



TELELOGIC ANNUAL REPORT

2004

Telelogic

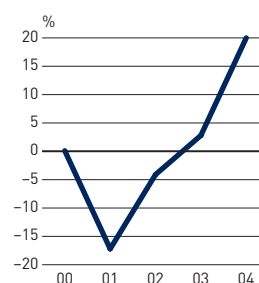
*We've reached our goal:
A 20% operating margin.
And we're moving forward!
Sales will increase fivefold in five years.*

Anders Lidbeck, CEO

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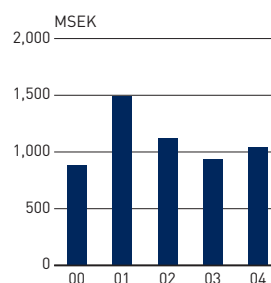
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OPERATING MARGIN (excl. goodwill)



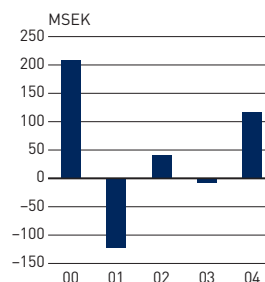
Since its initial public offering in 1999, Telelogic has had the long-term goal of achieving a 20% operating margin, excluding goodwill depreciations. With an operating margin of 24.4%, Telelogic reached this goal during the fourth quarter of 2004.

SALES



During the year, sales grew by 11% in Swedish crowns and by 15% converted to local currency.

CASH FLOW



In another strong year, Telelogic generated positive cash flow of SEK 116.4 million.

Telelogic's operations

Telelogic is the world-leading supplier of tools and solutions for developing advanced systems and software. Telelogic's products help automate the development lifecycle, increasing productivity, reliability and quality, while reducing time to market

Products and services

Telelogic DOORS – Requirements Management solution that captures, links, traces, analyzes and manages information to ensure conformance to requirements and compliance with regulations and standards.

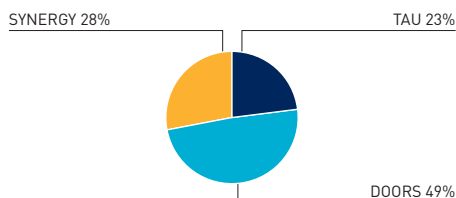
Telelogic TAU – A family of tools that automates best practices for a variety of design and development tasks, including systems engineering, software development for embedded and other advanced systems, quality assurance and testing.

Telelogic SYNERGY – Solution for change and configuration management, providing lifecycle control for your company's digital assets.

Consulting – Working with customers to collect requirements and develop programs to ensure their projects deliver the right product, on time and on budget.

While Telelogic's development tools are standalone products, they form seamlessly integrated solutions, providing comprehensive support for the development lifecycle (Application Lifecycle Management, ALM). Leading industry analysts have ranked Telelogic's products as the best in their class.

PRODUCTS, PERCENTAGES OF SALES

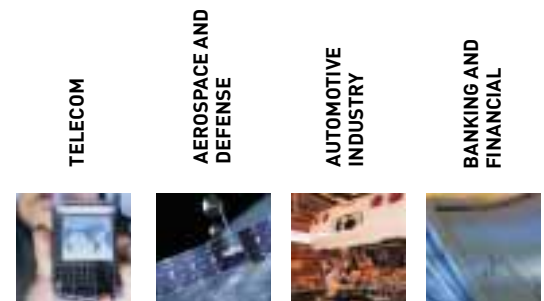


In 2004, Telelogic DOORS further strengthened its position as Telelogic's leading product.

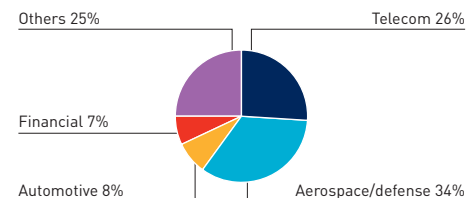
Customers

Telelogic's customers represent a number of sectors and are characterized by being at the forefront of technological development. The four largest individual customer segments are the telecom, aerospace/defense, automotive, and banking and finance segments.

Our customers include Alcatel, BAE Systems, BMW, Boeing, DaimlerChrysler, Deutsche Bank, Ericsson, General Motors, Lockheed Martin, Motorola, NEC, Nokia, Philips, Siemens, Thales and Vodafone.



CUSTOMER SEGMENTS, PERCENTAGES OF SALES



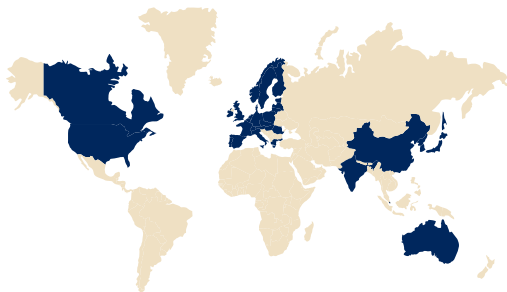
The aerospace/defense vertical market demonstrated growth in 2004 and strengthened its position as Telelogic's single largest segment. The telecom sector's share of the Company's sales declined by 4% compared with 2003.

and costs. Recently, Telelogic was ranked as the world's seventh most influential company in application development. With sales of SEK 1.0393 billion, Telelogic recorded before-tax profits of SEK 166.4 million for 2004. At year-end, the Company had 719

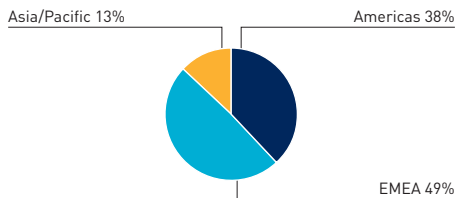
employees and its own sales offices in North America, Europe and Asia. The Company was founded in 1983, listed on the Stockholm Stock Exchange in March 1999 and is on the Attract-40 O-List.

Geographical markets

Telelogic is a global company with offices in 17 countries. Telelogic's North American division demonstrated excellent growth in 2004. Operations in the Asia/Pacific region showed the greatest revenue growth and were the most profitable. In Europe, the Middle East and Africa (EMEA), where Telelogic has its origins, operations returned to growth and profitability.



SALES, PERCENTAGES BY GEOGRAPHICAL MARKET



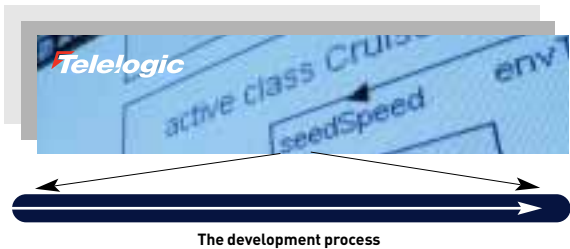
All geographical markets showed positive sales trends in 2004. The trend was especially strong in the Asia/Pacific and Americas regions, where sales increased by 33% and 21%, respectively.

Market position

Telelogic is one of just three companies in the world that provides a complete tool environment for the entire advanced systems and software development process – Application Lifecycle Management (ALM). A number of competitors provide tools, but these only support distinct phases of the development process. In 2004, Telelogic reported the strongest sales growth of any company in the ALM space.

COMPLETE TOOL ENVIRONMENT

Telelogic is one of three global companies that provides tools for the entire development process.



LIMITED TOOL ENVIRONMENT

Several companies compete with tools designed for portions of the development process.





Significant events, 2004

Profitability goal achieved

Telelogic surpassed its goal of a 20% operating margin at the end of 2004.

Sales growth in all market divisions

EMEA reports return to good growth. Strong sales trend in Asia/Pacific and the Americas.

Segments

Strong trends in all segments.
Recovery in telecom.

Strong product portfolio further strengthened

Unique ALM products much in demand.

A world-leading company

Telelogic ranks as the world's seventh most influential company in application development.¹⁾

¹⁾ According to Computer Business Review, 2004.

KEY NUMBERS

	2004	2003	2002
Sales, MSEK	1,039.3	937.0	1,121.0
Variations in sales, %	10.9	-16.0	-25.0
Operating margin, excluding goodwill, %	17.2	2.8	-4.1
Profit/loss before tax, MSEK	166.4	5.2	-67.6
Earnings per share before dilution, SEK	0.57	-0.08	-0.51
Price per share at year-end, SEK	15.70	11.50	6.20
Market value at year-end, MSEK	3,411.4	2,351.0	1,258.0
Cash and cash equivalents at year-end, MSEK	249.5	139.8	160.0
Shareholders' equity per share, SEK	3.20	2.70	3.09
Equity/Assets, %	60.9	53.9	55.3
Number of employees at year-end	719	639	768

Message from the CEO

Fivefold increase in operations – We're doing it again.

The ability to achieve our goals rests with Telelogic's employees. With the support of a strong corporate culture, in which Telelogic's fundamental values play a key role, we have managed to recruit and retain skilled personnel with leading-edge expertise within their respective fields. Telelogic can be proud of its smoothly run market divisions, innovative product development operations and effective administration. With these strengths, we are well-positioned to produce good results in the future.

Looking back

When I became CEO in the fall of 1998, Telelogic had, in fifteen years, already established a position in the marketplace. The majority of operations were still in Sweden; even though, 80% of revenue came from export. The Company's product was unique and growth had been very good for a number of years. Expertise, high ambitions and enthusiasm characterized the organization. The will to grow was pervasive.

Work to create a long-term strategy for taking the Company to new sales and profitability levels was begun immediately. The primary goal was to create a large software company, with an organi-

zation and operations that spanned the globe as well as a sizeable presence in the US. In conjunction with the initial public offering in 1999, we announced the goal of achieving an operating margin of 20% within five years. It was the beginning of a journey initially characterized by very high growth figures and an expansive market. Through development efforts, in combination with acquisitions, a product portfolio was created as customers' needs grew. The product families TAU, SYNERGY and DOORS are recognized as high-quality, world-leading products.

During 2001, the market situation altered radically. Telelogic adjusted to the new climate by enacting some difficult and major operational changes. But the goal of a 20% operating margin re-

Since its initial public offering five years ago, Telelogic has achieved more than a fivefold increase in sales. We have also strengthened our position as one of the world's leading suppliers of solutions for developing advanced systems and software. At the same time, through hard work and despite adverse market conditions, we have fulfilled our initial public offering promise of achieving an operating margin of 20%. The journey towards creating a world-leading Swedish software company is continuing with new goals – to achieve fivefold growth during the next five-year period.

mained, and we successfully delivered on our promise in 2004.

2004 – A year of growth and profitability

Telelogic achieved record profits in 2004. Improvement of the market situation was observed as far back as at the end of 2003. The improvement was most evident in Asia and in the US, while developments in Europe fluctuated. For 2004, Telelogic forecasted at least 10% growth during the year in local currency in the US and Asia. This was exceeded by a wide margin with growth of 21% in the US and 33% in Asia. Both regions also reported strong profitability.

In 2003, Telelogic's European operations were facing challenges – profitability had to be improved before focusing on growth.

In 2004, the European operations managed to increase their operating contribution to 37%, which is on a par with the level of profitability in the US and Asia. Moreover, sales in Europe grew by 8%.

Market-leading products

We can see that Telelogic's products continued to distinguish themselves during the past year:

- DOORS was named the global market leader by Gartner with a market share of 41%. The product also received four of five stars from Software Development magazine for its functionality.
- SYNERGY was named as the market's best change management tool for the third year in a row by the analysis firm Yphise. During the year, the product has also been launched in a well-received Asian version.
- The new generation of TAU, launched in 2002, was named by Gartner as the shared market leader for modeling of real-time applications.
- All products were praised in a technical report in which Telelogic's combined solution was described as "a mature and skillfully combined technology offering" by the analysis firm, the Butler Group.

One of the world's ten most influential companies

Telelogic was again ranked as one of the world's ten most influential companies in application development and data integration. For the second year in a row and as the lone European company, Telelogic made the Computer Business Review list of the most influential companies in application development. Telelogic moved up from ninth to seventh place among leading players such as Microsoft, IBM and Sun Microsystems. This makes me very happy in that it is a clear sign that Telelogic's product strategy is correct. The list is based on extensive surveys in which customers were asked to name which vendors are most influential for their software development.

2005 – Rapidly evolving industry

Telelogic works in a rapidly evolving industry with change and consolidation expected to continue in 2005 and increase in the future. The evolution of technology will also accelerate. It is extremely important that we develop our offering in line with our customers' needs.

The original driving forces that took Telelogic to the position we enjoy today are



still evident and are becoming stronger each year:

- The utilization and relative values of software are constantly growing in many products.
- Technical performance of end-products is constantly improving (durability, top speed, flying altitude, etc.).
- Software complexity is increasing while demands for ease of use are rising.
- The total number of versions and variants for different users and markets is increasing.
- Generation changes for new products are occurring more quickly.
- There are greater demands for more cost-effective and resource-thrifty development processes.

Increased profitability and continued growth

The underlying demand in the market is assessed as good and is expected to develop favorably during 2005. The rate of consolidation in the industry is expected to increase, and it is Telelogic's goal to actively participate in this process.

Our forecast is that Telelogic's organic growth in 2005 will exceed 10% in local currency. Within the context of this goal, we plan to strengthen our market position in Asia and, during the next two years, increase our operations there by at least 25% annually.

For the full-year 2005, we believe that Telelogic will achieve an operating margin of 20%, excluding goodwill depreciations.

5X5Y¹⁾ – Our next five-year vision

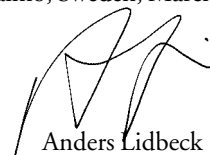
Telelogic will achieve a fivefold increase in operations with an average operating margin of 20% during the next five years.

We will continue to focus on substantially strengthening our global market position and product offering, and to become a better partner to companies in the expanding ALM market²⁾. Telelogic is presently one of just a few companies in the world to have a wide and well-integrated set of ALM solutions. We will also further develop our PLM²⁾ solution for

systems and software development. To achieve this, we will need to complement our current offering through strategic acquisitions.

With a strong organization, an attractive product portfolio and established relationships with some of the largest organizations in the world, Telelogic is well-equipped as it sets out to build a world-leading software company with good profitability.

Malmö, Sweden, March 2005



Anders Lidbeck
President and Chief Executive Officer



¹⁾ 5X5Y stands for "Five Times in Five Years".

²⁾ ALM - Application Lifecycle Management

PLM - Product Lifecycle Management

For a more detailed description, please see Page 9.

Strategic orientation

New long-term strategy



Since the initial public offering in 1999, Telelogic has had a clear financial goal – a 20% operating margin. Telelogic reached this goal in 2004, and the Company is now entering a new phase with a new goal for the next five years – to attain another fivefold increase in operations.

Mission

We help each customer to succeed the first time by automating the systems and software development through proven, state-of-the art tools that reduce time-to-market and improve quality.

Vision

To be the choice of solutions for companies and engineers developing advanced systems and software.

Financial goals

Revenue

The underlying demand in the market is assessed as good and expected to develop favorably in 2005, with quarterly variations similar to those during 2004.

The Company's forecast for organic growth is that it will exceed 10% in local currency during 2005. Within the context of this goal, Telelogic intends to strongly improve its market position in Asia, and during the next two years, expand its operations there by at least 25% annually.

Operating margin

The forecast is that Telelogic will attain an operating margin of 20% during 2005, excluding goodwill depreciations.

Equity/assets and debt/equity figures

Management's goal is that the long-term equity/assets figure exceeds 40% and that the debt/equity ratio remains below 0.5. In conjunction with acquisitions, the debt/equity ratio may temporarily exceed this goal.

Dividend policy

It is the opinion of the Board of Directors that at present, Telelogic's profits will provide shareholders with the

largest increase in value by reinvesting in the Company's further development.

The dividend policy this year will thereby continue to be restrictive.

Achievement of goals, 2004

All goals for growth, operating margin, profits before taxes and cash flow that Telelogic announced at the beginning of 2004 have been achieved.

Growth was to reach at least 10% in local currency in the US and Asia. According to the forecast, Telelogic was also to have doubled operations in Asia during the subsequent three years. During 2004, the US reported growth of 21% and Asia growth of 33%, which entails that the sales goals for both of these regions were exceeded. The goal of a doubling in Asia during a three-year period remains among the year's financial goals.

For operations in Europe, the Company was to prioritize the attainment and consolidation of the long-term profitability goals, and first thereafter focus on growth. During the year, the operating contribution improved from 20% for 2003 to 37% for 2004. This is a level that is line with profitability in the US and Asia. Moreover, sales in Europe grew by 8%.

One of Telelogic's goals since 1999 was that the Company achieve an operating margin of 20%, excluding goodwill depreciations, towards the close of 2004 and thereafter maintain the margin at this level. In the fourth quarter, the operating margin amounted to 24.4%, which is clearly higher than the set goal. Moreover, Telelogic restated the goal of 20% for the current year in its year-end report in January 2005.

Lastly, Telelogic's forecast for 2004 included a promise that profits before tax and cash flow would be significantly improved. Profits before tax increased from SEK 5.2 million for 2003 to SEK 166.4 million for 2004. Cash flow improved from SEK -8.5 million for 2003 to SEK 116.4 million for 2004. Both goals have thus been fulfilled.

Telelogic has also announced long-term goals for equity/assets and debt/equity. For 2004, the figure for equity/assets was 60.9%, while the debt/equity ratio was -0.3, i.e. clearly better than the established goals of 40% and 0.5.

No dividends have been proposed for 2004, in line with the Board's restrictive view of dividends communicated since the initial public offering in 1999.

Strategies

To provide complete and fully-integrated solutions that automate and optimize the development process

Telelogic's solutions for developing advanced systems and software are based on market- and technology-leading products and best practices. These solutions support the entire development lifecycle, from initial analysis to testing. By increasing information visibility and automating routine, error-prone activities, Telelogic's solutions increase productivity and quality while lowering costs and shortening time to market.

To strengthen the positions of DOORS, SYNERGY and TAU as the leading tools within their respective fields

When designing and building our tools, Telelogic has focused on the customers' needs and worked hard to effectively utilize the Company's R&D resources. The result? For the past several years, independent industry analysts have named Telelogic's products as market and technology leaders. Telelogic will build on this position by collaborating with customers to innovate product development – to ensure our products and integrations continue to help our customers succeed.

To focus on customers who need increased functionality for large-scale and geographically dispersed development

Telelogic's products help organizations with geographically-dispersed project teams to develop large, complex sys-

tems. It's these kinds of project teams that fully leverage the rich capabilities built into Telelogic's solutions. The Company's intention is to enhance its relationships with organizations undertaking these challenging projects by extending its product offering.

To build strategic relationships with key customers

Telelogic's customer-base is worldwide – they require a global presence. We have established long-term relationships with key customers to ensure they receive local support and global coordination.

To continually improve the organization's productivity

During 2004, Telelogic successfully increased productivity, especially in the European sales organization. For 2005, Telelogic will continue to improve internal efficiency and productivity with the primary goal of optimizing the processes that facilitate growth.

To grow with strength

Telelogic has always strived for growth. For the next few years, the Company will implement concrete growth strategies in all geographical regions to expand by a factor of five within five years.

To attract and develop individuals with unique skills and attitudes

In a company such as Telelogic, the individual employee represents a decisive competitive advantage. Priority is given

to constantly improving Telelogic's position as an attractive and stimulating employer, and to retaining expertise and high-energy levels throughout the company. With personnel dispersed around the globe, high demands are placed on effective communications and global incentive systems. This is necessary to safeguard Telelogic's competitive strengths in both the short and long term.



Did you know that

Telelogic is one of just three global companies that can provide tools for the entire development process for software and systems?



THE COMPANY'S LONG-TERM STRATEGY

During the past five years, Telelogic has reported both high profitability and strong growth. Since 1999, sales have increased fivefold, which corresponds to an annual growth of 34%. In 2004, Telelogic also reached an operating margin of 20%, a goal announced in 1999.

Telelogic has successfully fulfilled this promise by constantly strengthening its global market position by: investing in new markets, expanding its product offering and actively participating in the recent industry consolidation, which is expected to increase in the future.

Telelogic will continue to invest to strengthen its global market position and product portfolio to become a better partner for companies in the expanding ALM market. The Company will also extend its systems and software development offering to the PLM space.

The combination of Telelogic's position, ongoing investments and market conditions indicate continued strong performance. The Company will focus on organic growth, complemented by strategic acquisitions, to attain a five-fold increase in operations with an average operating margin of 20% during the coming five-year period.

ALM and PLM – What are they?

ALM

Application Lifecycle Management, ALM, enables organizations to manage advanced systems and software throughout their development life-cycles. Its activities include the gathering and analysis of requirements, software design, testing, and change and configuration management. Telelogic is presently one of just a few companies in the world that can provide products that cover the entire ALM space.

PLM

Product Lifecycle Management (PLM) is the management of a physical product throughout its development cycle. PLM enables manufacturers to uniformly handle product structures,

product data, and documentation and change management. PLM provides full control and integration of the processes, applications and data that jointly define a product throughout its lifecycle, from design to production and post-market activities. Product Lifecycle Management is especially useful for complex products that contain many components or for products produced in many variations.

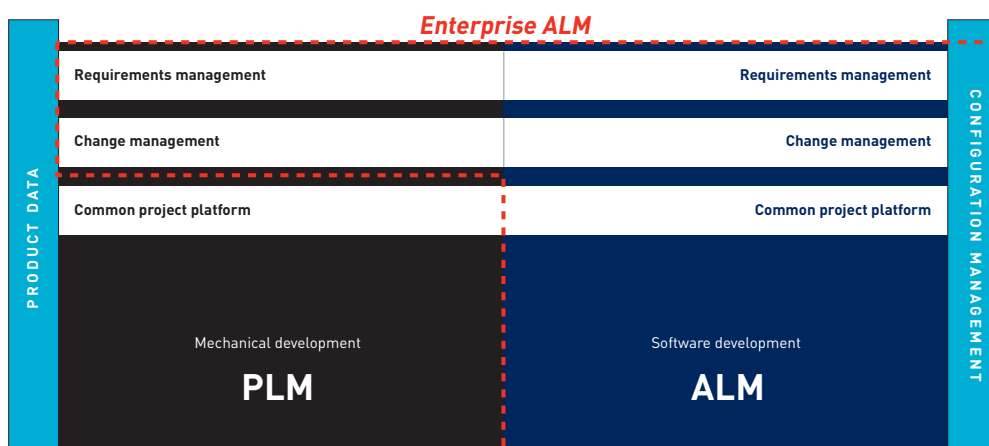
ALM and PLM side by side

ALM and PLM are closely related in several respects. Today's advanced products are often a combination of complex software and hardware. PLM is widely used within Telelogic's present customer segments – aerospace/defense, automotive, telecom and medi-

cine. Several of Telelogic's customers are already using PLM solutions.

Enterprise ALM – A natural evolution of Telelogic's solutions

Today's PLM suppliers are generally weak when it comes to requirements management and the software development phase of PLM. Telelogic has an excellent opportunity to develop its offering for the PLM space, to help companies improve the complex products they develop. Telelogic will continue to focus on its ALM solution, but will also expand it to include Requirements Management and Change Management for the product lifecycle – what Telelogic calls Enterprise ALM.



PLM and ALM encompass similar disciplines, but for different types of products. Telelogic's strategy addresses Enterprise ALM. This includes ALM's traditional areas, and requirements and change management processes at companies with complex products.

Telelogic's products lead development

Telelogic provides products and services for developing advanced systems and software. Telelogic's products complement one another and together constitute a set of complete solutions. Independent industry analysts talk about "Application Lifecycle Management" (ALM) – solutions that support the entire application lifecycle.



Customers' experiences have proven that Telelogic's tools:

- Increase information visibility
- Improve communication and collaboration
- Enhance productivity
- Improve quality
- Reduce costs
- Lower time to market

In 2004, Telelogic further integrated its three product families to provide customers with a set of comprehensive solutions for their systems and software development. The products are designed to be open and flexible, so that they can either be used alone or in combination with tools from other suppliers.

Telelogic DOORS

– Control requirements

Telelogic DOORS is the award-winning, multi-platform, requirements management solution that captures, links, traces, analyzes and manages information to ensure conformance to requirements and compliance with regulations and standards. DOORS displays visual notifications of changes to requirements so nothing is overlooked. Tightly integrated with Telelogic's other technology- and market-leading solutions, DOORS enhances communication, collaboration and validation across the enterprise.

Telelogic TAU

– Accelerate software development

The Telelogic TAU product suite, including TAU/Architect, TAU/Developer and

TAU/Tester, enables teams of engineers to design, specify and verify the architecture and functionality of advanced systems and software. TAU automates best practices for a variety of design and development tasks, including systems engineering, software development for embedded and other advanced systems, quality assurance and testing. The suite is based on standardized languages for the development and testing of software – UML, SDL and TTCN.

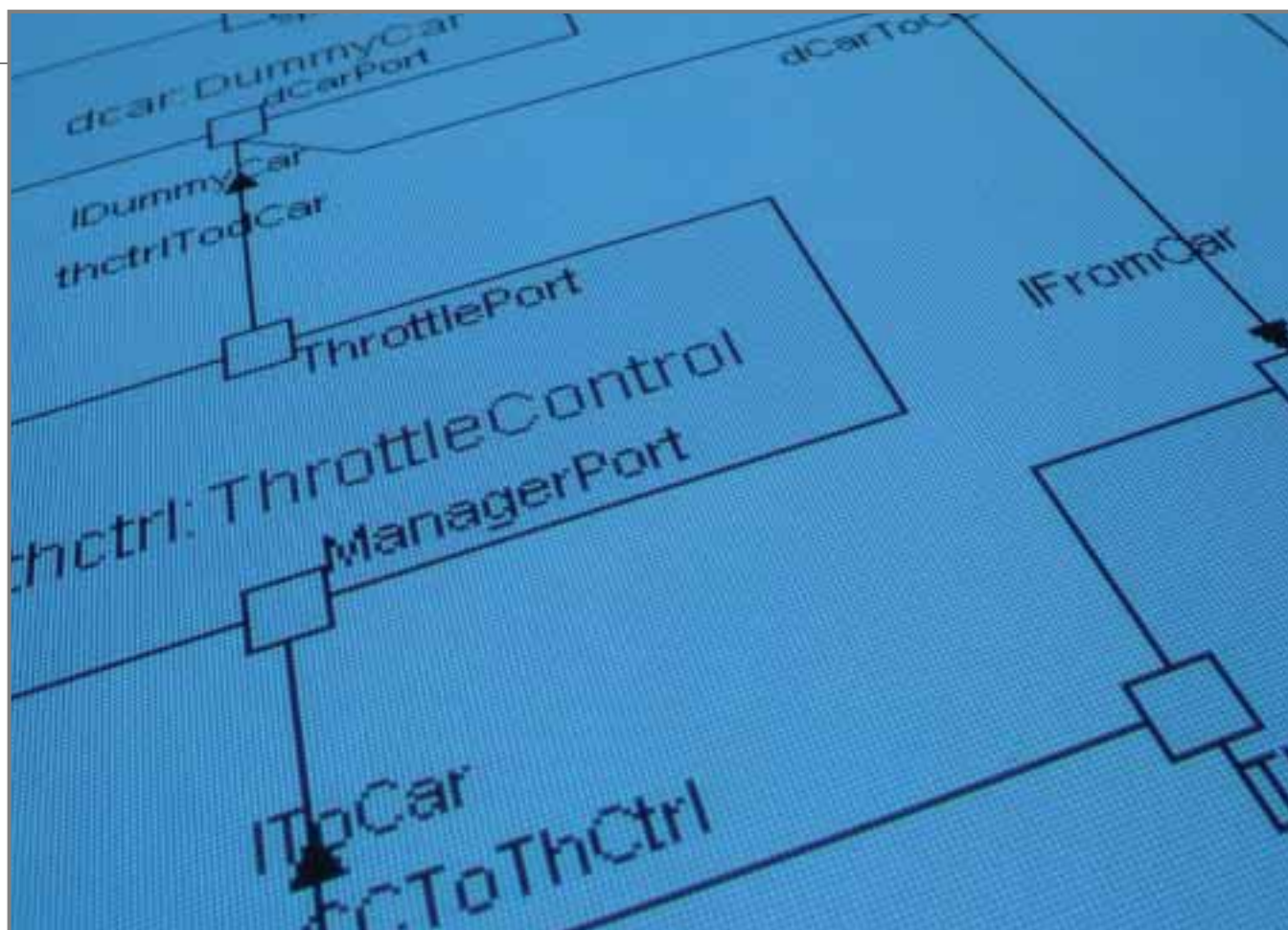
Telelogic SYNERGY

– Manage change efficiently

Telelogic SYNERGY™ provides lifecycle control of digital assets, enabling customers to improve the quality and accelerate the delivery of advanced systems and software. SYNERGY maintains an integrated, central database of digital assets and all related information about projects, tasks, processes and people associated with them. Change and configuration management makes it possible for businesses to improve their development processes, accelerate release cycles, maximize productivity regardless of team size or location of team members and minimize overhead through automation and the use of repeatable best practices. In 2004, an Asian version of SYNERGY was launched to support users of double-byte character sets.

Did you know that

Telelogic DOORS is the world's leading requirements management tool with a market share of over 40%?



As part of its five-year plan, Telelogic will continue to invest in its current product offering by

ensuring functionality remains aligned with customer needs and by improving the integrations between products. The customer profile for these products will remain the same – organizations that create advanced systems and software.

In addition, Telelogic plans to expand product functionality in the areas in which customers presently use solutions from other suppliers. For larger deliveries, Telelogic often provides customers with comprehensive solutions in collaboration

with partners. These types of solutions, such as for project management, testing and process improvement, are closely related to Telelogic's solutions. By expanding the current product set, Telelogic can increase penetration with present customers, and increase cross-sales – a DOORS customer that invests in SYNERGY and/or TAU, or vice versa.

Telelogic's goal is to broaden its position beyond support for systems and software development, to include support for the development of all types of complex products. For example, Requirements Management is an activity that is critical to a successful program regardless of

whether a customer is developing an aircraft control system or an entire aircraft. Likewise, Change Management is another key discipline regardless of whether the customer develops software or large systems.

Historically, suppliers in the PLM space have not been strong in the software development phase, confirming that there is a need in PLM for Telelogic's world-class solutions. Telelogic is working to expand its product offering to include even better support for Requirements Management and Change Management for all types of complex products, an area of PLM that Telelogic calls Enterprise ALM.

During 2004, the market continued to recover. In ALM, Telelogic is now one of just three companies in the world that can provide a complete tool environment for the entire development process for systems and software. Of these three, Telelogic reported the strongest growth in ALM during 2004.

All of Telelogic's products have, in addition to their strong market presence, also received acclaim for their technical superiority by leading industry analysts.

Market overview

A market in change



Telelogic's current market

In their latest reports, industry analysts have observed that the market returned to growth in 2003. For licenses and maintenance alone, the overall market is estimated at approximately \$2.3 billion. In addition to this, there is income from consulting services and training. Some analysis for 2004 had not been published as of this writing.

The market is divided into two areas – Application Lifecycle Management (ALM), which includes Requirements Management, testing, and Configuration

and Change Management; and Model-Driven Development (MDD), which includes software analysis and development.

ALM

Telelogic's ALM-related products include DOORS, SYNERGY, TAU Tester and Logiscope. For 2003, the overall ALM market amounted to \$1.82 billion for sales of licenses and maintenance according to IDC¹⁾. This corresponds to growth of 0.9% during 2003. The market is expected to grow to \$2.71 billion by 2008, which corresponds to annual growth of 8.4% from 2003 to 2008.

The ALM market is in turn divided into two sub-markets – Software Configuration Management (SCM) tools – DOORS and SYNERGY and Automated Software Quality testing (ASQ) – TAU Tester and Logiscope. The SCM market grew by 7.5% during 2003 according to IDC²⁾, and Telelogic is the fourth-largest supplier with market share of 7.7%. In the ASQ market, Telelogic is a minor player with its test products.

The market for requirements management is analyzed separately by some analysts. The overall market was estimated at

¹⁾ IDC: "Worldwide Application Life-Cycle Management 2004–2008, Forecast: March 2004 Forecast"

²⁾ IDC: "Competitive Analysis: Worldwide Software Configuration Management Tools 2003, Vendor Shares"



The market is changing

The market for technical products is constantly and rapidly changing.

Telelogic sees a distinct trend in that the markets for ALM and PLM are coming closer together.

Potential market size

The overall PLM market is about four times larger than the ALM market and in 2003 amounted to \$10.8 billion according to AMR Research. Of this amount, 34% is constituted by revenues from licenses. Telelogic does not, however, intend to address this entire market, but instead, focus on requirements and change management in the PLM area (i.e. Enterprise ALM). In analyses by industry analysts, this most closely corresponds with

what is known as Customer Needs Management (CNM). CNM amounted to \$972 million during 2003 and is expected to grow to \$2.714 billion by 2008, which corresponds to annual growth of 26% from 2003 to 2008.

Competitive situation

The largest players in PLM are Dassault Systems, UGS and PTC. All three are strong in CAD, which is an area that many PLM companies have as their historical home base. Other competitors that should be considered are Agile and MatrixOne, which primarily have their strength in tools for management of product data and interlinking of information. None of these five companies currently provides an all-embracing solution for requirements and change manage-

ment, which Telelogic can with its DOORS and SYNERGY/Change products.

According to AMR Research, Telelogic was the eleventh largest player in the overall PLM market during 2003 with 1% of the market's sales. With consideration to the fact that Telelogic hasn't addressed this market, the Company believes that it is positive that Telelogic is already being mentioned and noticed.

Did you know that

The Telelogic Group, with its main offices in Malmö, has offices in 17 countries and is represented by distributors in an additional 18 countries?

approximately \$71.2 million for licenses alone during 2003. Telelogic has a market-leading position with DOORS, which has a 41.4% market share according to Gartner's latest analysis.¹⁾

MDD

Telelogic's MDD-related products are TAU (excluding TAU Tester and Logiscope). The overall MDD market during 2003 amounted to \$456.5 million for sales of licenses and maintenance according to IDC.²⁾ This corresponds to negative growth of 0.3% during 2003. The market is expected to grow to \$679 mil-

lion by 2008, which corresponds to annual growth of 8.3% from 2003 to 2008. Telelogic is the fourth largest supplier with a 5.2% market share. In the market for embedded systems (which is a part of the MDD market), Gartner³⁾ has named Telelogic TAU Generation2 as the shared market leader.

Strong market position

Telelogic's products have not only received attention for their market shares, but also for their technical functionality. DOORS, SYNERGY and TAU have all been named as the best products in their

categories by, for example, the Butler Group, Ovum and Yphise.

On the whole, Telelogic has a strong market position as one of just three suppliers that can provide a complete solution for the entire development process. IBM/Rational and Borland are the only other suppliers that can provide the same type of solution. Serena Software has through acquisition created a solution that covers the areas that correspond to two of Telelogic's three product families.

¹⁾ Gartner Dataquest: "Market Share: Requirements Management, Worldwide, 2003"

²⁾ IDC: "Market Analysis: Worldwide Model-Driven Development and Business Rules Management Systems 2004-2008 Forecast and 2003 Vendor Shares"

³⁾ Gartner: "2005 Evaluating OOA&D Functionality Criteria"



An example of how Telelogic's solutions can be expanded

Ingemar Ljungdahl, Telelogic's chief technical officer, provides a practical example of how Telelogic's solutions can be expanded to comply with the long-term, five-year strategy.

An automotive manufacturer has just started a project that involves taking a mid-range model and converting it into a version for the premium luxury segment. They want to equip the car with a stronger engine from an existing, larger model. Moreover, plans call for upgrading the car's overall handling properties and the perceived driving experience.

Collection and analysis of requirements

The automaker has been a pioneer in Requirements Management using tools like Telelogic DOORS, which means they already have a collection of user requirements and associated system solution requirements that define the software components produced by the company. However, the company has not previously used requirements management tools for gathering requirements for other parts of the car other than the actual software.

The existing software components and requirements can be reused, but the requirements for other parts of the car must be collected and analyzed. Because DOORS handles requirements from all types of activities, the existing requirements database can be expanded with requirements from new areas. The company is a leader in environmentally-friendly engines and has a goal of always complying with, and preferably surpassing, the most stringent environmental regulations. So, the appli-

cable regulations from the markets in which they plan to sell their model are entered into DOORS. These requirements can later be used in the engineering/design phases to ensure compliance with the regulations.

After the initial phase, a requirements profile has been established and the components that the company wants to use have been chosen. Work now accelerates at the various departments (mechanical, electronic and software development), where the respective groups have access to information on the parts that will be engineered or designed for the end product.

Management of changes

During this process, information is exchanged between the different departments to handle any problems and changes that arise during design work. In this process, Telelogic SYNERGY keeps track of all changes. As with DOORS, the customer has previously used SYNERGY to manage changes to software. They now want to expand usage to handle all types of changes on the project.

For example, one change request is that the driver should be able to adjust the handling properties of V8 engine. The driver will do this via the car's communications panel, which means that a new software component must be developed. A change proposal for this is entered in

SYNERGY and approved by the change control board. The information goes via SYNERGY to the relevant engineers in the software group, who can then begin developing this new component.

An unexpected change arises

Four months into engineering work, the project encounters something unexpected. The environmental protection agency in one of the countries where the car is to be sold has just made a decision that radically limits emissions. The automaker is now facing a dilemma: is it possible to comply with the new, tougher regulations, and is it economically feasible? Because the concerned market accounts for more than 45% of the planned production, it is important to fulfill the emissions requirements. Moreover, the company wants to comply with its environmental profile. They decide to quickly analyze the impact of these proposed changes. Since the company already has the previous requirements in DOORS with links to the various compliant solutions, the areas that need to be improved are quickly isolated.

A decision is made to accept the change proposal, which is handled via SYNERGY, and the decision is communicated to the various groups. The group for engine engineering begins looking at what can be improved in the mechanical design. The change requirements are also quickly sent

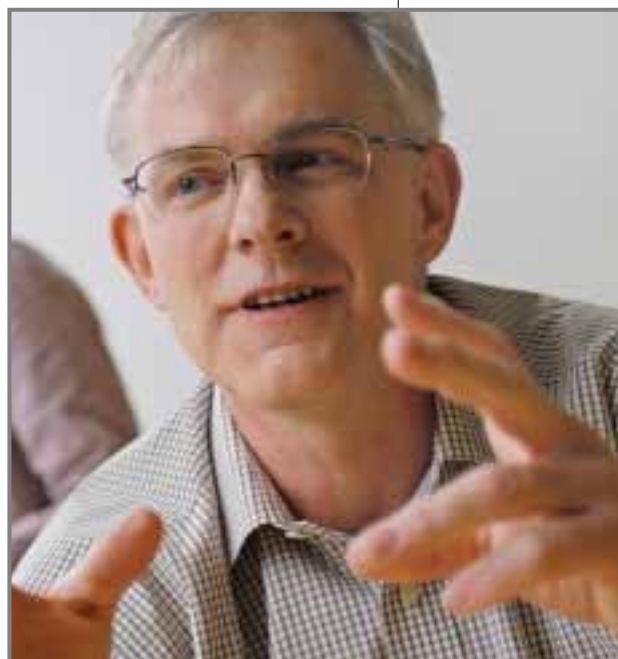
to the engine control group, which analyzes its software to find solutions to the problem. After a number of prototypes, it is soon apparent that a new type of exhaust sensor that can provide feedback to the engine control system must be introduced. SYNERGY handles the change proposal, which is approved by the project leader, and the information is immediately sent to the electronics group. They are assigned the task of designing the new sensor and equipping the existing “electronics box” with an input for the new sensor. At the same time, the mechanical group receives information so that it can begin with the changes and additions that are needed for the sensor to be installed in the exhaust system and a connection with the electronics box is designed. In parallel with this, feverish activity is underway in the software group to develop a new engine control algorithm based on information from the exhaust sensor.

Can the schedule be held?

Project management for the new model now begins to be concerned about holding the established schedule because of the new requirements. They have a constant overview of all aspects of the project through a comprehensive view that links together information from, among other things, DOORS and SYNERGY.

The overall requirements and which of these are fulfilled are stored in DOORS.

The change proposals that have been submitted, which have been approved, and who on the project is responsible for implementing them are stored in SYNERGY. This is summarized in a view especially configured for project management, and they can see that the situation is under control. Because they were able to quickly localize the components that needed to be changed, and that they quickly sent out correct information to the concerned units, the consequences are limited to a delay of less than two weeks.



Telelogic's customers conduct advanced projects at the forefront of technology

Telelogic's customer base is composed of leading organizations in a number of sectors at the forefront of technological development. These customers exploit the latest technologies in their drive to improve their advanced development projects, and Telelogic's solutions meet their high expectations.

For Telelogic, the four largest, single customer verticals are telecom, aerospace/defense, automotive, and banking/finance. Historically, the telecom industry has been Telelogic's dominant customer vertical. Over the past few years, however, Telelogic's customer base has been significantly broadened, and the aerospace/defense segment is now the largest, closely followed by telecom. Telelogic's goal is to further reduce dependence on individual customer segments.

The share of sales for the aerospace/defense segment has continued to increase, from 31% of Telelogic's sales in 2003 to 34% in 2004. The telecom industry accounted for 26% of total sales in 2004, the automotive industry 8% and the banking and finance segment 7%. The

category for other customer verticals is made up of the verticals that individually do not account for more than 5% of sales. Included in this category are: public agencies, the medical and pharmaceutical industry, the transportation sector, software and system suppliers and home electronics, in which the software

and system supplier segment is nearing the 5% level.

Telelogic's customer base is composed of leading organizations in a number of sectors at the forefront of technological development. These customers exploit the latest technologies in their drive to improve their advanced development projects, and Telelogic's solutions meet their high expectations.

Telelogic's customers:

- Have strong technology-advancing trademarks and develop complex software and systems.
- Normally conduct large projects with a large number of programmers involved.
- Are geographically dispersed with requirements for various projects being

LogicaCMG Global Telecoms Calls on Integrated Telelogic Tool Suite

LogicaCMG, that active in more than 34 countries and headquartered in Europe, is the global leader in telecom messaging and payments, delivering two out of every three text messages and supplying next generation messaging and billing solutions to 250 of the world's top operators in over 70 countries. These solutions serve more than 500 million active mobile phone subscribers.

Logica and CMG merged in 2002. In the R&D department of the Wireless business many tools were being used. A decision was made to review the software being used and to develop a strategy

that integrated the systems and improved efficiency. LogicaCMG decided to standardize on an integrated suite of Telelogic tools including SYNERGY for change/configuration management, DOORS for requirements management, and TAU SDL Suite for systems and software development. LogicaCMG implemented Telelogic's tool suites as standalone solutions first before integrating them into a lifecycle solution. Telelogic's integrated tool suite has provided better time to market and greater efficiency for LogicaCMG's R&D staff in its Wireless business.

Did you know that

Among the world's ten most influential companies in application development, that Telelogic is the only European company?

able to share work with one another in the same tool environment.

- The tools are increasingly utilized for more than just software development.

Besides producing and supplying world-leading software, Telelogic also offers consulting services and support for the products.

Telelogic currently has about 7,000 customers, representing the leading companies in the respective segments. This customer portfolio constitutes one of Telelogic's greatest assets. The 15 largest customers accounted for 29% of sales, and no single customer generated more than 3% of sales. Telelogic has a very strong position in the telecom industry, with all of the 10 leading vendors in its customer portfolio. Even within the aerospace/defense and automotive industries, several of the leading manufacturers are customers of Telelogic.



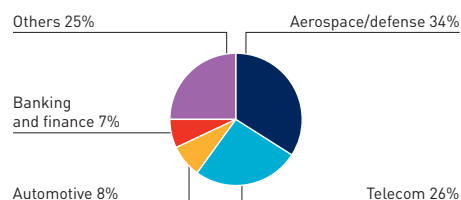
DaimlerChrysler Puts Requirements Management in the Driver's Seat with Telelogic DOORS

DaimlerChrysler, headquartered in Stuttgart, Germany, is a global manufacturer of some of the world's leading brands of passenger cars and commercial vehicles, including Mercedes-Benz, Chrysler, Jeep, Dodge, Freightliner and Mitsubishi FUSO. Each DaimlerChrysler brand used to write requirement specifications using a common word processing program. Dependencies between requirements and changes could not be traced comfortably. The company wanted its globally distributed development teams to share common specifications across its multiple brands.

DaimlerChrysler selected Telelogic DOORS for requirements management to provide specifications globally for electric/electronic components and to ensure the reliability and high quality of developed systems. With DOORS, globally distributed development teams now share specifications across brands. Today, DaimlerChrysler uses DOORS to achieve a requirements-driven development approach across globally distributed development teams. DOORS enables shared work on common requirements specifications for common components, saving time and reducing production costs. Communication and collaboration with suppliers is also enhanced by sharing specifications in DOORS modules.



SALES BY CUSTOMER SEGMENT



The aerospace/defense segment's share of sales increased by 3 percentage points in 2004 and it is now Telelogic's single largest segment. Dependence on telecom has further declined during the year.



Dubai Municipality Creates Oasis for Parallel Development with Telelogic SYNERGY

The Dubai Municipality is a government organization that controls all facets of governance for the City of Dubai in the United Arab Emirates. The Dubai Municipality is one of the largest establishments in Dubai with more than 12,000 staff working in 30 distributed locations. Information technology is an integral element of the municipality and its large IT division develops and maintains a number of software systems developed internally, as well as those developed and maintained by third party companies. Multiple IT systems and supporting software continuously change making version management increasingly difficult. The Dubai Municipality needed a tool to manage its software by seamlessly maintaining different versions and enabling parallel releases of the same project.

After a rigorous review of available products, the municipality selected Telelogic SYNERGY as its enterprise standard for change and configuration management. SYNERGY enables programmers and project managers on distributed development teams to manage the development lifecycle, including tracking and monitoring changes for each software version, and provides full traceability as required by management. According to a representative of the Municipality, SYNERGY has helped them reduce development time, communicate more efficiently and evaluate and adjust to changes within projects.



Within the context of Telelogic's new five-year plan, in which the Company will expand operations fivefold, the customer structure will evolve to a certain extent, but for the most part remain the same.

New customers in existing segments

Telelogic's products have repeatedly been named as market-leading by independent branch analysts due to our responsiveness to customers' needs and effective research and development. Telelogic will continue to conduct innovative development in close collaboration with customers so as to further strengthen its assortment and thereby attract more customers within the existing customer segments.

Deeper collaboration with existing customers

Telelogic's customers are spread out all over the world and require a global presence. Long-term relationships have been established with Telelogic's key customers, and these customers receive local support and global coordination. Telelogic will focus on existing customers who need increased functionality for large-scale and geographically dispersed development.

Gaining strategic key accounts through acquisitions

Telelogic intends to actively participate in the branch's current consolidation trend, in part to gain strategically important customers.

Expanded assortment to attract new customers

Within the context of Telelogic's new five-year plan, the Company, besides continuing to focus on its ALM products, is also expanding its assortment to encompass requirements management and change management for all types of products.

The dominating suppliers in the PLM segment are generally weak when it comes to requirements management and the part of PLM that concerns software development. There is therefore a good foundation for Telelogic to not only supply its products to customers who develop software, but also to all companies that develop complex products.

A selection of Telelogic's biggest customers

Example of the customer base comprised of the leading companies within respective branches.

3M	
Airbus (EADS)	
Alcatel	
Astrium (EADS)	
Boeing	
Bombardier	
Bosch	
British Aerospace	
Daimler Chrysler	
Deutsche Bank	
Ericsson	
Federal Reserve	
Ford	
Fujitsu	
General Motors	
Honeywell	
Kongsberg	
Lockheed Martin	
Lucent	
MBDA	
MCI	
MOD	
Motorola	
MSG Systems	
NEC	
Nokia	
Northrop Grumman	
Panasonic	
Peugeot	
Philips	
Postbank	
Raytheon	
Rockwell	
Saab	
Samsung	
Sharp	
Siemens	
Sprint	
Thales	
TietoEnator	
Toyota	
T-Systems	
Unisys	
Verizon	
Vodafone	
Volkswagen	

	=Aerospace/Defense
	=Telecom
	=Automotive
	=Banking and Financial
	=Other

Quality Soars at Leading Chinese Aerospace Contractor with Telelogic TAU/Logiscope

The highest levels of quality, reliability and safety are paramount in the development of advanced software and systems for military and aerospace projects. In Beijing, China, The 15th Electronics Institute of the Ministry of Information Industry is continually challenged to comply with increasingly stringent government and industry regulations for quality processes. The Institute needs to achieve GJB 5000-2003 Level 2, a Chinese military contractor standard comparable to CMM Level 2 in the U.S.

The Institute chose Telelogic TAU/Logiscope to achieve a higher quality and more efficient process for testing software code. According to the Institute, streamlining the code review and testing process with TAU/Logiscope saves time and increases efficiency. The Institute achieves GJB 5000-2003 Level 2 and strengthens its position as one of China's most advanced military and aerospace industry research and test centers.



Geographical market divisions

A global organization that works close to customers

Telelogic's sales organization is divided into three general market divisions: the Americas, EMEA (Europe, the Middle East and Africa) and Asia/Pacific (Asia and Australia). During 2004, all market divisions reported growth and an operating contribution of 37–38%.

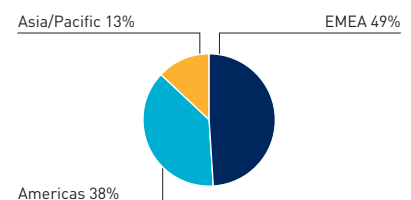


Telelogic's approach is that all sales-related activities shall be as close to the customers as possible. The three market divisions thus have responsibility for all sales, marketing, basic customer support, and consulting and training services in their own regions. Certain general marketing functions, such as product launches, and pricing and packaging issues, are handled by the main office's marketing organization.

Telelogic presently has its own sales offices in 17 countries. New sales offices were established in Shanghai and Delhi during 2004. Additionally, Telelogic has distributors and OEM partners in another 18 countries.

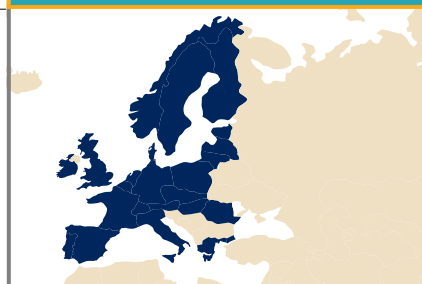
During the year, the Americas accounted for 38% of Telelogic's sales, EMEA for 49% and Asia/Pacific for 13%.

SALES BY MARKET



All geographic markets had positive sales trends in 2004. Sales increased by 33% in the Asia/Pacific division, 21% in the Americas division and 8% in the EMEA division.

EMEA



The EMEA market division is divided into four regions:

- Western Europe with subsidiaries in Great Britain and distributors in Eastern Europe
- Central Europe with subsidiaries in Germany
- Southern Europe with subsidiaries in France, Spain and Italy
- Greater Europe with subsidiaries in Scandinavia, the Netherlands and operations in Russia and the Middle East

The restructurings in the EMEA market division conducted during 2003 resulted in the division again reporting growth by the first quarter of 2004. This despite a sales organization that was 25% smaller than before. During 2004, the EMEA division successively increased its rate of growth while profitability stabilized at the same levels as for Telelogic's other market divisions. Growth amounted to 2% in the first quarter to later accelerate to 18% in the year's final quarter. Overall, EMEA grew by 8% during 2004. The operating contribution also significantly increased in comparison to 2003 and rose to 37%.

In EMEA's operations in Western Europe, all products have shown strong growth. DOORS Analyst and SYNERGY have reported record-high growth figures and Telelogic's strategy with cross-sales has been successful. Both the aerospace/defense and telecom segments have showed growth in Western

Europe. The largest growth, however, has occurred in transport and infrastructures, in which Telelogic has been involved in projects such as expansion of Heathrow Airport and upgrading of the British railroad system. Among the larger customers to sign contracts with Telelogic in 2004 are BAE Systems, Smiths Aerospace, Panasonic, Isoft and Thales eSecurity. During the year, operations in Western European have been organized so that there are now dedicated sales resources for Eastern Europe and the Balkans, Israel and South Africa.

EMEA's Southern European operations have been marked by the downscaling conducted during 2003. The reorganization has continued in 2004 with Telelogic's operations in France. France has reported a positive profitability trend in 2004 and the sales organization is now well-equipped for improving sales levels. Telelogic's Spanish operations, with the help of increased personnel resources in technical support and innovative business models, have developed very strongly during 2004. Among other things, a larger contract encompassing all of Telelogic's tools was signed in December with a leading Spanish IT company.

The automotive industry, primarily in Germany, is responsible for a large portion of EMEA's sales in Central Europe. Sales to the automotive industry remained strong in 2004, and demand was especially high for Telelogic's requirements management solutions and configuration tools. The aerospace/defense segment developed stably during 2004. Both the telecom and banking/finance segments, which were weak for a time, began to recover in 2004.

For sales in Scandinavia, telecom is strongest, primarily dominated by Ericsson and Nokia. During 2004, the telecom industry's recovery is also seen in the companies' willingness to make new investments, and sales in Scandinavia were strong towards the end of the year.

Sales activities in the Netherlands, Russia and the Middle East have gone very well during 2004, both in regards to growth and profitability. The increased demand from companies in Russia and the Middle East has led Telelogic to begin preparations for the establishment of additional sales offices.

EMEA	2004	2003	2002
Sales, MSEK	510.0	474.0	575.0
Percentage of Group sales	49	51	51
Sales, MSEK	186.9	92.5	43.7
Percentage of operating contributions	37	20	8
Total employees, sales related ¹⁾	113	102	142
Total employees, overall ¹⁾	338	351	479

¹⁾ At year-end.

Americas



The Americas market division comprises subsidiaries in the United States and Canada, and distributors in Central and South America.

Since the beginning of 2004, Telelogic has conducted various activities to increase the rate of growth and to strengthen the market position in the American markets. Among other things, 37 employees have been recruited during the year of which the majority is in sales. The Americas division has continued to grow with good profitability. During 2004, the division grew by 21% and reported an operating contribution of 37%. However, sales converted to Swedish crowns have been negatively affected by the weak dollar rate during the year.

DOORS accounts for more than half of sales and is thereby the product that dominates sales in the Americas market division.

Aerospace/defense has continued to be the largest segment. From having traditionally invested primarily in DOORS, customers in the aerospace/defense industry have also been increasingly attracted by TAU and SYNERGY. As a result of this, sales of these tools noticeably increased during the second half of 2004. Major customers such as Raytheon and Lockheed Martin continue to demon-

strate their trust in Telelogic's product families. Northrop Grumman, Honeywell, Boeing and British Aerospace are important customers in the aerospace/defense segment.

In the US, a contract was signed with a large automotive manufacturer valued at SEK 14.4 million under which the client expanded on previous usage of SYNERGY to also include DOORS. The contract is considered as a breakthrough contract for Telelogic in the automotive segment of the American market.

Telelogic's Americas division is working actively with external partners to make sales even more effective. About 6% of sales are from sales via partners. During 2004, Telelogic worked with four larger distributors in North America. Telelogic has also initiated a reference partner program in which contracts are made with specialized consulting firms. These consulting firms are often very close to clients and therefore have ample opportunities as reference partners to recommend Telelogic's products. In 2004, 35 contracts were signed with reference partners,

which has given Telelogic sales opportunities with customers and markets to which Telelogic has not previously had exposure.

Telelogic conducts some activities in Mexico, Central and South America. The Company works here with two external distributors headquartered in Mexico City and Sao Paulo in Brazil, with agents/distributors in Argentina, Chile, Columbia, Peru and Venezuela.

Americas	2004	2003	2002
Sales, MSEK	394.9	356.9	433.3
Percentage of Group sales	38	38	39
Sales, MSEK	146.8	115.7	133.7
Percentage of operating contributions	37	32	31
Total employees, sales related ¹⁾	96	79	80
Total employees, overall ¹⁾	210	173	200

¹⁾ At year-end.



Asia/Pacific



The Asia/Pacific market division comprises subsidiaries in Japan, India, China, Korea, Singapore and Australia, and a sales office in Taiwan. Furthermore, Telelogic has external distributors in China, India, Taiwan and Thailand.

Since the beginning of 2004, Telelogic has made investments and conducted activities to increase the rate of growth and to strengthen its market position in the Asia/Pacific region. New sales offices have been opened in Shanghai, China and Delhi, India. The total number of employees in the market division has increased by 56 persons of which 28 are in the sales organization.

This has produced good results. The Asia/Pacific division grew by 33% during 2004, which is the highest rate of growth among Telelogic's three market division. The Asia/Pacific division reported an operating contribution of 38% during the year. In India, China and Australia, growth was more than 50% with good profitability. Growth in Japan was also satisfactory, while relatively weak in Singapore and Korea.

Telelogic's products DOORS and SYNERGY were launched in Asian version in 2003 and 2004. This has been a strong contributing factor to the strong growth in the region.

During the fall, a four-year contract was signed with a bank encompassing all of Telelogic's products at a value of SEK 15 million. This contract contributed to the banking and finance segment's strong

growth during the year and can thus be seen as a breakthrough for this segment in the Asia/Pacific market division. Both the automotive and telecom segments showed strong growth.

During 2004, Telelogic reached a new operational and sales level in Asia/Pacific. The Asian market remains on a positive trend. Continued strong growth for Telelogic from this level will, however, require further investments in personnel and products.

Asia	2004	2003	2002
Sales, MSEK	134.4	106.0	112.8
Percentage of Group sales	13	11	10
Sales, MSEK	51.0	33.6	36.7
Percentage of operating contributions	38	32	33
Total employees, sales related ¹⁾	77	49	38
Total employees, overall ¹⁾	171	115	89

¹⁾ At year-end.



Market-leading products demand world-class product development.

The distinctions that Telelogic has received are not just for market shares, but technical functionality as well. DOORS, SYNERGY and TAU were named as the best products in their respective categories in 2004.

During 2004, Telelogic invested SEK 154.8 million in product development, corresponding to 14.9% of sales.

Successful product development requires responsiveness to customers' needs and wishes. Telelogic has worked with a group of key customers for several years, discussing future versions of products at an early stage. Meetings with customers are held several times each year, and there they are given the opportunity to comment on existing versions, planned versions and their wishes pertaining to product functionality. Telelogic is also active in various standardization organizations, including ITU (International Telecommunications Union), ETSI (the European Union's body for telecom standardization) and OMG (the body that, among other things, is standardizing the UML development language). Through active participation in standardization organizations, where customers are also represented, Telelogic gains advanced knowledge of new technologies, and at the same time, shapes the new technologies and standards. This enables Telelogic to develop not only products based

Telelogic has always had the strategy of making large investments in research and development. This strategy has proven to be successful. During 2004, Telelogic's products were named as the market-leaders by several independent industry analysts.



on customers' wishes, but also products that are adapted to new standards early on.

Employees and development centers

Successful product development requires innovative, goal-oriented employees. One-fifth of Telelogic's employees work in product development, and nearly all hold university degrees.

At the close of 2004, product development was divided among four development centers: Irvine in California, Edinburgh in Scotland, Bangalore in India and Malmö in Sweden. Telelogic also has subcontractors in Russia, Rumania and India, conducting various projects on assignment from Telelogic. Having development centers at various locations in the world places stringent demands on coordination, and requires employees who are good at communicating and working over team boundaries. Creating a sense of belonging within Telelogic is vital to successful product development.

To ensure that Telelogic can continue to attract skilled personnel and that customers have access to engineers who are knowledgeable of the technology, Telelogic collaborates with universities and colleges all over the world. The universities are given access to Telelogic's products for use in instruction. The products are currently used at hundreds of universities, worldwide.

Continual work with quality-control processes

Telelogic's products hold a key position in customers' development organizations and

tough requirements are thus placed on the quality of the products. Telelogic works actively with quality-control processes, and quality has a constant presence in the Company's operations. During 2004, Telelogic has focused on drastically reducing the total number of faults in existing products.

Measurements and follow-ups are made continually, both for quality of end-products and Telelogic's internal processes. Telelogic engages both external and internal groups to assess the Company's quality-control work. Telelogic's development center in Edinburgh has fulfilled the requirements of ISO 9001 in accordance with an external audit made by the BSI (British Standards Institute). In efforts to identify new areas for improvement, since 2003 an analysis is used at all development centers, based on the CMMI model for process improvement.

Internal use of Telelogic's own products

An excellent method of improving the quality of products is to use them in one's own development organization; this is a method embraced by Telelogic. All of the Company's tools – DOORS, SYNERGY and TAU – are used at Telelogic's development centers for managing requirements, changes and models. Besides quality improvements, this also creates valuable understanding in the product development groups of how customers use and experience the Company's products.

Telelogic and global standards

Telelogic actively participates in a number of non-profit standardization and collabora-

tive organizations, mainly within three areas: software standards, communications technology (not just telecom) and system development methods. Within the field for standards for graphical development languages, ITU is a global telecom organization, involved in many tasks, of which Telelogic is an active member. Among the tasks are standardization of SDL and harmonizing of SDL with UML 2.0. At the European counterpart, ETSI, Telelogic is participating in the development of the TTCN testing language. Telelogic is also a member of OMG, where the new graphical language UML 2.0 was approved in 2003, a standard that Telelogic helped to develop over a number of years. OMG also works with a specialization of UML 2.0 for system development that is called SysML. In the automotive industry, the growing importance of various software-controlled electronic systems has led to development of several industry standards intended to reduce costs through collaboration between various manufacturers. To be able to secure the Company's position as a leading supplier to this segment, Telelogic works actively with ensuring that the company's products are well-adapted to these standards. In the systems field, Telelogic is an honorary member of INCOSE (International Council on Systems Engineering), a group working with issues relating to how system development, in the general sense of the term, is best performed.

Did you know that

Telelogic SYNERGY has been named as the market's best change system by industry analysts?

Global organization with common core values

Strong corporate culture in a geographically dispersed organization

Telelogic's philosophy is to come as close to the customers as possible by having an organization that promotes and utilizes special geographical and knowledge characteristics. Telelogic's personnel are therefore spread over three continents. This organizational model provides room for decentralized control and local responsibility, which provides significant leeway for individual initiatives. At the same time, it places stringent demands on management, both centrally and locally. Because Telelogic's branch is also characterized by rapid change, the Company believes that it is especially important to have a common and concrete foundation of values.

Telelogic's corporate culture is characterized by five core values:

Customers first – We always prioritize our customers and our business operations. Nothing is more important than continually exceeding customers' expectations and winning new business.

Excellence in performance – We do everything with quality, and we like what we do. We take full responsibility and deliver what we have promised, on time. Our definition of the ability to take action is: The solution works, it's faster than yesterday's and it's better than the competitor's.

Speed – Our business environment is changing rapidly, and we must change with it. Accordingly, we work with a sense of urgency in everything we do. Speed is essential.

Telelogic's ability to realize business ideas, visions and strategies ultimately rests with the employees who make up the organization. To retain and attract skilled employees, Telelogic strives for a sound personnel policy, in which the Company's core values play a leading role. Strong motivation among employees and high internal efficiency are determining factors in strengthening Telelogic's position in the marketplace. During 2004, the Group increased its number of employees by 80 and at the close of the year, had a workforce of 719 employees.

Prioritization – We do the right things. Doing the right things is about survival. Our definition of the right things – That which gives added value to our customers and generates business.

Enthusiasm and joy – We constantly look for that which is fun and unique. Creating an environment that stimulates creativity and job satisfaction is one of our greatest challenges.

These values have been kept up to date through a number of activities in the organization, for example, through themes in the Group's house magazine, with articles, contests and nominations of colleagues who represent the various values in a good way.

Telelogic's employees

Telelogic had 719 employees at year-end. The total number of employees increased by 80 persons during the year. The increase has primarily been in the sales organizations in the Americas and Asia/Pacific divisions so as to promote continued growth,

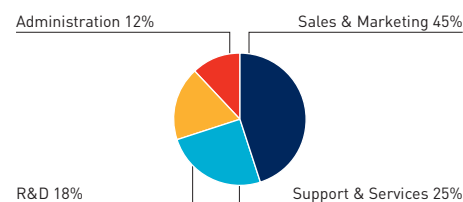
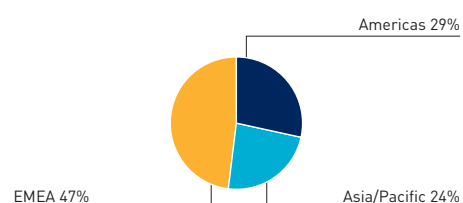
and at the newly established product development center in Bangalore, India. EMEA is now the largest single division from an employee perspective, the Americas the second largest and Asia/Pacific the smallest. On the average for the year, 26% of the employees are women.

Personnel turnover (defined as voluntary termination) amounted to 11%. Absence because of illness was 0.9% in 2004.

Expertise and expertise development

The level of education at the Group is high, and an absolute majority of employees hold university degrees. The largest group is made up of those with master's degrees in software or electrical engineering. This is also reflected in the breakdown by function. Product developers, salespersons and consultants are the largest groups. These positions require technical expertise and strong product knowledge.

All employees at Telelogic have the opportunity to obtain further training. Individual training programs are prepared

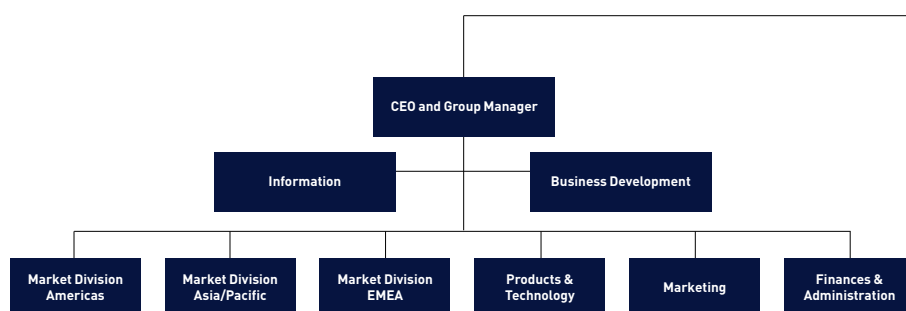
**EMPLOYEES BY FUNCTION****EMPLOYEES BY GEOGRAPHIC MARKET
(operationally, not legally)**

in cooperation between employees and their supervisors. Examples of training conducted during the year include advanced technical, leadership, language and sales courses. Furthermore, Telelogic conducts larger internal seminars each year with substantial element of training within the respective professions.

Salaries and incentive programs

While salary levels at Telelogic are competitive, they are also in accord with current business conditions. The majority of employees have a combination of fixed and variable salary. For Executive Management, sales staff and consultants, the variable component is linked to sales goals, but the variable salary component is also found in product development and administration, where the variable component is mainly related to goals based on established schedules and quality requirements.

So as to further motivate its employees, it is Telelogic's goal to continually conduct stock options programs for key personnel in the Group.

**Organization**

Telelogic's operations are divided into three groups: Market divisions, products & technology and administrative functions.

The market divisions work close to customers, and the three regions – EMEA, the Americas and Asia/Pacific – coordinate the activities. The market divisions work in geographically defined markets, supplying the markets with sales, consulting and training resources. Key account teams work exclusively with single customers and are in charge of business with these customers worldwide. Products & Technology is the basis of Telelogic's

product line and consists of a product division for each development staff. The product division is responsible for continued development and maintenance of products, as well as more advanced customer support.

Administrative functions include Marketing, Corporate Communications, Business Development, and Finance & Administration. Telelogic has created a group-wide network and a decentralized organization for these functions. The majority of resources are close to the customers, out in the market divisions.

Telelogic's global operations, with offices in 17 countries and a large number of customers within a broad mix of various industry segments, entail that risks are well spread. The risks that Telelogic faces in operations can be categorized by external environment risks and financial risks.

Risk analysis

Risk management and factors that affect Telelogic's operations

The general economic situation

Telelogic provides tools that rationalize development processes for the development of advanced systems and software. The need for development tools is constant, even in times of downsizing and shortages of resources. Despite this, Telelogic has also been affected by the economic downturn because of a generally reduced willingness to invest, and greater uncertainty among the Company's customers. The broadening of the customer base in recent years has been shown to spread risks well; individual customer sectors evolve differently during a business cycle.

Market's driving forces

Telelogic's success is based on a number of fundamental forces driving the use and development of advanced software. Significant

changes in the market's driving forces naturally affect Telelogic's operations.

Customer structure

During recent years, Telelogic has worked to reduce dependence on individual customers and customer segments. During 2001 Telelogic's seven largest customers, all leading telecom providers, accounted for 25% of sales. In 2004, the ten largest customers accounted for 25% of sales, and of these, no single customer generated more than 4% of sales. The fifteen largest customers, which are found among all of Telelogic's segments, accounted for 31% of sales during 2004.

Income distribution

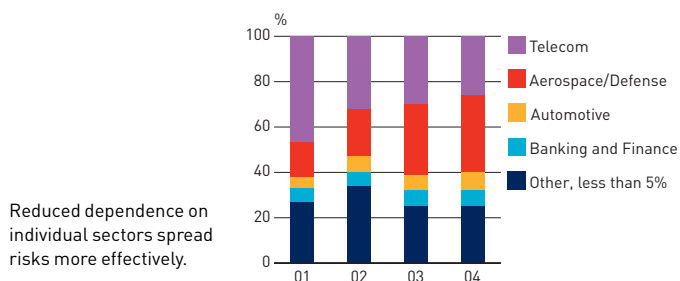
In 2004, Telelogic's license and maintenance income accounted for 82% of sales, and income from services for the re-

maining 18%. This distribution has been relatively stable since 2002, when the Company underwent a successful restructuring with the goal of reducing the service income percentage of total income. Because the gross margin for licenses and maintenance is much higher than for services, changed revenue distribution has a direct impact on the Company's earnings. However, this was balanced to a certain extent by a less dependable flow of income for license sales, compared with fewer consulting assignments that instead generated more dependable flows of income over a longer period.

Products and technology

In a market characterized by rapid technological change, Telelogic's competitive strength and market position are to a great extent dependent on the Company's ability to develop new innovative products and refine existing products. Telelogic's products have high technology content, and the Company has historically been able to supply products that in many cases are considered to be among the most advanced in their respective fields. Telelogic is also working actively with various standardization organs to ensure that the products are constantly at the cutting edge. During 2004, 14.9% of revenue was invested in product develop-

SEGMENT EVOLUTION IN TERMS OF PERCENTAGE OF TOTAL SALES



ment. During the year, SYNERGY, for example, has been launched in Asian versions to meet the increasing demand from, among other places, China. TAU Generation2 has been refined during the year. Telelogic's various products have been further integrated with one another so as to provide a complete solution for the entire development cycle.

Financial risk management

The Telelogic Group's financial functions are centralized, and managed from the main office. The local economic units report directly to the central economic and financial function, which enables good control of the Group's financial exposure while also offering cost advantages. The Group's financial policy sets guidelines and rules for managing financial risks, and for general financial operations.

Currency risks

Ninety-six percent of Telelogic's sales are in currencies other than SEK. Revenues are thus exposed to exchange rate fluctuations to a considerable degree. Net income is not subject to the same level of exposure because the sales offices' sales revenues are primarily denominated in the same local currencies as the costs generated by the offices. The Group's development centers are also geographically dispersed in four different currency areas – Sweden, the United Kingdom, the United States and India. Because the Group's operational organizations are located within the currency areas in which

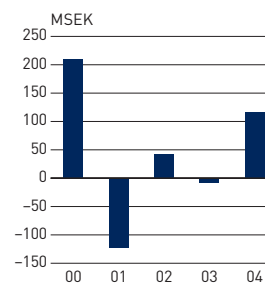
the products are sold, the Group's flow exposure is relatively limited. The Group's expenses are thus to a large extent geographically tied to these revenues.

It is the policy of the Company to hedge 40–80% of the expected future cash flows during the coming year that are calculated to occur between Telelogic's different companies in the form of, for example, royalties, dividends and other payment streams. The exposure is limited to a large part by receivables and liabilities being netted each month between all of the Group's companies. The actual net risk arises in the Parent Company, and hedging therefore concerns primarily Swedish crowns against the major currencies the euro and US dollar. During 2004, only forward contracts have been used as hedging instruments. The Group's earnings for 2004 have been affected positively by SEK 1.1 million as a result of the taken hedging measures.

Financial situation and liquidity

Cash on hand as of December 31, 2004 totaled SEK 249.5 million. Interest-bearing debts totaled SEK 9.7 million, of which a convertible loan accounted for SEK 2.4 million. Net cash as of December 31, 2002 totaled SEK 239.8 million. Telelogic has an unused credit line totaling SEK 143.0 million. During 2004, Telelogic generated positive cash flow of SEK 116.4 million. A negative currency exchange rate difference burdened cash flow by - SEK 6.7 million. The Company's cash flow during 2004 has

CASH FLOW



A strong year again generated positive cash flow of SEK 116.4 million.

thus significantly improved in comparison to the previous year.

Interest risks

As of December 31, 2004, Telelogic had SEK 9.7 million in outstanding interest-bearing debts, SEK 2.4 million of which pertain to a convertible loan (not yet converted convertible loans fall due payable December 30, 2005). The convertible loan is running at a fixed annual interest rate of 3.5%. For other interest-bearing debts, a 1% increase in the interest rate would increase Telelogic's interest costs only by about 7% or SEK 0.1 million.

Credit losses

Telelogic has traditionally had few problems with outstanding accounts receivable because most of our customers are major, payment-reliable companies. Credit losses during 2004 totaled SEK 4 million, corresponding to about 0.4% of net sales. During the past year, outstanding accounts receivable have significantly declined, mainly as a result of active collection on accounts receivable.

It should be noted that all the risk factors that affect Telelogic's operations cannot be described here; a comprehensive assessment must also include other information in the Annual Report, other material on Telelogic and general monitoring of the external environment.

Telelogic shares

Telelogic shares were initially offered on the Stockholm Stock Exchange's O-list on March 8, 1999. The initial offering price was SEK 5.00, recalculated after splits. The Telelogic share is now traded on the Attract 40 list. At December 31, 2004, a trading lot amounted to 1,000 shares.



Capital stock

Capital stock in Telelogic AB totaled SEK 2,172,927 as of December 31, 2004, distributed among 217,292,782 shares at a par value of SEK 0.01 each. At year-end, 75,873 shares were not yet registered with VPC. Consequently, the statistics below are based on 217,217,909 shares. All Telelogic shares entitle the holder to one vote per share, and all shares confer equal rights to shares in the Company's profits and assets.

Stock options program

Telelogic has a number of outstanding stock option programs for the Company's employees in keeping with the Company's stock option policy.

The following table shows outstanding stock option programs as of December 31, 2004. During the year, one program (TO 11) was added. Redemptions occurred in the TO7-10 programs corresponding to 1,130,506 shares. For a more detailed description of the individual programs, refer to Note 4 on Page 44.

Dilution

The outstanding stock option programs can result in no more than 3.6% dilution (computed as the net increase of shares in the Company as a result of options, divided by the total number of shares and options). Calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation, RR18, Earnings per share, in that only the stock option programs having share prices that exceeded the discounted redemption price as of December 31, 2004 are considered, total dilution was 1.6%. In addition, there is an outstanding convertible loan of SEK 2,599,907, corresponding to 682,642 shares upon full conversion to shares. As a result, dilution amounts to 1.9%. Total shares after full dilution, calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation, RR18, with consideration to both outstanding stock option programs and convertible loans, is 221,484,437.

OUTSTANDING DEBENTURES WITH ATTACHED WARRANTS FOR SUBSCRIPTION OF SHARES

Program	Subscription price SEK	Last day for subscription	Corresponding number of shares	Estimated dilution effect at full subscription (%)
TO 4 (2000/2005)	62.92	May 31, 2005	72,275	0.03
TO 5 (2001/2005)	40.82	May 31, 2005	167,987	0.08
TO 6 (2001/2005)	22.10	Oct. 31, 2005	36,757	0.02
TO 7 (2001/2006)	6.30	Apr. 30, 2006	338,000	0.16
TO 8 (2001/2006)	8.40	Apr. 30, 2006	2,133,725	0.97
TO 9 (2001/2006)	8.50	Apr. 30, 2006	2,222,659	1.01
TO 10 (2003/2007)	5.15	Oct. 31, 2007	1,403,775	0.64
TO 11 (2004/2008)	17.30	July 31, 2008	1,830,000	0.84
Total			8,205,178	3.64

DISTRIBUTION OF OWNERSHIP PER HOLDING

Holdings	No. of shares	%	No. of owners	%
1-10,000	42,258,427	19.4	25,212	94.7
10,001-50,000	23,944,509	11.0	1,109	4.2
50,001-100,000	9,640,258	4.4	131	0.5
100,001-1,000,000	41,634,217	19.2	139	0.5
100,0001-5,000,000	69,908,496	32.2	34	0.1
5,000,001-	29,831,623	13.7	4	0.01
Total	217,216,909		26,630	

Source: VPC

Shareholder structure

According to the VPC AB public share register for direct and nominee shareholders, the 10 largest shareholders in Telelogic AB as of December 30, 2004 were as follows:

TELELOGIC'S 10 LARGEST SHAREHOLDERS

Name	No. of shares	Percentage of votes and capital
Fjärde AP-fonden	9,534,000	4.4
Tredje AP-fonden	7,992,923	3.7
AMF Pensionsförsäkrings AB	7,100,000	3.3
Lannebo Småbolag	5,204,700	2.4
Carlson Småbolagsfond	4,934,000	2.3
Livförsäkrings AB Skandia	4,191,350	1.9
JP Morgan Chase Bank, W9	4,056,686	1.9
AMF Pensions Aktiefond-Sweden	3,355,000	1.5
Nordea Tillväxtbolagsfond, Nordea Kapitalförv sv	3,300,000	1.5
Gamla livförsäkringsaktiebolaget SEB Trygg Liv	3,256,000	1.5

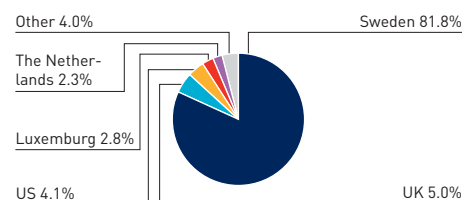
LARGEST OWNERS BY CATEGORY

Name	No. of shares	Percentage of votes and capital
Roburs fonder	10,416,175	4.8
Fjärde AP-fonden	9,534,000	4.4
Tredje AP-fonden	7,992,923	3.7
Lannebo fonder	7,904,700	3.6
AMF Pension fonder	7,174,000	3.3
AMF Pensionsförsäkrings AB	7,100,000	3.3
Carlson fonder	6,072,600	2.8
SEB fonder	5,623,300	2.6
Nordea fonder	5,393,300	2.5
Handelsbanken fonder	4,600,984	2.1

DISTRIBUTION BETWEEN INSTITUTIONS AND PRIVATE PERSONS

	No. of shareholders, %	Holdings, %
Legal entities	9.3	70.6
Private persons	90.7	29.4

GEOGRAPHIC DISTRIBUTION OF OWNERS



Source: VPC, December 31, 2004

Analysts covering Telelogic

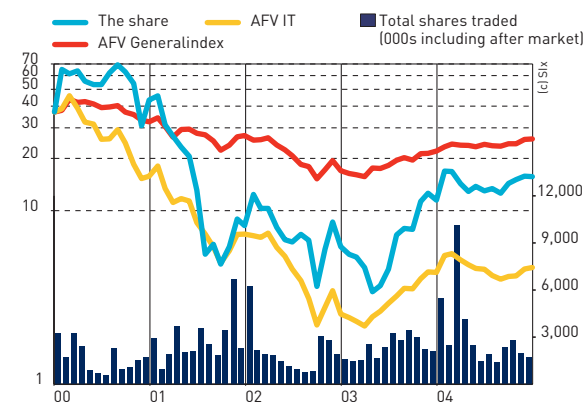
Company	Analysts
ABG Sundal Collier	Patrick Clase
Alfred Berg	Karl Berglund
Danske Bank	Peter Trigarszky
CAI Cheuvreux	Johan Eliason
D. Carnegie	Tomas Öqvist
Enskilda Securities	Lars Sveder and Andreas Joelsson
Kaupthing Bank	Daniel Djurberg
Handelsbanken Securities	Stefan Wård
Nordea	Greger Johansson
Redeye	Jonas Elofsson
Remium Securities	Robert Ahldin

Price performance and trading volume

During 2004, the performance of the Telelogic share was strong. The price of the Telelogic share rose during the year by 36.5%, which is better than the Affärsvärlden IT index, which rose 6.7%, and the Stockholm Stock Exchange's general index, which rose 17.5%. The last-paid price for the Telelogic share on December 30 was SEK 15.70. This price corresponds to a market cap of about SEK 3,411 million. The lowest price during the year was SEK 11.10, and the highest paid price was SEK 18.60. Total volume of trading was about 382 million shares, corresponding to a value of about SEK 5,560 million. During the year, an average of about 1,510,800 shares were traded daily at an average value of SEK 22 million.

Share data are presented in the key figures on Page 58. Information on the trend of the capital stock is presented in Note 19, Page 51.

SHARE PRICE EVOLUTION 2000–2004



Board of Directors' report

The Board of Directors and CEO of Telelogic AB (a publicly held corporation), corporate registration number 556049-9690, submit herewith the Annual Report for fiscal 2004.

Description of operations

Telelogic is a global supplier of development tools for developing advanced systems and software. Telelogic's customer base is composed of major leading companies within a number of segments. The four largest customer segments are the telecom, aerospace/defense, automotive and financial segments. The three product Groups, DOORS for requirements management, TAU for design and testing, and SYNERGY for management of changes and configurations, make Telelogic one of just three companies in the world that can provide products that encompass the entire lifecycle of software development. The Group has subsidiaries in 17 countries and has been noted on the Stockholm Stock Exchange O-List (Attract 40) since March 1999.

Market

The market for Telelogic's products has recovered after weak demand in recent years. In 2004, all of Telelogic's market divisions reported combined overall sales growth of 11% in SEK and 15% converted into local currency.

Telelogic is divided into three general market divisions – EMEA, Americas and Asia/Pacific.

The EMEA market division is divided into four regions: Western Europe (subsidiaries in the UK and distributors in Eastern Europe), Central Europe (subsidiaries in Germany), Southern Europe (subsidiaries in France, Spain and Italy) and Greater Europe (subsidiaries in Scandinavia, the Netherlands and operations in Russia and the Middle East). EMEA, which accounted for 49% of the Company's sales for 2004, is once again reporting good growth after the extensive restructurings conducted in 2003. Despite a sales organization that is 25% smaller than before, EMEA's growth has accelerated during the year, and in the fourth quarter, sales growth of 18% and an operating margin of 41% were attained. Overall, sales rose by 8% during 2004.

America's market division, with operations in North and South America, accounted for 38% of Telelogic's total sales during 2004. America's division reported good sales growth during the year of 21%, converted to local currency. Profitability has also been good with an operating

contribution of 37%. Growth in the American market has been stable during the year.

The Asia/Pacific market division, with operations in Asia and Australia, accounted for 13% of Telelogic's total sales during 2004. During the full year 2004, the market division grew by 33% in local currency and reported an operating margin of 38%. This is the highest growth rate of Telelogic's three market divisions. During the year, Telelogic reached a new operational and sales level in the Asia/Pacific region. The market in Asia is still developing favorably, but continued strong growth for Telelogic from this level will require further investments in personnel and products.

Sales

For the full year 2004, Telelogic had sales of SEK 1,039.3 million compared to SEK 937.0 million for 2003. This resulted in growth for 2004 of 11 % in SEK and 15% in local currency.

Sales of licenses and maintenance totaled SEK 854.2 million compared to SEK 763.9 million for 2003, which is an increase of 12% in SEK and 16% in local currency. Overall, licensing and maintenance income accounted for 82% of total sales during the year.

Consulting sales amounted to SEK 185.1 million, compared to SEK 173.1 million for 2003, which is an increase of 7% in SEK and 10% in local currency.

Customer segments

During the year, the broadening of the customer base continued with reduced dependence on individual customer segments as a result.

The demand from the telecom segment began to recover in 2004. This despite telecom's share of total sales having declined from 30% in 2002 to 26% in 2004. Demand from the telecom segment has stabilized during the year and is expected to increase as profits in this segment are strengthened. However, demand is not expected to increase significantly until these profits begin to be reinvested in the form of more software engineers and new projects. During the year, a number of larger contracts were signed with customers in this segment, including a contract with a European telecom operator valued at SEK 7.1 million encompassing all three of Telelogic's product families. During the fourth quarter, a number of larger contracts were signed with customers in the telecom segment. An American manufacturer of telecom equipment invested SEK 7.9 million in TAU Generation2. The client is already using DOORS. A British communications group signed a three-year contract valued at SEK 5.7 million encompassing all of Telelogic's product families. Additionally, a contract valued at SEK 5.5 million was signed with a European telecom supplier under which the customer expanded a contract for TAU to also include DOORS.

Telelogic's sales to the aerospace/defense segment were strong during the year for all of Telelogic's market divisions, and total sales in the segment increased from 31% for 2003 to 34% for 2004. Telelogic DOORS has a strong position in the segment. The single largest contract during the year was signed with BAE Systems in Great Britain at a value of SEK 60 million, under which BAE Systems is using the requirements management tool DOORS in a number of its business operations. BAE in Australia invested SEK 11 million later in the year in all of Telelogic's product families as a result of the company's previous collaboration with Telelogic.

Sales in the automotive industry remain at the same level as for the previous year and account for 8% of Telelogic's sales for the year. Sales remain largely concentrated to Germany. Operations for the segment in the US and Japan are still being established, but nevertheless, account for a small percentage of sales in these countries. At the end of the year, a breakthrough contract was signed with a large automotive manufacturer in the US valued at SEK 14.4 million under which the client expanded on previous usage of SYNERGY to also include DOORS. Sales levels in the segment are still too low to be able to discern any clear trends concerning operations beyond Europe.

For the full year, the banking and finance segment's share of total sales remained stable at 7%. Sales growth has thus been positive, which indicates that Telelogic's products are also doing well against the competitors' products in this segment. At the beginning of the year, Telelogic signed a contract with a European customer valued at SEK 5.1 million under which the customer will deploy SYNERGY in a project for pay terminals. During the fall, two larger contracts were signed; a European security company invested SEK 6.2 million in a contract to implement TAU and DOORS in its organization. In the Asia/Pacific division, a bank signed a four-year contract valued at SEK 15 million that encompasses all of Telelogic's products.

Other customer segments are not reported separately since, they do not exceed 5% individually. Overall, these other segments account for 25% of Telelogic's sales. During the year, a number of other customer segments have become more important to the business. The customer segment for program and system vendors has grown during the year. A Spanish IT company invested SEK 13.2 million in all of Telelogic's product families. Another contract was signed in this segment with a European supplier of software-based integration platforms valued at SEK 11.9 million. The medical technology/pharmaceutical industry is a segment in which Telelogic has had a few isolated customers for quite some time, but which is now expanding. A larger contract was signed during the third quarter with a global medical technology company valued at SEK 5.9 million encompassing DOORS and SYNERGY. Included in the segment Others is a contract that Telelogic signed with a European gaming and wagering company, valued at SEK 6.7 million, for SYNERGY.

Earnings

For the full year 2004, Telelogic reported profits before and after taxes of SEK 166.4 million and SEK 123.1 million, respectively. This is an improvement from pre-tax profit of SEK 5.2 for 2003.

For the full year 2004, the operating margin excluding goodwill was 17.2% compared to 2.8% for 2003. The operating margin excluding goodwill amortization amounted to 24.4% for the fourth quarter, which means that Telelogic has fulfilled the margin goal the Company has had since 1999.

Fixed costs as a percentage of sales have declined from 75.7% during 2003 to 64.8% during 2004. Costs in absolute figures are expected to increase as new investments are made to further secure the market position.

The gross margin has successively improved during the year, reaching 80.5% compared to 76.6% for 2003. The gross margin for licensing and maintenance income has improved marginally to 93.4% compared to 91.4% for 2003. The gross margin for consulting service has dramatically increased in 2004 from 11.4% during 2003 to 21.2% during 2004. It is expected that the gross margin will stabilize around these levels.

Products

One aspect of Telelogic's strategy is to make major investments in research and development. During 2004, Telelogic invested SEK 154.8 million in product development, corresponding to 14.9% of sales. The goal is to strengthen the leading position (according to a number of industry analysts) held by Telelogic's tools. The strategy is to continue investing in development tools that are especially well-suited for advanced products that solve complex problems, with the focus on companies having large-scale development, and development teams that are often geographically dispersed. It is in these types of environment that users can best utilize the products' functionality.

During 2004, Telelogic has continued to improve all product family versions. Among other things, Telelogic has worked to improve integration both between its own product families and with other vendors' complementing products. For example, Telelogic has launched an improved integration between SYNERGY and Eclipse 3.0. Eclipse is a universal platform for tool integrations. Telelogic has also launched an improved integration between DOORS and SYNERGY, and Mercury's TestDirector and Quality Center. The customer benefits of an integrated product environment have been borne out by the continued increase in cross-sales during the year. About 90% of all license income during the year's final quarter was attained through contracts in which the customers subsequently used at least two of Telelogic's products. This is an increase compared with 2003, when the corresponding figure was about 45% for the full year.

Telelogic has adapted its development tools for the Asian markets, such as Japan, China, Korea and Taiwan, by launching Asian versions. Furthermore, Telelogic has introduced the market's first complete, lifecycle change management solution.

Personnel

The number of employees totaled 719 at year-end, an increase from 639 at the beginning of the year. The increase has chiefly been in the sales organizations at all of the market divisions so as to promote continued growth. The increase in personnel is also due to recruitment in conjunction with establishment of a product development center in Bangalore, India. At the end of 2004, employee totals were distributed as follows: 47% in Europe, 29% in the Americas and 24% in Asia.

Of Telelogic's personnel, 45% work in sales and marketing, 25% in support and services, 18% in research and development and 12% with administrative tasks.

Financial position and investments

Cash flow from current operations for 2004 totaled SEK 152.8 million. Investments amounted to SEK 44.5 million and primarily pertain to product development for the new generation of DOORS and investments in IT equipment. Loans have been reduced by SEK 0.6 million at the same time as subscriptions for shares through stock option programs have brought in SEK 8.8 million. In combination, this resulted in positive cash flow of SEK 116.4 million for 2004.

Liquid assets totaled SEK 249.5 million as of December 31, 2004, compared to SEK 139.8 million as of December 31, 2003 and SEK 160.0 million as of December 31, 2002.

Interest-bearing, long-term liabilities have declined from SEK 42.7 million to SEK 2.4 million, with the majority of the convertible loans converted to shares during the year. In addition to liquid assets, there is an unused credit line of SEK 143 million.

Outlook for 2005

The underlying demand in the market is assessed as good and expected to develop favorably during 2005, with quarterly variations similar to those of 2004.

The Company's forecast for organic growth is that it will exceed 10% in local currency during the year. Within the context of this goal, Telelogic

intends to strongly improve its market position in Asia, and during the next two years, expand its operations there by at least 25% annually.

It is expected that Telelogic will attain an operating margin of 20% during 2005, excluding goodwill amortization.

Parent Company

The Parent Company is comprised of the Group's management functions, sales to a few larger customers and product development for TAU and financing of the new DOORS generation. All product development, including new development, is reported on a current basis in the Parent Company but reported in the Group according to RR 15. Earnings before tax amounted to SEK 54.8 million and earnings after tax amounted to SEK 41.8 million.

Transition to IFRS

Reporting in accordance with new rules from IFRS (International Financial Reporting Standards) that will be applied in 2005 would result in a combined positive earnings effect of SEK 12 million net, primarily because scheduled goodwill amortization will no longer be used.

Certain of Telelogic's stock option programs will entail running costs in the income statement. For more detailed information on the effects of the transition to IFRS, please see Note 28.

Appropriation of profits

The Group's unrestricted equity amounts to SEK 169.1 million. At the disposal of the Annual General Meeting are earnings (SEK 000s) in the Parent Company of:

Balance loss	-4,222
Net income for the year	41,764
Total	37,542

The Board of Directors and the CEO propose that the profits be retained within the Company.

For information concerning the Group's and Parent Company's profits and position in general, see the following income statement, balance sheet, cash flow analyses and associated accounting principles and notes.

The Board of Directors' duties are described in detail on Pages 60–61.

Income statement

Amounts in SEK 000s	Note	Group		Parent Company	
		2004	2003	2004	2003
Licensing and maintenance revenues		854,155	763,870	133,078	90,207
Consulting and other revenues		185,099	173,084	43,726	26,190
Net sales	2	1,039,254	936,954	176,804	116,397
Licensing and maintenance expenses		-56,286	-65,801	-2,251	-9
Consulting and other expenses		-145,878	-153,417	-	-265
Gross income		837,090	717,736	174,553	116,123
Sales expenses		-426,667	-433,215	-6,403	-10,619
Administrative expenses		-76,420	-82,781	-34,070	-35,208
Product development expenses		-154,853	-175,267	-65,586	-81,959
Other operating expenses	3	-15,252	-17,946	-16,944	-18,200
Other operating revenues	10	-	-	2,595	7,284
Operating income	4, 5, 6	163,898	8,527	54,145	-22,579
Net income from financial items					
Result of participations in Group companies	7	-	-	7,598	-124,954
Interest income and similar income items	8	3,410	2,270	5,742	9,959
Interest expenses and similar expense items	9	-937	-5,585	-12,699	-18,838
Net income before tax		166,371	5,212	54,786	-156,412
Tax on income for the year	11	-43,310	-21,260	-13,022	-41,489
Net income for the year	20	123,061	-16,048	41,764	-197,901
Earnings per share (SEK)	20				
Earnings per share before dilution	20	0.57	-0.08		
Earnings per share after dilution	20	0.56			

No dividend proposed

Balance Sheet

Amounts in SEK 000s	Note	Group		Parent Company	
		Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
ASSETS					
Fixed assets					
<i>Intangible fixed assets</i>					
Capitalized development costs	12	149,611	157,435	–	–
Source code rights and other intangible assets	12	2,326	1,383	2,317	16,944
Goodwill	12	161,584	188,744	–	–
		313,521	347,562	2,317	16,944
<i>Tangible fixed assets</i>					
Equipment, fixtures and fittings	13	27,757	29,622	3,195	–
		27,757	29,622	3,195	–
<i>Financial fixed assets</i>					
Participations in Group companies	14	–	–	385,100	427,353
Deferred tax assets	15	89,999	118,414	49,619	58,370
Other long-term receivables	16	12,669	14,178	124	–
		102,668	132,592	434,843	485,723
Total fixed assets		443,946	509,776	440,355	502,667
Current assets					
<i>Current receivables</i>					
Accounts receivable		331,517	305,309	6,705	12,765
Receivables from Group companies		–	–	222,654	288,177
Tax receivables		1,366	1,194	–	–
Other receivables		17,240	15,028	232	3,145
Prepaid expenses and accrued income	17	89,269	50,410	27,043	6,712
		439,392	371,941	256,634	310,799
Cash and bank accounts		249,478	139,786	106,390	23,013
Total current assets		688,870	511,727	363,024	333,812
TOTAL ASSETS		1,132,816	1,021,503	803,379	836,479

Amounts in SEK 000s	Note	Group		Parent Company	
		Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
EQUITY AND LIABILITIES					
Shareholders' equity	19				
<i>Restricted equity</i>					
Capital stock, 217,292,782 shares		2,173	2,044	2,173	2,044
Restricted reserves		518,647	817,384	–	–
Share premium reserve		–	–	339,384	525,901
Statutory reserve		–	–	120	120
		520,820	819,428	341,677	528,065
<i>Non-restricted equity</i>					
Non-restricted reserves		46,014	–253,162	–4,222	–36,328
Net income for the year		123,061	–16,048	41,764	–197,901
		169,075	–269,210	37,542	–234,229
		689,895	550,218	379,219	293,836
<i>Provisions</i>					
Provisions for pensions		–	1,037	–	–
Other provisions	21	8,561	19,150	–	–
		8,561	20,187	–	–
<i>Long-term liabilities</i>					
Long-term interest-bearing liabilities	22	2,447	42,705	2,447	42,705
Other liabilities	25	318	946	–	–
		2,765	43,651	2,447	42,705
<i>Current liabilities</i>					
Bank overdraft facility	24	7,007	7,479	–	–
Accounts payable		33,502	29,132	6,773	5,795
Payables to Group companies		–	–	392,503	471,048
Tax liability		11,175	5,829	–	–
Other interest-bearing liabilities		226	56	–	–
Other liabilities		44,891	47,346	1,460	885
Accrued expenses and prepaid income	26	334,794	317,605	20,977	22,210
		431,595	407,447	421,713	499,938
TOTAL EQUITY AND LIABILITIES		1,132,816	1,021,503	803,379	836,479
ASSETS PLEDGED AND CONTINGENT LIABILITIES					
Assets pledged					
<i>For own liabilities and provisions</i>					
Chattel mortgages	23	45,000	45,000	45,000	45,000
Other		–	680	–	–
Total assets pledged		45,000	45,680	45,000	45,000
<i>Contingent liabilities</i>					
Guarantees for the benefit of Group companies	27	–	–	24,949	16,184
Counter obligation bank guarantee		5,246	3,044	5,160	3,044
Total contingent liabilities		5,246	3,044	30,109	19,228

Changes in shareholders' equity

Amounts in SEK 000s	Capital stock	Restricted reserves	Non-restricted equity	Total
GROUP				
Shareholders' equity as of December 31, 2002	2,028	850,107	-224,911	627,224
Exchange-rate differences	-	-	-65,988	-65,988
Net income for the year	-	-	-16,048	-16,048
Transfers between non-restricted and restricted equity	-	218,990	-218,990	-
Loss coverage as per Annual General Meeting decision	-	-256,727	256,727	-
Conversion of loans	16	5,014	-	5,030
Shareholders' equity as of December 31, 2003	2,044	817,384	-269,210	550,218
Exchange-rate differences	-	-44,712	13,487	-31,225
Net income for the year	-	-	123,061	123,061
Transfers between non-restricted and restricted equity	-	-67,508	67,508	-
Loss coverage as per Annual General Meeting decision	-	-234,229	234,229	-
Conversion of loans	118	38,944	-	39,062
Exercise of options	11	8,768	-	8,779
Shareholders' equity as of December 31, 2004	2,173	518,647	169,075	689,895

More information on shareholders' equity is presented in Note 19, Page 51.

PARENT COMPANY				
Shareholders' equity as of December 31, 2002	2,028	777,734	-256,727	523,035
Net income for the year	-	-	-197,901	-197,901
Loss coverage as per Annual General Meeting decision	-	-256,727	256,727	-
Conversion of loans	16	5,014	-	5,030
Group contributions	-	-	-36,328	-36,328
Shareholders' equity as of December 31, 2003	2,044	526,021	-234,229	293,836
Net income for the year	-	-	41,764	41,764
Allocation as per Annual General Meeting decision	-	-234,229	234,229	-
Conversion of loans	118	38,944	-	39,062
Exercise of options	11	8,768	-	8,779
Group contributions	-	-	-4,386	-4,386
Net income for the year	-	-	164	164
Shareholders' equity as of December 31, 2003	2,173	339,504	37,542	379,219

More information on shareholders' equity is presented in Note 19, Page 51.

No dividend proposed

Cash-flow statement

Amounts in SEK 000s	Group		Parent Company	
	2004	2003	2004	2003
Cash flow from operating activities				
Operating income	163,898	8,527	54,145	-22,579
<i>Adjustments for items that are not included in cash flow, etc.</i>				
Depreciation and write-downs of assets	61,277	71,880	18,296	18,200
Other provisions	-10,589	-3,335	-	-1,250
Unrealized exchange-rate differences	-4,248	-9,590	-	-
Gains/losses on sale of fixed assets	5,482	5,785	-	-
	215,820	73,267	72,441	-5,629
Interest received	3,410	2,270	5,668	9,959
Interest paid	-794	-3,210	-12,557	-16,463
Income tax paid	-14,307	-3,872	-2,582	1,605
Cash flow from operating activities before changes in working capital	204,129	68,455	62,970	-10,528
<i>Cash flow from changes in working capital</i>				
Increase (-)/decrease (+) in current receivables	-87,745	-40,219	121,241	197,832
Increase (+)/decrease (-) in current liabilities	36,397	6,168	-106,853	-186,976
Cash flow from operating activities	152,781	34,404	77,358	328
Investment activities				
Acquisition of operating segment	-	-	2,001	-
Acquisition of intangible fixed assets	-24,626	-37,279	-2,726	-
Sales of intangible fixed assets	-	-	-	-
Acquisition of tangible fixed assets	-19,769	-4,748	-1,911	-
Sales of tangible fixed assets	-	303	-	-
Investments in financial fixed assets	-124	-	-124	-
Cash flow from investment activities	-44,519	-41,724	-2,760	-
Financing activities				
New issue of shares	8,779	-	8,779	-
Repayment of loans	-602	-1,163	-	-
Cash flow from financing activities	8,177	-1,163	8,779	-
Net cash flow for the year	116,439	-8,483	83,377	328
Liquid assets at beginning of year	139,786	159,954	23,013	22,685
Exchange-rate differences	-6,747	-11,685	-	-
Liquid assets at year-end	249,478	139,786	106,390	23,013
Liquid assets				
Following sub-components in liquid funds:				
Cash and bank accounts	249,478	139,786	106,390	23,013
	249,478	139,786	106,390	23,013

The above items have been classified as liquid funds based on the following:

- They have insignificant risk for fluctuations in value.
- They can be easily converted to cash funds.
- They have a duration of no more than three months from the time of acquisition.

Notes with accounting principles and accompanying report comments

Amounts in SEK 000s if not otherwise stated

NOTE 1

ACCOUNTING PRINCIPLES

Telelogic's Annual Report has been prepared in accordance with the Swedish Annual Accounts Act and comply with the standards and interpretations of FASC (Swedish Financial Accounting Standards Council), and the Emerging Issues Task Group.

Valuation principles and classifications

Assets, provisions and liabilities are stated at historical cost if not otherwise stated below. Fixed assets, long-term liabilities and provisions consist in all material respects only of amounts that are expected to be recovered or settled more than twelve months from the Balance Sheet date. Current assets and short-term liabilities consist in all material respects only of amounts that are expected to be recovered or settled within twelve months of the Balance Sheet date.

The Annual Report has been prepared in thousands of SEK.

The Company's financial year is January 1 – December 31.

New accounting principles for 2004

As of January 1, 2004, Telelogic applies the recommendations from the Swedish Financial Accounting Standards Council: RR 29 Employee Benefits. Application of RR 29 did not have any significant effect on Telelogic's financial statements.

Consolidated financial statements

The Consolidated Financial Statement include Telelogic AB and the companies in which the Parent Company holds, directly or indirectly, shares corresponding to more than 50% of the voting rights or by other means exercises a controlling influence. The Consolidated Financial Statement has been prepared according to RR 1:00. Subsidiaries are reported in accordance with the purchase method. The purchase method entails that the Parent Company indirectly acquires the subsidiaries' assets and assumes their liabilities at fair value. The difference between the acquisition cost of the shares and the net fair value of acquired, identifiable net assets constitutes goodwill or negative goodwill. Subsidiaries that are acquired during the year are included in the Consolidated Financial Statement from the date of acquisition. Sold companies are included until the date of sale.

The Group's foreign operations constitute independent operations that have been translated using the current rate method. The current rate method requires that all assets, provisions and liabilities are translated using the closing rate and that all items in the Income Statement are translated using the average rate for the period. Any exchange differences are recognized directly in shareholders' equity.

Upon the sale of an independently operated foreign operation, the cumulative amount of the exchange differences, which has been deferred and which relate to that foreign entity, is recognized in the Group Income Statement, after deduction of any currency hedging.

Intercompany receivables and liabilities, and internal income that arises in sales between Group companies have been eliminated in the Consolidated Financial Statement. Internal transactions are executed on arm's length basis.

Segment reporting

Telelogic is an integrated software company in which all of the Group's products are sold by all market units. The products are also often sold together and by the same sales organization. The Company's operations are primarily affected by the various geographical markets in which the Company operates. This means that the primary basis for presenting the segment information consist of three geographical areas: Europe (including Middle East and Africa), the Americas and Asia. This segmentation reflects where the assets and customers are located.

As secondary segments, sales are reported by product and by customer category. Information on assets and investments for secondary segments is not reported as it is not possible to perform a reasonable and reliable distribution of these items.

INCOME STATEMENT

Net sales

Software license revenues

Telelogic's Software License Revenue consists primarily of packaged software without customer modification. Software is sold either with perpetual licenses or time-limited licenses. Revenue from perpetual or time-limited licenses is reported upon delivery and a signed purchase order/contract has been obtained, which is the point in time when risks and benefits are transferred to the owner. If the customer obtains an extended payment term, an assessment of the customer's ability to pay is made and the remuneration that is recognized as income is discounted to its present value. If there is uncertainty as to the ability to pay, either on the short- or long-term, license income is instead reported upon payment.

Maintenance of software

Included in maintenance contracts are technical support and rights to upgrades to new versions. Maintenance is normally invoiced one year in advance. Income is normally reported on a current basis over the term of the contract; for example, for a 12-month contract, a portion equal to 1/12 is provided each month.

Consulting assignments

In conjunction with customer software orders, services for training and implementation support are normally ordered as well. The services are recognized as income when delivery is made.

Service assignments in progress at a fixed rate are recognized as income according to the percentage of completion. The percentage of completion is determined by the relationship between expenses incurred on the Balance Sheet date and estimated total expenses. Provisions are recorded for any loss risks for the assignment. Income not yet invoiced is presented as accrued income.

Expenses

Licensing and maintenance expenses

Refers to external license expenses, expenses for delivery e.g. license keys, manuals and personnel, and the expenses for the support departments at Telelogic.

Consulting expenses

Refers to direct expenses for training material, training personnel, external and internal consulting personnel, travel and the portion of fixed expenses e.g. premises, and depreciation of computers.

Sales expenses

Telelogic's primary marketing and sales are performed by Company personnel. This expense is reported here along with external marketing expenses, for example expenses for direct advertising, advertising and external conferences.

Administrative expenses

Telelogic's global administration, encompassing the CEO, Accounting and Finance, IT Systems & IT Infrastructures and Human Resources, is situated in Malmö, Sweden. There are also administrative centers in the US, England, Germany and Singapore. To a large extent these centers also handle administration for the smaller countries/units.

Research and development expenses

Telelogic develops and sells its own standard software. Expenses primarily refer to product development at Telelogic's three development centers in the US, Scotland, Sweden and India. To a limited degree, external personnel are also engaged. Expenses for developing new software are reported in accordance with RR 15 Intangible assets. The reported value includes expenses for materials, direct expenses for salaries and indirect expenses that can be attributed to assets in a reasonable and consistent manner. In the Group, this means that product development expenses are reduced with the expenses related to the projects that are capitalized in the period and increased with the amortizations of previously capitalized projects.

Other operating expenses

This item includes goodwill amortizations when it has not been possible to distribute these items by function in a reasonable and reliable manner.

Exchange rate gains and losses

Exchange rate gains and losses of operative transactions are reported under operating results while financial exchange rate gains and losses are reported under financial items.

Financial income and expenses

Interest income and interest expenses are calculated with application of the effective interest method. Issue expenses and similar transaction costs for raising loans are allocated over the term of the loan. Other interest expenses have been reported in the period incurred. The Group does not capitalize interest in acquisition values of assets. Interest income includes allocated amounts of any discounts, premiums and other differences between the original value of the receivable and the amount that is received upon payment. Dividend income is recorded when the right to receive payment is assessed as secure.

Taxes

Telelogic complies, both in the Group and in the Parent Company, with FASC's recommendation on reporting of income taxes, RR 9. For income taxes, total tax consists of current and deferred taxes. Taxes are recognized in the Income Statement except to the extent that the tax arises from a transaction that is recognized directly in equity, in which case the tax effect is also recognized directly in equity. Current tax is tax that shall be paid or received in respect of the current year. Adjustments to current tax related to other periods are also included. Deferred tax is calculated using the liability method and is based on temporary differences between carrying amounts in the balance sheet and tax bases of assets and liabilities. Deferred tax amounts reflect the tax consequences that follow from the manner in which the Company expects to recover or settle the differences and are measured using tax rates and tax rules enacted or substantively enacted on the balance sheet date. Temporary differences are not recognized for goodwill resulting from acquisitions nor in differences resulting from investments in subsidiaries and associated companies that are not expected to be taxed within the foreseeable future. In legal entities untaxed reserves are reported including deferred tax liabilities. However, in the Consolidated Financial Statement, untaxed reserves are reported in their deferred tax and equity portions. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available. Deferred tax assets have been recognized at a value corresponding to estimated, future, reduced tax payments.

BALANCE SHEET**Intangible fixed assets***Goodwill*

The difference between the cost of acquiring shares in subsidiaries and the estimated fair value of acquired net assets according to the purchase analysis is reported as consolidated goodwill. Goodwill is carried at cost, less accumulated amortization and any write-downs. The net income of the Group has been charged with amortization of these assets. Goodwill is amortized over 5 to 20 years. Because of the complexity in the companies that have been acquired, distribution by function cannot be made in a reasonable and reliable manner. In the Balance Sheet, amortizations are presented as other operating expenses.

Consolidated goodwill that is attributable to strategically important acquisitions is amortized over 20 years.

Goodwill attributable to other acquisitions is amortized over 10 to 20 years depending on the assessed period of utilization. The value of goodwill is continuously reviewed to determine whether there is any indication of impairment. If the book value of goodwill exceeds the discounted anticipated future cash flow, goodwill is written-down.

Source code rights

Rights are amortized over 5 years, which is based on an assessment of the utilization period.

Capitalized product development expenses

Telelogic develops and sells its own standard software. In the Group, Telelogic capitalizes product development expenses in accordance with the FASC's recommendation RR 15, Intangible assets, when the following criteria are met: software shall be technically feasible to complete; there shall be adequate resources to complete development; it shall be possible to use and sell; there shall be a market for the product; and it shall generate probable future economic benefits. Another condition is that it is a new product generation. Capitalization is concluded when a new product's main functionality is completed. Maintenance and new product versions of existing products are not capitalized but is recognized in the Income Statement as an expense when they arise.

Capitalized product development expenses, are amortized over 5 years, which corresponds to an estimate of economic useful life. The amortization starts when the product is commercially available. Development expenses recognized as assets are stated at cost less accumulated amortization and write-downs in the Balance Sheet. In the Parent Company's financial statements, however, all expenses for product development are recognized as an expense in the Income Statement. Telelogic continuously tests the value of capitalized development expenses. If the book value of goodwill exceeds the discounted anticipated future cash flow, the asset is written-down.

Tangible fixed assets

Tangible fixed assets primarily consists of office and computer equipment. They are recognized at cost less accumulated depreciations and write-downs. Office equipment is depreciated over 5 years and computers and similar equipment are depreciated over 3 years.

Leasing agreements

Leasing is classified in the Consolidated Financial Statement either as finance leases or operating leases. A lease is classified as finance lease when the economic risks and rewards that are associated with ownership are in all material respects transferred to the lessee; if otherwise, the lease is classified as an operating lease.

The Group does not hold lease agreements to any significant degree. The Group's leasing agreements are of an operating nature. This means that the leasing fees are expensed based on the lessee's benefit of the lease arrangement.

Financial assets and liabilities

All financial instruments are recognized in the Balance Sheet except derivatives that are used to hedge expected future transactions. A financial asset or financial liability is recognized in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Accounts receivable are recognized in the Balance Sheet when invoices are sent. Accounts payable are recognized when invoices are received.

A financial asset is derecognized from the Balance Sheet when the contractual rights are realized, expired or the Company loses control of them. A financial liability is removed from the Balance Sheet when the obligation in the contract is fulfilled or otherwise extinguished.

Issued convertible loans are split according to their economic implication when they for the first time are reported on the Balance Sheet. This means that the convertibles are reported as both financial liability and equity instrument. The split is made, by deducting the fair value of the financial liability from the amount received when the convertible was issued. The fair value of the liability is calculated by discounting the future cash flows

using the estimated market interest rate for a similar liability. The expenses for issuing the convertible are split proportionally in relation to the estimated value of the financial liability and the equity instrument.

Accounts receivable are valued at the lowest of acquisition value and fair value. Fair value refers to the amount at which the receivable can be recovered. The value of doubtful receivables is calculated after an individual assessment. Accounts receivable and payable have short duration and are valued without discounting to nominal amount. Accounts receivables with extended payment plans are discounted.

Forward contracts are sometimes used to hedge foreign exchange risks. This entails that the hedged asset or liability is valued at the exchange rate on the day that the exchange hedging is made. The premium on currency forward contracts is amortized during time to maturity. Gains and losses from the hedging instrument are reported at the same point in time as profits and losses on the underlying position.

Telelogic does not hold any derivatives for hedging of future flows.

Receivables and debts in foreign currency

Receivables are reported at the amount expected to be received based on individual assessment. Receivables and liabilities in foreign currency are stated at the exchange rate at the Balance Sheet date. To the extent receivables or liabilities in foreign currency have been hedged by forward exchange contracts, they are revalued at the contracted rate. Exchange rate differences for current receivables and liabilities are presented in operating income, while differences on financial receivables and liabilities are presented within financial items.

Group contributions and shareholders' contributions

Group contributions are recognized, net of related tax effects, directly to shareholders' equity as unappropriated earnings.

Shareholders' contributions are recognized directly against shareholders' equity for the receiver and activated in shares and participations for the contributor to the degree that write-downs are not required.

Impairments

If Telelogic has an indication that a fixed asset may be impaired, the asset's recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of future cash flows. If the calculated recoverable amount of the asset or its cash-generating unit is less than the book value, a write-down is made. The write-down is recognized in profit and loss. A write-down is reversed if there has been a change in the estimates used to determine the recoverable amount, except write-downs of goodwill. A reversal is only made to the extent that the asset's book value does not exceed the book value that would have been recognized, with deductions for depreciations, if no write-down had been made. The amount that is reversed is recognized as income.

Provisions

A provision is recorded in the Balance Sheet when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and a reliable estimate of the amount can be made.

A restructuring provision is recorded when a detailed restructuring plan has been established and the restructuring has either commenced or been publicly announced.

Employee benefits

In general, Telelogic's pension plans are defined-contribution plans. This means that Telelogic has an obligation to pay a fee for each period and that the Company after having paid the fee has no further obligations in regards to pensions for the period.

Contingent liabilities

A contingent liability is disclosed when there is a possible obligation arising from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or when there is a present obligation arising from past events but which is not recognized as a liability or a provision since it is not probable that an outflow of resources will be needed to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

CASH-FLOW STATEMENT

The cash-flow statement is prepared in accordance with the indirect method. Cash and bank balances are classified as liquid assets.

REPORTING OF OPTIONS PROGRAM

For the employee options, any social security contributions are recognized in the Income Statement. For subscription warrants, retained option premiums are reported as an increase in the share premium reserve.

TRANSACTIONS WITH RELATED PARTIES

The Group is under the controlling influence of Telelogic AB. Delivery of services and products between Group companies are priced at arms' length conditions. Internal Group sales amounted to SEK 5.5 million for 2004, SEK 3.8 million for 2003 and the royalty flow in accordance with Note 2 amounted to SEK 96,200 for 2004 and SEK 89,700 for 2003.

PARENT COMPANY

In addition to related parties that are specified for the Group, the Parent Company has relationships entailing a controlling influence with its subsidiaries, see Note 14. The members of the Board of Directors for Telelogic AB and their immediate family members control about 1% of the votes in Telelogic AB. In regards to salaries and other reimbursements, costs and obligations that concern pensions and similar benefits, contracts concerning severance pay and loans to the Board of Directors and CEO (see Note 4).

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred post Balance Sheet date.

The Income Statement and the Balance Sheet are subject to adoption at the Annual General Meeting on April 28, 2005.

OTHER INFORMATION

Telelogic AB (registration number 556049-9690) is a limited liability corporation. The registered office of the Company is in Malmö, Sweden. The address of the main office is: Box 4128, SE-203 12 Malmö, Sweden

NOTE 2 INFORMATION ABOUT GEOGRAPHIC SEGMENTS (PRIMARY SEGMENT) AND BUSINESS SEGMENT

MSEK Total 2004	Americas	Asia/Pacific	EMEA	Product development, Parent Company and other	Group
External net sales	394.9	134.4	510.0	–	1,039.3
Operating income by segment	146.8	51.0	186.9	–220.8	163.9
Operating margin	37%	38%	37%	–	16%
Assets	169.2	106.8	302.2	554.6	1,132.8
Liabilities	135.4	47.0	217.8	42.6	442.8
Investments	3.1	6.5	6.1	28.8	44.5
Depreciation	–5.7	–1.5	–4.4	–49.7	–61.3

The market segments have no internal sales.

Sales by customer category, MSEK Total 2004	Telecom	Aerospace/defense	Automotive	Finance	Other	Group
External net sales	268.4	358.5	79.4	74.0	259.0	1,039.3

Sales by product MSEK Total 2004	DOORS	TAU	SYNERGY	Other	Group
External net sales	493.4	235.7	288.3	21.9	1,039.3

MSEK Total 2003	Americas	Asia/Pacific	EMEA	Product development, Parent Company and other	Group
External net sales	356.9	106.0	474.0	–	937.0
Operating income by segment	115.7	33.6	92.5	–233.3	8.5
Operating margin	32%	32%	20%	–	1%
Assets	148.1	100.8	244.9	527.7	1,021.5
Liabilities	120.1	47.7	180.6	122.9	471.3
Investments	1.0	0.9	1.3	38.5	41.7
Depreciation	–7.9	–1.8	–7.6	–54.6	–71.9

The market segments have no internal sales.

Sales by customer category, MSEK Total 2003	Telecom	Aerospace/defense	Automotive	Finance	Other	Group
External net sales	281.2	293.3	65.8	64.4	232.3	937.0

Sales by product MSEK Total 2003	DOORS	TAU	SYNERGY	Other	Group
External net sales	437.9	235.5	252.5	11.1	937.0

Revenue by significant type of income

	Group		Parent Company	
	2004	2003	2004	2003
Licensing and maintenance income	854,155	763,870	36,899	523
Royalties	–	–	96,179	89,684
Consulting and other income	185,099	173,084	43,726	26,190
	1,039,254	936,954	176,804	116,397

Operating income per geographic segment pertains to the earnings that arose in each market. Distribution by product development costs, goodwill amortization and costs for the Parent Company has not been made since it is not possible to make such a distribution in a manner that would provide a true and accurate picture.

NOTE 3 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2004	2003	2004	2003
Amortization of goodwill and other intangible assets	-15,252	-17,946	-16,944	-18,200
	-15,252	-17,946	-16,944	-18,200

NOTE 4 EMPLOYEES, PERSONNEL COSTS AND COMPENSATION TO THE BOARD OF DIRECTORS AND AUDITORS

Average number of employees	of which, men		of which, men	
	2004		2003	
Parent Company				
Sweden	57	81%	32	59%
Total in Parent Company	57	81%	32	59%
Subsidiaries				
Sweden	19	100%	68	91%
Germany	52	73%	69	74%
UK	117	72%	131	74%
US	208	70%	188	68%
France	41	83%	46	83%
Italy	3	100%	3	100%
Japan	25	84%	22	82%
Ireland	14	71%	13	77%
Australia	14	86%	6	83%
The Netherlands	12	83%	11	82%
Finland	3	100%	11	82%
Norway	-	-	2	100%
Spain	6	67%	4	75%
India	66	62%	48	63%
Korea	12	75%	10	80%
China	14	64%	9	78%
Singapore	11	82%	9	89%
Total in subsidiaries	617	73%	650	75%
Group total	674	74%	682	74%

Gender distribution in senior management

	Group Percentage of women		Parent Company Percentage of women	
	2004	2003	2004	2003
Board of Directors	17%	0%	17%	0%
Other senior executives	9%	13%	9%	13%

Salaries, other compensation and social security expenses

	2004		2003	
	Salaries and compensation	Social security expenses	Salaries and compensation	Social security expenses
Parent Company	39,004	12,610	16,033	6,080
(of which, pension expenses)	(-)	(7,975)	(-)	(3,916)
Subsidiaries	412,260	67,208	473,538	100,272
(of which, pension expenses)	(-)	(11,659)	(-)	(17,090)
Group total	451,264	79,818	489,571	106,352
(of which, pension expenses)	(-)	(19,634)	(-)	(21,006)

Salaries and other compensation distributed by country and between Board members, etc. and other employees

	2004		2003	
	Board of Directors and CEO	Other employees	Board of Directors and CEO	Other employees
Parent Company				
Sweden	4,193	34,810	3,422	12,828
(of which, bonuses, etc.)	(1,393)	(-)	(722)	(-)
Parent Company total	4,193	34,810	3,422	12,828
(of which, bonuses, etc.)	(1,393)	(-)	(722)	(-)
Subsidiaries				
in Sweden	1,040	8,522	1,544	55,307
(of which, bonuses, etc.)	(387)	(-)	(481)	(-)
in foreign countries	19,491	383,208	18,406	398,281
(of which, bonuses, etc.)	(5,646)	(-)	(5,479)	(-)
Subsidiaries total	20,531	391,730	19,950	453,588
(of which, bonuses, etc.)	(6,033)	(-)	(5,960)	(-)
Group total	24,724	426,540	23,372	466,416
(of which, bonuses, etc.)	(7,426)	(-)	(6,682)	(-)

A complete specification of salaries and remuneration per country is included in the Annual Report submitted to the Swedish Companies Registration Office.

Absence due to illness

Absence due to illness is calculated from January 1, 2004 to December 31, 2004 and concerns the Parent Company. Total absence due to illness was 185 days of a total of 21,216 days, which corresponds to 0.9%. No consecutive period of absence due to sickness of 60 days or more has occurred during the period.

	2004	2003
Total absence due to illness as a percentage of ordinary working time	0.9%	2%
Percentage of total absence due to illness for consecutive period of absence of 60 days or more	0%	0%

Absence due to illness as a percentage of each group's ordinary working time:**Absence due to illness by gender:**

Men	0.8%	1.1%
Women	1.0%	3.3%

Absence due to illness by age:

29 years or younger	0.7%	0%
30-49 years	0.9%	2%
50 or older	0%	0%

SENIOR MANagements BENEFITS

Principles

Compensation paid to the Chairman of the Board and Board members is as decided by the Annual General Meeting. CEO and employee representatives do not receive Board fee. Compensation paid to the Chief Executive Officer and other senior executives consists of base salary, variable salary, other benefits, pensions and stock options. "Other senior executives" refers to ten individuals who, together with the Chief Executive Officer, comprise Group management. Distribution between base salary and variable salary is commensurate with the executive's duties and authority. Variable salary is based on results in relation to the Company's earnings trends and/or individually set goals. Pension benefits and compensation in the form of financial instruments, etc. and other benefits paid to the Chief Executive Officer and other senior executives constitute a portion of the total compensation. The compensation committee has during the year provided the Board of Directors with recommendations regarding principles for compensation to senior management. The recommendations have encompassed the ratios between fixed and variable compensation, and the size of any increases. The compensation committee has also proposed criteria for assessment of bonuses, allocations and compensation size in the form of financial instruments, etc., and pension terms and severance pay.

Compensation paid to the Chief Executive Officer for the fiscal year 2004 has been decided by the Board of Directors. Compensation paid to other senior executives has been decided by the Chief Executive Officer in consultation with the Chairman of the Board and the compensation committee.

Board of Directors:

The Chairman of the Board received compensation of SEK 500,000 (SEK 500,000) for 2004. The Chairman of the Board has not received compensation above and beyond the Board fee. Five other outside Board members received compensation for 2004 totaling SEK 500,000 (SEK 400,000 in previous year to four outside members).

Chief Executive Officer:

SEK 1,800,000 (SEK 1,800,000) was paid to the Chief Executive Officer as salary, plus a bonus of SEK 1,393,000 (SEK 722,000) corresponding to 77% (40%) of base salary. Pension benefits totaled SEK 1,034,000 (SEK 826,000). The retirement age for the Chief Executive Officer is 65. The pension is defined-contribution and totals 35.5% of the pensionable salary. Termination at the request of the Chief Executive Officer requires a period of notice

of six months. The Chief Executive Officer is not entitled to severance pay. In the event of major structural changes, severance pay equivalent to 12 monthly salaries is paid with retained period of notice of six months. Termination by the employer requires a period of notice of 12 months and severance pay equivalent to 12 monthly salaries. Other income is not deducted from severance pay.

The Chief Executive Officer held 100,000 warrants from program TO 10 as of December 31, 2004, which will be allotted during 2004–2006 upon continued employment, as well as 100,000 warrants from program TO 11, which will be allotted during 2005–2007 upon continued employment. The warrants were allotted free of charge. The market value of the options allotted during the year is estimated at SEK 390,000.

Other individuals in Executive Management:

Ten other persons in Executive Management received SEK 9,989,000 (SEK 9,858,000) in salary and SEK 5,827,000 (SEK 2,568,000) in bonuses, corresponding to 58.3% (26%) of base salary. For other senior executives, SEK 30,000 (SEK 30,000) has been paid in accordance with special pension agreements. Termination by the employer normally requires a period of notice of six months. For management personnel, 12 months advance notice is required. Moreover, there is no severance pay.

At December 31, 2004, other senior executives held 50,000 employee stock options from program TO 7, which was allotted in 2002–2005 upon continued employment, 681,500 warrants from program TO 8 and 241,500 employee stock options from program TO 9, which were allotted in 2002–2005 upon continued employment. Additionally, other senior executives have received 301,668 warrants from program TO 10, which was allotted during 2004–2006 upon continued employment as well as 475,000 warrants from program TO 10, which will be allotted during 2005–2007 upon continued employment. The warrants were allotted free of charge. The market value of the options allotted during the year is estimated at SEK 1,852,000.

Incentive program

Telelogic has a number of outstanding stock option programs for the Company's employees in compliance with the Company's stock option policy. The following table shows outstanding stock option programs as of December 31, 2004. During the year, one program (TO 11) was added. No other allocation has occurred. Exercise occurred during the year corresponding to 1,130,506 shares.

TO 5, 7, 9, 10 and 11 concern employee stock options related to employment: the others concern warrants.

Change in total options

	TO,4 2000/2005	TO,5 2001/2005	TO,6 2001/2005	TO,7 2001/2006	TO,8 2001/2006	TO,9 2001/2006	TO,10 2003/2007	TO,11 2004/2008
2003								
Outstanding at start of period	61,250	252,944	31,150	692,200	2,769,425	3,441,287	0	–
Issued	–	–	–	–	–	–	2,000,000	–
Redeemed	–	–	–	–	–	–	–	–
Matured	–	–98,582	–	–178,000	–	–798,279	–183,000	–
Outstanding at end of period	61,250	154,362	31,150	514,200	2,769,425	2,643,008	1,817,000	0

2004

Outstanding at start of period	61,250	154,362	31,150	514,200	2,769,425	2,643,008	1,817,000	0
Issued	–	–	–	–	–	–	–	1,900,000
Redeemed	–	–	–	–109,900	–635,700	–228,315	–156,591	–
Matured	–	–12,000	–	–66,300	–	–192,034	–256,634	–70,000
Outstanding at end of period	61,250	142,362	31,150	338,000	2,133,725	2,222,659	1,403,775	1,830,000

Information on outstanding options as of the Balance Sheet date

	TO,4 05-05-31	TO,5 05-05-31	TO,6 05-10-31	TO,7 06-04-30	TO,8 06-04-30	TO,9 06-04-30	TO,10 07-10-31	TO,11 08-07-31
Subscription price per share, SEK	62.92	40.82	22.10	6.30	8.40	8.50	5.15	17.30
Total payments if shares are issued, SEK 000s	4,548	5,811	812	2,129	17,923	18,892	7,229	31,659
Increase of capital stock at full subscription, SEK 000s	723	1,680	367	3,380	21,337	22,226	14,037	18,300
Total shares authorized per warrant	1.18	1.18	1.18	1.00	1.00	1.00	1.00	1.00

NOTE 4 cont.**Dilution**

The outstanding stock option programs can result in no more than 3.6% dilution (computed as the net increase of shares in the Company as a result of warrants, divided by the total number of shares and options). When only the stock option programs having share prices that exceeded the discounted redemption price as of 31 December, 2004, are considered, total dilution was 1.6%. In addition, there is an outstanding convertible loan of SEK 2,559,907, corresponding to 682,642 shares upon full conversion to shares. Total shares after full dilution, with consideration to both outstanding stock option programs and convertible loans, is thus 221,484,437.

Fees and expenses reimbursements to auditors

	Group		Parent Company	
	2004	2003	2004	2003
KPMG				
Auditing	3,058	2,504	575	405
Other assignments	636	736	128	376
Other auditors				
Auditing	160	40	–	–
Total	3,854	3,280	703	781

NOTE 5 DEPRECIATION/AMORTIZATION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

	Group		Parent Company	
	2004	2003	2004	2003
Depreciation/amortization according to plan itemized by asset				
Capitalized development costs	29,724	26,256	–	–
Other intangible assets	1,784	2,915	17,353	18,200
Goodwill	13,996	15,031	–	–
Equipment, fixtures and fittings	15,773	27,678	943	–
Total	61,277	71,880	18,296	18,200
Amortization/amortization according to plan itemized by function				
Sales expenses	10,224	17,334	57	–
Administrative expenses	1,834	3,313	303	–
Product development expenses	33,967	33,287	992	–
Other operating expenses	15,252	17,946	16,944	18,200
Total	61,277	71,880	18,296	18,200

NOTE 6 RENTAL AND LEASING EXPENSES, OPERATING LEASING

	Group		Parent Company	
	2004	2003	2004	2003
Assets possessed via operating leasing agreements				
Minimal leasing fees	48,819	57,923	6,808	5,081
Total leasing costs	48,819	57,923	6,808	5,081
Contracted future minimal leasing fees, noncancelable contracts due for payment:				
Within one year	40,901	46,973	5,188	7,266
Between one and five years	71,801	65,943	11,751	4,580
Later than five years	2,464	2,628	–	–
Total	115,166	115,544	16,939	11,846

All lease agreements in the Group are classified as operating. A large portion pertain to rental of premises and computers. At the end of the leasing period, there is the alternative of returning the equipment, extending the lease or voluntarily purchasing the equipment at residual value specified in advance.

NOTE 7 RESULT FROM PARTICIPATIONS IN GROUP COMPANIES

	2004	2003
Liquidation gain	14,979	
Dividend	35,453	
Write-downs	–42,834	–124,954
Total	7,598	–124,954

NOTE 8 INTEREST INCOME AND SIMILAR INCOME ITEMS

	Group		Parent Company	
	2004	2003	2004	2003
Interest income, Group companies	–	–	4,687	9,429
Interest income, other	3,410	2,270	1,055	530
Total	3,410	2,270	5,742	9,959

NOTE 9 INTEREST EXPENSES AND SIMILAR EXPENSE ITEMS

	Group		Parent Company	
	2004	2003	2004	2003
Interest expenses, Group companies	–	–	–12,042	–14,353
Interest expenses, other	–937	–5,585	–657	–4,485
Total	–937	–5,585	–12,699	–18,838

NOTE 10 EXCHANGE DIFFERENCES INCLUDED IN NET RESULTS FOR THE YEAR

	Group		Parent Company	
	2004	2003	2004	2003
Exchange differences included in operating income	3,193	5,051	-2,827	5,638
Other operating revenue	-	-	2,595	7,284
Total	3,193	5,051	-232	12,922

NOTE 11 TAX ON INCOME FOR THE YEAR

	Group		Parent Company	
	2004	2003	2004	2003
Current tax expenses				
Tax expenses for the period	-17,678	-8,742	-3,546	-14,489
Adjustment of tax related to prior years	-2,090	513	-	-
	-19,768	-8,229	-3,546	-14,489

Deferred tax expenses

Deferred tax on temporary differences	-2,991	-7,690	-725	-
Deferred tax on revaluation of reported value of deferred tax assets	-	-	-	-27,000
Deferred tax expense arising from utilization of previously recognized tax value in deductible deficit	-20,551	-5,536	-8,751	-
Other	-	195	-	-
	-23,542	-13,031	-9,476	-27,000

Total reported tax expenses **-43,310** **-21,260** **-13,022** **-41,489**

Reconciliation of effective tax

	2004		2003	
Group	Percent	Amount	Percent	Amount
Net income before tax		166,371		5,212
Tax according to applicable tax rate for Parent Company	28.0%	-46,584	28.0%	-1,459
Effect of tax rates for foreign subsidiaries		-13,596		-8,402
Non-deductible expenses		-5,545		-5,591
Non-deductible income		920		55
Increase of deductible deficit without corresponding recognition of a deferred tax assets		-11,275		-8,070
Utilization of previously uncapitalized deductible deficits		31,744		-
Tax attributable to prior years		-2,090		513
Foreign taxes		-3,024		-360
Increase/decrease in temporary differences for which deferred tax was not reported previously		6,140		2,041
Other		-		13
Reported tax expense		-43,310		-21,260

Reconciliation of effective tax

	2004		2003	
Parent Company	Percent	Amount	Percent	Amount
Net income before tax		54,786		-156,412
Tax according to applicable tax rate for Parent Company	28.0%	-15,340	28.0%	43,795
Non-deductible expenses		-2,293		-35,072
Non-deductible income		4,196		-
Increase of deductible deficit without corresponding recognition of a deferred tax assets		-		-24,891
Utilization of previously uncapitalized deductible deficits		-		-
Increase/decrease in temporary differences for which deferred tax was not previously capitalized		2,255		2,041
Increase/decrease in temporary differences		-		-27,000
Foreign taxes		-1,840		-359
Other		-		-3
Reported tax expense		-13,022		-41,489

Tax items reported directly to shareholders' equity

	Group		Parent Company	
	2004	2003	2004	2003
Current tax in received/paid	-	-	-1,706	-14,127
Group contributions	-	-	-1,706	-14,127

NOTE 12 INTANGIBLE ASSETS**12 a**

Other intangible assets	Group	Parent Company
Acquired		
<i>Accumulated acquisition value</i>		
At beginning of the year	14,389	91,000
Other investments	2,726	2,726
Exchange rate differences for the year	-20	-
At year-end	17,095	93,726
<i>Accumulated scheduled amortization</i>		
At beginning of the year	-13,006	-74,056
Scheduled amortization for the year ¹⁾	-1,784	-17,353
Exchange rate differences for the year	21	-
At year-end	-14,769	-91,409
Reported value at beginning of period	1,383	16,944
Reported value at period-end	2,326	2,317

¹⁾ Amortization for the year is reported in the following Income Statement items:

Other operating expenses	-1,256	-16,944
Product development expenses	-528	-409

NOTE 12 cont.**12 b**

Goodwill	Group	Parent Company
Acquired		
<i>Accumulated acquisition value</i>		
At beginning of the year	2,138,749	-
Exchange rate differences for the year	-111,076	-
Exchange rate differences for the year	2,027,673	-
<i>Accumulated scheduled amortization</i>		
At beginning of the year	-1,950,005	-
Scheduled amortization for the year ¹⁾	-13,996	-
Exchange rate differences for the year	97,912	-
At year-end	-1,866,089	-
Reported value at beginning of period	188,744	-
Reported value at period-end	161,584	-
¹⁾ Amortization for the year is reported in the following Income Statement items:		
Other operating expenses	-13,996	-

12 c

Capitalized development costs	Group	Parent Company
Internally worked up		
<i>Accumulated acquisition value</i>		
At beginning of the year	195,866	-
Internally developed assets	21,900	-
At year-end	217,766	-
<i>Accumulated scheduled amortization</i>		
At beginning of the year	-32,531	-
Scheduled amortization for the year ¹⁾	-29,724	-
At year-end	-62,255	-
<i>Accumulated write-downs</i>		
At beginning of the year	-5,900	-
At year-end	-5,900	-
Reported value at beginning of period	157,435	-
Reported value at period-end	149,611	-
¹⁾ Amortization for the year is reported in the following Income Statement items:		
Product development expenses	-29,724	-

Total intangible assets	Group	Parent Company
Acquired/internally worked up		
<i>Accumulated acquisition value</i>		
At beginning of the year	2,349,004	91,000
Internally developed assets	21,900	-
Other investments	2,726	2,726
Exchange rate differences for the year	-111,096	-
At year-end	2,262,534	93,726
<i>Accumulated scheduled amortization</i>		
At beginning of the year	-1,995,542	-74,056
Scheduled amortization	-45,504	-17,353
Exchange-rate difference for the year	97,933	-
At year-end	-1,943,113	-91,409
<i>Accumulated write-downs</i>		
At beginning of the year	-5,900	-
At year-end	-5,900	-
Reported value at beginning of period	347,562	16,944
Reported value at period-end	313,521	2,317

NOTE 13 EQUIPMENT, FIXTURES AND FITTINGS

	Group	Parent Company
Accumulated acquisition value		
At beginning of the year	187,540	-
Transferred at merger	-	31,258
New acquisitions	19,769	1,911
Sales and disposals	-13,849	-3,666
Exchange-rate differences for the year	-8,780	-
	184,680	29,503
Accumulated scheduled depreciation		
At beginning of the year	-157,918	-
Transferred at merger	-	-29,031
Sales and disposals	8,367	3,666
Scheduled depreciation of acquisition values for the year	-15,773	-943
Exchange-rate differences for the year	8,401	-
	-156,923	-26,308
Reported value at period-end	27,757	3,195

NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

	Dec. 31, 2004	Dec. 31, 2003
Accumulated acquisition value		
At beginning of the year	2,442,729	2,339,490
Liquidations	-6,500	-
Merged companies	-300	-
Purchases and shareholder contributions	7,381	103,239
	2,443,310	2,442,729
Accumulated write-downs		
At beginning of the year	-2,015,376	-1,890,422
Write-downs for the year	-42,834	-124,954
	-2,058,210	-2,015,376
Reported value at period-end	385,100	427,353

Specification of Parent Company and Group holdings of shares and participations in Group companies

Subsidiary / Corp. reg. No. / Reg. office	No. of shares	Holding in % ¹⁾	Dec. 31, 2004 Reported value
Telelogic Sverige AB, 556510-7389, Malmö, Sweden	400,000	100.0	500
Telelogic Options AB, 556558-9149, Malmö, Sweden	1,000	100.0	100
Telelogic Finland Oy, 1549433-0, Helsingfors, Finland	200	100.0	-
Telelogic Norge AS, 979465289, Trondheim, Norway	342,858	100.0	121
Telelogic Technologies UK Ltd, 1832150, Maidenhead, Great Britain	10,000	100.0	-
Telelogic Doors Ltd, 2936647, Cardiff, Great Britain	100.0		
Real Time Products Ltd, 2139638, Birmingham, Great Britain	22,000	100.0	-
Telelogic Ireland Ltd, 255214, Dublin, Ireland	1	100.0	-
Telelogic Continuuus Ireland Ltd, 274232, Dublin, Ireland	9,000	100.0	104
Telelogic Deutschland GmbH, 34265, Bielefeld, Germany	1	100.0	24,249
Telelogic France SA, 351994736, Nanterre, France	22,425	100.0	5,926
Telelogic Technologies Toulouse SA, 330575705, Toulouse, France	25,000	100.0	73,845
Telelogic Netherlands B.V., 30168519, Utrecht, The Netherlands	1	100.0	-
Telelogic Iberica S.L., B-82855 59 66, Madrid, Spain	301	100.0	27
Telelogic Italia SrL, 194219, Milano, Italy	20,000	100.0	1,326
Nippon Telelogic KK, 0104-01-035618, Tokyo, Japan	600	100.0	11,548
Telelogic Australia Pty Ltd, 34 089 339 711, New South Wales, Australia	2	100.0	102
Telelogic Korea Ltd, 110111-2127896, Seoul, Korea	10,000	100.0	415
Telelogic Co Ltd, 015250, Beijing, China	1	100.0	875
Telelogic India Pte Ltd, CIN-72200KA2000, Bangalore, India	49,517	100.0	-
Telelogic Software Singapore Pte Ltd, 200008786W, Singapore	50,000	100.0	-
Telelogic Holding North America Inc, 3361889, Delaware, USA	1,000	100.0	265,962
Telelogic Requirements Management Inc, 2680280, Delaware, USA		100.0	
Telelogic Canada Inc, 359017-8, Ontario, Canada		100.0	
Telelogic North America Inc, 2569989, Delaware, USA		100.0	
Telelogic Doors UK Holdings Ltd, 2706134, Oxford, Great Britain		100.0	
Telelogic UK Ltd, 3951808, Oxford, Great Britain		100.0	
Requirements Engineering Ltd, 2288111, Oxford, Great Britain		100.0	
Eurocom Software Ltd, 2497516, Cardiff Great Britain		100.0	
VisualSoftware Engineering Ltd, 2861478, Oxford, Great Britain		100.0	
Telelogic Technologies North America Inc, 3028841, Delaware, USA		100.0	
Telelogic Doc Express Inc, C1484400, Torrance, California		100.0	

385,100¹⁾ Refers to participation interest of capital, which also agrees with the share of votes for total number of shares.

The following companies were liquidated during the years: Telelogic Sweden Holding AB, Telelogic Certeam-Infocom AB, Telelogic Certeam-Konsult AB, Telelogic Components AB, PreQual Test AB and Telelogic Academy AB. Telelogic Technologies Malmö AB was merged with Telelogic AB (publ) during the year.

During the year, Telelogic Finland Oy received a shareholder contribution to cover losses corresponding to SEK 7,381,000.

A write down of capital stock occurred in Telelogic Technologies North America Inc in an amount corresponding to SEK 35,453,000.

NOTE 15 DEFERRED TAX ASSETS

	Deferred tax assets	Group Deferred Tax liabilities	Net	Deferred tax assets	Parent Company Deferred Tax liabilities	Net
Dec. 31, 2004						
Intangible assets	–	41,891	–41,891	–	–	–
Deductible deficit	131,890	–	131,890	49,619	–	49,619
	131,890	41,891	89,999	49,619		49,619
Set-off	–41,891	–41,891	–	–	–	–
Net deferred tax assets	89,999	–	89,999	49,619	–	49,619
Dec. 31, 2003						
Intangible assets	4,456	44,081	–39,625	–	–	–
Machinery and equipment	725	–	725	–	–	–
Deductible deficit	157,314	–	157,314	58,370	–	58,370
	162,495	44,081	118,414	58,370	–	58,370
Set-off	–44,081	–44,081	–	–	–	–
Net deferred tax assets	118,414	–	118,414	58,370	–	58,370

Unreported deferred tax assets

Tax-deductible deficit for which deferred tax assets have not been reported in the Income Statement and Balance Sheet:

Group	2004	2003
Tax deductible deficit	519,141	530,605
	519,141	530,605

Deferred tax assets are reported for unutilized deductible deficits to the degree that in all probability, they can be expected to be utilized within the foreseeable future. Recognized amounts are subject to ongoing impairment testing. Of the Group's deductible deficit, nearly all can be utilized without time limitations. The current earnings trend and anticipated future earnings trends substantiate the value of the recognized deductible deficits.

Change in deferred tax in temporary differences and deductible deficit

Dec. 31, 2004 Group	Amount at beginning of the year	Reported in income statement	Exchange-rate differences for the year	Amount at year-end
Intangible assets	–39,625	–2,266	–	–41,891
Machinery and equipment	725	–725	–	–
Deductible deficit	157,314	–20,551	–4,873	131,890
	118,414	–23,542	–4,873	89,999

Parent Company

Machinery and equip- ment from merger	725	–725	–	–
Deductible deficit	58,370	–8,751	–	49,619
	59,095	–9,476	–	49,619

NOTE 16 OTHER LONG-TERM RECEIVABLES

Group	Dec. 31, 2004	Dec. 31, 2003
Accumulated acquisition value		
At beginning of the year	14,178	11,151
Settled receivables	–840	4,073
Exchange-rate differences	–669	–1,046
Reported value at year-end	12,669	14,178

NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Prepaid rental and leasing expenses	4,552	5,363	1,047	1,549
Accrued income	72,865	37,641	20,444	1,944
Allocated expenses	8,537	4,239	2,241	1,527
Prepaid expenses pertaining to development projects	3,274	1,475	3,274	–
Other items	41	1,692	37	1,692
Total	89,269	50,410	27,043	6,712

NOTE 18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Telelogic Group's financial functions are centralized, and managed from the Head office. The local economic units report directly to the central economic and financial function, which enables good management of the Group's financial exposure while also offering cost advantages. The Group's financial policy sets guidelines and rules for managing financial risks, and for general financial operations.

Foreign exchange risk

Foreign exchange risk is the risk for fluctuations in the value of a financial instrument because of changes in exchange rates. The currency rate risks are related to changes to expected and contracted payment flows (transaction exposure), revaluation of foreign subsidiaries' assets and liabilities in foreign currency (translation exposure) and financial exposure in the form of currency risks in the payment flows for loans.

Transaction exposure

Telelogic's sales are primarily made from the local sales offices. Ninety-five percent of Telelogic's sales are in currencies other than SEK. Revenues are thus exposed to exchange rate fluctuations to a considerable degree. Net income, however, is not subject to the same level of exposure because the sales-related expenses are reported in the same local currencies. The Group's support and development centers are also geographically dispersed in four different currency areas – Sweden, the United Kingdom, United States and India. Because the Group's operational organizations are located within the currency areas in which the products are sold, the Group's flow exposure is relatively limited. The distribution of sales and operating expenses by currency in the table below provides a picture of the Group's sensitivity to currency fluctuations in the Income Statement.

	Revenue	Expenses
SEK	4%	16%
EUR	30%	21%
GBP	14%	16%
USD	40%	35%
YEN	5%	3%
Other	7%	9%

Translation exposure

It is Telelogic's policy to not shield translation exposures in foreign currency.

Financial exposure

The Group's borrowing in SEK amounted to 26% of total borrowing and concerns a convertible. Remaining borrowing of SEK 7.0 million concerns a loan assumed in JPY by the local company in Japan and at an interest rate of 1.4%.

Hedging of expected future cash flows

During 2004, only currency forward contracts have been used as hedging instruments. The Group's earnings for 2004 have been affected positively by SEK 1.1 million as a result of the hedging measures. Outstanding hedges as of December 31, 2004 amounted to SEK 9.3 million and have an average term of three months. All currency forward contracts fall due in 2005. They consist of currency forward contracts in EUR at 100%.

All currency forward contracts are used for translations of receivables and assets in the balance sheet.

Interest risk

Interest risk concerns the risk for negative effects on the Group's earnings as a result of changes to interest market rates.

As of December 31, 2004, Telelogic had SEK 9.7 million in outstanding interest-bearing debts, of which SEK 2.4 million pertain to a convertible loan. The convertible loan falls due for payment on December 30, 2005. The convertible loan carries a fixed annual interest rate of 3.5%. Other interest-bearing debts are running at an interest rate of 1.4%, and upon an increase in the interest rate by 1 percentage point, Telelogic's total interest costs would increase only marginally by approximately 7% or SEK 0.1 million.

Credit risk

Credit risk concerns customers not being able to pay for delivered products or services because of financial problems. Telelogic has traditionally had few problems with outstanding accounts receivable because most of our customers are larger, credit-worthy companies. The risk of bad debts is also limited by the maintenance revenues normally being invoiced in advance. Actual credit losses during 2004 totaled SEK 4 million, corresponding to about 0.4% of net sales. During the past two years, outstanding accounts receivable have declined, mainly as a result of more active collection of accounts receivable. The single largest account receivable in the Group does not normally exceed SEK 20 million.

NOTE 19 SHAREHOLDERS' EQUITY**Restricted funds**

Restricted funds may not be used for dividends.

Statutory reserve

The purpose of the statutory reserve is to save a portion of net income, which is not used to cover loss brought forward.

Share premium reserve

When shares are issued at premiums, i.e. when the price of the shares is higher than their par values, an amount corresponding to the received amount less the par value of the shares, is transferred to the share premium reserve.

Non-restricted equity**Profit/loss brought forward**

Comprised of prior year's non-restricted stockholders' equity after any statutory reserve allocation and after any distribution of profits is made. Combined with Net income for the year comprises unrestricted shareholders' equity, i.e. the amount that is available for dividend payments.

Specification of change in number of shares

	Dec. 31, 2004	Dec. 31, 2003
Number of shares outstanding at beginning of the period	204,433,472	202,837,052
New issues	–	–
Redemption of warrants	1,130,506	–
Conversion of loans	11,728,804	1,596,420

Number of shares outstanding at period-end

217,292,782 204,433,472

Telelogic shares were initially offered on the Stockholm Stock Exchange's O-list on March 8, 1999. The initial offering price was SEK 5.00, recalculated after splits. The Telelogic share is traded on the Attract 40 list. A trading lot is 1,000 shares.

Capital stock in Telelogic AB totaled SEK 2,172,928 as of December 31, 2004, distributed among 217,292,782 shares at a par value of SEK 0.01 per share. All Telelogic shares entitle the holder to one vote per share at General Meetings, and all shares confer equal rights to shares in the Company's profits and assets.

The Company does not hold any treasury stock. There are no shares that are reserved for transfer according to warrants and other agreements. All issued shares are paid in full.

During the year, conversion of convertible loans 2001/2005 occurred on eight occasions, which combined entailed that 11,728,804 shares were issued.

Exchange-rate differences

Specification of accumulated exchange-rate differences in shareholders' equity:

	Dec. 31, 2004	Dec. 31, 2003
Accumulated exchange-rate differences at beginning of the year	65,560	131,548
Exchange-rate difference for the year in foreign subsidiaries	–31,225	–65,988
Accumulated exchange-rate difference at year-end	34,335	65,560

Specification of changes in shareholders' equity is provided on Page 38.

NOTE 20 EARNINGS PER SHARE

Group	2004	2003
Earnings per share before dilution		
Net income/loss	123,061	-16,048
Weighted average number of common shares outstanding	214,737	203,601
Earnings per share before dilution	0.57	-0.08
Earnings per share after dilution		
Net income/loss	123,061	-16,048
Interest on convertible loans	108	3,851
Adjusted net income/loss	123,169	-12,197
Weighted average number of common shares outstanding	214,737	203,601
Adjustment for assumed conversions of convertible debentures	682	12,411
Adjustment for warrants	3,509	3,268
Number of shares in calculation of earnings per share	218,928	219,280
Earnings per share after dilution	0.56	-0.06

NOTE 21 OTHER PROVISIONS

	Group		Parent Company	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Restructuring expenses	-	16,901	-	-
	-	16,901	-	-
Reported value at beginning of the period	19,150	22,019	-	1,250
Provisions during the period ¹⁾	-	16,901	-	-
Amount utilized during the period	-10,401	-19,227	-	-1,250
Exchange-rate difference	-188	-543	-	-
Reported value at period-end	8,561	19,150	-	-

¹⁾ Including increases in existing provisions.

Of the opening balance for 2004, SEK 10,401,000 has been utilized during 2004. The remaining portion concerns rental commitments in the US and Germany as well as severance pay in the French subsidiary and is expected to be utilized during 2005. No new provisions were made during 2004.

NOTE 22 LONG-TERM INTEREST-BEARING LIABILITIES

The Company has outstanding convertible loans reported at SEK 2,447,000. The original nominal value is SEK 60,105,000, of which SEK 57,546,00 has been converted into shares. The convertible loan carries an annual interest rate of 3.5% until December 2005. The convertible loan can be redeemed at any time in return for shares at a conversion rate of SEK 3.75 per share. The loan's nominal amount is SEK 37 per convertible debenture. Because the loan is subordinate to other debts and in view of the Group's financial position in other regards, the interest is not considered to reflect market interest rates. The market interest rate for this loan has been assessed at 10.25%. A loan that carries interest deviating from market interest rates is recorded at its fair market value, and the difference is transferred to the Company's restricted equity. Income is charged with market interest rates over the term of the loan. The market value for each unit of the convertible debenture loan has been calculated through a present value computation of future interest payments and the loan's nominal amount, and with consideration taken to the issue expenses that arose when the convertible loan was raised. It has been assumed in carrying out the present value computation of interest payments and repayment of the loan that conversion will not take place prior to the end of the period. This has the effect in Telelogic's accounts that for each subscribed unit of the convertible debenture loan, income during the loan's period will be charged with SEK 5.67 as a financial expense, corresponding to the difference between the loan's nominal amount and its estimated fair market value during the period. This financial cost, which does not effect cash flow, will increase the debt in the Balance Sheet during the loan's period so that the debt corresponds to the nominal amount at the end of the period. Additionally, there are issue expenses of SEK 2.66 per subscribed unit of the convertible debenture loan during its term. The issue expenses are distributed proportionally between subscribed shares and subscribed convertible debentures.

NOTE 23 ASSETS PLEDGED TO CREDIT INSTITUTIONS

	Group		Parent Company	
	2004	2003	2004	2003
Chattel mortgages	45,000	45,000	45,000	45,000
	45,000	45,000	45,000	45,000

NOTE 24 BANK OVERDRAFT FACILITY

	Group		Parent Company	
	2004	2003	2004	2003
Credit facility	149,980	134,526	120,000	120,000
Unutilized portion	-142,973	-127,047	-120,000	-120,000
Utilized amount	7,007	7,479	-	-

Assets pledged are shown in Note 23.

NOTE 25 OTHER LONG-TERM LIABILITIES

	Group	
	2004	2003
Liabilities that fall due more than one year after Balance Sheet date	318	946
Liabilities that fall due more than five years after Balance Sheet date	-	-
Assets pledged for other liabilities	None	None

NOTE 26 ACCRUED EXPENSES AND PREPAID INCOME

	Group		Parent Company	
	2004	2003	2004	2003
Maintenance agreements, prepaid income	235,658	221,556	1,932	6,491
Vacation pay liabilities	16,025	18,218	5,996	3,497
Distributor commissions	773	–	760	3,462
Accrued salaries	36,900	29,062	4,967	2,322
Social security expenses	10,385	13,970	1,214	642
Accrued interest expenses	8	136	8	136
Other items	35,045	34,663	6,100	5,660
Total	334,794	317,605	20,977	22,210

NOTE 27 CONTINGENT LIABILITIES

	Group		Parent Company	
	2004	2003	2004	2003
Guarantees for Group companies	–	–	24,949	16,184
Counter obligation for bank guarantee	5,246	3,044	5,160	3,044
Total contingent liabilities	5,246	3,044	30,109	19,228

NOTE 28 TRANSITION TO IFRS 2005

Shareholders' equity at January 1, 2004 in accordance with current accounting principles	550,218
Expense during 2003 TO10 warrants program (issued after November 7, 2002)	–410
Tax effect of this expense	115
Shareholders' equity at January 1, 2004 in accordance with IFRS	549,923
Shareholders' equity at December 31, 2004 in accordance with current accounting principles	689,895
Expense during 2004 TO10 and TO11 warrants program (issued after November 7, 2002)	–2,731
Tax effect of this expense	765
Goodwill amortization	13,996
Effect on net income for the year	12,030
Shareholders' equity at December 31, 2004 in accordance with IFRS	701,925

Malmö, March 31, 2005

Bo Dimert
Chairman

Kjell Duveblad

Erik Gabrielsson

Risto Silander

Maria Borelius

Michael Andersson
Employee representative

Brandon Jones
Employee representative

Anders Lidbeck
Chief Executive Officer

My audit report was submitted on March 21, 2005

Alf Svensson
Authorized Public Accountant

The Group's Income Statement and the Balance Sheet will be subject to adoption at the Annual General Meeting on April 28, 2005.

Audit report

To the Annual Meeting of Telelogic AB (publ), corp. reg. no 556049-9690

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Chief Executive Officer of Telelogic AB for the year 2004. These accounts and the administration of the Company as well as the application of the Annual Accounts Act in preparing the annual report and consolidated accounts are the responsibility of the Board of Directors and the Chief Executive Officer. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Chief Executive Officer, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decision, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the Chief Executive Officer. I also examined whether any board member or the Chief Executive Officer has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

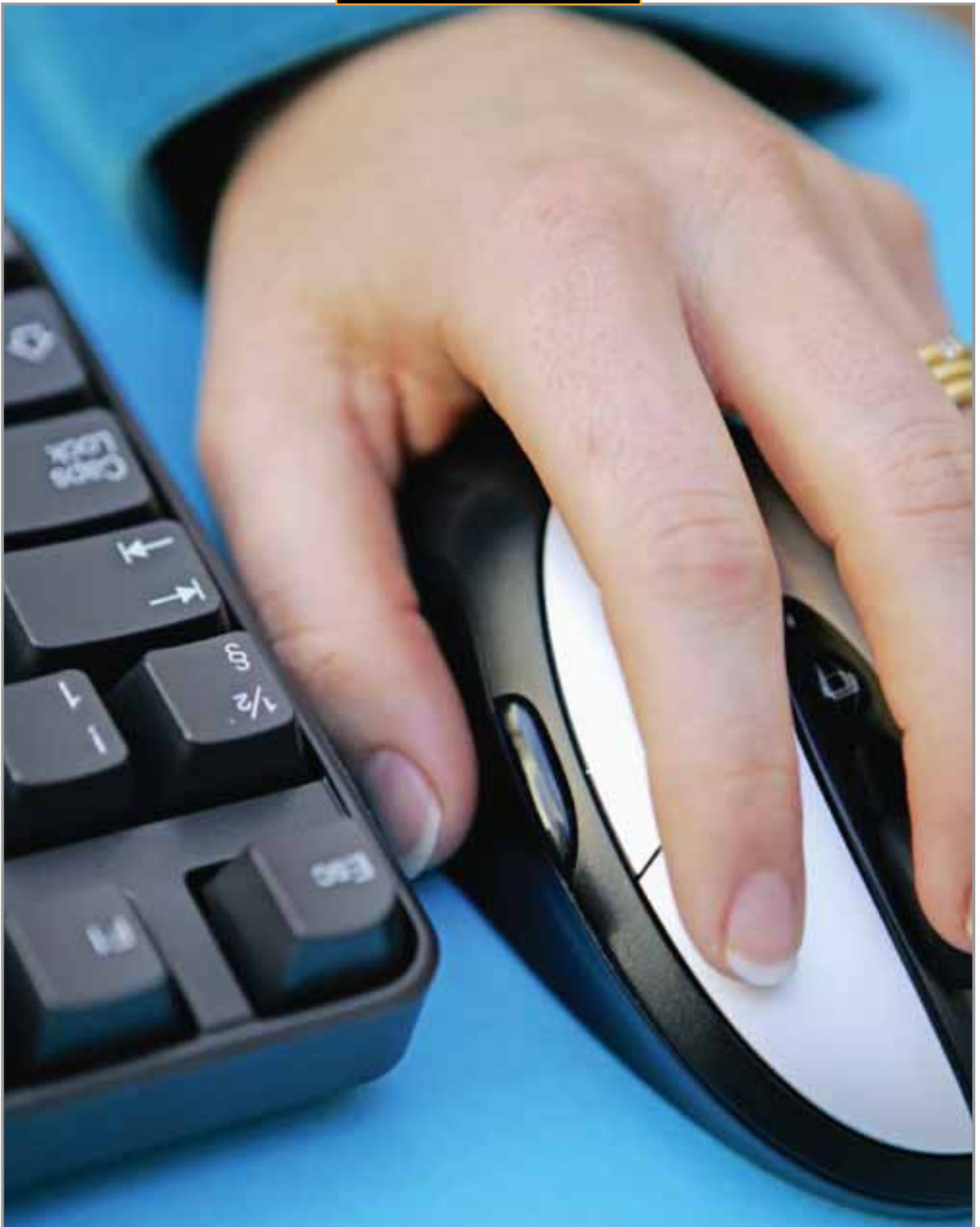
The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The Board of Directors' Report is consistent with the other parts of the annual report and consolidated accounts.

I recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the loss for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Malmö, March 21, 2005

Alf Svensson
Authorized Public Accountant

Financial overview



Eight-year summary

MSEK	2004	2003	2002	2001	2000	1999	1998	1997
INCOME STATMENTS								
Licensing and maintenance revenues	854.2	763.9	856.2	970.5	569.6	210.4	134.8	90.2
Consulting and other income	185.1	173.1	264.8	524.5	311.6	108.0	43.7	15.2
Net sales	1,039.3	937.0	1,121.0	1,495.0	881.2	318.4	178.5	105.5
Licensing and maintenance expenses	-56.3	-65.8	-85.0	-113.0	-57.5	-24.5	-11.9	-7.5
Consulting and other expenses	-145.9	-153.4	-229.0	-351.0	-196.5	-61.5	-25.2	-7.1
Gross income	837.1	717.8	807.0	1,031.0	627.2	232.4	141.4	90.9
Sales expenses	-426.7	-433.2	-494.3	-739.7	-362.8	-137.4	-77.0	-45.2
Administrative expenses	-76.4	-82.8	-111.4	-168.0	-92.2	-34.8	-18.5	-12.8
Product development expenses	-154.8	-175.3	-173.2	-260.9	-171.5	-53.3	-42.3	-26.7
Other expenses	-15.3	-17.9	-94.0	-1,983.9	-50.4	-4.7	-1.2	0.0
Operating income/loss	163.9	8.5	-65.9	-2,121.6	-49.7	2.2	2.3	6.2
Net financial items	2.5	-3.3	-1.7	-2.0	8.1	0.5	-1.3	0.0
Net income/loss before taxes	166.4	5.2	-67.6	-2,123.6	-41.6	2.7	1.0	6.2
Tax	-43.3	-21.3	-33.9	72.4	-7.1	-2.6	-0.9	-1.8
Net income/loss for the year	123.1	-16.1	-101.5	-2,051.2	-48.7	0.1	0.1	4.4
BALANCE SHEETS, DECEMBER 31								
Assets								
Goodwill	161.6	188.7	238.8	301.3	1,951.1	173.8	16.3	0.0
Source code rights	2.3	1.4	4.3	7.1	8.8	11.3	0.0	0.0
Capitalized product development	149.6	157.4	146.4	75.0	0.0	0.0	0.0	0.0
Tangible fixed assets	27.8	29.6	63.7	124.9	133.8	29.1	14.8	7.8
Financial fixed assets	102.6	132.6	151.9	183.5	102.0	57.7	0.0	0.0
Accounts receivable	331.5	305.3	290.7	486.3	537.6	144.7	56.3	39.8
Other current receivables	107.9	66.6	79.0	139.3	101.0	23.2	14.2	4.2
Cash and bank accounts	249.5	139.8	160.0	128.4	240.8	30.9	9.7	2.9
Total assets	1,132.8	1,021.5	1,134.8	1,445.8	3,075.1	470.7	111.3	54.7
Equity and liabilities								
Shareholders' equity	689.9	550.2	627.2	716.2	2,337.2	109.0	12.2	3.7
Provisions	8.6	20.2	24.3	15.2	34.3	7.8	0.4	0.8
Interest-bearing long-term liabilities	2.4	42.7	46.5	50.2	0.0	0.0	1.0	0.0
Non-interest bearing long-term liabilities	0.3	0.9	2.1	81.8	67.1	172.6	0.0	0.0
Interest-bearing current liabilities	7.2	7.5	8.8	9.9	4.4	26.5	39.3	0.0
Accounts payable	33.5	29.1	45.8	46.8	79.7	26.5	13.1	6.9
Accrued expenses and prepaid income	334.8	317.6	332.3	411.6	448.7	87.2	37.6	28.5
Other non-interest-bearing current liabilities	56.1	53.2	47.8	114.1	103.7	41.1	7.7	14.8
Total equity and liabilities	1,132.8	1,021.5	1,134.8	1,445.8	3,075.1	470.7	111.3	54.7
CASH-FLOW STATEMENT								
Cash flow from operating activities	152.8	34.4	122.4	-219.4	-146.8	-1.8	0.3	
Investment activities	-44.5	-41.7	-92.1	-160.7	-648.6	-56.4	-29.9	
Financing activities	8.2	-1.2	11.5	257.2	1,004.2	79.6	36.4	
Period cash flow	116.4	-8.5	41.8	-122.9	208.8	21.4	6.8	
Liquid assets at beginning of the year	139.8	160.0	128.4	240.8	30.9	9.7	2.9	
Exchange-rate difference in liquid assets	-6.7	-11.7	-10.2	10.5	1.1	-0.2	0.0	
Liquid assets at year-end	249.5	139.8	160.0	128.4	240.8	30.9	9.7	

Quarterly data

MSEK	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
INCOME STATEMENTS								
Licensing and maintenance revenues	248.3	211.6	205.9	188.4	217.4	188.2	180.9	177.4
Consulting and other revenues	52.7	45.7	45.6	41.0	45.2	40.0	42.6	45.2
Net Sales	301.0	257.3	251.5	229.5	262.6	228.2	223.5	222.7
Licensing and maintenance expenses	-15.1	-13.7	-14.1	-13.6	-14.9	-15.2	-17.4	-18.3
Consulting and other expenses	-40.2	-35.6	-35.9	-34.1	-36.3	-35.9	-39.4	-41.8
Gross income	245.7	208.0	201.5	181.8	211.4	177.2	166.7	162.5
Sales expenses	-112.7	-106.7	-102.5	-104.7	-104.6	-102.8	-108.2	-117.6
Administrative expenses	-20.3	-19.5	-19.2	-17.4	-17.5	-19.7	-21.5	-24.1
Product development expenses	-39.3	-40.8	-39.6	-35.1	-40.4	-44.5	-47.8	-42.6
Other expenses	-3.3	-3.6	-4.2	-4.2	-4.5	-4.4	-4.4	-4.6
Operating income	70.1	37.4	36.0	20.4	44.3	5.8	-15.2	-26.4
Net financial items	1.3	0.8	0.6	-0.2	-1.0	-0.7	-0.7	-0.9
Net income before tax	71.4	38.2	36.6	20.2	43.3	5.1	-15.9	-27.3
Tax	-13.1	-11.7	-11.7	-6.8	-12.8	-4.8	-3.7	0.0
Net income after tax	58.3	26.5	24.9	13.4	30.5	0.3	-19.6	-27.3
BALANCE SHEETS AS OF PERIOD-END								
Assets								
Goodwill	161.6	179.6	187.6	192.0	188.7	202.2	212.6	227.7
Source code rights	2.3	0.0	0.0	0.6	1.4	2.2	2.9	3.6
Capitalized product development	149.6	151.9	154.3	156.6	157.4	157.8	157.8	155.2
Tangible fixed assets	27.8	28.3	29.2	28.7	29.6	36.6	45.9	54.6
Financial fixed assets	102.6	109.1	115.6	125.7	132.6	149.1	145.8	150.4
Accounts receivable	331.5	219.4	240.3	263.8	305.3	238.1	227.1	256.6
Other current receivables	107.9	106.7	85.6	81.7	66.6	68.1	70.2	73.7
Cash and bank accounts	249.5	247.4	232.3	182.1	139.8	124.4	130.8	144.1
Total assets	1,132.8	1,042.5	1,044.9	1,031.1	1,021.5	978.5	993.0	1,065.9
Equity and liabilities								
Shareholders' equity	689.9	660.8	643.7	620.2	550.2	541.1	551.6	590.5
Provisions	8.6	14.4	14.7	16.5	20.2	19.4	13.4	17.7
Interest-bearing long-term liabilities	2.4	2.7	3.4	3.5	42.7	42.4	46.2	45.9
Non-interest-bearing long-term liabilities	0.3	0.6	0.6	0.9	0.9	1.7	1.8	1.9
Interest-bearing current liabilities	7.2	0.1	0.3	0.4	7.5	7.7	7.7	8.3
Accounts payable	33.5	29.2	29.3	33.3	29.1	28.1	34.6	38.9
Accrued expenses and prepaid income	334.8	299.4	314.6	318.7	317.6	300.9	307.3	326.3
Other non-interest-bearing current liabilities	56.1	35.3	38.3	37.7	53.2	37.2	30.5	36.3
Total equity and liabilities	1,132.8	1,042.5	1,044.9	1,031.1	1,021.5	978.5	993.0	1,065.9
CASH-FLOW STATEMENTS								
Cash flow from operating activities	14.5	25.7	57.4	55.2	28.2	5.5	-0.7	1.4
Investment activities	-14.4	-9.1	-9.4	-11.6	-8.2	-10.2	-8.7	-14.6
Financing activities	8.5	1.4	3.9	-5.6	-1.0	-0.1	0.0	-0.1
Period cash flow	8.5	18.0	51.9	38.0	19.0	-4.8	-9.4	-13.3
Liquid assets at beginning of the period	247.4	232.3	182.1	139.8	124.4	130.8	144.1	160.0
Exchange-rate difference in liquid assets	-6.4	-2.9	-1.7	4.3	-3.6	-1.6	-3.9	-2.6
Liquid assets at period-end	249.5	247.4	232.3	182.1	139.8	124.4	130.8	144.1

Key figures

	2004	2003	2002	2001	2000	1999	1998	1997
Margins								
Gross margin, %	80.5	76.6	72.0	69.0	71.2	73.0	79.2	86.1
Operating margin, including goodwill, %	15.8	0.9	-5.9	NA	-5.6	0.7	1.3	5.9
Operating margin, excluding goodwill, %	17.2	2.8	-4.1	-17.2	0.1	2.2	2.0	5.9
Profit margin, %	16.0	0.6	-6.0	-142.0	-4.7	0.9	0.6	5.9
Return on capital								
Return on operating capital, %	36.0	1.7	-11.3	-154.4	-4.5	3.0	8.4	47.0
Return on capital employed, %	25.7	1.7	-8.6	-135.8	-3.2	3.9	8.4	40.9
Return on equity, %	19.9	-2.7	-15.1	-134.4	-4.0	0.2	9.5	60.1
Capital structure								
Operating capital, MSEK	450.1	460.7	522.5	647.9	2,100.8	104.7	42.8	12.9
Capital employed, MSEK	699.6	600.5	682.5	776.3	2,341.6	135.6	52.5	15.8
Shareholders' equity, MSEK	689.9	550.2	627.2	716.1	2,337.2	109.0	12.2	3.7
Net interest-bearing debts, MSEK	-239.8	-89.6	-104.7	-68.3	-236.4	-4.4	30.6	-2.9
Capital turnover ratio	2.3	1.9	1.9	1.1	0.8	4.3	6.4	8.0
Debt/equity ratio	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	2.5	-0.1
Equity/assets ratio, %	60.9	53.9	55.3	49.5	76.0	23.2	11.0	6.7
Share data, millions of shares¹⁾								
Total shares at the end of the year before dilution	217.3	204.4	202.8	189.4	125.4	81.2	60.0	60.0
Total shares at the end of the year after dilution	221.5	220.1	216.9	211.2	132.0	97.5	69.7	60.0
Average total shares during year before dilution	214.7	203.6	198.5	148.5	107.3	76.7	60.0	60.0
Average total shares during year after dilution	218.9	219.3	212.3	165.5	113.0	92.1	69.7	60.0
Dilution, % ²⁾	1.9	7.7	7.0	11.5	5.3	20.1	16.1	0.0
Earnings per share after taxes, SEK								
Before dilution	0.57	-0.08	-0.51	-13.82	-0.45	0.00	0.00	0.07
After dilution	0.56	-0.06	-0.46	-13.82	-0.45	0.00	0.00	0.07
Shareholders' equity per share, SEK								
Before dilution	3.21	2.70	3.09	3.78	18.64	1.34	0.20	0.06
After dilution	3.15	2.51	2.89	3.39	17.70	1.12	0.18	0.06
Price/earnings ratio								
Before dilution	27.5	neg	neg	neg	neg	→100	NA	NA
After dilution	28.0	neg	neg	neg	neg	→100	NA	NA
Price per share at year-end, SEK	15.7	11.5	6.2	8.3	52.5	45.0	NA	NA
Market cap at year-end, MSEK	3,411	2,351	1,258	1,572	6,582	3,654	NA	NA

¹⁾ Total shares adjusted for stock splits in 1998 and 2000

²⁾ Calculated in accordance with FASC, Recommendation 18, with consideration only to warrants for which the share price as of December 31 exceeded the discounted redemption rate and conversion of outstanding convertible loans.

Definitions

Key figure	Definitions	Calculation 2004	(MSEK)
Operating capital	Balance Sheet total minus non-interest-bearing debts, and cash and bank accounts. Average operating capital has been computed as incoming plus outgoing operating capital divided by two.	Balance Sheet total – Non-interest-bearing debts – Cash and bank accounts Operating capital	1,132.8 –433.2 –249.5 450.1
Return on operating capital	Operating income as percent of average operating capital.	Average operating capital Operating income Return on operating capital	455.4 163.9 36.0%
Capital employed	Balance Sheet total non-interest-bearing debts. Average capital employed has been computed as incoming plus outgoing capital employed divided by two.	Balance Sheet total – Non-interest-bearing debts Capital employed Average capital employed	1,132.8 –433.2 699.6 650.1
Return on capital employed	Operating income plus financial income as percent of average capital employed.	Operating income + financial income Return on capital employed	163.9 3.4 167.3 25.7%
Shareholders' equity	Shareholders' equity at year-end. Calculated as shareholders' equity plus shareholders equity share of untaxed reserves.	Shareholders' equity Average shareholders' equity	689.9 620.1
Return on shareholders' equity	Net income after tax in relation to average shareholders' equity.	Net income Average shareholders' equity Return on shareholders' equity	123.1 620.1 19.9%
Net interest-bearing debt	Interest-bearing debts minus cash and bank accounts.	Interest-bearing debt – cash and bank accounts Net interest-bearing debt	9.7 –249.5 –239.8
Debt/equity ratio	Net interest-bearing debts divided by shareholders' equity.	Net interest-bearing debt Shareholders' equity Debt/equity ratio, multiple	–239.8 689.9 –0.3
Capital turnover rate	Sales divided by average operating capital.	Sales Average operating capital Capital turnover ratio, multiple	1,039.3 455.4 2.3
Operating margin, including goodwill	Operating income as percent of sales.	Operating income Net sales Operating margin	163.9 1,039.3 15.8%
Operating margin, excluding goodwill	Income excluding goodwill depreciations and depreciations for source code rights as percent of net sales.	Earnings excl. goodwill depreciations Net sales Operating margin	179.2 1,039.3 17.2%
Profit margin	Income after financial items as percent of net sales.	Net income before tax Net sales Profit margin	166.4 1,039.3 16.0%
Gross margin	Gross margin as percent of net sales.	Bruttoresultat Nettoomsättning Bruttomarginal	837.1 1,039.3 80.5%
Equity/assets ratio	Shareholders' equity as percent of Balance Sheet total.	Gross income Net sales Gross margin	689.9 1,132.8 60.9%

Corporate governance

Management and control of Telelogic is regulated by a number of interacting bodies. In accordance with the Swedish Stock Corporation Act and the Articles of Incorporation, Telelogic's shareholders appoint the Company's Board of Directors and external auditors at the Annual General Meeting. The Board appoints the chief executive officer, who is responsible for the Company's day-to-day management and control.

Annual General Meeting

The right to participate in the Annual General Meeting is held by all shareholders who have registered for participation. Shareholders who cannot be present have the right to vote by proxy. The Annual General Meeting was held on April 26, 2004 in Malmö, Sweden. At the meeting, shareholders who participated represented 32.1% of capital and votes. Bo Dimert, Kjell Duveblad, Erik Gabrielson, Anders Lidbeck, Risto Silander and Joakim Westh were reelected at the meeting, and Maria Borelius was newly elected. Besides the customary decisions at the Annual General Meeting, it was decided to establish a nomination committee prior to the 2005 Annual General Meeting. Additionally, the Board's authority to decide on a new issue of 18 million shares was extended for the purpose of financing new Company acquisitions.

Nomination committee

At the Annual General Meeting in 2004, the meeting resolved to establish a nomination committee to perform tasks prior to the next Annual General Meeting. It was decided that the nomination committee would consist of the Chairman of the Board and representatives from the 4–5 largest shareholders. The Chairman of the Board

was to well in advance of the Annual General Meeting, contact the currently largest owners and invite them to serve on the nomination committee. This occurred during the fall of 2004 and the nomination committee was thereafter established with the following members: Björn Lind, SEB Fonder (chairman of the committee), Annika Andersson, Fjärde AP-fonden, Pernilla Klein, Tredje AP-fonden, Anders Ljungqvist, AMF Pension, Peter Rönström, Lannebo Fonder and Bo Dimert, Telelogic. The nomination committee is responsible for, well in advance of the next Annual General Meeting and in consultation with the Board, analyzing the need for change to the composition of the Board and proposing suitable candidates. The nomination committee shall also, prior to the Annual General Meeting, propose compensation paid to Board members, and when applicable, prepare for election of auditors. The results of the nomination committee's work will be presented in the notice to attend the 2005 Annual General Meeting.

Board of Directors and its rules of procedure

The Board consisted of seven members elected at the Annual General Meeting, including the CEO, for a period ending on December

1, 2004. Thereafter, Joakim West voluntarily vacated his position because of new operative duties within the Ericsson Group. Additionally, the employee organization has appointed two regular members and one deputy member to the Board. The Company's CFO and CTO regularly participate in the board meetings, as do guest speakers, while other management personnel participate at board meetings as deemed necessary. During the year, 13 board meetings were held. A constituent board meeting was held on April 26, the same day as the Annual General Meeting. It was decided at the meeting that Bo Dimert would remain as the Chairman of the Board.

The Board's work follows an established plan, which is intended to meet the Board's needs for information concerning the organization and the management team's need for guidelines in carrying out its duties. The Board of Directors has regulated the way in which it operates in written rules of procedure in which clarifications are made of the division of responsibility between the Board and the CEO, and the guidelines for financial reporting to the board. The rules of procedure are subject to annual review and an update are performed during the year.

Compensation issues

The Board of Directors appoints, within the Board, a compensation committee that handles issues pertaining to policy with respect to terms of employment, and bonus systems concerning the CEO and executive management Group. The compensation committee also addresses general terms of employment and compensation issues that pertain to all employees at the Company, such as management of the global stock option programs in accordance with the authorization granted at the Annual General Meeting. The compensation committee during 2004 consisted of Bo Dimert, chairman, Kjell Duveblad and Erik Gabrielsson. The committee's chairman regularly informs the Board of Directors of the committee's work and the proposals that are submitted for decision by the Board. Detailed information on compensation to the Board of Directors and management, and the Company's stock option programs is found in Note 4, on Pages 44–45.

President and CEO

The CEO, who is also the president, leads the Company's day-to-day operations within the framework established by the Board of Directors. The CEO is responsible for the Board having access to current information on the Company's developments, which normally is ensured by standardized monthly reports to all members of the Board in which the Company's operations and developments are addressed. The reports also highlight important issues that may require the Board's attention. Moreover, the CEO keeps the Chairman of the Board constantly informed of operations. At the board meetings, the CEO presents the Company's developments and submits supporting information for decisions on

the issues that require action on the part of the Board of Directors.

Executive Management

The Executive Management team is led by the CEO and its members are responsible for operations of their respective business areas. During 2004, Executive Management has consisted of the presidents of the market divisions for Europe, the Americas and Asia, the marketing director, the CFO, the CTO, the corporate communications director, the support director, the product development director, the products director and the business development director, for a total of eleven members. Executive Management meets according to a predetermined agenda once each month, and more often when deemed appropriate. Executive Management normally meets with physical presence once each quarter, and through telephone conferencing once each month in the intervals. More detailed information on Group management is found on Pages 64–65.

Internal control and risk management

The Board of Directors is responsible for effective routines and systems being in place for the Company's management and control. The CEO is responsible for compliance with these routines and systems, and that they are implemented throughout the entire organization. For investments and purchasing, there are special authorization routines that ensure that purchases above established amounts cannot be made without the approval of concerned management staff. Financial management is centralized and all subsidiaries' financial officers report directly to the Group controller or CFO. Business risks in the various undertakings that the Company enters into are normally handled by the respective subsidiaries. Larger

undertakings shall be approved by the central resources at the main office's finance department to ensure that risk levels and entered undertakings are within the Company's general guidelines.

External auditing

The Company's auditors are appointed by the shareholders at the Annual General Meeting. At the Annual General Meeting in 2003, it was decided that the number of auditors would be one, with one deputy auditor. The meeting voted to re-elect certified accountant Alf Svensson, KPMG, for four years, and to elect Eva Meltzig Henriksson, KPMG, as the new deputy auditor for four years. Prior to the Annual General Meeting for 2004, the Board of Directors addressed the issue of establishing an auditing committee. It decided by the Board that matters that arise pertaining to auditing are of sufficient importance that the entire Board should participate in these matters. The Company's auditor has participated in several board meetings in connection with, among other things, the release of financial reports, and has presented observations regarding Group auditing at these meetings.

Members of the Board in attendance, 2004

Bo Dimert	100%
Anders Lidbeck	100%
Maria Borelius	100%
Erik Gabrielsson	93% (12 of 13)
Joakim Westh ¹⁾	60% (6 of 10)
Kjell Duveblad	93% (12 of 13)
Risto Silander	93% (12 of 13)
Brandon Jones	85% (11 of 13)
Michael Andersson or approved deputy	93% (12 of 13)

¹⁾ Resigned December 1, 2004.

Board of Directors

BO DIMERT

Chairman

Born: 1943

Member of the Board since 2001

Primary occupation: Board consultant

Others board duties: Chairman for ipUnplugged AB and IKIVO AB. Board member for NetInsight AB, Optimail AB, Advoco AB and Sverige-Amerikanska stiftelsen.

Experience: More than 30 years of experience in international sales and management at IBM, Digital Corporations and Ericsson. Dimert has served, among other positions, as the CEO and president for Ericsson Inc., and as a vice president for the Ericsson Group.

Shares: 15,000

Teckningsoptioner: 50,000

Convertibles: 0

ANDERS LIDBECK

Born: 1962

Member of the Board since 1998

Primary occupation: President and Chief Executive Officer for Telelogic AB.

Others board duties: Chairman for Creandum Advisor AB. Member of the board for a number of Telelogic's subsidiaries.

Experience: Has previously worked at Nokia and ICL, including serving as the president for ICL Direct in Benelux and vice president of sales & marketing for ICL Industry Systems Europe. During his term as president at Telelogic, the Company has been introduced to the stock exchange and developed into a global organization. Under Lidbeck's management, Telelogic increased sales fivefold and improved profits by a factor of over 100.

Shares: 400,000

Subscription warrants: 0

Personaloptioner: 200,000

Convertibles: 0



Kjell Duveblad

Anders Lidbeck

KJELL DUVEBLAD

Born: 1954

Member of the Board since 1998

Primary occupation: Active in own firm

Others board duties: Board member for, among others, Anoto and Teleopti.

Experience: Previously employed at IBM and served as president for Oracle in Sweden, as well as regional manager for Oracle in Scandinavia and the Baltic States during the period 1993–2002.

Shares: 600,000

Subscription warrants: 0

Convertibles: 0

ERIK GABRIELSSON

Born: 1962

Member of the Board since 2002

Primary occupation: Part owner of the law firm Vinge

Others board duties: Board chairman for Storegate3 AB and Öresund Yacht Club. Board member for Lifco AB, Elanders AB, SwitchCore AB and Appium AB.

Shares: 157,336

Subscription warrants: 0

Convertibles: 0

RISTO SILANDER

Born: 1957

Member of the Board since 2003

Primary occupation: Private investor

Others board duties: Board member for NetOnNet AB, Svensk Exportkredit (SEK) AB, Tornet AB, Trygg-Stiftelsen, Endeavour funds Ltd and RURIC AB.

Experience: Has worked in the finance sector for 20 years, including serving as the CEO for Alfred Berg, president for UBS in Stockholm and executive director at Goldman Sachs in London.

Shares: 0

Subscription warrants: 50,000

Convertibles: 0

MARIA BORELIUS

Born: 1960

Member of the Board since 2004

Primary occupations: Journalists and business owner

Others board duties: Board member for SWECO and Active Biotech.

Experience: Borelius operates her own PR and information firm, oriented to industry, business issues, science and technology, with a customer base primarily constituted by companies with a high percentage of R&D, and the academic world.

She founded the digital TV channel and e-learning company K-World, and before this, was a television science reporter for Rapport and program host for NOVA for several years.

Shares: 8,000

Subscription warrants: 0

Convertibles: 0



Risto Silander

Bo Dimert

Maria Borelius

Erik Gabrielsson

Employee representatives

MICHAEL ANDERSSON

Born: 1968

Member of the Board since 2000

Primary occupation: Senior field application engineer

Shares: 750

Subscription warrants: 3,885

Convertibles: 0

BRANDON JONES

Born: 1975

Member of the Board since 2002

Primary occupation: TAU G2 support manager

Shares: 300

Subscription warrants: 3,700

Convertibles: 0

Options: 6,000

Auditors

ALF SVENSSON

Chief auditor, KPMG Bohlins AB. Auditor for Telelogic since 1998.

Born: 1949

EVA MELTZIG HENRIKSSON

Deputy auditor, KPMG Bohlins AB. Deputy auditor for Telelogic since 2003.

Born: 1961

Executive Management



Håkan Rippe

Per Åsberg

Håkan Tjärnemo

Anders Lidbeck

Ingemar Ljungdahl

Pär Madsen

HÅKAN RIPPE

**Senior Vice President
Business Development**

Born: 1968

Employed 1999–2002 and since 2004

Shares: 166,000

Subscription warrants: 200,000

Options: 20,000

Convertibles: 0

PER ÅSBERG

**Senior Vice President
Global Support**

Born: 1961

Employed since 1999

Shares: 5,000

Subscription warrants: 153,000

Options: 15,000

Convertibles: 0

HÅKAN TJÄRNEMO

Chief Financial Officer

Born: 1960

Employed since 1998

Shares: 173,628

Subscription warrants: 128,500

Options: 125,000

Convertibles: 0

ANDERS LIDBECK

**President and
Chief Executive officer**

Born: 1962

Employed since 1998

Shares: 400,000

Subscription warrants: 0

Options: 200,000

Convertibles: 0

INGEMAR LJUNGDAHL

Chief Technology Officer

Born: 1953

Employed since 1984

Shares: 0

Subscription warrants: 0

Options: 100,000

Convertibles: 0

PÄR MADSEN

**Senior Vice President
Product Development**

Born: 1961

Employed since 1985

Shares: 51,280

Subscription warrants: 24,500

Options: 20,000

Convertibles: 0



Michael Atlevi Catharina Paulcén Jesper Christensen Greg Sikes Scott Raskin

MICHAEL ATLEVI
President Telelogic EMEA
Born: 1957
Employed since 1983
Shares: 144,466
Subscription warrants: 75,500
Options: 108,334
Convertibles: 0

CATHARINA PAULCÉN
Senior Vice President Corporate Communications
Born: 1973
Employed since 1997
Shares: 142,000
Subscription warrants: 100,000
Options: 75,000
Convertibles: 0

JESPER CHRISTENSEN
Chief Marketing Officer
Born: 1958
Employed since 2000
Shares: 0
Subscription warrants: 0
Options: 244,834
Convertibles: 0

SCOTT RASKIN
President Telelogic Americas & Asia/Pacific
Born: 1961
Employed since 2001
Shares: 0
Subscription warrants: 0
Options: 350,000
Convertibles: 0

GREG SIKES
Vice President Product Management.
Born: 1962
Employed since 2003
Shares: 1,500
Subscription warrants: 0
Options: 30,000
Convertibles: 0

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Do you know that

Telelogic is an active member in several global standardization organizations, which shape new technologies and standards for the entire industry.

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Greece	South Africa
India	Taiwan
Ireland	Turkey
Israel	Hungary
China	USA
Mexico	Venezuela

Annual general meeting, 2005

The ordinary Annual General Meeting for Telelogic AB will be held April 28 at 3:00 PM at Börshuset, Skeppsbron 2, Malmö, Sweden. For those interested, a presentation of the Company's areas of operations will be given at 2:30 PM.

The right to participate in the meeting is held by shareholders having shares registered in their own names with VPC on the day of record April 18, and who have submitted notice of their participation by April 22, 4:00 PM.

Shareholders whose shares are registered through an asset manager must temporarily register their shares under their own names in order to participate in the Annual General Meeting. Shareholders who desire such re-registration must notify their asset manager of this in ample time prior to April 18.

Notice including name, address, phone number, total shares, personal ID number or corporate registration number must be submitted in writing:

- By conventional mail to: Telelogic AB, Attn: Helena Gynnerstedt, Box 4128, SE-203 12 Malmö, Sweden
- Via e-mail to: helena.gynnerstedt@telelogic.com
- By fax to: +46-40-650 65 55

Telelogic will send out a written confirmation once the notice is registered.

If participation shall be by proxy, then the power of attorney must be submitted to the Company in conjunction with notice. The Board of Directors' complete proposals for the Annual General Meeting may be ordered from the Company as described above.

Financial reports and information

Financial information pertaining to Telelogic for the fiscal 2005 will be released on the following dates:

April 20, 2005	Interim report for period January – March
April 28, 2005	Resolutions adopted by Annual General Meeting
July 20, 2005	Interim report for period April – June
October 19, 2005	Interim report for period July – September
January 25, 2006	Annual statement for 2005

In addition to these scheduled information dates, Telelogic informs the financial market continuously throughout the year in several different ways:

- On the same day as interim reports are published, Executive Management conducts an analyst conference in Stockholm that can be monitored either by phone or the Internet.
- In conjunction with the publishing of the interim reports, selected members of Executive Management participate in a so-called road show, visiting the larger financial markets to present the reports to shareholders and investors.

- All news and events that may influence the share price are published via press releases and simultaneously on the Company's website, www.telelogic.com. The Company's policy regarding sales deals is to publish all deals exceeding 5 MSEK.
- The Company's management regularly meets financial analysts and investors, and presents the Company for investors and private shareholders at various locations in Sweden and abroad.

How to obtain financial information concerning Telelogic AB

The quickest way to obtain information about Telelogic is via the Internet. At Telelogic's website, www.telelogic.com, all

financial reports are posted as soon as they published.

On the website it is also possible to subscribe to financial reports in printed form via conventional mail, or in digital form via e-mail. The press releases that Telelogic publishes may also be subscribed to by e-mail.

The Annual Report (in Swedish and English) may be ordered from:

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