corresponding figure for 2017 was SKr 173 million. A total of 24 license agreements exceeding US $1 million in value were sold during the year. Maintenance and support revenue continued to grow, and consulting revenue was also higher than in the previous year in constant currency. Net revenue was SKr 1 049 million higher than in 2017, an increase of 21 percent in constant currency.

COSTS AND EXPENSES

Operating expenses were SKr 1,091 million higher than in 2017, which represents an increase of 23 percent in constant currency. Variable expenses such as costs related to third-party suppliers, partners, and subcontracted consultants amounted to SKr 809 million (610), an increase of 29 percent in constant currency. Other operating expenses excluding variable and payroll expenses amounted to SKr 875 million (739), an increase of 12 percent in constant currency. Payroll expenses amounted to SKr 3,061 million (2,455), an increase of 22 percent in constant currency.

PRODUCT-DEVELOPMENT EXPENDITURE

Product development expenditure for the year amounted to SKr 546 million (410). Capitalized product development totaled SKr 457 million (329) and amortization of previously capitalized product development amounted to SKr 163 million (106).

PERSONNEL NUMBERS AND EFFICIENCY

The average number of employees increased, amounting to 3,783 (3,321). The headcount for product development at the end of the year was 1,021 (1,008), of whom 503 (504) worked at the development center in Sri Lanka. Net revenue per employee increased with 6 percent in constant currency, and with 10 percent non-adjusted for currency to SKr 1,392 thousand (1,270). Personnel-related expenses per employee amounted to SKr 809 thousand (735). The number of employees at year end was 3,623 (3,724).

EBITDA

Adjusted EBITDA amounted to SKr 1,104 million (854), which is adjusted for non-recurring items including severance costs and capital gains and losses.

PROFIT FOR THE YEAR

Net financial items were SKr -534 million (-415). Adjusted for exchange rate effects, the net financial items, including bank costs, were SKr -342 million (-366). Net interest income was SKr -321 million (-455). Profit before tax decreased to SKr -422 million (-261) while profit for the year decreased to SKr -246 million (-10).

BOARD OF DIRECTORS' REPORT cont.

OPERATING AREAS

Europe

SKr, million	2018	2017	Δ
License revenue	723	567	28%
Maintenance and support revenue	1 069	938	14%
Consulting revenue	1 220	1 101	11%
Cloud and SaaS revenue	43	22	95%
Net revenue	3 407	2 640	29%
EBIT, undistributed*	965	738	31%
Number of employees at the end of the period	1 240	1 343	-8%

* EBIT before allocation of corporate revenue and expenses

Americas

SKr, million	2018	2017	Δ
License revenue	346	268	29%
Maintenance and support revenue	448	378	19%
Consulting revenue	556	484	15%
Cloud and SaaS revenue	471	102	362%
Net revenue	2 296	1 449	58%
EBIT, undistributed*	481	254	89%
Number of employees at the end of the period	832	843	-1%

* EBIT before allocation of corporate revenue and expenses

Asia, Pacific, Japan and Middle East, Africa

SKr, million	2018	2017	Δ
License revenue	85	100	-15%
Maintenance and support revenue	124	113	10%
Consulting revenue	127	120	6%
Cloud and SaaS revenue	6	0	n/a
Net revenue	376	365	3%
EBIT, undistributed*	31	50	-38%
Number of employees at the end of the period	246	292	-16%

* EBIT before allocation of corporate revenue and expenses

PRODUCT DEVELOPMENT

The Group's product development is primarily conducted in IFS's development centers in Sri Lanka, Sweden, the United States, Canada, the United Kingdom, Poland, and the Netherlands.

For IFS Applications, product development focused on finalizing and launching the new version, IFS Applications 10, and the development of the new user experience, IFS Aurena. Functionality for casual users, B2B users and the technician portal is already available in IFS Aurena.

New versions of IFS Maintenix, IFS Enterprise Operational Intelligence, the IFS IoT Business Connector and IFS Global Extension was released during the year as well as beta releases of IFS Field Service Management 6, IFS Planning & Scheduling Optimization 6, IFS CRM in IFS Aurena, IFS HCM in IFS Aurena and IFS Mobile Work Order in IFS Aurena.

PARTNERS

IFS continues to prioritize investment in the development of a responsible, healthy and vibrant partner ecosystem to support customer needs globally. Combined, an emphasis on reinforcing alliances and developing opportunities together with existing partners, and strategically growing the partner ecosystem with the addition of new partners across regions, has resulted in a strengthened partner sales pipeline and an increase in closed opportunities.

IFS continued to invest in partner sales and presales resources, delivering new eLearning and classroom-based training for partners via the IFS Academy as part of its commitment to enable and train partners, as well as provide value assurance services to support customers who chose to deploy with partners.

During 2019, the company will continue to develop and strengthen its relationships with strategic partners, and invest heavily in sales and presales training, as well as marketing enablement resources to further accelerate partner sales growth, customer satisfaction and value.

CASH FLOW, LIQUIDITY, AND FINANCIAL POSITION

Cash flow from current operations before change in working capital amounted to SKr 485 million (353). Change in tied working capital amounted to SKr 128 million (-217). Days of sales outstanding (DSO) at year-end was 66 days (76). DSO calculated on the monthly receivables' positions during the year was 55 days (55).

Investments including M&A totaled SKr 580 (4,637) million. Product development expenditure was capitalized in an amount of SKr 457 million (329). Cash flow after investments totaled SKr 33 million (-4,501). Cash flow from financing operations was SKr -19 million (2,994). Given loan to parent company increased by SKr 16 million (0) during the year.

Cash and cash equivalents on December 31, 2018 totaled SKr 465 million (455). The Group's net liquidity position at year end, excluding pension liabilities, amounted to SKr -6,491 million (-6,127). Cash and unutilized credit totaled SKr 1,148 million (1,115).

FINANCIAL RISK MANAGEMENT

In the course of its business, the Group is exposed to risk related to currency, financing and interest rates. Such risks and their management are described in Note 42 and in the section covering risks and uncertainties below.

ACCOUNTING PRINCIPLES

The Group applies the IFRS accounting principles approved by the European Commission. The new standards, recommendations and interpretations that are adjudged to affect the Group were applied when preparing the financial statements for 2018.

SOCIAL RESPONSIBILITY

IFS operates in a distinctly low-risk industry in terms of the direct impact of its activities on people and the environment. This applies to the entire value chain, including product development, for which IFS's largest unit is located in Sri Lanka. Group management has adopted and published the IFS Code of Conduct, which is based on the ten principles of the UN Global Compact, embracing human rights, labor rights, the environment, and anti-corruption.

A number of Group-wide processes, tools, and guidelines related to personnel were implemented during the year. For Group-wide processes, targets are established and the outcome is monitored on a regular basis. Particular focus was brought on the fight against corruption, with the implementation of a training program directed at all employees of the Group as well as the initiation of a corruption-risk assessment. Furthermore, continuous actions are taken to improve the Company's psychosocial environment. In 2018, absence related to illness was 5.1 days (2017: 4.6) annually per Group employee and personnel turnover was 8.6 percent (2017: 6.3).

In 2018, the percentage of female employees was 32 percent. The percentage of female members on the Company's boards was 19 percent, and the percentage of female senior managers was 28 percent. The share of female members on the Parent Company's board of directors was 0 percent. The lower percentage of women in the Company is a common phenomenon in the software industry as a whole.

Diversity is encouraged through exchange programs that contribute to exposure to other cultures. The Company believes that an understanding of other cultures is necessary to conduct business effectively, because both IFS and the majority of its customers are active throughout the world.

IFS has a low environmental risk. The Group's most extensive environmental impact is energy consumption from its companies' premises, business travel, purchasing of office material, and handling of used hardware. IFS's goal is to conduct business in an environmentally responsible manner. All employees are encouraged to respect the environment and strive to work with sustainability issues such as recycling and energy efficiency when possible.

Corporate sustainability is becoming increasingly important in the global marketplace – both in terms of mitigating risks associated with legal compliance as well as enhancing business insight to boost profitability. IFS's unique offering includes a broad variety of solutions for efficient reporting and enhanced control in the field of corporate sustainability and non-financial reporting.

RISKS AND UNCERTAINTIES

In its operations, IFS is confronted with certain risk elements that can to a greater or lesser extent have an impact on operational outcome. One such risk is the rapid technological development in the industry, which could create the need for substantial technology changes. A further cause of uncertainty is the ability to attract and retain critical personnel resources, especially in a labor market in which the demand for and cost of attractive personnel are increasing. In addition to the above risks, IFS in its business is exposed to other operational and legal risks and uncertainties, including in customer projects, dependence on certain suppliers and partners, the outcome of actual and possible disputes, and currency exposure.

IFS, through its use of component technology and by establishing internal processes and procedures, believes that it has addressed such risks and taken measures to reduce and control them as far as possible. As the Parent Company does not engage in operational activities, its risk is limited above all to financing, foreign currency, liquidity, guarantees, and possible disputes. IFS have 12 percent of its revenue from the UK. With the UK leaving the European Union the market expects to deteriorate, this will have no significant impact on the IFS group.

OUTLOOK

IFS focused markets, business applications for Engineering, Manufacturing and Service industries, are forecasted to continue to offer strong growth in 2019. In line with leading industry analysts IFS forecasts its targeted enterprise application for engineering and manufacturing markets to grow 9 percent annually, and business applications for service management to grow 13 percent annually. IFS's strong capabilities to enable global Engineering, Manufacturing and Service companies to transform their businesses by leveraging digitalization and servitization of all business-critical operational processes makes IFS ideally positioned to continue to outperform the market, and continue to perform strong earnings improvements.

ADDITIONAL INFORMATION

IFS is involved in a minor number of disputes and claims, which can be considered normal given the nature of its operation. The Company assesses that no provisions are necessary, but its result and liquidity may be affected by the outcome of such disputes.

As reported previously, IFS has in addition been involved in a legal dispute that was instituted in Sri Lankan courts in 2002 by the other major shareholder of the partly-owned company IFS Sri Lanka. Following dismissal of the case by the local court in 2008 and ensuing arbitration proceedings in Singapore, the dispute was finally decided in a Final Award issued in June 2014, by which IFS's position was confirmed and the counterparty's claims completely rejected. The Final Award has gained full legal force.

During 2015, the counterparty instigated new proceedings by requesting a leave be granted for a legal action in Sri Lankan courts that entailed a re-examination of the merits of the case. In 2017 the court resolved not to grant any leave and dismissed the case. The counterparty has since appealed by requesting special leave for appeal. The matter is pending, but it is IFS's unequivocal position that the case has been finally settled by the Final Award and that there are no grounds whatsoever for any leave to be granted by the court.

PARENT COMPANY

Parent Company, IGT Holding III AB, is a holding company with no operations during 2018.

The Parent Company did not make any investments. On December 31, 2018, liquidity, including unutilized credit, amounted to SKr 0 million (0), and Company debt was SKr 0 million (0).

In 2018, stockholders' equity in the Parent Company was unchanged at SKr 6,967 million, of which unrestricted stockholders' equity accounted for SKr 6,967 million (6,967).

PROPOSED DISPOSITION OF PROFITS

The board of directors propose that the earnings of the Parent Company available for disposition, SKr 6 967 million, be allocated as follows:

Carried forward	SKr 6,967,073 thousand
Total	SKr 6,967,073 thousand

CONSOLIDATED INCOME STATEMENT

SKr, million	Note	2018	2017
License revenue	3	1 154	935
Maintenance and support revenue	3	1 641	1 429
Consulting revenue	3	1 903	1 705
Cloud and SaaS revenue	3	520	127
Other net revenue	5	48	21
Net revenue	2	**5 266**	**4 217**
License expenses		-101	-78
Maintenance and support expenses		-323	-292
Consulting expenses		-1 510	-1 354
Cloud and SaaS expenses		-262	-25
Other net expenses		-40	-66
Cost of revenue		**-2 236**	**-1 815**
Gross earnings		**3 030**	**2 402**
Development expenditure	6	-546	-410
Sales and marketing expenses	7	-1 573	-1 223
Administration expenses		-591	-464
Other revenue	8	6	4
Other expenses	9	-220	-156
Result from associated companies and joint venture	16	6	1
Other operating expenses, net		**-2 918**	**-2 248**
EBIT	10, 11, 12, 13, 14, 15	**112**	**154**
Other interest income and similar income	17	12	62
Interest costs and similar costs	18	-546	-477
Financial net		**-534**	**-415**
Profit/loss before tax		**-422**	**-261**
Taxes	19	176	251
Profit/loss for the year		**-246**	**-10**
Profit/loss for the year is allocated as follows:			
Parent Company stockholders (SKr million)		-246	-10
Non-controlling interests (SKr million)		0	0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SKr, million	2018	2017
Earnings for the year	**-246**	**-10**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of defined-benefit pension plans	-71	-39
Items that may be subsequently reclassified to profit or loss		
Exchange rate differences	151	-76
Other comprehensive income for the year, net of tax	**80**	**-115**
Total comprehensive income for the year	**-166**	**-125**
Total comprehensive income allocated as follows:		
Parent Company shareholders	-166	-125
Non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET – ASSETS

SKr, million	Note	Dec 31, 2018	Dec 31, 2017
Capitalized expenditure for product development		1 168	866
Goodwill		7 772	7 543
Other intangible fixed assets		4 891	5 308
Intangible fixed assets	20	**13 831**	**13 717**
Tangible fixed assets	21, 22	**282**	**263**
Participations in associated companies and joint venture	24	2	2
Deferred tax receivables	25	376	290
Other long-term receivables	26	35	55
Financial fixed assets		**413**	**347**
Fixed assets		**14 526**	**14 327**
Inventories		3	8
Accounts receivable	27	1 196	1 104
Current tax receivable		97	86
Other receivables	28	572	462
Liquid assets	29	465	455
Current assets		**2 333**	**2 115**
Assets		**16 859**	**16 442**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

SKr, million	Note	Dec 31, 2018	Dec 31, 2017
Capital stock		0	0
Other capital contributed		6 869	6 861
Reserves		127	-24
Accumulated earnings, including profit/loss for the year		-586	-269
Stockholders' equity pertaining to Parent Company stockholders		**6 410**	**6 568**
Non-controlling interests		1	1
Stockholders' equity	30	**6 411**	**6 569**
Liabilities to credit institutions	31, 32	6 954	6 581
Pension obligations	33	284	211
Deferred tax liabilities	25	1 014	1 096
Other provisions	34	19	9
Long-term liabilities		**8 271**	**7 897**
Accounts payable		112	114
Current tax liabilities		29	125
Liabilities to credit institutions	31, 32	2	1
Liabilities to Parent Company	31, 32	–	–
Other provisions	34	34	11
Other liabilities	35	2 000	1 725
Current liabilities		**2 177**	**1 976**
Liabilities		**10 448**	**9 873**
Stockholders' equity and liabilities		**16 859**	**16 442**

CONSOLIDATED CAPITAL ACCOUNT

SKr, million	Capital stock	Other contributed capital	Reserves	Accumulated earnings, incl. profit/loss for the year	**Equity pertaining to shareholders of the Parent Company**	Non-controlling interests	**Total stockholders' equity**
Amount on January 1, 2017	0	4 989	52	-220	**4 821**	1	**4 822**
Revaluation of defined-benefit pension plans	–	–	–	-39	**-39**	–	**-39**
Change in translation difference	–	–	-76	–	**-76**	–	**-76**
Total changes in net wealth recognized in other comprehensive income, excl. transactions with the company's owners	–	–	-76	-39	**-115**	–	**-115**
Profit/loss for the year	–	–	–	-10	**-10**	–	**-10**
Total changes in net wealth, excl. transactions with the company's owners	–	–	-76	-49	**-125**	0	**-125**
Capital contributions received	–	1 872	–	–	**1 872**	–	**1 872**
Transactions with owners without controlling interest	–	–	–	–	**0**	–	**0**
Amount on December 31, 2017	**0**	**6 861**	**-24**	**-269**	**6 568**	**1**	**6 569**
Revaluation of defined-benefit pension plans	–	–	–	-71	**-71**	–	**-71**
Change in translation difference	–	–	151	–	**151**	–	**151**
Total changes in net wealth recognized in other comprehensive income, excl. transactions with the company's owners	–	–	151	-71	**80**	–	**80**
Profit/loss for the year	–	–	–	-246	**-246**	–	**-246**
Total changes in net wealth, excl. transactions with the company's owners	–	–	151	-317	**-166**	–	**-166**
Capital contributions received	–	8	–	–	**8**	–	**8**
Amount on December 31, 2018	**0**	**6 869**	**127**	**-586**	**6 410**	**1**	**6 411**

CONSOLIDATED STATEMENT OF CASH FLOWS

SKr, million	Note	2018	2017
CURRENT OPERATIONS			
Profit/loss after net financial items		-422	-261
Adjustments for items not included in the cash flow, etc.	38	1 354	742
Interest paid		-338	-460
Interest received		7	4
Income tax paid		-116	328
Cash flow from operations before change in working capital		**485**	**353**
CHANGE IN WORKING CAPITAL			
Change in inventory		6	-9
Change in current receivables		-147	-160
Change in current non-interest-bearing liabilities		269	-48
Change in working capital		**128**	**-217**
Cash flow from current operations		**612**	**136**
INVESTMENT OPERATIONS			
Acquisition of subsidiaries/operations	39	-59	-4 105
Sale of subsidiaries		3	2
Acquisition of intangible fixed assets	6, 20	-459	-329
Acquisition of tangible fixed assets	21, 40	-83	-64
Change in long-term receivables		18	-141
Cash flow from investment operations		**-580**	**-4 637**
Cash flow after investment operations		**33**	**-4 501**
FINANCING OPERATIONS			
Raising of loans from credit institutions	31	40	6 808
Amortization of liability to credit institutions	31	-46	-5 180
Amortization of liability to Parent Company	31	0	-726
Given loan to Parent Company		-16	0
Increase in other long-term liabilities		0	220
Capital infusion received		0	1 872
Change in transfers		3	–
Cash flow from financing operations		**-19**	**2 994**
Cash flow for the year		**13**	**-1 507**
LIQUID FUNDS			
Liquid funds on January 1		455	1 973
Liquid funds in sold entities		-7	–
Exchange rate differences in liquid funds		4	-11
Liquid funds on December 31	29	**465**	**455**

INCOME STATEMENT OF THE PARENT COMPANY

SKr, million	Note	2018	2017
EBIT	15, 16	**0**	**0**
Interest costs and similar costs		0	0
Profit/loss before tax		**0**	**0**
Profit/loss for the year		**0**	**0**

STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

SKr, million	2018	2017
Earnings for the year	**0**	**0**
Other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**0**	**0**

BALANCE SHEET OF THE PARENT COMPANY – ASSETS

SKr, million	Note	Dec 31, 2018	Dec 31, 2017
FIXED ASSETS			
Participations in subsidiaries	23	6 967	6 967
Financial fixed assets		**6 967**	**6 967**
Fixed assets		**6 967**	**6 967**
CURRENT ASSETS			
Cash and bank balances		0	0
Current assets		**0**	**0**
Assets		**6 967**	**6 967**

BALANCE SHEET OF THE PARENT COMPANY – EQUITY AND LIABILITIES

SKr, million	Note	Dec 31, 2018	Dec 31, 2017
STOCKHOLDERS' EQUITY			
RESTRICTED STOCKHOLDERS' EQUITY			
Capital stock		0	0
Restricted stockholders' equity		**0**	**0**
UNRESTRICTED STOCKHOLDERS' EQUITY			
Share premium reserve		6 967	6 967
Profit/loss for the year		0	0
Unrestricted stockholders' equity		**6 967**	**6 967**
Stockholders' equity	30	**6 967**	**6 967**
CURRENT LIABILITIES			
Liabilities to Parent Company	31, 32	0	0
Current liabilities		**0**	**0**
Stockholders' equity, provisions, and liabilities		**6 967**	**6 967**

CAPITAL ACCOUNT OF THE PARENT COMPANY

SKr, million	RESTRICTED EQUITY			UNRESTRICTED EQUITY			
	Capital stock	Reserve fund	**Total**	Premium fund	Earnings carried forward	**Total**	**Total stockholders' equity**
Amount on January 1, 2017	0	0	**0**	5 049	0	**5 049**	**5 049**
Capital contribution	–	–	**0**	1 918	–	**1 918**	**1 918**
Amount on December 31, 2017	**0**	**0**	**0**	**6 967**	**0**	**6 967**	**6 967**
Profit/loss for the year	–	–	**0**	–	–	**0**	**0**
Amount on December 31, 2018	**0**	**0**	**0**	**6 967**	**0**	**6 967**	**6 967**

STATEMENT OF CASH FLOWS FOR THE PARENT COMPANY

SKr, million	Note	2018	2017
CURRENT OPERATIONS			
Profit/loss after net financial items		0	0
Cash flow from operations before change in working capital		**0**	**0**
CHANGES IN WORKING CAPITAL			
Change in working capital		**0**	**0**
Cash flow from current operations		**0**	**0**
INVESTMENT OPERATIONS			
Participations in subsidiaries		0	-1 918
Change in receivables in subsidiaries		0	726
Cash flow from investment operations		**0**	**-1 192**
Cash flow after investment operations		**0**	**-1 192**
FINANCING OPERATIONS			
Amortization of liability to Parent Company	31	0	-726
Capital infusion received		0	1 918
Cash flow from financing operations		**0**	**1 192**
Cash flow for the year		**0**	**0**
LIQUID FUNDS			
Liquid funds on January 1		0	0
Liquid funds on December 31	29	**0**	**0**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING PRINCIPLES

GROUP ACCOUNTING PRINCIPLES

Registered office, etc.
IGT Holding III AB, corporate identity number 559033-9742, has its registered office in Stockholm, Sweden. The visiting address of the headquarters is Teknikringen 5, Linköping, Sweden and their postal address is Box 1545, SE-581 15 Linköping, Sweden.

Conformity with norms and legislation
The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for application within the European Union. Moreover, the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council recommendation RFR 1, Supplemental Accounting Regulations for Groups, have been applied.

The Parent Company has prepared its annual report in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council recommendation RFR 2, Reporting for Legal Entities. As a result of the preparation of consolidated accounts in accordance with IFRS, the Parent Company has moved from preparing its accounts according to the Swedish Annual Accounts Act and the Swedish Accounting Standards Board, BFNAR 2012: 1 (K3) to preparing them according to the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities. The change has not resulted in any changes for the Parent Company's accounts in current or previous accounting periods.

The Parent Company applies the same accounting principles as the Group, except in the cases detailed below in the section entitled "Parent Company Accounting Principles". The variations existing between Parent Company and Group accounting principles are due to the limitations to applying IFRS in the Parent Company as a result of the Swedish Annual Accounts Act and the Swedish Act on Safeguarding of Pension Commitments, and in certain cases for tax reasons.

Unless otherwise stated below, the Group accounting principles detailed below have been consistently applied throughout the periods presented in the Group's financial statements. Group accounting principles have been consistently applied to the financial statements and consolidation of the Parent Company, subsidiaries, associated companies, and joint venture companies.

Functional currency and presentation currency
The functional currency is the currency in the primary financial environments in which companies that are part of the Group conduct their business. The companies included in the Group are the Parent Company, subsidiaries, associated companies, and joint ventures.

The Parent Company's functional currency is the Swedish krona (SKr), which is also the presentation currency for the Parent Company and the Group. Therefore, the financial reports are presented in Swedish krona. All amounts, unless otherwise stated, are rounded off to the nearest million.

Estimates and critical assumptions in the financial reports
To present the financial reports in accordance with the IFRS, the management and board of IFS must make certain estimates and assumptions that affect the application of the accounting principles and the reported amounts pertaining to assets and liabilities, revenue and expenses. Actuals may differ from the estimates.

The estimates and assumptions are regularly reviewed. Changes in estimates are reported in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

Assessments made by the management related to the application of the IFRS that have a significant impact on the financial reports and estimates that may entail significant adjustments in the financial reports of subsequent years pertain to the following areas:

- **Valuation of bad debts** has been adopted with IFRS 9 that use the concept of expected credit losses, in contrast to the concept of incurred losses in IAS 39. The effect is that a provision for expected credit losses is made, the provision recorded for incurred losses under IAS 39. The Group use a standard model in which bad debt is classified by age and risk of expected credit losses. Based on this model a provision is made, if a debt is deemed unlikely that it will ever be paid, a provision will be made of 100 percent of the value of the debt.
- **Valuation of goodwill and capitalized expenditure for product development** is conducted each year by the Group in an impairment test to examine the need to write-down goodwill, capitalized product development expenditure and other intangible assets in accordance with Note 20. The residual value for cash-generating entities has been established by estimating value in use. To make such estimations, certain assumptions must be made, see Note 20.
- **Income tax assessments** is made by Management to determine current tax liabilities and tax receivables, as well as provisions for deferred tax liabilities and deferred tax receivables. This applies in particular to the valuation of deferred tax receivables. This process requires that an assessment be made of the tax outcome in each of the countries in which the Group does business. The process includes an assessment of exposure related to current tax and to determine the temporary differences that arise because certain assets and liabilities are valued differently in the accounts and in the income tax returns. Management is also required to assess the probability that deferred tax receivables can be realized via future taxable revenue. For further information on deferred tax receivables and tax liabilities, see Note 19.
- **Restructuring measures** programs are launched when major reorganization take place and provisions are made for restructuring. For such provisions to be made, a number of criteria must be fulfilled. Among other things, a detailed formal plan of action must be made. When provisions are made, the size of the cost of the program must be assessed. Provisions for restructuring cover only the direct costs arising from restructuring. The largest and most common item is personnel-related expenses. For information on changes in the restructuring reserve, see Note 34.
- **Provisions for pensions** is dependent on a number of factors that are established on an actuarial basis with the help of a number of assumptions. Each change in such assumptions will affect the reported value of the pension obligations. See Note 33 for further information and a sensitivity analysis.
- **Legal disputes** are continuously monitored by Management to determine substantial outstanding disputes and to make provisions. Disputes can vary in character and involve customers or suppliers in different disputes. The estimates made, however, do not necessarily reflect the outcome of legal disputes and the difference in outcomes and estimates can substantially affect the company's financial position. For information on the disputes that IFS is involved in, see the Board of director's report and the section "Additional information".
- **Business combinations** have assessments and estimations made by senior management. Estimates include, among other things, an assessment of the fair value of the acquired assets and liabilities, and future cash flows. Uncertainty implies for instance that actual cash flows may differ from estimated future cash flows, which can lead to impairment testing in later periods. After initial recognition, the need for impairment is tested at least annually, or whenever there are indications that the asset's value has decreased. For further information on acquisitions during the fiscal year, see Note 39.

Changes in accounting principles
Standards applied by the Group for the first time for the fiscal year beginning on January 1, 2018.

- **IFRS 9 Financial Instruments** treats the classification, evaluation and reporting of financial liabilities and assets. According to IFRS 9 financial assets are classified in three categories: amortized cost, fair value through income statement or fair value through other comprehensive income. The classification for debt instruments is determined when the asset is first reported based on the company's business model and characteristic properties in the contractual cash flows. Investments in equity instruments shall, according to the IFS chosen principle, be recognized at fair value through other comprehensive income. The instrument will not be reclassified to other comprehensive income when it is divested. IFRS 9 use the concept of expected credit losses, in contrast to the concept of incurred losses in IAS 39. The effect is that a provision for expected credit losses is made, the provision recorded for incurred losses under IAS 39. For financial liabilities, there is no change in classification and valuation except when a liability is recognized at fair value through other comprehensive income based on the fair value option. Changes in valuation pertaining to changes in own credit risk shall in such case be recognized in other comprehensive income. IFRS 9 lowers the restrictions to applying hedge accounting by replacing the 80-125 criterion with a requirement that there be a financial relationship between the hedging instrument and the item being hedged, and that the hedge ratio be the same as that used in the economic hedge. Moreover, hedging documentation is changed somewhat compared with that required under IAS 39. The standard has been adopted by the EU. The adoption of IFRS 9 Financial Instruments from January 1, 2018 have not had any material impact on the Group's earnings or position.
- **IFRS 15 Revenue from Contracts with Customers** specifies how revenue shall be recognized. The principles on which IFRS is based aim to provide users of financial reports more informative disclosures on a company's revenue. The expanded disclosure requirements entail that information shall be provided about the nature, timing, and uncertainties related to revenue recognition and cash flow pertaining to a company's customer contracts. According to IFRS 15, revenue shall be recognized when the customer takes control of a sold good or service and is able to use or benefit from the good or service. The standard has been adopted by the EU. The Group has evaluated the effects of the introduction of the standard on all major contracts where the total value is higher than a defined threshold for each company. The assessment is that it has no significant impact on earnings or position, therefore, in accordance with IAS 1, paragraph 31, no recalculation is made for inbound values 2018. The group will start applying the standard from January 1, 2018. IFS have adopted this Standard retrospectively in accordance with the alternative method which means that the cumulative effect of initially applying this Standard is an adjustment to the opening balance 2018 of retained earnings (or other component of equity, as appropriate). IFS Group has adopted a control-based model centered around the following 5 steps:
  - Identify the contract with a customer.
  - Identify performance obligations in the contract.
  - Determine the transaction price.
  - Allocate the transaction price to the performance obligations in the contract.
  - Recognize revenue when (or as) the entity satisfies a performance obligation.

All agreements are based on a binding written contract between IFS and the customer and includes terms and conditions of the transaction. All facts and circumstances that were available at contract inception, as well as any subsequent events that may affect the customer's ability to pay have to be evaluated. Contracted price is allocated based on the relative standalone selling price for each performance obligation. The performance obligations are software license, maintenance and support service, managed service or consultant service. The standalone price is calculated based on information from the previous year (average sales price). This is done in January each year. Once the performance obligations have been identified and the transaction price has been determined, allocation of transaction price to the performance obligations is made. A performance obligation is satisfied at point of time unless it meets any one of the following conditions:

- The customer receives and consumes the benefits as the entity performs.
- The customer controls the asset as it is created or enhanced.
- The asset has no alternative use to the seller and the seller is entitled to payment for the performance-to-date.

NOTES TO THE FINANCIAL STATEMENTS cont.

Revenue is recognized when license, maintenance and support service, managed service or consultant service obligations are satisfied. When a performance obligation is satisfied over time the revenue is recognized over the same period as the obligation is satisfied. Consequently, costs referring to this obligation are charged to expense in that period (as incurred). Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labor hours expended, costs incurred). Output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by IFS exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized. If the contract asset is due longer than a year it needs to be discounted in accordance to IFRS 9. As at the reporting date, the recognized revenue for the group is disclosed in Note 3. Contracted assets are disclosed in Note 4.

New IFRS and interpretations not yet applied
Among the standards and interpretations that have been published but have not yet come into force, the following have been deemed to affect the Group for the fiscal years beginning after January 1, 2018 and have not been pre-adopted by the Group.

– **IFRS 16 Leases** in January 2016, the IASB issued a new leasing standard to replace IAS 17 Leases, and related interpretations, IFRIC 4, SIC-15 and SIC-27. The standard required that assets and liabilities pertaining to all leasing agreements, with a few exemptions, be recognized in the balance sheet. Such recognition is based on the view that the lessee obtains the right to use an asset for a specific period of time and is liable to pay for this right. For the lessor, recognition will remain essentially unchanged. The standard is to be implemented for the fiscal year beginning on January 1, 2019. The EU has adopted the standard. The Group has evaluated the effects of implementing IFRS 16. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of SEK 570 million, see Note 22. Of these commitments, approximately SEK 98 million relate to short-term leases and low value leases which will both be recognized on a straight-line basis as expense in profit or loss. For the remaining lease commitments, the group expects to recognize right-of-use assets of approximately SEK 419 million (on January 1, 2019, lease liabilities of SEK 426 million after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and deferred tax assets of SEK 1,5 million. The group expects that net profit before tax will decrease by approximately SEK 10 million for 2019 as a result of adopting the new rules. The group will apply the standard from its mandatory adoption date of 1 January 2019.

Segment reporting
The Group applies segment reporting that concurs with internal reporting and which is presented to the chief operational decision-maker. The chief operational decision-maker is the function responsible for allocating resources and assessing the earnings of the operational segments. The chief operational decision-maker in the Group is the Executive management team. The primary basis for division is geographical region and the following-up of their earnings.

Interest income and finance cost are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group. Information of segment is disclosed in Note 2.

Classifications, etc.
Tangible assets and long-term liabilities in the Parent Company and Group consist in essence of sums that are expected to be recovered or paid later than 12 months after the balance sheet date. Current assets and current liabilities in the Parent Company and Group consist in essence of sums that are expected to be recovered or paid within 12 months of the balance sheet date.

Consolidated accounting principles
Subsidiaries
Subsidiaries are all companies (including structured entities) in which the Group has a controlling interest. The Group controls a company when it is exposed to or is entitled to a variable dividend from its holding in the company and can affect the dividend through its influence in the company.

The purchase method is used to report on Group subsidiaries. The consideration paid for acquiring a subsidiary consists of the fair value of the transferred assets, liabilities and shares issued by the Group. The consideration also includes the fair value of all assets or liabilities that result from an agreement in respect of a contingent consideration. Acquisition-related costs are expensed as they occur. Identifiable acquired assets and assumed liabilities in a business combination are initially valued at fair value on the acquisition date. For each acquisition the Group determines whether the non-controlling interest in an acquired company is valued at fair value or at the non-controlling interest's proportional share of the acquired company's net assets.

The amount by which the consideration, non-controlling interests, and fair value on acquisition date of previous holdings exceed the fair value of the Group's proportion of identifiable acquired assets is to be reported as goodwill. If the amount is less than the fair value of the acquired subsidiary's assets, the difference is reported directly in the other comprehensive income.

The financial reports of subsidiaries are included in the consolidated accounts as of the day the controlling interest is transferred to the Group, i.e. on acquisition. They are excluded from the consolidated accounts as of the day the controlling interest no longer exists.

Transactions with non-controlling interests
The Group treats transactions with non-controlling interests as transactions with stockholders. In acquisitions from non-controlling interests, the difference between the consideration paid and the actual acquired share of the reported value of the subsidiary's net assets is reported under stockholders' equity. Profit and loss on divestments to non-controlling interests is also reported under stockholders' equity.

When the Group no longer has a controlling interest, each residual holding is revalued at fair value and the change in reported value is shown in the income statement. Fair value is used as the first reported value and constitutes the basis for the continued reporting of the residual holding as an associated company, joint venture or financial asset. All amounts pertaining to the divested entity that were previously reported under other comprehensive income are reported as if the Group had directly divested the respective assets or liabilities. As a result, amounts previously reported in other comprehensive income may be reclassified as earnings.

If the interest in an associated company is reduced, but a significant influence remains, only a proportional share of the amount previously reported in other comprehensive income is reclassified, where relevant, to earnings.

Associated companies
Associated companies are those in which the Group has a significant, but not controlling, interest in the operational and financial management, generally through a holding of 20–50 percent of the voting rights. From the point in time at which the significant interest is acquired, the interest in the associated company is reported in the consolidated accounts pursuant to the equity method. In the Group income statement, the Group's share in the associated companies' net earnings after tax, and adjusted for depreciation, write-downs and resolution of acquired fair value adjustments, is reported under "Participations in associated companies". Dividends obtained from the associated company reduce the reported value of the investment.

The Group's reported valuation of its holding in associated companies includes goodwill that is identified on acquisition, net after write-downs that may be required.

When the Group's share of reported losses in the associated company exceeds the reported value of the shares in the Group, the value of the shares is reduced to zero. The equity method is applied until the significant interest ceases to exist.

Joint ventures
For accounting purposes, joint ventures are companies in which the Group has entered into collaboration agreements with one or several parties to share a controlling interest in their operational and financial management. Holdings in joint ventures are recognized using the equity method.

Transactions to be eliminated on consolidation
Intra-Group receivables and payables, revenue or expenses, and unrealized profits or losses arising from intra-Group transactions between subsidiaries are eliminated in their entirety when the consolidated accounts are prepared.

Unrealized profits arising from transactions with associated companies and jointly controlled companies are eliminated to an extent corresponding to the Group's share of the ownership of the company. Unrealized losses are eliminated in a similar fashion to unrealized profits, but only if there is no indication that a write-down is required.

Foreign currency
Transactions in foreign currencies
Foreign currency transactions are translated to the functional currency at the exchange rate applying on the transaction day. Monetary assets and liabilities in foreign currency are translated to the functional currency at the rate prevailing on the balance sheet day. Exchange rate differences resulting from translations are reported in the income statement. Exchange rate gains/losses on current assets/liabilities are reported under other revenue/expenses, and exchange rate gains/losses on financial assets and liabilities are reported under financial revenue/expenses. Non-monetary assets and liabilities reported at their historical acquisition value are translated at the exchange rate applying on the transaction day.

Financial reports in foreign entities
Assets and liabilities in foreign entities, including goodwill and other corporate fair value adjustments, are translated to Swedish currency at the rate applying on the balance sheet day. Revenue and expenses in foreign entities are translated to Swedish currency at the average rate that constitutes an approximation of the rates applying when the transaction occurred. Differences that arise when translating currency in foreign entities are reported immediately against other comprehensive income. On disposal of a foreign entity, the cumulative translation difference relating to the entity, after deductions for currency hedges, where applicable, is realized in the Group's income statement.

Revenue accounting
Software licenses and maintenance and support services are usually sold as a package and the various obligations have a strong correlation to each other. All Group revenue is recognized to either one distinct (separable) performance obligation, to multiple performance obligations, or a bundle of performance obligations. Revenue is recognized to these performance obligations at point of time or over time depending on the terms and conditions in a contract regarding when control is transferred to the customer. The transaction price is the amount of consideration to which IFS expects to be entitled in exchange for transferring promised goods or services to a customer. Where the transaction price includes discounts and variable amount, consideration needs to be given as to whether these amounts relate to all or only some of the performance obligations in the contract. The allocation is based on the relative standalone selling price for each performance obligation. Standalone price is calculated based on information from the previous year (average sales price), which is done in January each year. License agreements for standard IFS software and third-party licenses is

NOTES TO THE FINANCIAL STATEMENTS cont.

normally recognized by IFS at point of time (up-front), except from Cloud solutions, where the following criteria must be fulfilled:
- The license agreement, without the right to return all or part of the software has been signed and delivery has been made.
- Price and payment terms are established, and there are no other commitments apart from the license delivery.
- Payment is likely.

License agreements that include undelivered components that are required for the functionality of the software are recognized in their entirety when the components have been delivered.

As a customer purchases a software license in conjunction with a hosting service (Software as a Service/Cloud) the revenue will be recognized over time. The customer normally pays a flat fee each period, based on the number of users. The customer can cancel the deal on short notice. The software is usually standardized and paid for as a subscription. Since the customer cannot benefit from the license on its own, because the functioning of the license is dependent on the hosting services, it is combined with the hosting service and forms one performance obligation. The customer has reasonable expectations that the provider undertakes activities during the contract period and that the customer can benefit from those (Cloud services). Therefore, the performance obligation is satisfied over time. IFS SaaS solutions will thus be recognized over the contract time period based on the number of users.

Software as a Subscription can either be installed on premise or on Cloud. The customer normally owns the licenses for a longer period but can adjust the number of users at a later stage. The subscription model means in general that instead of paying an upfront fee for a perpetual license, the user must submit regular payments (flat fee) every month (or other payment terms). A subscription license is a payment plan (rental) for the software. When the license is regarded as a distinct performance obligation it is separately accounted for up front as revenue (for the non-cancelable part of the contract) when the customer gains control through access to the software. If it is not separable from service obligations in a contract, it will be accounted for over time. An up-front revenue recognition of license revenue in a subscription contract will create a contract asset that will be amortized over time. When the contract asset and the up-front license revenue is recognized it also has to be discounted according to the effective interest calculation method. During the contract period IFS will therefore also account for interest as a subset of revenue.

IFS software licenses sold via partners and distributors are recognized as income when sold to the final customer. The 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.

Maintenance revenue consists of the fees IFS customers pay for the right to upgrade software to new versions of IFS Applications and fees for customer support. These fees do not include consulting expenses for installation of updated software. Maintenance revenue is reported straight-line over the lifetime of the contract.

Consulting services and training related to implementation are reported separately from license and maintenance revenue and are recognized as income as the services are supplied. The stage of completion of such services is determined by calculating time consumed. If services, such as extensive customization, are a requirement for the functionality of the software, and if the services are part of the total delivery, license revenue and revenue from services are recognized as income successively as delivery is made.

Consulting services are mainly carried out on account, whereby income is reported as the work is performed. Non-invoiced work is reported as a current asset under 'Other receivables' in the balance sheet. Work at fixed price is also reported as the work is performed, after reservation for loss risks. An expected loss will be recognized immediately (loss order contract).

Revenue from hardware sales is reported on delivery.

Operating expenses, and financial revenue and expenses

Fees pertaining to operating leases

Fees pertaining to operating leases where IFS is the lessee are reported in the income statement on a straight-line basis over the period of the lease. Benefits obtained on signing a lease are reported in the income statement as a reduction of the leasing fees on a straight-line basis over the term of the leasing agreement. The group will apply the new IFRS 16 Lease standard from its mandatory adoption date of January 1, 2019.

Fees pertaining to finance leases

Minimum lease payments are allocated to interest expenses and amortization of the outstanding liability. Interest expenses are distributed over the period of the lease so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability reported in the respective period.

Financial revenue and expenses

Financial revenue and expenses include interest revenue from bank assets, receivables and interest-bearing securities, interest expenses related to loans, expenses related to borrowing requirements, exchange rate gains and losses on financial assets and liabilities, unrealized and realized gains on financial investments and derivative instruments used in financial operations.

Interest revenue from receivables and interest expenses related to liabilities are estimated using the effective interest method. The effective interest is the rate that ensures that the present value of all future receipts or payments during the fixed rate term is the same as the reported value of the receivable or payable. The interest element of financial leasing payments is reported in the income statement by using the effective interest method. Interest revenue includes annualized amounts of transaction expenses and discounts, where applicable, premiums and other variations between the original value of the receivable and the amount received on maturity. Issue expenses and similar direct transaction expenses related to borrowing are annualized over the term of the loan.

Taxes

Taxes consist of current tax and deferred tax. Taxes are reported in the income statement except when the underlying transaction is reported in other comprehensive income or directly against stockholders' equity, in which case the related tax effect is reported against other comprehensive income or directly against stockholders' equity.

Current tax is tax that is to be paid or received for the current year by applying the tax rates that are determined, or in practice determined, on the balance sheet day. This also includes adjustment of current tax pertaining to previous periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences between reported and taxable values of assets and liabilities. The following temporary differences are not taken into account:
- Temporary differences arising when goodwill is first reported.
- Temporary differences pertaining to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future and where the time at which the temporary difference is reversed can be controlled by the board.

The valuation of deferred tax is based on how reported values of assets and liabilities are expected to be realized or paid. Deferred tax is calculated by applying the tax rates and tax legislation that has been determined, or in practice determined, on the balance sheet day.

Deferred tax is reported with current tax in the Group's income statement. Deferred tax receivables are reported as financial fixed assets, whereas deferred tax liabilities are reported as long-term liabilities.

Deferred tax receivables that pertain to deficit deduction are reported as an asset if it is likely that the deficit deductions can be set off in coming years.

The value of the deferred tax receivables is based on assessments of future taxable gains and the related expectations concerning future use of loss carry-forward. Deferred tax claims and tax liabilities are disclosed in Note 25.

Transfer pricing

Fees due from sales companies to the product development company are based on a transfer pricing model applied for most subsidiaries in the Group based on the principle that the sales companies achieve a predetermined profit margin that is normal for comparable companies in the market. The method, called the Transactional Net Margin Method (TNMM), is a generally accepted model for transfer pricing. For 2018, a profit margin spanning 2–5 percent has been set for all subsidiaries. This principle is based on the fact that the product development company is the entrepreneur and has the highest risk exposure in the company.

In addition to the product development company in Sweden, there are several smaller permanent product development centers in Poland, Sri Lanka, Canada, the Netherlands, the United Kingdom, the United States, Finland, and Norway, among others. The product development company covers their actual expenses plus a general supplement of 5–10 percent. In certain projects, subsidiaries exchange consulting services with each other. These services are usually priced at a level slightly below the ordinary price a customer would pay the sales company. In addition to the transfer pricing described, cost of capital and treasury expenses are invoiced on intra-Group transactions. Each subsidiary receives or pays interest based on the respective country's interest rate, with a supplement of 3.66 percent. Group costs related to treasury are distributed by adding a supplement of 0.13 percent to the interest expenses and by invoicing a fee of 0.07 percent of the subsidiaries' revenue.

Financial instruments

Financial instruments reported as assets in the balance sheet include the following balance sheet items: shares in other companies, other long-term receivables, account receivable, other receivables, and liquid assets (including current investments). Liabilities include the following balance sheet items: liabilities to credit institutions, accounts payable, and other liabilities.

Recognition and derecognition in the balance sheet

A financial asset or liability is recognized in the balance sheet when the Company becomes a party to it in accordance with the contractual terms of the instrument. Accounts receivable are recognized in the balance sheet when an invoice is issued. Liabilities are recognized when a counterpart has delivered and a contractual obligation to pay exists, even if no invoice has been received. Accounts payable are recognized when an invoice has been received.

A financial asset is derecognized when the entitlements in the contract are realized, mature, or fall outside the control of the Company. A financial liability is derecognized when the obligations in the contract are complied with or are extinguished in another manner.

Financial assets and liabilities are set off and recognized as the net amount in the balance sheet only when the legal right exists to set off the amounts and if it is intended to settle the items with the net amount or simultaneously realize the asset and settle the liability.

The acquisition and divestment of financial assets are reported on the trade date, which is the date on which the company commits itself to acquiring or divesting the asset.

Classification and valuation

Financial instruments that are not derivatives are recognized initially at the fair value of the instrument plus transaction expenses for all financial instruments. On initial recognition, a financial instrument is classified according to IFRS 9 at amortized cost, fair value through income statement or fair value through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS cont.

Financial assets measured at amortized cost
Cash equivalents, receivables, loans, and other short-term investments are measured at amortized cost.

Cash equivalents are immediately available credit in banks and similar institutions and current liquid investments with a term of less than three months from the time of acquisition and which are subject to a low risk of fluctuations in value.

Receivables are non-derivative financial assets with fixed payments or determinable payments, which are not quoted on an active market. If they are expected to be held for longer than one year, they are deemed long-term receivables.

Receivables occur when companies provide goods or services directly to the customer without intent to trade in receivables. Accounts receivable are reported when the commitment has been completed, whereby the benefit has been transferred to the customer and an invoice has been sent. As the anticipated term of accounts receivables is short, their value is reported at the nominal amount without discount as the discount is not significant.

The Group use a standard model in which bad debt is classified by age and risk of expected credit losses. Based on this model, accounts receivables are individually tested and a provision is made according to level of risk in percentage. If it is deemed unlikely that a debt will ever be paid, a provision will be made of 100 percent of the value of the debt.

The category also includes acquired receivables. Assets in this category are initially valued at fair value and subsequently at the amortized cost value, which is determined based on the effective rate of interest calculated on acquisition. Hence, fair value adjustments and direct transaction costs are annualized over the term of the instrument.

Financial assets measured at fair value through the income statement
Financial investments are either financial fixed assets or current investments depending on if the term or the expected period for which they are held is longer than one year, they are financial fixed assets; if they are to be held for less than one year, they are current investments.

Derivative instruments are reported in the balance sheet as of the contract day and are valued at their fair value, both initially and on subsequent revaluation. The method of recognizing profit or loss arising from revaluation is dependent on whether the derivative instrument was identified as a hedging instrument and, if so, the nature of the hedged item. Derivative instruments held by the Group do not fulfill the criteria for hedge accounting. A recognized asset or liability, or a binding commitment is measured at fair value through the income statement when currency futures and currency options are used. All derivative instruments held by the Group are included in the respective balance sheet items Other receivables and Other liabilities. In the income statement, derivative instruments are included in Other revenue, Other expenses, and Financial items.

Financial assets measured at fair value through other comprehensive income
Financial assets that are held as long-term strategic investments are recognized initially at the fair value of the instrument plus transaction expenses for all financial instruments except those categorized as financial assets recognized at fair value through the income statement, which are recognized at fair value excluding transaction expenses. Profit or loss arising from revaluation of this category of financial assets are valued at fair value through comprehensive income.

Tangible fixed assets
Owned assets
Tangible fixed assets are reported as assets in the balance sheet if it is likely that future financial benefits shall accrue to the Company and the acquisition value of the asset can be calculated in a reliable manner.

Properties in the Group are business premises used for its own operations and are amortized over their period of use. The acquisition value includes the purchase price and expenses directly pertaining to the asset, such as the cost of delivery and handling, installation, title deeds, consulting services, and legal services.

Leased assets
Most of the lease agreements are considered to be operating leasing as risks and benefits remain with the lessor, which means that leasing fees are expensed straight-line during the leasing period. When leasing contracts are considered to be finance leases, they are reported as acquisition of tangible fixed assets and as liabilities. Depreciation is applied in the same manner as if the company owned the assets. In finance leases, current leasing fees are divided into an interest portion, which is expensed and an amortization portion.

Principles for depreciation
Tangible fixed assets are reported at acquisition value after deductions for accumulated depreciation and write-downs. Assets are depreciated straight-line across the estimated utilization period of the assets and based on the acquisition value of the fixed assets. Leased assets are also depreciated across the estimated utilization period or, if shorter, across the leasing period.

The Group applies component depreciation, whereby the estimated utilization period of the individual components forms the basis for depreciation. The residual value of the assets and the utilization are tested on each balance sheet day, and assets are written down, when required, to their recovery value.
The estimated periods of depreciation are:

– Buildings	50 years
– Certain components for buildings	5–10 years
– Equipment	5 years
– Servers	5 years
– Computers	3 years

Intangible fixed assets
Goodwill
Goodwill corresponds to that part of the cost related to an acquisition that exceeds the fair value of the Group's share of identifiable net assets in the acquired subsidiary on acquisition. Goodwill is valued at the acquisition value less any accumulated write-downs.

Goodwill arising from acquiring associated companies is included in the reported value of participations in associated companies. In respect of business acquisitions in which the acquisition expenses are less than the net value of the acquired assets, assumed liabilities and contingent liabilities, the difference is reported directly in the income statement.

Goodwill is reassessed annually and is amortized if the recoverable value is less than the book value. Goodwill is distributed across cash-generating entities when the need to amortize is tested. Distribution is done across the cash-generating entities or groups of cash-generating entities that can be expected to benefit from the business combination in which goodwill arose. Business segments are defined as components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker. The primary basis for business segment is geographical region and product portfolio to emphasize the responsibility for the regional market from a sales perspective. Business segments are:
- Europe
- Americas
- Asia-Pacific-Japan, Middle East-Africa
- Aerospace and Defense
- Managed Services

Research and development
The Group expenses research expenditure. IFS capitalize product development expenditure when the following 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.
- The project is likely to entail financial benefits for the Company, either in the market where the product is to be sold or via internal savings.
- It is 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 expenses related to research and support are not capitalized.

The Group works continuously with a number of product development projects, most of which focus on standard versions of IFS Applications. The acquisition value of product development expenditure mainly consists of personnel-related expenses. In addition, there are expenses for premises, travel, and office overheads. Borrowing expenses directly related to product development are included in the asset's acquisition value as the Group deems that the asset requires a substantial amount of time to complete.

Capitalized development expenditure is amortized over the estimated lifetime of each product. This may not exceed seven years. Continuous assessments are made to determine whether previous expenditure was validly capitalized and if required, a corresponding depreciation will be applied.

Other intangible fixed assets
Other intangible fixed assets mainly include customer relations and acquired product rights and software licenses. These assets are reported at acquisition value less accumulated depreciation.

Principles for depreciation
Intangible fixed assets are reported at acquisition value after deductions for accumulated depreciation and write-downs. Depreciation is reported in the income statement on a straight-line basis across the estimated utilization period and is based on the acquisition value of the fixed asset.

Depreciable intangible assets are depreciated as of the date on which they become available for use on the market. The estimated utilization periods are:

– Capitalized development expenditure	7 years
– Acquired product rights	5–14 years
– Software	5 years
– Customer relations and other intangible fixed assets	2–16 years

Depreciation
Impairment test for tangible and intangible assets
Assets such as goodwill and assets not yet in use, whose utilization periods cannot be determined, are subjected annually to an impairment test to assess depreciation requirements. The Group also applies an annual impairment test to capitalized development expenditure and other intangible fixed assets, despite the fact that their period of use is determinable, as these items are deemed to have considerable significance for the financial position of the Group. The test is based on expected future growth and margins and is mandatory even if there is no indication that a depreciation is indicated. If there is an indication at the end of the fiscal year that a tangible or intangible fixed asset has decreased in value, the residual value of the asset is estimated, i.e. the higher of the net realizable value of the asset and its value in use. When estimating value in use, future cash flows are discounted using a discount factor that considers the risk-free interest and the risk associated with the specific asset. If the estimated residual value is less than the reported value, the asset is depreciated to its residual value.

Where goodwill pertains to a group of assets for which a depreciation is required, the amount to be amortized is first allocated to goodwill and subsequently to other assets in proportion to their reported value. Depending on the asset that is to be depreciated, the relevant item in the income statement is charged.

A depreciation of an asset is reversed when there is a change in the assumptions used to establish the residual value of the asset. The reversed amount increases the reported value of the asset to a maximum of the value the asset would have had (after deductions for normal depreciations) if no depreciation had been made. Depreciation of goodwill, however, is never reversed.

NOTES TO THE FINANCIAL STATEMENTS cont.

On assessing the need to depreciate an asset, the calculation is based on the affected cash-generating unit. A cash-generating unit is the smallest group of assets for which it is possible to establish regular payments that are largely independent of other assets or groups of assets.

The primary purpose of Group assets and investments is to provide and implement IFS enterprise applications, which:
– are developed by a central product development organization;
– are sold on the global market, through sales companies in various countries that collaborate in sales to customers with multinational operations;
– are supported by a central support organization.

Cash-generating entities in the Group consist of the business segments as their payment flows are deemed to be essentially independent of other assets. In the impairment test, consolidated assets and expenses, apart from capitalized product development expenditure, are distributed to the segments in proportion to their share of revenue. Capitalized product development expenditure is not distributed as it occurs in a central product development organization and is not directly related to sales of the product in the segments. Capitalized product development expenditure is tested at Group level.

Impairment testing of financial assets
On each reporting date, the Group evaluates whether there is objective evidence of impairment for a financial asset. Objective evidence consists of observable events that have occurred and that have a negative impact on the ability to recover the acquisition value. Financial assets tested are shares, property, plant and equipment and intangible assets.

Provisions
Group provisions consist primarily of pension obligations and provisions for restructuring. Provisions are reported when the following criteria are fulfilled:
– The Group has a legal or constructive obligation as a result of a past event.
– It is more likely than not that an outflow of resources will be required to settle an obligation.
– A reliable estimate can be made of the amount.

Provisions for restructuring are made when a detailed formal plan for these exists and a valid expectation has been created on the part of those affected. Provisions are not made for future losses. Residual provisions for restructuring pertain primarily to rental costs. All provisions are valued at present value.

Stockholders' equity
Transaction expenses directly pertaining to the issuance of new shares or options are reported net after tax in stockholders' equity as a deduction from the proceeds of the issue. Share repurchase is reported against stockholders' equity.

Employee benefits – pension obligations
Defined-contribution plans
Defined-contribution plans are those to which the Company's obligations are limited to the contributions the Company has committed itself to pay. In such cases, the size of an employee's pension is determined by the contributions made by the Company to the plan and the return on capital produced by the contributions. Consequently, the employee carries the actuarial and investment risks. Group earnings are charged with expenses as the benefits accrue.

Defined-benefit plans
Defined-contribution and defined-benefit pension plans exist within the Group. In Sweden, Norway, and France, there are both defined-benefit and defined-contribution pension plans. In other countries, the employees are covered by defined-contribution pension plans only.

In defined-benefits plans, employees and former employees receive benefits based on their salary on retirement and years of service. The Group undertakes to ensure that benefits are paid. The Group's obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the future payment accrued by employees though their employment in both current and previous periods.

The defined-benefit pension plans are both funded and unfunded. Where the plans are funded, the assets have been placed primarily in pension funds. In the balance sheet, the net sum of the estimated present value of the obligations and the fair value of the plan assets, adjusted for possible unreported actuarial profit/loss, is reported as a pension liability.

Concerning defined-benefit plans, pension expenses and pension obligations are estimated according to the Projected Unit Credit Method. The method distributes the pension expenses at the rate employees perform services for the company that increase their entitlement to future benefits. The estimates are made annually by independent actuaries. The Company's obligations are valued as the present value of expected future payments using a discount rate corresponding to the interest rate for first-class corporate bonds or government bonds with a term corresponding to the obligations in question. The most important actuarial assumptions are given in Note 33.

When determining the present value of the obligations and the fair value of the plan assets, actuarial profits and losses may arise, either because the real outcome deviates from the assumptions made (experience-based profits or losses) or because the obligation changes. Actuarial profits and losses are reported in Other comprehensive income over the period in which they occur. Expenses pertaining to employment during previous periods are reported directly in the income statement.

Interest expense less interest income from plan assets is classified as a financial expense. Other expense items in pension expenses are charged to operating earnings.

Cash flow analysis
Cash flow is analyzed according to the indirect method. Reported cash flow comprises only transactions that entail payments and receipts.

PARENT COMPANY ACCOUNTING PRINCIPLES
The Parent Company accounting principles below have been consistently applied in all periods presented in the Parent Company's financial reports.

Conformity with norms and legislation
The Parent Company has prepared its annual report in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council recommendation RFR 2, Reporting for legal entities. The Parent Company also applies Swedish Financial Accounting Standards Council statements pertaining to listed companies. RFR 2 entails that, in the annual accounts for the legal entity, the Parent Company applies all IFRS and statements approved by the EU as far as possible within the framework of the Swedish Annual Accounts Act and taking into account the relationship between reporting and taxation. The recommendation states the exceptions and supplements that shall be made with respect to the IFRS.

Group and Parent Company accounting principles differences
The differences between Group and Parent Company accounting principles are outlined below. The Parent Company accounting principles below have been consistently applied in all periods presented in the Parent Company's financial reports.

Segment reporting
The Parent Company does not apply segment reporting as the Parent Company is not part of any of the operational business segments. The Parent Company is reported as part of the corporate activities in the Group's segment reporting.

Participations in subsidiaries
Participations in subsidiaries are reported in the Parent Company according to the acquisition value method after deduction for any write-downs. The acquisition value includes acquisition-related expenses and any additional considerations.

Financial instruments, derivatives, and hedge accounting
Financial assets are classified using a different method in the Parent Company's balance sheet than in the Group balance sheet. The notes on financial assets describe how items in the balance sheet are related to the classification used in the Group's balance sheet and in the Group's accounting principles. The Group applies valuation at fair value in accordance with sections 4:14 a-d of the Swedish Annual Accounts Act. Accordingly, the description of accounting principles for the Group is also applicable for the Parent Company, except pertaining to the reporting of impact on profit or loss.

Anticipated dividends
Anticipated dividends from subsidiaries are reported in cases in which the Parent Company alone is entitled to determine the size of the dividend and the Parent Company has determined the size of the dividend before the Parent Company publishes its financial reports.

Tangible fixed assets
Owned assets
The Parent Company reports tangible fixed assets at acquisition value, less deductions for accumulated depreciation and impairments, where applicable, in the same manner as in the Group

Leased assets
The Parent Company reports all lease agreements as operating lease agreements.

Borrowing expenses
Borrowing expenses are charged to earnings for the period to which they pertain in the Parent Company.

Dividends from subsidiaries
The Parent Company reports dividends from subsidiaries as financial revenue, regardless of whether they were earned before or after acquisition.

Employee benefits pension obligations
The Swedish Act on Safeguarding of Pension Commitments includes provisions that result in different reporting than that stated in IAS 19, and the application of the Act is required for eligibility to make tax deductions. The Parent Company complies with the Act, and its simplification rules, in RFR 2 and IAS 19. The most significant differences in IAS 19 compared with the provisions of the Act are the ways in which the discount interest rate is determined, that according to IAS 19, the defined-benefit obligation is estimated based on current salary levels with assumptions of future salary increases, inflation and personnel turnover to forecast the Company's final pension costs, and that actuarial gains and losses of the plan assets' fair value or the obligations' present value are reported in the income statement under other comprehensive income.

Group contributions and stockholder contribution
Group contributions made by the Parent Company to subsidiaries are reported as an increase in Participations in subsidiaries. Group contributions received by the Parent Company from subsidiaries are reported according to the same principles as customary dividends from subsidiaries. Therefore, the group contribution is reported as financial income.

Stockholder contributions in the Parent Company are reported as an increase in Participations in subsidiaries in the balance sheet. To the extent that stockholder contributions pertain to loss coverage, an assessment is made concerning whether the value of the stock should be impaired.

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 2. SEGMENT REPORTING

Group operations are divided into business segments that coincide with reportable segments. The segments are identified according to the way in which the Group's internal reporting is organized and presented to the Group Executive management team. The primary basis for division is geographical areas and the following up of results from these. Currently, three geographical segments are reported. The Group operates in these areas either directly via its own sales companies or indirectly via partners in areas :
- Europe
- Americas
- Asia, Pacific, Japan and Middle East, Africa

Segment performance is assessed by the management based on their EBIT. This consists of the segment's operating profit/loss, which includes among other things operational revenue, direct and indirect expenses, and sales, marketing and administration expenses. Restructuring expenses and expenses related to writing down receivables are also charged directly to the respective segment.

The segments receive most of their revenue from external customers and refer to services related to IFS Applications software. Revenue is reported as license revenue, maintenance and support revenue, and consulting revenue.

Sales and other transactions take place between the segments. Transfer pricing for services between the various Group segments is market-based. Fees for most of the sales companies are determined by applying a generally accepted model for transfer pricing – the Transactional Net Margin Method – which is based on the principle that the sales companies achieve a predetermined profit margin. For further information on transfer pricing, see Note 1, Accounting Principles.

Undistributed corporate revenue, expenses, assets and liabilities include the Group's product development organization, and the corporate management, financial, and marketing functions. Product development is carried out at permanent development centers in Sri Lanka, Poland, the United Kingdom, the United States, Canada, the Netherlands, and Sweden. Corporate management, financial, and marketing functions are mainly located in Sweden.

Undistributed revenue and expenses include all the corporate functions above, interest and dividend revenue, gains from divesting financial investments, interest expenses, losses on divesting financial investments, the Group's portion of earnings in associated companies and joint ventures consolidated according to the equity method, and tax liabilities.

Undistributed assets and liabilities include activated product development expenditure, deferred tax receivables and liabilities, corporate liquidity, corporate financing and all corporate functions.

Income statement 2018

SKr, million	Europe	Americas	APJ, ME&A	Total segments	Group items	GROUP 2018
License revenue	723	346	85	**1 154**	–	**1 154**
Maintenance and support revenue	1 069	448	124	**1 641**	–	**1 641**
Consulting revenue	1 220	556	127	**1 903**	–	**1 903**
Cloud and SaaS revenue	43	471	6	**520**	–	**520**
Other net revenue	8	20	3	**31**	17	**48**
Total external revenue	**3 063**	**1 841**	**345**	**5 249**	**17**	**5 266**
Internal revenue	344	455	31	**830**	-830	**–**
Total revenue	**3 407**	**2 296**	**376**	**6 079**	**-813**	**5 266**
External operating expenses	-2 209	-1 684	-323	**-4 216**	-730	**-4 946**
Internal operating expenses	-188	-131	-18	**-337**	337	**–**
Other operating items, net	-45	0	-4	**-49**	-159	**-208**
Operating expenses	**-2 442**	**-1 815**	**-345**	**-4 602**	**-552**	**-5 154**
EBIT	**965**	**481**	**31**	**1 477**	**-1 365**	**112**
Other interest income and similar income						12
Interest expenses and similar expenses						-546
Profit/loss before tax						**-422**
Tax on profit/loss for the year						176
Profit/loss for the year						**-246**

Other information 2018

SKr, million	Europe	Americas	APJ, ME&A	Total segments	Group items	GROUP 2018
External assets	1 505	4 610	183	**6 298**	10 559	**16 857**
Participations in associated companies	2	–	–	**2**	–	**2**
Total assets	**1 507**	**4 610**	**183**	**6 300**	**10 559**	**16 859**
Liabilities	**1 129**	**878**	**143**	**2 150**	**8 298**	**10 448**
Investments in fixed assets	27	3	5	**35**	588	**623**
Depreciation and write-downs	39	242	3	**284**	497	**781**
Average number of employees	1 350	863	279	**2 492**	1 289	**3 781**
Number of employees at year end	1 240	832	246	**2 318**	1 304	**3 622**

Income statement 2017

SKr, million	Europe	Americas	APJ, ME&A	Total segments	Group items	GROUP 2017
License revenue	567	268	100	**935**	–	**935**
Maintenance and support revenue	938	378	113	**1 429**	–	**1 429**
Consulting revenue	1 101	484	120	**1 705**	–	**1 705**
Cloud and SaaS revenue	22	100	5	**127**	–	**127**
Other net revenue	12	2	7	**21**	–	**21**
Total external revenue	**2 640**	**1 232**	**345**	**4 217**	**0**	**4 217**
Internal revenue	237	217	20	**474**	-474	**–**
Total revenue	**2 877**	**1 449**	**365**	**4 691**	**-474**	**4 217**
External operating expenses	-1 861	-1 032	-300	**-3 193**	-718	**-3 911**
Internal operating expenses	-228	-39	-12	**-279**	279	**–**
Other operating items, net	-50	-124	-3	**-177**	25	**-152**
Operating expenses	**-2 139**	**-1 195**	**-315**	**-3 649**	**-414**	**-4 063**
EBIT	**738**	**254**	**50**	**1 042**	**-888**	**154**
Other interest income and similar income						**62**
Interest expenses and similar expenses						**-477**
Profit/loss before tax						**-261**
Tax on profit/loss for the year						**251**
Profit/loss for the year						**-10**

Other information 2017

SKr, million	Europe	Americas	APJ, ME&A	Total segments	Group items	GROUP 2017
External assets	1 424	4 039	162	**5 625**	10 815	**16 440**
Participations in associated companies	–	–	–	**0**	2	**2**
Total assets	**1 424**	**4 039**	**162**	**5 625**	**10 817**	**16 442**
Liabilities	**1 042**	**750**	**113**	**1 905**	**7 968**	**9 873**
Investments in fixed assets	74	3 959	2	**4 035**	870	**4 905**
Depreciation and write-downs	33	59	4	**96**	420	**516**
Average number of employees	1 298	580	290	**2 168**	1 153	**3 321**
Number of employees at year end	1 343	843	292	**2 478**	1 246	**3 724**

NOTES TO THE FINANCIAL STATEMENTS cont.

External net sales

SKr, million	GROUP	
	2018	2017
Sweden	625	578
Rest of the World	4 641	3 639
Total	**5 266**	**4 217**

Fixed assets

SKr, million	GROUP	
	2018	2017
Sweden	9 602	9 532
Rest of the World	4 924	4 795
Total	**14 526**	**14 327**

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The group derives revenue from the transfer of goods and services over time and at a point in time in the following geographical regions:

SKr, million	Europe	Americas	APJ, ME&A	Total segments	All other segments	GROUP 2018
License revenue, IFS	660	303	76	**1 039**	–	**1 039**
Third-party license revenue	62	43	10	**115**	–	**115**
Maintenance and support revenue	1 022	422	112	**1 556**	–	**1 556**
Third-party maintenance and support revenue	47	26	12	**85**	–	**85**
Consulting revenue	1 220	556	127	**1 903**	–	**1 903**
Cloud and software as a service (SaaS), IFS	43	464	6	**513**	–	**513**
Third-party Cloud and software as a service (SaaS)	–	7	–	**7**	–	**7**
Other revenue	9	20	2	**31**	17	**48**
Total	**3 063**	**1 841**	**345**	**5 249**	**17**	**5 266**
Timing of revenue recognition						
– At a point in time	731	366	88	**1 185**	17	**1 202**
– Over time	2 332	1 475	257	**4 064**	–	**4 064**
Total	**3 063**	**1 841**	**345**	**5 249**	**17**	**5 266**

The license revenue and other revenue is recognized at a point in time.

NOTE 4. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

Assets and liabilities related to contracts with customers
The group has recognized the following assets and liabilities related to contracts with customers:

SKr, million	GROUP	
	2018	2017
Current contract assets relating to contracts with customers	254	143
Total contract assets	**254**	**143**
Contract liabilities – deferred revenue	907	757
Total contract liabilities	**907**	**757**

The increase in contract assets is due to a larger volume of license subscription contracts.

Unsatisfied long-term consulting contracts
The following table shows unsatisfied performance obligations resulting from fixed-price long-term subscription license contracts.

SKr, million	GROUP	
	2018	2017
Aggregate amount of the transaction price allocated to long-term license contracts that are partially or fully unsatisfied as at 31 December	269	0
Total	**269**	**0**

Management expects that 25% of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognized as revenue during the next reporting period (SKr 67 million). The remaining 75% (SKr 202 million) will be recognized in the 2020 financial year or later.

IFRS 15 (121), (122) All other maintenance and consulting contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTE 5. OTHER NET REVENUE

SKr, million	GROUP	
	2018	2017
Hardware	8	6
Parent Company services	0	–
Miscellaneous	40	15
Total	**48**	**21**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 6. DEVELOPMENT EXPENDITURE

SKr, million	GROUP	
	2018	2017
Product development expenditure	-771	-576
Amortization of capitalized product development	-163	-106
Other amortization	-69	-57
Capitalized expenditure for product development	457	329
Total	**-546**	**-410**

NOTE 7. SALES AND MARKETING EXPENSES

SKr, million	GROUP	
	2018	2017
Corporate sales and marketing expenses	-481	-181
Local sales and marketing expenses	-1 092	-1 042
Total	**-1 573**	**-1 223**

NOTE 8. OTHER REVENUE

SKr, million	GROUP	
	2018	2017
Capital gains on the disposal of a business	–	–
Rental income	1	1
Miscellaneous	5	3
Total	**6**	**4**

NOTE 9. OTHER EXPENSES

SKr, million	GROUP	
	2018	2017
Exchange rate losses, net	-2	-15
Restructuring costs	-97	-37
Loss on divestment of operations	0	-1
Miscellaneous	-121	-103
Total	**-220**	**-156**

NOTE 10. OPERATING EXPENSES PER TYPE OF COST

SKr, million	GROUP	
	2018	2017
Direct costs of goods and services sold	-686	-513
Capitalized development cost	457	329
Personnel costs	-3 061	-2 455
Travel expenses	-206	-182
Costs for rented premises and other property costs	-152	-128
External services	-195	-178
Marketing and selling expenses	-173	-122
Amortization, depreciation, and write-downs	-781	-516
Other indirect expenses	-149	-147
Total	**-4 946**	**-3 912**

NOTE 11. AUDITORS' FEES

SKr, million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
PRICEWATERHOUSECOOPERS				
Audit engagement	-6	-5	0	0
Audit business in addition to the audit engagement	-1	–	–	–
Tax consultancy	-3	-2	–	–
Other services	0	-2	0	–
Total	**-10**	**-9**	**0**	**0**
Other auditors				
Audit engagement	-2	-2	–	–
Tax consultancy	-3	-1	–	–
Other services	0	–	0	–
Total	**-5**	**-3**	**0**	**0**
Total fees	**-15**	**-12**	**0**	**0**

"Audit engagement" refers to the examination of the annual accounts, the accounting records, and the administration by the Board of Directors and the President. It also includes other duties that are incumbent on the company's auditors, as well as advisory services and other types of support as a result of observations made through such an examination. Everything else is considered to be audit business beyond the audit engagement.

NOTE 12. SALARIES, OTHER REMUNERATIONS, AND SOCIAL COSTS

SKr, million	GROUP	
	2018	2017
Salaries and other remunerations	-2 391	-1 909
Social costs	-409	-329
Pension costs, defined benefit plans (see Note 36)	-5	-3
Pension costs, defined contribution plans (see Note 36)	-119	-104
Other personnel costs	-137	-110
Total	**-3 061**	**-2 455**
Pension expenses reported as financial expenses	-4	-4
Total	**-3 065**	**-2 459**

Of the Group's pension expenses, SKr 0 (0) pertained to the board of directors and CEO.

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 13. REMUNERATIONS PAID TO THE BOARD AND EXECUTIVE MANAGEMENT

Definitions
Since the AGM held on June 25, 2018 the board has consisted of Willem-Arnoud van Rooyen (chairman), Joshua Stone and Thomas Spicer. On April 1, 2018, Darren Roos was appointed president and CEO of IFS. This was aligned with the retirement of his predecessor Alastair Sorbie at the end of Q1, 2018. Executive management refer to the President, who is also the CEO and the company's CFO and Chief HR Officer (CHRO).

For 2017 executive management comprised the President and CEO, the company's CFO, the President of Business Development and the General Counsel.

Remuneration principles
According to the resolution adopted by the AGM, no remuneration is paid to board members of IGT Holding III AB for the year 2018/2019.

Remuneration and other benefits during the year
In 2018, remuneration to executive management has emanated from IGT Holding IV AB.

Period of notice and severance pay
If the company terminates the employment, the CEO is to receive twelve months' notice; if the CEO terminates the employment, the company is to receive twelve months' notice. In addition, the CEO shall receive up to twelve months' severance pay if the company terminates the employment. For executive management, the notification period is between six to twelve months from the company and three to six months from the executive.

Pensions
The president is entitled to a premium-based pension, with a premium corresponding to 20 percent of the basic salary. The retirement age for the president is 65. Senior executives are included in the Group's premium-based special pension plan. The retirement age for other senior executives is 65.

NOTE 14. TRANSACTIONS WITH RELATED PARTIES

Separate notes contain information about:

– Remuneration of the board, CEO, and management	Note 13
– Participation in subsidiaries	Note 23
– Participations in associated companies	Note 24
– Other receivables	Note 28
– Stockholders' equity	Note 30
– Other liabilities	Note 35
– Pledged assets	Note 36
– Contingent liabilities	Note 37
– Information about the Parent Company	Note 46

Some individuals of the board of directors and executive management own shares in IGT Holding II AB.
In addition to what is stated above and in the referenced notes, there are no significant transactions with related parties.

NOTE 15. AVERAGE NUMBER OF EMPLOYEES PER COUNTRY

	GROUP	
	2018	2017
Sweden	433	426
of whom, women	*146*	*139*
Australia	47	47
Brazil	37	41
Canada	294	270
China	34	38
Czech Republic	21	22
Denmark	38	41
Finland	84	97
France	96	88
Germany	195	182
Hungary	21	22
India	52	54
Italy	18	5
Japan	13	13
Kazakhstan	2	2
Malaysia	11	12
Netherlands	72	71
Norway	102	117
Poland	143	135
Portugal	4	2
Russia	21	24
Singapore	10	10
Slovakia	12	9
South Africa	16	18
Spain	59	48
Sri Lanka	1 053	930
Switzerland	22	17
Thailand	14	17
United Arab Emirates	21	21
United Kingdom	321	271
United States	518	268
Total, subsidiaries abroad	**3 350**	**2 892**
of whom, women	*1 045*	*870*
Total	**3 783**	**3 318**
of whom, women	*1 191*	*1 009*

On December 31	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Board members	71	69	3	3
of whom, women	*13*	*12*	*0*	*0*
President and other senior executives	123	118	1	4
of whom, women	*35*	*23*	*0*	*0*

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 16. RESULTS FROM PARTICIPATIONS IN ASSOCIATED COMPANIES

SKr, million	GROUP	
	2018	2017
Share in profit, Application Software IFS South Africa (Pty) Ltd	1	1
Share in profit, Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S	5	0
Total	**6**	**1**

NOTE 17. INTEREST INCOME AND SIMILAR INCOME

SKr, million	GROUP	
	2018	2017
External interest	3	5
Exchange rate gains, net	0	49
Other financial income	9	8
Total	**12**	**62**

NOTE 18. INTEREST COSTS AND SIMILAR COSTS

SKr, million	GROUP	
	2018	2017
External interest costs	-324	-460
Exchange rate losses, net	-192	–
Capitalized interest costs for development production	9	1
Write-down of financial assets	0	-4
Interest costs for defined-benefit pension plans	-4	–
Other financial costs	-35	-14
Total	**-546**	**-477**

NOTE 19. TAXES

Taxes

SKr, million	GROUP	
	2018	2017
CURRENT TAX		
Current tax	-47	-56
Current tax relating to previous years	0	–
	-47	**-56**
DEFERRED TAX		
Deferred tax relating to loss carry forward	49	69
Deferred tax relating to temporary differences	174	238
	223	**307**
Total tax income/expense	**176**	**251**

Taxes on profit/loss for the year

SKr, million	GROUP	
	2018	2017
DIFFERENCES BETWEEN REPORTED TAX EXPENSES AND TAX EXPENSES BASED ON PREVAILING TAX RATES		
Profit/loss before tax	**-422**	**-261**
Tax according to prevailing rate (22 percent)	93	57
Effect of the lowering of the Swedish corporate tax rate from 26.3 percent to 22.0 percent	-5	–
Other non-deductible expenses	-12	-19
Not taxable income	2	1
Effect of foreign tax rates	-4	148
Tax relating to previous years	-8	–
Loss carryforward not previously capitalized	119	70
Exchange rate differences	7	–
Utilized loss carryforward, not previously accounted for	–	2
Losses for which deferred tax has not been considered	-16	-8
Total	**176**	**251**

SKr, million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Tax on items shown in Comprehensive income				
Deferred tax relating to revaluation of defined-benefit pension plans	19	9	–	–
Total tax income/expense	**19**	**9**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 20. INTANGIBLE FIXED ASSETS

GROUP SKr, million	INTERNAL DEVELOPMENT			PURCHASED		
	Capitalized expenditure for R&D	Capitalized interest costs	**Total capitalized expenditure for R&D**	Goodwill	Other intangible fixed assets	**Total**
ACCUMULATED ACQUISITION VALUE						
Opening balance Jan 1, 2017	844	2	**846**	5 034	4 193	**10 073**
Acquisition of operations	–	–	**0**	2 479	1 452	**3 931**
Purchases	329	1	**330**	73	387	**790**
Sales/disposals	–	–	**0**	59	-20	**39**
Exchange differences during the year	-4	–	**-4**	-96	-50	**-150**
Closing balance Dec 31, 2017	**1 169**	**3**	**1 172**	**7 549**	**5 962**	**14 683**
ACCUMULATED DEPRECIATION						
Opening balance Jan 1, 2017	-204	–	**-204**	–	-301	**-505**
Depreciation during the year	-106	1	**-105**	–	-358	**-463**
Exchange differences during the year	3	–	**3**	-1	8	**10**
Closing balance Dec 31, 2017	**-307**	**1**	**-306**	**-6**	**-654**	**-966**
Book value Dec 31, 2017	**862**	**4**	**866**	**7 543**	**5 308**	**13 717**
ACCUMULATED WRITE-DOWNS						
Opening balance Jan 1, 2017	0	0	**0**	0	0	**0**
Closing balance Dec 31, 2017	**0**	**0**	**0**	**0**	**0**	**0**
Book value Dec 31, 2017	**862**	**4**	**866**	**7 543**	**5 308**	**13 717**

GROUP SKr, million	INTERNAL DEVELOPMENT			PURCHASED		
	Capitalized expenditure for R&D	Capitalized interest costs	**Total capitalized expenditure for R&D**	Goodwill	Other intangible fixed assets	**Total**
ACCUMULATED ACQUISITION VALUE						
Opening balance Jan 1, 2018	1 169	3	**1 172**	7 549	5 962	**14 683**
Acquisition of operations	–	–	**0**	39	21	**60**
Purchases	457	9	**466**	–	12	**478**
Sale/disposals	–	–	**0**	–	-4	**-4**
Re-classification	–	–	**0**	-36	4	**-32**
Exchange differences during the year	0	–	**0**	197	120	**317**
Closing balance Dec 31, 2018	**1 626**	**12**	**1 638**	**7 749**	**6 115**	**15 502**
ACCUMULATED DEPRECIATION						
Opening balance Jan 1, 2018	-307	1	**-306**	-6	-654	**-966**
Sale/disposals	–	–	**0**	–	1	**1**
Re-classification	–	–	**0**	29	-4	**25**
Depreciation during the year	-163	-1	**-164**	0	-553	**-717**
Exchange differences during the year	0	–	**0**	0	-14	**-14**
Closing balance Dec 31, 2018	**-470**	**0**	**-470**	**23**	**-1 224**	**-1 671**
Book value Dec 31, 2018	**1 156**	**12**	**1 168**	**7 772**	**4 891**	**13 831**
ACCUMULATED WRITE-DOWNS						
Opening balance Jan 1, 2018	0	0	**0**	0	0	**0**
Closing balance Dec 31, 2018	**0**	**0**	**0**	**0**	**0**	**0**
Book value Dec 31, 2018	**1 156**	**12**	**1 168**	**7 772**	**4 891**	**13 831**

- The reported value of goodwill, other intangible fixed assets and capitalized development costs is tested annually via an impairment test based on expected future growth and margins. Other intangible fixed assets consist of product rights, software and customer relations. Amortization requirements are tested at Group level and for each cash-generating entity. The cash-generating entities are the same as the business segments and are identified based on the structure of the Group's internal reporting. The basis for division is primarily by geographic area (see Note 2 for further information).
- Goodwill and other intangible assets are allocated to the Group's cash-generating entities (business segments). The recovery value of the cash-generating entities has been estimated by discounting future cash flows up until the time of estimation. Capitalized development costs are considered a common asset and are therefore tested at Group level by estimating the sum of the recovery value of all cash-generating entities.
- Recoverable amounts have been determined based on calculations of the value-in-use covering a period of five years. The cash flows projected are based on future prognoses per business segment and Executive management's strategic three-year plan. Cash flow beyond the coming three-year period has been extrapolated by adjusting revenue and expenses upward by 2 percent per annum reflecting the long-term growth rate. Management has determined the budgeted gross margin based on previous earnings and its expectations for market growth. The weighted average rate of growth that is used concurs with the growth-related expectations of external parties.
- On testing the reported values, the discount rate for the group was set at 10.7 percent (10.4) before tax, corresponding to 8.2 percent (8) after tax. The reported value of each cash-generating entity has been tested with an individual discount rate to take the various conditions into account.
- Revenue growth in the forecast period has been presumed to be 9.3–11.0 percent (7.9–8.0) and the EBIT margin has been presumed to be 3.2–13.8 percent (1.3–22.3).

Sensitivity analysis

- A reasonable change in any of the assumptions pertaining to the test would not result in a need to amortize goodwill, other intangible fixed assets, or capitalized development costs.

Goodwill per operating segment

SKr, million	Europe	Americas	APJ, ME&A	Group items	GROUP
Booked value December 31, 2017	330	2 622	9	4 582	**7 543**
Booked value December 31, 2018	347	2 840	8	4 577	**7 772**

Depreciation included in the income statement, per function

SKr, million	GROUP 2018	GROUP 2017
Sales and marketing expenses	-484	-294
Research and development expenditure	-223	-159
Administration costs	-4	-8
Other costs	-6	-2
Total	**-717**	**-463**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 21. TANGIBLE FIXED ASSETS

GROUP SKr, million	Buildings and land	Leasing, inventories	Computers	Office equipment	Other inventories	Total
ACCUMULATED ACQUISITION VALUE						
Opening balance Jan 1, 2017	50	1	77	27	3	**158**
Acquisition of subsidiary	114	5	7	10	–	**136**
Purchases	3	1	33	8	3	**48**
Sales/disposals	-2	–	-19	-2	-1	**-24**
Reclassifications	-11	-5	-2	–	–	**-18**
Exchange differences during the year	-5	–	-7	-4	–	**-16**
Closing balance Dec 31, 2017	**149**	**2**	**89**	**39**	**5**	**284**
ACCUMULATED DEPRECIATION						
Opening balance Jan 1, 2017	-7	-1	-16	3	-1	**-22**
Depreciation during the year	-9	-3	-29	-11	-1	**-53**
Sales/disposals	2	–	21	1	–	**24**
Reclassifications	15	4	2	–	–	**21**
Exchange differences during the year	1	–	5	3	–	**9**
Closing balance Dec 31, 2017	**2**	**0**	**-17**	**-4**	**-2**	**-21**
Book value Dec 31, 2017	**151**	**2**	**72**	**35**	**3**	**263**

GROUP SKr, million	Buildings and land	Leasing, inventories	Computers	Office equipment	Other inventories	Total
ACCUMULATED ACQUISITION VALUE						
Opening balance Jan 1, 2018	149	2	89	39	5	**284**
Acquisition of subsidiary	1	–	0	1	0	**2**
Purchases	11	-1	54	16	1	**81**
Sales/disposals	-1	–	-13	-8	-5	**-27**
Reclassifications	-1	–	0	-1	–	**-2**
Exchange differences during the year	3	0	2	2	0	**7**
Closing balance Dec 31, 2018	**162**	**1**	**132**	**49**	**1**	**345**
ACCUMULATED DEPRECIATION						
Opening balance Jan 1, 2018	2	0	-17	-4	-2	**-21**
Depreciation during the year	-12	-1	-38	-12	-1	**-64**
Sales/disposals	–	1	12	7	3	**23**
Reclassifications	0	–	0	1	0	**1**
Exchange differences during the year	0	0	-1	-1	0	**-2**
Closing balance Dec 31, 2018	**-10**	**0**	**-44**	**-9**	**0**	**-63**
Book value Dec 31, 2018	**152**	**1**	**88**	**40**	**1**	**282**

* Category Computers includes computers with a depreciation period of 3 years and servers with a depreciation period of 5 years.

Depreciation included in the income statement, per function

SKr, million	GROUP	
	2018	**2017**
Sales and marketing expenses	-5	-4
Maintenance and support costs	-4	-3
Consulting costs	-11	-7
Cloud and SaaS costs	-3	0
Development expenditure	-10	-4
Administration costs	-31	-35
Total	**-64**	**-53**

Tangible fixed assets do not include any capitalized interest.

Financial leasing agreements
The Group's tangible assets include leased items held under the terms of financial leasing agreements, but they are not of significant value.

NOTE 22. OPERATING LEASE AGREEMENTS

The Group's operating lease agreements primarily include rented premises as well as computers, office equipment and vehicles. No objects are subleased. The nominal value of future minimum leasing agreements with respect to non-terminable leasing agreements is distributed as follows.

SKr million	GROUP	
	2018	**2017**
Due for payment within one year	122	95
Due for payment later than one year but within five years	274	139
Due for payment later than five years	99	18
Total	**495**	**252**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 23. PARTICIPATIONS IN SUBSIDIARIES

	Organization no.	Registered office	Share of capital/votes	Number of shares	Book value, SKr million, 2018	Book value, SKr million, 2017
IGT Holding IV AB	559033-9635	Sweden	100%	50 000	6 967	6 967
Industrial and Financial Systems, IFS AB (Publ.)	556122-0996	Sweden	100%		–	–
IFS Americas, Inc.		USA	100%		–	–
IFS North America, Inc.		USA	100%		–	–
IFS Industrial & Financial Systems Canada Inc.		Canada	100%		–	–
Metrix LLC		USA	100%		–	–
Mxi Technologies (US) Inc		USA	100%		–	–
Marathon Acq. Inc		USA	100%		–	–
Workwave LLC		USA	100%		–	–
Workwave Italy S.r.l.		Italy	100%		–	–
IFS Europe AB	556139-5541	Sweden	100%		–	–
IFS Applications Iberica, S.A.U.		Spain	100%		–	–
IFS Benelux B.V.		Netherlands	100%		–	–
Industrial and Financial Systems Central and Eastern Europe Sp. z o.o		Poland	100%		–	–
IFS Region RU		Russia	100%		–	–
Industrial and Financial Systems KZ		Kazakhstan	100%		–	–
IFS Industrial and Financial Systems Poland Sp. z o.o		Poland	100%		–	–
IFS France		France	100%		–	–
IFS Italia S.r.l.		Italy	100%		–	–
Industrial and Financial Systems IFS Verwaltungsgesellschaft mbh		Germany	100%		–	–
Industrial and Financial Systems IFS Beteiligungsgesellschaft mbh		Germany	100%		–	–
Industrial and Financial Systems IFS Deutschland GmbH & Co. KG		Germany	100%		–	–
Industrial and Financial Systems, IFS UK Ltd		United Kingdom	100%		–	–
360 Scheduling Ltd		United Kingdom	100%		–	–
360 Scheduling Inc		USA	100%		–	–
Application Software IFS South Africa (Pty) Ltd		South Africa	100%		–	–
mplsystems Ltd		United Kingdom	100%		–	–
MMGS Ltd		United Kingdom	100%		–	–
MPL Warwick Ltd		United Kingdom	100%		–	–
People on Demand Ltd		United Kingdom	100%		–	–
FSM Ltd		United Kingdom	100%		–	–
MXI Technologies UK		United Kingdom	100%		–	–
Infiseruo, Serviços Informáticos, Lda. (i likvidation)		Portugal	100%		–	–
IFS Japan, Inc		Japan	100%		–	–
IFS Middle East FZ-LLC		United Arab Emirates	100%		–	–
IFS Nordic AB	556248-4856	Sweden	100%		–	–
IFS Danmark A/S		Denmark	100%		–	–
Multiplus Solutions China Ltd		China	100%		–	–
IFS Sverige AB	556211-7720	Sweden	100%		–	–
IFS Finland Oy AB		Finland	100%		–	–
IFS R&D Asia Pacific Sdn. Bhd.		Malaysia	100%		–	–
Industrial & Financial Systems R&D Ltd		Sri Lanka	100%		–	–
IFS Research and Development (Private) Ltd		Sri Lanka	100%		–	–
IFS Solutions (Singapore) Pte Ltd		Singapore	100%		–	–
IFS Solutions (Shanghai) Co. Ltd.		China	100%		–	–
IFS Solutions Malaysia Sdn. Bhd.		Malaysia	100%		–	–
IFS Solutions Thai Ltd		Thailand	100%		–	–
IFS Solutions Asia Pacific Pte Ltd		Singapore	100%		–	–
IFS Solution Beijing Co. Ltd.		China	100%		–	–
IFS Australia Pty Ltd		Australia	100%		–	–
IFS New Zealand Pty Ltd		New Zealand	100%		–	–
Industrial & Financial Systems Philippines, Inc (i likvidation)		Philippines	100%		–	–
IFS Solution India Private Ltd		India	100%		–	–
IFS Solutions (Thailand) Ltd		Thailand	100%		–	–
Industrial & Financial Systems Sri Lanka Ltd		Sri Lanka	50%		–	–
IFS World Operations AB	556040-6042	Sweden	100%		–	–
IFS R & D International (Private) Ltd		Sri Lanka	100%		–	–
IFS Retail AB	556771-4463	Sweden	100%		–	–
Torron System AB	556457-8960	Sweden	100%		–	–
Vendimo Business Solutions AB	556400-2946	Sweden	100%		–	–
IFS Schweiz AG		Switzerland	100%		–	–
LatinIFS Tecnologia da Informação Ltda		Brazil	100%		–	–
IFS Aerospace & Defence Ltd		Canada	100%		–	–
Total book value in the Parent Company					**6 967**	**6 967**

SKr, million	PARENT COMPANY 2018	PARENT COMPANY 2017
ACCUMULATED ACQUISITION VALUE		
Opening balance	6 967	5 049
Shareholder contributions	–	1 918
Closing balance	**6 967**	**6 967**
ACCUMULATED WRITE-DOWNS		
Opening balance	–	–
Closing balance	**0**	**0**
Book value	**6 967**	**6 967**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 24. PARTICIPATIONS IN ASSOCIATED COMPANIES

SKr, million	GROUP	
	2018	2017
Opening balance	2	2
Share in earnings of associated companies	2	1
Exchange differences	-2	-1
Closing balance	**2**	**2**

	Registered office	Net revenue	Earnings before tax	Assets	Liabilities	Equity	Share of capital/votes
2018							
INDIRECTLY OWNED							
Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S	Turkey	21	2	7	7	2	25,00%
2017							
INDIRECTLY OWNED							
Application Software IFS South Africa (Pty) Ltd	South Africa	10	1	5	6	-1	49,00%
Unitec Kurumsal Bilgi Sistemleri Yazlim Ve Danismanlika A.S	Turkey	16	0	7	4	3	25,00%

The values in the table are the Group's share of net sales, earnings before taxes, assets, liabilities, and equity.

NOTE 25. DEFERRED TAX CLAIMS AND TAX LIABILITIES

SKr, million	GROUP	
	2018	2017
DEFERRED TAX CLAIMS CONCERNING		
Temporary differences	217	180
Deficit deduction	159	110
Total	**376**	**290**
DEFERRED TAX LIABILITIES CONCERNING		
Temporary differences	1 014	1 096
Total	**1 014**	**1 096**

Deferred tax receipts and tax liabilities are set off when this is legally possible for particular tax receivables and tax liabilities and when deferred taxes refer to the same tax authority. The amounts above have resulted after such set-offs and are reported in the balance sheet. The figures in the table below are in gross amounts.

Temporary differences

Temporary differences arise when the reported value and tax value of assets and liabilities differ. Temporary differences with respect to the following items resulted in deferred tax liabilities and deferred tax claims.

SKr, million	GROUP	
	2018	2017
DEFERRED TAX LIABILITIES		
Fixed assets	958	1 044
Provisions	46	31
Current claims and liabilities	10	4
Total deferred tax liabilities	**1 014**	**1 079**
DEFERRED TAX CLAIMS		
Fixed assets	60	46
Current claims and liabilities	46	57
Provisions	111	61
Fiscal deficit deduction	236	197
Total deferred tax claims	**453**	**361**
Unreported deferred tax claims concerning deficit deductions and temporary differences	-77	-88
Total unreported deferred tax claims	**-77**	**-88**
Total deferred tax claims, net	**376**	**273**
Deferred tax claims, net	**-638**	**-806**

Deficit deduction

The total value of the deficit deductions on the balance sheet day can be utilized no later than during the following years:

SKr, million	GROUP	
	2018	2017
2018 (2017)	13	9
2019 (2018)	19	15
2020 (2019)	7	8
2021 (2020)	20	9
2022 (2021)	33	20
Later	17	32
No time limit	127	104
Total	**236**	**197**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 26. OTHER LONG-TERM RECEIVABLES

SKr, million	Deposits	Other financial assets	Total
GROUP			
Opening balance Jan 1, 2017	27	2	**29**
Changes during the year	22	4	**26**
Closing balance Dec 31, 2017	**49**	**6**	**55**
Changes during the year	-20	0	**-20**
Closing balance Dec 31, 2018	**29**	**6**	**35**

NOTE 27. ACCOUNTS RECEIVABLE

SKr, million	GROUP	
	2018	**2017**
Accounts receivable, gross	1 244	1 148
Provision for doubtful receivables	-48	-44
Accounts receivable, net	**1 196**	**1 104**
AGE ANALYSIS		
Accounts receivable, not due	789	742
Due 1–30 days	263	259
Due 31–90 days	85	56
Due >90 days	59	47
Total	**1 196**	**1 104**

SKr, million	GROUP	
	2018	**2017**
On January 1	**44**	**44**
Provision for doubtful receivables	12	13
Receivables written off during the year	-5	-7
Reversed unused amounts	-3	-6
On December 31	**48**	**44**

NOTE 28. OTHER RECEIVABLES

SKr, million	GROUP	
	2018	**2017**
Receivables, associated companies	17	26
Ongoing assignments	88	64
Accrued license revenue	93	16
Other prepaid expenses	168	255
Other accrued income	72	62
Other receivables	134	39
Total	**572**	**462**

NOTE 29. LIQUID ASSETS

The effective interest rate for current investments during 2018 was 7 percent. The current investments, located in an overseas territory, had an average duration of 30 days. Investments have been classified as liquid assets based on the assumption that:
– the risk of value fluctuation is negligible;
– they can easily be converted to cash;
– they have a duration of not more than three months from the time of acquisition.

SKr, million	GROUP	
	2018	**2017**
Cash and bank	460	449
Current investment	5	6
Total	**465**	**455**

NOTE 30. STOCKHOLDERS' EQUITY

Definition of items in the Group equity statement:

GROUP

Capital stock. Refers to the Parent Company's capital stock.

Other contributed capital. Refers to stockholders' equity that is contributed by the owners.

Reserves. This item consists solely of all exchange rate differences arising on translating financial reports from foreign entities that have prepared their financial reports in a currency other than that used by the Group for its financial reports. The Parent Company and Group present their financial reports in Swedish krona.

Accumulated earnings including earnings for the year. The accumulated earnings includes earnings for the year and profits carried forward/accumulated losses in the Parent Company and its subsidiaries, associated companies, and joint ventures. Previous provisions made to statutory reserves, excluding share premium reserve carried forward, are included in this equity item.

PARENT COMPANY

Restricted stockholders' equity
Capital stock. Refers to the Parent Company's capital stock.

Unrestricted stockholders' equity
Premium fund. When shares are issued at a premium, i.e. when the price paid for shares exceeds their listed price, an amount corresponding to the amount paid in excess of the listed price shall be transferred to the premium fund.

Retained earnings. Consist of the previous year's unrestricted stockholders' equity after dividends, if any, have been paid. With earnings for the year and the premium fund, they constitute the total amount of unrestricted stockholders' equity, i.e. the amount available for dividends to stockholders.

Change in number of shares

Number	Series A shares	Total
Shares on Jan 1, 2017	100 000 000	100 000 000
Shares on Dec 31, 2017	**100 000 000**	**100 000 000**
Shares on Dec 31, 2018	**100 000 000**	**100 000 000**
Quota value per share, SKr		**0,00**
Stockholders' equity at end of period, SKr		**50 000**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 31. LIABILITIES TO CREDIT INSTITUTIONS AND PARENT COMPANY

SKr, million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
LONG-TERM LIABILITIES				
Loan from credit institution	6 954	6 580	–	–
Financial leasing liabilities	1	1	–	–
CURRENT LIABILITIES				
Loan from credit institution	1	–	–	–
Financial leasing liabilities	0	1	–	–
Total	**6 956**	**6 582**	**0**	**0**

During the year, the average rate of interest on liabilities to credit institutions was 4.3 percent. For external funding, agreements exist for loan facilities through the Parent Company's loan facility with a syndicate of banks and investors. For said loan facility, agreements exist with financial covenants regarding net debt in relation to adjusted EBITDA.

NOTE 32. RISK STRUCTURE PERTAINING TO INTEREST AND FINANCING

Change of interest in the interval

Nominal amount	0–6 MONTHS		7–12 MONTHS		13–60 MONTHS		MORE THAN 60 MONTHS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Loan from credit institution	2 968	2 817	0	–	3 988	3 765	0	–	**6 956**	**6 582**
Total	**2 968**	**2 817**	**0**	**–**	**3 988**	**3 765**	**0**	**–**	**6 956**	**6 582**

Loan and credit maturity in the interval

Nominal amount	0–6 MONTHS		7–12 MONTHS		13–60 MONTHS		MORE THAN 60 MONTHS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Loan from credit institution	2	–	0	–	168	–	6 787	6 580	**6 956**	**6 580**
Total	**2**	**0**	**0**	**0**	**168**	**0**	**6 787**	**6 580**	**6 956**	**6 580**

NOTE 33. PENSION COMMITMENTS

Commitments in the balance sheet

SKr, million	GROUP	
	2018	2017
Defined-benefit pension plans	277	205
Other pension commitments	7	6
Total	**284**	**211**

Provisions for defined-benefit pension plans

The Group has a small number of defined-benefit pension plans, according to which employees covered by the pension plan are entitled to benefits in the form of a guaranteed level of pension payments during their lifetime. The level of the benefit is based on the employees' final salary and years of service. The largest plans are in Sweden and Norway. Most pension plans held by the Group are premium-based.

SKr, million	GROUP	
	2018	2017
Sweden	257	187
Norway	8	8
Other countries	12	10
Total provisions for pensions	**277**	**205**

Defined-benefit pension plans, 2018

The amounts reported in the consolidated balance sheet have been calculated according to the following:

SKr, million	Sweden	Norway	Other countries	Total
Present value of funded obligations	716	82	–	**798**
Fair value of plan assets	-459	-74	–	**-533**
Total	**257**	**8**	**0**	**265**
Present value of unfunded obligations	–	–	12	**12**
Total	**257**	**8**	**12**	**277**

Change in the defined-benefit commitment during the year is as follows:

SKr, million	GROUP	
	2018	2017
Defined Benefit Obligation (DBO), beginning of the year	718	673
Current Service Cost	11	8
Interest Cost	19	19
Expected benefit paid (pensions payment)	-7	-14
Special employer's contribution	-1	-8
Settlement	-3	–
Exchange rate differences	4	-4
Experience gains/losses	-3	-8
Actuarial gain/loss due to change in demographic assumptions	–	0
Actuarial gain/loss due to change in financial assumptions	74	52
Defined Benefit Obligation (DBO), end of the year	**812**	**718**

NOTES TO THE FINANCIAL STATEMENTS cont.

Change in fair value of plan assets during the year is as follows:

SKr, million	GROUP	
	2018	2017
Fair value of plan assets, beginning of the year	513	487
Interest income	15	15
Employer contributions	28	24
Benefits paid (pensions payment)	-2	-8
Exchange rate differences	1	-4
Actuarial gain / loss during the period	-20	-1
Fair value of plan assets, end of the year	**535**	**513**

Specification of the changes in net liabilities recognized in the Group's balance sheet:

SKr, million	Sweden	Norway	Other countries	Total
Net liability at beginning of year	187	8	10	**205**
Net cost reported in income statement	8	3	2	**13**
Employer's contributions to funded plans	-19	-8	–	**-27**
Pension payments reduced with compensation	-4	–	–	**-4**
Settlement	-3	–	–	**-3**
Experience gains/losses	-2	0	–	**-2**
Actuarial gain/loss due to change in financial assumptions	90	5	–	**95**
Net liability at end of year	**257**	**8**	**12**	**277**

Key actuarial assumptions

	Sweden		Norway	
	2018	2017	2018	2017
Discount rate	2,4%	2,9%	2,6%	2,3%
Future annual salary increases	3,0%	3,0%	2,8%	2,5%
Future annual pension increases	2,0%	2,0%	0,8%	0,4%

For 2018 and 2017, the discount rate is used as the basis for establishing the total expected dividends from the plan assets in accordance with the amended IAS 19. Payment of fees/provisions to plans for remuneration after terminated employment is expected to amount to SKr 24 million for fiscal year 2019.

Sensitivity analysis

The current value of the commitment for the Swedish defined-benefits pension plans amounts to SKr 660 million excluding special payroll tax. If the discount rate had been one percentage point higher, the liability would have decreased by SKr 151 million; if it had been one percentage point lower, the liability would have increased by SKr 198 million. If the average life expectancy increases by one year, the liability will increase by SKr 24 million; if it decreases by one year, the liability would decrease by SKr 24 million.

The corresponding figures for Norway amount to a present value of SKr 83 million for the commitment. If the discount rate had been one percentage point higher, the liability would have decreased by SKr 12 million; if it had been one percentage point lower, the liability would have increased by SKr 14 million.

Plan assets

Through its defined-benefit pension plans and healthcare plans when employment is terminated, the Group is exposed to a number of risks, the most essential of which are described below.

Asset volatility. The plan's liabilities are calculated using a discount rate based on mortgage bonds. If the plan assets fail to return a corresponding yield, a deficit is incurred. The plan includes investment that over time are expected to exceed the interest rate on mortgage bonds, but entail risk and volatility in the short term.

Changes in bond yields. A reduction in yields from mortgage bonds will entail an increase in plan liabilities, even if such will be outweighed in part by an increase in the value of the bond holding.

Risk of inflation. Most of the plan's commitments are related to inflation; higher inflation leads to higher liabilities.

Life expectancy assumptions. Most of the pension commitments assume that employees covered by the plan will receive payments as long as they live, which means that higher longevity results in higher pension liabilities.

Funding policy

The pension liability is secured via IFS Pensionsstiftelse (IFS Pension Fund), in which assets are managed according to the Fund's investment policy. The policy governs the strategic allocation of assets that are to be managed in such a way as to provide a buffer for the company's pension expenses and ensure an overall matching strategy in relation to pension commitments. The long-term goals of the asset management are intrinsic annual dividends of 2 percent over rolling five-year periods.

To avoid major negative results in asset management during particular periods of time, the strategic allocation at each given time shall be such that risk is limited to a maximum of 10 percent of the opening value of the portfolio for each year. If the assets in the portfolio develop negatively such that risk has increased, the proportion of risky assets shall, insofar as it is possible, be reduced so as not to jeopardize the lowest safety level. If the assets develop positively such that the Fund obtains a larger margin to the lowest safety level, the proportion of risky assets can be increased within the overall limitations of this policy.

When plans are refunded, the Group ensures that the investments are also managed according to a strategy, whereby assets and liabilities are matched, which has been developed to achieve long-term investments that are in line with the commitments of the pension plans. Within this framework, the Group aims to match assets with the character of the pension payments. This means that the Fund's fixed income portfolio with a high proportion of assets with expected hedges that follow the Swedish CPI in the long-term to shield the company from some of the risk that has arisen related to inflation and interest rates. At the end of the year, 4 percent of the total fixed income portfolio consisted of real interest bonds of long-term duration.

The weighted average term for pension commitments is 25 years.

The asset plans consist of the following:

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Share-based investments	23%	0%	**23%**	31%	–	**31%**
Structured products	0%	5%	**5%**	–	6%	**6%**
Real-interest based investments	0%	4%	**4%**	–	4%	**4%**
Long-term interest-bearing investments	38%	0%	**38%**	34%	–	**34%**
Short-term investments, cash, and cash equivalents	27%	0%	**27%**	22%	–	**22%**
Other assets	0%	3%	**3%**	–	3%	**3%**
Total	**88%**	**12%**	**100%**	**87%**	**13%**	**100%**

Defined-contribution pension plans 2018

According to such plans, payments made to employees after terminated employment, such as pensions, healthcare benefits and other disbursements, are made principally through payments to insurance companies or institutions, who thereby assume the liability for the employee. The defined-contribution plans in Sweden are administered by SPP and Collectum.

In 2018, costs pertaining to defined-contribution plans amounted to SKr 119 million (104).

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 34. OTHER PROVISIONS

SKr, million	GROUP	
	2018	2017
Restructuring reserve	6	5
Other provisions	13	4
Total	**19**	**9**

Restructuring reserve

SKr, million	GROUP
Opening balance Jan 1, 2017	9
Reversal, restructuring reserve	0
Provision, restructuring reserve	36
Use of restructuring reserve	-27
Effects of exchange rate fluctuations	-1
Closing balance Dec. 31, 2017	**17**
Less current portion	-12
Restructuring reserve, long term 2017	**5**
Reversal, restructuring reserve	0
Provision, restructuring reserve	97
Use of restructuring reserve	-90
Effects of exchange rate fluctuations	1
Closing balance Dec. 31, 2018	**25**
Less current portion	-19
Restructuring reserve, long term 2018	**6**

NOTE 35. OTHER LIABILITIES

SKr, million	GROUP	
	2018	2017
Deferred maintenance revenue	769	663
Deferred license and consulting revenue	106	68
Accrued consulting expenses	22	16
Advances from customers	7	4
VAT liabilities	113	117
Accrued payroll expenses	415	357
Accrued pension cost, defined contribution plans	34	32
Accrued social security contributions	91	86
Retained preliminary tax for employees	45	39
Liabilities to employees	7	7
Accrued expenses, third-party suppliers	58	44
Accrued interest expenses	3	0
Liabilities to associated companies	0	4
Derivatives held for trading	44	3
Miscellaneous other liabilities	34	40
Other accrued expenses	228	223
Other prepaid revenue	24	22
Total	**2 000**	**1 725**

NOTE 36. PLEDGED ASSETS

SKr, million	GROUP	
	2018	2017
Chattel mortgages	143	143
Blocked bank accounts	7	7
Shares in subsidiaries	1 741	1 574
Other	23	43
Total	**1 914**	**1 767**

NOTE 37. CONTINGENT LIABILITIES

SKr, million	GROUP	
	2018	2017
Sureties, external	31	36
Total	**31**	**36**

NOTE 38. ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW

SKr, million	GROUP	
	2018	2017
Depreciation	781	276
Restructuring costs, net	6	9
Provisions for pensions	72	15
Bad debts	15	14
Losses at disposal	-1	–
Exchange rate gains/losses, net	195	-109
Write-down of financial assets	3	3
Interest costs for the year	341	553
Interest income for the year	-7	-8
Other adjustments	-51	-11
Total	**1 354**	**742**

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 39. BUSINESS COMBINATIONS

On March 21, IFS acquired 100 percent of the share capital of Cube Six (USA, reg. no. 56-2254405) for a total purchase consideration of SKr 49 million. Of this, SKr 7 million was deferred and a further SKr 7 million is contingent on performance/achievement of integration objectives in 2018. The fair value of identified net assets and liabilities in Cube Six Inc. amounted to SKr 25 million, including SKr 9 million in software, SKr 19 million in customer relationships, and SKr 7 million in deferred tax liabilities. The remaining SKr 24 million constituted Group goodwill. The goodwill reported for the acquisition corresponds to the company's market position in the residential HVAC segment of the Field Service Management (FSM) market. The purpose of the acquisition is also to strengthen IFS' Workwave unit within this segment particularly in the US market. The acquired company is included in the Group's sales with SKr 23 million and operating income with SKr 5 million. Acquisition-related expenses amounted to SKr 2 million for the period and are reported as other operating expenses in the Group's profit for the period. Cube Six was merged with Workwave LLC in December.

Acquisition analysis

Company SKr, million	Fair value reported in Group value	
	2018	2017
Intangible fixed assets	29	2 125
Tangible fixed assets	1	78
Accounts receivable	0	132
Liquid assets, net	4	108
Accounts payable and other liabilities	-2	-492
Deferred tax liabilities	-7	-419
Fair value of net assets	**25**	**1 532**
Group goodwill	24	2 203
Total purchase consideration	**49**	**3 735**
Transferred compensation: fair value of share in subsidiaries	**-49**	**-3 735**
Liquid assets in the acquired companies	4	82

NOTE 40. NET ACQUISITION OF TANGIBLE FIXED ASSETS

SKr, million	GROUP	
	2018	2017
Investments for the year, net	-83	-64
Total	**-83**	**-64**

NOTE 41. RECONCILIATION OF NET DEBT

SKr, million	GROUP	
	2018	2017
Liquid funds	460	449
Short-term investments	5	6
Loans, due within one year	-2	-49
Loans, due after one year	-6 954	-6 533
Net debt	**-6 491**	**-6 127**
Liquid funds and short-term investments	465	455
Gross debt, fixed interest rate	-3 264	-3 765
Gross debt, floating rate	-3 692	-2 817
Net debt	**-6 491**	**-6 127**

Changes in loans during the year

SKr, million	GROUP
	2018
Opening balance Jan 1, 2018	6 582
Amortization of loans from credit institutions	-47
Raising of loans	40
Revaluation of loans in USD, EUR and GBP	381
Closing balance Dec 31, 2018	**6 956**

NOTE 42. FINANCIAL RISK MANAGEMENT AND DERIVATIVES

Via its business operations, the Group is exposed to a number of financial risks, including fluctuations in earnings, balance sheet, and cash flow resulting from changes in exchange rates, rates of interest, and risks related to refinancing and credit. Group financial policy for risk management, determined by the board, is a framework of guidelines and regulations in the form of risk mandates and limits for financial operations.

The board of directors has the overall responsibility for the management of financial risks, which is delegated to the chief executive officer, the chief financial officer and a board director.

IFS Group has centralized financial management, which means that the chief responsibility for financial management resides with the Parent Company. The overall objective for the finance department is to minimize the negative effects of market fluctuations on Group earnings and stockholders' equity and to provide cost-effective financing.

Risk is managed by a central finance department (Group Finance) according to principles approved by the board. Group Finances shall identify, evaluate, and hedge against financial risks in close collaboration with operational units within the Group. The board establishes a financial policy for overall risk management and for specific areas that include risks related to exchange rates, interest rates, credit on investment in financial instruments, financing, and liquidity.

NOTES TO THE FINANCIAL STATEMENTS cont.

Exchange rate risks

Exposure to exchange rate fluctuation arises when the Group carries out business transactions in foreign currency in connection with its business operations. Such exposure derives among others from business transactions between operational units within the Group that have different currencies as their functional currency as well as from sales in currencies other than the individual companies' functional currency. Most of the costs are in the functional currency of the business units. The most significant exposures refer to the US dollar ($), Canadian dollar (CAD), the Euro (€), the Pound Sterling (£), and Norwegian kroner (NOK), a reflection of the fact that a considerable amount of Group revenue and payments are carried out in these currencies. The Group hedges these exchange rate risks, where possible by trading in currency futures and currency options in a number of currencies.

The Parent Company trades in currency futures to match up to 100% of current exposure and the expected coming three months cash flows that derive from the Group's international business units, aiming to reduce the volatility gains and losses.

Currency future contracts, nominal values in SKr million

On December 31, 2018, the Group had outstanding foreign exchange contracts in the following currencies (nominal values):

SKr, million	2018	2017
AED	–	–
AUD	24	3
BRL	6	7
CAD	106	17
CHF	9	–
CZK	–	–
DKK	55	38
EUR	161	134
GBP	105	133
JPY	13	17
NOK	165	130
PLN	20	15
SGD	53	7
USD	295	202
ZAR	2	10
Total	**1 014**	**713**

Currency exposure has also arisen as a consequence of intra-group loans taken in connection with acquisitions made during year 2017. To reduce currency exposure, IFS has financed as much as possible of the acquisitions with loans, via the Parent Company, in the same currency as the purchase price. There is no hedge accounting why the effect from revaluating the loan balances are reported in the profit and loss. As of December 31, 2018, the company had the following outstanding loans.

Loans

SKr, million	2018		2017	
	Amount currency	Amount Sw. krona	Amount currency	Amount Sw. krona
United States dollar (USD)	264	2 368	267	2 196
Euro (EUR)	430	4 418	430	4 235
Swedish krona (SEK)	40	40	25	25
Pound sterling (GBP)	11	127	11	124
Total		**6 953**		**6 580**

All profits and losses on foreign exchange contracts constitute financial hedging and have been reported in the income statement.

Foreign currency sensitivity analysis

A sensitivity analysis of fx hedge contracts per end of December results as follows:
- If the Swedish crown weakens by 10% fx hedge portfolio contribute to the profit and loss, after tax, with SKr 60m.
- If the Swedish crown strengthen by 10% fx hedge portfolio have a negative effect by SKr 60m to the profit and loss, after tax.

This sensitivity analysis considers unhedged open balances of foreign currencies. Open balances are exposures based on commercial and intercompany receivables and payables. They include current hedged contracts but exclude loan balances which relate to the acquisition of companies. The below analysis shows the effect on Earnings After Tax of a 10 percent change in the exchange rates between the US dollar and the Swedish krona, the Canadian dollar and the Swedish krona, the Euro and the Swedish krona, the Pound Sterling and the Swedish krona, and the Norwegian krone and the Swedish krona according to the table below. It presumes that all other variables, including interest rates and other foreign currencies, remain constant.

Currency exposure sensitivity analysis

SKr, million	Increase/decrease of rate on balance sheet day	Profit/loss	
		2018	2017
USD	10%	1,1	-1,0
	-10%	-1,1	1,0
EUR	10%	-2,3	-0,5
	-10%	2,3	0,5
EUR	10%	0,2	-1,3
	-10%	-0,2	1,3
GBP	10%	0,7	4,7
	-10%	-0,7	-4,7
NOK	10%	-0,9	7,5
	-10%	0,9	-7,5

In addition to the currency exposure in the table above, the company also had loan balances of EUR 430 million, USD 264 million and GBP11 million which are not considered in the above sensitivity analysis. The loans are related to acquisitions, including IFS AB.

Interest rate risks

The Group is exposed to interest rate risks in respect of liquid assets on deposit and bank loans with floating interest rates. The Group's liquid assets are held in interest-bearing accounts and in deposits of short duration.

The Group borrows at floating interest rates that are normally set for periods of one to three months. The interest paid for the loans is a base rate, as Libor, plus a margin. Approximately two-thirds of the loans are hedged with interest derivative instruments. A sensitivity analysis shows that if the floating interest rate had increased/decreased by one percentage point, earnings would have been SKr 53 million lower and SKr 54 million higher, respectively.

Credit risk

The Group's principal financial assets are liquid assets, accounts receivables, contractual assets and other receivables. Counterparties for liquid assets are governed by the finance policy, which limits the size of the credit exposure in respect of financial institutions. Credit exposure arises mainly from accounts receivables and partly from contract assets which are gradually invoiced during the term of the agreement.

The Group deals only with recognized creditworthy customers and offers normal credit terms and conditions in its ordinary operations after preliminary credit checks have been performed. The Group has no substantial concentration of credit risks. Rather, exposure is distributed over a number of counterparties and a large number of customers in several different geographical regions. For the valuation of doubtful receivables, see also Note 1, Accounting principles, the Group applies a model where the expected losses of accounts receivables and contractual assets are calculated, and a loss reserve is reported. The percentage used to calculate the loss reserve is higher the longer overdue the receivables are. If a receivable is uncertain and the assessment is made that payment is not going to occur, a loss reserve by 100 percent is reported regardless of age. Accounts receivable are reported net of loss reserves in the consolidated balance sheet. See Note 30 for additional information pertaining to accounts receivable and related reserves for doubtful receivables. See below information about the current credit loss reserve.

NOTES TO THE FINANCIAL STATEMENTS cont.

Credit loss reserve

December 31, 2018 SKr, million	2018 Accounts Receivable	2017 Accounts Receivable	2018 Contracted Assets	2017 Contracted Assets
End of December – according to IAS 39	44	44	–	–
Opening balance, January 1, 2018 – calculated according to IFRS9	**44**	**44**	**0**	**0**
Increase of loss reserve, change accounted through the income statement	16	14	0	0
Accounts receivable written off during the year	-11	-14	0	0
Adjustment due to dosposal of subsidiaries	0	–	–	–
December 31, 2018 (amount for 2017 calculated according to IAS39)	**49**	**44**	**0**	**0**

2017 SKr, million	Not due	Overdue 1-30 days	Overdue > 30 days	Overdue > 90 days	Overdue >180 days	Summary
Expected loss level in %	0,0%	0,0%	1,8%	7,6%	64,0%	–
Reported amount of accounts receivables, gross	742	259	57	27	63	1 148
Reported amount of contracted assets, gross	13	–	–	–	–	13
Credit Loss Reserve	**0**	**0**	**1**	**2**	**41**	**44**

2018 SKr, million	Not due	Overdue 1-30 days	Overdue > 30 days	Overdue > 90 days	Overdue >180 days	Summary
Expected loss level in %	0,0%	0,0%	3,0%	15,8%	53,8%	
Reported amount of accounts receivables, gross	788	262	86	31	77	1 244
Reported amount of contracted assets, gross	85	–	–	–	–	85
Credit Loss Reserve	**0**	**0**	**3**	**5**	**41**	**49**

Financing risks
The Group shall avoid having too much credit due for payment in the same 12-month period. The Group shall strive to ensure that a maximum of 25 percent of contracted loans and credit limits falls due in the same 12-month period. Under the terms of the Parent Company's loan agreement, the company shall not take new local operating capital facilities in its subsidiaries. At year-end, the average term of contracted loans was 67 months (79) and credit facilities was 55 months (67 months). 100 percent of the loan portfolio matures beyond 30 months.

Liquidity risk
The Group manages liquidity risks by retaining sufficient liquidity to provide for the needs of the business. The process is monitored via the Group's short-term, 0–3 months, and medium-term, up to 12 months, cash flow forecasts. Moreover, the Group ensures that it always has access to sufficient agreed credit facilities. See Note 35 for a maturity analysis of the loan portfolio.

Classification of financial assets and liabilities
The Group holds a number of financial assets and liabilities which are classified as follows:
- Accounts receivable and other financial assets are valued at amortized cost.
- Other loans and receivables, such as deposits to landlords, are valued at amortized cost.
- Cash and cash equivalents and short-term investments in interest-bearing materials are valued at amortized cost.
- Financial assets, valued at amortized cost.
- Derivative instruments refer to the market valuation of currency hedges held for cash flow exposure. The instruments are valued at fair value through the income statement.
- Revaluation of gains and losses relating to property, plant and equipment or intangible assets. The instrument are valued at fair value through other comprehensive income.
- Remeasurements of net defined benefit liabilities/assets which are valued at fair value through comprehensive income.
- Gains and losses arising from translating the financial statement of foreign operations which is valued at fair value through comprehensive income.

Classification of financial assets

Skr, million	2018	2017
Financial Assets classified at amortized cost	**2 315**	**2 155**
Accounts Receivable	1 195	1104
Other Receivables	618	539
Other Loans and Receivables	29	49
Investments to be held to maturity	5	6
Cash and cash equivalents	460	449
Other financial assets, at amortized cost	8	8
Derivative Instruments	**51**	**1**
Held for hedges of cash flow exposure. Instruments are valued at fair value through the income statement	51	1
Financial Assets at fair value through other comprehensive income	**14 114**	**13 981**
Intangible and Tangible assets; gains and losses from revaluation at fair value through other comprehensive income	14 114	13 981
Summary	**16 480**	**16 137**

- The Group has liabilities to credit institutions which are valued at amortized cost.
- Accounts payable are valued at amortized cost.
- Derivative instruments refer to the market valuation of currency hedges held for cash flow exposure. The instruments are valued at fair value through the income statement.
- Remeasurements of net defined benefit liabilities/assets which are valued at fair value through comprehensive income.

Classification of financial liabilities

Skr, million	2018	2017
Financial Liabilities classified at amortized cost	**7 068**	**6 696**
Liabilities to Credit Institutes	6 956	6 582
Liabilities to Parent Company	–	–
Liabilities to Suppliers	112	114
Derivative Instruments	**44**	**3**
Held for hedges of cash flow exposure. Instruments are valued at fair value through the income statement	44	3
Financial Liabilities at fair value through other comprehensive income	**285**	**211**
Pension obligations	285	211
Summary	**7 397**	**6 910**

Capital structure
IFS define capital as stockholders' equity including non-controlling interests in accordance with the information presented in the balance sheet and the capital accounts. Capital on December 31, 2018, amounted to SKr 6,323 million (6,569). IFS aim to have a capital structure that leads to an efficient, weighted cost of capital and a credit score that takes into account the needs of the business and enables future acquisitions.

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 43. CONVERSION RATES

	Rate at year end		Average rate	
	2018	2017	2018	2017
EUR	10,28	9,85	10,26	9,63
GBP	11,35	11,10	11,59	10,99
NOK	1,02	1,00	1,07	1,03
PLN	2,39	2,36	2,41	2,26
USD	8,97	8,23	8,69	8,54

NOTE 44. EVENTS OCCURRING AFTER THE END OF THE PERIOD

No significant events have occurred after the end of the period.

NOTE 45. PROPOSED DISPOSITION OF PROFITS

The board of directors and the president propose that the earnings of the Parent Company available for disposition, SKr 6 967 million, be allocated as follows:

Carried forward	SKr 6,967,073 thousand
Total	SKr 6,967,073 thousand

NOTE 46. INFORMATION ABOUT THE PARENT COMPANY

IGT Holding III AB is a Swedish registered company headquartered in Stockholm, Sweden. The visiting address of the head office is Teknikringen 5, Linköping, Sweden; its postal address is Box 1545, SE-581 15 Linköping, Sweden. IGT Holding III AB is owned at 100 percent by IGT Holding II AB, corporate identity number 559037–7866.

The consolidated accounts for 2018 are reported for the Parent Company and its subsidiaries, which together comprise the Group. The Group also includes shares owned in associated companies and a joint venture company.

The consolidated accounts and the annual report have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, on the application of international accounting standards and generally accepted accounting principles. They give a true and fair view of the financial position and results of the Group and Parent Company. The board of directors' report for the Group and Parent Company gives a true and fair view of Group and Parent Company operations and financial position and describes the essential risks and uncertainties to which the Group and Parent Company are exposed.

Linköping, April 15, 2019

Willem-Arnoud van Rooyen
CHAIRMAN OF THE BOARD

Thomas Spicer
BOARD MEMBER

Joshua Stone
BOARD MEMBER

Our audit report was submitted on April 30, 2019

PricewaterhouseCoopers AB

Nicklas Kullberg
AUTHORIZED PUBLIC ACCOUNTANT

Auditor's report

To the general meeting of the shareholders of IGT Holding III AB, corporate identity number 559033-9742

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of IGT Holding III AB for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 34-89 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-33 and 93-96. The Board of Directors are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors is also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors is responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors of IGT Holding III AB for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Stockholm, April 30, 2019

PricewaterhouseCoopers AB

Nicklas Kullberg
Authorized Public Accountant

FINANCIAL TREND

FROM THE INCOME STATEMENTS	SKr, million	2016	2017	2018
License revenue		944	935	1 154
Maintenance and support revenue		1 347	1 429	1 641
Consulting revenue		1 735	1 705	1 903
Cloud and SaaS revenue		-	127	520
Other net revenue		47	21	48
Net revenue		**4 073**	**4 217**	**5 266**
Capitalized work for own use		238	329	457
Operating expenses		-3 435	-3 725	-4 622
Other revenue		8	4	6
Other expenses		-111	-156	-220
Result from associated companies and joint venture		0	1	6
EBITDA		**773**	**670**	**893**
Depreciation, amortization, and write-downs		-540	-516	-781
EBIT		**233**	**154**	**112**
Financial revenue		3	62	12
Financial expenses		-316	-477	-546
Profit/loss before tax		**-80**	**-261**	**-422**
Taxes		-64	251	176
Profit/loss for the year		**-144**	**-10**	**-246**

FROM THE BALANCE SHEETS	SKr, million	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Intangible fixed assets		9 568	13 717	13 831
Other fixed assets		342	610	695
Accounts receivable		931	1 104	1 196
Other current assets		357	556	672
Liquid assets		1 973	455	465
Total assets		**13 171**	**16 442**	**16 859**
Stockholders' equity including non-controlling interests		4 822	6 569	6 411
Long-term liabilities		6 049	7 897	8 271
Accounts payable		101	114	112
Current interest-bearing liabilities		1	1	2
Other current liabilities		2 198	1 861	2 063
Total stockholders' equity and liabilities		**13 171**	**16 442**	**16 859**

FROM THE CASH FLOW STATEMENTS	SKr, million	2016	2017	2018
Cash flow from operations before change in working capital		349	353	485
Change in working capital		-59	-217	128
Cash flow from current operations		**290**	**136**	**612**
Cash flow from investment operations		-8 825	-4 637	-580
Cash flow after investment operations		**-8 535**	**-4 501**	**33**
Cash flow from financing operations		10 497	2 994	-19
Cash flow for the year		**1 962**	**-1 507**	**13**
Liquid funds on January 1		–	1 973	455
Liquid funds in sold entities				-7
Exchange rate differences in liquid funds		11	-11	4
Liquid funds at end of period		**1 973**	**455**	**465**

FINANCIAL TREND cont.

KEY FIGURES[1]		2016	2017	2018
Revenue indicator				
Net revenue growth	%	20%	4%	25%
Net revenue outside Sweden	%	85%	86%	88%
Net revenue per employee	SKr, '000	1 410	1 270	1 392
Expense and expenditure indicator				
Total product development	SKr, million	424	410	546
of which, capitalized	SKr, million	238	329	457
Development expenditure/net revenue	%	10%	10%	10%
Development expenditure/license revenue	%	45%	44%	47%
Product development expenses/net revenue	%	10%	10%	10%
Administration expenses/net revenue	%	10%	11%	11%
Personnel expenses per employee	SKr, '000	722	735	809
Margin indicators				
Gross margin	%	57%	57%	58%
License margin	%	92%	92%	91%
Maintenance and support margin	%	77%	80%	80%
Consulting margin	%	23%	21%	21%
Cloud margin[2]	%	–	–	50%
Operating margin	%	6%	4%	2%
Profit margin	%	-2%	-6%	-8%
Return on average operating capital	%	1%	1%	1%
Capital indicators				
Return on capital employed	%	1%	1%	1%
Return on stockholders' equity	%	0%	0%	0%
Equity ratio	%	35%	40%	38%
Adjusted EBITDA/Net interest	times	3,4	1,8	6,4
Working capital	SKr, million	-355	-315	-307
Accounts receivable (average 12 month)/Net revenue (rolling 12 month)	%	18%	18%	17%
Liquidity indicators				
Net liquidity	SKr, million	-3 707	-6 127	-6 491
Debt/equity ratio	times	1,1	1,0	1,1
Net debt	SKr, million	3 707	6 127	6 491
Employees				
Average number of employees		2 888	3 321	3 783
Number of employees at the end of the period		2 913	3 724	3 623

[1] For definitions of key figures see page 95.
[2] Margin only calculated from 2018. Key figure not material before acquisition of WorkWave.

DEFINITIONS

adjusted EBITDA	EBIT before depreciation and amortization, adjusted for non-recurring items.
average number of shares	Average of the number of shares outstanding during the year.
capital employed	Total assets less non-interest-bearing liabilities and deferred tax liabilities.
cash flow per share	Cash flow after investment operations in relation to the average number of shares.
cloud margin	Cloud and SaaS revenue minus Cloud and SaaS expenses in relation to Cloud and SaaS revenue.
consulting margin	Consulting revenue minus consulting expenses in relation to consulting revenue.
days of Sales Outstanding (DSO)	Accounts receivables, adjusted for value added tax, in relation to net revenue.
debt/equity ratio	Interest-bearing liabilities at year-end in relation to stockholders' equity.
earnings per share	Net profit/loss for the year in relation to the average number of shares.
equity/assets ratio	Stockholders' equity and minority interest at year-end in relation to total assets.
gross margin	Gross earnings in relation to net revenue.
Interest-bearing liabilities	Liabilities to credit institutions.
license margin	License revenue minus license expenses, in relation to license revenue.
maintenance and support margin	Maintenance and support revenue minus maintenance and support expenses in relation to maintenance and support revenue.
market price	The market price of the shares has been established in relation to the number of outstanding Series A and Series B shares, respectively, and the share price of these shares at year-end.
market price/net revenue per share	The market price in relation to net revenue per share.
market price/stockholders' equity per share	The market price in relation to stockholders' equity per share.
net debt	Interest-bearing liabilities at year-end, less liquid assets.
net liquidity	Liquid assets less liabilities to credit institutions at year-end.
net revenue growth	Net revenue for the year minus net revenue for the previous year in relation to net revenue for the previous year.
net revenue outside of Sweden	Net revenue minus net revenue in Sweden, in relation to net revenue.
net revenue per share	Net revenue in relation to the average number of shares.
net revenue per employee	Net revenue in relation to the average number of employees.
operating margin	EBIT in relation to net revenue.
profit margin	Profit/loss before tax in relation to net revenue.
return on average operating capital	EBIT in relation to average operating capital.
return on capital employed	Profit before tax plus financial net in relation to average capital employed.
return on stockholders' equity	Profit/loss for the year in relation to average stockholders' equity.
stockholders' equity per share	Stockholders' equity, including minority interest, in relation to the number of outstanding shares at year-end.
working capital	Accounts receivable and other current receivables, excluding liquid assets, less accounts payable and other short-term, non-interest-bearing liabilities.

GLOSSARY

application	A program that helps a user deal with a specific task, e.g. purchasing, employee development or accounting.
architecture	Describes the manner in which the hardware, system software, and applications software integrate to achieve a desired result.
business applications	A set of applications that covers all internal as well as external business processes a company is involved in.
component-based architecture	Refers to the design of any system composed of separate components that can be connected together. The benefit of component-based architecture is that you can replace or add any one component without affecting the rest of the system. The opposite of a component-based architecture is an integrated architecture, in which no clear divisions exist between components.
enterprise asset management (EAM)	A concept in the software industry to describe one or several applications designed to improve/optimize how a company utilizes its business processes and facilities. The designation is common in the asset-intensive industry.
enterprise resource planning (ERP)	A method of planning that originally comprised all internal business processes, such as financials, manufacturing and distribution, but which has been extended to cover a range of other functions from contact with suppliers to maintenance of delivered products.
maintenance, repair, and overhaul (MRO)	A concept used in the software industry to describe software used in the maintenance of a company's equipment and facilities so as to maximize availability and efficiency.
outsourcing	The procuring of services or products from an outside supplier or manufacturer.
platform	Component-based products or services require a platform that defines valid interfaces and common services to ensure maximum flexibility and configurability for the product/service without sacrificing economies of scale or recycling capabilities. This is necessary for managing internal dependencies and complexity in the product development of component-based products/services.
utility	An organization or company that provides some form of infrastructure in a society, such as heating, electricity, or water.

ABOUT IFS

IFS develops and delivers enterprise software for customers around the world who manufacture and distribute goods, maintain assets, and manage service-focused operations. The industry expertise of our people and solutions, together with commitment to our customers, has made us a recognized leader and the most recommended supplier in our sector. Our team of 3,500 employees supports more than 10,000 customers world-wide from a network of local offices and through our growing ecosystem of partners.

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