teleca

Teleca AB (publ)
Year-end Report, January - December, 2003

Weak 2003 – positive outlook for 2004

- **Sales increased 17% to SEK 2,456 M (2,090). International sales corresponded to 48% of total sales**

- **Earnings after tax SEK –169 M (48). Earnings per share SEK –2.80 (0.83). Dividend SEK 0 (0.75)**

- **Operating profit (EBITA) SEK 52 M (198)**

- **Obigo meets forecast. Sales SEK 127 M (69) and operating profit (EBITA) SEK 26 M (8)**

- **Cash flow from current operations was 155 M (79)**

- **Forecast for 2004: Sales are expected to continue to grow and operating profit (EBITA) is expected to increase substantially compared with 2003**

New CEO

Nick Stammers informed the board on 10 February 2004 that he was resigning as CEO. Teleca's chairman Dan Olofsson has been appointed acting CEO until a new CEO is appointed.

Business and market update

General market comments

Teleca's markets in 2003 were characterised by a two-speed environment of fast and slow. International Mobile Devices markets, including Obigo, showed significant growth while some local markets in Europe remained weak. The second half of the year showed some positive signs of slow recovery, which has continued in 2004.

For Teleca, 2003 was a disappointing year. Despite a fairly good start to the year, a sharp downturn in a few local Swedish and French operating units, led to substantial losses and restructuring costs, that had a negative impact on the group's profit. Despite problems in some areas Teleca has continued to expand. During 2003 sales grew by 17%. International sales growth was 28% and Swedish sales growth was 9%.

There has been significant price pressure on weak local markets. In addition, Teleca's calculated average price (revenue per hour worked) has also been affected by some fixed-price projects and by negative currency effects related to the stronger Swedish krona against the US dollar and the UK pound. The combined effect of these three factors was a fall of 9% during the year.

With a strong focus on sales and the launch of a new project in the autumn to reduce off-charge consultants, Teleca has successfully improved utilisation during 2003 to 70% (68) with utilisation during Q4 at 71%. The initiative has been successful, with the number of people off-charge decreasing. This positive trend has continued into 2004.

In the Mobile Device area demand from Asian companies has been very strong with Asian sales growing significantly to SEK 243 M (73). This growth has been supported by new Teleca operations established during the year in Korea and Japan . Mobile Devices' expansion has also continued in Europe with new operations in France (YacCom acquired), Finland, Germany and UK (Geoworks' UK operations acquired). The internationalisation strategy has resulted in increased international sales 2003, to 48% (44) of total sales.

In most business areas demand for higher-value solutions and services has increased. Teleca has continued to make strategic investments in reusable solutions and products in the Operators and Mobile Devices segments that provide a competitive advantage and reduce customer's costs .

Specific items affecting profitability

During the three-year economic downturn Teleca has shown operational profit all years. At the end of a downturn specific items tends to increase. The profit for 2003 was much lower than expectations. In general, the main reason for the decreased profit is the weak market combined with the costs for restructuring units where demand has been low.

The following specific items should be mentioned to understand the difference between the EBITA results of SEK 57 M for Q4 2002 and SEK -55 M for Q4 2003:

- In May 2003 Teleca started a large project based on a time and materials agreement. During the past few months Teleca has been negotiations with the customer ro replace the time and materials agreement with a fixed-price agreement for the whole project, which is due to be completed in September 2004. A principal agreement regarding price has now been reached, which means that Teleca will be paid roughly 25% less than previously expected for the entire project. Teleca decided to agree to this reduction in order to secure future business opportunities.

  Assignments at fixed price are recognised according to the degree-of-completion method. This week's principal agreement on a lower-than expected fixed-price level has meant recalculating recorded revenues in 2003. Until the entire project is finally negotiated, which is expected to take to the end of March, the judgement is that there is an impending risk of the project incurring losses. The board of directors has therefore decided to take a cautious view of the current situation and make a provision of approximately SEK 45 M, including the effects of the recalculation, in the accounts for 2003. After signing the final contract this may be adjusted in the annual report for 2003.

- The performance of some operating units in Sweden and France during Q4 led to more restructuring, with about 80 people being redundant in five units. The outlook for these units in 2004 is promising, and they are expected to be profitable from Q1 2004. The restructuring costs for Q4 2003 were SEK 27 M.

- The fixed-price projects mentioned in the 9-month interim report continued to affect Q4 revenues. The effect on the operating result was SEK 11 M in Q4. These projects will have no impact on the results as from Q1 2004.

- The strengthening of the Swedish krona against the US dollar and UK pound during 2003 has had a negative effect on Teleca's result. If the exchange rate had remained the same as during Q4 2002, Teleca's results in Q4 would have been approximately SEK 9 M higher.

One of Teleca's operations in France has not shown satisfactory profitability in 2003. Teleca has therefore decided on a lump-sum write-down of SEK 60 M of the unit's goodwill, thereby reducing it from SEK 93 M to SEK 33 M.

Business Areas

The strong demand in the Mobile Devices business area has continued in Q4. During the year Teleca gained a significant position in the international market for systems development and integration of software for mobile phones. This means that Teleca has also taken on more strategic and larger projects. Teleca is therefore reinforcing the methods and tools it needs to run these kinds of projects in a structured and methodical way. To achieve a competitive and cost-effective advantage Teleca continues to invest in mobile device related IPR including PC connectivity and Obigo. An important trend is the increasing demand for reusable software which enables Teleca to offer more unique software solutions with potential for increased margins in the future

The Network Equipment business area has been stable during Q4, owing to long-term outsourcing agreements. From June 2004 onwards, Teleca faces the challenge of replacing former guaranteed revenues connected to the outsourcing business. Teleca has seen some signs of an upturn in the market and has recently been successful in winning new business.

Margins in the Operators business area have continued to be affected by two fixed-price projects during Q4. These effects will end from Q1 2004. The trend in the Operators business area is positive with 3G networks now being rolled out on a larger scale, which in turn is increasing the demand for 3G platforms and applications. Teleca has also recently won some projects relating to its network optimisation offerings. The business in southern Europe continued to expand.

The Industrial IT & Automation business area, Benima, continued to be weak during Q4 and some restructuring was necessary. The nuclear and pharmaceutical industries continue to be the strongest markets. In general, the business now looks more stable and an improvement in profitability is expected.

The Automotive business area has won some interesting orders from both vehicle manufacturers outside Sweden and international suppliers to vehicle manufacturers. The local Swedish market shows some signs of improvement.

The Enterprise and Life Science business areas were very weak during 2003 with more restructuring taking place in Q4. However, intensified sales have delivered many new customers during the second half of 2003, which provides a better platform for positive development in 2004. Following the restructuring, supply and demand is in better balance and the business areas are expected to deliver better results from Q1 2004.

Sales by market segments, SEK M

Business Area	Sales Jan.-Dec.	Share %	Business Area	Sales Jan.-Dec.	Share %
Mobile Devices	887	36	Enterprise	221	9
Telecom Equipment	384	16	Life Science	162	7
Industrial	346	14	Automotive	76	3
Operators	344	14	Others	36	1

Sales by region, SEK M

Country	Sales Jan.-Dec.	Share %	Country	Sales Jan.-Dec.	Share %
Sweden	1 282	52	USA	61	3
Europe exkl. Sweden	857	35	Rest of World	13	0
Asia	243	10			

Approximate sales per region based on invoicing addresses

Obigo

Obigo developed well during 2003 and achieved its goals. The full-year revenues were SEK 127 M (69), with an operating income (EBITA[1]) of SEK 26 M (8). Royalty revenues have started to ramp up.

During 2003, Obigo won 21 new customers, and a total of 47 new contracts were signed. In total, Obigo has more than 50 customers, mainly located in Asia. Teleca is expecting to continue to win new customers during 2004. However the focus will be to expand the business with existing customers.

The Obigo application suite is expanded with new applications on an ongoing basis. In addition to own developed applications during 2003 the Obigo offer has also increased with new applications from partners. Examples are the addition of a media player from Philips, Scalable Vector Graphics (SVG) from Zoomon, and Instant Messaging and Presence Services (IMPS) from Ecrio.

Obigo's strengthening position and increasing revenues have led to the roadmap for new applications being increased to meet customer demand and operator requirements, thus taking advantage of current business opportunities. During the fourth quarter there was also an increase in capitalized development costs (see the "Investments" section). Obigo's R&D unit will be expanded and the number of sub-consultants reduced. The support organisation will be reinforced in line with the increasing number of customers.

Since there is still a mixture of contracts with and without royalties, volumes are very hard to calculate in detail. Teleca estimates the total number of mobile phones produced with Obigo software during 2003 to be about 60 million units. During 2004 Teleca is expecting a substantial increase in the number of units produced with Obigo. Teleca is also expecting the number of Obigo applications shipped per unit to continue to increase during 2004.

The outlook for Obigo is positive and sales as well as profits are expected to increase substantially during 2004 compared with 2003. Cost is expected to gradually increase. Due to variations in

[1] Since there is no amortization of goodwill, EBITA and EBIT for Obigo show the same result. 2002 sales and EBITA numbers are proforma.

licensee fees and royalties in existing contracts, the profit for the first half of 2004 is expected to be similar to 2003, but increase substantially the second half.

Sales and earnings

Sales during year 2003 increased 17% to SEK 2,456 M (2,090). Sales outside Sweden accounted for 48%. Sales per employee increased 2% to SEK 984 KSEK (971).

Excluding acquisitions, organic growth was 9%, part of which is due to outsourcing agreements with Ericsson in France and Norway. Excluding outsourcing agreements organic growth was 1%.

Operating profit before goodwill amortization (EBITA) amounted to SEK 52 M (198 M). The margin (EBITA) was 2% (9%).

Profit after financial items amounted to SEK –126 M (91).

Personnel

The average number of employees increased 16% to 2,496 (2,152). The number of employees at the end of the period was 2,708 (2,374).

Liquid funds and financial position

Telecas cash flow from current operations was 155 M (79). The improvement is due to better cash management. The Group's liquid funds amounted to SEK 158 M (193). During Q4 the remaining loan notes to the sellers of Teleca Ltd of SEK 98 M was repaid.

The Group's interest bearing net debt amounted to SEK 142 M (175). The net debt/equity ratio was 8% (9). Group shareholders' equity amounted to SEK 1,799 M (1,976). The equity/assets ratio was 65% (67).

On 14 May 2003 the Board of Directors decided on a directed new share issue of 2,000,000 series B shares to a limited number of institutional investors. The decision was based on an authorization from the Annual General Meeting held on May 6, 2003. The purpose of the new share issue was to finance the acquisitions of YacCom, Geoworks and the remaining outstanding shares in AU-System after completed compulsory acquisition. The shares were placed at a price of SEK 32.00 per share and raised SEK 63 M to the company, after expenses related to the issue.

Investments

The Group's investments during the period totalled SEK 126 M (1,184), of which SEK 40 M (1,080) was invested in goodwill, which is almost entirely connected to the acquisition of YacCom and Geoworks. The remaining SEK 87 M (74) was invested in equipment, software development, IPR and other.

The group has recorded SEK 53 M (21) as intangible fixed assets due to investments in software development during the period. Of this SEK 43 M (19) are investments in Obigo and SEK 10 M (0) is investments in PC Connectivity Suite. Depreciation for the period amounts to SEK 16 M (3). The deprecation period used for software development is 3 years.

Tax

Total tax expenses for 2003 amounted to SEK 43 M. Approximately SEK 16 M is attributable to current tax expenses, the remaining amount relates to revaluation of deferred tax asset of SEK 23 M and adjustment of tax from prior years of SEK 4 M.

Parent Company

Sales during the period totalled SEK 76 M (48). After net financial items, a profit of SEK 19 M (5) was reported. Liquid funds totalled SEK 43 M (154).

During the period, the Parent Company invested SEK 47 M (1,260) in shares in subsidiaries. In addition, SEK 4 M (1) was invested in equipment.

Incentive programs

During Q4 warrant program TO 2B, 00/03 with 600,000 detachable warrants carrying the right to subscribe for a total of 828,000 Series B shares at the subscription price of SEK 198.4 per share expired. No holder of these warrants used the right to subscribe for new shares during 2003.

During 2003 the maximum number of newly subscribed shares from Teleca's employee stock option program was reduced from 130,803 to 96,269 due to employees leaving the company. The subscription price is SEK 158. No holder of employee stock options used the right to subscribe for new shares during 2003.

At the end of the year Teleca had outstanding warrants carrying the right to subscribe for a total of 850,076 Series B shares, in three different programs. None of the warrants had a subscription price that was lower than the share price on 31 December 2003.

Forecast

Teleca has carried out substantial restructuring during 2003 to balance the effects of low utilisation caused by weak local markets. Loss-making units are now expected to be profitable. By constantly focusing on sales and efficiency Teleca expects the gradual increase in utilisation to continue.

Several business areas show signs of the markets starting to pick-up and Teleca has a positive market outlook . However, it is still too early to talk of a general upward trend. Teleca expects continued strong demand in the Mobile Devices business area including Obigo and PC Connectivity with increasing international sales.

The board of directors' forecast for Teleca 2004:
Sales are expected to continue to grow. Profit (EBITA) is expected to be substantially higher compared to 2003 (SEK 52 M). Owing to Teleca's weak performance during the autumn the improvements in profits is expected to be gradual.

The board of directors' forecast for Obigo 2004:
Sales and operating profit (EBITA) are expected to be substantially higher than 2003 (SEK 127 M and SEK 26 M).

Condensed consolidated income statement, SEK M

	2003 Jan-Dec.	2002 Jan.-Dec.	2003 Oct.-Dec.	2002 Oct.-Dec.
Net sales	2,455.5	2,090.1	617.6	632.3
Capitalized development cost	52.6	21.1	18.3	10.0
Personnel expenses	-1,643.5	-1,328,6	-458.0	-385.1
Other operating expenses	-761.1	-554.0	-215.9	-190.7
Depreciation	-51.4	-30.8	-16.8	-9.9
Goodwill amortisation	-160.4	-94.1	-85.1	-26.0
Operating profit (EBIT)	**-108.3**	**103.7**	**-139.9**	**30.6**
Operating margin, %	*-4.4*	*5.0*	*-22.6*	*4.8*
Profit/loss from financial items *)	-17.9	-12.5	-4.6	-5.4
Profit after financial items	**-126.2**	**91.2**	**-144.5**	**25.2**
Profit margin. %	*-5.1*	*4.4*	*-23.4*	*4.0*
Minority interests	0.0	0.0	0.0	0.0
Taxes	-42.6	-43.6	-15.7	-3.7
Profit for the period	**-168.8**	**47.6**	**-160.2**	**21.5**
Operating profit before goodwill amortisation (EBITA)	52.1	197.9	-54.7	56.6
Margin before goodwill amortisation, %	2.1	9.5	-8.9	9.0
Earnings per share after full tax, SEK	-2.80	0.83	-2.62	0.36
Earnings per share after full tax excl. goodwill amortisation, SEK	-0.14	2.48	-1.23	0.80

*) *Financial items Jan.-Dec 2003 consists of net interest costs of SEK 12.3 M, exchange losses of SEK 4.6 M, and other financial items of SEK 1,0 M. For Jan.-Dec. 2002 it consists of net interest costs of SEK 4.8 M, exchange losses of SEK 7.1 M and other financial items of SEK 0,5 M.*

Condensed consolidated balance sheet, SEK M

	Dec. 31, 2003	Dec. 31, 2002
Assets		
Goodwill	1,562.6	1,721.4
Other intangible assets	59.8	23.5
Fixed assets	205.8	195.2
Current assets	755.8	782.9
Other interest bearing assets	4.8	43.0
Liquid funds	158.4	193.2
Total assets	**2,747.2**	**2,959.1**
Shareholders' equity and liabilities		
Shareholders' equity	1,799.0	1,975.7
Minority share in shareholders' equity	0.0	0.1
Provisions *)	39.8	46.3
Long-term liabilities, interest bearing	6.2	7.1
Long-term liabilities, non interest bearing	13.1	15.0
Current liabilities, interest bearing	295.9	400.1
Current liabilities, non interest bearing	593.2	514.8
Total shareholders' equity and liabilities	**2,747.2**	**2,959.1**
*) Incl. interest bearing	3.4	4.0

Changes in shareholders' equity, SEK M

	2003 Dec. 31	2002 Dec. 31	2003 Oct.-Dec.	2002 Oct.-Dec.
Amount at the beginning of the period	1,975.7	870.2	1,937.6	1,971.4
New share issue for acquisitions *)	62.7	1,158.9	-	0.1
Warrants	–	2.5	-	2.5
Translation differences	-26.3	-62.3	21.6	-19.8
Dividend	-44.3	-41.2	-	-
Profit for the period	-168.8	47.6	-160.2	21.5
Amount at the end of the period	**1,799.0**	**1,975.7**	**1,799.0**	**1,975.7**

*) *After deduction for issue costs.*

Condensed consolidated cash flow analysis, SEK M

	2003 Jan.-Dec.	2002 Jan.-Dec.
Cash flow from operations	36.6	149.7
Change in working capital	118.5	-70.3
Cash flow from current operations	*155.1*	*79.4*
Investment operations	-130.2	66.9
Financial operations	-59.7	-141.2
Changes in liquid funds	**-34.8**	**5.1**

Quarterly trend

	2000				2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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	617.6
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	-54.7
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	-8.9
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	63.0
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	2,708

*) *Excluding items affecting comparability.*
The numbers 2000-2001 are Teleca excluding Sigma and Epsilon.

Key data, Teleca Group

	2003 Jan.-Dec.	2002 Jan.-Dec.
Number of employees, period-end	2,708	2,374
Average number of employees	2,496	2,152
Net sales per employee, SEK thousands	984	971
Return on operating capital, %	-5.3	5.0
Return on capital employed, %	-4.2	5.2
Return on equity, %	-8.9	2.5
Equity/assets ratio, %	65.5	66.8
Net debt/equity, %	7.9	8.9
Current ratio	1.0	1.1
Gross margin, % (EBITDA)	4.2	10.9
Operating margin before goodwill amortisation, % (EBITA)	2.1	9.5
Operating margin, % (EBIT)	-4.4	5.0
Profit before tax, margin, %	-5.1	4.4
Number of shares, period-end	61,079,516	59,079,516
Ditto fully diluted	61,079,516	59,079,516
Number of shares, average	60,296,183	57,149,313
Ditto fully diluted	60,296,183	57,149,313
No of warrants with subscription price below current share price, period end	0	0
No of warrants with subscription price over current share price, period end	850,076	1,712,610
Earnings per share after full tax, SEK	-2.80	0.83
Ditto fully diluted, SEK	-2.80	0.83
Earnings per share after full tax excl. goodwill amortisation, SEK	-0.14	2.48
Ditto fully diluted, SEK	-0.14	2.48
Shareholders’ equity per share, SEK	29.45	33.44
Ditto fully diluted, SEK	29.45	33.44
Share price, period end	34.0	29.6

Accounting principles

This Interim report has been prepared 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.

Dividend

The board of directors proposes that no dividend be paid for the financial year 2003.

Stockholm, February 13, 2004
Teleca AB (publ)
(Corp. reg. no. 556250-3515)

Board of Directors

Review Report for the Year-end Financial Report 2003

We have performed limited review procedures on the year-end financial report of Teleca AB (publ) identity no. 556250-3515 and interim report for the fourth quarter 2003 in accordance with the recommendation issued by the Swedish Institute of Certified Public Accountants (FAR).

A limited review is considerably limited in scope compared with an audit.

Nothing has come to our attention that causes us to believe that the financial statements do not comply with the requirements of the stock Exchange rules and the Annual Accounts Act.

DELOITTE & TOUCHE AB

Hans Pihl
Authorized Public Accountant

Annual General Meeting

The Annual General meeting will be held in Malmö Börshus, Skeppsbron 2, Malmö, Sweden on May 6, 2004 at 17.00 hours. Notice of the Meeting will be made through press advertisements and is also in the Company's Annual Report, which is expected to be distributed to the shareholders in April 2004. Thereafter, the Annual Report will be available on the Company website, at www.teleca.com or can be ordered from Teleca's head office.

Forthcoming report dates

Three-month interim report (Q1) 2004:	May 6, 2004
Six-month interim report (Q2) 2004:	July 16, 2004
Nine-month interim report (Q3) 2004:	October 21, 2004
Year-end report (Q4) 2004:	February 10, 2005

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 February 13, 2004. The conference will also include a Question and Answer (Q&A) session with acting CEO Dan Olofsson.
Dial in number: +46 8 598 062 43
The presentation can also be viewed on the Internet www.teleca.com

This 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 2,700 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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