



Teleca AB (publ)

Interim Report, January – September 2003

Disappointing Q3 - But markets are slowly improving

- **Sales increased 26% to SEK 1,838.0 M (1,457.8). Excluding acquisitions sales increased 14%**
- **Earnings after tax SEK –8.6 M (26.2)**
- **Earnings per share SEK –0.14 (0.46)**
- **Operating profit (EBITA) SEK 106.8 M (141.3)**
- **Q3 result was lower than expected mainly due to fixed price projects and restructuring costs**
- **Obigo is performing well and international markets for Mobile Devices are strong**
- **Utilisation in Q3 increased to 70.6%**
- **New forecast for 2003: Significantly increased sales but lower profit compared with 2002**



Business and market update

General market comment

The result in Q3 was lower than expected mainly due to fixed price projects and restructuring costs. At the same time, there are indications that the overall market is slowly picking up, and underlying customer prices are generally stable

Many customers' financial positions have improved providing a better outlook for investment. This is particularly true for operators and the telecommunications industry. Teleca's international presence should enable it to take advantage of the improving situation. Teleca's business in Asia is growing fast, is profitable, and now around 10% of sales.

Utilisation has increased to 70.6% in Q3 (68.1 in Q2). With continued focus on sales and efficiency and positive market trends, continued gradual improvements are expected in the quarters ahead.

In summary, Q3 was disappointing but there is a strengthened view that markets and profits will improve, which is positive for 2004. The sales growth of 26% is also a good investment for the coming year.

Specific items

Results in Q3 are negatively affected by fixed price projects. The effect is estimated to SEK 11 M. The problems arise from three unrelated projects and are a combination of underestimates of complexity and timescales.

Due to continued weak markets in Stockholm and France additional restructuring has been necessary. Approximately 50 employees across the group have been given notice in Q3. This has affected Q3 results with approximately SEK 7.5 M (16.4 in 9M) of restructuring costs. More actions may be necessary in Q4.

The stronger Swedish krona against the US dollar and UK sterling has continued to have an effect. If the exchange rates had remained the same as during the first nine months 2002, Teleca's result for the first nine months would have been approximately SEK 22 M higher.

Market segments

The Mobile Devices segment is very strong and revenues increased to 40% of overall sales during Q3 (35 in Q2 and 32 in Q1). The new businesses in Germany, Korea and Japan are all developing better than expected. Korea reached fifty staff during Q3. Teleca is investigating how to develop the business further in the very exciting Asian market.

Obigo continues to be in strong demand and is performing as expected. Five new customer contracts were signed during Q3. Revenues during the first nine months were SEK 75.4 M with an EBIT of SEK 7.0 M. The forecast for 2003, of an EBIT of SEK 20 M, is expected to be exceeded. Royalty revenues are expected to ramp up as from Q4 2003 and that will have a significant effect on the profit in the coming quarters.

Teleca's PC Connectivity Suite now has six customers and is developing well. Demand for this software is increasing and the outlook is positive for both licensing revenues and high value consulting services.

The Telecom Equipment segment is showing some signs of improvement with some new orders in Q3. This supports the optimism among leading equipment manufacturers.



The Industrial segment has seen a marked improvement after the summer on local Swedish markets. The key changes are in the nuclear and pharmaceutical industries with smaller improvements in automotive and mining industries. The change in the market combined with efficiency improvements is expected to deliver better results in this segment as from Q4.

The Enterprise business segment in Sweden is weak. Restructuring during Q2 and Q3 is expected to deliver improving results from 2004.

Sales by business segments, SEK M

Segment	Sales Jan.-Sept.	Share %	Segment	Sales Jan.-Sept.	Share %
Mobile Devices	650	35	Enterprise	135	7
Telecom Equipment	306	17	Life Science	123	7
Industrial	272	15	Automotive	63	3
Operators	255	14	Others	34	2

Sales by country, SEK M

Country	Sales Jan.-Sept.	Share %	Country	Sales Jan.-Sept.	Share %
Sweden	973	53	Finland	61	3
UK	146	8	Germany	58	3
France	137	7	Denmark	50	3
Korea	102	6	Japan	45	2
Italy	97	5	USA	36	2
Norway	85	5	Rest of the world	48	3

Approximate sales per country based on invoicing addresses



Sales and earnings

Sales during the first nine months increased 26% to SEK 1,838.0 M (1,457.8). Sales outside Sweden accounted for 47%. Sales per employee increased to SEK 0.75 M (0.70).

Excluding acquisitions, organic growth was 14% and part of this is due to outsourcing agreements with Ericsson in France and Norway. Excluding outsourcing agreements organic growth was 5%.

Operating profit before goodwill amortization (EBITA) amounted to SEK 106.8 M (141.3). The margin (EBITA) was 5.8 % (9.7).

Profit after financial items amounted to SEK 18.4 M (66.0).

Personnel

The average number of employees increased 19% to 2,461 (2,073). The number of employees at the end of the period was 2,636 (2,374 at 31 December 2002).

Liquid funds and financial position

The Group's liquid funds and other interest bearing assets amounted to SEK 151 M (236 at 31 December 2002). The interest-bearing loan to Sigma AB of SEK 43 M was repaid during Q3.

The Group's interest bearing net debt amounted to SEK 187 M (175 at 31 December 2002 and 221 at 30 June 2003). During Q3 the interest bearing net debt decreased by SEK 34 M. Included in the net debt are loan notes to the sellers of Teleca Ltd of SEK 98 M, which will be settled this year. The net debt/equity ratio was 10% (9 at 31 December 2002).

Group shareholders' equity amounted to SEK 1,938 M (1,976 at 31 December 2002). The equity/assets ratio was 69% (67 at 31 December 2002).

Investments

The Group's investments during the period totalled SEK 90.6 M, of which SEK 25.1 M was invested in goodwill. The remaining SEK 65.5 M was invested in equipment, software development, IPR and other.

The group has recorded SEK 34.2 M as intangible fixed assets due to investments in software development during the period. Of this SEK 28.5 M are investments in Obigo and 5.7 M are investments in PC Connectivity Suite. Depreciation for the period amounts to SEK 10.1 M. The depreciation period used for software development is 3 years.

Parent Company

Sales during the period totalled SEK 35.6 M (25.7). After net financial items, a profit of SEK 26.7 M (4.1) was reported. Liquid funds totalled SEK 92.9 M (154.1 at 31 December 2002).

During the period, the Parent Company invested SEK 44.7 in shares in subsidiaries. In addition, SEK 4.2 M was invested in equipment.



Forecast

Teleca has a positive view on general market trends. Disregarding Stockholm and France, local markets show signs of improvement and utilisation has increased. The mobile device business is very strong. Obigo is performing well and the forecast for 2003, of an EBIT of SEK 20 M, is expected to be exceeded.

The result in Q3 was lower than expected mainly due to fixed price projects and restructuring costs. There have been specific problems in weak local markets and substantial efficiency measures have been taken. These effects combined with negative effects from changes in exchange rates mean that it is not possible to exceed 2002 profits.

The Board of Directors' forecast was significantly increased sales and profit for 2003. The new forecast for 2003 is significantly increased sales but lower profit compared with 2002.

Condensed consolidated income statement, SEK M

	2003	2002	2003	2002	2002
	Jan.-Sept.	Jan.-Sept.	July-Sept.	July-Sept.	Jan.-Dec.
Net sales	1,838.0	1,457.8	557.9	500.7	2,090.1
Operating expenses	-1,696.6	-1,295.6	-519.0	-447.5	-1,861.4
Depreciation	-34.6	-20.9	-12.9	-8.2	-30.8
Goodwill amortisation	-75.3	-68.1	-25.0	-23.3	-94.1
Operating profit (EBIT)	31.5	73.2	1.0	21.8	103.7
<i>Operating margin, %</i>	<i>1.7</i>	<i>5.0</i>	<i>0.2</i>	<i>4.4</i>	<i>5.0</i>
Financial items ^{*)}	-13.2	-7.1	-5.1	-1.6	-12.5
Profit after financial items	18.4	66.0	-4.1	20.2	91.2
<i>Profit margin, %</i>	<i>1.0</i>	<i>4.5</i>	<i>-0.7</i>	<i>4.0</i>	<i>4.4</i>
Minority interests	0.0	0.0	0.0	0.0	0.0
Taxes	-26.9	-39.9	-5.5	-11.4	-43.6
Profit for the period	-8.6	26.2	-9.6	8.8	47.6

Operating profit before goodwill amortisation (EBITA)	106.8	141.3	26.0	45.1	197.9
Margin before goodwill amortisation, %	5.8	9.7	4.7	9.0	9.5
Earnings per share after full tax, SEK	-0.14	0.46	-0.16	0.15	0.83
Earnings per share after full tax excl. goodwill amortisation, SEK	1.11	1.67	0.25	0.55	2.48

^{*)} Financial items Jan.-Sept. 2003 consists of net interest costs of SEK 9,5 M, exchange losses of SEK 3,7 M, and for Jan.-Sept. 2002 it consists of net interest costs of SEK 3,2 M and exchange losses of SEK 3,9 M.

Condensed consolidated balance sheet, SEK M

	Sept. 30, 2003	Sept. 30, 2002	Dec. 31, 2002
Assets			
Fixed assets ^{*)}	1,882.2	1,936.3	1,940.1
Current assets	793.5	728.5	782.9
Liquid funds and other interest bearing assets	151.0	238.6	236.2
Total assets	2,826.7	2,903.4	2,959.1

Shareholders' equity and liabilities

Shareholders' equity	1,937.6	1,971.4	1,975.7
Minority share in shareholders' equity	0.1	0.0	0.1
Provisions ^{**)}	42.5	38.5	46.3
Long-term liabilities, interest bearing	6.9	7.0	7.1
Long-term liabilities, non interest bearing	13.1	29.4	15.0
Current liabilities, interest bearing	331.9	432.5	400.1
Current liabilities, non interest bearing	494.6	424.6	514.9
Total shareholders' equity and liabilities	2,826.7	2,903.4	2,959.1

^{*)} Incl. Goodwill	1,624.9	1,744.0	1,721.4
^{*)} Incl. interest bearing	4.7	0.0	0.0
^{**)} Incl. interest bearing	3.5	3.7	4.0

Changes in consolidated shareholders' equity, SEK M

	Sept. 30, 2003	Sept. 30, 2002	Dec. 31, 2002
Amount at the beginning of the year	1975.7	870.2	870.2
New share issue for acquisitions ^{*)}	62.7	1,158.9	1,158.9
Warrants	—	—	2.5
Translation differences	-47.9	-42.7	-62.3
Dividend	-44.3	-41.2	-41.2
Profit for the period	-8.6	26.2	47.6
Amount at the end of the period	1,937.6	1,971.4	1,975.7

^{*)} After deduction for issue costs.

Condensed consolidated cash flow analysis, SEK M

	2003 Jan.-Sept.	2002 Jan.-Sept.	2002 Jan.-Dec.
Cash flow from operations	109.7	115.1	172.5
Change in working capital	-39.4	-33.9	-81.6
<i>Cash flow from current operations</i>	<i>70.3</i>	<i>81.2</i>	<i>90.9</i>
Investment operations	-90.6	-1,276.0	-1,230.6
Financial operations	-21.9	1,188.7	1,131.2
Changes in liquid funds	-42.2	-6.1	-8.5

Quarterly trend

	2000				2001				2002				2003		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net sales, SEK M	205.6	212.9	214.8	299.1	297.9	309.9	282.8	297.3	430.9	526.1	500.7	632.3	645.2	634.9	557.9
Operating profit before amortization of goodwill (EBITA), SEK M	29.3	20.2	28.8	44.5	52.2*	41.6*	42.5*	45.0*	43.7	52.4	45.1	56.6	43.6	37.2	26.0
Margin (EBITA), %	14.3	9.5	13.4	14.8	17.5*	13.4*	15.0*	15.1*	10.1	10.0	9.0	9.0	6.8	5.9	4.7
Number of working days, approx.	63.5	59.0	65.0	63.0	63.5	59.0	64.0	62.0	62.0	60.0	66.0	62.0	62.0	59.0	66.0
Number of employees end of period	924	951	1,193	1,223	1,218	1,239	1,247	1,245	2,188	2,234	2,352	2,374	2,520	2,608	2,636

^{*)} Excluding items affecting comparability.

The numbers 2000-2001 are Teleca excluding Sigma and Epsilon.

Key data, Teleca Group

	2003 Jan.-Sept.	2002 Jan.-Sept.	2002 Jan.-Dec.
Number of employees, period-end	2,636	2,352	2,374
Average number of employees	2,461	2,073	2,152
Net sales per employee, SEK thousands	747	703	971
Return on operating capital, %	1.5	3.6	5.0
Return on capital employed, %	1.8	3.7	5.2
Return on equity, %	-0.4	1.4	2.5
Equity/assets ratio, %	68.5	67.9	66.8
Net debt/equity, %	9.6	10.4	8.9
Current ratio	1.1	1.1	1.1
Gross margin, % (EBITDA)	7.7	11.1	10.9
Operating margin before goodwill amortisation, % (EBITA)	5.8	9.7	9.5
Operating margin, % (EBIT)	1.7	5.0	5.0
Profit margin, %	1.0	4.5	4.4
Number of shares, period-end	61,079,516	59,079,516	59,079,516
Ditto fully diluted	61,079,516	59,079,516	59,079,516
Number of shares, average	60,035,072	56,505,912	57,149,313
Ditto fully diluted	60,035,072	56,505,912	57,149,313
No of warrants with subscription price below current share price, period-end	0	0	0
No of warrants with subscription price over current share price, period-end	1,712,610	1,816,725	1,712,610
Earnings per share after full tax, SEK	-0.14	0.46	0.83
Ditto fully diluted, SEK	-0.14	0.46	0.83
Earnings per share after full tax excl. goodwill amortisation, SEK	1.11	1.67	2.48
Ditto fully diluted, SEK	1.11	1.67	2.48
Shareholders' equity per share, SEK	31.72	33.37	33.44
Ditto fully diluted, SEK	31.72	33.37	33.44
Share price, period end	45.4	23.0	29.6



Accounting principles

This Interim report has been created in accordance with the Swedish Financial Accounting Standards Council recommendations and declarations. The same accounting principles and calculation methods have been used in the most recent Annual Report, with the additions described below.

During the year, the Swedish Financial Accounting Standards Council issued a number of new recommendations.

As from 2003, the Group is affected by recommendation RR22, dealing with the reporting of overdraft facilities. This means that, in this interim report, the Group's overdraft facilities are reported as a current liability. The comparative data have been duly adjusted. However, the aim of the overdraft facility is long-term.

Forthcoming report dates

Year-end report (Q4) 2003: 13 February 2004

Telephone conference

Teleca will be presenting the company and the Interim Report during a telephone conference held at 9.00 AM (CET) at Operaterassen, Stockholm, on 21 October 2003. The conference will also include a Question and Answer (Q&A) session with President & CEO Nick Stammers.

Dial in number: +46 8 5980 6243

The presentation can also be viewed on the Internet: www.teleca.com

This Interim Report has not been subject to an examination by the company's auditors.

Stockholm, October 21, 2003

Teleca AB (publ)

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For the Board of Directors:

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Dan Olofsson, Chairman of the Board



The interim report may be ordered from the Company or downloaded from Teleca's website.
www.teleca.com

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This information is also available in Swedish.

Teleca is an international consulting company developing and applying advanced technology. The company's business concept is to strengthen the customers' market position and time to market. Teleca builds and integrates solutions for technology and software intensive customers worldwide. Core values are honesty, reliability and hard work. The company has more than 2,600 employees with operations in 15 countries in Asia, Europe and USA. Teleca is quoted on the Attract40 list of Stockholmsbörsen (Stockholm stock exchange). www.teleca.com

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