



Interim report

January – June, 1999

Telelogic January - June, 1999:

- Continued sharp increase in sales.
61% growth during the first six month period
- Our first big UMTS order
License agreement with IDC of the US
- A new world standard takes shape
Collaboration with the leading standardization organizations
- Acquisition of product technology
Strengthened position on the real-time market
- Rapid increase in share prices
A 74% increase since our listing on the Stock Exchange in March.

Continued sharp increase in sales

Telelogic continued to see a sharp increase in sales during the period, with organic growth of 45% during the first quarter and 50% during the second quarter. Telelogic has experienced a 61% growth rate in the last six months. The growth includes the acquisition of the Company's German distributor in May, 1998.

The main cause of the Company's growth during this period is the sharp increase in the sales of Telelogic services. Income from services increased by 189% between January and June, while the Company's license income increased by 29%.

Telelogic has already built up a well-developed training program, and during the early part of 1999, the Company concentrated on developing its services in other areas.

Continued expansion of our range of services through acquisition

The Company's sale of services will continue to be closely linked to software delivery. Telelogic's service activities play a vital role in securing the Company's position as a supplier of total solutions.

The Company intends to expand its services, in part, through acquisition. The acquisition of Objectif of France, shortly after the close of the second quarter, was an important step towards achieving a complete range of services.

The Company's long-term aim is for the total sale of services to constitute 40% of its activities.

Positive earnings trend

As planned, Telelogic sustained a loss during this period. However, the rate of decline slowed down considerably during the second quarter. Telelogic sustained losses of 12.2 million SEK during the six-month period. These losses amounted to 8.8 million SEK in the first quarter and 3.4 million SEK in the second quarter.

When considering Telelogic, it is important to take into account the seasonal variation in the Company's operations, with revenues tending to be lower during the first half of the year than during the second half. Although the 1998 expansion of the organization had a great effect on Telelogic's cost situation in the early part of 1999, its full impact on Company revenue is not expected before the second part of the year.

Outsourcing agreement with Ericsson

The Company's major contract with Ericsson in April marked a breakthrough for our applications development activities. Ericsson signed an outsourcing agreement with Telelogic regarding the development environment of AXE switchboards. Under this

agreement, Telelogic is managing a project that is jointly funded by Telelogic and Ericsson.

Licensing agreement with IDC regarding UMTS development

The American software company, Interdigital Communications, Inc. (IDC) chose Telelogic to be the supplier of its development environment. In this project, IDC is to supply software for next generation of mobile telecommunications systems (UMTS).

A new world standard takes shape

In order to meet the ever greater demands arising due to the development of modern communications systems, the Company will continue to actively collaborate with two of the world's leading standardization organizations, the OMG and ITU-T, in creating a new world standard for the development of real time systems. The new standard is to be based on a combination of the SDL and UML development languages.

Telelogic's emphasis in its OMG activities is on improving the real-time properties of UML, which are vital in order to promote wide usage within the communications industry. Telelogic has joint chairmanship in this development team, which gives the company ample opportunity to influence the resulting standard.

The ITU-T has already issued an initial description of the standard, and due to Telelogic's active participation, the Company has already been able to implement this part of the standard in its latest product release.

Acquisition of product technology

With the acquisition of the source code rights to Sterling's UML tools, Telelogic became the sole supplier of development environments that meet all the customer's software development requirements. Under this agreement, the two companies will also conduct joint product development, marketing and sales activities.

This collaboration is expected to begin affecting Telelogic's license sales as early as 1999, increasing them by 10 million SEK. The Company expects to sell the first licenses during the fourth quarter. By using the combination of SDL and UML, the Company also expects to take over a significant proportion of its competitors' sales in the long run.

Telelogic will amortize the cost of the source code rights over a five-year period, starting from the third quarter, this year. Considering the Company's sales forecast, Telelogic expects to see a rise in profits as early as 1999. Upon the seller's request, the purchase sum is not being disclosed .

Advance presentation in Japan

During this period, Telelogic organized an advance presentation of its Japanese product version, to be launched this autumn. In June, a demo version of the product was presented in a series of seminars. The product was very well received by the select audience, which consisted of around one hundred customers from the major Japanese communications companies. This gives us excellent prospects for strengthening our market position in Japan still further.

A rapid increase in share price

Telelogic's shares have enjoyed great success since the Company's listing on the Stock Market in March. During the period, our shares rose by 74%, which is considerably above the average for IT companies.

Financial position

The company's listing on the O-list of the Stockholm Stock Exchange yielded 90 million SEK after issue expenses. With the stock issue, the number of shares of the Company increased from 6,000,000 to 8,000,000. Liquid assets amounted to 64 million SEK on June 30, 1999. No major investments were made during the period. The stock issue caused our equity to asset ratio to climb from 11% to 55%.

Increased recruitment efforts

After taking a breather during the first quarter, the Company hired 19 new staff members in the second half of the period, resulting in a total staff increase of 26 people since the start of the year. Most of the new employees are consultants and salespeople at the Company's subsidiaries. In the spring, Telelogic improved its introduction program for new employees, which the Company considers a key factor in ensuring our continued growth. The Group's staff totaled 246, as of June 30, 1999.

Outlook for 1999

The Company's previous predictions of profits and a net sales increase of over 50% for 1999 remain unchanged. Telelogic saw its market position strengthened during the first half of the year, and will continue its activities according to the expansive plan it is currently following.

Malmö, Sweden, August 17, 1999
The Board of Directors

SDL and UML

Telelogic is a company that relies strongly on its basic technology. To promote a better understanding of the Company's activities, Telelogic intends to gradually introduce new concepts in its financial reports.

The SDL and UML development languages constitute the core of Telelogic's products. Both languages are graphic and intuitively easy to comprehend. UML is of particular value in the early phases of the software development process, where analysis plays a central role. SDL, on the other hand, is suitable for design and code generation, which is the next step in the software development process. UML in its basic form is not meant for real-time development, which is one of the main strengths of SDL.

This interim report has not been subjected to special inspection by Telelogic's auditors.

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Financial information:

Dates for financial information:

- Interim report for the period January 1 – September 31, 1999, to be released on October 19, 1999.
- Preliminary report for 1999, to be released on January 20, 2000.

Key ratios

	January – June 1999	January – June 1998	1998
Net sales (SEK million)	116.2	72.3	178.4
Sales increase (%)	61	60	69
Operating margin (%)	-10.2	1.0	1.3
Profit margin (%)	-10.5	0.1	0.6
Profit/loss after net financial income/ expense (SEK million)	-12.2	0.1	1.0
Profit per stock, after dilution & tax (SEK)	Negative	0.0	0.10
Stockholder's equity per share (SEK)	11.30	1.90	2.00
Equity to asset ratio (%)	55	13	11
Number of employees at close of period	246	171	220

All amounts are in millions of SEK:

Summary of income statement

	Jan – June, 1999	Jan – June, 1999	1998
License and maintenance income	74.3	57.8	134.8
Consulting and other income	41.9	14.5	43.6
Net sales	116.2	72.3	178.4
License and maintenance expenses	-6.8	-5.4	-11.9
Consulting and other expenses	-24.7	-7.3	-25.1
Gross margin	84.7	59.6	141.4
Selling expenses	-57.9	-32.2	-78.2
Administrative expenses	-15.8	-10.3	-18.6
Product development expenses	-22.9	-16.4	-42.3
Operating profit/loss	-11.9	0.7	2.3
Net financial income/expenses	-0.3	-0.6	-1.3
Net income/loss after financial items	-12.2	0.1	1.0
Taxes	-	-0.1	-0.9
Net profit/loss after tax	-12.2	0.0	0.1

Summary of the balance sheet

	June 30, 1999	June 30, 1998	Dec 31, 1998
Intangible capital assets	15.4	17.9	16.2
Tangible capital assets	16.2	13.0	14.7
Accounts receivable	56.6	42.9	56.3
Other current receivables	10.6	10.0	14.3
Cash and bank	64.0	3.6	9.7
Total assets	162.8	87.4	111.2
Stockholder's equity	90.0	11.2	12.2
Long-term liabilities	0.9	27.0	29.3
Accounts payable	15.0	9.4	13.1
Prepaid expenses and accrued income	45.0	27.8	37.5
Other liabilities	11.9	12.0	19.1
Total equity and liabilities	162.8	87.4	111.2

Summary of changes in financial position

	Jan – June, 1999	Jan – June, 1998	1998
Cash flow from operations	-5.1	-8.2	0.3
Investment activities	-4.7	-25.7	-29.9
Financial activities	64.1	34.6	36.4
Change in liquid assets	54.3	0.7	6.8
Liquid assets – start of the period	9.7	2.9	2.9
Liquid assets – end of the period	64.0	3.6	9.7