Teleca AB (publ)
Interim Report, January - June, 2002

Strong result - Q2 margin EBITA 10.0%

- **Teleca´s Mobile Suite has taken a strong position in the emerging global market for 3rd party software for handsets**
- **Broad base of development intensive customers essential for margins. The 3 main industries are Telecom 31%, Consumer Electronics 28% and Industrial and Automotive 21%**
- **Sales during the period amounted to SEK 957 M (608 M)**
- **Operating profit before goodwill amortization (EBITA) amounted to SEK 96.2 M (93.8 M). Profit after financial items amounted to SEK 45.8 M (67.0 M)**
- **Strong platform for European consolidation exemplified with outsourcing deal with Ericsson in France and public offer on Pronyx in Sweden**
- **Forecast 2002 remains firm: Significantly increased profit (EBITA) compared with the pro forma profit for Teleca and AU-System**

Teleca consolidates AU-System as from February 1, 2002. This report includes comparative Teleca pro forma figures for previous year, which excludes Epsilon and Sigma.

The Teleca Group

Teleca is a European consulting company focusing on R&D and new technology with a strong position in the Nordic countries, the UK and France. The Group has more than 2,200 employees in 13 countries, of which approximately 31% are based outside Sweden. Revenue outside Sweden is approximately 42%.

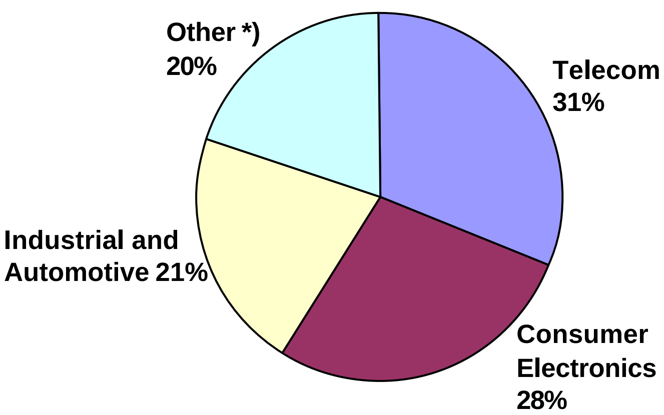
The Group's customers are leading technology companies, service operators and world-class IT users that need to develop new technologies or enhance existing solutions in the following markets:

- **Telecom:** switches, base-stations, PABXs, OSS, services, call handling, etc.
- **Consumer Electronics:** mobile terminals, PC peripherals, cameras, set-top-boxes, hi-fi equipment, etc.
- **Industrial and Automotive:** SCADA, robotics, materials handling, device control, simulation, validation, driver info, security and safety, engine management, telematics, etc.
- **Life Science:** pharmaceutical production control, laboratory instrumentation, medical devices, bioinformatics, tele medicine, etc.
- **Finance:** online banking, financial message processing, mobile banking solutions, etc.
- **Government:** business critical Content Management Systems, etc.

Customers rely on the engineering skills of the Group across the range from small devices such as mobile phones and smart-card readers to large-scale operations like financial networks, telecom networks and production plant control.

Examples of customers of the Group are; ABB, AMS, Ericsson, Hutchison 3G, Motorola, Nokia, One2One, Orange, Panasonic, Saab, Sagem, Samsung, Siemens, Sony Ericsson, Telia, Thales, Vattenfall and Volvo.

One reason why Teleca is maintaining a good margin is its broad customer base with a good spread in industry and geography. The 3 main industries are Telecom, Consumer Electronics, Industrial and Automotive.



*) whereof Life Science 7%, Government 6%, Bank/Finance 1% and others 6%

Market outlook

The focus remains on sales and efficiency as we work in weak and competitive markets. Our broad and strengthening geography and customer base provides a stable platform and our strong financial performance provides excellent possibilities in the downturn.

Valuations of target Teleca companies are attractive which creates consolidation opportunities as confirmed with the Ericsson outsourcing deal in France and Teleca's public offer on Pronyx. In addition to this customers increasingly look for stable partners to work with and this gives Teleca an edge. This is particularly true with regard to the outsourcing of R&D and major projects.

The merger between Teleca and AU-System is complete and work within the organisation continues in a normal way with focus on efficiency and sales synergies. The industrial logic and the potential to increase profit, is constantly reconfirmed according to the estimates made in the prospectus. Teleca's Mobile Suite continues to play a key role in the successful development of the Teleca Group (see "Teleca Mobile Suite").

All of Teleca's traditional markets remain stable but tough. Some price pressure continues in difficult markets where there is over capacity (e.g. Stockholm). The markets show no sign of a rapid upturn in the near future but with hard work there are still plenty of opportunities to be seized.

Teleca's strongest market remains terminal manufacturers, in particular demand for Mobile Suite is strong. Mobile operators still show good demand in the area of 3G Operational Support Systems and Services, and the Life Science and Industrial and Automotive markets are stable. The picture across Teleca's European market is similar but our global position in mobile terminals reduces geographic limitations. Teleca's order book has continued to strengthen during Q2 providing a stable outlook.

With a good start to Q3 and ongoing focus on sales and efficiency combined with a stable, broad market order book, we believe in continued gradual improvements during the rest of the year.

Teleca Mobile Suite

The Teleca *Mobile Suite* is a portfolio of software products that is the application layer needed to build a complete mobile phone including Internet browsing, messaging and content management. *Mobile Suite* works with all network bearer systems including GSM, CDMA and 3G, which means it is not so affected by delays in 3G. *Mobile Suite* supports MMS, SyncML and Java and provides high-level security.

The market for the Teleca *Mobile Suite* is expected to grow significantly over the next five years. Contracts for Mobile Suite have doubled in each of the last two years giving a total of 50 customers as at end June 2002 representing 40% of the estimated 120 potential customers. Example customers include: Arima, Condat AG, Hyundai, Infineon, LG Electronics Inc, Motorola Electronics and Communications Inc, Philips Semiconductors, Samsung Electronics Co. Ltd, Siemens VDO Automotive AG and SK Telecom.

Our estimates indicate that *Mobile Suite* will be integrated into 120 million mobile devices by 2003 representing approximately 35 percent of the total handset market (350 million handsets 2003: Frost&Sullivan). This gives Teleca a dominant market position and a huge potential for increased product and related services revenues in the years ahead.

Teleca has made a substantial investment during the last two years, which has lowered the profit. Focus has been on buildning a state of the art product and to reach a substantial market share. This has been accomplished. License revenues are now forecast to rise and generate profits starting with H2 2002. Teleca estimate that within two years the EBIT profit will exceed SEK 50 M. *Mobile Suite* is also a driver for highmargin consulting services with revenues related to *Mobile Suite* forecasted to rise approximately 15% per year from SEK105 M in 2002. The broad *Mobile Suite* customer base provides an excellent platform for Teleca to develop other consulting revenues.

From August 2002 the *Mobile Suite* operation will run as a separate subsidiary called *Teleca Mobile Technologies AB*. This is done to have focused management with specific skills in selling software and running product development, but also to have a clear follow-up and to facilitate structural deals.

See Appendix for further information regarding the Teleca *Mobile Suite*.

Sales and earnings

Sales during the first six months 2002 increased 57% to SEK 957 M (608 M). Sales outside Sweden accounted for 42%. Sales per employee amounted to SEK 484 thousands (499).

Operating profit before goodwill amortization (EBITA) amounted to SEK 96.2 M (93.8 M). The margin (EBITA) was 10.0% (15.4%). The combined margin for Teleca and AU System during full year 2001 was 7.9%. It increased to 10.1% during Q1 and 10.0% during Q2. Q2 has 2 less working days than Q1 this year, which corresponds to approximately 3% in sales and margin, given the same conditions.

Profit after financial items amounted to SEK 45.8 M (67.0 M).

Personnel

The average number of employees increased 63% to 1,978 (1,217) (AU-System is consolidated from February 1). The number of employees at the end of the period was 2,234 (1,246, December 2001).

Liquid funds and financial position

The Group's liquid funds amounted to SEK 226 M (245 M December 2001). During Q2 the Group's liquid funds was effected by payment of dividend of SEK 41.2 M and repayment of loan notes and interest costs of SEK 162.8 M to former owners of Teleca Ltd.

The Group's interest bearing net debt amounted to SEK 153 M (SEK 162 M December 31, 2001 and SEK 110 M March 31, 2002). Included in the net debt is a long term debt instrument to the sellers of Teleca Ltd in the amount of SEK 156 M. The net debt/equity ratio was 8% (19% December 31, 2001).

Group shareholders' equity amounted to SEK 1,942 M (870 M, December 2001). The equity/assets ratio was 69% (58% December 2001).

Investments

The Group’s investments during the period totalled SEK 1,080 M, of which SEK 1,022 M was invested in goodwill, which is almost entirely connected to the acquisition of AU-System AB. The remaining SEK 58 M was invested in machinery and equipment, whereof SEK 43 M belongs to consolidation of machinery and equipment from AU-System.

According to a new recommendation from the Swedish Financial Accounting Standards council (Redovisningsrådet; RR 15, effective from January 1, 2002) the group has recorded SEK 6.2 M as fixed assets due to investments in software development arisen during the second quarter. Of this SEK 5.1 M is investments in Mobile Suite. Depreciation for the period amounts to SEK 0.5 M. Compared to accounting principles complied until 2001 this has an effect of SEK 5.7 M on the result. The deprecation period used for software development is 3 years. Based on transitional regulation according to RR 15 when the recommendation is implemented, historical expenses for software development not capitalized, should not be adjusted to RR 15. Hence, the implementation of the new recommendation has not had any effect on comparative periods.

Acquisitions and divestments during the period

Teleca and Ericsson finalised an outsourcing agreement where **Ericsson's French research and development** activities were transferred to Teleca. As part of the agreement 185 employees were transferred from Ericsson to a new Teleca subsidiary in France. The R&D outsourcing contract runs for an initial three-year period.

The new subsidiary will focus on projects and outsourced R&D. Leveraging from the centre's long experience in full lifecycle projects. Teleca will work on a variety of telecom services including core network and mobile technologies. Teleca will also work as an integration partner to Ericsson within mobile services and service platforms.

The agreement increases Teleca's staff in France to around 300 employees and is part of Teleca's strategy to focus growth in major European markets and to expand the outsourcing business.

The outsourcing agreement has had an immediate positive effect on Teleca's earnings and normal Teleca margins are expected within two years. The results from the new subsidiary are consolidated with Teleca from 1 June 2002.

In order to strengthen Teleca’s focus on R&D Teleca acquired the IT consulting company **Erda Technology** AB with 30 employees from Bure Equity. Erda strengthens Teleca’s position in Life Science. Erda will be incorporated with the operation of Teleca’s subsidiaries in Uppsala and Linköping and is consolidated from 1 April 2002.

Teleca sold the Business-to-Business agency **SandbergTrygg** with 80 employees to Bure Equity. This is not core business for Teleca and SandbergTrygg will have a better platform for development within Bure’s business area Media & Communication. SandbergTrygg is not consolidated with Teleca in Q2.

Projects and new agreements

The following are examples of assignments secured during the second quarter of the year, which may be mentioned without breaching the non-disclosure agreements with Teleca's customers:

Arbejdsmarkedsstyrelsen (AMS)	Teleca has signed a four year agreement with the Danish Labour Market Board for the development and maintenance of applications for digital labour exchange via the Internet.
AstraZeneca	Implementation of a new automation and surveillance system for new production line.
Axis-Shield	Teleca and Axis-Shield PoC AS have commenced collaboration for development of the next generations Point-of-Care instrument for the growing area of the In vitro Diagnostics market.
Ericsson	Renewal of the general agreement with Ericsson within the areas Research and Development and IS/IT.
Hi3G Access	Teleca has delivered a complete solution for number management to Hi3G. This enables Hi3G to manage number planning, number portability and USIM-cards in an efficient manner.
Hi3G, Orange Sverige, Vodafone and Svenska UMTS Nät (Telia and Tele2)	Teleca has concluded an agreement with the leading Swedish mobile operators for a technical solution and a financial calculation designed to form a basis for decisions regarding the rollout of a third-generation (3G) mobile telecommunication network within the Stockholm subway system.
Gijon	Development of SMS platform for the commune of Gijon, Spain.
Mitsubishi Electric	Teleca has secured a contract from Mitsubishi Electric to implement Bluetooth in the client company's latest micro controllers. The assignment includes software development, licensing and support.
National Semiconductor Corporation	Software development partner for their next generation of embedded Bluetooth chip-set.

Oniway	Delivery of customised web based tool for Quality assurance and certification of value added services and content for the Portuguese operator Oniway.
Saab Training Systems	Frame agreement regarding consultancy services within electronics-, software- and test system development.
Siemens ICM	Development of a mobile accessory for hearing disabled.
Starfish Software	Selected by Starfish Software as first Systems Integrator Program Partner. As a SIP partner, Teleca will deploy mobile data synchronization, connectivity and device management solutions in Europe.
Volvo Car Corporation	Teleca has been contracted to introduce the Anoto concept for digital paper at the Volvo assembly plant in Olofström, Sweden.

Important events after the period

In July 2002, Teleca made a public offer for Pronyx AB, which has 125 employees. If the offer is implemented, Teleca will integrate Pronyx's operations with Teleca's subsidiary Benima, which will have operations in Sweden, Norway, Denmark and Finland.

Information about the offer has been published in a prospectus, copies of which can be ordered through the Company, or downloaded from www.teleca.com

Forecast

Teleca is working hard to seize the opportunities that are created in a downturn. The ongoing strengthening of the company provides an excellent platform for continued success in the years ahead.

Teleca has successfully implemented a significant merger that almost doubled Teleca’s size in 2002. This has been achieved while increasing profits and margins during extremely tough market conditions.

Q3 has started well and the order book is good. There is strong demand for Teleca’s Mobile Suite and we see a very interesting future potential. Mobile Suite will generate increasing services and license revenues as we strengthen our global position in mobile terminals.

The Board of Directors’ forecast for 2002 remains firm, which means significantly increased profit (EBITA) compared with the pro forma profit for Teleca and AU-System during 2001 (SEK 173 M).

Actual Jan-June 2002 as well as June 30, 2002 shows Teleca incl. AU-System consolidated as from February 1, 2002
Pro forma Teleca Jan-June 2001 as well as June 30, 2001 shows Teleca excl. Epsilon and Sigma
Pro forma Teleca Jan-Dec 2001 as well as December 31, 2001 shows Teleca excl. Epsilon and Sigma.

Condensed consolidated income statement, SEK M

	Actual 2002 Jan-June	Pro forma Teleca 2001 Jan-June	Actual 2002 Apr-June	Pro forma Teleca 2001 Apr-June	Pro forma Teleca 2001 Jan-Dec
Net sales	957.0	607.8	526.1	309.9	1,187.8
Operating expenses	-848.2	-506.7	-467.5	-264.5	-991.7
Depreciation	-12.7	-7.3	-6.1	-3.8	-14.8
Goodwill amortization	-44.8	-20.7	-24.6	-11.4	-43.6
Items affecting comparability*)	0.0	-9.7	0	-7.6	-17.2
Operating profit (EBIT)	**51.4**	**63.4**	**27.9**	**22.6**	**120.5**
Operating margin, %	*5.4*	*10.4*	*5.3*	*7.3*	*10.1*
Profit/loss from financial items **)	-5.6	3.6	-4.1	0.8	5.4
Profit after financial items	**45.8**	**67.0**	**23.8**	**23.4**	**125.9**
Profit margin. %	*4.8*	*11.0*	*4.5*	*7.6*	*10.6*
Minority interests	0.1	0.1	0.0	0.0	0.2
Taxes	-28.5	-29.6	-16.3	-12.2	36.9
Profit for the period	**17.4**	**37.5**	**7.5**	**11.2**	**162.9**
Operating profit before goodwill amortization (EBITA)	96.2	93.8	52.4	41.6	181.3
Margin before goodwill amortization, %	10.0	15.4	10.0	13.4	15.3
Earnings per share after full tax, SEK	0.31	1.02	--	--	4.33
Earnings per share after full tax excl. goodwill amortization, SEK	1.13	1.58	--	--	5.49

*) *2001, pertains to expenses associated with the split up of the former Sigma Group into three listed companies*
**) *The financial loss of SEK 4.1 M in April-June includes translation differences of SEK 3.4 M*

Condensed consolidated balance sheet, SEK M

	Actual June 30, 2002	Pro forma Teleca June 30, 2001	Actual Dec. 31, 2001
Assets			
Fixed assets *)	1,868.1	831.4	893.8
Current assets	732.1	340.3	361.1
Liquid funds and other interest bearing assets	226.4	344.9	244.7
Total assets	**2,826.6**	**1,516.6**	**1,499.6**
Shareholders' equity and liabilities			
Shareholders' equity	1,942.5	790.3	870.2
Minority share in shareholders' equity	0.0	0.1	0.0
Provisions **)	47.7	30.1	35.4
Long-term liabilities, interest bearing	316.9	400.0	370.9
Long-term liabilities, non interest bearing	30.1	1.8	1.5
Current liabilities, interest bearing	58.9	64.0	32.5
Current liabilities, non interest bearing	430.6	230.3	189.1
Total shareholders' equity and liabilities	**2,826.6**	**1,516.6**	**1,499.6**
*) Incl. Goodwill	1,713.3	777.2	776.6
**) Incl. interest bearing	3.4	3.4	3.6

Actual Jan-June 2002 as well as June 30, 2002 shows Teleca incl. AU-System consolidated as from February 1, 2002
Pro forma Teleca Jan-June 2001 as well as June 30, 2001 shows Teleca excl. Epsilon and Sigma
Pro forma Teleca Jan-Dec 2001 as well as December 31, 2001 shows Teleca excl. Epsilon and Sigma.

Changes in shareholders' equity, SEK M

	Actual June 30, 2002	Pro forma Teleca June 30, 2001	Pro forma Teleca Dec.31, 2001
Amount at the beginning of the year	870.2	664.4	664.4
New share issue for acquisitions *)	1,151.0	60.8	60.8
Warrants	--	36.5	36.6
Shareholders contribution to Sigma	--	--	-48.5
Translation differences	-54.9	32.2	35.1
Dividend	-41.2	-41.1	-41.1
Profit for the period	17.4	37.5	162.9
Amount at the end of the period	**1,942.5**	**790.3**	**870.2**

*) *After deduction for issue costs*

Condensed consolidated cash flow analysis, SEK M

	Actual 2002 Jan-June	Pro forma Teleca 2001 Jan-June	Pro forma Teleca 2001 Jan-Dec
Cash flow from operations	74.8	65.4	147.5
Change in working capital *)	-130.5	-48.5	-109.5
Cash flow from current operations	-55.8	16.9	38.0
Investment operations	-1,103.8	-49.1	-115.9
Financial operations	1,141.2	199.7	168.0
Changes on liquid funds	**-18.3**	**167.5**	**90.1**

*) *Of the negative change in working capital, approx. SEK 99 M pertains to consolidation of AU-System*

Quarterly trend, pro forma

	1999				2000				2001				2002	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net sales, SEK M	135.7	145.6	135.3	153.3	205.6	212.9	214.8	299.1	297.9	309.9	282.8	297.3	430.9	526.1
Operating profit before amortization of goodwill (EBITA), SEK M	11.9	9.2	13.3	9.8	29.3	20.2	28.8	44.5	52.2*)	41.6*)	42.5*)	45.0*)	43.7	52.4
Margin (EBITA), %	8.8	6.3	9.8	6.4	14.3	9.5	13.4	14.8	17.5*	13.4*	15.0*)	15.1*)	10.1	10.0
Number of working days, approx.	61.5	59.5	66	63.5	63.5	59	65	63	63.5	59.0	64.0	62.0	62.0	60.0
Number of employees end of period	666	690	712	748.5	924	951	1,193	1,223	1,218	1,239	1,247	1,245	2,188	2,234

**) excl. items affecting comparability*
The numbers 1999-2001 are Teleca excluding Sigma and Epsilon.

Actual Jan-June 2002 as well as June 30, 2002 shows Teleca incl. AU-System consolidated as from February 1, 2002
Pro forma Teleca Jan-June 2001 as well as June 30, 2001 shows Teleca excl. Epsilon and Sigma
Pro forma Teleca Jan-Dec 2001 as well as December 31, 2001 shows Teleca excl. Epsilon and Sigma.

Key data, Teleca Group

	Actual 2002 Jan-June	Pro forma Teleca 2001 Jan-June	Pro forma Teleca 2001 Jan-Dec
Number of employees, period-end	2,234	1,239	1,245
Average number of employees	1,978	1,217	1,243
Net sales per employee, SEK thousands	484	499	956
Return on operating capital, %	2.6	5.3	15.2
Return on capital employed, %	3.0	6.2	13.4
Return on equity, %	1.2	6.2	21.2
Equity/assets ratio, %	68.7	52.1	58.0
Gross margin, % (EBITDA)	11.4	16.6	16.5
Operating margin before goodwill amortization, % (EBITA)	10.0	15.4	15.3
Operating margin, % (EBIT)	5.4	10.4	10.1
Profit margin, %	4.8	11.0	10.6
Number of shares, period-end	58,801,876	37,860,564	37,860,564
Ditto after exercise of warrants	59,401,876	38,460,564	38,460,564
Number of shares, average	55,232,690	37,335,911	37,598,238
Ditto after exercise of warrants	55,832,690	37,935,911	38,198,238
Earnings per share after full tax, SEK	0.31	1.01	4.33
Ditto after exercise of warrants, SEK	0.35		4.39
Earnings per share after full tax excl. goodwill amortization, SEK	1.13	1.56	5.49
Ditto after exercise of warrants, SEK	1.15		5.54
Shareholders' equity per share, SEK	35.17	21.17	22.98
Ditto after exercise of warrants, SEK	35.31		26.60

Actual Jan-June 2002 as well as June 30, 2002 shows Teleca incl. AU-System consolidated as from February 1, 2002
Actual Jan-June 2001 as well as June 30, 2001 shows Teleca incl. Epsilon and Sigma

Condensed consolidated income statement, SEK M

	Actual 2002 Jan-June	Actual 2001 Jan-June	Actual 2002 Apr-June	Actual 2001 Apr-June	Actual 2001 Jan-Dec
Net sales	957.0	1,610.3	526.1	762.3	2,478.2
Operating expenses	-848.2	-1,454.4	-467.5	-713.6	-2,247.1
Depreciation	-12.7	-21.1	-6.1	-10.9	-33.0
Goodwill amortization	-44.8	-53.1	-24.6	-26.7	-90.4
Items affecting comparability*)	0.0	-25.1	0	-18.8	-35.3
Operating profit (EBIT)	**51.4**	**56.5**	**27.9**	**-7.7**	**72.5**
Operating margin, %	*5.4*	*3.5*	*5.3*	*-1.0*	*2.9*
Profit/loss from financial items	-5.6	-3.6	-4.1	-3.5	-1.9
Profit after financial items	**45.8**	**53.0**	**23.8**	**-11.2**	**70.6**
Profit margin. %	*4.8*	*3.3*	*4.5*	*-1.5*	*2.8*
Minority interests	0.1	0.8	0.0	0.8	3.0
Taxes	-28.5	-35.8	-16.3	-8.9	38.4
Profit for the period	**17.4**	**18.0**	**7.5**	**-19.3**	**112.0**
Operating profit before goodwill amortization (EBITA)	96.2	134.8	52.4	37.8	198.2
Margin before goodwill amortization, %	10.0	8.4	10.0	5.0	8.0
Earnings per share after full tax, SEK	0.31	0.48	--	--	2.98
Earnings per share after full tax excl. goodwill amortization, SEK	1.13	1.89	--	--	5.38

*) *2001, pertains to expenses associated with the split up of the former Sigma Group into three listed companies*
**) *The financial loss of SEK 4.1 M in April-June includes translation differences of SEK 3.4 M*

Condensed consolidated balance sheet, SEK M

	Actual June 30, 2002	Actual June 30, 2001	Actual Dec. 31, 2001
Assets			
Fixed assets*)	1,868.1	1,397.1	893.8
Current assets	732.1	733.6	361.1
Liquid funds and other interest bearing assets	226.4	226.6	244.7
Total assets	**2,826.6**	**2,357.3**	**1,499.6**
Shareholders' equity and liabilities			
Shareholders' equity	1,942.5	1,199.6	870.2
Minority share in shareholders' equity	0.0	3.0	0.0
Provisions **)	47.7	38.7	35.4
Long-term liabilities, interest bearing	316.9	529.2	370.9
Long-term liabilities, non interest bearing	30.1	14.1	1.5
Current liabilities, interest bearing	58.9	40.3	32.5
Current liabilities, non interest bearing	430.6	532.4	189.1
Total shareholders' equity and liabilities	**2,826.6**	**2,357.3**	**1,499.6**
*) Incl. Goodwill	1,713.3	1,272.2	776.6
**) Incl. interest bearing	3.4	3.4	3.6

Actual Jan-June 2002 as well as June 30, 2002 shows Teleca incl. AU-System consolidated as from February 1, 2002
Actual Jan-June 2001 as well as June 30, 2001 shows Teleca incl. Epsilon and Sigma

Changes in shareholders' equity, SEK M

	Actual June 30, 2002	Actual June 30, 2001	Actual Dec.31, 2001
Amount at the beginning of the year	870.2	1,252.2	1,252.2
New share issue for acquisitions *)	1,151.0	60.8	60.8
Warrants	--	36.6	36.6
Distribution of Epsilon	--	-160.6	-160.6
Distribution of Sigma	--	--	-423.9
Translation differences	-54.9	33.7	34.2
Dividend	-41.2	-41.1	-41.1
Profit for the period	17.4	18.0	112.0
Amount at the end of the period	**1,942.5**	**1,199.6**	**870.2**

*) *After deduction for issue costs*

Condensed consolidated cash flow analysis, SEK M

	Actual 2002 Jan-June	Actual 2001 Jan-June	Actual 2001 Jan-Dec
Cash flow from operations	74.8	91.4	172.8
Change in working capital *)	-130.5	-85.8	-183.3
Cash flow from current operations	-55.8	5.6	-10.5
Investment operations	-1,103.8	-207.8	-266.7
Financial operations	1,141.2	232.8	349.0
Changes on liquid funds	**-18.3**	**30.6**	**71.8**

*) *Of the negative change in working capital, approx. SEK 99 M pertains to consolidation of AU-System*

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.

Forthcoming report dates

Nine-month interim report (Q3) 2002:	November 7, 2002
Year-end report (Q4) 2002:	February 20, 2003

Telephone conference

Teleca will be presenting the company and the Interim Report during a telephone conference held at 9 AM (CET) at Operaterassen, Stockholm, on August 29, 2002. The conference will also include a Question and Answer (Q&A) session with President & CEO Nick Stammers.
Dial in number: +44 (0)20 8241 0004
The presentation can also be viewed on the Internet.

Stockholm, August 29th, 2002
Teleca AB (publ)
(Corp. reg. no. 556250-3515)

Board of Directors

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

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APPENDIX – THE TELECA MOBILE SUITE

Introduction

Teleca owns a portfolio of software products for mobile devices known as the *Mobile Suite*. In 2003 according to our estimates *Mobile Suite* will be integrated into 120 million mobile devices representing approximately 35 percent of the total handset market (350 million handsets 2003: Frost&Sullivan). This gives Teleca a dominant market position and a huge potential for increased product and related services revenues in the years ahead.

Teleca (formerly AU-System) has been offering browser technology for more than three years. Teleca has more than 50 contracts today including major Asian, European and American handset, PDA, platform and chipset manufacturers, which represents a valuable customer base. Customers have selected Teleca's offering over that of competitors such as Openwave, Nokia, Microsoft, Magic4 and Access.

From August 2002 the *Mobile Suite* operation will be run in a separate subsidiary called *Teleca Mobile Technologies AB*. This is done to have focused management with specific skills in selling software and running product development, but also to have a clear follow-up and to facilitate structural deals.

In March 2002, Teleca launched the latest generation of the products. This document introduces the Teleca *Mobile Suite* and the value it represents.

Product Description

The Teleca *Mobile Suite* is a portfolio of application software products designed for mobile devices. Together they form a complete environment that can be integrated into mobile handsets and other compact devices. *Mobile Suite* is the application layer needed to build a complete mobile phone including Internet browsing, messaging and content management.

The core of the product suite is the Mobile Internet Client (MIC). MIC is the successor to the AU-System WAP browser, developed under close cooperation with Ericsson, and is currently used by the majority of the world's leading mobile device manufacturers. The MIC can browse WAP, Internet and i-mode sites and works with all network bearer systems including GSM, CDMA and 3G. Being independent of network bearer systems *Mobile Suite* is therefore not affected by delays in 3G rollout although a slowdown of Mobile Internet growth could have some effect. The Generic Layout Engine (GLE) is an optional extension package for MIC that makes it simple to implement customer-specific user interfaces on top of the device.

The MIC provides a platform for the other *Mobile Suite* products. Multimedia Messaging Services (MMS) are supported through the MMS client and the Security Package adds high-level security. The Java Application Manager (JAM) allows users to organise, run, exchange and find information about Java programs. The SyncML client forms the basis for synchronisation and device management services. The *Mobile Suite* also includes a gaming platform.

Key selling points are:

- *Mobile Suite* is an open standard platform;
- *Mobile Suite* has a small footprint;
- *Mobile Suite* is fast;
- *Mobile Suite* conforms to latest standards.

Teleca provides professional services for *Mobile Suite* system integration and the implementation of customer-specific user interfaces.

For more information on the products, see http://www.teleca.com/MobileSuite

Market

The mobile handset market is experiencing the same kind of development as the PC industry did fifteen years ago. Several brand names are outsourcing development and production of complete mobile phones to ODM's (Original Device Manufacturers) especially in Taiwan and China. In general, mobile phone manufacturers are shifting focus from major in-house development to marketing, branding, design and managing/sourcing of production.

Chipset vendors such as Agere, Infineon, Philips Semiconductors and Texas Instruments are striving to 'rise' in the value chain by offering software together with their chipsets. The chipset vendors have a strong position in the market and are likely to continue to have significant customer influence in the future. There are already a number of partnerships and ownership constellations such as Agere/Optimay, Infineon/Comneon and Texas Instrument/Condat. This moving playground opens up the market for specialist software suppliers like Teleca to be experts in certain segments of the value chain.

Today there is a significant latent demand in the mobile application environment market but a very limited number of credible 3rd-party, independent suppliers that base their offerings entirely on open standards. Existing and potential customers, operators as well as chipset partners are reacting very positively to the Teleca *Mobile Suite*.

The market for the Teleca *Mobile Suite* is expected to grow significantly over the next five years. Below are predictions of the global WAP browser, MMS client and Content Management (CM) market by Frost & Sullivan.

	2000	2001	2002*	2003*	2004*	2005*
WAP Handsets	100	190	270	350	400	440
MMS Handsets	0	5	22	73	155	311

* Forecasts from 2002 onwards ***Source: Frost & Sullivan***

Table 1. Global WAP and MMS enabled handset shipments (million unit shipments) 2000 – 2005.

Frost & Sullivan also provides estimates for CM - the third portion of the Teleca *Mobile Suite* corresponding to the Java Application Manager and SyncML client. Two scenarios are outlined, one in which CM takes off at approximately the same rate as MMS, and another in which it grows at about half the rate. In the following chart, 'high' and 'low' refers to the high or low takeoff scenario.

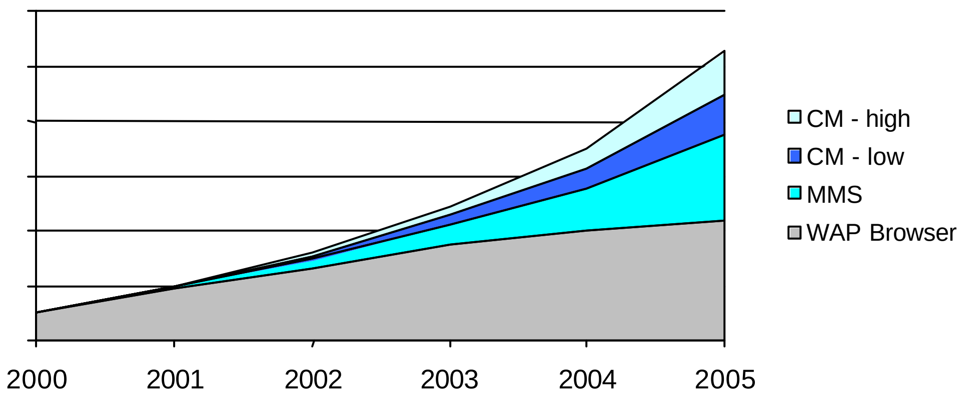

Chart 1. Estimated market growth for application software products corresponding to the Teleca Mobile Suite. Source: Frost & Sullivan.

We estimate that approximately 80 million mobile handsets sold from January 2000 to June 2002 worldwide include the former AU-System WAP browser. A comparison with Frost&Sullivan figures over the same period, (see table 1), suggests that Teleca has a market penetration of about 19% today.

Contracts for *Mobile Suite* have doubled in each of the last two years. Since it normally takes 6-12 months before a signed contract results in units on the market, our market penetration will continue to grow. We forecast that during 2003, 120 million sold handsets will include the Teleca *Mobile Suite* representing approximately 35% of the total market. As at end June 2002, Teleca had a total of 50 customers using the *Mobile Suite*, which represents 40% of the estimated 120 potential customers. The first mobile handset including the new MIC was launched in mid August 2002.

Market Position

There are a very limited number of credible players currently in the market of application software products designed for mobile devices. According to our own research, Teleca has more browser customers than any other supplier. In addition to Teleca there are four other key players in the browser market. Nokia mainly supplies to its own massive installed base of phones. Microsoft is likely to develop and maintain its prominent position in the WinCE PDA market while Openwave has built its offering on the back of its infrastructure business (e.g. WAP gateway provision). The remaining player, Access, has its core business in the historically quite distinct Japanese market.

One competitor in the MMS client market is Magic4. In the combined business of browser, MMS and future additional products, Teleca is the best-positioned company in the market, and as the demand for such an offering will grow as the number of data-enabled handsets expands significantly over the next five years, Teleca is positioned to be the major player in the market.

Of the competition Teleca is the only real consulting company. Through Teleca's service organisation and strong global sales network in 13 countries in Europe, US and Asia, our customers can benefit from advanced support and integration services. *Mobile Suite* is a driver for high margin consulting services with revenues related to *Mobile Suite* forecast to rise approximately 15% per year from SEK105 M in 2002. In addition the broad *Mobile Suite* customer base provides an excellent platform for Teleca to develop other consulting revenues.

Business Outlook

Teleca has more than 50 well-known customers for *Mobile Suite*. Due to confidentiality agreements, we are prohibited from mentioning them all. Some examples that we can mention include: Arima, Condat AG, Hyundai, Infineon, LG Electronics Inc, Motorola Electronics and Communications Inc, Philips Semiconductors, Samsung Electronics Co. Ltd, Siemens VDO Automotive AG and SK Telecom.

The license revenue has grown from SEK 21 M in 2000 to SEK 50 M in 2002 (forecast). Teleca's priorities during the last two years have been to build a state-of-the-art product suite and to reach a substantial market share - This has been accomplished. As customers look to offload a certain amount of risk to their supplier base, we believe the prevailing business model in the wireless applications arena will be royalty-based. In Q4 2001, a decision was taken to change the business model from a straight license revenue model to include royalty-based payments.

The above considerations have so far lowered the profit. We have now reached a phase where royalties will significantly increase revenues and profits. Our forecast as shown in the table below is based on a detailed, 'bottom-up' analysis, building on a customer-by-customer level projection of anticipated revenue, in conjunction with a detailed cost model. More than 80% of the revenues during H2 2002 are signed contracts.

Our estimate, based on our current view of the market, is that within two years Teleca will have software revenues exceeding SEK 100 M. Ca 50% of that is from existing contracts. The revenue will generate an EBIT profit of more than SEK 50 M. Regarding 2003, revenues from signed contracts will generate a profit over SEK 20 M and of course new contracts will add additional profit.

P&L 2000-2005 (MSEK)	**2000**	**2001**	**H1 2002**	**H2 2002**	**2002**
Annual support & straight license revenues - signed contracts	21	38	17	21	38
Annual support & straight license revenues - new contracts	0	0	0	6	6
Expected royalties from signed contracts	0	0	0	6	6
Expected royalties from new contracts	0	0	0	0	0
Total revenue	**21**	**38**	**17**	**33**	**50**
Product investments	-1	-21	-15	-16	-31
Operational expenses	-20	-21	-14	-16	-30
Activation of product investments	0	0	5	11	16
Depreciations of product investment	0	0	0	-2	-2
EBIT	**0**	**-4**	**-7**	**10**	**3**
Expected volumes of handsets with *Mobile Suite (M)*			80		
Market penetration (%)*			19		
*Revenue professional services***	*35*	*60*	*48*	57	105

* Compared to Frost&Sullivan market projections above.
** Professional services only refers to assignments in direct relation to *Mobile Suite*.

More than 90% of existing annual support and straight license revenue contracts have been extended every new year since the *Mobile Suite* operation started.

Due to changes in Swedish accounting policies, product investments have been activated from Q2 2002. These investments will be depreciated over 3 years, although we believe the investments could represent a tangible asset value longer.

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