



Interim Report January - March 2001

Telelogic January – March, 2001:

- Very strong growth in turnover
266% growth for the quarter
- Substantially reinforced market organization in Asia
400% growth in turnover and an organization that has quadrupled
- Integration of acquisitions according to plan
Continued rationalization and improving organization efficiency
- Success with major customers in new segments
Significant business for embedded systems with European bank and American media company
- Largest deal ever with Japanese cell phone manufacturer
Components business segment meets forecast of SEK 50 million

*“This document is essentially a translation of Swedish language original thereof.
In the event of any discrepancies between this translation and the original Swedish document,
the latter shall be deemed correct.”*



A Strong First Quarter

The first quarter 2001 was another quarter with strong growth in turnover. Compared with the corresponding period the preceding year, growth increased by 266%, including the effects of the acquisitions late last year. Sales of new licenses and maintenance contracts during the first quarter increased by 287% compared with the corresponding period of the preceding year. At the same time, sales of services increased by 234%. At the end of the period, license and maintenance sales amount to 63.6% of the total turnover, and increase compared with the corresponding period in 2000 when it was 60%. This development is a result of the company's long-term objective of license and maintenance sales are to make up 65 % of total sales.

Business factors have continued to deteriorate during the first quarter 2001. The American market developed significantly slower than expected and the major American and European telecom and datacom manufacturers reported a slump in growth and earnings forecasts. Most of Telelogic's major customers have initiated comprehensive cut-backs. These cut-backs, in which companies are forced to rationalize their development processes, do not have any negative impact on Telelogic's development. Nevertheless, it cannot be excluded that continued cutbacks not only rationalize processes, but also cut back on development projects and product lines. This type of development would be negative for Telelogic.

The underlying and long-term demand for Telelogic's solutions for advanced software development, however, continues to be strong and clear. The decisive factors for this are the company's leading position in a market in which advanced software continues to be decisive and to relatively develop very quickly. Major investments in 3G continue all round the world and this technology is estimated to be available for end-users in Japan during 2001. The first releases of Bluetooth products to consumers have started during the year and new communication technologies are still being developed and standardized.

Telelogic's enhanced product portfolio, through the two major acquisitions during the preceding year, also means that the company has a considerably broader customer platform, and thereby, an enhanced position in the segments related to communication.

Earnings

Telelogic's operating profit excluding goodwill depreciation for the first quarter amounted to SEK -75.0 million. This is an improvement of the operating margin by 7 percentage points from -27% of the first quarter of the preceding year to -20% for the first quarter of this year. The gross margin of 68.3% has been influenced positively by an increase in sales of our own products compared with third party products. The gross margin in consultancy sales was lower than for the same period of the preceding year, among others because the company has invested consultancy time to build up the business unit Components.

Fixed costs in relation to turnover amount to 88.3%, which is a decrease from 95.2%. This marginal improvement is primarily due to lower development costs in relation to turnover. At the end of the quarter, these amount to 21.5% compared with 27.1% the preceding year. Telelogic's high rate of growth offers the potential to spread the cost of



product development over more units sold. The product range has been refined which will enhance this trend even more during the year.

Expansion in Asia

Asia has proven to be a strong growth region. During the quarter, Telelogic has increased turnover by 400% in Asia, as a whole, and by 540% only in Japan, compared with the same period in the preceding year. All growth is, chiefly, organic because the acquired units have previously had very few or no sales in Asia. The number of employees has, at the same, multiplied compared with the corresponding period of the preceding year, and at the end of the quarter amounted to 70 people in Asia, of which 23 in Japan.

Telelogic's leading position in 3G and Bluetooth has been the foremost reason for the success in Asia. The languages that Telelogic builds its tools for, SDL and TTCN, hold very good positions in 3G and Bluetooth. This combination of tools cannot be offered by any of Telelogic's competitors. Japan is also the country estimated to present the first 3G system in operation, which is why development is moving quickly forward there. Telelogic's largest order even came from a leading Japanese cell phone manufacturer during March.

To meet the growing demand and strong growth in the region, offices have been opened in South Korea and Singapore during the quarter. In early April, an office was also opened in India.

Consolidation and Market Organization

In early April, the second major step in the planned integration process of QSS and Continuus was implemented when the American market organization was consolidated. Consequently, the previous sales and market organizations of QSS, Continuus and the former Telelogic in the USA were integrated. This step will make the sales force more efficient and will concentrate the organization around an integrated solution, which increases the potential for cross sales and a rise in the quota per salesperson. The consolidation is also estimated to save approximately SEK 30 million annually.

Expansion of the Customer Platform towards new Segments

Telelogic historically has a very strong position in the communications industry. The development of advanced software is found increasingly more often in other segments, such as automotive and aerospace, the financial sector and consumer electronics. Telelogic has noted a growing interest among these customer groups, not least, after the acquisition of QSS and Continuus which both have large customer platforms in these segments. Among others, during the quarter, Telelogic received a major order from a leading European bank for tools and services for change management. Also, in the USA a major contract was signed for Telelogic's change management solutions with OpenTV, a large actor in embedded systems in interactive television and media solutions.

Successful Investment in Components

Telelogic's component development got underway during the first quarter in 2000 with software components for 3G and Bluetooth. The components function as standardized



building blocks which speed up the customer's development process. Currently, Telelogic can offer 3G and Bluetooth components in the form of protocol stacks.

The communicated sales forecast of SEK 50 million during the first year has been reached. Component deals have been made, above all, in Japan and the largest deal ever for Telelogic was a deal for 3G components with a Japanese cell phone manufacturer during March.

It is estimated that additional component deals will give good margins in the future, because the major part of the costs already are taken. The previous communicated forecast in order for components to be profitable in 2001 remains.

Refining Product Portfolio

Through the acquisition of a number of product companies, Telelogic has created a solution, which covers the entire process for advanced software development. During the quarter, the integration of the product family has been intensified and the product portfolio has been refined. Previously initiated investments in new products, such as Components, VisionMap and Bluetooth PreQual are run, today, as separate units in Telelogic in order to obtain greater internal clarity and to facilitate collaboration within these various areas.

Investments and Financial Position

Investments in the first quarter amounted to SEK 21.3 million and pertain primarily to improvements in the internal IT structure. In addition, SEK 36.5 million of costs related to the acquisition of Continuus was activated in the first quarter. Thereby, paid investments amount to SEK 57.8 million.

The cash flow was affected by the profit of current operations of SEK -42.8 million and an increase in loans for SEK 13.3 million. The cash flow for the quarter, consequently, amounted to SEK -87.3 million and liquid funds amounted to SEK 155.6 million. There is an unutilized check overdraft facility of SEK 86.7 million.

As of March 31, the number of shares amounted to 135.3 million after Continuus had been completely financed. Telelogic has an equity ratio of 78.7% and profit after full dilution of SEK -0.59 per share. Equity amounted to SEK 17.80 per share and the market price as of March 31 was SEK 32.30.

Personnel

During the quarter, the number of employees increased by 115 people. The Asian organization has been reinforced with 22 new employees during the quarter and expansion there is planned to continue throughout the year. Recruitment is planned to be calmer in other units. The turnover in personnel at Telelogic has increased somewhat owing to the reorganization related to the integration process, but is still on a low level.

Outlook for 2001

Business factors have continued to deteriorate during the first quarter. Owing to the increase in insecurity in business, Telelogic will give priority to a positive full-year result



excluding goodwill depreciation and will therefore expand at a more cautious rate during the coming quarters. This is to prepare us for a continued slump on the American market and a possible negative development in Europe and Asia. For its own business Telelogic has, however, not seen any indications for such a development in these two regions.

Growth for the year is still predicted to be more than 100%, including smaller acquisitions. Telelogic will maintain its objective of an operating margin of 5% excluding goodwill depreciation for 2001.

The seasonal variations that Telelogic has shown during previous years are estimated to continue. Therefore, the profit for the second and third quarters of 2001 is predicted to be negative, while the fourth quarter is predicted to be positive.

Malmö, Sweden, April 19, 2001
The Board of Directors

*This report has not been subjected to special review by Telelogic's auditors.
No change in Accounting Principles has occurred during the period.*



Financial Information:

Dates for financial information:

- Interim Report, Jan.-June: July 17
- Interim Report, Jan.-Sept: October 17

OPEN STANDARDS

It was previously common in the computer and software branch that a customer bought an entire system from a single supplier, which nearly led to monopolies in some branches. As of a number of years back, the trend is that the customer no longer accepts solutions that are specific to a certain supplier, but requires that hardware, tools and programs are built on open standards. Now it is natural that the customer is able to build functioning systems from parts which come from different suppliers, which presumes clearly defined, standardized interfaces. Telelogic is a firm advocate of this principle, and the company lives up to this by supplying products that not only function well together, but can also be integrated with a multitude of third party products – including those supplied by our competitors. Thereby the customer has the choice to combine the products deemed to solve the task in the best way and make use of already invested work from previous projects.



All amounts shown are in millions of Swedish kronor (SEK million) unless otherwise stated.

Income Statement in Summary

	Jan-Mar 2001	Jan-Mar 2000	2000	1999
Licensing and maintenance revenues	238.4	61.6	569.6	210.4
Consulting and other revenues	136.6	40.9	311.6	108.0
Net sales	375.0	102.5	881.2	318.4
Licensing and maintenance expenses	-28.3	-9.3	-57.5	-24.5
Consulting and other expenses	-90.5	-23.3	-196.5	-61.5
Gross income	256.2	69.9	627.2	232.4
Sales expenses	-203.0	-56.7	-362.8	-137.4
Administrative expenses	-47.6	-13.1	-92.2	-34.8
Product development expenses	-80.6	-27.8	-171.5	-53.5
Operating income excl. goodwill depreciation	-75.0	-27.7	0.7	6.9
Goodwill depreciation	-29.8	-3.8	-50.4	-4.7
Operating income incl. goodwill depreciation	-104.8	-31.5	-49.7	2.2
Net financial income/expense	0.6	1.7	8.1	0.5
Net income after financial items	-104.2	-29.8	-41.6	2.7
Tax	21.0	9.0	-7.1	-2.6
Income after tax	-83.2	-20.8	-48.7	0.1

Operating Key Ratios

	Jan-Mar 2001	Jan-Mar 2000	2000	1999
Turnover increase (%)	266	96	177	78
Licensing and maintenance revenues	287	72	171	56
Consulting and other revenues	234	149	189	147
Gross margin (%)	68.3	68.2	71.2	73.0
Gross margin licensing and maintenance revenues	88.1	84.9	89.9	88.4
Gross margin consulting and other revenues	33.7	43.0	36.9	43.1
Fixed expenses in % of turnover	88.3	95.2	71.1	70.8
Sales expenses in % of turnover	54.1	55.3	41.2	43.2
Administrative expenses in % of turnover	12.7	12.8	10.5	10.9
Product devel. expenses in % of turnover	21.5	27.1	19.5	16.7
Operating margin excl. goodwill (%)	-20.0	-27.0	0.1	2.2
No. of employees at end of period	1,375	495	1,260	450

Financial Key Ratios

	Jan-Mar 2001	Jan-Mar 2000	2000	1999
Income after tax per share before dilution (SEK)	-0.61	-0.22	-0.39	-
Income after tax per share after dilution (SEK)	-0.59	-0.19	-0.37	-
No. of shares at end of period before dilution (million)	135.3	95.7	125.4	81.2
No. of shares at end of period after dilution (million)	141.7	106.8	132.0	97.5
Cash & Bank (SEK million)	155.6	343.4	240.8	30.9
Equity/assets ratio (%)	78.7	78.7	76.0	23.2
Equity per share (SEK)	17.80	7.10	18.60	1.30
Market price at end of period (SEK)	32.30	78.00	52.50	45.00
Market value at end of period (SEK million)	4,371	7,465	6,582	3,654

All amounts shown are in millions of Swedish kronor (SEK million) unless otherwise stated.

Balance Sheet in Summary

	Mar 31 2001	Mar 31 2000	Dec 31 2000	Dec 31 1999
Intangible fixed assets	2,066.1	249.0	1,959.9	185.1
Tangible fixed assets	145.1	30.5	133.8	29.1
Financial fixed assets	123.9	63.2	102.0	57.7
Accounts receivable	445.5	139.5	537.6	144.7
Other current receivables	121.4	33.8	101.0	23.2
Cash & bank	155.6	343.4	240.8	30.9
Total assets	3,057.6	859.4	3,075.1	470.7
Equity, Note 1	2,407.5	676.7	2,337.2	109.0
Provisions	19.5	5.5	34.3	7.8
Interest-bearing long-term liabilities	17.6	0.5	4.4	6.5
Non-interest-bearing long-term liabilities	68.1	0.0	67.1	172.6
Interest-bearing current liabilities	0.1	0.0	0.0	20.0
Accounts payable	62.3	33.2	79.7	26.5
Accrued expenses and prepaid income	420.8	96.4	448.7	91.6
Other non-interest-bearing current liabilities	61.7	47.1	103.7	36.7
Total liabilities and equity	3,057.6	859.4	3,075.1	470.7

Cash Flow Analysis in Summary

	Jan-Mar 2001	Jan-Mar 2000	Jan-Dec 2000	Jan-Dec 1999
Cash flow from current operations	-42.8	-11.9	-146.8	-1.8
Investment activities	-57.8	-85.0	-648.6	-56.4
Financing activities	13.3	409.2	1,004.2	79.6
Changes in liquid funds	-87.3	312.3	208.8	21.4
Liquid funds at beginning of period	240.8	30.9	30.9	9.7
Exchange rate difference in liquid funds	2.1	0.2	1.1	-0.2
Liquid funds at end of period	155.6	343.4	240.8	30.9

- Investment activities include payments of SEK 36.5 million for the acquisition of Continuus paid in the first quarter. Other investments are SEK 21.3 million referable to tangible fixed assets.



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NOTE 1 Equity, The Group

	No. of shares	Share capital	Restricted reserves	New issues underway	Non-restricted equity	Total
Opening balance as of Jan 1 2001	125,364,964	1.3	2,031.9	426.4	-122.4	2,337.2
New issues	9,975,000	0.1	426.3	-426.4		0
Residual item			-66.1		66.1	0
Exchange rate difference			-10.8		164.3	153.6
Income for the year					-83.2	-83.2
Closing balance as of Mar 31 2001	135,339,964	1.4	2,381.3	0	24.9	2,407.5