Interim Report
April - June
2002

Telelogic April - June 2002:

- Positive operating income in second quarter
  SEK 9.0 M in earnings and substantially improved operating margin
- New sales of licenses increased 17% compared to the first quarter
  Telelogic DOORS accounted for most of the increase
- Positive growth in USA & Asia
  Increase in sales, with excellent profitability
- Strong development within the aerospace/defense industry
  Contracts signed with BAE Systems, Lockheed Martin &
  the Joint Strike Fighter Project
- Several new products launched
  ActiveCM, Tau Tester and DOORS Asian version open new markets
- Positive cash flow during the first six months
  SEK 54.6 M in positive cash flow. Liquid assets totaled SEK 175.4 M

Strengthened market position

Telelogic's sales for the second quarter totaled SEK 290 M (USD 29.9 M) as compared to SEK 292 M (USD 27.8 M) in the first quarter. Telelogic does 91% of its invoicing in foreign currency, and is being negatively affected by the strengthened Swedish krona. Compared with the second quarter of 2001, sales in Swedish kronor fell SEK 110 M, SEK 105.9 of which were in the telecom sector.

During the second quarter, licenses and maintenance accounted for 78% of total sales, a continued increase over the year's first quarter. New sales of licenses increased by 17% compared with the first quarter, and totaled SEK 133.6 M. One reason for this was the strong growth within the aerospace/defense industry, where a number of major license contracts were signed during the quarter.

Sales from consulting operations totaled SEK 65 M, a decline of 22% compared to the previous quarter. Compared with the second quarter of 2001, there has been a 55% drop in consulting operations. This is primarily a result of the streamlining measures that Telelogic has implemented over the past twelve months. Consulting operations have historically been concentrated in the telecom segment. Demand within this segment has been very weak during the past year. Since the middle of last year, Telelogic has therefore substantially reduced its number of consultants, and successively shifted the consulting operations to other segments where demand is stronger and more stable. With the ongoing streamlining measures, the total number of consultants will be half what it was at the end of the first six months of 2001. These measures are expected to be fully implemented during the third quarter.

The market in Asia showed positive growth, with a sales increase of 18% compared with the year's first quarter. This is partially a result of a conscious broadening of the customer base directed towards key accounts within the consumer electronics sector and the aerospace/defense industry.

Operations in Europe are still growing weakly, although stably. The exceptions are Germany, Italy and Scandinavia, where sales have fallen off somewhat in comparison with the first quarter.

Sales in the US continue to show positive development. Calculated in local currency, sales increased in the second quarter by 3% compared to the year's first quarter. Translated into Swedish kronor however, sales in the US declined by 5% due to the strengthened krona.

Telelogic's sales during the second quarter were 28% lower than in the same period the previous year. Besides the weakened market climate compared to the second quarter of 2001, this is a result of Telelogic having streamlined its operations, primarily in consulting, but also through sales of a number of peripheral products.

Earnings
Earnings continued to improve strongly compared with the corresponding period for the previous year. Earnings excluding goodwill amortization and restructuring costs were SEK 9 M, as compared to SEK -73.9 M for the same period of the previous year.

The operating margin, excluding goodwill amortization and restructuring costs, thereby improved during the past twelve-month period of declining sales by 21 percentage points, and is now at 3.1%.

Costs have fallen further during the second quarter, as the bulk of the cost-cutting measures initiated during 2001 made their impact. Total costs including restructuring costs were reduced 8% from the first to the second quarter. Total costs will continue to decrease somewhat during the third quarter as well.

Restructuring costs totaled SEK 8 M during the quarter. Income after net financial items was thus SEK -3.2 M. During the next six months Telelogic will continue to rationalize the operations. Total costs, including possible restructuring costs will however continue to decrease.

Improved gross margin
Telelogic has successively improved its gross margin, which reached 71.0% in the second quarter. The gross margin for license sales has increased somewhat as well, but the improved total gross margin is attributable mainly to the fact that sales of licenses and maintenance are accounting for an increasingly greater share of total sales.

The margin for consulting operations continues to be weak. This is primarily because the percentage of consultants with low billing rates has increased. Telelogic is successively reducing the number of consultants as a part of the already initiated streamlining program, and the measures are not expected to achieve their full effect on the gross margin for consulting before the fourth quarter.

Telelogic has also initiated discussions with an external party concerning the future of the component operations. Major investments are necessary if the component operations are to continue to grow favorably. Telelogic's consulting margin continues to be negatively encumbered by the component operations. Excluding component operations, the consulting margin amounted to 21% during the quarter.

Strong growth in aerospace/defense
Dependence on telecom continues to decrease as Telelogic gradually broadens its customer base. Income from the telecom industry in the second quarter accounted for 32% of sales, compared to 50% for the same quarter of the previous year. Among the bigger contracts within the segment was the purchase by a major American telecom provider of a large number of licenses for Telelogic Tau, valued at SEK 11 M. Telelogic's corporate agreement with Ericsson was renewed and expanded during the quarter.

Operations within the aerospace/defense industry have grown strongly, accounting for 21% of sales in the second quarter as compared to 15% for the same quarter the previous year. A number of contracts were signed during the quarter, strengthening Telelogic's market position. During the quarter, BAE Systems Avionics chose to standardize all the requirements management in their development environment, based on Telelogic DOORS. Lockheed Martin also simultaneously signed a similar contract, as the consortium for the Joint Strike Fighter decided to implement DOORS for all requirements management in the project. The unit in Australia, which signed its first substantial contract with a customer in the aerospace/defense segment during the fourth quarter of 2001, also landed a number of other major contracts, including a seven-year agreement with the Australian Department of Defense valued at SEK 32 M.

Telelogic sales to the automotive industry remained strong in the second quarter. Sales were higher in the second quarter this year compared to the same period the previous year. The same applies to the aerospace/defense industry and to the financial market, which has shown an increase in volumes compared to the second quarter of 2001. On the other hand, the telecom segment declined 53% over the past year. Sales to the telecom industry in Swedish kronor decreased by SEK 105.9 M, while the overall decline in sales for the same period totaled SEK 110 M.

The medical/pharmaceutical industry is a segment in which Telelogic has had a few isolated customers for quite some time, but this area is now becoming increasingly attractive. During the quarter, a major contract was signed with, among others, St. Jude Medical, which decided to implement DOORS over a three-year period.

DOORS - continued strong growth
New sales of Telelogic DOORS licenses continue to increase. DOORS saw an increase of 32% compared to the first quarter, and an increase of 18% compared to the second quarter of 2001. Both Telelogic Tau and Telelogic Synergy have dropped off in comparison with the second quarter the previous year. Telelogic Tau accounts for the largest decline, which is attributable to the product’s heavy dependence on the telecom sector.

New products launched
During the quarter, Telelogic introduced a number of new and, in some cases, totally unique products that will further enhance Telelogic's international competitiveness in the company's primary markets.

ActiveCM™ is an innovative module within the Telelogic Synergy™ family that automates and simplifies configuration management.

Telelogic Tau®/Tester™ is the company’s new test product, based on the market's first fully dedicated test language. Just prior to the launch, Tau Tester was selected as a reference tool within the 1394TA global trade association for developing tests for multimedia products.

A version of Telelogic DOORS for Asian characters was introduced during the quarter. Telelogic's sales in Asia – primarily in Japan, China and Korea – had previously been largely limited to the products within the Telelogic Tau family, insofar as only they had been available in an Asian version.

Telelogic

Considerably improved integration between DOORS and Synergy was also introduced in June, laying the foundation for an improved integration platform for all of Telelogic's products in the future.

As a part of Telelogic's policy of offering open solutions to enable integration with the solutions that customers prefer, Telelogic was elected to the board of the industrial consortium Eclipse during the quarter.

Personnel
The number of employees at the end of the quarter totaled 927, a decrease from 950 employees at the end of the previous quarter, and from 1,375 as of mid-2001. This is a result of the previously initiated program of streamlining measures, which was intended to cut costs and focus on core activities.

As a part of the cost-cutting program, a salary reduction program was introduced in the fourth quarter of 2001 that temporarily cut salaries by 10%. In the second quarter a large part of the organization has met the goals. As a result, salaries at these units will return to 95% of their original levels. The US, Korea and India met the requirements for three quarters in succession, and salaries there were consequently restored to 100% of the previous levels as of July 1. This corresponds to a cost increase of approximately SEK 6 M per quarter. Total costs will however continue to decline somewhat during the third quarter.

Financial position
Cash flow for current operations during the first half of the year totaled SEK 87.1 M. The SEK 40.4 M in investments pertains mainly to capitalized product development, which is somewhat lower than the current depreciation rate of SEK 43.4 M. During the first half of the year, the employee stock options program brought in SEK 13 M, while loan payments totaled SEK 5.1 M.

In combination, this yielded positive cash flow of SEK 54.6 M. Liquid assets as of June 30, 2002 totaled SEK 175.4 M.

Outlook for 2002
Because there are no signs of a quick recovery in the telecom industry this year, and the expectations for generally increased willingness to invest are conservative, Telelogic anticipates that it will be difficult to achieve growth also during the second half of 2002 comparable to the same period in 2001. Instead, Telelogic will focus on improving operating income and cash flow.

Despite an anticipated weak market, we forecast that the operating income for 2002 will improve significantly in comparison with 2001 and that it will be positive, excluding goodwill amortization and restructuring costs. The goal of achieving positive cash flow for the entire year 2002 is still in place. The cash flow at an accumulated level is also expected to be positive at the close of each quarter.

The goal of achieving a 20% operating margin, excluding goodwill amortization, for the year 2004 stands firm. The goal is also to return to growth in 2003 and 2004.

Malmö, Sweden
July 18, 2002

The Board of Directors

This report has not been subject to special review by Telelogic's auditors.

During the period, there has been no modification of the accounting principles.

Product Launches

ActiveCM is an innovative module for Telelogic Synergy that automates up to 90% of the manual work that a developer must normally perform with a configuration tool. This opens up new opportunities for configuration management to a broader target group among both new and existing customers.

Tau Tester is Telelogic's new test development solution based on the international standard TTCN-3, the market's first fully dedicated test language. With Tau Tester, customers can develop a number of new tests in areas in which it was not previously possible to do so using earlier versions of the TTCN language. Moreover, the tool is not limited to a particular customer sector, in contrast to TTCN Suite, which was oriented toward a particular type of testing within the telecom industry.

Telelogic DOORS, the market-leading tool for requirements management, has been launched in a version for Japanese, Chinese and Korean characters. This opens up an entirely new market for Telelogic DOORS.

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Financial Information

Dates for financial information:

- Interim Report, Jul-Sep: October 17, 2002
- Annual Statement, 2002: January 22, 2003

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

Income Statement in Summary

	Apr-Jun 2002	Apr-Jun 2001	Jan-Jun 2002	Jan-Jun 2001	2001	2000
Licensing and maintenance revenues	224.8	254.1	433.6	492.5	970.5	569.6
Consulting and other revenues	65.2	145.9	148.4	282.5	524.5	311.6
Net sales	**290.0**	**400.0**	**582.0**	**775.0**	**1,495.0**	**881.2**
Licensing and maintenance expenses	-22.1	-30.8	-44.2	-59.1	-113.0	-57.5
Consulting and other expenses	-61.9	-95.8	-133.4	-186.3	-351.0	-196.5
Gross income	**206.0**	**273.4**	**404.4**	**529.6**	**1,031.0**	**627.2**
Sales expenses	-123.2	-225.9	-245.5	-428.9	-739.7	-362.8
Administrative expenses	-29.2	-48.4	-59.8	-96.0	-168.0	-92.2
Product development expenses	-44.6	-73.0	-88.9	-143.2	-260.9	-171.5
Operating income excl. restructuring costs and goodwill amortization	**9.0**	**-73.9**	**10.2**	**-138.5**	**-137.6**	**0.7**
Restructuring costs	-8.0	0.0	-30.0	0.0	-120,0	0.0
Goodwill amortizations during the year	-5.0	-31.3	-10.4	-61.1	-126,3	-50.4
Goodwill write-down	0.0	0.0	0.0	0.0	-1,737.6	0.0
Operating income incl. goodwill amortization	**-4.0**	**-105.2**	**-30.2**	**-199.6**	**-2,121.6**	**-49.7**
Net financial income/expense	0.8	0.8	-1.1	1.3	-2.0	8.1
Net income after financial items	**-3.2**	**-104.4**	**-31.3**	**-198.3**	**-2,123.6**	**-41.6**
Tax	0.0	18.1	0.0	38.0	72.4	-7.1
Income after tax	**-3.2**	**-86.3**	**-31.3**	**-160.3**	**-2,051.2**	**-48.7**

Operating Key Ratios

	Apr-Jun 2002	Apr-Jun 2001	Jan-Jun 2002	Jan-Jun 2001	2001	2000
Revenue change (%)	**-28**	**185**	**-25**	**219**	**70**	**177**
Licensing and maintenance revenues	-12	230	-12	245	70	171
Consulting and other revenues	-55	130	-47	182	68	189
Gross margin (%)	**71.0**	**68.4**	**69.5**	**68.3**	**69.0**	**71.2**
Gross margin licensing and maintenance revenues	90.2	87.9	89.8	88.0	88.4	89.9
Gross margin consulting and other revenues	5.1	34.3	10.1	34.1	33.1	36.9
Indirect expenses in % of revenue	**67.9**	**86.8**	**67.7**	**86.2**	**78.2**	**71.1**
Sales expenses in % of revenue	42.5	56.5	42.2	55.3	49.5	41.2
Administrative expenses in % of revenue	10.1	12.1	10.3	12.4	11.2	10.5
Product devel. expenses in % of revenue	15.4	18.3	15.3	18.5	17.5	19.5
Operating margin excl. restructuring costs and goodwill (%)	**3.1**	**-18.5**	**1.8**	**-17.9**	**-9.2**	**0.1**
No. of employees at end of period	916	1,375	916	1,375	1,010	1,260

Financial Key Ratios

	Apr-Jun 2002	Apr-Jun 2001	Jan-Jun 2002	Jan-Jun 2001	2001	2000
Income after tax per share before dilution (SEK)	**-0.03**	**-0.64**	**-0.17**	**-1.19**	**-13.82**	**-0.45**
Income after tax per share after dilution (SEK)	**-0.02**	**-0.62**	**-0.15**	**-1.15**	**-12.39**	**-0.43**
Average number of shares during the period, before dilution (million)	199.0	135.3	196.0	135.2	148.5	107.3
Average number of shares during the period, after dilution (million)	214.6	140.3	211.3	140.2	165.5	113.0
Cash & Bank (SEK million)	**175.4**	**89.8**	**175.4**	**89.8**	**128.4**	**240.8**
Equity/assets ratio (%)	**58.8**	**77.4**	**58.8**	**77.4**	**49.5**	**76.0**
Equity per share (SEK)	3.6	17.8	3.7	17.8	4.8	21.8
Market price at end of period (SEK)	6.60	16.00	6.60	16.00	8.30	52.50
Market value at end of period (SEK million)	1,320	2,165	1,320	2,165	1,572	6,582

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Balance Sheet in Summary

	30 Jun , 2002	30 Jun, 2001	31 Dec, 2001	31 Dec, 2000
Goodwill	266.8	2,105.1	301.3	1,951.1
Source code rights	5.7	8.6	7.1	8.8
Capitalized development expenditure	114.0	32.8	75.0	0.0
Tangible fixed assets	84.0	147.1	124.9	133.8
Financial fixed assets	181.6	139.0	183.5	102.0
Accounts receivable	307.5	472.1	486.3	537.6
Other current receivables	90.7	119.2	139.3	101.0
Cash & bank	175.4	89.8	128.4	240.8
Total assets	**1,225.7**	**3,113.7**	**1,445.8**	**3,075.1**
Equity, Note 1	720.1	2,410.0	716.2	2,337.2
Provisions	13.4	0.0	18.3	34.3
Interest-bearing long-term liabilities	50.2	54.2	58.0	4.4
Non-interest-bearing long-term liabilities	9.0	58.8	78.7	67.1
Interest-bearing current liabilities	0.5	0.0	2.1	0.0
Accounts payable	29.1	56.0	46.8	79.7
Accrued expenses and prepaid income	351.7	448.7	411.6	448.7
Other non-interest-bearing current liabilities	51.7	86.0	114.1	103.7
Total liabilities and equity	**1,225.7**	**3,113.7**	**1,445.8**	**3,075.1**

Cash Flow Analysis in Summary

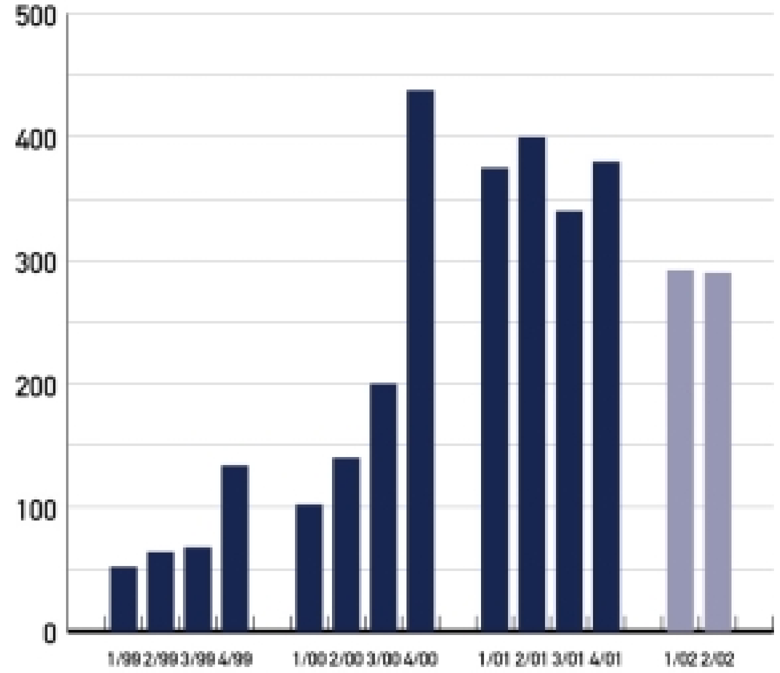
	Jan-Jun 2002	Jan-Jun 2001	Jan-Dec 2001	Jan-Dec 2000
Cash flow from current operations	87.1	-109.4	-219.4	-146.8
Investment activities	-40.4	-98.7	-160.7	-648.6
Financing activities	7.9	48.3	257.2	1,004.2
Cash flow during the period	**54.6**	**-159.8**	**-122.9**	**208.8**
Liquid funds at beginning of period	128.4	240.8	240.8	30.9
Exchange rate difference in liquid funds	-7.6	8.8	10.5	1.1
Liquid funds at end of period	175.4	89.8	128.4	240.8

NOTE 1 Equity, The Group

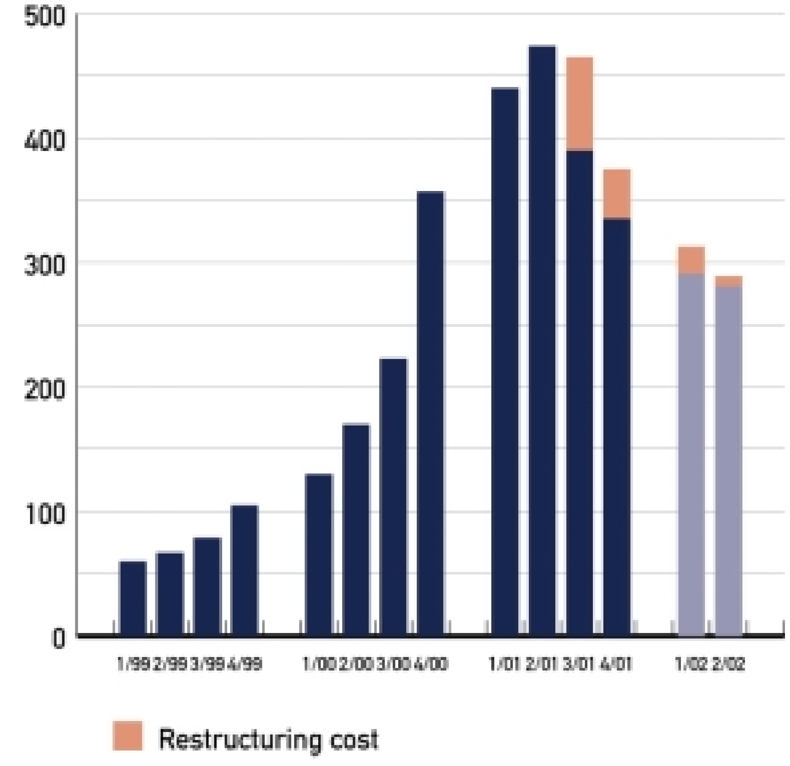
	No of shares Jan-Jun, 2002	MSEK Jan-Jun, 2002	MSEK Jan-Jun, 2001	MSEK 2001
Opening balance	189,406,634	716.1	2,337.2	2,337.2
New equity issues	10,612,444	65.8		195.1
New equity issues in progress				24.1
Exchange rate difference		-30.5	233.2	210.9
Income for the year		-31.3	-160.3	-2,051.2
Closing balance	**200,019,078**	**720.1**	**2,410.0**	**716.1**

Telelogic

REVENUE/QUARTER



COSTS/QUARTER



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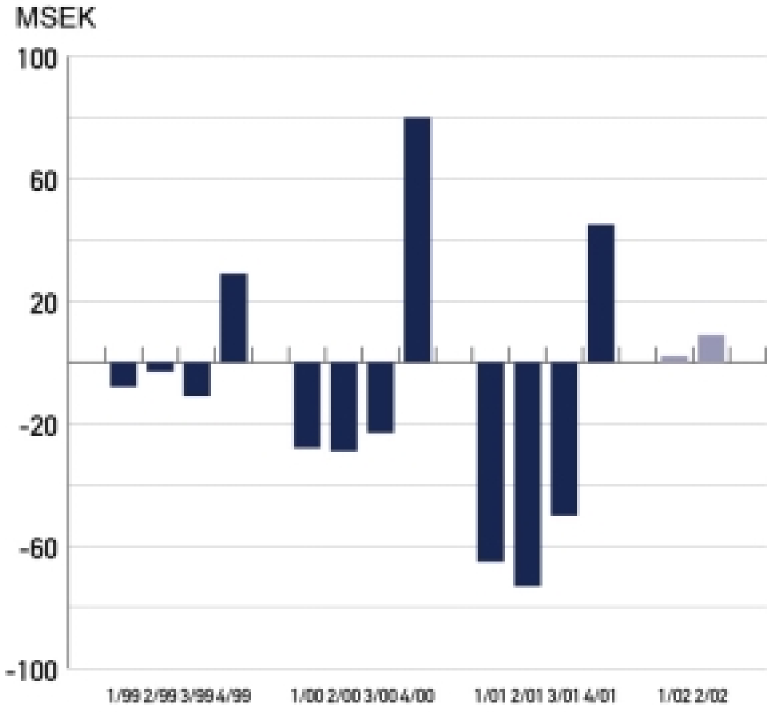
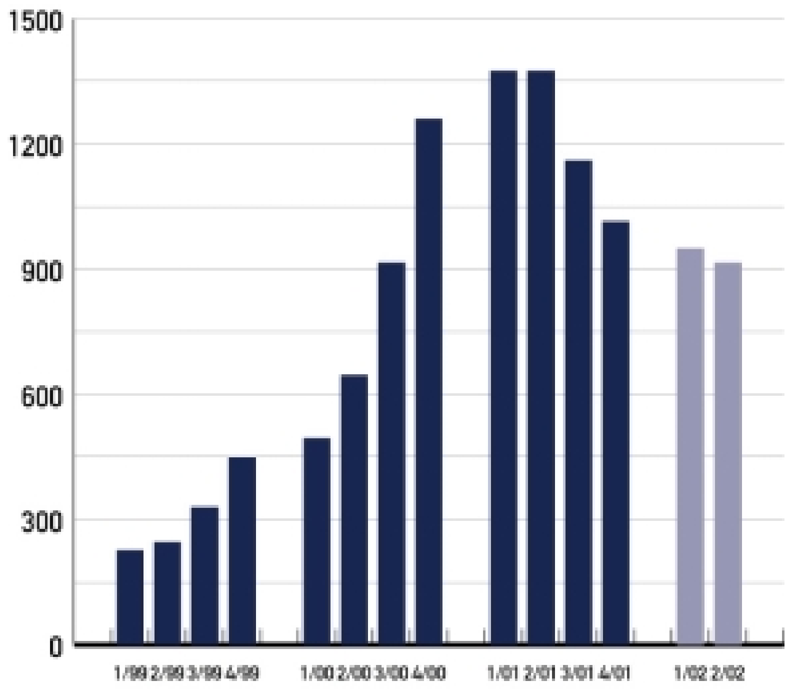
OPERATING INCOME EXCLUDING RESTRUCTURING COSTS AND GOODWILL



NUMBER OF EMPLOYEES



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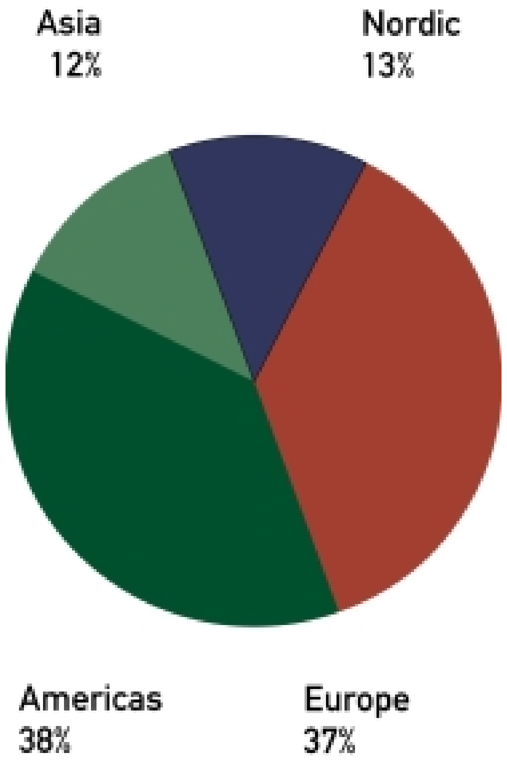
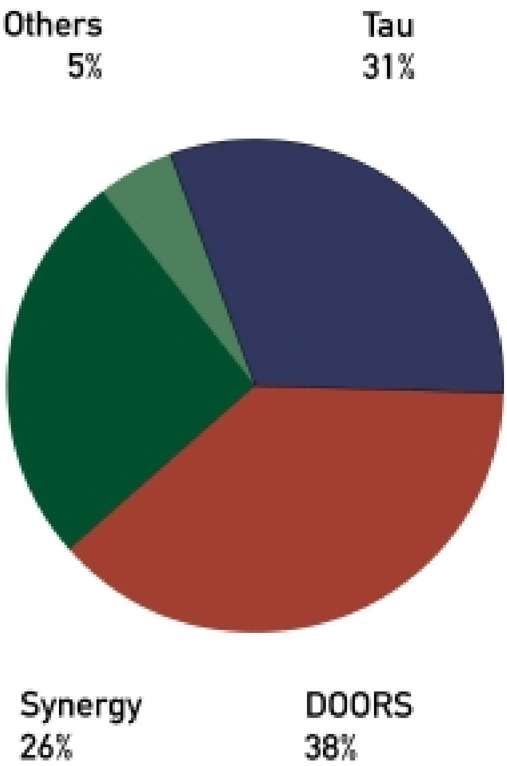
REVENUE/REGION (Apr-Jun)



REVENUE/PRODUCT (Apr-Jun)



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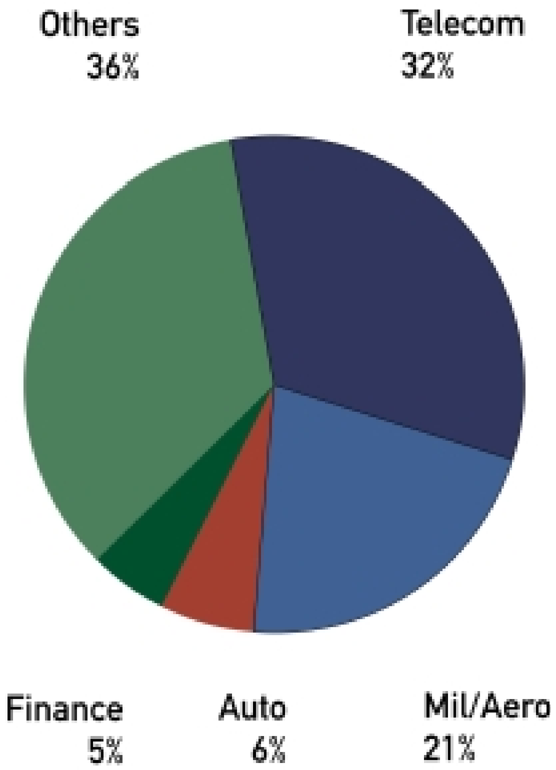
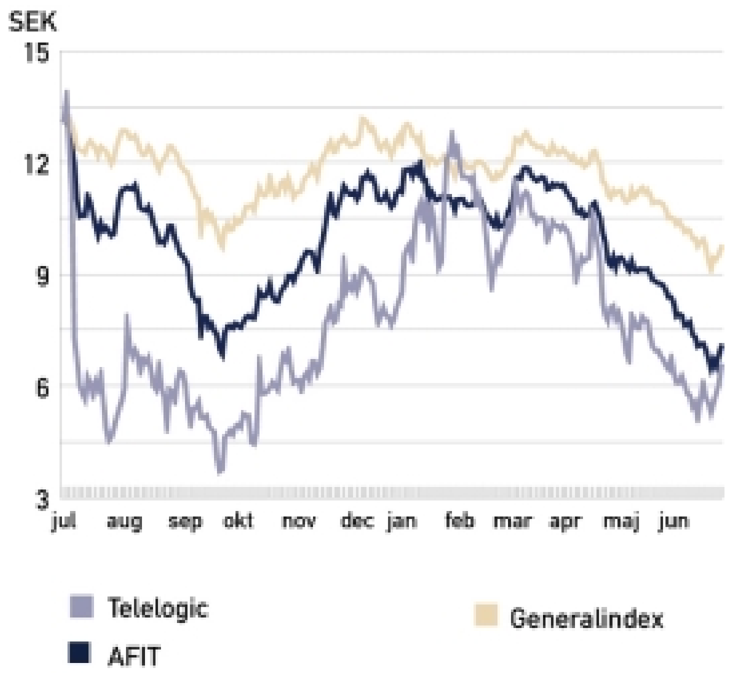
REVENUE/SEGMENT (Apr-Jun)



SHARE PRICE DEVELOPMENT



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