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Merger between Teleca and AU-System

The merger between Teleca and AU-System will create one of Europe's largest high-end consulting groups focused on new technology and R&D with a strong presence in the Nordic region, UK and France. Teleca and AU-System complement each other in terms of service offerings, client base and geographical reach

- The merger will enable the new Group to bring a more complete service offering to its customers and to cross-sell the skills of both companies to their combined customer base. It will also be a stronger partner in outsourcing contracts, which are expected to have an increasing importance in the IT-services market going forward
- The companies complement each other geographically in Sweden as well as internationally. By providing critical mass in operations, the merger will create a better platform for a continued cost-efficient international expansion
- With over 2,000 highly skilled employees and a portfolio of international blue-chip clients, the Group will play a key role in the European consolidation of this sector
- The merger is implemented through an exchange of shares, allowing shareholders in both companies to benefit from the future potential of the Group
- Teleca offers 0.2093 new series B share for each share in AU-System. Based on the last prices paid for the AU-System share and the Teleca series B share on Stockholmsbörsen on December 7, 2001, the offer represents a premium of approximately 30 percent. Based on the average prices paid for the AU-System share and the Teleca series B share over the last 10 trading days, the offer represents a premium of approximately 31 percent
- The Board of Directors of AU-System recommends the shareholders of AU-System to accept the offer
- In connection with the merger the ownership structure of the Group will be strengthened. Bure Equity will together with Dan Olofsson be the main shareholders of the Group. Bure Equity will purchase existing shares in Teleca from Dan Olofsson, who will also be the Chairman of the Group

Comments

Nick Stammers, president of Teleca, comments on the merger:

"The merger creates a large high-end consulting company with strong geographic coverage across some of Europe's most important markets, i.e. the Nordic region, UK and France. AU-System and Teleca complement each other in an excellent way from a service offering as well as customer perspective. This will minimise the work of integration and allow us to keep focus on sales, service offerings and efficiency.

In the telecommunications vertical, our combined service offerings will enable us to better serve a client portfolio that will contain a balance of leading equipment manufacturers and operators. While the telecommunications vertical will remain important, the Group will also have a broad customer base in other verticals where advanced software is a pre-requisite, e.g. automotive, consumer electronics, life science, financial services and government."

Tomas Franzén, president and CEO of AU-System, comments on the merger:

"The clear industrial logic of this deal makes me feel very positive about this opportunity. The Group will have improved resources for further expansion, for example through new outsourcing agreements.

The strong European presence of Teleca will enable the Group to leverage AU-System's expertise by offering concepts and vertical solutions to more customers outside the Nordic region. With a workforce of over 2,000 highly skilled consultants, and good profitability, the new group is well positioned to further reinforce its position on the local market and expand its international customer base."

Rationale for the merger

The merger creates one of Europe's leading high-end consulting companies focused on new technology and R&D, with a strong presence in the Nordic region, UK and France. The rationale to form the Group includes:

- The Group will have a very strong position in the IT and communications services vertical, with an impressive portfolio of international blue-chip clients (see appendix B). The merger will enable the combined entity to bring a more complete service offering to its customers' value chains and to cross-sell the skills of both companies to their combined customer base. It will also be a stronger partner in outsourcing contracts, which are expected to have an increasing impact on the market over the next years. In addition, AU-System brings valuable experience from its technology spin-offs and Teleca brings important experience from establishing new subsidiaries through its Entrepreneur-package.
- The companies complement each other geographically; Both companies have a strong presence in Sweden, with AU-System being stronger in the Stockholm area. Teleca has approximately 40 percent of its staff outside Sweden with a stronger presence in the UK. and France. By providing critical mass in operations, the merger will create a better platform for a continued cost-efficient expansion in Europe. This will shorten the time needed to establish stronger positions in leading European markets, such as the UK., Germany and France.
- With over 2,000 highly skilled employees and a portfolio of international blue-chip clients, the Group will play a key role in the European consolidation of this sector

Potential increase in earnings

The current financial performance of the Group is not deemed to be representative for the future. The Board of Directors and management in both companies foresee a substantial increase in earnings during the next few years for the Group. These earnings improvements will be achieved in part as an effect of the merger and in part as an effect of already announced and implemented efficiency measures in existing operations.

Due to the current market downturn the timing of the full impact from the merger can not yet be fully specified. However, as markets return to normal, the full potential of what the two companies can achieve will be realised. Today, our best estimate is that we will see a positive contribution from the merger during 2002 and its full effects during 2003.

The expected earnings increase in one to two years, will be derived from different sources:

- The two action programs already announced by AU-System are expected to reduce costs in AU-System by SEK 60 million per year, without affecting company revenues. This will also increase utilisation in AU-System.
- Through the combined strong sales channels and complementary customer base of the two companies, we expect an additional increase in utilisation rates for the Group. The total effect on group utilisation is expected to be approximately 1.5 percentage points, corresponding to SEK 40 million per year. Teleca is expected to improve its utilisation by 1 percentage point through cross selling of AU-System concepts such as mobile handset applications. AU-System is expected to improve its utilisation by 2 percentage points, primarily through Telecas strong international sales channels.
- Both companies have during the last years established new subsidiaries in a number of countries. This has affected the results during the start-up face negatively. By actions taken, the results in these units are now improving quarter on quarter. In addition, the merger creates further improvement opportunities due to creation of critical mass. Therefore it is the management's firm belief that the current start-ups will contribute marginally to the Group's earnings in 2002, thereby improving earnings by approximately SEK 55 million.
- The two publicly listed companies merging are expected to reduce administrative costs related to internal support systems, offices, listing costs, audits etc. by approximately SEK 20 million.
- The strength and size of the Group is expected to increase the possibilities for being awarded new outsourcing contracts, which would increase earnings further. In this aspect the Group will benefit from the experience that AU-System has gained in these operations previously.

Ownership

The largest shareholders in AU-System are Permira Funds , formerly Schroeder Ventures Europe Ltd, holding 27.8 percent of the share capital in AU-System, Ericsson, holding 9.3 percent, Capital Group, holding 6.4 percent, and Nordea Fonder, holding 4.6 percent. In total these four shareholders hold 48.1 percent of the share capital and votes in AU-System. Assuming that all shareholders in AU-System accept the Offer, the shareholders of AU-System will hold 36.1 percent of the capital and 32.9 percent of the votes in the Group after the merger.

Dan Olofsson, who currently holds 47.4 percent of the share capital and 49.3 percent of the votes in Teleca, will hold 14.3 percent of the share capital and 16.3 percent of the votes in the Group after the merger, assuming full acceptance of the Offer and completion of the sale of shares to Bure Equity.

Management and Board of Directors

The Offer is estimated to be completed in the beginning of February 2002. If the Offer is successfully completed a new Board of Directors for the Group will be nominated. The new Board of Directors will include members of the current Board of Teleca, as well as Members of the current Board of AU-System. Dan Olofsson will be the chairman and Johan Vunderink, chairman of AU-System, will be vice chairman of the Group.

A new management team, consisting of the current members of the AU-System and Teleca management teams, will be formed. Nick Stammers will be president of the Group and Tomas Franzén senior vice president. The current vice presidents Thomas Pantzar and Anders Cedervall will also hold key positions. The merger itself does not imply changes in the operational units of the two companies.

To successfully achieve the expected synergies and increased earnings, certain members of the Board of Directors will actively support management and participate in merging the two

companies. A merger group committee will be established comprising Dan Olofsson, Johan Vunderink, Nick Stammers and Tomas Franzén.

Dan Olofsson chairman of Teleca and the new Group comments:

"This merger is based on sound industrial logic and we will work very hard to realise the identified potential for increased earnings. I see highly interesting opportunities arising from the merger, since the two companies complement each other to a very large extent. Both are high quality consulting companies and I am convinced that we will create a strong and profitable Group."

The merger should be judged out of the huge potential we have during the years ahead and our ability to implement the good industrial logic of the merger. The timing of the merger is good, and as the merger is implemented through an exchange of shares, shareholders in both companies will benefit from the future potential of the Group."

Public offer to the shareholders in and holders of warrants issued by AU-System

Teleca has today decided to make a public offer (the "Offer") to the shareholders in and holders of warrants issued by AU-System to acquire outstanding shares and warrants. Teleca currently holds no shares or warrants issued by AU-System.

Teleca offers 0.2093 new series B share in Teleca for each share in AU-System. Holders of warrants issued by AU-System can choose between cash or warrants issued by Teleca as consideration for their warrants (see further Appendix A). No fractional shares will be distributed in the Offer. Rather, to the extent an AU-System shareholder is entitled to receive fractions of shares in Teleca, an amount equivalent to the value of such fractions of shares will be paid in cash. Further details on the terms will be provided in the offer document. No commission will be charged for shares and warrants tendered under the Offer.

Bid premium and transaction value

Based on the last prices paid for the AU-System share and the series B share in Teleca on Stockholmsbörsen, SEK 10.30 and SEK 64.00 respectively, on December 7, 2001 the Offer represents a premium of approximately 30 percent. Based on the average prices paid for the AU-System share and the series B share in Teleca B over the last 10 trading days the Offer represents a premium of approximately 31 percent.

At full acceptance of the Offer, 21 421 672 new shares of series B in Teleca will be issued. Based on the last price paid for the Teleca series B share on December 7, 2001 the market value of the shares to be issued is SEK 1 360 million.

AU-System has nine warrant programmes outstanding. One of the programmes, TO3, will mature prior to the commencement of the acceptance period. Thus no offer will be made for these warrants. With regard to warrant programmes TO1, TO2, TO4, TO6 and TO8 cash or newly issued warrants in Teleca are offered. With regard to warrant programmes TO5 and TO7, cash only is offered. The warrants belonging to TO9 are held by subsidiaries of AU-System as hedge for stock options, and thus no offer will be made for these warrants.

Assuming that all warrants are tendered under the cash offer, the total cash consideration will be approx. SEK 34 million (of which TO5 and TO7 approx. SEK 1 million). The total number of shares in Teleca that could be issued upon exercise of warrants in the event all AU-System warrant holders accept the Teleca warrant offer is approx. 1.8 million class B

shares. The exercise of warrants would in such case imply that Teleca raises approx. SEK 100 million.

Financial information

Pro forma financial information for the Group is presented in Appendix B and in the table below:

SEK million	9 months 2001	12 months ending September 2001
Sales	1 652.4	2 232.9
EBITA	139.8	198.5
Net earnings	10.6	25.2
EPS, excl goodwill	1.62	2.28
Employees as of 30/9	2 261	2 261

Due to weak earnings for AU-System in 2001, the pro forma financials indicate that the merger will be dilutive to EPS for 2001. However, the recent restructuring measures taken by AU-System, combined with the positive effects of the merger, are expected to lead to an improvement in goodwill-adjusted EPS in one to two years time.

Given the size, importance and long term strategic value of the merger, Teleca intends to amortise the goodwill arising from the merger over 20 years.

The financial position pro forma for the combined Group as of September 30, 2001 implies an equity / assets ratio of approximately 69.7 percent. Net debt pro forma for the Group as of September 30, 2001 was SEK 63 million.

Terms of the Offer

The following terms apply to the Offer

- that the Offer is accepted to such an extent that Teleca becomes the owner of shares and warrants representing more than 90 percent of the shares in AU-System, calculated before as well as after full subscription through warrants issued. However, Teleca reserves the right to implement the Offer at lower acceptance levels
- that an extraordinary general meeting of Teleca, makes the resolutions needed in order to issue new shares and warrants to be used as payment in the Offer¹
- that all necessary authority approvals are obtained on terms, which, in Teleca's view, do not materially affect the Offer or the merger with AU-System negatively
- that the acquisition, before the announcement of the implementation of the Offer, is not entirely or partially made impossible or materially obstructed as a result of legislation, court rulings, authority decisions and similar in Sweden or abroad, which exist or can be expected, or for other reasons outside of Teleca's control.

Indicative time table

¹ Dan Olofsson, the current major shareholder of Teleca has declared that he will vote in favour of the issuance of new shares and warrants.

The prospectus regarding the Offer is expected to be distributed to shareholders in and holders of warrants issued by AU-System on or about January 4, 2002. The acceptance period for the Offer is expected to run from January 9 to February 6, 2002. Provided that Teleca implements the Offer no later than February 11, 2002, settlement to those shareholders and holders of warrants who have accepted the Offer is estimated to begin on February 20, 2002. Teleca reserves the right to extend the acceptance period, as well as to postpone the settlement date. An extraordinary general meeting in Teleca will be held on January 18, 2001.

Bure Equity acquires shares in Teleca from Dan Olofsson

In connection with this transaction there will be a strengthening of the ownership structure. Bure Equity will together with Dan Olofsson be the main shareholders of the Group. Conditional upon that Teleca's offer is completed, Bure Equity will purchase shares in Teleca from Dan Olofsson corresponding to 16 percent of the new Group.

Advisors

Teleca has appointed Enskilda Securities as financial advisor in the merger. AU-System has appointed D. Carnegie as financial advisor in the merger.

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AU-System AB (publ)

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About Teleca

Teleca is a leading supplier of software engineering services for advanced systems, electronic equipment and applications. Our business concept is to strengthen our customer's market position and time-to-market. This is achieved by providing professional teams with specialist technical expertise, working in partnership with development-intensive companies worldwide. Teleca is listed on the O-list of the Stockholm Exchange. We have more than 1,200 employees and development offices throughout Europe (www.teleca.com).

About AU-System

AU-System is a leading mobile Internet consultancy. The company also provides integrated marketing communications services through its subsidiary SandbergTrygg. Large customers

include Ericsson, Telia, Volvo, Nordea Nordbanken and Motorola. AU-System was founded in 1974 and employs about 1,000 people located in Sweden, United Kingdom, Italy, United States, Thailand and Singapore. AU-System is quoted on the Attract40 list of Stockholmsbörsen under the symbol AUS. For more information, please visit www.ausystem.com.

Appendix A – Warrant offer

Alternative 1

For each warrant 1999/2002² issued by AU-System (TO 1), SEK 282.50 is offered.
For each warrant 1999/2002³ issued by AU-System (TO 2), SEK 127.50 is offered.
For each warrant 1999/2002:II issued by AU-System (TO 4), SEK 67.50 is offered.
For each warrant 2000/2002:I issued by AU-System (TO 5) SEK 42.50 is offered.
For each warrant 2000/2003:I issued by AU-System (TO 6), SEK 55.00 is offered.
For each warrant 2000/2002:II issued by AU-System (TO 7), SEK 0.25 is offered.
For each warrant 2000/2005 issued by AU-System (TO 8), SEK 1.30 is offered.

Alternative 2

For each warrant belonging to the warrant classes TO 1, TO 2, TO 4 and TO 6, respectively, 5.2325 equivalent warrants issued by Teleca are offered. For each warrant belonging to the warrant class TO 8, 0.2093 equivalent warrants issued by Teleca are offered.⁴

Payment in cash will be received in lieu of fractions of warrants issued by Teleca, based on the cash consideration offered in Alternative 1.

The principal terms for the warrants issued by Teleca in connection with the transaction are as follows:

Warrants issued as consideration for TO 1:

- Each warrant entitles to subscription of one newly issued share of series B in Teleca
- The warrants entitle to subscription for shares of series B in Teleca up until 2002-05-12
- The subscription price for a newly issued share is SEK 9.50

Warrants issued as consideration for TO 2:

- Each warrant entitles to subscription of one newly issued share of series B in Teleca
- The warrants entitle to subscription for shares of series B in Teleca up until 2002-07-01
- The subscription price for a newly issued share is SEK 42.00

Warrants issued as consideration for TO 4:

- Each warrant entitles to subscription of one newly issued share of series B in Teleca
- The warrants entitle to subscription for shares of series B in Teleca up until 2002-07-01
- The subscription price for a newly issued share is SEK 61.60

Warrants issued as consideration for TO 6:

- Each warrant entitles to subscription of one newly issued share of series B in Teleca
- The warrants entitle to subscription for shares of series B in Teleca up until 2003-02-15
- The subscription price for a newly issued share is SEK 86.00

Warrants issued as consideration for TO 8:

- Each warrant entitles to subscription of one newly issued share of series B in Teleca
- The warrants entitle to subscription for shares of series B in Teleca up until 2005-06-15
- The subscription price for a newly issued share is SEK 317.00

² Subscription price SEK 2.00

³ Subscription price SEK 8.80

⁴ Alternative 2 will not be available with regard to warrant classes TO 5 and TO 7 due to the limited remaining duration of the warrants

Appendix B - Pro forma information about the Group

The proforma financials presented below are preliminary and may be subject to change.

Pro forma balance sheet

September 30, 2001	Teleca	AU-System	Teleca post merger
Assets			
Fixed assets	54.7	47.1	101.8
Goodwill	783.4	197.2	1938.5
Current assets	335.0	288.8	623.8
Liquid funds and other interest bearing assets	242.0	189.6	397.8
Total assets	1415.1	722.7	3061.9
Shareholders' equity and liabilities			
Shareholders' equity	775.0	435.7	2134.8
Provisions *)	27.8	7.0	34.8
Long term liabilities	371.2	91.6	462.8
Current liabilities	241.1	188.4	429.5
Total shareholders' equity and liabilities	1415.1	722.7	3061.9
Equity /Asset ratio	54.8%	60.3%	69.7%

Pro forma income statements

January- September 2001	Teleca	AU-System	Teleca post merger
Net sales	890.6	761.8	1652.4
Operating expenses	-742.7	-745.0	-1487.7
Depreciation	-11.5	-13.4	-24.9
Operating profit (EBITA)	136.4	3.4	139.8
Goodwill amortization	-32.2	-17.6	-85.7
Items affecting comparability	-15.1		-15.1
Operating profit (EBIT)	89.1	-14.2	39.0
Profit/loss from financial items	5.9	7.1	13.0
Profit after financial items	95.0	-7.1	52.0
Minority interests	0.0	0.0	0.0
Taxes	-38.2	-3.2	-41.4
Profit for the period	56.8	-10.3	10.6

Key ratios

<i>GW adj EPS</i>	2.35	0.07	1.62
<i>EBITA margin, %</i>	15.3	0.4	8.5
<i>Operating margin, %</i>	10.0	-1.9	2.4
<i>Profit margin after financial items. %</i>	10.7	-0.9	3.1

Twelve months ending September	Teleca	AU-System	Teleca post merger
Net sales	1189.7	1043.2	2232.9
Operating expenses	-994.3	-1006.7	-2001.0
Depreciation	-14.6	-18.8	-33.4
Operating profit (EBITA)	180.8	17.7	198.5
Goodwill amortization	-39.3	-22.9	-110.1
Items affecting comparability	-15.1	0.0	-15.1
Operating profit (EBIT)	126.4	-5.2	73.3
Profit/loss from financial items	6.1	5.0	11.1
Profit after financial items	132.5	-0.2	84.4
Minority interests	0.0	0.0	0.0
Taxes	-52.1	-7.1	-59.2
Profit for the period	80.4	-7.3	25.2

Key ratios

<i>GW adj EPS</i>	3.16	0.15	2.28
<i>EBITA margin, %</i>	15.2	1.7	8.9
<i>Operating margin, %</i>	10.6	-0.5	3.3
<i>Profit margin after financial items. %</i>	11.1	0.0	3.8

Examples of customers, listed alphabetically:

AU-System	Teleca
AMS	Ericsson
Bankgirocentralen AB	KUKA
Comneon GmbH & co	Lucent
Ericsson	Mitsubishi
Europolitan Vodafone	Motorola
LG Electronics	Nokia
LIF Service AB	Nortel
Motorola	Novo Nordisk
Nokia	One2One
Nordea	Panasonic
Philips Semiconductors	Sagem
Riksskatteverket	Symbian
Samsung	Telenor
Sony Ericsson	Telia
Telia	Vattenfall
Volvo	Volvo



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