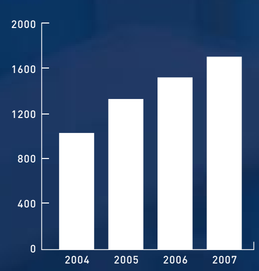
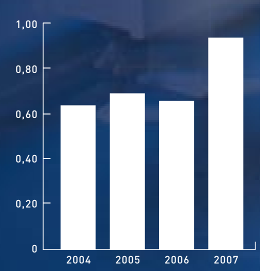
2007
Annual Report

Telelogic

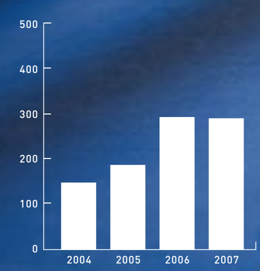
Sales, MSEK



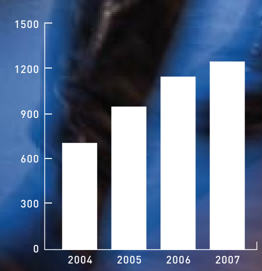
Earnings per share, SEK



Cash flow, MSEK



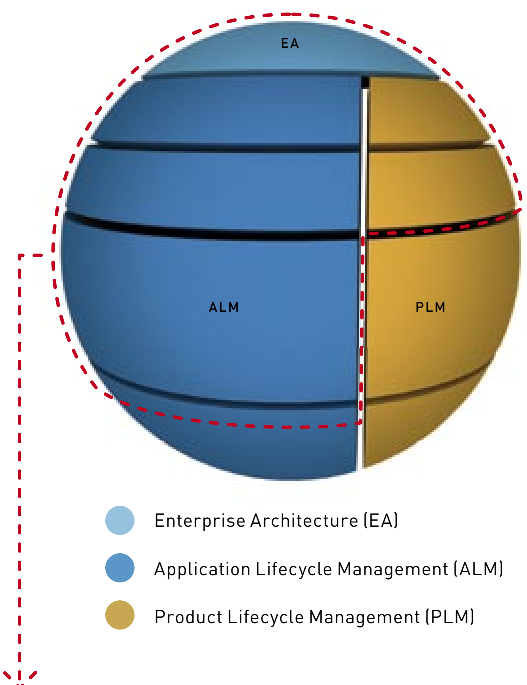
Number of employees



Telelogic in brief

Telelogic provides software solutions to aligning, managing, and optimizing development lifecycles and business processes with business objectives and customer needs. The purpose is to save time, improve quality, and reduce costs. These applications comprise a total solution for "Enterprise Lifecycle Management".

→ Our market and offering



- Enterprise Architecture (EA)
- Application Lifecycle Management (ALM)
- Product Lifecycle Management (PLM)

"Enterprise Lifecycle Management"
Telelogic targets its integrated offering to an area which Telelogic calls "Enterprise Lifecycle Management", ELM. A simplified description of ELM is business, IT, and product development processes. These processes are interdependent and a coordinated solution is required in order to reach maximum productivity and cost efficiency. ELM can also be described as the relevant parts of the markets for ALM (development of software programs), PLM (development of physical products), and EA (analysis of business processes).

The global ELM market consists of whole markets or portions of three partial market segments and is estimated at USD 3 billion, with an estimated average annual growth rate of 5-10 percent.

Telelogic's product portfolio
Telelogic software programs can be used separately or in combination with each other. As a portfolio, the products constitute an integral and strong offering that cover the following:

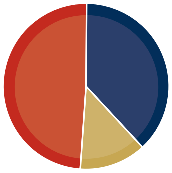
- Requirements management
- Change and configuration management
- Modeling

→ Our largest customers

Telelogic's products target mainly large, global companies which are developing advanced systems and software on a large scale. Telelogic focuses on segments, such as the aerospace and defense industry, governmental agencies, telecom companies, automotive industry, pharmaceutical industry, banking and finance sector, companies that manufacture medical equipment, and software and systems companies.

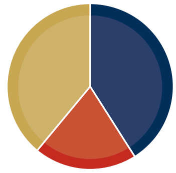
Our largest customers	Aerospace and defense	Telecom	Automotive	Banking and finance	Software and systems	Others
Airbus	■					
Alcatel/Lucent		■				
Boeing	■					
Bombardier	■					■
British Aerospace	■					
Convergys					■	
Daimler Chrysler			■			
Delphi			■			
Deutsche Bank				■		
EADS	■					
Ericsson		■				
Federal Reserve				■		
Ford			■			
General Electric	■					■
General Motors			■			
Hewlett-Packard					■	
Honeywell	■					
Lockheed Martin	■					
Motorola		■				
NEC		■				
Nokia						
Northrop Grumman	■				■	
Panasonic	■	■	■			■
Peugeot			■			
Philips		■				■
Raytheon	■					
Robert Bosch			■			
Samsung		■				■
Sharp		■				
Siemens	■	■	■			■
Texas Instruments	■	■	■			■
Thales	■					
Toyota			■			
United Technologies	■					■
US Department of Defense	■					
Vodafone		■				
Volkswagen			■			

Sales by market



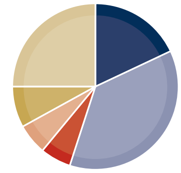
- 38 % Americas
- 49 % EMEA
- 13 % Asia/Pacific

Sales by product group



- 41 % Requirements management
- 20 % Change and configuration management
- 39 % Modeling

Sales by customer group



- 18 % Telecom
- 37 % Aerospace and defense
- 6 % Finance and banking
- 6 % Software and systems
- 8 % Automotive
- 25 % Others

Our innovative history

For more than two decades, Telelogic has been a forceful player in developing systems and software. The goal has always been to offer customers access to the very best and latest technology. Telelogic was one of the first to actively drive the program language, SDL, connecting it with UML, which resulted in the first modeling product based on the new UML standard. Telelogic was first to develop data-based and transparent change and configuration management. Telelogic was also the first to launch dynamic requirements management. In 2006, Telelogic was first in launching a model-based tool which can offer both code-based and model-based development.

These and other developments have been made with the objective of creating an integrated solution that optimizes and automates customer processes.

Year	**Event**
2007	IBM announces a recommended public cash offer to Telelogic shareholders
2006	First model-based tool to offer both code-based and model-based development.
	Acquisition of the US company I-Logix with its leading modeling tool, Rhapsody.
2005	Acquisition of Focal Point
2002	Launching the first modeling tool based on UML 2.0
	Telelogic is first to introduce transparent configuration management.
2000	Telelogic launches an integrated offering consisting of requirements management, modeling, and change and configuration management.
	Through acquisition of QSS, the leading requirements management product DOORS is added to the product portfolio.
	Continuus is acquired and the change and configuration management product Synergy is introduced.
1999	Telelogic goes public
	Acquisition of the French competitor Verilog.
1996	Launching of the task-based change and configuration management
1993	The first dynamic requirements management tool is developed.
1988	Launching of the first product for modeling software.
1986	Launching of the product that subsequently becomes the market leader for modeling of processes.
1983	Founding of Telelogic as a part of Televerket.

Our market position

In early 2005, Telelogic formulated a focus – 5X5Y, which means that Telelogic shall expand its business fivefold in five years. This vision was formulated based on Telelogic's strong market position in combination with the analysis that a larger sales volume will improve conditions for high and sustainable profitability.

In the past few years, the consolidation of the market has led to improved offerings from competitors. The software industry is one of the world's most fragmented industries, with many small, but frequently global players. Combining innovative product development and a global presence with high profitability is a challenge for a smaller company.

At the same time, the software industry is one area where economies of scale can have the most effect on the bottom line. Like many of our competitors, Telelogic has realized that economies of scale are required in order to create sustainable and high profitability. In addition, it is obvious that customers prefer to work with a fewer number of suppliers with a broader range of products.

As a software program company, the fixed costs for developing a new software are the same, regardless if one or one hundred licenses of the software are sold. In addition, the majority of Telelogic's customers are global companies that require support in the countries where they operate. This means that Telelogic must have a global sales organization spread over several countries. A smaller company has high fixed costs per country in relation to its sales.

Therefore, size is a decisive factor for the profitability of a company. Fixed costs increase marginally when sales increase and thus the possibility of showing a profit increases rapidly as a company increases its sales.

Significant events in 2007

In 2007, Telelogic grew by 17 percent in local currency and had an operating margin of 18 per cent. Earnings per share increased strongly compared to the previous year, with an improvement of 45 percent. Cash flow from current operations continued to be strong and all of the financial targets communicated by the company were achieved.

→ Financial targets for 2007 achieved

For the full year 2007, Telelogic forecasted a growth between 12 and 15 percent in local currency and an increase in earnings per share by at least 25 percent. In fact, sales grew by 17 percent in local currency and earnings per share increased by 45 percent. The earnings goals were thus achieved and exceeded.

→ Focus on key customers

Telelogic has a number of large global companies as customers. In order to develop these customers, Telelogic started work already in 2006 to increase the focus of the sales organization on their key customers. This work continued successfully in 2007 and Telelogic's largest customers grew more rapidly than the rest of the customer base.

→ Product-specialized sales organization

In 2006, three product divisions were created, with each division having the responsibility for development and sales of their respective product group. The product-specialized sales organization was fully implemented in 2007 with great success. All product families grew organically by double-digits. Telelogic's products are the foundation for expanding the company, and it is very important to continually improve the products so that they maintain their leading positions within their respective areas in order to attract and retain customers.

→ Honors and product improvements

In 2007, Telelogic's product portfolio was recognized by industry analysts. Telelogic was for instance named market leader in the area of requirements management, modeling, and configuration management by companies such as Gartner, Yphise, and Butler Group. With regard to product improvements, Telelogic continued in 2007 to work on improved versions of all product groups, and updated versions of all products were launched during the year.

→ Recommended public cash offer from IBM

On June 11 2007, IBM announced a public cash offer to the shareholders of Telelogic AB. The cash offer for each share in Telelogic is SEK 21. The offer is good until March 19, 2008. The Board of Directors of Telelogic has recommended the offer.

KEY FIGURES	2007	2006	2005	2004
Sales, MSEK	1 717.3	1 524.9	1 289.9	1 039.3
Change in sales, %	12.6	18.2	24.1	10.9
Operating margin, %	18.0	14.1	15.1	16.8
Pre-tax profit, MSEK	309.9	209.4	201.7	177.6
Profit after taxes, MSEK	232.4	159.9	165.2	134.3
Earnings per share, basic, SEK	0.94	0.65	0.70	0.63
Price per share at the end of the year, SEK	18.70	15.30	20.40	15.70
Market capitalization at the end of the year, MSEK	4 631	3 781	4 966	3 411
Cash and cash equivalents at the end of the year, MSEK	645.2	462.0	447.3	249.5
Equity per share, SEK	6.52	5.77	5.59	3.23
Equity/assets ratio, %	61.1	58.1	69.4	61.3
Number of employees at the end of the year	1 237	1 138	929	719

Staying focused on continued expansion

In 2007, we strengthened our position as one of the world's leading vendors of tools for developing advanced systems and software. The journey towards becoming a large, world-leading software company continues.

2007 – A record earnings year

In 2007, the business developed very positively. The communicated growth and earnings goals were exceeded by a good margin.

The year started strongly with a good first quarter. The positive trend of the fall of 2006 continued. Telelogic increased both its sales and earnings by double-digit figures and adjusted upwards the forecast for the full year 2007. In the January 2007 Annual Statement, Telelogic estimated that sales would increase by 5-10 percent and that earnings per share would increase by 10-15 percent. After the first quarter, these goals were adjusted upwards to 7-12 percent for sales growth and 15-20 percent for improvement in earnings per share.

In June, during the second quarter, IBM announced a public cash offer to all of Telelogic's shareholders. This naturally created some uncertainty both among customers and employees and caused the positive trend that Telelogic had experienced to dampen somewhat. A successful effort was initiated within Telelogic to manage the uncertainty that always arises internally and externally during offer situations. Already after a few months, the uncertainty was transformed to confidence among the majority of the Telelogic organization and its customers. During the second half of the year, Telelogic experienced a somewhat accelerated growth. In the third quarter, the forecast for the full year was thus adjusted upwards once more. The sales growth for the full year was estimated to be between 12 and 15 percent and the improvement in earnings per share to exceed 25 percent.

In fact, sales grew by 17 percent in 2007. All geographical market divisions developed well and showed double-digit growth. Geographically, EMEA was the strongest region with a 23 percent growth. Asia experienced strong growth in all subsidiaries, with the exception of Japan where some improvement was, however, noticed at the end of 2007 following a number of measures. The total growth in Asia was 18 percent. Telelogic's Americas market division showed ever increasing growth during the year. Compared to Europe, the somewhat weaker market climate in the US in combination with Telelogic's great exposure to the aerospace and defense industry have had a negative impact on the growth. Despite this, the growth for the full year was 10 percent.

In 2007, earnings per share increased by a total of 45 percent. The great earnings improvement is a direct result of Telelogic's attractive business model – with very good gross margins and low variable costs for incremental sales of products. EMEA's contribution margin of 46 percent is a new record level within Telelogic. The Americas contribution margin of 40 percent is also very good, whereas Asia's contribution margin of 34 percent is satisfactory in view of the investments that have been made during the year.

The new product-focused organization, which was fully implemented in January 2007, functioned very well and all product families have experienced good growth. In 2006, two out of three product families experienced weak or zero growth. In 2007, all product families experienced double-digit growth. It is particularly gratifying that the products acquired in the past few years – Focal Point, Rhapsody, and System Architect – led the growth in the order mentioned.

Innovative product development

In 2007, we have continued developing our product portfolio in a number of areas. In the course of its twenty years in the business, Telelogic has been first to launch many new products in its area of business.

Some examples of important new products in 2007:

- System Architect, Telelogic's modeling product for business processes, has improved its support of analysis of organizational structures, and has been released in a version supporting Japanese characters.
- Telelogic DOORS Fastrak, a simplified version of Telelogic's requirements management product, was launched. It is intented for use by customers looking for a fast, flexible, small-scale Requirement Management solution.
- New integrated product versions of System Architect and Tau improve team collaboration and empower organizations to understand and formulate their business goals.
- Updated version of Focal Point with integration to Microsoft® Project®. This enables organizations to optimize their product requirements management processes.
- Telelogic has launched a simplified modeling product. This introductory license is offered free of charge in order to spread the use of Telelogic's products to new customer groups.
- Other new products include integration with OSEK, a standard within the automotive industry, improved versions of the modeling products Rhapsody and SDL Suite, as well as improved support for SOA, a concept for easy integration of various products.

Market response

Telelogic has not only distinguished itself with its technical functionality, but also been ranked as the company with the largest market share in the area of requirements management, second largest in the area of modeling, and fourth largest in the area of change and configuration management.

In our discussions with our clients, it becomes evident that we are on the right track for the long term. Telelogic's current position was created based on an understanding of the complex environment in which our customers function. In the past few years, it has become evident that our customers require ever more extensive software for an increasing number of processes. Telelogic identified this growing need early – and we position ourselves today as the leading supplier of solutions for "Enterprise Lifecycle Management" (ELM). Simplistically, ELM can be described as business, IT, and product development processes. These processes are interdependent and a coordinated solution is needed to achieve maximum productivity and cost efficiency.

The market climate can vary by geographical areas and by quarters, but the underlying forces – to automate and industrialize software development and coordinate the different processes that a company depends on – continue to be clear and strong. Therefore, our goal is to continue to work towards an increasingly more comprehensive and well-integrated solution supporting the customer's processes within the framework of ELM.

An industry under consolidation

In the past few years, several of the company acquisitions that have occurred in the marketplace have underscored the fact that this industry is under consolidation.

The consolidation has resulted in a strengthening of competitors' offerings. The software business is one of the world's most fragmented businesses, with many small, but frequently global players. Combining an innovative product development and global presence with a high profitability is a challenge for most smaller companies. At the same time, the software business is one of the businesses where economies of scale can have the greatest effect on the bottom line. Like many of our competitors, Telelogic has found that economies of scale are required in order to create sustainable and high profitability. In line with this, Telelogic communicated in early 2005 a growth vision, 5X5Y ("five times in five years"), – an ambition for Telelogic to expand its business fivefold in five years.

At the time of writing, Telelogic is under offer from IBM. This is a natural development of the 5X5Y vision. In companies of same size as Telelogic, there are three ways to proceed in a global market that is being consolidated – to acquire, to be acquired, or to become marginalized. Telelogic has completed fourteen acquisitions in the past ten years and is now, as previously mentioned, in the process of being acquired. In the course of the years, Telelogic has thus with decisive action demonstrated that it has taken an active part in this consolidation. This in order to best safeguard the interests of customers and employees and to create the best possible shareholder value. Regardless of whether shareholders choose to accept the offer from IBM, Telelogic will strive for growth in combination with sustainable profitability. The goal is to become a large company leading the world, regardless of who owns the company.

2008 – Focus on profitability, growth, and market position

In 2008, Telelogic will continue to focus on growth and improved profitability in order to strengthen its market position in the long term.

For the full year of 2008, Telelogic estimates that sales will increase by 7-12 percent in local currency and that earnings per share will increase somewhat more. Thus, the goal is for earnings to exceed 1 SEK per share.

But with a strong organization, an attractive range of products, and with world-class customers, Telelogic is in a good position to continue building a large software company with a global leadership position and good profitability.

Anders Lidbeck
President and CEO

Mission, strategies and targets

Telelogic's software solutions enable an enterprise-wide, lifecycle approach to aligning, managing, and optimizing development lifecycles and business processes with business objectives and customer needs. Telelogic summarizes this with the concept of "Enterprise Lifecycle Management".

Mission

We provide integrated best-in-class software solutions for Enterprise Lifecycle Management (ELM) that enable customers to make and implement the right decisions about their products and processes, and then design and build them in the most efficient way.

... or why does Telelogic exist?
The foundation of Telelogic's business idea is that companies will continuously seek new ways in order to improve quality and productivity, i.e. release new products and services to the market more rapidly than their competitors as economically and cost-effectively as possible. In order to achieve this, merely developing products efficiently is not sufficient. These products must be tied together with the over-arching goal of the company and the wishes of the end customers. Telelogic's business idea is to offer software for just that - to align, manage, and optimize development lifecycles and business processes with business objectives and customer needs.

Vision

To be the choice for optimizing Enterprise Lifecycle Management (ELM).

... or what does Telelogic want to become?
Enterprise Lifecycle Management is Telelogic's concept for describing an integrated perspective of how a company develops products – the over-arching goals and the needs of the end customers should control all the way down to the final product. It may seem obvious, but currently many companies still have a fragmented development process and a lack of coordination among the different parts of a company. Telelogic's vision is not only that companies should realize the advantages of a coordinated perspective, but also that they should choose Telelogic's products and services especially, to achieve optimal management of the whole product development cycle – which is described using the term "Enterprise Lifecycle Management".

Strategies

- Offer a complete and integrated ELM solution
- Strengthen the products' leading position
- Focus on large customer projects
- Build strategic relations
- Develop the organizations' productivity
- Achieve strong growth
- Attract individuals with the right attitude and knowledge

...or how do we get there?
Telelogic's seven strategies summarize which route the company wants to choose in order to reach the vision. To continue to develop the best products and to focus on large customers with complex development projects are strategies that Telelogic has successfully employed for many years. To grow the company and to increase productivity and enjoyment are key factors in achieving profitability and increased shareholder value.

Read more about the strategies in the fact box on page 7.

Values

- Customer first
- Excellence in execution
- Do the right thing
- Sense of urgency
- Passion and fun

... or what do we do to become really successful?
Many companies claim that they can develop leading products with high profitability. It is how we go about getting there that makes us better and faster than our competitors. The values of Telelogic permeate the entire organization and are noticeable in many different ways in daily operations. Earnestly putting the customer's interests first by doing things the right way, in the right time, with the right quality will create fun and passion for what we do.

Read more about the values in the fact box on page 8.

5X5Y – increasing the operation fivefold in five years
In early 2005, Telelogic launched a five-year vision which was named 5X5Y – five times in five years (grow fivefold in five years). 5X5Y was formulated against the background of Telelogic's strong market position in combination with the analysis that a larger sales volume improves the conditions for high and sustainable profitability.

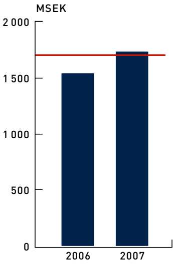
Target fulfillment
The goals that were communicated for 2007 have been exceeded with a good margin. This does not only concern the forecasts that were communicated in the beginning of the year, but also the final upwards-adjusted forecasts.

Targets for 2008
Underlying demand in the market is expected to continue to be good, with similar quarterly fluctuations as in previous years.

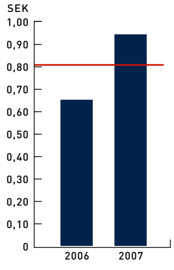
For the full year 2008 Telelogic expects revenues to increase 7-12 % in local currency and earnings per share to increase slightly more than that. The goal is thus for earnings to exceed SEK 1 per share.

Target fulfillment in 2007

Sales growth of 12-15 percent in local currency



Improvement of earnings per share by at least 25 percent



2007 in a strategic perspective

Public offer to shareholders of Telelogic

On June 11 2007, IBM announced a public cash offer to the shareholders of Telelogic AB. A cash payment of SEK 21 is offered for each share in Telelogic. The offer is valid until March 19, 2008. Telelogic's Board of Directors has recommended the offer.

For more information, please refer to documentation from IBM and press releases published on Telelogic's web page.

LONG-TERM AND SHORT-TERM GOALS

5X5Y – to expand the operation fivefold in five years

In early 2005, Telelogic launched a five-year vision which was named 5X5Y – five times in five years (grow fivefold in five years). 5X5Y was formulated against the background of Telelogic's strong market position in combination with the analysis that a larger sales volume improves the conditions for high and sustainable profitability.

The consolidation of the market in the past few years has resulted in a strengthening of competitors' offerings. The software business is one of the world's most fragmented businesses, with many small, but frequently global players. Combining an innovative product development and global presence with a high profitability is a challenge for a smaller company. The software business is one of the businesses where economies of scale can have the greatest effect on the bottom line, as software companies have high fixed costs for developing new software, regardless of whether one or one thousand licenses of the program are sold. In addition, the demand by the larger customers for a global presence entails high fixed costs for a sales organization spread all over the world. In other words, size is important.

5X5Y was formulated with the idea of growing with a combination of organic and acquired growth in order to achieve the economies of scale that Telelogic considers that it will need in order to be successful in the long term. Telelogic has continued growing on its own in this period, while at the same time a multitude of acquisitions have been completed successfully. Please refer to the table on page 8 for details. This development has not been easy. It is a challenge for a company the size of Telelogic to find suitable acquisitions that not only are priced correctly, but also have products that complement well the current portfolio of products.

In 2007, it became evident that other companies also shared Telelogic's conviction that consolidation and economies of scale are necessary ingredients of the growth strategy. In June 2007, IBM made a public offer for Telelogic, based on the same analysis and vision for the future as Telelogic's – that customers increasingly are demanding fewer suppliers with a broader product selection and that for this reason economies of scale are necessary in order to meet this development profitably.

At the time of writing, IBM's offer has still not been resolved. Read more in the box to the left and visit Telelogic's web page for the latest information.

Important events in 2007

Short-term goals are necessary to ensure that the development proceeds with the right pace. For 2007, Telelogic communicated financial goals for growth and earnings per share. These goals were consecutively adjusted upward during the year. In January, 5-10 percent growth in local currency for 2007 was forecasted. This forecast was adjusted upward to 12-15 percent growth in the report for the third quarter. According to the original forecast, the earnings improvement per share was to be between 10 and 15 percent compared to the previous year. In the report for the third quarter, the forecast was adjusted upward so that the improvement per share would exceed 25 percent for 2007.

Target fulfillment

The goals that were communicated for 2007 have been exceeded. This does not only concern the forecasts that were communicated in the beginning of the year, but also the final upwards-adjusted forecasts.

- The forecasted growth of 12-15 percent in local currency turned out to be 17 percent growth.
- The forecasted improvement in earnings per share by a minimum of 25 percent turned out to be an improvement by 45 percent.

ACTIVITIES IN 2007

In 2007, a number of activities were carried out in line with the strategies and goals that had been set:

Customer sales efforts

Telelogic's list of customers consists mainly of large, global companies with many users of Telelogic products. At the same time, these customers still have many potential users that currently are not using any Telelogic products.

In order to develop these customers, Telelogic begun work in 2006 to increase the focus of sales organizations on these key customers in particular. This work continued successfully in 2007. The increase in new users among Telelogic's largest customers has been more rapid than among the remaining customer base. Every key customer is assigned a representative with responsibility for that customer, who has become intimately familiar with the customer's challenges and organization. Growth plans are created in cooperation with the customer and seminars and workshops addressing the customers' senior managers have been carried out.

As a complement to key customer sales efforts, Telelogic's remaining sales and marketing organization is working to develop smaller and newer customer accounts, and on activities concerning cross sales to existing customers. The goal is to gradually grow these customers in size and to finally include them in the company's key customer program.

Products

Telelogic's products are the foundation for the expansion of the company and all product families have grown organically by double-digit figures in 2007. Continuous improvement of the products so that they maintain their leading positions within their respective areas is of key importance in attracting and retaining customers.

In order to become successful, a close connection is required between that which is being developed and the customer's real needs and wishes. Telelogic is working closely with its customers and arranges, for instance, user conferences, which in 2007 drew more than 1000 users to exchange ideas and increase their knowledge. In addition, the largest clients are invited to special meetings where future product plans are discussed and the customers' views are taken into account.

In 2007, the development work resulted in a number of improvements in all product families.

Examples of improvements in the previous year:

- System Architect, Telelogic's modeling product for business processes, has improved its support of analysis of organizational structures, and has been released in a version supporting Japanese characters.
- Telelogic DOORS Fastrak, a simplified version of Telelogic's requirements management product, was launched. It is intented for use by customers looking for a fast, flexible, small-scale Requirement Management solution.
- New integrated product versions of System Architect and Tau improve team collaboration and empower organizations to understand and formulate their business goals.
- Updated version of Focal Point with integration to Microsoft® Project®. This enables organizations to optimize their product requirements management processes.
- Telelogic has launched a simplified modeling product. This introductory license is offered free of charge in order to spread the use of Telelogic's products to new customer groups.
- Other new products include integration with OSEK, a standard within the automotive industry, improved versions of the modeling products Rhapsody and SDL Suite, as well as improved support for SOA, a concept for easy integration of various products.

Strategies

→ Offer a complete and integrated ELM solution
Telelogic will continue to create a total solution that supports customers' processes in "Enterprise Lifecycle Management" (ELM): in other words, business, IT, and product development processes.

→ Strengthen our products' position as leading tools in their respective fields
For several years, Telelogic's products have been designated leaders in their niches. Telelogic will strengthen these positions by improving both the products and their integration.

→ Focus on customers who require expanded functionality for large-scale development in geographically dispersed sites
Telelogic's products shine in complex projects in which the customer carries out large-scale development, often with geographically widespread development teams.

→ Build strategic relations with key customers
Telelogic creates long-term relations with its key customers, where the customer receives local support and global coordination.

→ Continuously develop the organization's productivity
During the year Telelogic will continue to ramp up its efficiency and productivity to improve those processes that facilitate growth.

→ Achieve strong growth
Telelogic has always endeavored to achieve growth. Telelogic will continue to work on clearly defined growth strategies in all geographical regions.

→ Attract and develop individuals with exceptional knowledge and an outstanding attitude
Continuously developing Telelogic's position as an attractive employer and retaining high energy levels and high expertise throughout the organization are necessary competitive advantages for Telelogic.

Telelogic's strategic acquisitions

Year	Company	Purchase consideration	Business	Sales	Employees	Business in
2006	I-Logix	MUSD 80	Modeling software	MUSD 27	133	US, UK, France, Germany, Japan
2005	Popkin Software	MUSD 45	Modeling software	MUSD 19	108	US, UK, Netherlands
2005	Focal Point	MSEK 118	Software for requirements analysis and product portfolio management	MSEK 22	26	Sweden
2000	ATA	Not announced	Software for document generation	MUSD 0.8	6	US
2000	Continuus	MUSD 42	Software for change and configuration management	MUSD 37	259	US, UK, France, Germany, Australia
2000	QSS	MUSD 115	Requirements management software	MUSD 30	230	US, UK, France, Germany
2000	Devisor	Not announced	Service company	MSEK 8	11	Finland
2000	Certeam	MSEK 90	Service company	MSEK 65	57	Sweden
2000	COOL:Jex	Not announced	Rights for modeling software	MUSD 8	21	US, UK, Germany
1999	Verilog	Not announced	Modeling software	MSEK 80	84	France, US, Germany
1999	Kvatro	Not announced	Service company	MSEK 18	23	Norway
1999	Real Time Products	Not announced	Service company	MGBP 2.7	27	UK
1999	Objectif	Not announced	Service company	MSEK 9	14	France
1998	S&P Media	Not announced	Telelogic's distributor	MDEM 13	50	Germany

In 2007, Telelogic's product portfolio was recognized by industry analysts. Telelogic was for instance named market leader in the area of requirements management, modeling, and configuration management by companies such as Gartner, Yphise, and Butler Group.

Productivity and growth

In the beginning of 2007, Telelogic made changes in its organization in an effort to improve internal productivity and thereby also growth. Product divisions were created where each division assumes responsibility for development and sales of their respective product families. At the same time, the geographically divided sales organization was maintained with responsibility for sales and results per region. This created a dynamic matrix organization with focus on both product and geography.

The result speaks for itself. In 2007, Telelogic achieved an organic growth of 17 percent, which by far outpaced competitors. Other factors besides the new organization also contributed to this growth, but the organization is a strong contributing factor.

Values

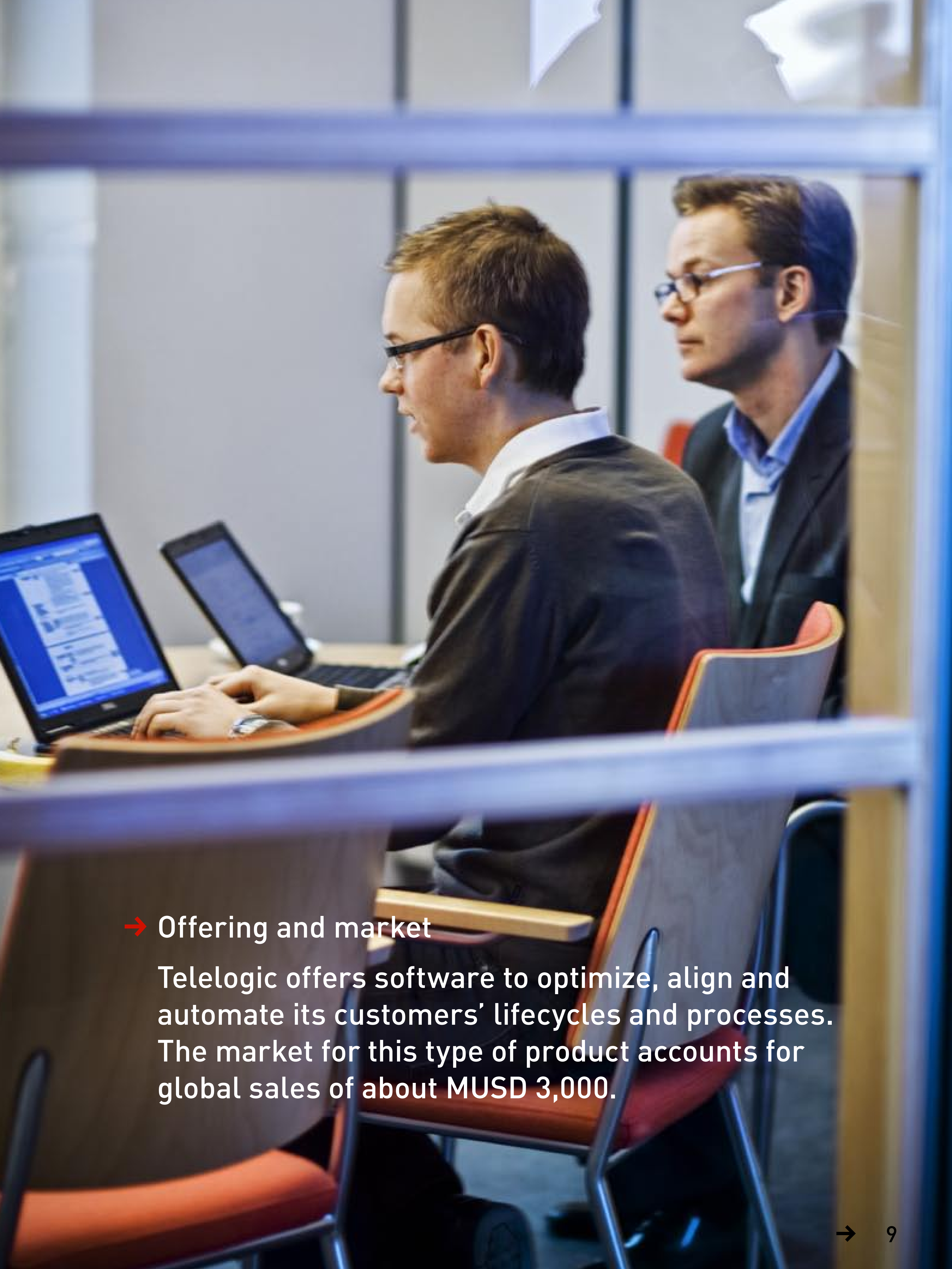
Customers first
We always prioritize our customers and our business operations. Nothing is more important than constantly exceeding customers' expectations and winning new business.

Excellence in execution
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 efficiency is: the solution works, it's faster than yesterday's and it's better than the competition.

Do the right thing
We do the right things. Doing the right thing is about survival. Our definition of the right thing is doing what gives added value to our customers and generates business.

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

Passion and fun
We constantly look for what is fun and unique creating an environment that stimulates creativity and job satisfaction is one of our greatest challenges.



Offering and market

Telelogic offers software to optimize, align and automate its customers' lifecycles and processes. The market for this type of product accounts for global sales of about MUSD 3,000.

Telelogic´s integrated lifecycle solutions

Telelogic provides software solutions that enable an enterprisewide, lifecycle approach to aligning, managing, and optimizing development lifecycles and business processes with business objectives and customer needs. These applications, together with several services, constitute a complete end-to-end solution for "Enterprise Lifecycle Management".

Did you know that ...
Telelogic is ranked as one of the world's most influential companies in the area of software development.

Market demands

The companies and organizations that Telelogic focuses on are facing great challenges. The world around us is changing at a more rapid pace as a consequence of new demands by customers, increased global competitiveness, stricter rules on the environment and in the area of safety, growing demands on performance, and a never-ending stream of technical advances. Companies must therefore ever more rapidly deliver new products and services, without lowering quality.

To this should be added the increasingly more complex organizational structure in which personnel scattered over several continents need to work closely together, at the same time as key people are constantly traveling, and important functions are outsourced to subcontractors in lower-cost countries. So far, many companies have tackled these challenges in an isolated way by looking for a solution in one area, without considering similar problems in many other parts of the organization or the need for coordination.

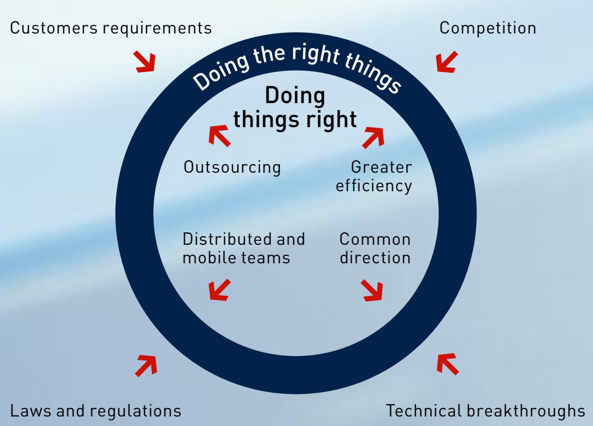
A company can, for instance, create a very effective development organization, but without ensuring that the development is aligned with the long-term business goals of the company. Other companies that succeed in this respect do it perhaps at the expense of complex, manual and difficult to manage systems. There is a growing need for software that helps organizations and companies manage these external and internal challenges in a coordinated way. The intention is to save time, improve quality and reduce costs.

Telelogic's target group

Telelogic targets mainly large, global companies that develop advanced systems and software on a large scale. Business areas in focus are, for instance, the aerospace and defense sector, governmental agencies, telecommunication companies, automotive industry, pharmaceutical industry, finance and banking sector, companies that manufacture medical equipment, and program and systems companies. But regardless of which sector the customer belongs to, Telelogic's products work for all types of development of advanced systems and software.

Telelogic's offering

Telelogic offers software to make more effective, coordinate, and automate the customer's business processes with the business goal and needs of the end customer. This means:



Customer challenges

Customers are facing external challenges – to do the right things – i.e. delivering the products and services that the end customers really require, prioritizing the right project, and managing changes in the course of the project.

Internal challenges – to do things right – must also be managed, i.e. managing limited resources, reducing costs, coordinating the parts of the organization, and making time-consuming items more efficient.

It is evident that there is a need for software and processes to manage these challenges. A simplified parallel can be drawn to other large technical development steps, such as the change from typewriters to word processors or manual calculation methods to using computers. The underlying demand for the type of products that Telelogic offers is therefore good, even if it is impacted in the short term by market fluctuations and other macro-economic factors.

- automation of the entire development cycle in order to achieve faster and high-quality results.
- support for development projects to ensure that these meet customer requirements and business goals.
- access to critical information during the entire development process so that the individuals in charge have visibility into the process and are thus able to more easily prioritize tasks and make the right decisions.
- an open technical platform that is compatible with other software, systems, and processes.

The experiences customers have of Telelogic's products – individually or in combination – demonstrate that they save time, improve quality, and reduce costs.

Software

Telelogic's software is divided into three product groups:

- Requirements management: collecting, analysing, and follow-up of the requirements that serve as the foundation of a new product.
- Change and configuration management: organizes and provides an overview of those files, versions, and changes that arise in the project when a new product is developed.
- Modeling: analysis of an organization's processes and modeling of the actual product.

Please refer to a more detailed presentation of the individual products groups on pages 14-22.

Consulting and training services

Frequently investing in a Telelogic product results in a new and more effective method of working. In order to maximize the usefulness of the investment, Telelogic offers consulting and training services related to the software. The software is a standardized product that does not require client customization, but the customer may need assistance with settings and training.

Telelogic's consulting services include:

- process support: assistance in identifying and improving the customer's current processes and determine which additional tools are needed to fulfill the customer's requirements.
- implementation support: i.e. assistance in implementing Telelogic's product and processes in the company operations.
- tool support: assistance in deploying the product according to the customer's existing processes.
- training: standardized as well as customized training for the customer.

The sale of training and consulting services constituted 17 percent of Telelogic's sales in 2007, a level considered by Telelogic to be appropriate in relation to product sales.

Acquisitions complement the product portfolio

From its founding, Telelogic's strength and focus has been on large company development departments. Originally, Telelogic's offering was limited to the development of integrated software, but following a number of acquisitions in the past ten years the company has expanded its portfolio to include all types of development of advanced systems and software.

A prerequisite for customers to achieve even greater efficiency is that development processes are integrated with other processes, structures, and goals of the organization. Telelogic must therefore expand its product portfolio in step with customer requests for increasingly more integrated products.

As part of this development, Telelogic acquired the company I-Logix with its main product Rhapsody in 2006, and the companies Popkin with the main product System Architect and Focal Point with the same name for both product and company in 2005. Telelogic did not make any acquisitions in 2007. Please refer to the table on page 8 for more information with regard to completed acquisitions.

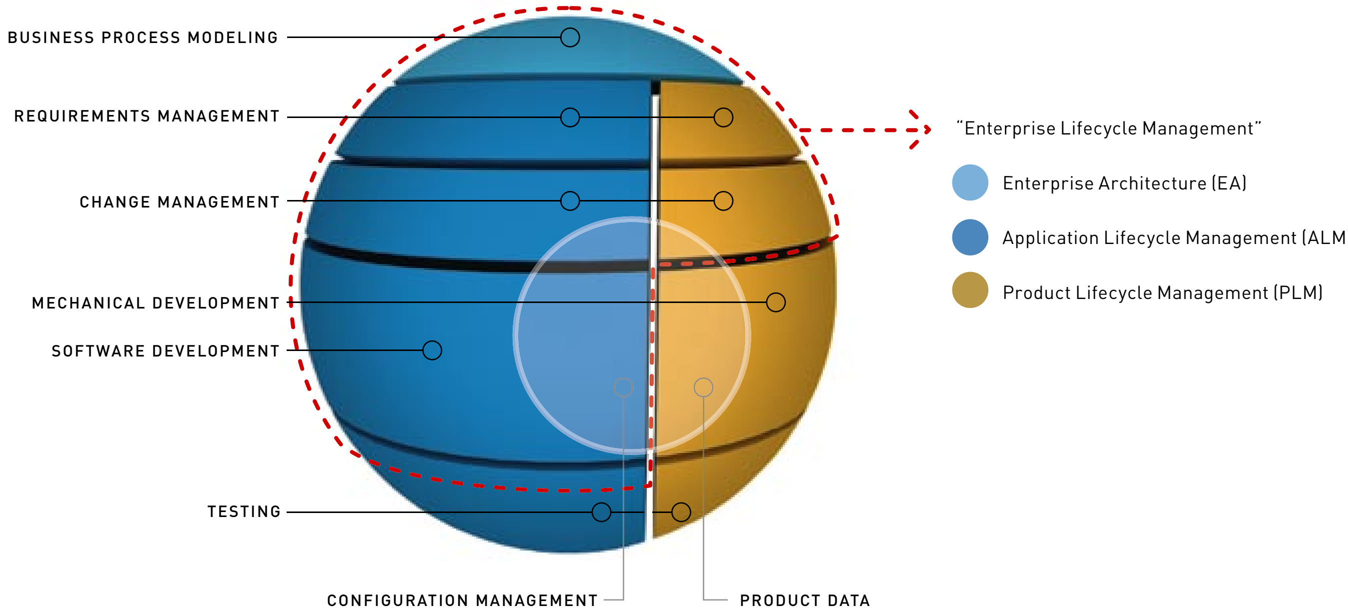
The integrated offering

Telelogic's software can be used separately or in combination with each other. As a portfolio, the products form a uniform and strong offering. This integrated offering is designed to give companies an overall solution connecting and making processes more effective in all departments of the organization.

The area that Telelogic addresses with its integrated offering it calls "Enterprise Lifecycle Management", ELM. Simplistically ELM can be described as business, IT, and product development processes. These processes are interdependent and a coordinated solution is required in order to achieve maximum productivity and cost-effectiveness.

The vision to look for a coordinated solution is, however, still new. Even though companies and organizations realize increasingly the benefit of coordinated development projects, normally software is used without coordination with other software programs.

→ **Did you know that ...**
41 percent of Telelogic's employees are in Europe, 28 percent in North America, and 31 percent in Asia.



Components of ELM

The advanced products of today are frequently a combination of complex software and hardware. The software sector is frequently referred to as ""ALM – Application Lifecycle Management", whereas the hardware sector is referred to as "PLM – Product Lifecycle Management". ALM and PLM are closely connected from many perspectives.

- Application Lifecycle Management (ALM) comprises development and management of advanced software and systems during its entire life-cycle, including requirement management, change management, and project management.
- Product Lifecycle Management (PLM) comprises development and management of e.g. mechanical products through its entire life-cycle, including requirement management, change management, and project management.

The combination of hardware and software is widely distributed among many of Telelogic's customer groups. When the customer manufactures an airplane, the development of the hardware, the plane itself, is as complex as the development of the software that is to steer and monitor the plane. Similar examples can be found among other traditional Telelogic customer categories, such as the automotive, telecom, and medical industry. Many of Telelogic's customers are already using both ALM and PLM solutions, even if this is not always done in a coordinated fashion.

A large organization, however, has many other processes and activities that are in need of being made more efficient. Above all, there is a need to connect ALM and PLM to the company's organizational structure and business processes to ensure that development and production not only meet the requirements of the customers but also are aligned with the company's strategic business goals.

Enterprise Architecture (EA) is used to structure these business processes:

- Enterprise Architecture (EA) entails modeling and analysis of processes, structures, and goals of the organization.

Enterprise Lifecycle Management (ELM) is Telelogic's designation for coordination of relevant processes within ALM, PLM and EA.

Telelogic's goal is to continue to develop a comprehensive solution that supports customer processes within ELM. It will be possible to use this solution also in the future as an integrated solution or individually. The total ELM market is approximately USD 3 billion and is expected to grow in the coming years at an average annual rate of approximately 10 percent.

Competition

Only three companies can compete with Telelogic's total solution offering. These are IBM, Borland, and Serena. No separate market surveys are being conducted with regard to ELM, but as each of Telelogic's individual products are considered to be among the market leaders, Telelogic concludes that the company's integrated solution is leading the world. On page 14-22, under the respective product group, you can read more about the market position of individual products.

→ Operations: Product groups

Telelogic's products comprise an integrated total offering that can be used seperately or as an integrated solution.

What is requirements management?
When a company is creating a new product, the focus of the first phases is on improving the understanding and knowledge about the system or the product to be built. All the requirements with regard to the product shall be collected and assembled. The requirements often come from different sources, e.g. marketing department, sales force, and sourcing department.

Once the requirements have been assembled, they are analyzed. There may be contradicting requirements that must be clarified. Technical restrictions or budget parameters may make it necessary to leave out some requirements. Certain requirements are connected with other requirements and are thus linked together. In addition, frequently the requirements need to be refined and developed into more detail. Requirements management continues during the course of the entire development period, partly because the project manager wants to make sure that the requirements are fully satisfied, and partly because the requirements are frequently changed and refined during the course of the project.

Users
- The product manager is responsible for collecting and structuring the requirements. He or she may also be assisted by special requirements engineers.
- The project manager wants to have an overview of all project requirements and make certain that the requirements have, in fact, been met.
- The developer wants to familiarize him/herself with the project requirements in order to know what is being developed and why it is being developed.

Advantages of requirements management
- The company develops the products that the customers really want, and not the products that they believe the customers want.
- By structuring the requirements and thus the project from the beginning, the project work is more efficient, which saves time and money.
- Everyone involved in the project gains an understanding of what is to be developed and why it should be developed.

Requirements management

Significant events in 2007

During the year, new versions were released of all products in this category. Among the improved functions, the following are worth mentioning:

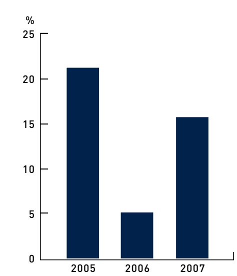
- Updated web-based version for projects with short delivery time
- Improved and simplified requirements management with regard to their relative priority and hierarchy
- Improved processes for collaboration among group members, with improved message function, among other things
- Improved processes for collection of feedback from project members and interested parties outside the project
- Simplified management for analyzing requirements tracking
- Updated user interface with improved user friendliness
- Expanded and improved integrated reports
- Improved integration of Telelogic's products and external products such as e.g. Microsoft® Project®.

Telelogic has won honors for their requirements management products in a number of areas. Yphise has especially focused on the updated web-based version that Telelogic launched during the year and concludes that software for requirements management is a valuable investment for rapidly moving development projects, provided that the requirements management product has functions for this particular kind of projects, which it believes this version has. Butler Group describes DOORS as being a long-term market leader and praises Focal Point for its capability to visualize requirements, which simplifies making decisions. In the report, Telelogic's complete requirements management solution is mentioned as a positive factor.

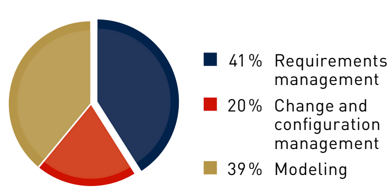
Key facts

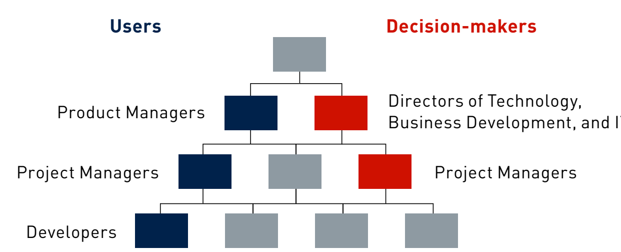
	2007	2006	2005
Growth in local currency, %	16	5	22
Portion of Telelogic's total sales, %	41	42	49
Acquisitions	-	-	Focal Point

Growth



Percentage of Telelogic's total sales





Telelogic's requirements management solutions

Telelogic offers two requirements management tools:

- Telelogic Focal Point™
- Telelogic DOORS®

These two products cover different areas within requirements management. Focal Point is a web-based solution suited for analyzing requirements and for support in decision-making with regard to product portfolios. DOORS is a comprehensive requirements management product which is particularly valuable for collection, structuring and analyzing a large amount of requirements. The absolute majority of the sales are from DOORS. On the other hand, Focal Point was Telelogic's most rapidly growing product in 2007.

Research and development

Telelogic invests approximately 15 percent of its revenue in research and development. As joint resources are used for a large part of product development, e.g. testing, integration of products and such, Telelogic does not allocate its development cost per product.

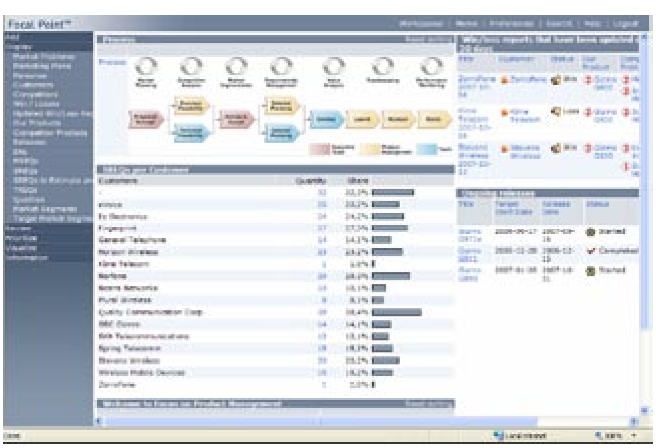
Telelogic's requirements management products are developed in development centers in Europe and Asia. From the start, Telelogic has been a driving and innovative force in the area of requirements management. DOORS has its roots in the aerospace and defense industry, where strict demands have for a long time been placed on complex requirements management. Telelogic was for instance first in the world with dynamic requirements management.

Strategic prioritization

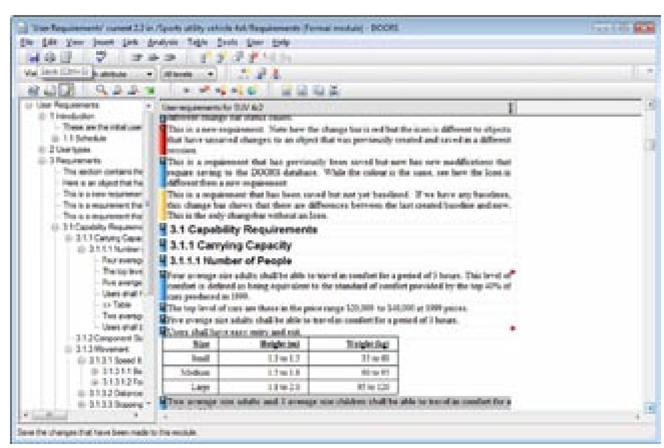
In the area of requirements management, there are some clear trends that Telelogic has taken note of, and to which it adapts its future product offering. Requirements management is now rapidly spreading outside its traditional product area with significantly stronger demands on speed and simplicity of the development process. In today's industry where outsourcing plays an increasing role, there is an added requirement that the development teams shall be able to work efficiently even when they are more and more geographically dispersed.

In order to meet expectations in these areas, Telelogic is developing products that better correspond to the demands. The increased maturity of development organizations and their increased acceptance of specialized tools for requirements management are resulting in the emergence of a new category of users. For this category, flexibility and speedier development cycles are critical requirements. These demands are satisfied with an updated product version suited for requirements management of smaller projects than the type of project that DOORS is focused on currently. In addition, Telelogic is continually improving its current products to enable projects to easily coordinate the requirements management process for several people, regardless of their location in the world. With improved web-based user interface, it will also be easier to allow new roles within the development projects access to view the requirements.

→ Did you know that ...
in the latest survey, Telelogic further strengthened its advantage as a world leader over its competitors within requirements management.

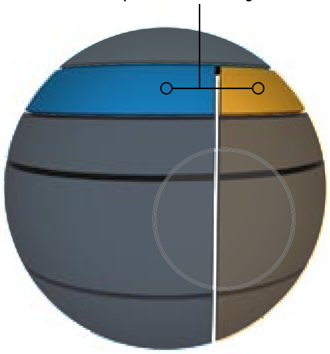


Telelogic Focal Point – make the right decision faster
Telelogic Focal Point is a web-based solution for requirements analysis and decision support for product development and project portfolio management. Focal Point helps customers make decisions better and faster by e.g. prioritizing the requirements and weighing them against each other based on different dimensions (e.g. cost and customer usefulness). Focal Point was acquired in 2005.



Telelogic DOORS – take control of requirements
Telelogic DOORS is the world's leading requirements management tool, which helps customers gather, define, sort, analyze, communicate, and follow up on requirements within and among organizations throughout an entire project. DOORS offers great flexibility in organizing user information to best support the user's method of working. DOORS offers easy monitoring of a requirement at any time in the development process, from idea to test, to see how the requirement impacts the software.

→ Did you know that ...
Focal Point was Telelogic's most rapidly growing product in 2007.



The colored area corresponds with Telelogic's requirements management product line.

Market

Requirements management products are an important component in the efforts by companies to achieve a higher maturity level, which means that requirements management tools in the long term will undergo strong development. Non-specialized software for requirements management will not suffice in solving the problems of clients.

Based on market analyses by leading industry analysts, non-specialized software programs are still being used for requirements management (e.g. word processors, spreadsheet programs and email) in the majority of all development projects. At the same time, there is a great interest in more standardized processes and software programs for requirements management in both large and small organizations, as one of the important reasons for the failure of a project is faulty or incomplete requirements.

Based on market analyses by leading industry analysts, Telelogic estimates that the market for requirements management is approximately MUSD 170–190 with an annual growth rate of approximately 10 percent.

"Product Portfolio Management" is an interesting market in which Telelogic currently does not have a great share. This is an area where Telelogic's solution has a potential of becoming significantly more important. This market is estimated to be approximately MUSD 950 with a somewhat larger growth rate than the requirements management market. This market is thus significantly greater than the traditional requirements management market, but it is also a market where Telelogic currently is relatively unknown and which requires a totally different go-to-market strategy than the market where Telelogic has the majority of its sales.

According to the Gartner's Inc analysis[1], published in May 2007, Telelogic held 37.1 percent of the requirements management market in 2006, based on the total software revenue, which is 12.5 percentage points more than any other vendor in this market. Both Telelogic's total market share as well as the lead over the closest competitors has increased since previous analysis.

Customers

Telelogic's ten largest customers for requirements management are found among US and European aerospace and defense companies and telecommunications companies, which are two industries which already for quite some time have had a developed process maturity level and which early on realized the advantages of structured requirements management. These customers can also be found in industries such as the automotive industry, consumer electronics, medical technology, finance, and banking.

A requirements management tool can be purchased at many different levels of an organization. In companies with large projects that also include subcontractors, it is frequently a central decision where Telelogic collaborates with the the directors of technology, development, and IT. In the aerospace and defense industry, where projects often include a number of subcontractors, there are many examples of subcontractors who also use Telelogic products as the client has standardized the requirements for these software programs.

With regard to smaller projects with fewer involved parties, the project manager can decide which requirements management tool should be used.

Sales

The product group requirements management increased by 16 percent for the full year, and the sales of this group accounted for 41 percent of the revenue of Telelogic in 2007. Traditionally, Telelogic has held a strong position with its requirements management products within the US aerospace and defense industry. This is a customer group which for some time has developed slowly and Telelogic initiated already in 2006 a number of activities aimed at strengthening its position with customers in other segments. This work has been successful in 2007, and the product group is again growing in the double-digits.

Competitors

Telelogic's main competitors do not differ in the various product groups. IBM, Borland and Serena are all able to compete with Telelogic's total offering of products and services. In the area of requirements management, all the above competitors have competitive products. Of the three named companies, only IBM comes close to Telelogic's market share for requirements management. There are also a number of smaller competitors with market shares under 1 percent, who compete in the market segment of requirements management. Examples of companies include MKS and Compuware.

1) Gartner: Market share: Application Development and Project and Portfolio Management, Worldwide, 2006, May 2007, by Laurie Wurster, Fabrizio Biscotti and Asheesh Raina. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent data, research opinion or viewpoints published, as part of a syndicated subscription service available only to clients, by Gartner, Inc., a corporation organized under the laws of the State of Delaware, USA, and its subsidiaries ("Gartner"), and are not representations of fact. The Gartner Report(s) do not constitute a specific guide to action and the reader of this [Prospectus/Company Report] assumes sole responsibility for his or her selection of, or reliance on, the Gartner Report(s), or any excerpts thereof, in making any decision, including any investment decision. Each Gartner Report speaks as of its original publication date (and not as of the date of this [Prospectus/Company Report]) and the opinions expressed in the Gartner Report(s) are subject to change without notice. Gartner is not responsible, nor shall it have any liability, to the Company or to any reader of this [Prospectus/Company Report] for errors, omissions or inadequacies in, or for any interpretations of, or for any calculations based upon data contained in, the Gartner Report(s) or any excerpts thereof. *This disclaimer is valid for all the references to Gartner Inc. in this Annual Report.*

Change and configuration management

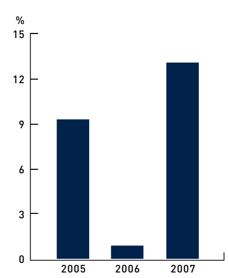
Significant events in 2007

During the year, updated versions were released of all products in this category. Among the improved functions, the following are worth mentioning:

- New web-based version with improved process support in case of changes. Among others, the processes were developed in cooperation with Philips Applied Technologies and support processes in accordance with CMMI and quality assurance in accordance with e.g. ISO 9000.
- Updated user interface improves user friendliness, e.g. by providing graphical views of change history.
- New functionality that supports a more strategic perspective on quality control.
- Increased functionality to simplify and improve the portion of the change and configuration management process which concerns the final assembly and delivery of the software.
- Improved integration of Telelogic's products which e.g. improves collaboration among different stakeholders thereby facilitating the setting of priorities among many different requirements and requests with regard to changes in a project.

Telelogic has won honors for their change and configuration management products in a number of areas. Yphise has for the forth consecutive year elected Synergy the best solution for managing software development. Of five evaluated products, Synergy received the highest mark. It also received special mention for its capability to optimize the business capacity through time and cost savings. Butler Group writes in its report that it is primarily because of Telelogic's focus on support for the entire change process that the products in these areas really provide added value to customers.

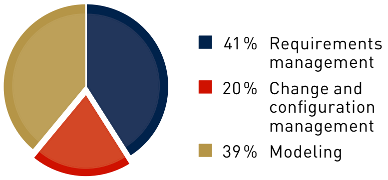
Growth

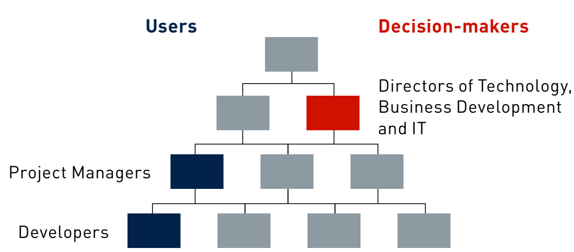


Key facts

	2007	2006	2005
Growth in local currency, %	13	1	10
Portion of Telelogic's total sales, %	20	21	26
Acquisitions	-	-	-

Percentage of Telelogic's total sales





What is change and configuration management?

When a company develops a new product, many people are involved in the project. Each developer works on different parts of the software code, which results in the creation of many files and documents, and in many versions of the same file. Thus, tools are required to keep track of all the files: who is working on what file, how these shall be combined to a final product and which versions have been developed.

In addition, there will be requirements in regards to change management. This may concern changes in the original requirements, but more frequently the changes refer to the software code, i.e. already developed code must be adjusted and refined. Managing changes, i.e. a change request, approval of the change, and assignment of the change work to a developer, are important processes in a project.

Users

- The project manager supervises all project files. He or she approves change requests and assigns the changes to a developer.
- The developer works on programming different files in the project.
- The configuration manager is the developer who works on assembling files for the final product, of which different versions frequently exist.

Advantages of change and configuration management

- Overwritten files and lost information avoided.
- Many developers can work in a structured way on the same project, which is an advantage in large projects or if the developers are dispersed geographically.
- The work is more efficient with structured change management, and the risk for errors diminishes.

Telelogic's change and configuration management solutions

Telelogic offer two tools in this product group:

- Telelogic Synergy™
- Telelogic Change™

Synergy constitutes the foundation software to keep track of different versions and configurations. Change is a supplement to Synergy, which takes a comprehensive view of all the changes that occur in the project. The greater part of the sales is from Synergy.

Research and development

Telelogic invests approximately 15 percent of its revenue in research and development. As joint resources are used for a large part of the product development, e.g. testing, integration of products and such, Telelogic does not allocate its development cost per product.

Telelogic's products for change and configuration management are developed in development centers in the US and Asia. From the start, Telelogic has been a driving and innovative force in this area. Telelogic was, for instance, first in the world with data-based and transparent change and configuration management. This means that each developer is assigned a task if something needs to be changed, a new perspective in this area at the time. Transparent change management means that the developer does not need to actively keep track of different versions of his or her files. Instead, this occurs "invisibly" in the background, which saves time and gives the developer an opportunity to focus on developing the software.

Strategic prioritization

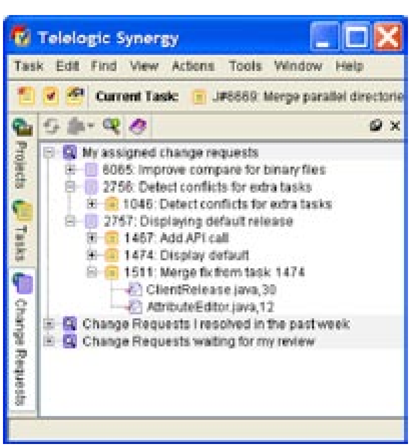
At the present time, there is an area within change and configuration management that attracts much attention: ITIL, which is a framework for IT processes for support, operation, and administration. Telelogic supports ITIL and will also in the future continue to improve its support in this area.

In general, the area of change management is gaining ground in many areas. Telelogic is actively working on developing the product so that it will satisfy market requirements and stay at the forefront of the development.

Market

The market for configuration management is relatively mature. This is an area where products have been available on the market for a long time and most of the companies with large development teams have already installed some type of solution. Today, as both large and small companies have realized the advantages of configuration management, the discussions are primarily about how advanced a system the client desires.

The market for change management is growing. This is an area which has become more important as projects have become increasingly more com-



Telelogic Synergy – keeps track of software code
Synergy will help you manage the different versions of the created program codes. It will even allow the user to retrieve old versions, if needed. When the software is almost ready for delivery, it consists of a number of small files. These shall be assembled to a complete program which can be done in different versions depending on how the program will be used.

Telelogic Change – take control over changes
Change manages changes that occur in the course of the project. The change may be due to a competitor releasing a new product, tightening of the budget, or new technology being introduced. Before a change can be accepted, the different stakeholders must approve of the change. In larger projects, this is done through a computer-supported decision process, e.g. with the help of Change. When the project manager has an up-to-date overview of the changes that have been decided on, he can also assign the changes as tasks to different project members.

plex and the world around us is changing more and more rapidly. Up to now, many companies still do not have specially-adapted systems to handle this area.

Based on market analyses from leading industry analysts, Telelogic estimates that the change and configuration management distributed market amounts to about MUSD 950, with an annual growth rate of about 13 percent from 2005 to 2006. According to the Gartner Research analysis[1] published in May 2007, Telelogic held 3.6 percent of the change and configuration management market in 2006, based on total software revenue.

Customers

Telelogic's ten largest customers for change and configuration management are found among US, Asian and European aerospace and defense companies and telecommunications companies. These are two industries which already for a long time have managed large development projects.

Telelogic's products for change and configuration management are suited for all types of companies that develop complex software. In addition to the aerospace and defense industry and the telecommunications industry, a large portion of Telelogic's sales is to bank and finance and systems integrators.

A change and configuration management system is an investment that concerns the entire company's development organization. It is rare that such a decision can be taken on a level under that of the head of business development, technology or IT. It takes a long time to implement a system of this kind, which is why the sales cycles and thus the preparation processes are long.

The customer group which Telelogic primarily targets is clients who currently have a less sophisticated system, where the cost and loss of time for changing to a new system would be offset by the increased functionality of the Telelogic products.

Sales

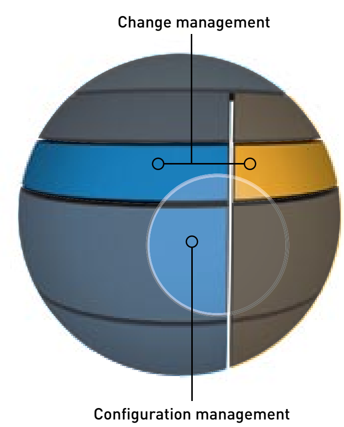
The change and configuration management product group increased by 13 percent for the full year, and the sales of this group accounted for 20 percent of revenue for Telelogic in 2007. This product area has not been helped along by product acquisitions during the year, but has nevertheless turned zero growth in 2006 into double-digit growth in 2007. The majority of sales constituted software for change and configuration management, which impacts a more mature market than the software for change management.

Competitors

Telelogic's main competitors do not differ in the various product groups. IBM, Borland, and Serena are all able to compete with Telelogic's total offering of products and services. In the area of change and configuration management, primarily IBM and Serena have competitive products with regard to functionality and both of these companies have a larger market share than Telelogic. Telelogic, however, has a product which has been selected as the market leader with regard to technical functionality.

As Telelogic mostly focuses on replacing less complex systems already installed by customers, it is Borland, MKS and Perforce Software that are seen as the main competitors with regard to change and configuration management. Telelogic estimates that these companies have a single-digit market share, just as Telelogic has.

→ **Did you know that ...**
Telelogic has product development divisions on three continents – North America, Europe, and Asia.



The colored area corresponds with Telelogic's change and configuration management offering.

1) Gartner: Market share: Application Development and Project and Portfolio Management, Worldwide, 2006, May 2007, by Laurie Wurster, Fabrizio Biscotti and Asheesh Raina.

What is modeling?
Modeling can be done on many levels in the company. Modeling is a summary term for structuring and in certain cases programming using symbols. On a high level, a company can model its processes - it may be business processes, IT processes, or development processes. By charting its processes, a company has an overview of how these processes are connected, where there are deficiencies, and how they can be streamlined.

Modeling is also used in product development. The work method is similar as the overall software structure is charted, analyzed, and linked together. The model is then developed in more detail with additional levels, and when the level of detail is sufficient the final program code can be generated automatically. The developer works with one model only, but he/she can choose to generate the text-based program code in different formats depending on its use (e.g. in a cell phone or in a PC).

Users
- The process engineer models the overall processes and structures of the company.
- The department manager analyzes and makes decisions based on the charted processes.
- The developer models the software and generates the final program code.
- The project manager follows up on the modeled software and checks it against established requirements and time schedules.

Advantages of modeling
- Simplifies the overview of complex processes and exposes weaknesses of the processes.
- Simplifies the programming of complex software by improving the overview, accelerating the development process, and minimizing the number of errors.
- In principle, the documentation of processes and software is generated simultaneously while they are being modeled.

Modeling

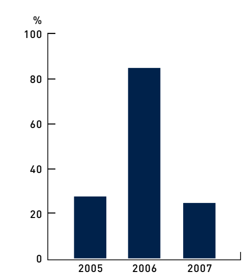
Significant events in 2007

During the year, new versions were released of all products in this category. Among the improved functions, the following are worth mentioning:

- Updated version of product for modeling of software with focus on smaller projects.
- Improved support of Service Oriented Architecture, SOA (a standard which facilitates the integration of products).
- Increased functionality of system modeling in the language SysLM, as well as increased support of code generation in languages such as Java and C#.
- Continued improved support for analyzing organization structures and business processes.
- Increased support for web-based modeling.
- More integration between planning and execution of IT projects.
- Improved support of industry-specific standards within the telecommunications and automotive industries, for instance AUTOSAR, CAN, MOST, MISRAC and OSEK.
- Continued improved support for non-English languages for the acquired products, such as Japanese, for instance.
- Improved integration of Telelogic's products and external products, such as e.g. Microsoft® Visio®.

Telelogic received awards and analyst recognition for its modeling products in a number of areas. Gartner Research placed Telelogic in the "Leaders Quadrant" in its report "Magic Quadrant for Business Process Analysis Tools, 2Q07-1H08"[1].

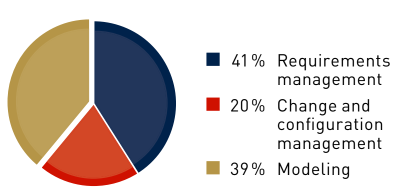
Growth

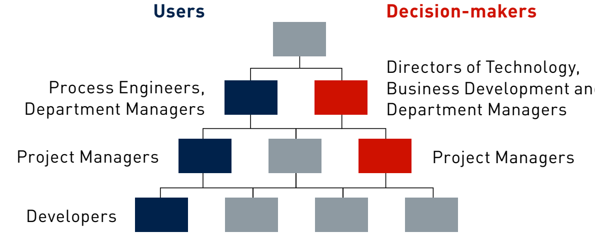


Key facts

	2007	2006	2005
Growth in local currency, %	24	84	27
Portion of Telelogic's total sales, %	39	37	25
Acquisitions	-	I-Logix	Popkin

Percentage of Telelogic's total sales





1) The Gartner Magic Quadrant for Business Process Analysis Tools 2Q07-1H08 by Michael J. Blechar is copyrighted 8 June 2007 by Gartner, Inc. and is reused with permission. The Magic Quadrant is a graphical representation of a marketplace at and for a specific time period. It depicts Gartner's analysis of how certain vendors measure against criteria for that marketplace, as defined by Gartner. Gartner does not endorse any vendor, product or service depicted in the Magic Quadrant, and does not advise technology users to select only those vendors placed in the "Leaders" quadrant. The Magic Quadrant is intended solely as a research tool, and is not meant to be a specific guide to action. Gartner disclaims all warranties, express or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent data, research opinion or viewpoints published, as part of a syndicated subscription service available only to clients, by Gartner, Inc., a corporation organized under the laws of the State of Delaware, USA, and its subsidiaries

Telelogic's modeling solutions

Telelogic offers a number of modeling tools. The three major tools are:

- Telelogic System Architect®
- Telelogic Rhapsody®
- Telelogic Tau®

These products cover two different areas within modeling. System Architect is used for modeling of business processes. Both Rhapsody and Tau are used for modeling of software, Rhapsody for software in embedded systems, and Tau for software in business and IT applications. Sales of Rhapsody are somewhat larger than the sales of System Architect, respectively Tau.

Research and development

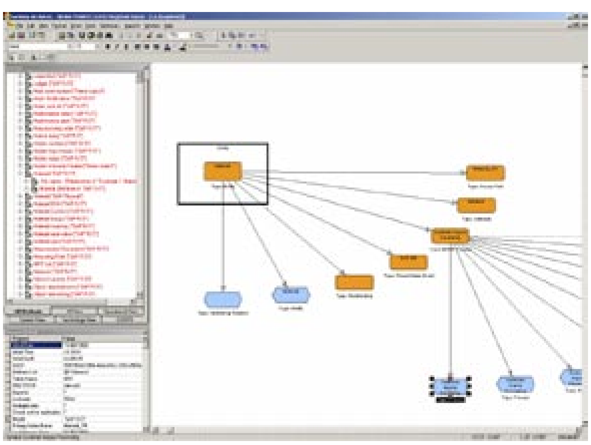
Telelogic invests approximately 15 percent of its revenue in research and development. As joint resources are used for a large part of product development, e.g. testing, integration of products and such, Telelogic does not allocate its development cost per product.

Telelogic's modeling products are developed in development centers in the US, Europe and Asia. From the start, Telelogic is and has been a driving and innovative developer in the area of modeling. System Architect has its roots in the aerospace and defense industry and is for instance the only product supporting the entire methodology actively used by the US Department of Defense. For modeling of software, Telelogic was the first supplier in the world to launch a product based on the development language UML 2.0, a standard still used today.

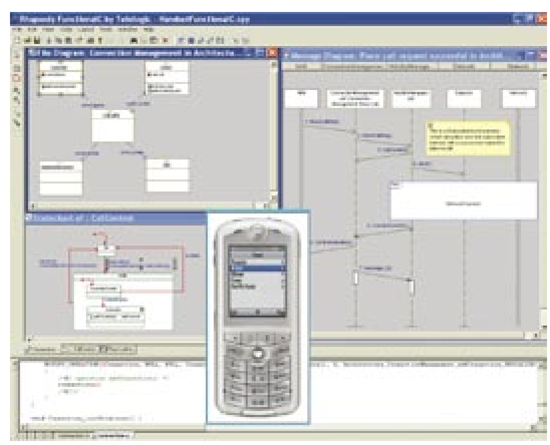
Strategic prioritizing

In modeling, compatibility with various standards and development platforms is particularly in demand. Compatibility with SOA – Service Oriented Architecture – is a distinct trend. This is a standard that facilitates the integration of different products. In this area, Telelogic continually launches new improvements and integrations to aid our clients in identifying, modeling, and implementing SOA-based processes. Another important area is compatibility with industry-specific standards, where Telelogic will continue to invest in its leadership within the automotive industry and within the aerospace and defense industry.

→ **Did you know that ...**
Telelogic invests approximately 15 percent of its sales in research and development.



Telelogic System Architect – modeling of processes
System Architect is used to design, visualize and analyze processes, business models, and organizational structures in an effective manner. By using System Architect, organizations can discover inefficiencies in their processes, how they are related to other processes, where duplication of effort occurs, how resources should be allocated, etc. One area where System Architect is extensively used is in the US defense industry. Complete defense systems are modeled in a prescribed model standard called DoDAF (Department of Defense Architecture Framework).



Telelogic Rhapsody & Tau – modeling of software
Both Telelogic Rhapsody and Telelogic Tau are used to model software. The term modeling means that the engineer uses graphical programming languages instead of text-based programming languages. When the model is ready, the developer can generate a program code in a number of different languages such as e.g. C, C++, C# or Java. Rhapsody is aimed at modeling software in embedded systems, i.e. software which is embedded into e.g. cell phones and airplanes. Tau is aimed at modeling larger IT systems.

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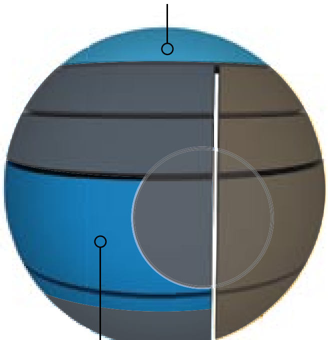
→ Did you know that ...

Telelogic customers include the majority of the largest telecom, aerospace and defense and automotive industry companies in the world.



The colored area corresponds with Telelogic's modeling product line.

Market

The market for modeling products is developing differently in different market segments. Modeling of software has gained broad acceptance in the development of complex software, whereas modeling of processes is still in the early stages of development in many industries.

Based on market analyses by leading industry analysts, Telelogic estimates that the market for modeling is approximately MUSD 500–550 with an annual growth rate of about 7 percent.

Telelogic is the second largest player in the market for modeling after IBM. The market share varies depending on how different industry analysts measure the market. According to the Gartner's Inc analysis[1], published in May 2007, Telelogic held 20.6 percent of the modeling market in 2006, based on the total software revenue. It is Telelogic's opinion that none of the leading industry analysts have measured market share with respect to modeling processes. A report from Gartner Inc[2] divides the various players into four categories and Telelogic is placed in the "Leaders Quadrant".

Customers

Telelogic's ten largest customers for modeling are found among US, Asian and European aerospace and defense companies and telecommunications companies. The products in these two industries are to a large extent dependent on complex software.

Telelogic's modeling products are, however, suited for all types of companies that develop complex systems or software. The total number of customers can be found in industries such as the automotive industry, medical technology, finance and banking, but with aerospace and defense and telecommunication as the two dominating categories.

Modeling products can be purchased at many different levels of an organization. Modeling of processes in principle always takes place at the highest level of the organization. Telelogic collaborates in these cases with the head of IT or development. Software modeling has, on the other hand, a larger distribution in terms of decision-makers. Many companies have not centralized the use of modeling products and Telelogic's main contact can be anything from the director of technology or director of business development to department managers and project managers. The larger the project, the more likely it is that the purchasing decision is taken high up in the organization.

Sales

The modeling product group increased by 24 percent for the full year, and the sales of this group provided 39 percent of the revenue for Telelogic in 2007.

The increase in sales during the first quarter of 2007 has received a certain amount of boost from the acquisition of I-Logix, which took place during 2006. The rest of 2007, however, accounts for the acquisition and shows the growth of the products under Telelogic's management. Rhapsody and System Architect have both developed very positively during the year and are among Telelogic's fastest growing products. Within the product group modeling, there are also products which have been replaced by newer versions.

Competitors

Telelogic's main competitors do not differ in the various product groups. IBM, Borland and Serena are all able to compete with Telelogic's total offering of products and services.

In the area of modeling, IBM and Borland have competitive products. IBM is a clear market leader within modeling, whereas Borland's market share is about half of Telelogic's share. IBM is the market leader also in the market segment for embedded systems, but here the difference compared with Telelogic is much smaller. There are also a number of smaller competitors who compete in the market segment for modeling. Examples of companies include IDS Sheer, Pro-Forma and Troux.

1) Gartner: Market share: Application Development and Project and Portfolio Management, Worldwide, 2006, May 2007, by Laurie Wurster, Fabrizio Biscotti and Asheesh Raina.

2) The Gartner Magic Quadrant for Business Process Analysis Tools 2Q07-1H08 by Michael J. Blechar is copyrighted 8 June 2007 by Gartner, Inc. and is reused with permission. The Magic Quadrant is a graphical representation of a marketplace at and for a specific time period. It depicts Gartner's analysis of how certain vendors measure against criteria for that marketplace, as defined by Gartner. Gartner does not endorse any vendor, product or service depicted in the Magic Quadrant, and does not advise technology users to select only those vendors placed in the "Leaders" quadrant. The Magic Quadrant is intended solely as a research tool, and is not meant to be a specific guide to action. Gartner disclaims all warranties, express or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Operations: Geographical markets

Telelogic’s global market organization and customer base contributed to its double-digit growth in 2007 in the US and EMEA, as well as in Asia/Pacific.

Market division Americas

Customer case study:

Valtech India Systems Uses Telelogic Rhapsody to Improve Productivity and Lower Development Costs

Valtech India Systems, the global development arm of Valtech, is a leading embedded systems software developer. When a major avionics customer suggested a move to object-oriented (OO) technology for future projects, Valtech was challenged to create a new process for global development. A drawback of the company's old process was the inability to reuse requirements on multiple projects with similar components.

Valtech's customer selected Telelogic Rhapsody® because of its high architectural-level reusability, seamless communication across multiple development sites, and robust support for concurrent engineering. Valtech implemented Rhapsody in its global development center in Bangalore, India, where developers got up to speed quickly and immediately improved communication among multiple teams.

Rhapsody addresses Valtech's business challenges by escalating productivity, reducing defect density in production and post delivery, and promoting process improvement. Valtech is very impressed with the flawless code quality, which is checked by the customer with Telelogic Logiscope™ and another code analysis product before acceptance.

"Rhapsody was the environment we needed to achieve our timeboxed agile development process and maintain CMM level five," says Cdr. R.N.Ramachandran, Practice Head, Valtech India Systems.

Significant events in 2007

- Growth in local currency by 10 percent.
- Contribution margin of 40 percent.
- New Telelogic office in Panama.

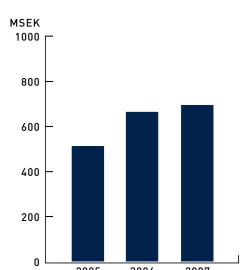
Five large customers

- Lockheed Martin
- Northrop Grumman
- Raytheon
- Boeing
- General Dynamics

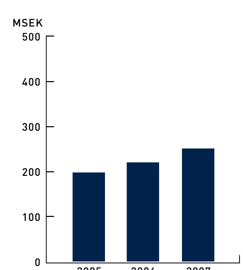
Key figures

Americas	2007	2006	2005	2004
Sales, MSEK	647.2	636.8	527.6	394.9
Percentage of Group's sales, %	38	42	41	38
Operating profit, MSEK	262.0	238.6	200.6	146.8
Contribution margin, %	40	37	38	37
Number of employees, sales	121	122	111	96
Number of employees, total	344	339	292	210
% of total employees	28	30	31	29

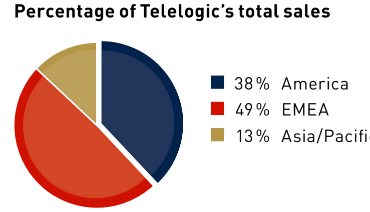
Sales



Operating profit



Percentage of Telelogic's total sales



Market trend

Market division Americas covers subsidiaries in North America and distributors in Central and South America.

Following a strong finish in 2007, the aerospace and defense customer group developed well compared to 2006. To a great extent, the upturn was due to Telelogic's signing a number of larger contracts with US authorities, which included all of Telelogic's products. Another reason for the upturn was that the standardization trend of tools and processes used by companies and government agencies with regard to integration continued during the year.

In addition, in 2007 and earlier years the company focused on continuing to develop the operation outside the aerospace and defense category, and to increase cross sales within industries, such as automotive, medical technology, banking, finance, and insurance.

The division has also benefited from its existing distributor network in Central and South America through the opening of a new Telelogic office in Panama. This initiative created many new growth opportunities during the year with new distributors in countries where Telelogic was not previously established.

Customers

Within the Americas market division, the largest customers are corporations such as Boeing, Lockheed Martin, Northrop Grumman, General Dynamics, and Raytheon. Other important customers can be found within US government agencies and departments. But even if the aerospace and defense industry continued to be the largest category in the market division, the division has experienced a clear increase among Fortune 1000 customers in the category of automotive, medical technology, as well as banking, finance and insurance.

Growth

In 2007, the growth in the market division amounted to 10 percent in local currency, with a contribution margin of 40 percent. The requirements management product DOORS continued to be the largest tool in terms of sales.

In 2006, DOORS experienced a negative trend within its main category, aerospace and defense, with a clear saturation, which happily slowed down and leveled off in 2007. New sales in this category were, however, still weak, but income from maintenance increased, which indicates that the number of users of Telelogic's products increased during the year.

Generally speaking, the market division showed strong growth in maintenance revenue, which resulted in a new sales record in regards to this revenue.

The growth of Rhapsody continued strongly in 2007 and the product has taken market share in all customer categories, but above all in the aerospace and defense category. Rhapsody is the second largest product in Telelogic's product portfolio in America, whereas System Architect is the third largest. The fastest growing product in America was the requirement analysis product Focal Point.

Efficiency measures and priorities in 2007

Cost control in the market division was very good during the year, which clearly contributed to increased margins. The focus continued to be on streamlining the operations to ensure that all costs are aligned with income expectations and contributon margin.

As in the previous year, efficiency measures and concentrated sales methods were in focus in 2007, and with the somewhat saturated license sales of the main product, DOORS, in the aerospace and defense category, there was strong focus on cross sales and expansion of sales outside this category.

→ Did you know that ...
Telelogic has companies in 20 countries and more than 40 offices of their own.

Customer case study:

Renesas Design France Improves Development Process with Synergy Suite

Renesas Design France, a subsidiary of Renesas Technology Corporation, a joint venture between Hitachi and Mitsubishi Semiconductors, is one of the world's leading semiconductor system solutions providers. The company initiated a CMMI initiative to improve its processes and become more competitive. They decided to migrate to a change and configuration management solution that would manage both their hardware and software assets, support their existing processes, and improve product quality.

After selecting Telelogic Synergy™ Suite, Renesas Design France quickly discovered that Telelogic Change™ not only manages all change requests and bug reports, it also tracks current status and provides process improvement reports. For each bug report, the company now captures the phase where the error was found and, upon resolution, indicates the phase in which the error could have been avoided. This causal analysis enables the company to identify the areas where improvement will deliver the highest return on investment.

The reports and metrics that Telelogic Change and Telelogic Synergy provide help the company quickly identify process areas where improvement is needed. Causal analysis also enables them to focus their efforts efficiently.

"Synergy provided us with control over our development; for program management, it enabled us to cut time-to-market by 30 percent," says Stéphane Thomas, Quality Manager, Renesas Design.

Market division EMEA

Significant events in 2007

- Growth with 23 percent in local currency.
- A record high contribution margin of 46 percent.
- Telelogic's single largest deal was concluded with Thales for a value of MSEK 91.

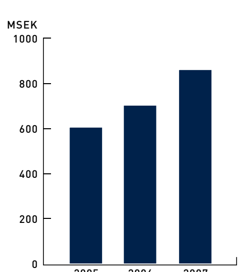
Five large customers

- Ericsson
- Nokia
- British Aerospace
- EADS
- Thales

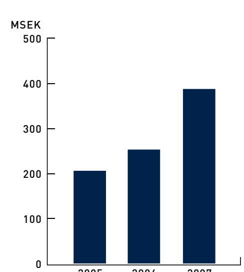
Key figures

EMEA	2007	2006	2005	2004
Sales, MSEK	851.5	695.3	603.8	510.0
Percentage of Group's sales, %	49	45	47	49
Operating profit, MSEK	387.9	261.3	205.3	186.9
Contribution margin, %	46	38	34	37
Number of employees, sales	176	160	125	113
Number of employees, total	508	466	397	338
% of total employees	41	41	43	47

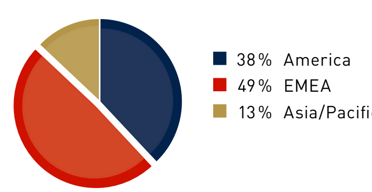
Sales



Operating profit



Percentage of Telelogic's total sales



Market trend

Market division EMEA is divided into four regions: Western Europe with subsidiaries in the UK and distributors in Eastern Europe and Africa. Central Europe with subsidiaries in Germany and operations in Austria, Switzerland, and Poland. Southern Europe with subsidiaries in France, Spain, and Italy. Other parts of Europe include subsidiaries in the Northern countries, the Netherlands, Middle East, and Russia.

In general, EMEA has had a very good year with strong growth. Western Europe experienced an upturn in all main categories with the aerospace and defense sector as the strongest customer category and UK as the strongest individual market.

Central Europe stabilized on a high level and Germany continues to be its leading market where, above all, the automotive industry has been the leading customer category. Within Telelogic, Germany is also the leading market globally with regard to sales to the automotive industry. Telecom and the aerospace and defense category developed strongly in 2007, but in particular the customer category “Other” developed very well.

In the Southern European region, France, which is the largest market in this region, turned around the weak development in 2006 to a clearly satisfactory level in 2007. This trend applied also to all of the other markets in this region, where Italy, in particular, showed very good results.

Also in other parts of Europe, a weak 2006 is turning around with generally improved trends in 2007. In the rest of Europe, Telelogic succeeded in growing outside the aerospace and defense category, and in this region the market segments Nordic countries and Middle East had the best results in 2007.

Customers

Large customers within EMEA include, for instance, British Aerospace, EADS, Ericsson, Nokia, Philips, and Thales.

DOORS continues to be the largest product in EMEA. In general, the aerospace and defense category are the dominating customer group in Western Europe, while the telecom and automotive industry dominate in the rest of EMEA. Telelogic sees, however, positive changes within other customer groups due to successful cross sales efforts and a successful focus on large customers. Medical technology and transports are the two categories, outside the larger customer groups, that have developed well during the year.

Growth

2007 was a very strong year for the market division EMEA. The full year 2007 improved compared to the previous year, and the division grew by 23 percent in local currency and had a record high contribution margin of 46 percent.

A large number of business deals were concluded in EMEA in 2007, especially in the second half of the year, which was a contributor in the strong growth for the division. The largest order in Telelogic’s history, with a value of MSEK 91, was concluded with Thales.

The focused investment in large customers and the focus on closing time based license deals, which results in recurring license revenue, have been successful in EMEA and contributed strongly to the positive growth in the market division.

All products showed good growth in EMEA. In addition to DOORS, the leading products were Synergy and Rhapsody. It was gratifying that the products System Architect and Focal Point clearly started to take market shares.

Efficiency measures and priorities in 2007

The product-specialized sales organization was fully implemented in 2007, which has been a success with clients and impacted sales positively. The division has continued to focus strongly on profitability and therefore had good cost control.

The continued work within EMEA to find other customer categories, outside the aerospace and defense category, has showed a positive development. This has resulted in a favorable increase in all customer groups.

→ Did you know that ...
over 90 percent of Telelogic’s sales are outside Sweden.

Customer case study:

CNC Hebei Branch Gains a Competitive Advantage with Telelogic DOORS and Telelogic Synergy

China NetCom Corporation Ltd. (CNC) Hebei branch is the largest fixed communications operator in Hebei province, China. The company had an immediate need to standardize requirements management as well as change and configuration management for a new centralized billing and integrated accounting system. CNC Hebei branch launched a search for application lifecycle solutions that would help them succeed.

CNC Hebei branch began using Telelogic DOORS® and Telelogic Synergy™ for managing its IT system's requirements, changes and configurations. In the initial stage of a centralized billing project, the branch met its goal of establishing enterprise-level process change management to ensure that the company could effectively collect, control, track and manage change requests from all project stakeholders.

By using Telelogic DOORS and Telelogic Synergy to support enterprise-wide requirements-driven development, CNC Hebei has been able to quickly improve the overall development efficiency of its teams and the development quality of its products. As a result, CNC Hebei branch has accelerated time to market—and raised the bar—in a fast-changing industry.

"Telelogic's products have standardized the management of requirements, changes and versions within our enterprise," says spokesperson, China NetCom.

Market division Asia/Pacific

Significant events in 2007

- Growth of 18 percent in local currency.
- Contribution margin of 34 percent.
- New unit established in Taiwan.
- Restructuring in Japan.

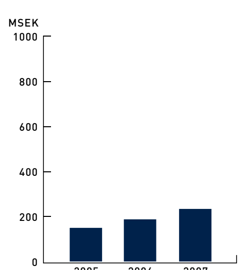
Five large customers

- NEC
- Samsung
- BAE
- Nokia
- AMP

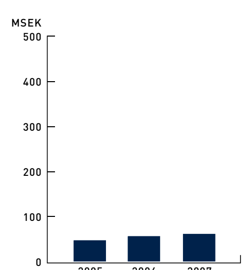
Key figures

Asia/Pacific	2007	2006	2005	2004
Sales, MSEK	218.6	192.8	158.5	134.4
Percentage of Group's sales, %	13	13	12	13
Operating profit, MSEK	73.8	66.5	54.8	51.0
Contribution margin , %	34	34	35	38
Number of employees, sales	88	98	79	77
Number of employees, total	385	333	240	171
% of total employees	31	29	26	24

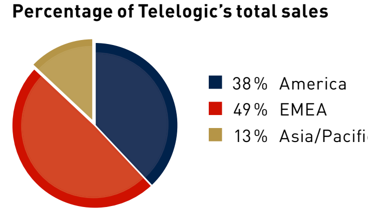
Sales



Operating profit



Percentage of Telelogic's total sales



Market trend

The market division Asia/Pacific includes subsidiaries in Australia, India, Japan, China, Singapore, and South Korea. In addition, there are sales through distributors in Malaysia, the Philippines, and Thailand.

Most markets in Asia/Pacific are growth markets, which in addition to fast growth are characterized by price competitiveness. With the exception of Japan, all markets have developed positively during the year, and Australia and Korea, in particular, excelled with continued strong growth. The results from the investments in China have been good, and the development in this market division has been clearly positive. The operation in Japan, which previously had a weak performance, has undergone restructuring during the year. The restructuring has had a positive impact on the operation, and an improvement was noted in the fourth quarter.

The number of employees in the product development unit in Bangalore, India, increased during the year, and Telelogic has currently a total of more than 150 product developers in Bangalore. Telelogic has approximately 280 employees in various offices in India, which makes India the second largest country after the USA in terms of the number of employees in Telelogic's organization.

Customers

The aerospace and defense and telecom categories continue to be the most important ones in Asia/Pacific. The finance and banking categories and the automotive and consumer electronics industries also include larger customers. The largest customers in this region include NEC, Samsung, Nokia, AMP, and BAE.

Growth

Following a somewhat weak start in 2007, the market division finished the year with a strong second half. The total growth for the year was 18 percent in local currency. For the year, the contribution margin was 34 percent and it was encumbered by investments in continued expansion. All product groups have shown growth during the year, contributing to the positive sales increase. The development for the product group requirements management, which includes the products DOORS and Focal Point, has been particularly strong. The sales development for System Architect also continued to be strongly positive.

The strongest sales increase has taken place in the finance and banking and the software and systems categories. The market division has also maintained its strong position within the important aerospace and defense category, especially in Australia, India, and Korea.

Streamlining and prioritizing in 2007.

During the year, a restructuring of the Japanese organization was completed, and several new key individuals were hired. This had a positive effect on fourth quarter results and it is expected to continue to provide a positive contribution in 2008. A new office was established in Taiwan at the same time as this market division has continued with comprehensive investments in the growth region Asia/Pacific for continued expansion.

Growth, strengthened market presence, and focus on key customers were strongly prioritized in 2007.

→ Did you know that …

With regard to employees, India is the second largest country in the Telelogic group.

Focusing on key customers and product specialization

Facts about Telelogic's customers:

- **The ten largest customers:** Provide 29 percent of Telelogic's sales.
- **Individual customer commitment:** Maximum 5 percent of total sales.
- **The largest customers:** Lockheed Martin, Ericsson, Thales, Nokia, Raytheon, Boeing, General Dynamics, Northrop Grumman, EADS, British Aerospace.

Customer case study:

Dubai Customs Declares Greater Business Agility with Telelogic System Architect

Through innovation and customer service, Dubai Customs has become a world leader in customs administration. But to meet its ten-year vision of sustaining economic and social development in Dubai, the organization recognized that it needed an Enterprise Architecture (EA) platform.

Dubai Customs searched for a comprehensive EA platform that could support its EA frameworks. The product had to be flexible, easy to use and have a proven track record. Dubai Customs chose Telelogic System Architect® because it demonstrated the flexibility needed to support its in-house business process methodology. Ease of use and customization were other important factors in the selection.

System Architect was implemented at the organization's central EA office, where 50 users currently access the platform. On a daily basis, business analysts use System Architect to document detailed business processes and workflows. Systems analysts then take the business processes and link them to the corresponding systems. Analysts across the organization consider System Architect a complete solution that is critical to the central blueprint for Dubai Customs.

"We use System Architect as the basis for our Enterprise Connected View (ECV), which enables us to manage enterprise information, run impact analysis, and make decisions more effectively," says Juma Al-ghaith, Executive Director for Customs Development, Dubai Customs.

At the beginning of the year, Telelogic implemented a new organization with focus on product specialization and key customer sales efforts, which had a clearly positive effect on the result in 2007.

As a result of the new strategy, license sales increased and all product groups showed double-digit growth. The growth rate of the latest acquisition, Rhapsody, continued and was strengthened as an integral part of Telelogic. Profitability improved, and another important part of the strategy was the focus on key customers during the year. The Thales deal, the single largest deal in Telelogic's history, provides an excellent example of this successful strategy. In addition, cooperation between development and sales within different product groups has clearly improved during the year.

Telelogic has a broad customer base, where many of the customers are leaders in their areas, and the company is not reliant on any single customer. Telelogic is well-equipped to live up to customer expectations due to its market-leading positions within all product groups and one of the market's most comprehensive product portfolios. In 2007, Telelogic continued to strengthen its existing customer relations, and over half of the company's customers are using two or more of Telelogic's products. In addition, the number of customers using all of Telelogic's products has grown significantly in 2007.

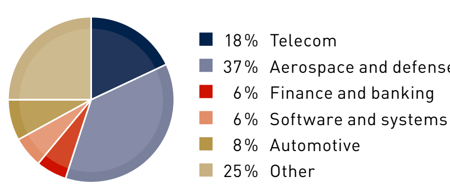
Sales growth per customer category

	Local currency, %	SEK,%
Telecom	13	8
Aerospace and defense	18	13
Finance and banking	12	8
Software and systems	29	23
Automotive	35	30
Other	14	9

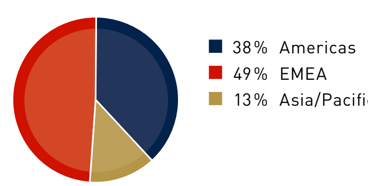
Sales growth per market

	Local currency, %	SEK,%
EMEA	23	22
America	10	2
Asia/Pacific	18	13

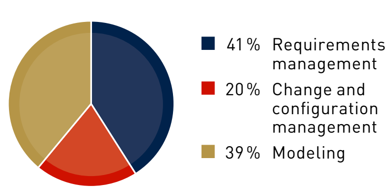
Sales by customer groups



Sales by market divisions



Sales by product group



Employees and organization

Dedicated and talented management and employees are essential for Telelogic to continue to be an attractive successful company.

Motivation, values and responsibility

Dedicated and talented management and employees are essential for Telelogic to continue to be an attractive successful company with a strong and successful growth strategy. Therefore Telelogic pursues a sound and steady employee policy, with a focus on its values.

Global organization and sound values

From its beginnings, Telelogic has worked every day and purposefully on developing its personnel policy to make it sound and effective. This work is particularly important as Telelogic's employees are spread over several continents and must work together seamlessly in order to create the best possible work environment and productivity.

The focus is, among other things, on good leadership, competency development, and employees sharing and assuming the values of the company. These measures, taken together, create a platform that facilitates recruiting and develops dedicated and proud employees, who will want to remain and grow with the company.

Telelogic's philosophy is to get as close as possible to its customers through an organization that promotes and takes advantage of geographical and intellectual traits. The organizational model makes it possible to have decentralized control and local responsibility. This promotes individual initiative, but, at the same time, places heavy demands on the management, centrally as well as locally. As Telelogic's industry also is characterized by rapid changes, an important prerequisite is that the company has a common and clearly communicated set of values. Telelogic's values are kept current through a number of different activities, among others, through themes published in the company personnel paper, articles, contests, and co-workers nominating fellow employees, who embody the company set of values in an inspiring way.

Telelogic's employees

At the end of the year, the number of employees was 1,237, which is an increase of 99 people from the beginning of the year. The increase in the number of employees is due to investments in continued expansion, hiring of new employees in the regions and product areas that show good profitability and growth potential.

The new hiring has mainly been in the product development center in Bangalore, India, and overall also in the growth region Asia/Pacific. EMEA is still the largest region in terms of number of employees, Asia/Pacific the second largest, and America the smallest. Of the average number of employees during the year, 25 percent were women. Employee turnover in terms of resignations amounted to 12 percent.

Expertise and professional skills

The level of education at Telelogic is high, which is a prerequisite for the continued success of the company. The absolute majority of employees have a degree from a university, and the largest group are engineers with a major in information technology or electronics.

This division is also reflected in the distribution per function, where product developers, sales people, and consultants form the largest groups. These functions demand both technical competency and good product knowledge.

All Telelogic employees are given an opportunity to further their education. Individual educational programs are prepared by the employee in cooperation with his/her manager. Examples of educational opportunities during the year are technical continuing education and leadership courses, language courses, and sales training. In addition, each year Telelogic arranges internal seminars with strong focus on educating employees in their respective areas.

In order to ensure that Telelogic also in the future can attract competent employees, and also in order to give customers better access to technically skilled engineers, the company cooperates with universities and colleges all over the world. The most common form of cooperation takes place when universities use Telelogic's software in their courses.

By starting a trainee program in 2006, Telelogic took a strategically important step towards ensuring the development of qualified personnel and long-term growth. The goal of the trainee program is to recruit young, ambitious, and new technology graduates. In 2007, the program has been further developed and expanded with good results. The program offers a six-month special training course at one of Telelogic's centers of excellence. Thereafter, the trainees return to their

Values

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

Excellence in execution
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 efficiency is: the solution works, it's faster than yesterday's and it's better than the competition.

Do the right thing
We do the right things. Doing the right thing is about survival. Our definition of the right thing is doing what gives added value to our customers and generates business.

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

Passion and fun
We constantly look for what is fun and unique creating an environment that stimulates creativity and job satisfaction is one of our greatest challenges.

respective home offices to start a career as product specialists. The program focuses mainly on individuals capable of becoming new "Field Application Engineers", a role that requires in-depth product knowledge and an ability to communicate the business advantages of Telelogic's solutions to the customers. The program is run and developed full-time by Telelogic personnel in charge of securing recruiting, educational programs, centers of excellence, and mentors.

Salary and incentive programs

Telelogic's level of compensation is market competitive. The goal is that salaries for all employees should be a combination of fixed and variable portions. For management, sales people, and consultants, the variable portion is tied to sales goals, but variable portions also exist in product development and administration where the variable portion is tied mainly to goals in connection with delivery times and quality.

When the work environment and incentives are good, employees thrive.

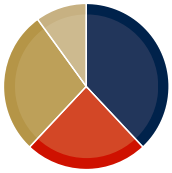
Telelogic has low absence due to sickness and has frequently been referred to in various studies as one of Sweden's healthiest company. In addition to active information work, competency development, and clearly formulated incentive programs, Telelogic is working on preventive health care and social activities in order to enhance personnel well-being and create a pleasant work environment. Commitment and participation are greatly in focus, which has clearly contributed to the enjoyment and good atmosphere at the company. At Telelogic AB, absence due to sickness was 1.6 percent in 2007, compared to 1.3 percent in the previous year.

Social responsibility and gender equality

In step with the growing global organization of Telelogic, it is important with a clearly defined framework for responsibility, understanding impacts, and framework for company employees and company interactions with others. Profitable business deals must never be developed at the expense of human rights, damages, threats, or danger. Therefore, Telelogic works based on a Code of Conduct, which all employees, suppliers, and subcontractors must follow. The code describes, among others, rules for ethical business behavior, prohibition against threats and bribes, requirements and prohibition in regards to child labor, safety rules, rights of employees, issues in regards to the work environment, and prohibition against various kinds of harassment. Telelogic has also many other important policy documents in order to achieve clarity and high standard in the performance and operation of the company. The code and the policies together play an important role in the daily operation of the company.

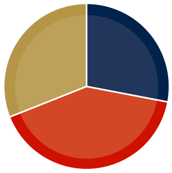
In addition, Telelogic is striving to have equality in the workplace, which is described both in the code for social conduct, and in the company's equality policy. Equal opportunity and equal pay for men and women in the company are obvious goals. Within Telelogic there has been clear progress, and this work continues. Telelogic's executive management includes two female employees and the company Board of Directors has two female members.

Percentage of employees by function

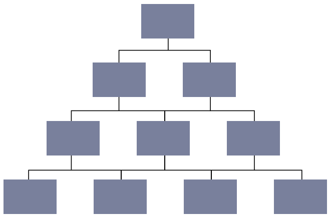


- 38 % Sales and marketing
- 24 % Support and services
- 28 % Research and development
- 10 % Administration

Percentage of employees by geographical area



- 28 % Americas
- 41 % EMEA
- 31 % Asia/Pacific



Would you like to know more about Telelogic's organization? Log onto www.telelogic.com

Environment and risks

Market trends
Telelogic is a global supplier of software to make more effective, coordinate and automate the client's processes. The need for these types of products is present even in times of downsizing and scarce resources. Despite this Telelogic is also hurt by a market slowdown due to a generally weaker interest in investments. A wide customer base distributed over several segments and an operation in many areas of the world has been shown to provide a good distribution of risk as the individual customer categories and countries develop differently during a market cycle. The uncertain market situation, especially in the US, is a risk for Telelogic in the short term.

Customer structure
Telelogic's global operations with subsidiaries in 20 countries and a large number of customers within a broad mix of different industry sectors provide good risk distribution.

In 2007 the ten largest customers provided 29 percent of the sales, and none of these customers individually generated more than 5 percent of the revenue.

Agreement structure
Telelogic has some long-term contracts, in which pricing is predetermined for the life of the contract. The life of the contracts range mainly from two years and up to five years. The contracts generally also stipulate fines and cancellation rights if delivery from Telelogic is delayed.

The main value of the contracts is, however, related to the sale of software where Telelogic does not have any direct production costs and the risk for adverse impact on the profit is therefore substantially reduced.

Income distribution
In 2007, Telelogic's license and maintenance fees represented 83 percent of sales, and consulting fees and other income represented the remaining 17 percent. This distribution has remained relatively stable in the last few years. The gross margin for license and maintenance fees is significantly higher than for services. This is, however, to some extent balanced by the fact that license sales are more difficult to forecast. Maintenance fees are the easiest of Telelogic's revenues to forecast, as they are usually billed for twelve months in advance, and the majority of Telelogic's customers choose to renew their maintenance contracts each year. Telelogic typically has an overview of revenue from consulting assignments and training for approximately two to three months in advance.

Products and technology
Telelogic's competitive strength and market position is in large measure related to the company's ability to produce innovative products. Telelogic's products have a high technical content, and the company has historically been able to deliver products which in many cases are considered to belong to the most advanced within their respective areas.

Telelogic is actively working with various standardization organizations to ensure that its product always stay at the forefront of development. In addition, every year Telelogic invites its key customers to ”leadership councils”, where they have an opportunity to acquaint themselves with the new products and express wishes in regards to future functions. All in all, this gives Telelogic a good idea of what the market desires and reduces the risk that products are not updated according to customer requirements.

Competition
The software market is strongly fragmented with many players. On the other hand, only a few companies can offer a comprehensive solution, which is competitive in comparison to Telelogic's total solution. There have been significant mergers among software companies, and Telelogic estimates that this trend will continue. This can create companies with product offerings that are significantly stronger than today, which can increase competition and thus impair Telelogic's negotiating position and profit margin.

Availability of competency
To a great extent, Telelogic's success depends on the capability to hire, develop, motivate, and retain engineers and other qualified personnel in order to develop new, successful products, maintain the existing product selection, and provide products and services to the customers. In the IT segment, there continues to be strong competition for qualified personnel. Telelogic is continuously developing its salary and benefit policy and is also taking other measures, but there is a risk – primarily in the US, where the salary and option benefits are very different compared to Sweden – that Telelogic will be unsuccessful in attracting and retaining qualified personnel.

Integration of acquisitions

A part of Telelogic's strategy is to make acquisitions. An acquisition is only made after the company has concluded that the acquisition will have a number of positive effects. An acquisition involves, however, also increased risk. Examples of risks are unrealized synergy effects, cutbacks as a result of overlapping tasks, which create a negative atmosphere and increase undesired turnover of personnel, as well as unsuccessful product integrations that result in planned products falling short of customer requirements.

Legal risks

Telelogic may become party to lawsuits as a consequence of the normal operation of the company. Lawsuits may be costly, extended, and disruptive to the normal operation. In addition, it is difficult to predict the outcome of a complicated lawsuit. An unfavorable outcome of a case may have a significant, negative effect on the business, the result of the operation, and the financial position. Currently, the Telelogic group is involved in a few lawsuits of normal commercial character, none of which are expected to materially impact earnings.

Financial risks

The financial function of the group is centralized and is handled by the head office. The guidelines for the finance function are drawn up by the Board of Directors and there is continuous reporting. The local finance organization reports directly to the central controllers and financial function, which ensures good control of the group's financial exposure, at the same time as it provides cost advantages. The group's financial policy establishes guidelines and rules for managing financial risks and the over-arching financial operation.

Currency risks

Over 90 percent of Telelogic's sales are in another currency than Swedish SEK. Therefore, the revenue is to a high degree exposed to changes in foreign exchange rates. The earnings are, however, not subjected to the same exposure, as sales related costs are reported in the same local currency. The group's support and development centers are also geographically dispersed over many different currency areas. As the group's operational activity is placed within the currency area where the products are sold, the group's exposure to currency flows is relatively limited.

Telelogic's subsidiaries do not have significant net assets. Nor do the subsidiaries have significant shareholders' equity, with the exception of goodwill. The need for working capital is limited as accounts receivable are balanced relatively well with an advance for maintenance fees. Liquid assets, in excess of the working capital, are normally returned to the head office. Hedging of existing liquid assets or forecasted capital surplus which is to be converted to another currency, usually SEK, is done in the maximum amount of MSEK 100 for the entire group. Only currency futures were used in 2007 as hedging instruments.

Financing risk

Financing risk refers to the risk that refinancing is made more difficult. As of December 31, 2007, Telelogic's liquid assets amounted to MSEK 645.2 as compared to MSEK 462.0 in 2006, and the interest bearing liabilities amounted to MSEK 387.5 as compared to MSEK 437.5 in 2006.

Interest risks

As of December 31, 2007, Telelogic's outstanding interest bearing liabilities were MSEK 387.5. For the interest bearing liabilities, a change in interest rate by 1 percentage unit would impact the net interest income by MSEK 3.9.

Credit losses

Traditionally, Telelogic has had few problems with uncollectable accounts receivable, as the majority of customers are larger, solvent companies. On the December 31, 2007 balance sheet, the provision for bad debt was MSEK 21.4.

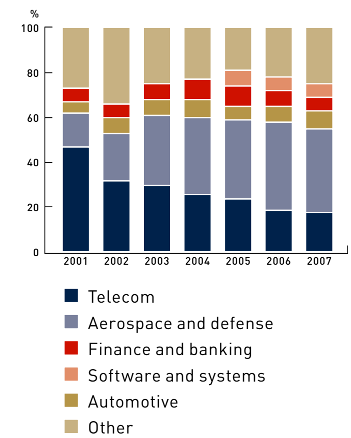
Current public cash offer from IBM

On June 11, 2007, IBM announced a public cash offer to the shareholders of Telelogic AB. Telelogic estimates that a certain time-limited uncertainty prevails for the duration of the bid for Telelogic's customers, employees and shareholders, as well as a certain negative effect on operations, until such time as the bid situation is concluded.

The result of the bid situation and the uncertainty for the future can also result in new risks for Telelogic's operations, customers, and employees. These risks will be regularly addressed in Telelogic's interim reports.

It should be noted that all risk factors impacting the operations of Telelogic cannot be described here, but a comprehensive assessment should also contain other information from the annual report, other material on Telelogic, as well as general business intelligence.

Development of customer groups as a share of total sales



Telelogic's revenue and expenses in each currency

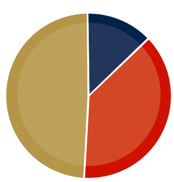
	Income, %	Expenses, %
SEK	6	12
EUR	28	17
GBP	14	16
USD	40	38
OTHER	12	17

Despite the fact that more than 90 percent of Telelogic's sales take place in another currency than Swedish SEK, the earnings are not significantly subjected to currency exposure, as the group's expenditures to a large part are geographically tied to the income.

The Telelogic share

The Telelogic share was listed March 8, 1999 on the Stockholm Stock Exchange O-list. The introduction price was, recalculated after splits, SEK 5.00. The Telelogic share is presently traded on the Nordic Exchange, Mid Cap-list (TLOG). As of December 31, 2007, a full trading unit was 1 000 shares.

Shareholder categories



- 13 % Private persons in Sweden
- 40 % Institutes and funds in Sweden
- 47 % Foreign holders

Share capital
As of December 31, 2007, the share capital of Telelogic amounted to SEK 2,476,359, distributed on 247,635,960 shares. All Telelogic shares entitle to one vote per share at the Annual General Meeting and all shares have equal right to the company's profits and assets.

Options program
No new options were awarded during the year. Redemption of options corresponding to 530,713 shares was done during the year. Please refer to Note 20 for a more detailed account of the individual programs.

Dilution
Calculated in accordance with IAS 33, Earnings per share, with consideration given only to options programs where the share price exceeds the discounted exercise price, the total dilution amounts to 0.5 percent. The total number of shares following full dilution, calculated in accordance with IAS 33, amounts thus to 248,956,736 shares. The outstanding options program can, however, result in 2.6 percent dilution at a maximum (calculated as net increase of shares in the company through options, divided by the total number of shares and options).

Share price trend and trading
In 2007, the Telelogic share increased by 22.2 percent as compared to the SIX General index, which declined by 6.97 percent, and the SIX IT index, which declined by 25.5 percent. The closing price for the Telelogic share December 31, 2007 was SEK 18.70. This price corresponds to a market capitalization of MSEK 4,631. The lowest price paid during the year was SEK 12.50 and the highest price paid was SEK 21.80. The total trading was 603.2 million shares, which corresponds to a value of MSEK 11,040. An average of 2,412,779 shares per day were traded for a value of MSEK 44.2.

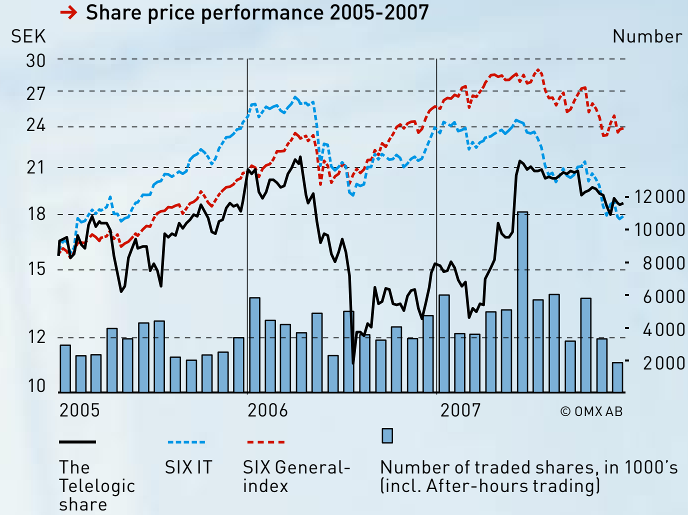
Holder structure
At year-end, the number of Telelogic shareholders was 15,923, with JP Morgan as the largest individual holder with 8.96 percent of the capital and the votes. Lannebo Fonder was the second largest holder with 6.96 percent of the capital and the votes. Grouped by holder, the ten largest shareholders held 44.31 percent of the capital and votes. The share of foreign shareholders amounted to 4.85 percent and represented 47.14 percent of the capital and votes, with the largest shareholders in the UK, France, and the US.

Dividend policy
As of 1999, Telelogic has a restrictive dividend policy. For the 2008 Annual General Meeting, the Board of Directors has proposed that no dividend be paid and that the profit be carried forward.

Analysts who monitor Telelogic

Companies	Analysts
ABG Sundal Collier	Karl Berglund
Danske Bank	Peter Trigarszky
CAI Cheuvreux	Johan Eliason
D. Carnegie	Daniel Djurberg
SEB Enskilda	Andreas Joelsson
Handelsbanken Capital Markets	Stefan Wård
Kaupthing Bank	Jonas Elofsson
Standard & Poor's	Mattias Eriksson
Redeye	Greger Johansson
E. Öhman J:or Fondkommission AB	David Jacobsson
Swedbank	Håkan Wranne

Share price performance 2005-2007



Outstanding options with right to subscription of shares

Program by full share subscription (%)	Sub-scription price, SEK	Last sub-scription day	Corresponding to number of shares	Estimated dilution effect
TO 11 (2004/2008)	17.30	July 31, 2008	1 124 811	0.45
TO 13 (2005/2010)	17.50	Jan. 31, 2010	2 442 500	0.98
TO 14 (2006/2010)	22.10	Oct. 31, 2010	918 000	0.37
TO 15 (2006/2011)	13.20	Jan. 31, 2011	2 114 600	0.85
Total			**6 599 911**	**2.65**

Telelogics ten largest shareholders

Name	Number of shares	Holding (%)	Votes (%)
JP Morgan Chase BK, W9	22 188 081	8.96	8.96
Fourth AP fund	17 120 800	6.91	6.91
Lannebo Småbolag	12 260 000	4.95	4.95
UBS AG LND IPB Segregated Client	12 242 841	4.94	4.94
IF Skadeförsäkrings AB	12 210 000	4.93	4.93
JP Morgan Trust Comp.	6 821 265	2.75	2.75
BNP Paribas Securities Services, W8IMY	6 600 000	2.67	2.67
Svolder Aktiebolag	6 000 000	2.42	2.42
Lannebo Småbolag Select	4 968 000	2.01	2.01
MSIL IPB Client Account	4 828 294	1.95	1.95

Total of outstanding options with subscription rights

Year	Transaction	Change (number of shares)	Total number of shares
1998	Opening balance	-	6 000
1999	Split 1:1000)	5 994 000	6 000 000
1999	New issue (stock exchange listing)	2 000 000	8 000 000
2000	Redemption of options (holder)	120 000	8 120 000
2000	New issues	1 450 000	9 570 000
2000	Split 1:10	86 130 000	95 700 000
2000	New issues	18 853 494	114 553 494
2000	Redemption of options	10 811 470	125 364 964
2001	New issues	61 466 850	186 831 814
2001	Redemption of options	2 211 244	189 043 058
2001	Conversion of convertibles	363 576	189 406 634
2002	New issues	7 281 551	196 688 185
2002	Redemption of options	4 492 217	201 180 402
2002	Conversion of convertibles	1 656 650	202 837 052
2003	Conversion of convertibles	1 596 420	204 433 472
2004	Redemption of options	1 130 506	205 563 978
2004	Conversion of convertibles	11 652 931	217 216 909
2005	Redemption of options	1 745 932	218 962 841
2005	Conversion of convertibles	747 130	219 709 971
2005	New issues	23 720 133	243 430 104
2006	Redemption of options	3 675 143	247 105 247
2007	Redemption of options	530 713	247 635 960

Largest shareholders, by category

Name	Number of shares	Holding (%)	Votes (%)
JP Morgan Chase BK, W9	22 188 081	8.96	8.96
Lannebo funds	17 228 000	6.96	6.96
Fourth AP fund	17 120 800	6.91	6.91
UBS AG LND IPB Segregated Client	12 242 841	4.94	4.94
IF Skadeförsäkrings AB	12 210 000	4.93	4.93
JP Morgan Trust Comp.	6 821 265	2.75	2.75
BNP Paribas Securities Services, W8IMY	6 600 000	2.67	2.67
Svolder Aktiebolag	6 000 000	2.42	2.42
MSIL IPB Client Account	4 828 294	1.95	1.95
Caseis Bank / IXIS CIB	4 495 500	1.82	1.82

Distribution of ownership by holding

	Number of shares	%	Number of shareholders	%
1 - 10000	22 689 445	9.16	15 128	95.01
10001 - 50000	12 335 749	4.98	577	3.62
50001 - 100000	6 050 497	2.44	81	0.51
100001 - 1000000	36 804 829	14.86	97	0.61
1000001 - 5000000	74 312 453	30.01	32	0.20
5000001 -	95 442 987	38.55	8	0.05
Total	**247 635 960**	**100.00**	**15 923**	**100.00**

Distribution between institutions and private individuals

	Shareholders (%)	Holding (%)
Natural persons	89.40	13.06
of whom residing in Sweden	88.41	12.81
Legal entities	10.60	86.94
of whom residing in Sweden	6.73	40.05
Total	**100.00**	**100.00**
of whom residing in Sweden	95.14	52.86

Shareholder categories*

Category	%
Financial companies	21.92
Other financial companies	4.92
Social insurance funds	8.51
Government	0.03
Municipal sector	0.11
Interest organizations	0.69
Other legal entities in Sweden	3.25
Non-categorized legal entities	0.62
Foreign-based shareholders	47.14
Natural persons in Sweden	12.81
Total	**100.00**

All tables are based on data from VPC as of December 31, 2007.

*Based on holding, not on number of shareholders.

Directors' report

The Board of Directors and the Chief Executive Officer of Telelogic AB (publ.), 556049-9690, hereby submit the annual report for the financial year 2007.

Description of operations
Telelogic is a global provider of software for optimizing, aligning, and automating its customers' processes. Telelogic's customers are mainly larger companies that are leaders in a number of industries, where the five largest customer categories are aerospace and defense, telecom, automotive industry, finance and banking sector, and software and systems suppliers.

The three product groups for requirements management, change and configuration management, as well as modeling make Telelogic one of the few companies in the world able to offer products covering the entire life cycle for developing software and systems.

The group has companies in 20 countries and was listed in March 1999 on the O-list at the Stockholm Stock Exchange. Today, Telelogic is being traded at the Nordic Stock Exchange (Mid Cap list).

Sales
Telelogic's sales increased to MSEK 1,717.3 as compared to MSEK 1,524.9 in 2006, which corresponds to a growth of 17 percent in local currency and 13 percent in Swedish SEK. License sales increased to MSEK 763.9 as compared to MSEK 653.2 for 2006, which corresponds to a growth of 22 percent in local currency and 17 percent in Swedish SEK. License sales amounted to 44 percent of total sales. Maintenance revenues have for a long time shown a stable and positive trend, which is explained by the fact that the customer base for maintenance contracts grows for every new license deal. Maintenance revenue increased to MSEK 665.3 as compared to MSEK 600.0 for 2006, which corresponds to an increase of 16 percent in local currency and 11 percent in Swedish SEK. The sales of consulting and training services increased to MSEK 288.1 as compared to MSEK 271.7 for 2006, which is a growth of 10 percent in local currency and 6 percent in Swedish SEK.

Results
The operating margin was 18.0 percent as compared to 14.1 percent in 2006. The fixed costs as a percentage of sales have dropped from 67.0 percent in 2006 to 63.6 percent in 2007. Operating profit was encumbered by MSEK 11.5 for costs related to the present acquisition bid by IBM.

Pre-tax profit improved by 48 percent from MSEK 209.4 in 2006 to MSEK 309.9 for 2007 and profit after taxes improved by 45 percent from MSEK 159.9 in 2006 to MSEK 232.4 for 2007.

Earnings per share increased by 45 percent to SEK 0.94 as compared to SEK 0.65 for 2006.

Market divisions
Telelogic is divided into three main market divisions; EMEA, America, and Asia/Pacific. All market divisions experienced strong growth during the year.

The market division EMEA (operations in Europe, the Middle East, and Africa) experienced the highest growth for the year. The market conditions vary among the countries, but overall the market is considered good. The sales for EMEA increased to MSEK 851.5 from MSEK 695.3 in 2006, which corresponds to a growth rate of 23 percent in local currency and 22 percent in Swedish SEK. EMEA's share of Telelogic's total sales was 49 percent. Operating profit improved by 48 percent to MSEK 387.9 from MSEK 261.3 in 2006. The contribution margin was very high due to the strong sales development and good cost control. The contribution margin increased from 38 percent in 2006 to 46 percent, which is a record high level.

The market division Americas (operations in North, Central and South America) generated sales of MSEK 647.2 compared with MSEK 636.8 in 2006, which corresponds to a growth of 10 percent in local currency and 2 percent in SEK. Americas' share of Telelogic's total sales was 38 percent. The somewhat weaker market conditions in the USA, as compared with Europe, in combination with Telelogic's large exposure to the aerospace and defense industries have affected growth. Operating profit improved from MSEK 238.6 in 2006 to MSEK 262.0. Despite a somewhat weaker income development the contribution margin was good, which shows that the market division has a solid business model and good cost control. The contribution margin amounted to 40 percent compared to 37 percent in 2006.

The market division Asia/Pacific (operations in Asia and Australia) increased sales to MSEK 218.6 from MSEK 192.8 in 2006, which corresponds to a growth of 18 percent in local currency and 13 percent in SEK. Asia/Pacific's share of Telelogic's total sales was 13 percent. All subsidiaries in the market division have improved their market positions during the year. The Japanese operation developed, however, more slowly than other markets, but the negative trend was turned somewhat in the fourth quarter of 2007. The overall market conditions in Asia/Pacific are considered to remain positive. Operating profit improved from MSEK 66.5 in 2006 to MSEK 73.8. Operating profit has been affected by costs for continued investments in the market division. The contribution margin amounted to 34 percent as compared to 34 percent in 2006.

Financial condition
Cash and cash equivalents increased from MSEK 462.0 as of December 31, 2006 to MSEK 645.2 as of December 31, 2007. The change is due to a positive cash flow of MSEK 286.4 from currrent operations, a payment of the additional purchase price for the I-Logix acquisition (which was completed in 2006) of MSEK 4.9, amortization of loans in the amount of MSEK 50.0, other investments for MSEK 51.3, warrant redemptions for MSEK 3.1, and a negative exchange rate difference in cash and cash equivalents of MSEK 0.1. In addition to cash and cash equivalents amounting to MSEK 645.2, there are unused overdraft facilities of MSEK 540.8. Interest-bearing liabilities amounted to MSEK 387.5.

Personnel
At year-end, the number of employees amounted to 1,237, an increase by 99 people from the beginning of the year. At year-end 2007, the distribution of employees was 41 percent in EMEA, 28 percent in Americas, and 31 percent in Asia/Pacific. Of Telelogic's personnel, 38 percent work in the sales and marketing function, 24 percent work in the support and services function, 28 percent work in research and development, and 10 percent work in the administrative function.

The education level at Telelogic is high and the majority of employees have a university degree. All Telelogic employees are given an opportunity to further their education. Individual educational programs are formulated by the employee in cooperation with his/her manager. In addition, please refer to Note 20 for benefits of key executives.

Guidelines for key executives
Telelogic shall offer total compensation based on market rates, which enables recruiting of qualified employees to managerial positions and retaining them. The compensation to employees in key executive positions shall consist of a fixed salary, a variable salary, employee options in accordance with the group's global options program, pension, as well as other potential benefits. Telelogic's Board of Directors will propose to the Annual General Meeting that the same guidelines shall apply in 2008. Certain key executives are entitled to severance compensation, amounting to up to twelve months of salary, after a change in ownership. Please refer to Note 20 for more information.

Large business deals per customer category
In 2007, Telelogic concluded 31 larger deals. Telelogic defines larger deals to be those in excess of USD 500,000.

Aerospace and defense industry
Thirteen of the larger deals were concluded within the aerospace and defense industry. Of these, six orders were valued at more than MSEK 20. Telelogic's largest contract ever was signed with Thales, a technology company focusing on solutions for the aerospace/defense and security industries. The contract is for four years and is valued at MSEK 91. The contract includes the requirements management product Telelogic DOORS, as well as the modeling products Telelogic System Architect and Telelogic Rhapsody.

A US aerospace and defense company signed a five-year contract valued at MSEK 48 for the modeling product Rhapsody. A global manufacturer within the aerospace and defense industry concluded a contract valued at MSEK 32 for 3.5 years. The contract includes the requirements management product DOORS, as well as the change management product Telelogic Change. A government customer within EMEA signed a three-year contract valued at MSEK 49, including all product groups. An aerospace and defense company signed a five-year pan-European contract valued at MSEK 23.5. The contract includes the requirements product DOORS and Telelogic Tau and Rhapsody. An aerospace and defense company in Asia/Pacific invested MSEK 20 in a five-year contract, including all of Telelogic's products.

Telecom industry
Seven major deals of which three were valued at more than MSEK 20 were concluded within the telecom industry.

A global telecom supplier signed a contract valued at MSEK 34. The contract includes the requirements analysis product Telelogic Focal Point, the requirements management product DOORS, the configuration management product Telelogic Synergy, as well as the two modeling products Tau and Rhapsody.

A manufacturer of telecom equipment signed a three-year contract valued at MSEK 33, with an option to extend the contract for an additional 27 months for a value of MSEK 30. The contract is Telelogic's single largest order for the change management product Change. A global telecom company placed an order valued at MSEK 28, which includes the requirements analysis product Focal Point, the requirements management product DOORS, and the two modeling products Tau and Rhapsody.

Finance and banking sector
Five of the larger deals were signed within the finance and banking sector. The largest of these deals was a contract valued at MSEK 9.8, which was concluded with a financial services company in the US. The contract includes the requirements management product DOORS, the change management product Change, as well as the modeling product System Architect.

Automotive industry
One of the larger deals was concluded within the automotive industry and included a global car manufacturer who signed a contract valued at MSEK 4, which includes licenses for the requirements management product DOORS.

Other
Five of the larger deals were concluded within the category Other. The largest of these deals was a contract signed with Comply Serve Ltd, a European distributor of web-based solutions, used to ensure that projects and products follow established requirements and guidelines. This is a five-year contract, valued at MSEK 12.7 and includes licenses for the requirements product DOORS.

Research and development
Telelogic's strategy is to invest in research and development. Telelogic continues to invest in products intended for larger companies, which develop advanced products in distributed environments. It is in these types of environments that users can gain the most from the functionality of the products. The goal is to increase the leading position that Telelogic's tools have. During the year, the costs for product development amounted to MSEK 266.3 as compared to MSEK 230.6 in 2006. This equals 15.5 percent of sales for 2007 and 15.1 percent of sales for 2006.

Product improvements
In 2007, Telelogic continued to work on improved versions of all product groups, and updated versions of all products were released during the year. Below is a list of a number of new products released in 2007. For additional information about new products and product improvements, please refer to the respective product group chapter in this annual report, as well as Telelogic's web page and technology press releases.

- System Architect, Telelogic's modeling product for business processes, has improved its support of analysis of organizational structures, and has been released in a version supporting Japanese characters.
- Telelogic DOORS Fastrak, a simplified version of Telelogic's requirements management product, was launched. It is intented for use by customers looking for a fast, flexible, small-scale Requirement Management solution.
- New integrated product versions of System Architect and Tau improve team collaboration and empower organizations to understand and formulate their business goals.
- Updated version of Focal Point with integration to Microsoft® Project®. This enables organizations to optimize their product requirements management processes.
- Telelogic has launched a simplified modeling product. This introductory license is offered free of charge in order to spread the use of Telelogic's products to new customer groups.
- Other new products include integration with OSEK, a standard within the automotive industry, improved versions of the modeling products Rhapsody and SDL Suite, as well as improved support for SOA, a concept for easy integration of various products.

Recognitions
Telelogic has won several honors during the year for all product groups.

Butler Group has identified Telelogic's integrated solutions in its technical report, Technology Audit, as being industry-leading products. The report describes DOORS as being a long-term market leader, and the value of Telelogic's complete requirements management solution is praised.

The Butler Group report praised Synergy 6.5 and Change 4.7 for their user friendliness. The products were also praised for their capability to drive the change processes of an entire organization. Focal Point, Telelogic's solution for requirements analyses and management of product portfolios is receiving praise for its capability to visualize requirements, which makes it easier to make the right decision. The report also mentions System Architect as a modeling solution, which is important for the successful completion of Enterprise Architecture initiatives, i.e. the over-arching company system architecture and solutions for managing company processes. In the report, Butler Group describes Telelogic as being a pioneer within the area of modeling solutions, and the products Tau and Rhapsody, Telelogic's solutions for model-driven development, are praised for their importance in different development processes.

Telelogic has also during 2007 received recognition by Gartner Inc. Gartner placed Telelogic in the "Leaders Quadrant" in its report "Magic Quadrant for Business Process Analysis Tools, 2Q07-1H08"[1].

The independent French analysis company Yphise has for the fourth consecutive year elected Synergy the best solution for managing software development. Of five evaluated products, Synergy received the highest mark. It also received special mention for its capability to optimize the business capacity through time and cost savings.

For additional information about different product honors, please refer to the respective product group chapter in this annual report, as well as to Telelogic's web page and technology press releases.

1) The Gartner Magic Quadrant for Business Process Analysis Tools 2Q07-1H08 by Michael J. Blechar is copyrighted 8 June 2007 by Gartner, Inc. and is reused with permission. The Magic Quadrant is a graphical representation of a marketplace at and for a specific time period. It depicts Gartner's analysis of how certain vendors measure against criteria for that marketplace, as defined by Gartner. Gartner does not endorse any vendor, product or service depicted in the Magic Quadrant, and does not advise technology users to select only those vendors placed in the "Leaders" quadrant. The Magic Quadrant is intended solely as a research tool, and is not meant to be a specific guide to action. Gartner disclaims all warranties, express or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Risk analysis
Telelogic's global operations, with companies in 20 countries and a large number of customers in a broad mix of different industries, provide a good risk distribution. In 2007, the ten largest customers represented 29 percent of sales, and none of these customers individually generated over 5 percent of sales. In 2007, Telelogic's license and maintenance income represented 83 percent of total sales as compared to 82 percent in 2006. The remaining 17 percent, respectively 18 percent for 2006, constitute consulting services and other income. The gross margin for license and maintenance income is significantly higher than for services.

The main uncertainty in the short term is the current tender offer, which has resulted in increased uncertainty for both customers and employees. Telelogic estimates that it will have a negative effect on the operations until the tender offer situation is resolved. Uncertainties in the general market conditions, mainly in the US, also constitute a risk in the short term.

The company's long-term strategy
In early 2005, Telelogic launched a five-year vision named 5X5Y – five times in five years (five-fold in five years). 5X5Y was formulated against the background of Telelogic's strong market position in combination with the analysis that a larger sales volume increases the opportunities for high and sustainable profitability.

The consolidation of the market in the past few years has resulted in a strengthening of competitors' offerings. The software business is one of the world's most fragmented businesses, with many small, but frequently global players. Combining an innovative product development and global presence with a high profitability is a challenge for a smaller company. The software business is one of the businesses where economies of scale can have the greatest effect on the bottom line, as software companies have high fixed costs for developing new software, regardless of whether one or one thousand licenses of the program are sold. In addition, the demand by the larger customers for a global presence entails high fixed costs for a sales organization spread all over the world. In other words, size is important.

5X5Y was formulated with the idea of growing with a combination of organic and acquired growth in order to achieve the economies of scale that Telelogic considers that it will need in order to be successful in the long term. Telelogic has continued growing on its own in this period, while at the same time numerous acquisitions have been successfully completed. This development has not been easy. It is a challenge for a company the size of Telelogic to find suitable acquisitions that not only are priced correctly, but also have products that complement the current portfolio of products well.

In 2007, it became evident that other companies also shared Telelogic's conviction that consolidation and economies of scale are necessary ingredients of the growth strategy. In June 2007, IBM made a public offer for Telelogic, based on the same analysis and vision for the future as Telelogic's – that customers increasingly are demanding fewer suppliers with a broader product selection and that this requires economies of scale in order to profitably respond to this development. At the time of writing, IBM's offer has still not been resolved.

Outlook for 2008
The underlying market demand is considered to continue to be good, with similar quarterly fluctuations as in previous years.

For the full year 2008, Telelogic estimates that revenue will increase by 7-12 percent in local currency and that earnings per share will increase somewhat more. The goal is thus for earnings to exceed SEK 1 per share.

Shares
Telelogic AB has 247,635,960 shares, each with one vote. As of December 31, 2007, Telelogic had 15,923 shareholders, the largest shareholder with a 8.96 percent share. The ten largest shareholders in Telelogic had a combined holding of 44.31 percent.

Regarding the public offer from IBM for all shares in Telelogic , please refer to next section.

Public offer to the shareholders in Telelogic
On June 11, 2007, IBM announced a public cash offer to the shareholders of Telelogic AB. A cash payment of SEK 21 is offered for each share in Telelogic. Telelogic's Board of Directors has recommended the offer. The acceptance period for Telelogic's shareholders expires March 19, 2008. Since the announcement of IBM's offer, the acceptance period for Telelogic shareholders has been extended four times due to the EU review process with regard to competition law. If IBM's offer is accepted by Telelogic's shareholders, the employee option package will be redeemed in cash in connection with the accounting of liquid assets. For additional information, please refer to the documentation from IBM, as well as the press release published on Telelogic's web page.

The Parent Company
The Parent Company includes the Group's management functions, the sales to a few larger customers, the product development for Telelogic Tau and parts of product development for Telelogic's DOORS. All product development is reported on a current basis in the Parent Company but capitalized in the Group, in accordance with IAS38. Total revenue amounted to MSEK 267.4 as compared to MSEK 192.3 for 2006. Profit after taxes amounted to MSEK 90.6 as compared to MSEK 187.9 for 2006.

Changed accounting principles
As of 2005, Telelogic applies the International Financial Reporting Standards (IFRS) adopted by the EU, as well as the interpretations of the applicable standards (IFRIC) adopted by the EU. No changes to the accounting principles have been made in 2007.

Allocation of profits
The Annual General Meeting has at its disposal the following available assets and other unrestricted funds in the Parent Company:

TSEK	
Retained earnings, including the fair value reserve	241 765
Profit/loss for the year	90 578
Total	**332 343**

The Board of Directors proposes carry forward of available assets. With regard to the Group and Parent Company earnings and position in general, please refer below to the income statement and balance sheet and cash flow analyses, and applicable accounting principles and notes.

Information about the Board of Directors can be found on pages 69-73.

Consolidated income statements

MSEK	Note	2007	2006
Licensing revenue		763.9	653.2
Maintenance revenue		665.3	600.0
Consulting revenue		288.1	271.7
Total revenue	2	**1 717.3**	**1 524.9**
License expenses		-33.0	-22.5
Maintenance expenses		-57.3	-52.9
Consulting expenses		-224.9	-213.4
Gross profit		**1 402.1**	**1 236.1**
Sales expenses		-673.9	-643.8
Administration expenses		-125.3	-113.6
Product development expenses		-266.3	-230.6
Other operating expenses	4	-26.7	-33.0
Operating profit	2,5,6,7,25	**309.9**	**215.1**
Financial income	8	23.7	12.5
Financial expenses	8	-23.7	-18.2
Profit before taxes		**309.9**	**209.4**
Taxes	9	-77.5	-49.5
Profit after taxes		**232.4**	**159.9**
attributable to shareholders of the Parent Company		232.4	159.9
Earnings per share, SEK	17		
- basic		0.94	0.65
- diluted		0.94	0.65
Number of shares, in millions			
- on average		247.2	246.2
- diluted, average		248.5	247.2

Parent Company income statements

MSEK	Note	2007	2006
Licensing revenue		76.4	27.6
Maintenance revenues		27.8	24.2
Royalties		65.0	70.7
Consulting revenue		98.2	69.8
Total revenue		**267.4**	**192.3**
License and maintenance expenses		-6.7	-0.3
Consulting expenses		-11.6	-7.1
Gross profit		**249.1**	**184.9**
Sales expenses		-11.6	-7.9
Administration expenses		-58.4	-54.0
Product development expenses		-55.6	-61.7
Other operating expenses	32	-11.5	-
Operating profit	31,33,34,45	**112.0**	**61.3**
Income from shares in group companies	35	-10.4	119.6
Financial income	35	53.3	40.7
Financial expenses	35	-31.9	-31.2
Profit before taxes		**123.0**	**190.4**
Taxes	36	-32.4	-2.5
Profit after taxes		**90.6**	**187.9**

Consolidated balance sheets

December 31, MSEK	Note	2007	2006
ASSETS			
Noncurrent assets			
Goodwill	10	905.4	947.1
Capitalized development expenses	10	154.8	156.1
Other intangible assets	10	76.1	93.7
Property, plant and equipment	11	30.1	37.8
Financial fixed assets	12	16.6	15.6
Deferred tax assets	9	129.8	188.1
Total noncurrent assets		**1 312.8**	**1 438.4**
Current assets			
Accounts receivables	13	456.0	398.7
Current tax assets		12.0	4.5
Other receivables	12	6.8	6.5
Prepayments and accrued income	14	211.4	145.4
Cash and cash equivalents	15	645.2	462.0
Total current assets		**1 331.4**	**1 017.1**
TOTAL ASSETS		**2 644.2**	**2 455.5**
EQUITY AND LIABILITIES			
Shareholders' equity			
Capital stock		2.5	2.5
Other paid-up capital		3 198.0	3 194.9
Reserves		-142.7	-90.3
Retained earnings		-1 675.4	-1 840.2
Net income for the year		232.4	159.9
Total shareholders' equity	16	**1 614.8**	**1 426.8**
Noncurrent liabilities			
Interest-bearing noncurrent liabilities	18	337.5	387.5
Other noncurrent liabilities	22	3.0	2.8
Total noncurrent liabilities		**340.5**	**390.3**
Current liabilities			
Accounts payable		35.0	28.8
Current tax liability		17.6	9.7
Interest-bearing current liabilities	18	50.0	50.0
Other current liabilities	22	44.5	54.1
Accruals expenses and deferred income	23	540.3	491.7
Provisions	21	1.5	4.1
Total current liabilities		**688.9**	**638.4**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2 644.2**	**2 455.5**
Pledged assets	26	46.4	46.6
Contingent liabilities	26	11.0	6.8

Parent Company balance sheets

December 31, MSEK	Note	2007	2006
ASSETS			
Noncurrent assets			
Other intangible fixed assets	37	9.5	11.5
Property, plant and equipment	38	2.5	3.1
Participations in group companies	28, 48	644.9	624.0
Financial fixed assets	39, 47	519.3	550.3
Deferred tax assets	36	60.7	83.7
Total noncurrent assets		**1 236.9**	**1 272.6**
Current assets			
Accounts receivables		34.8	13.3
Receivables from group companies	47	182.1	206.3
Other receivables	39	0.3	0.7
Prepayments and accrued income	40	69.3	41.0
Cash and cash equivalents		465.8	274.2
Total current assets		**752.3**	**535.5**
TOTAL ASSETS		**1 989.2**	**1 808.1**
EQUITY AND LIABILITIES			
Shareholders' equity			
Capital stock		2.5	2.5
Statutory reserve		795.1	792.0
Fair value reserve		-66.1	-43.8
Retained earnings		307.9	115.1
Net income for the year		90.6	187.9
Total shareholders' equity		**1 130.0**	**1 053.7**
Noncurrent liabilities			
Interest-bearing noncurrent liabilities	41	337.5	387.5
Total noncurrent liabilities		**337.5**	**387.5**
Current liabilities			
Accounts payable		7.8	6.8
Liabilities to group companies	47	422.8	291.2
Interest-bearing current liabilities	41	50.0	50.0
Other current liabilities	43	0.3	2.4
Accruals and deferred income	44	40.8	16.4
Provisions	42	0.0	0.1
Total current liabilities		**521.7**	**366.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1 989.2**	**1 808.1**
Pledged assets	46	45.0	45.0
Contingent liabilities	46	62.9	64.3

Consolidated change in shareholders' equity attributable shareholders of the Parent Company

	Capital stock		Other paid-up capital		Translation reserve		Retained earnings		Total shareholders' equity	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Opening balance as of January 1	2.5	2.5	3 194.9	3 163.9	-90.3	40.4	-1 680.3	-1 847.0	1 426.8	1 359.8
Translation difference					-52.4	-130.7			-52.4	-130.7
Net income for the year							232.4	159.9	232.4	159.9
Total changes in net assets, excl. transactions with the company's shareholders.					**-52.4**	**-130.7**	**232.4**	**159.9**	**180.0**	**29.2**
New issue, stock options exercised by employees	0.0	0.0	3.1	31.0					3.1	31.0
Stock options program							4.9	6.8	4.9	6.8
Closing balance December 31	**2.5**	**2.5**	**3 198.0**	**3 194.9**	**-142.7**	**-90.3**	**-1 443.0**	**-1 680.3**	**1 614.8**	**1 426.8**

Parent Company, change in shareholders' equity

	Restricted equity				Non-restricted equity							
	Capital stock		Statutory reserve		Retained earnings		Fair value reserve		Net income for the year		Total' equity	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Opening balance January 1	2.5	2.5	792.0	761.0	115.1	34.8	-43.8	0.0	187.9	73.5	1 053.7	871.8
Allocation as resolved by Annual General Meeting					187.9	73.5			-187.9	-73.5	-	-
Hedging of currency risk in foreign operations							-31.0	-60.8			-31.0	-60.8
Tax on hedging of currency risk in foreign operations							8.7	17.0			8.7	17.0
Net income for the year									90.6	187.9	90.6	187.9
Total changes in net assets, excl. transactions with the company's shareholders.	**-**	**-**	**-**	**-**	**187.9**	**73.5**	**-22.3**	**-43.8**	**-97.3**	**114.4**	**68.3**	**144.1**
New issue, stock options exercised by employees	0.0	0.0	3.1	31.0							3.1	31.0
Stock options program			-		4.9	6.8					4.9	6.8
Closing balance December 31	**2.5**	**2.5**	**795.1**	**792.0**	**307.9**	**115.1**	**-66.1**	**-43.8**	**90.6**	**187.9**	**1 130.0**	**1 053.7**

Consolidated cash flow statements

MSEK	Note	2007	2006
Current operations	29		
Profit before taxes		309.9	209.4
Adjustment for items not included in the cash flow		76.6	83.6
Taxes paid		-16.6	-19.0
Cash flow from current operations before change in working capital		**369.9**	**274.0**
Cash flow from changes in working capital			
Change in operating receivables		-131.7	36.3
Change in operating liabilities		48.2	-21.4
Cash flow from current operations		**286.4**	**288.9**
Investing activities			
Gross investments in property, plant and equipment		-16.5	-19.5
Sale of property, plant and equipment		0.0	0.1
Gross investments in intangible fixed assets		-34.8	-49.0
Acquisitions of subsidiaries		-4.9	-659.4
Cash flow from investing activities		**-56.2**	**-727.8**
Financing activities			
New issue		3.1	31.0
Loans raised		-	500.0
Amortization of loans		-50.0	-62.5
Cash flow from financing activities		**-46.9**	**468.5**
Cash flow for the year		**183.3**	**29.6**
Cash and cash equivalents, January 1		462.0	447.3
Exchange rate differences in cash and cash equivalents		-0.1	-14.9
Cash and cash equivalents, December 31		**645.2**	**462.0**

Parent Company, cash flow statements

MSEK	Note	2007	2006
Current operations	49		
Profit before taxes		123.0	190.4
Adjustment for items not included in cash flow		20.3	68.0
Taxes paid		-0.8	-2.5
Cash flow from current operations before change in working capital		**142.5**	**255.9**
Cash flow from changes in working capital			
Change in operating receivables		-24.9	236.6
Change in operating liabilities		154.6	-173.3
Cash flow from current operations		**272.2**	**319.2**
Investment activities			
Gross investments in property, plant and equipment		-1.7	-2.4
Gross investments in intangible fixed assets		-0.7	-10.9
Acquisition of subsidiaries		-	-0.3
Divestments of subsidiaries		-	7.2
Infusion of capital, subsidiaries		-31.3	-187.7
Financial loan to subsidiaries		-	-611.1
Cash flow from investment activities		**-33.7**	**-805.2**
Financing activity			
New issue		3.1	31.0
Loans raised		-	500.0
Amortization of loans		-50.0	-62.5
Cash flow from financing activities		**-46.9**	**468.5**
Cash flow for the year		**191.6**	**-17.5**
Cash and cash equivalents, January 1		274.2	291.7
Cash and cash equivalents, December 31		**465.8**	**274.2**

Group, notes

Note 1 Principles of accounting

Basis of preparation

The Telelogic Group's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as approved by the EU Commission for application within the EU. In addition, the Swedish Financial Accounting Standards Council's recommendation RR 30:06, Supplementary Accounting Regulations for Groups, has been applied. This is the third financial report prepared according to IFRS. The years 2003 and earlier are not restated in the Group's financial multi-year review.

The parent company applies the same accounting principles as those applied in the consolidated financial statements, except as noted in the section "Parent Company's accounting principles. The deviations are due to some limitations in the application of the IFRS to the Parent Company primarily caused by the Annual Accounts Act. Items included in the financial statements of each of the Group's entities are posted using the functional currency of the entity, that is the currency of the primary economic environment in which the entity operates.

Changed accounting principles

No new accounting principles have affected the accounts during 2007, nor have any new standards been applied early. As of January 1, 2007, IFRS 7, Financial instruments, is applied. This standard has not resulted in any change of accounting principle, but only in changes in disclosure requirements with regard to financial instruments.

Important estimates and assessments for accounting purposes

The management makes judgments, estimates, and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income, and expenses. The estimates and assumptions are based on historical experience and a number of other factors that are considered to be reasonable under current conditions. The result of these estimates and assumptions is then used to determine the carrying value of assets and liabilities otherwise not clearly indicated by other sources. The actual result may differ from these estimates if other assumptions are made or other conditions develop. Areas that include such judgments and assumptions and which may have a significant effect on the Group's financial position are:

- measurement of identifiable assets and liabilities in connection with the acquisition of subsidiaries and operations.
- measurement of deferred tax assets.
- measurement of capitalized product development costs.

Consolidated accounts

The Group includes the Parent Company and all its subsidiaries. Subsidiaries are companies in which the Parent Company directly or indirectly owns more than 50 percent of the votes or in other ways is entitled to formulate financial and operating strategies for the Company. The accounting of subsidiaries is done in accordance with the purchase method. The acquisition cost of an acquisition consists of the fair value of the acquired identifiable assets and resulting or assumed liabilities, contingent liabilities, and issued equity instruments transferred as of the acquisition date, as well as the transaction expenses directly attributable to the acquisition. If the cost exceeds the fair value of the acquired identifiable assets and assumed liabilities and contingent liabilities, the difference is recognized as goodwill. If the cost is less than the fair value of the acquired net assets and contingent liabilities, the difference is recognized directly in the income statement. Results from companies acquired during the financial year are included in the consolidated financial statements from the date on which the Telelogic Group acquires a controlling influence over the Company. The Telelogic Group owns no shares in associated companies.

Intra-group receivables and liabilities, income and expenses, and gains or losses arising from intra-group transactions are eliminated in their entirety when preparing the consolidated accounts.

Translation of foreign subsidiaries

Assets and liabilities of foreign operations are translated from the Company's functional currency into the Group's reporting currency, Swedish krona, at the exchange rate in effect on the balance sheet date. Income and expenses of foreign operations are translated into Swedish krona at an average rate that is an approximation of the exchange rates at the respective transaction dates. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate in effect on the closing day. Translation differences that arise in connection with translation of a foreign net investment and accompanying effects of hedging of net investments are recognized directly in the translation reserve in shareholders' equity. Accumulated translation differences from foreign operations that arise after January 1, 2004, the time of transition to IFRS, are recognized as translation reserve in shareholders' equity.

Foreign currency

Foreign currency transactions are translated into an entity's functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate prevailing on the balance sheet date. Exchange rate differences that arise from translations are recognized in the income statement. The Parent Company has loans in foreign currency to certain subsidiaries where the loans represent a permanent element of the Parent Company's financing of the subsidiary. Exchange rate differences on these loans are recognized directly in shareholders' equity after tax. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate prevailing on the date of the transaction.

Segment reporting

A segment is a component of the Group that is identifiable for accounting purposes, which either supplies products or services (business segments), or goods or services, within a particular economic environment (geographical area) that is subject to risks and returns that are different from those of other segments. Segments are consolidated according to the same principles as the Group in its entirety.

REVENUE

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services net of value added tax, discounts and after eliminated sales within the Group.

Licensing revenue

Telelogic's software licensing revenues consist primarily of packaged software without customer modification. Software is sold either with perpetual licenses or time-limited licenses. Licensing revenues are reported upon delivery and when a signed purchase order or contract has been obtained, which is the point in time when risks and benefits are transferred to the customer. If the customer obtains an extended payment term, the customer's ability to pay is assessed and the remuneration recognized as income is discounted to its present value. If there is uncertainty as to the ability to pay, either in the short or long term, licensing revenue is instead recognized upon payment.

Software maintenance

Maintenance contracts include technical support of software and the right to upgrade to new versions. Maintenance is normally invoiced once a year in advance. Income is normally recognized on a current basis over the term of the contract; for example, for a twelve-month contract, a portion equal to 1/12 is applied each month.

Consulting services

In conjunction with software orders, customers usually also order services for training and implementation support. The services are recognized as income when delivery is made. Service assignments in progress for a fixed fee 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 carried as accrued income.

OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES

Licensing and maintenance expenses
Refers to external licensing expenses, expenses for delivery, e.g. license keys, manuals, personnel, as well as expenses for the support departments within the Telelogic Group.

Consulting expenses
Refers to direct expenses for training material, training personnel, external and internal consulting personnel, travel, as well as a portion of fixed expenses, e.g. for premises, depreciation of computers, etc.

Selling expenses
Relate to costs for marketing and sales, carried out mainly by Telelogic's own staff. Pertain also to external marketing expenses, e.g. direct advertising, advertising, and external conferences.

Administrative expenses
Administrative expenses include expenses incurred by the financial, IT, and human resources functions, as well as the CEO and the Board of Directors.

Research and development expenses
Research and development expenses refer to expenses for the Group's development centers. Expenses for developing new software are recognized as intangible assets (for more information, please see capitalized development costs). Amortization of capitalized development costs is carried under research and development expenses.

Other operating expenses
The item includes amortization of intangible fixed assets and expenses related to the current tender offer from IBM, as it has not been possible to distribute these items by function in a fair and reliable way.

Exchange rate gains and losses
Exchange rate gains and losses are carried under operating income.

Costs pertaining to operating leases
Costs pertaining to operating leases are carried in the income statement on a straight-line basis over the term of the lease.

Financing income and expenses
Financing income and expenses consist of interest income on bank balances, receivables, marketable securities, interest expenses on loans, dividends, exchange rate differences, unrealized and realized gains on financial investments, as well as derivatives used in the financial operations.

Interest income and interest expense are recognized on a time-proportion basis.

Issue expenses and similar direct transaction costs to raise a loan are included in the cost of the loan and are recognized over the duration of the loan. Dividend income is recognized when the right to receive payment is determined.

Taxes
Income taxes consist of current tax and deferred tax. Income taxes are recognized in the income statement, except when the underlying transaction is recognized directly against equity, in which case the accompanying tax effect is recognized in equity. Current tax is tax paid or received for the year in question. Adjustment of current tax attributable to previous periods is also reported here.

Deferred tax is calculated according to the balance sheet method based on temporary differences between the carrying amounts of assets and liabilities and their values for tax purposes. Temporary differences attributable to shares in subsidiaries are not taken into account because the Group can govern the time when they are reversed and it is probable that these will not be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts of assets or liabilities is expected to be realized or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been set or announced as of the balance sheet date. Deferred tax assets are reported only insofar as they are likely to entail lower tax payments in the future.

FINANCIAL INSTRUMENTS

Financial instruments carried in the balance sheet include on the asset side cash and cash equivalents, accounts receivable, equity instruments, loan receivables, and derivatives. Liabilities and equity include accounts payable, issued debt and equity instruments, loan liabilities, and derivatives.

Financial instruments are reported initially at the cost corresponding to the instrument's fair value, with the addition of transaction expenses. This applies to all financial instruments, except to those belonging to the category financial assets designated at fair value through profit or loss. These assets are reported at fair value excluding transaction expenses. Recognition then takes place according to how they have been classified. The classification depends on the purpose for which the financial instruments were acquired. The classification of instruments is determined by management when first reported and is reassessed at each reporting occasion.

A financial asset or liability is entered in the balance sheet when the company becomes a party to the contractual conditions of the instrument. A financial asset is removed from the balance sheet when the rights in the agreement have been realized, fall due, or the company loses control of them. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or otherwise ceases.

Financial assets and liabilities are set off and reported as a net amount in the balance sheet only when there is a legal right to set off the amounts and there is intent to settle the items with a net amount or at the same time realize the asset and settle the debt.

Financial assets carried at fair value through profit or loss
This category includes financial assets and liabilities held for trade, and partly such assets which initially were referred to this category. A financial asset is classified as held for trade if it is acquired for the purpose of selling in the near term. Independent as well as embedded derivatives are classified as held for trading. Assets in this category are regularly measured at fair value and changes in fair value are recognized in the income statement.

Loan receivables and accounts receivable
Loan receivables and accounts receivable are financial assets that are not derivatives with fixed payments or with determinable payments that are not quoted on an active market. Receivables are reported initially at fair value and subsequently stated atamortized cost using the effective rate of interest method, less any provisions for depreciation.

Accounts receivable are carried at the amount expected to be collected after deduction for bad debts, assessed on an individual basis. Accounts receivable have a short maturity and are thus carried at their nominal amount without discounting.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and assets held in banks and similar institutions that can be accessed immediately, as well as short-term investments with an original maturity of less than three months, which are only exposed to a marginal risk of fluctuations in value.

Borrowing
Borrowings are recognized initially at fair value, net of transaction costs incurred and subsequently stated at amortized cost. Any difference between the the proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Noncurrent liabilities have an expected maturity longer than one year, while current liabilities have a maturity shorter than one year.

Accounts payable
Accounts payable have a short expected maturity and are valued without discounting at a nominal amount.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. The acquisition value includes expenses directly attributable to the acquisition of the asset. Borrowing costs are not included in the cost. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Depreciation is reported using the straight line method over the estimated useful life of the asset. The estimated useful life is 5 years for office equipment and 3 years for computers and similar equipment. Depreciation is carried out down to the estimated residual value. The residual value and useful life of the assets are assessed annually.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the difference between the acquisition value and the fair value of the acquired assets assumed liabilities and contingent liabilities. Goodwill is allocated to cash generating units during an annual impairment test. Goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortized.

Capitalized development expenses

Telelogic develops and sells its own standard software. Product development expenses are capitalized in the Group when the following criteria are met: The software must be technically feasible to complete; adequate resources must be available to complete development; it must be possible to use and sell the product; there must be a market for the product; and the product must generate future economic benefits. It must also involve a new product generation or a completely new functionality within existing products. A development project is capitalized in its entirety at such time as its primary functionality is completed, installed, tested for function, and approved in a major client delivery. Thereafter the capitalized development costs are amortized on a straight-line basis over a five-year period, which corresponds to an estimate of the useful life. Amortization begins when the product is commercially available. Capitalized development expenses are carried at acquisition cost less accumulated amortization, and any impairment losses. The value of capitalized development expenses is subject to continuous impairment testing. If the carrying amount exceeds the discounted value of anticipated future cash flows, the item is written down to this value.

All costs for maintenance of existing products are expensed as incurred.

Other intangible assets

Other intangible assets acquired by the Group are recognized at cost less accumulated amortization. Estimated useful life is 1-10 years. Costs for internally generated goodwill and internally generated brands are recognized in the income statement when the cost arises.

IMPAIRMENT LOSSES

Assets having an indefinite useful life are not subject to amortization, but tested annually for impairment. If indications of the need for impairment of assets are present, the recoverable value of the asset is calculated as the higher of the utilization value and the net realizable value. When determining the utilization value, future cash flows are discounted at an interest rate before tax which shall take into account the market's assessment of risk-free interest rate and risk associated with the specific asset. For an asset which is dependent on other assets generating a cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized in the income statement if an asset's carrying amount exceeds its recoverable value. A reversal is made if there is a change in the recoverable amount, with the exception of impairment losses on goodwill.

EMPLOYEE REMUNERATION

Defined contribution plans

Obligations related to contributions to contribution-defined plans are recognized as an expense in the income statement when the employees have performed the services to which the contribution refers.

Defined benefit plans

The Group has no defined benefit plans, except that some of the ITP plans in Sweden are financed through insurance premiums paid to Alecta. This is a defined benefit plan that covers several employers. During the financial year 2007, Telelogic did not have access to the information it needed to report this plan as a defined benefit plan. It is therefore reported as a defined contribution plan.

Termination benefits

Termination benefits are payable when an employee's employment is terminated before the normal retirement date, or when an employee accepts voluntary termination of employment in exchange for benefits. The Group reports severance pay when a detailed formal plan has been presented.

Share-based payments

An option program enables employees to acquire shares in the company. The fair value of the allocated options is recognized as a personnel expense with an equivalent increase in equity. The fair value is determined on the grant date and allocated over the vesting period. The fair value of the granted options is calculated using the Black-Scholes method and the terms and conditions on the grant date are considered. The recognized cost is adjusted to reflect the actual number of vested options. However, no adjustment is made when options expire because the share price does not reach the level needed for the options to vest.

Social security fees related to share-based payments to employees for services rendered are recognized as expenses allocated to the periods when the services were rendered. The provision for social security contribution is based on the fair value of the options at the reporting date. Fair value is determined according to the same measurement model that was used on the grant date.

PROVISIONS

A provision is recognized when the Group has a legal or constructive obligation as a result of events that have taken place, and it is likely that payments will be requested to settle the obligation, and a reliable estimate of the amount can be made. A provision for a restructuring is recognized when there is a detailed, formal plan for the measures to be taken, and expectations have been created among those affected by the measures. No provisions are made for future operating losses.

CONTINGENT LIABILITIES

A contingent liability is recognized when there is a possible obligation relating to events that have taken place and the existence of which is confirmed only by one or more uncertain future events or when there is an obligation that is not recognized as a liability or provision as it is unlikely that an outflow of resources will be required.

PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company has prepared its annual financial statements in accordance with the Swedish Annual Accounts Act and Swedish Financial Accounting Standards Council's recommendation RR 32, Accounting for Legal Entities, which means that the Parent Company in the annual financial statements applies all IFRS standards and statements adopted by the European Union, to the extent this is practicable within the framework of the Swedish Annual Accounts Act and taking into account the relation between accounting and taxation. This results, in particular, in the following differences in the accounting of the Parent Company and the Group:

- Untaxed reserves: The Parent Company reports untaxed reserves. The consolidated financial statements divides untaxed reserves between deferred tax liability and shareholders' equity.
- Product development: Costs for product development are expensed in the Parent Company, whereas the portion that can be capitalized is capitalized in the Group.

GROUP CONTRIBUTIONS AND SHAREHOLDERS' CONTRIBUTIONS

Shareholder contributions are recognized directly against shareholders' equity for the receiver and are added to the value of shares and equity for the giver in the balance sheet, after which impairment testing is conducted.

Group contributions are provided to minimize the Group's tax expenses. Group contributions are recognized directly against shareholders' equity after adjustment for current tax.

Note 2 Segment reporting

Telelogic is an integrated software company in which all of the Group's products are sold by all geographic segments. 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 of division for information about segments comprises three regions: Europe including the Middle East and Africa, the Americas, and Asia/Pacific. The geographical distribution is based on where assets are located, which is consistent with where the customers are located. The geographical areas have no internal sales.

Directly attributable items have been included in the segment results, assets, and liabilities, as well as items that can be allocated to the segments fairly and reliably. Allocation of items attributable to product development, Parent Company, as well as goodwill has not been done, due to such allocation not being practicable in a way that would provide a true and accurate picture.

Revenues are also reported distributed by product category. Information on assets, liabilities, investments, and depreciation/amortizations are not reported per product category, as it is not practicable to distribute these items fairly and reliably.

Geographical segment

	America		Asia/Pacific		EMEA		Product development, other operations		Group	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
External revenues	647.2	636.8	218.6	192.8	851.5	695.3		-	1 717.3	1 524.9
Operating profit	262.0	238.6	73.8	66.5	387.9	261.3	-413.8	-351.3	309.9	215.1
Operating margin, %	40	37	34	34	46	38			18	14
Net financial items									0.0	-5.7
Taxes									-77.5	-49.5
Profit for the year									232.4	159.9
Operating assets	215.8	200.7	132.6	97.0	273.0	253.1	1 377.6	1 442.7	1 999.0	1 993.5
Operating liabilities	243.6	233.3	78.3	62.4	260.1	257.9	59.9	37.6	641.9	591.2
Operating capital									1 357.1	1 402.3
Investments	4.4	7.5	3.7	3.9	5.6	5.7	37.6	51.4	51.3	68.5
Depreciation/amortization	5.3	5.9	4.9	3.7	6.2	5.7	57.2	71.0	73.6	86.3

Revenue by product group

	Requirements management		Modeling		Change and configuration management		Group	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006
External revenues	704.1	640.5	669.7	564.2	343.5	320.2	1 717.3	1 524.9

Note 3 Business combinations

2007

No new acquisitions were made in 2007.

During the year, an additional purchase payment of MSEK 4.9 was made for I-Logix, which was acquired in 2006.

2006

In March 2006, Telelogic acquired the privately owned I-Logix. I-Logix develops and sells solutions for model-driven development. These solutions allow engineers in both large and small teams to graphically model requirements, behaviors, and functions in integrated systems.

I-Logix has been consolidated with the Group's other operations and therefore its performance cannot be reported separately; instead it is included as part of the Group.

Information about the income statement prior to the acquisition cannot be provided as this was not prepared in accordance with Telelogic's accounting principles.

I-Logix's net assets at the time of the acquisition:

MSEK	Book value prior to the acquisition	Fair value adjustment	Fair value recognized in the Group
Property, plant, and equipment	4.9		4.9
Intangible assets	4.2	101.6	105.8
Goodwill	5.2		5.2
Deferred tax assets		77.6	77.6
Accounts receivable and other receivables	32.8		32.8
Cash and cash equivalents	18.4		18.4
Accounts payable and other liabilities	-97.9		-97.9
Deferred tax liability		-34.6	-34.6
Net identifiable assets and liabilities	-32.4	144.6	112.2
Consolidated goodwill			**533.5**
Total purchase consideration incl. acquisition costs			645.7
Consideration paid			-639.9
Acquired cash and cash equivalents			18.4
Net cash outflow			**-621.5**

Goodwill arose because the acquisition value also pertained to values that do not fulfill the criteria to be recognized as assets at the time of acquisition. These values relate to staff technical knowledge and the synergy effects expected when I-Logix products are added to Telelogic's product portfolio.

Note 4 Other operating expenses

MSEK	2007	2006
Expenses related to the current tender offer by IBM	-11.5	-
Amortization, other intangible assets	-15.2	-33.0
Total	**-26.7**	**-33.0**

Note 5 Employees and payroll expenses

Employee benefit costs

MSEK	2007	2006
Wages, salaries and other remuneration	731.2	680.9
Share-based payments (See also Note 20)	4.9	6.8
Total	**736.1**	**687.7**
To the Board of Directors and CEO	33.2	25.8
of which incentive and similar payments	11.8	6.3

Of salaries and remunerations paid, MSEK 21.2 (MSEK 16.5) pertains to senior executives other than the Board of Directors and CEO. Please also see note 20.

MSEK	2007	2006
Pension costs, contribution-defined plans	32.7	24.0
Social security expenses	116.5	88.0
Total	**149.2**	**112.0**

The Group has no outstanding pension commitments.

Average number of employees

	2007	men	2006	men
Sweden	95	80%	109	73%
Finland	5	100%	5	100%
Germany	81	73%	68	71%
UK	170	76%	162	74%
France	45	84%	42	76%
Italy	9	89%	5	80%
Ireland	14	36%	13	69%
Netherlands	12	75%	10	80%
Spain	13	69%	12	50%
United Arab Emirates	6	83%	4	100%
US	348	71%	351	74%
China	26	69%	24	79%
Japan	31	81%	26	81%
Korea	15	73%	12	75%
India	263	75%	198	70%
Singapore	15	87%	9	89%
Israel	49	82%	43	79%
Russia	3	100%	2	100%
Australia	20	70%	18	72%
Total	**1 220**	**75%**	**1 113**	**74%**

The percentage of women in executive management is 18 percent (18 percent) and the percentage of women on the Board of Directors is 33 percent (33 percent).

Note 6 Fees and expense for auditors

MSEK	2007	2006
KPMG		
Auditing services	2.5	3.7
Other assignments	1.0	2.0
Other auditors		
Auditing services	0.3	0.1
Other assignments	0.7	1.5
Total	**4.5**	**7.3**

Auditing assignments include the auditing of the annual report, bookkeeping, and the administration of the Board of Directors and the President, other assignments that the Company's auditors are requested to perform, as well as advising or other forms of assistance related to findings made in such audits or during the execution of such other tasks. All other work is classified as "other assignments".

Note 7 Operating expenses by category of expense

MSEK	2007	2006
Employee remuneration	885.3	799.7
Depreciation/amortization	73.6	86.3
Other expenses	448.5	423.8
Total	**1 407.4**	**1 309.8**

Note 8 Financial income and expenses

MSEK	2007	2006
Interest income	23.7	12.5
Financial income	**23.7**	**12.5**
Interest expenses	-23.7	-18.2
Financial expenses	**-23.7**	**-18.2**
Net financial items	**0.0**	**-5.7**

Note 9 Taxes

Reported in the income statement

MSEK	2007	2006
Current tax expense		
Tax expense for the period	-20.9	-24.8
Adjustment of tax attributable to previous years	3.9	3.2
Total	**-17.0**	**-21.6**
Deferred tax expense		
Deferred tax for temporary differences	-0.9	3.1
Utilization/revaluation of loss carryforwards	-59.6	-31.0
Total	**-60.5**	**-27.9**
Total reported tax expense	**-77.5**	**-49.5**

Reconciliation of effective tax

MSEK	%	2007	%	2006
Pre-tax profit		309.9		209.4
Tax according to current tax rate for Parent Company	28.0	-86.8	28.0	-58.6
Effect of other tax rates for foreign subsidiaries	4.0	-12.4	7.0	-14.7
Non-deductible costs	3.8	-11.7	1.1	-2.3
Tax-exempt income	0.0	0.0	0.0	0.0
Reassessment of carryforward of unused tax losses temporary differences	-10.0	30.9	-13.0	27.0
Tax attributable to previous years	-1.3	3.9	-1.5	3.2
Foreign tax	0.5	-1.4	2.0	-4.1
Total reported tax expense	**25.0**	**-77.5**	**23.6**	**-49.5**

Deferred tax assets/tax liabilities

	Deferred tax asset		Deferred tax liability	
MSEK	2007	2006	2007	2006
Intangible assets	75.7	86.7	63.6	70.4
Noncurrent receivables	25.7	17.0	-	-
Loss carryforward	92.0	154.8	-	-
Total	**193.4**	**258.5**	**63.6**	**70.4**
Setoff	-63.6	-70.4	-63.6	-70.4
Net deferred tax asset	**129.8**	**188.1**	**0.0**	**0.0**

Deferred tax receivables, not disclosed

MSEK	2007	2006
Non-capitalized carryforward of unused tax losses	203.0	280.7

Deferred tax assets are reported for unutilized loss carryforwards to the extent that it is highly probable that they will be utilized within the foreseeable future. A recognized amount is subject to ongoing impairment testing. Nearly all of the Group's loss carryforwards can be utilized without time limitation. The expected earnings of the next few years justify the value of the capitalized loss carryforwards.

Changes in deferred tax in temporary differences and loss carryforward

	Balance as of January 1		Acquisitions		Recognized in the income statement		Recognized directly against shareholders' equity		Translation difference		Balance as of December 31	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Intangible assets	16.3	58.6	-	-34.6	-0.9	2.1	-	-	-3.3	-9.8	12.1	16.3
Value of acquired maintenance agreements	-	-0.8	-	-	-	0.8	-	-	-	-	-	-
Noncurrent receivables	17.0	-	-	-	-	-	8.7	17.0	-	-	25.7	17.0
Tax allocation funds	-	-0.2	-	-	-	0.2	-	-	-	-	-	-
Loss carryforward	154.8	121.5	-	77.6	-59.6	-31.0	-	-	-3.2	-13.3	92.0	154.8
Total	**188.1**	**179.1**	**-**	**43.0**	**-60.5**	**-27.9**	**8.7**	**17.0**	**-6.5**	**-23.1**	**129.8**	**188.1**

Note 10 Intangible assets

IMPAIRMENT TEST FOR CASH-GENERATING UNITS

Telelogic is an integrated software company in which all the Group's products are sold by all market companies; in other words, the Group only has one business segment. The product portfolio consists of an integrated total solution offered to the market. Telelogic's customers require a global presence, which is why Telelogic has a global sales organization. The internal reporting is therefore primarily focused on sales divided into geographical segments. Product development and goodwill are not allocated to geographical segments. Follow-up of product development and goodwill is done for the Group as a whole. Therefore, the geographical segments do not constitute cash-generating units as they do not generate cash flows that are independent of other assets.

The impairment testing is based on calculation of utilization value. This value is based on cash flow calculations for a total of 10 years based on an annual growth rate of 5 to 10 percent. This growth rate is based on Telelogic's own assessments as well as the underlying long-term growth rate in the market. The present value of the forecasted cash flow has been calculated using a discount factor of 8.4 percent after tax. The exchange rate is based on the currently listed exchange rate. The calculated utilization value exceeds the book value of goodwill and other intangible assets by a good margin. Even a calculation in which the growth rate is set at 0 percent gives a utilization value that is greater than the book value by a good margin. According to the assessment of the executive management, no reasonably potential changes in the assumptions could cause the recoverable amount to be less than the carrying amount.

Accumulated acquisition value	Goodwill		Capitalized development expenses		Other intangible assets		Total	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006
Opening balance as of January 1	947.1	523.3	287.5	249.9	158.8	56.0	1 393.4	829.2
Acquisitions	2.5	538.9	-	-	-	105.8	2.5	644.7
Investments	-	-	-	-	1.3	11.4	1.3	11.4
Internally developed assets	-	-	33.5	37.6	-	-	33.5	37.6
Internal re-classifications	-	-	-	-	14.4	-	14.4	-
Translation difference	-44.2	-115.1	-	-	-7.3	-14.4	-51.5	-129.5
Closing balance as of December 31	**905.4**	**947.1**	**321.0**	**287.5**	**167.2**	**158.8**	**1 393.6**	**1 393.4**

Accumulated amortization	Goodwill		Capitalized development expenses		Other intangible assets		Total	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006
Opening balance as of January 1	-	-	-131.4	-98.8	-65.1	-31.7	-196.5	-130.5
Depreciation according to plan for the year	-	-	-34.8	-32.6	-19.3	-35.2	-54.1	-67.8
Internal re-classifications	-	-	-	-	-9.9	-	-9.9	-
Translation difference	-	-	-	-	3.2	1.8	3.2	1.8
Closing balance as of December 31	**-**	**-**	**-166.2**	**-131.4**	**-91.1**	**-65.1**	**-257.3**	**-196.5**

Carrying amount December 31	**905.4**	**947.1**	**154.8**	**156.1**	**76.1**	**93.7**	**1 136.3**	**1 196.9**

Distribution of amortization for the year

MSEK	2007	2006
Product development expenses	38.9	34.8
Other expenses	15.2	33.0
Total	**54.1**	**67.8**

Note 11 Property, plant, and equipment

Equipment and IT equipment

Accumulated acquisition value

MSEK	2007	2006
Opening balance as of January 1	205.4	221.7
Acquisitions	-	20.7
Investments	16.5	19.5
Divestments and disposals	-3.6	-35.7
Internal re-classifications	-14.4	-
Translation difference	-4.5	-20.8
Closing balance as of December 31	**199.4**	**205.4**

Accumulated depreciation

MSEK	2007	2006
Opening balance as of January 1	-167.6	-186.9
Acquisitions	-	-15.8
Depreciation according to plan for the year	-19.5	-18.5
Divestments and disposals	3.6	35.4
Internal re-classifications	9.9	-
Translation difference	4.3	18.2
Closing balance as of December 31	**-169.3**	**-167.6**

Carrying amount as of December 31	**30.1**	**37.8**

Distribution of depreciation for the year

MSEK	2007	2006
Selling expenses	12.3	12.1
Administrative expenses	2.3	2.1
Product development expenses	4.9	4.3
Total	**19.5**	**18.5**

Note 12 Noncurrent receivables and other receivables

Noncurrent receivables

MSEK	2007	2006
Deposits rent	15.8	15.1
Deposits customers	0.4	0.5
Deposits suppliers	0.1	0.0
Other	0.3	0.0
Other noncurrent receivables	**16.6**	**15.6**

Other current receivables

MSEK	2007	2006
Current deposits	0.2	0.2
Grants	1.8	1.7
Advances	0.0	0.2
VAT owed	2.2	1.7
Personnel-related receivables	0.8	0.4
Other	1.8	2.3
Other receivables	**6.8**	**6.5**

Note 13 Accounts receivable

Distribution by age of accounts receivable

MSEK	2007	2006
Current	360.5	301.9
Past due, 1-60 days	76.6	83.9
Past due, over 60 days	40.3	34.1
Doubtful receivables	-21.4	-21.2
Accounts receivable	**456.0**	**398.7**

Note 14 Prepayments and accrued income

MSEK	2007	2006
Rent	3.4	3.5
Accrued income	187.6	116.4
Allocated expenses	19.1	24.4
Other	1.3	1.1
Total	**211.4**	**145.4**

Note 15 Cash and cash equivalents

The Group's cash and cash equivalents, MSEK 645.2 (462.0), consist only of cash and bank balances. In addition to cash and cash equivalents, the Group also has an unused line of credit in the amount of MSEK 540.8 (557.2).

Note 16 Equity

Change in number of shares

	2007	2006
Opening balance as of January 1	247 105 247	243 430 104
Exercise of warrants	530 713	3 675 143
Closing balance as of December 31	**247 635 960**	**247 105 247**

Shareholders are entitled to vote at the Annual General Meeting with one vote per share.

At the Annual General Meeting 2007, the following was decided with respect to the capital structure:

- The Board of Directors was authorized to decide on a public issue of a maximum of 27,000,000 shares.
  The purpose of the authorization is to enable the Board of Directors to finance a company acquisition through a public issue of shares.
- The Board of Directors was authorized to decide on the purchase of own shares, however, only up to a limit of 24,700,000 shares.
  The purpose of the authorization is to further enable the Board of Directors to take measures in order to render the company's capital structure more efficient and to enable the Board to use own shares as a consideration in a company acquisition or in connection with the exercise of options within the framework of the Group's global options program.
- Decision on the issue of call options in accordance with the Group's global options program, with the issue of a maximum of 2,500,000 options to be awarded to employees in the current group, and with the issue of a maximum of 2,000,000 options to be awarded only to employees in companies that are being acquired.
- The Board of Directors was authorized to decide on an issue of a maximum of 4,500,000 warrants.

During the year, none of the Board of Directors' authorizations have affected the Group's capital structure.

OTHER PAID-UP CAPITAL

Pertains to equity paid-up by shareholders. This includes share premium reserves which were transferred to a reserve. As of January 1, 2006, provisions to the share premium reserve will also be recognized as paid-up capital.

TRANSLATION RESERVE

The translation reserve includes exchange rate differences arising in conjunction with the translation of financial reports from foreign operations that have prepared their financial statements in a currency other than the currency in which the consolidated financial statements are presented. The financial statements of the Parent Company and the Group are presented in Swedish krona. In addition, the translation reserve consists of exchange differences that arise during revaluation of liabilities recognized as hedging instruments for a net investment in a foreign operation.

RETAINED EARNINGS INCLUDING PROFIT FOR THE YEAR

Retained earnings, including profit for the year, include the aggregate losses of the Parent Company and its subsidiaries. Previous provisions to the statutory reserve, excluding transferred share premium reserves, are included in this equity item.

Note 17 Earnings per share

	Basic		Diluted	
SEK	2007	2006	2007	2006
Earnings per share	0.94	0.65	0.94	0.65

Earnings per share, basic

	2007	2006
Profit for the year, MSEK	232.4	159.9
Weighted average number of outstanding shares, in thousands		
Total number of shares as of January 1	247 105	243 430
Effect of exercise of warrants	121	2 728
Weighted average number of outstanding shares, in thousands	**247 226**	**246 158**

Earnings per share, diluted

	2007	2006
Profit for the year, MSEK	232.4	159.9
Weighted average number of outstanding shares, in thousands		
Weighted average number of outstanding shares, basic	247 226	246 158
Effect of issued stock options	1 321	1 066
Weighted average number of outstanding shares, in thousands	**248 547**	**247 224**

Instruments that could have potential dilutive effects and changes after the balance sheet date

As of December 31, 2007, the Telelogic Group had four outstanding stock option programs.

The share price for three programs exceeded the discounted exercise price, corresponding to a total dilution of 0.5 percent or 1,320,776 shares.

For more information on the Group's stock option program, please see note 20 and the Telelogic Share, page 36.

Note 18 Interest-bearing liabilities

Noncurrent liabilities

MSEK	2007	2006
Investment loan STIV, 10 years	337.5	387.5
Noncurrent liabilities	**337.5**	**387.5**

Current liabilities

MSEK	2007	2006
Current portion of loan	50.0	50.0
Current liabilities	**50.0**	**50.0**

The ten-year loan is in Swedish krona and has a variable interest rate. The book value is equivalent to the fair value

For more information about the company's exposure to interest rate risk and the risk of exchange rate fluctuations, please refer to note 24.

Note 19 Financial assets and liabilities

Fair value and carrying amount are reported in the balance sheet below

MSEK	Financial assets assessed at fair value in the income statement 2007	2006	Accounts receivable and other receivables 2007	2006	Financial liabilities assessed at fair value 2007	2006	Accounts payable and other liabilities 2007	2006	Total reported value 2007	2006	Total fair value 2007	2006
Noncurrent receivables	-	-	16.6	15.6	-	-	-	-	16.6	15.6	16.6	15.6
Accounts receivable	-	-	456.0	398.7	-	-	-	-	456.0	398.7	456.0	398.7
Other receivables	-	-	4.6	4.8	-	-	-	-	4.6	4.8	4.6	4.8
Current investments	645.2	462.0	-	-	-	-	-	-	645.2	462.0	645.2	462.0
Total	**645.2**	**462.0**	**477.2**	**419.1**	**-**	**-**	**-**	**-**	**1 122.4**	**881.1**	**1 122.4**	**881.1**
Interest-bearing noncurrent liabilities	-	-	-	-	337.5	387.5	-	-	337.5	387.5	337.5	387.5
Other noncurrent liabilities	-	-	-	-	-	-	3.0	2.8	3.0	2.8	3.0	2.8
Interest-bearing current liabilities	-	-	-	-	50.0	50.0	-	-	50.0	50.0	50.0	50.0
Accounts payable	-	-	-	-	-	-	35.0	28.8	35.0	28.8	35.0	28.8
Other liabilities	-	-	-	-	-	-	17.8	26.6	17.8	26.6	17.8	26.6
Total	**-**	**-**	**-**	**-**	**387.5**	**437.5**	**55.8**	**58.2**	**443.3**	**495.7**	**443.3**	**495.7**

Note 20 Compensation of employees

Employee stock option program

General

Telelogic has a number of outstanding stock option programs for its employees. The options have a term of 4.5 years and an exercise price of 115 percent of the market price at the time of allotment. The programs have a vesting period of 3 to 4 years and are contingent on continued employment. Vesting is also contingent on certain criteria being satisfied that relate to growth, profitability, and cash flow, or as in the case of the latest program (TO 15), an increase in earnings per share. No new programs or grants were added during the year. Exercise occurred during the year corresponding to 530,713 shares.

Change in number of options held by employees

	TO 10 2007	TO 10 2006	TO 11 2007	TO 11 2006	TO 13 2007	TO 13 2006	TO 14 2007	TO 14 2006	TO 15 2007	TO 15 2006
Opening balance as of January 1	514 068	1 115 366	1 353 311	1 617 000	2 790 000	3 200 000	966 000	-	2 300 000	-
Issued	-	-	-	-	-	-	-	966 000	-	2 300 000
Exercised	-502 063	-578 463	-25 000	-8 689	-2 000	-	-	-	-	-
Due	-12 005	-22 835	-203 500	-255 000	-345 500	-410 000	-48 000	-	-185 400	-
Closing balance as of December 31	**-**	**514 068**	**1 124 811**	**1 353 311**	**2 442 500**	**2 790 000**	**918 000**	**966 000**	**2 114 600**	**2 300 000**

Information about outstanding options as of balance sheet date

	TO 11	TO 13	TO 14	TO 15
Due date	08-07-31	10-01-31	10-10-31	11-01-31
Subscription price per share, SEK	17.30	17.50	22.10	13.20
Total payments if shares are issued, MSEK	19.4	42.7	20.3	27.9
Number of qualifying shares per option	1	1	1	1

DILUTION

The outstanding employee stock option programs can result in a maximum dilution of 2.6 percent (calculated as a net increase in shares in the company through exercise of options, divided by the total number of shares and options). When only the employee stock option programs are considered where the share prices exceeded the discounted exercise price, total dilution is 0.5 percent. It should be mentioned that options for TO 12 (externally directed option program in connection with the acquisition of Focal Point AB) expired January 31, 2007, and 1,650 options were exercised during January 2007. The remaining number of options, 4,046,101, has expired and is no longer included in the dilution as of February 2007.

Total dilution as of December 31, 2007, calculated based on discounted redemption prices, equals 1,320,776 shares. Thus, the total number of shares after full dilution is 248,956,736.

Based on calculations of the average number of outstanding shares during 2007 (247,226,373), the total dilution is 248,547,149.

Costs according to IFRS 2 Share-based payments

Thousand SEK	2007	2006
Stock options allocated 2003, TO 10	291	489
Stock options allocated 2004, TO 11	238	1 832
Stock options allocated 2005, TO 13	1 728	2 674
Stock options allocated 2006, TO 14	1 114	926
Stock options allocated 2006, TO 15	1 572	857
Total personnel costs as a result of share-based payments.	**4 943**	**6 778**

The fair value of the employee stock options is estimated as of the day of allotment, using the Black-Scholes option valuation model. The estimated fair value is expensed over the vesting period. The estimate of fair value is based on the following weighted average assumptions:

Risk-free return	3.3%
Expected volatility of underlying share	35%
Expected maturity (years)	3.4
Expected dividend	0%
Estimated fair value (SEK)	3.6
Lapsed options ("forfeitures")	23%

Compensation and other benefits during the year

	Basic salary, Board of Directors fee		Variable remuneration		Other benefits		Pension costs		Financial instruments, etc.		Total	
Thousand SEK	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Chairman of the Board	480	480	-	-	-	-	-	-	-	-	480	480
Members of the Board of Directors, 4 members (in 2006, 5 members)	750	825	-	-	-	-	-	-	-	-	750	825
Chief Executive Officer	2 747	2 812	1 741	1 070	-	-	1 258	1 136	-	580	5 746	5 598
Other senior executives, 11 members (2006: 10 members)	12 983	10 702	7 729	5 553	497	195	1 736	2 633	-	1 624	22 945	20 707
Total	**16 960**	**14 819**	**9 470**	**6 623**	**497**	**195**	**2 994**	**3 769**	**-**	**2 204**	**29 921**	**27 610**

Defined benefit plans

Retirement and family pension obligations for salaried employees in Sweden are secured by an insurance policy provided by Alecta. According to a statement by the Emerging Issues Task Force, URA 42 of the Swedish Financial Accounting Standards Council, this is a defined benefit plan which includes several employers. During financial year 2007, the company did not have access to the information it needed in order to report this as a defined benefit plan. The pension plan follows ITP, and is secured through an insurance policy in Alecta. It is therefore reported as a defined contribution plan. For this year, the premium for the pension insurance policies from Alecta was MSEK 2.8 (MSEK 4.0). Alecta's surplus may be distributed to the policyholders and/or the insured. At the end of 2007, Alecta's surplus in form of the collective consolidation level amounted to 152 percent (143 percent). The collective consolidation level constitutes the market value of Alecta's assets as a percentage of the insurance obligations calculated according to Alecta's actuarial assumptions, which are not in agreement with IAS 19.

Defined contribution plans

In Sweden the Group has defined contribution pension plans for employees that are fully financed by the companies. Overseas there are defined contribution plans that are partly financed by the subsidiaries and partly covered by fees that the employees pay. Contributions to these plans are made continuously in accordance with the regulations for each plan.

SENIOR MANAGEMENT BENEFITS

In 2007, Remuneration Committee members were: Bo Dimert, Chairman, Kjell Duveblad, and Birgitta Klasén.

Chief Executive Officer

The Chief Executive Officer was paid SEK 2,747,000 (SEK 2,812,000) as salary as well as SEK 1,741,000 (SEK 1,070,000) as incentive, which corresponds to 63 percent (38 percent) of the base salary. The variable compensation is based on the Group's growth, operating margin, earnings per share, and cash flow. Pension benefits totaled SEK 1,258,000 (SEK 1,136,000).

The retirement age for the Chief Executive Officer is 65. The pension is defined contribution and amounts to 35 percent of the pension-qualifying salary up to SEK 2,400,000, and 20 percent thereafter. In case of resignation by the Chief Executive Officer, six months' notice is required and no severance pay is due. In case of termination by the employer, twelve months' notice is required and the right to severance pay equivalent to twelve monthly salaries is also provided. The Chief Executive Officer is also entitled to such severance pay in the event of larger structural changes (change of control), even if the Chief Executive Officer gives notice of termination. As of 12.31.2007, the Chief Executive Officer had 100,000 employee stock options from program TO 11, which vest from 2005 to 2007 with continuous employment, 400,000 employee stock options from program TO 13, which vest from 2007 to 2009 with continuous employment, and 200,000 employee stock options from program TO 15, which vest from 2006 to 2010 with continuous employment. The options are allotted free of charge. No options were granted during the year. For more information on the preparation and decision-making process for compensation of the Chief Executive Officer, please see the section on corporate governance, page 69-73.

Other individuals in executive management

Other persons in executive management, 11 persons (10 persons), received SEK 13,480,000 (SEK 10,897,000) in salary and other benefits and SEK 7,729,000 (SEK 5,553,000) in bonuses, corresponding to 57 percent (51 percent) of base salary. The variable compensation is based on the Group's growth, operating margin, earnings per share, and cash flow. For others senior executives, defined contribution pension premiums for SEK 1,736,000 (SEK 2,633,000) were paid. Termination by the employer usually requires six months' notice. Certain senior executives are entitled to severance pay equivalent to twelve monthly salaries in the event of a change of control. Otherwise, no one is entitled to severance pay.

Other senior executives had 305,000 employee stock options from program TO 11, which vest from 2005 to 2007 with continuous employment, 335,000 employee stock options from program TO 13, which vest from 2007 to 2009 with continuous employment, and 530,000 employee stock options from program TO 15, which vest from 2006 to 2010 with continuous employment. The options are allotted free of charge. No options were granted during the year. For more information on the preparation and decision-making process for compensation to the other individuals in Executive Management, please see the section on corporate governance, page 69-73.

Note 21 Provisions

MSEK	2007	2006
Restructuring expenses	0.0	1.5
Severance pay	1.3	0.1
Other	0.2	2.5
Provisions	**1.5**	**4.1**

Changes in provisions

MSEK	2007	2006
Opening balance as of January 1	4.1	13.7
Provisions for the year	0.9	2.5
Amount utilized during the year	-3.6	-12.1
Translation differences	0.1	0.0
Closing balance as of December 31	**1.5**	**4.1**

Note 22 Other liabilities

Other noncurrent liabilities

MSEK	2007	2006
Leases	3.0	2.8
Other noncurrent liabilities	**3.0**	**2.8**

Other current liabilities

MSEK	2007	2006
Customer contracts	9.6	15.1
VAT liabilities	23.6	21.4
Liabilities pertaining to personnel	3.1	6.1
Other	8.2	11.5
Current liabilities	**44.5**	**54.1**

Note 23 Accruals and deferred income

MSEK	2007	2006
Maintenance agreements, prepaid revenue	377.7	352.0
Personnel-related items	104.6	89.7
Other	58.0	50.0
Accruals expenses and deferred income	**540.3**	**491.7**

Note 24 Financial risks and financing policies, Group and Parent Company

The Telelogic Group's financial functions are centralized and managed from corporate headquarters. The Board of Directors has prepared guidelines for the financial function and receives regular progress reports. The local financial units report directly to the central financial and treasury functions, which allows good management of the Group's financial exposure, while offering cost advantages. The Group's financial policy establishes guidelines and rules for financial risk management and for general financial operations.

Foreign exchange risk

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

TRANSACTION EXPOSURE

Telelogic's sales are primarily handled from the local sales offices. Over 90 percent of Telelogic's sales are in currencies other than Swedish krona. Revenues are therefore considerably exposed to exchange rate fluctuations. Net income, however, is not subject to the same level of exposure because the sales-related expenses are reported in the same local currencies. Geographically, the Group's support and development centers are also located in several different currency areas. Due to the fact that the Group's operating organizations are located within the currency area where 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	6 %	12 %
EUR	28 %	17 %
GBP	14 %	16 %
USD	40 %	38 %
Other	12%	17 %

Balance sheet

Telelogic's subsidiaries do not have significant net assets. Nor do the subsidiaries have significant equity, excluding goodwill goodwill. The need for operating capital is limited as accounts receivable are balanced relatively well with pre payments of maintenance fees. Cash and cash equivalents in excess of operating capital are usually taken home to the Parent Company. Hedging for existing cash and cash equivalents or forecasted earnings that is to be exchanged into another currency, usually SEK, is done with a maximum of MSEK 100 for the entire Group. Only currency futures are used. The Board of Directors will take a decision, if the need for greater hedging should arise, e.g., in the event of larger acquisitions.

Only forward contracts were used as hedging instruments in 2007. The Group's net income in 2007 improved by MSEK 0.8 (MSEK 4.0) as a result of the hedging measures taken. Outstanding hedges as of December 31, 2007 totaled MEUR 10.0, which corresponds to MSEK 94.8 (MSEK 0).

TRANSLATION RISK

Telelogic's policy is not to hedge translation risks in foreign currency.

Interest risk

Interest risk refers to the risk for negative effects on the Group's earnings as a result of changes in market interest rates. As of December 31, 2007, the Group has a loan of MSEK 387.5 (MSEK 437.5) with floating interest. A change by one percentage unit in the interest rate will affect the interest expense by MSEK 3.9.

Credit risk

Credit risk refers to a customer being unable 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, creditworthy companies. Bad debt risk is also limited because maintenance revenues are usually invoiced in advance.

Telelogic manages its financial credit risk by only investing its cash and cash equivalents in investments with a low risk profile, such as bank balances, treasury bills, or equivalent instruments.

Financing risk

Financing risk refers to the risk that refinancing of loans is made more difficult. As of December 31, 2007, the company's liquid assets amounted to MSEK 645.2 and interest-bearing debt to MSEK 387.5.

Fair value of financial instruments

Fair value of financial assets and liabilities does not deviate from the carrying amount. Fair value of derivatives has been measured at market. Other financial instruments are recognized at the amortized cost.

Note 25 Operational leases

Non-cancelable lease payments amount to

MSEK	2007	2006
Within one year	45.6	46.0
Between one and five years	61.8	90.4
Longer than five years	1.5	1.2
Total	**108.9**	**137.6**

Lease costs

MSEK	2007	2006
Minimum lease fees	59.6	54.8
Total	**59.6**	**54.8**

All lease agreements in the Group are classified as operating leases. A large portion of leases pertain to rent and computers. There are no variable fees.

Note 26 Pledged assets and contingent liabilities

Pledged assets

MSEK	2007	2006
Chattel mortgages	45.0	45.0
Blocked funds	1.4	1.6
Total	**46.4**	**46.6**

Contingent liabilities

MSEK	2007	2006
Counter indemnity to bank guarantee	11.0	6.8
Total	**11.0**	**6.8**

Note 27 Related parties

Summary of related party transactions

	Key individuals in management positions	
MSEK	2007	2006
Purchase of services from related party [1]	5.8	5.7
Total	**5.8**	**5.7**

[1] pertains to services and equipment purchased from companies in which a member of the Board of Directors is active.

Transactions with related parties are priced at market rates and regulated in agreements between the parties

Note 28 Group companies

The Parent Company's and the Group's holdings of shares and participation in Group companies

MSEK		Carrying amount	
Subsidiary/Company registration no./Domicile.	shareholding	2007	2006
Telelogic Sverige AB, 556510-7389, Malmö, Sweden	4 785 000	117.8	0.5
Telelogic Rus LLC, 1057746773633, Moscow, Russia	1		
Telelogic Focal Point AB, 556536-3990, Malmö, Sweden	5 870 000	2.3	119.6
Focal Point Americas Inc. 602453243, San Francisco, US			
Telelogic Options AB, 556558-9149, Malmö, Sweden	1 000	0.1	0.1
Telelogic Finland Oy, 1549433-0, Helsinki, Finland	200	-	-
Telelogic Norge AS, 979465289, Trondheim, Norway	342 858	0.1	0.1
Telelogic Technologies UK Ltd, 1832150, Maidenhead, UK	10 000	-	-
Telelogic Doors Ltd, 2936647, Cardiff, UK			
Real Time Products Ltd, 2139638, Birmingham, UK	22 000	-	-
Telelogic Ireland Ltd, 255214, Dublin, Ireland	1	-	-
Telelogic Continous Ireland Ltd, 274232, Dublin, Ireland	9 000	0.1	0.1
Telelogic Deutschland GmbH, 34265, Bielefeld, Germany	1	24.3	24.3
Telelogic France SA, 351994736, Nanterre, France	22 425	5.9	5.9
Telelogic Technologies Toulouse SA, 330575705, Toulouse, France			
Telelogic Netherlands B.V., 30168519, Utrecht, Netherlands	200	-	-
Telelogic Iberica S.L., B-82855966, Madrid, Spain	301	-	-
Telelogic Italy SrL, 02793600962, Milan, Italy	20 000	1.3	1.3
Telelogic Japan Ltd, 0104-01-035618, Tokyo, Japan	600	1.6	11.6
Telelogic Australia Pty Ltd, 34089339711, New South Wales, Australia	2	0.1	0.1
Telelogic Korea Ltd, 110111-2127896, Seoul, Korea	10 000	-	0.4
Telelogic Co, Ltd, 015250, Beijing, China	1	-	-
Telelogic India Pte Ltd, CIN-72200KA2000, Bangalore, India	49 517	31.3	-
Telelogic Software Singapore Pte Ltd, 200008786W, Singapore	50 000	-	-
Telelogic Holding North America Inc, 3361889, Delaware, US	1 000	460.0	460.0
Telelogic North America Inc., 2569989, Delaware, US			
Telelogic Systems Inc., 4034876, Delaware, US			
Telelogic Canada Inc, 359017-8, Ontario, Canada			
Telelogic Doors UK Holding Ltd, 2706134, Oxford, UK			
Telelogic UK Ltd, 3951808, Oxford, UK			
Requirements Engineering Ltd, 2288111, Oxford, UK			
Eurocom Software Ltd, 2497516, Cardiff, UK			
VisualSoftware Engineering Ltd, 2861478, Oxford, UK			
Telelogic Popkin Ltd, 3019814, Leamington, UK			
Telelogic I-Logix Israel Ltd, 510985229, Rehovot, Israel			
Telelogic I-Logix UK Ltd, 02476251, Chippenham, UK			
Total book value in the Parent Company		**644.9**	**624.0**

Group, notes

Note 29 Cash flow statement

Interest paid and interest received

MSEK	2007	2006
Interest received	23.6	11.4
Interest paid	-20.5	-18.2

Adjustments for items not affecting the cash flow

MSEK	2007	2006
Depreciation/amortization	73.6	86.3
Costs related to share-based compensation	4.9	6.8
Provisions	-1.9	-9.6
Other	0.0	0.1
Total	**76.6**	**83.6**

Acquisition of operations

MSEK	2007	2006
Net cash outflow		
I-Logix	4.9	621.5
Popkin	-	37.6
Focal Point	-	0.3
Total	**4.9**	**659.4**

Note 30 Events after balance sheet date

June 11, 2007, IBM announced a public cash offer to the shareholders of Telelogic AB. The acceptance period for the shareholders of Telelogic in reference to this offer has after the balance sheet date been extended until March 19, 2008.

Parent Company, notes

Note 31 Employees and payroll expenses

Employee benefit costs

MSEK	2007	2006
Salaries, and other remuneration	36.0	41.2
Share-based payments	4.9	6.8
Total	40.9	48.0

For the Board of Directors and CEO	5.7	5.2
of which incentives and similar items.	1.7	1.1

MSEK	2007	2006
Pension costs, defined contribution plans	6.0	10.4
Social security expenses	12.5	15.8
Total	**18.5**	**26.2**

Average number of employees

	2007	men	2006	men
Sweden	51	78%	70	73%

Absence due to illness

	2007	2006
Absence due to illness as a percentage of regular work hours for		
- women	2.5	2.0
- men	1.3	1.0
- employees under 29 years	-	-
- employees 30-49 years	1.3	1.3
- employees 50 years or older	-	1.3
- all employees	1.6	1.3
Percentage of total absence from work due to illness for a continuous period of 60 days or more	11.7	19.1

Note 32 Other operating expenses

MSEK	2007	2006
Costs related to the current tender offer from IBM	-11.5	-
Total	**-11.5**	**-**

Note 33 Fees and expenses for auditors

MSEK	2007	2006
KPMG		
Auditing services	0.9	0.7
Other assignments	0.9	1.4
Total	**1.8**	**2.1**

Note 34 Operating expenses by category of expense

MSEK	2007	2006
Employee remuneration	59.4	74.2
Depreciation/amortization	5.0	3.8
Other expenses	91.0	53.0
Total	**155.4**	**131.0**

Note 35 Financial income and expenses

MSEK	2007	2006
Dividend, subsidiary	117.3	177.0
Write-down of shares in subsidiary	-127.7	-2.0
Loss, sale of subsidiary	-	-55.4
Income from holdings in Group companies	**-10.4**	**119.6**
Interest income, subsidiary	38.5	34.7
Interest income, other	14.8	6.0
Financial income	**53.3**	**40.7**
Interest expenses, subsidiary	-9.0	-14.3
Interest expenses, other	-20.7	-15.5
Financial expenses	-2.2	-1.4
Financial expenses	**-31.9**	**-31.2**
Net financial items	**11.0**	**129.1**

Note 36 Taxes

Reported in the income statement

MSEK	2007	2006
Current tax expense		
Tax expense for the period	-0.7	-2.5
Total	**-0.7**	**-2.5**

Deferred tax expense

Deferred tax on revaluation of the carrying amount of deferred tax assets	-31.7	-
Total	**-31.7**	**-**
Total reported tax expense	**-32.4**	**-2.5**

Reconciliation of effective tax

MSEK	%	2007	%	2006
Income before tax		123.0		190.4
Tax according to current tax rate for Parent Company	28	-34.4	28	-53.3
Non-deductible expenses		-37.3		-18.6
Tax-exempt income		32.8		49.6
Reassessment of carryforward of unused tax losses		7.1		20.0
Foreign tax		-0.7		-2.5
Changes in temporary differences for which deferred tax was not previously reported		0.1		2.3
Total reported tax expense		**-32.4**		**-2.5**

Deferred tax assets/tax liabilities

	Deferred tax assets		Deferred tax liability	
MSEK	2007	2006	2007	2006
noncurrent receivables	25.7	17.0	-	-
Loss carryforward	35.0	66.7	-	-
Total	**60.7**	**83.7**	**-**	**-**

Changes in deferred tax in temporary differences and deficit deductions

	Balance as of January 1		Recognized in the income statement		Recognized directly against equity		Balance as of December 31	
MSEK	2007	2006	2007	2006	2007	2006	2007	2006
Noncurrent receivables	17.0	-	-	-	8.7	17.0	25.7	17.0
Loss carryforward	66.7	66.7	-31.7	-	-	-	35.0	66.7
Total	**83.7**	**66.7**	**-31.7**	**-**	**8.7**	**17.0**	**60.7**	**83.7**

Parent Company, notes

Note 37 Intangible fixed assets

Accumulated acquisition value	Other intangible assets	
MSEK	2007	2006
Opening balance as of January 1	104.6	93.7
Disposals	-91.0	-
Investments	0.7	10.9
Closing balance as of December 31	**14.3**	**104.6**

Accumulated amortization	Other intangible assets	
MSEK	2007	2006
Opening balance as of January 1	-93.1	-91.9
Disposals	91.0	-
Amortization according to plan for the year	-2.7	-1.2
Closing balance as of December 31	**-4.8**	**-93.1**
Carrying value as of December 31	**9.5**	**11.5**

Distribution of amortization for the year

MSEK	2007	2006
Selling expenses	2.7	1.2
Total	**2.7**	**1.2**

Note 38 Property, plant, and equipment

Equipment and IT equipment

Accumulated acquisition value		
MSEK	2007	2006
Opening balance as of January 1	13.2	25.5
Investments	1.7	2.4
Divestments and disposals	-	-14.7
Closing balance as of December 31	**14.9**	**13.2**

Accumulated depreciation

MSEK	2007	2006
Opening balance as of January 1	-10.1	-22.2
Depreciation according to plan for the year	-2.3	-2.6
Divestments and disposals	-	14.7
Closing balance as of December 31	**-12.4**	**-10.1**
Carrying amount as of December 31	**2.5**	**3.1**

Distribution of depreciation for the year

MSEK	2007	2006
Selling expenses	0.1	0.1
Administrative expenses	1.0	1.1
Product development expenses	1.2	1.4
Total	**2.3**	**2.6**

Note 39 Financial fixed assets and other receivables

Financial fixed assets

MSEK	2007	2006
Noncurrent receivables, Group companies	519.3	550.3
Financial fixed assets	**519.3**	**550.3**

Other current receivables

MSEK	2007	2006
VAT owed	0.2	0.6
Other	0.1	0.1
Other receivables	**0.3**	**0.7**

Note 40 Prepayments and accrued income

MSEK	2007	2006
Rent	0.9	0.9
Accrued income	60.2	28.8
Allocated expenses	7.0	10.2
Other	1.2	1.1
Total	**69.3**	**41.0**

Note 41 Interest-bearing liabilities

Noncurrent liabilities

MSEK	2007	2006
Investment loan STIV, 10 years	337.5	387.5
Noncurrent liabilities	337.5	387.5

Current liabilities

MSEK	2007	2006
Current portion of loan	50.0	50.0
Current liabilities	50.0	50.0

Note 42 Provisions

MSEK	2007	2006
Restructuring expenses	0.0	0.1
Provisions	**0.0**	**0.1**

Changes in provisions

MSEK	2007	2006
Opening balance as of January 1	0.1	10.0
Amount utilized during the year	-0.1	-9.9
Closing balance as of December 31	**0.0**	**0.1**

Note 43 Other liabilities

Other current liabilities

MSEK	2007	2006
Liabilities pertaining to personnel	0.3	2.4
Current liabilities	**0.3**	**2.4**

Note 44 Accruals and deferred income

MSEK	2007	2006
Maintenance agreements, prepaid revenue	10.5	2.1
Personnel-related items	13.8	12.1
Other	16.5	2.2
Accruals and deferred income	**40.8**	**16.4**

Note 45 Operational leases

Non-cancelable lease payments amount to

MSEK	2007	2006
Within one year	3.7	4.1
Between one and five years	9.0	3.2
Total	**12.7**	**7.3**

Lease costs

MSEK	2007	2006
Minimum lease fees	4.0	4.6
Total	**4.0**	**4.6**

All lease agreements in the Group are classified as operating leases. A large portion of leases pertains to rent and computers. There are no variable fees.

Note 46 Pledged assets and contingent liabilities

Pledged assets

MSEK	2007	2006
Chattel mortgages	45.0	45.0
Total	**45.0**	**45.0**

Contingent liabilities

MSEK	2007	2006
Guarantee commitments on behalf of subsidiaries	52.9	58.6
Counter obligation to bank guarantee	10.0	5.7
Total	**62.9**	**64.3**

Note 47 Related parties

Summary of related party transactions

	Subsidiaries	
MSEK	2007	2006
Sales to subsidiaries	117.6	111.1
Due to subsidiaries as of December 31	422.8	291.2
Receivable from subsidiaries as of December 31	701.4	756.6

Parent Company, notes

Note 48 Group company

Cost

MSEK	2007	2006
Opening balance January 1	2 684.2	2 558.8
Acquisition by distribution of shares	117.3	0.3
Sales company	-	-62.6
Shareholder contributions	31.3	187.7
Total	**2 832.8**	**2 684.2**

Accumulated impairment losses

MSEK	2007	2006
Opening balance January 1	-2 060.2	-2 058.2
Impairment losses for the year	-127.7	-2.0
Total	**-2 187.9**	**-2 060.2**

Carrying amount as of December 31	**644.9**	**624.0**

Note 49 Cash flow statement

Interest paid and interest received

MSEK	2007	2006
Interest received	53.2	39.7
Interest paid	-39.1	-29.8

Adjustments for items not affecting the cash flow

MSEK	2007	2006
Depreciation/amortization	5.0	3.8
Write-down of shares in subsidiaries	127.7	2.0
Capital loss on sale of subsidiaries	-	55.4
Issuance of shares	-117.3	-
Costs for share-based payment	4.9	6.8
Total	**20.3**	**68.0**

Note 50 Information on Parent Company

Telelogic AB, company registration number 556049-9690, is a Swedish public corporation domiciled in Malmö. Sweden. The Parent Company's share is presently traded on the Nordic Stock Exchange, Mid Cap List. Address of corporate headquarters: Box 4128, 203 12 Malmö.

The annual report gives a fair assessment of the Group's and the Parent Company's position and results, and the audit report gives a fair overview of the development of the Group and Parent Company operations, position, and result, as well as significant risks and uncertainties faced by the companies included in the Group. The Group's and Parent Company's income statement and balance sheet are subject to approval by the Annual General Meeting to be held May 6, 2008.

Malmö February 29, 2008

Bo Dimert
Chairman

Anders Lidbeck
Chief Executive Officer

Kjell Duveblad

Märtha Josefsson

Birgitta Klasén

Jörgen Centerman

Ola Eklundh
Employee representative

Brandon Jones
Employee representative

My audit report was submitted March 5, 2008

KPMG Bohlins AB

Eva Melzig Henriksson
Authorized Public Accountant

Audit Report

To the Annual General Meeting in Telelogic AB

Corporate identity number 556049-9690

We 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 2007. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 123-123. The Board of Directors and the Chief Executive Officer are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute 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 and significant estimates made by the Board of Directors and the Chief Executive Officer when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined signi¬ficant decisions, 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. We 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. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts. We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent Company and the group be adopted, that the profit of 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 on March 5, 2008

KPMG Bohlins AB

Eva Melzig Henriksson

Authorized Public Accountant


COMPUTER CABLE

Corporate governance report

Telelogic AB (publ) is governed by the Annual General Meeting, Board of Directors, and Chief Executive Officer in accordance with the Swedish Companies Act, other laws and regulations, applicable rules for stock market companies, including the Swedish Code of Corporate Governance, company bylaws, as well as internal governance procedures of board committees.

Articles of association
The articles of association describe, among other things, the operation of the company, the share capital and number of shares, the number of directors and auditors, how summons to the general Annual General Meeting shall be performed, how matters are handled during the Annual General Meeting, and that the Annual General Meeting shall be conducted in Malmö. To view the articles of association adopted May 3, 2007, and now in effect, please go to www.telelogic.com.

Annual General Meeting 2007
Telelogic's highest governing body is the Annual General Meeting. All shareholders who are registered in the share register and who have provided timely notice of attendance have the right to participate in the meeting and vote for the total number of shares owned. Shareholders who are unable to attend in person can be represented by proxy.

The Annual General Meeting selects the Board of Directors for the corporation. The Annual General Meeting is also tasked with adopting the balance and income statements for the corporation, deciding on disposition of the results from the operation, and deciding on discharging the Board of Directors and the Chief Executive Officer from liability. The Annual General Meeting also elects Telelogic's auditors.

Telelogic's most recent Annual General Meeting was held May 3, 2007 in Malmö. At the meeting, the shareholders present represented 35.1 percent of the capital and votes. Present at the meeting were the entire Board of Directors, the Chief Executive Officer, and company auditors. To view the decisions taken at the meeting, please go to www.telelogic.com, where the minutes of the Annual General Meeting are available. Telelogic does not provide any remote connection for participation in the meeting, as this is not considered to be economically justifiable, because 95 percent of Telelogic's shareholders are based in Sweden.

Nominations Committee
In accordance with a decision taken at the Annual General Meeting, the Nominations Committee shall consist of the Chairman of the Board of Directors (convener) and representatives of the four largest shareholders as of August 31. In consideration of the current tender offer by IBM, the existing Nominations Committee decided to hold off on forming a new Nominations Committee until after the expiration of the tender offer in December 2007. After the extension of the tender offer in December and against the backdrop of the current review process within the EU, the Nominations Committee has decided to hold off on the formation of a new Nominations Committee. There is, however, a readiness to act in case the tender offer by IBM does not come to pass.

This means that the current Nominations Committee consists of Annika Andersson, Nominations Committee chair, Fourth AP Fund; Åsa Nisell, Swedbank Robur funds; Peter Rönström, Lannebo Funds; Anders Ljungqvist, AMF Pension and Telelogic's Chairman of the Board of Directors Bo Dimert.

The chair of the Nominations Committee is elected among the shareholder representatives at the organizing meeting. The Nominations Committee shall develop proposals for the chair at the meeting, a proposal in regards to the number of Directors of the Board, a proposal for the remuneration of the Directors and the auditors, and proposals for Directors and Chairman of the Board and in applicable cases, auditors. In 2007, the Nominations Committee met three times.

The Nominations Committee follows the rules and discharges the duties which the Swedish Code of Corporate Governance stipulates for the Nominations Committee (Item 2 in the Swedish Code of Corporate Governance). No remuneration is provided to the Nominations Committee.

The Board of Directors and its rules of procedure
Telelogic AB's Board of Directors shall, according to the bylaws, consist of three to nine members and no more than three alternate members to be elected annually by the Annual General Meeting for the time until the end of the next Annual General Meeting.

At the Annual General Meeting in May, 2007, six regular members of the Board of Directors were elected, including Telelogic's Chief Executive Officer. In addition, the employee association has designated two regular members and one alternate member of the Board of Directors. The company Chief Financial Officer and Chief Technology Officer participate regularly in board meetings as presenters, whereas other executives participate in board meetings when deemed appropriate. Additional information about the members of the Board of Directors, please see pages 70–71 and www.telelogic.com.

During the year the Board of Directors met nine times, of which six times were scheduled at the beginning of the year, and three were scheduled due to special circumstances to decide on a response to IBM's tender offer to Telelogic's shareholders. An organizing meeting of the Board of Directors was held May 3, 2007, the same day as the Annual General Meeting. At the Annual General Meeting, it was decided that Bo Dimert will remain as the Chairman of the Board of Directors.

The work of the Board of Directors follows a plan, which is prepared in advance, and which is intended to satisfy the informational needs of the Board of Directors, and the operational management's need for guidelines for its work. The Board of Directors has documented its working procedures in a written work program, which also clarifies the division of responsibility between the Board and the Chief Executive Officer, and the guidelines for reporting financial information to the Board of Directors. The work program is subject to annual review and an update was made during the year.

The responsibilities of the Board of Directors include to supervise the Chief Executive Officer's work through continuing review of the operations during the year, ensure that the organization, management, and guidelines for managing the company's affairs are suitable, and that satisfactory internal controls exist. The responsibilities of the Board of Directors also include to formulate strategies and goals, develop special control instruments, decide on larger acquisitions or disposals of operations, decide on other larger investments, set financial policy, issue financial reports, evaluate the operative management, and ensure succession planning. In addition, the Board of Directors has held regular reviews with the auditors.

Board of Directors

JÖRGEN CENTERMAN

Born: 1951.

Member of the Board of Directors since 2005

Main occupation: Board consultant.

Other directorships: Chairman of the Board of Directors of Dacke PMC AB, member of the Board of Directors of Micronic Laser Systems AB, XPonCard AB, HMS Networks AB, Kemetyl AB, and Segulah Advisor AB.

Background: Over 25 years of experience of international work in sales and management at ABB, CEO of ABB, 2000–2002.

Education: M.Sc. in Engineering, 1976, Lund University

Shares: 0.

Options: 0.

BO DIMERT

Chairman.

Born: 1943.

Member of the Board of Directors since 2001

Main occupation: Board consultant.

Other directorships: Chairman of the Board of Directors of AddPro AB, Advoco AB, IKIVO AB, ipUnplugged AB, and member of the Board of Directors of Genesys S.A, and Sweden-America Foundation.

Background: Over 30 years experience of international work in sales and management at IBM, Digital Corporation, and Ericsson. Bo has served as CEO and President of Ericsson Inc, and Vice President of the Ericsson Group.

Education: B.Sc. (Econ.), Stockholm School of Economics, 1967

Shares: 65 000.

Options: 0.

MÄRTHA JOSEFSSON

Born: 1947.

Member of the Board of Directors since 2006

Main occupation: Board consultant and financial advisor.

Other directorships: Member of the Board of Directors of Anoto, Fabege, Öresund, Luxonen, Second AP fund, Uppsala Nya Tidning, Skandia Funds and Teachers' Funds.

Background: Over 25 years of experience within SEB, Skandia, DnB Nor and, above all, Carlson Investment Management, where Märtha was one of the owners. Since 2003, Märtha is a consultant in her own company.

Education: B.A, Uppsala University.

Shares: 75 000.

Options: 0.

KJELL DUVEBLAD

Born: 1954.

Member of the Board of Directors since 1998

Main occupation: Board consultant.

Other directorships: Chairman of the Board of Tradedoubler, Trio Enterprise, and Remium Fondkommission. Member of the Board of Directors of Bure Equity, FSAB, EnergoRetea, and Teleopti, among others.

Background: Previously employed at IBM, as Vice President of Oracle in Sweden, and as regional manager of Oracle in the Nordic and Baltic countries, in the period 1993–2002.

Education: B.Sc. (Econ.), Stockholm School of Economics, 1977.

Shares: 600 000.

Options: 0.

Auditor

EVA MELZIG HENRIKSSON

Regular Authorized Public Accountant, KPMG Bohlins AB.

Auditor for Telelogic since 2007.

Born: 1961.

Employee representatives

OLA EKLUNDH

Born: 1969.

Member of the Board of Directors since 2003

Main occupation: Software Configuration Manager.

Shares: 10 158.

Options: 0.

BRANDON JONES

Born: 1975.

Member of the Board of Directors since 2002

Main occupation: Solution Architect

Shares: 20 000.

Options: 2 000.

BIRGITTA KLASÉN

Born: 1949.

Member of the Board of Directors since 2006

Main occupation: Senior IT Advisor and Board Director.

Other directorships: Member of the Board of Directors of OMX and Bisnode.

Background: In the past ten years, Birgitta has worked internationally as Chief Information Officer/IT director at Pharmacia in the UK and the US, and at EADS, manufacturer of Airbus, headquartered in Munich and Paris. Birgitta was Chief Information Officer at Telia (1995–1996) and before this, she was employed for 19 years at IBM, among others, as Vice President at IBM's outsourcing company, of which she was one of the founders in 1992. She also has previous experience in working on the Board of Directors at Förenings-sparbanken, Eniro, Ledstiernan and Eon Bv in Holland, among others.

Education: M.Sc. in Technical Physics, Royal Institute of Technology, as well as a degree in economics and teaching from Stockholm University.

Shares: 20 000.

Options: 0.

ANDERS LIDBECK

Born: 1962.

Member of the Board of Directors since1998.

Main occupation: President and CEO of Telelogic AB

Other directorships: Chairman of the Board of Directors in Creandum Advisor AB and Member of the Board of Directors of a number of Telelogic subsidiaries.

Background: He has previously worked at Nokia and ICL as President for ICL Direct in Benelux and VP Sales & Marketing at ICL Industry Systems Europe, among others. During his tenure as President of Telelogic, he took the company public, developing it to a global operation.

Education: B.Sc. (Econ.), 1988, Lund University

Shares: 525 000.

Options: 700 000.

Remuneration issues

The Chairman and the members of the Board of Directors are compensated in accordance with a decision taken at the Annual General Meeting. The remuneration shall be a total of SEK 1 000 000, of which SEK 400 000 shall be paid to the Chairman of the Board of Directors and SEK 150 000 to each of the other members of the Board of Directors, who are not employees of the company.

The Board of Directors shall within itself appoint a Remuneration Committee to decide on matters concerning conditions of employment, pension benefits, and incentive system regarding the CEO and the executive management. The Remuneration Committee also decides on over-arching conditions of employment and questions regarding compensation of all employees of the company, such as managing the global options program in accordance with the mandate of the Annual General Meeting. The Remuneration Committee reports on its work to the Board of Directors.

In 2007, Remuneration Committee members were: Bo Dimert, Chairman, Kjell Duveblad, and Birgitta Klasén. The Chairman of the Committee reports to the Board of Directors on a regular basis on the work and the proposals that will be put forward for decision by the Board of Directors. In 2007, the Remuneration Committee met on two occasions and stayed continuously involved in connection with employment, salary, and other questions. The Annual General Meeting 2007 decided that compensation shall be paid for the work of the Remuneration Committee in the amount of SEK 100 000, of which SEK 40 000 shall be paid to the Chairman and SEK 30 000 to each of the other members.

Detailed information on compensation to the management and a summary of the remuneration to the Board of Directors can be found in Note 20. Please refer to the table below regarding detailed information on remuneration to the Board of Directors.

Audit Committee

As of 2006, there is a special Audit Committee. The Audit Committee consists of Märtha Josefsson, Chairperson, Bo Dimert, and Jörgen Centerman. The members of the Audit Committee usually meet in connection with Board of Directors meetings and their main task is to ensure that established principles for financial reporting and internal controls are observed, and that suitable relations are maintained with company auditors. The result of the work of the Audit Committee in the form of observations, recommendations, and proposals for decisions and measures are reported on a regular basis to the Board of Directors. The Audit Committee met four times in 2007. The Annual General Meeting decided that compensation shall be paid to the Audit Committee in the amount of SEK 130 000, of which SEK 50 000 shall be paid to the Chairperson and SEK 40 000 to each of the other committee members.

Telelogic's CFO, Håkan Tjärnemo, participates in the meetings of the Audit Committee, as does the company auditor.

Executive management

The Chief Executive Officer manages the operations in accordance with the Swedish Companies Act, other rules and regulations, applicable rules concerning stock market companies, including the Swedish Code of Corporate Governance, Articles of Association, and within the framework established by the Board of Directors, among others, in instruction for the CEO. The CEO develops, in cooperation with the Chairman of the Board, pertinent information and documentation as basis for the work of the Board of Directors and to enable the Board to make well-supported decisions, reports on matters and justifies proposals for decisions, and reports to the Board on the development of the company (which normally is ensured through standardized monthly reporting to all members of the Board). The CEO manages the work of the Executive Management and takes decisions in cooperation with the other members of the management.

As of January 1, 2007, Telelogic's company Executive Management team has twelve members:

- President and CEO
- CFO
- CTO and EVP Product Division Requirements Management
- EVP Corporate Development
- EVP Corporate Communications
- EVP Global Support
- EVP Corporate and Product Strategy
- President Market Division Americas
- President Market Division EMEA
- President Market Division Asia/Pacific
- EVP Product Division Change and Configuration Management
- EVP Product Division Modeling Solutions

The Executive Management meets twice per month, or more frequently if necessary, in accordance with an agenda established beforehand. Normally, the Executive Management meets in person once every quarter and by conference call in between.

Additional information about the Executive Management can be found on pages 74–75, and by logging onto www.telelogic.com.

Name	Function	Born	Elected	Independent	Shares	Options	Directors' fees 2007	Committee fees 2007	Attendance, %
Bo Dimert	Chairman	1943	2001	Yes	65 000	0	400 000	80 000	100%
Jörgen Centerman		1951	2005	Yes	0	0	150 000	40 000	100%
Kjell Duveblad		1954	1998	Yes	600 000	0	150 000	30 000	100%
Märtha Josefsson		1947	2006	Yes	75 000	0	150 000	50 000	89% [1]
Birgitta Klasén		1949	2006	Yes	20 000	0	150 000	30 000	78% [2]
Anders Lidbeck	President and CEO	1962	1998	No	525 000	700 000	-	-	100%
Ola Eklundh	Employee representative	1969	2003	No	10 158	0	-	-	78% [2]
Brandon Jones	Employee representative	1975	2002	No	20 000	2 000	-	-	78% [2]

1) 8 of 9 meetings
2) 7 of 9 meetings

External auditing
The Nominations Committee is tasked with suggesting auditors, elected for a four-year period, to the Annual General Meeting. At the Annual General Meeting 2007, it was decided that the company shall have one auditor without alternate. The meeting elected the registered auditing firm KPMG Bohlins AB as auditors for the period until such time as the Annual General Meeting for 2011 has been held. The Authorized Public Accountant Eva Melzig Henriksson is considered the person with overall responsibility for the audit.

The auditors work based on an auditing plan, according to which the auditing committee and the Board of Directors are consulted. The auditors regularly report their observations to the auditing committee and the Board of Directors (2 times during meetings of the Board of Directors in 2007), both when the audit is being conducted, and also in connection with adopting the annual report. The auditors also participate in the Annual General Meeting and describe at the meeting how the audit has been conducted, observations made, and the auditors' report. The auditors have during the year had consulting assignments in addition to the audit. Information about remuneration to the auditors is contained in Note 6.

The Board of Directors' internal control report
The Board of Directors shall, in accordance with the Swedish Companies Act, ensure that the company is organized in a way which allows the accounting, asset management, and the financial conditions of the company to be controlled in a satisfactory manner. The Swedish Code of Corporate Governance expands on this and stipulates that the Board of Directors are held responsible for the internal control. Telelogic has not formed any internal audit function. The need to form such a function has not been seen as necessary, because the company accounting department has the full responsibility to pursue and look after internal control matters within the company and report on such matters to the Audit Committee . The Board of Directors of Telelogic has chosen to integrate its report on internal controls with the company governance report and only describe how the internal control is organized, without auditors' review.

The Board of Directors is responsible to ensure that there are effective procedures in place for management and control of the company. The Chief Executive Officer is responsible for ensuring that these procedures and systems are implemented and followed throughout the organization. For decisions in regards to expenditures and extension of credits, there are special procedures for delegation in the form of authorization procedures. The financial management is centralized and individuals with financial responsibility at all subsidiaries have a reporting relationship to the company controller and CFO respectively. The business risks involved in the various contracts that the company enters into are normally handled by the respective subsidiary. Larger contracts shall be approved by corporate resources at the head office financial department to ensure that the level of risk and signed contracts conform with the over-arching guidelines of the company.

Control environment
The internal control is defined as a process, which is affected by the Board of Directors, the company management, and other co-workers and which has been formulated to give a reasonable assurance that Telelogic's goals are achieved in terms of purposeful and effective operation, reliable financial accounting and compliance with applicable laws and regulations. The process is based on the control environment which creates discipline and structure for the other four components in the process, i.e. risk assessment, control structures, information and communication as well as follow-through. Telelogic has a number of policies, manuals, and codes which contain binding rules, and a number of recommendations which provide guidelines and manuals for the operation and the employees. These control documents together with laws and regulations, existing rules for public corporations, including Swedish Codes of Corporate Governance and company bylaws form the so-called control environment.

Risk assessment
In 2007, the Audit Committee has reviewed the risks in the financial reporting. This process is recurring annually for the committee. In connection with the risk analysis, items in the income statement and balance sheet were identified which carry an increased inherent risk for significant errors or have valuations based on assumptions about future developments. In the operation of the company, these risks are mainly for items connected to sales accounting and in the balance sheet items goodwill, capitalized development costs and deferred tax assets.

Control activities
The Board ensures the quality of the financial reporting partly through instructions to the Chief Executive Officer, instructions for financial reporting to the Board of Directors , partly through review of the report from the Audit Committee in the form of prepared minutes and observations, recommendations, and proposals for decisions and measures. The Board further ensures the quality of the financial reporting through comprehensive review of the interim reports, annual statements, and annual report during board meetings.

Information and communication
The control documents for the company for the financial reporting consist mainly of policies and guidelines, which are regularly updated and are communicated through appropriate channels. For communication with external parties, there is a clear policy which has been approved by the Board of Directors, and which provides guidelines for how this communication should take place.

Monitoring
The procedure to assess whether the internal controls are appropriate and function as intended is done by a combination of self-evaluations, independent testing, and verification by external parties. The Audit Committee has an annual process which ensures that appropriate actions are taken to remedy short-comings and implement the recommended action items which have been identified as a result of the review efforts of the company financial department and independent auditors.

Compliance with the Swedish Code of Corporate Governance
In accordance with the requirements of the Nordic Stock Exchange, Telelogic follows the Swedish Code of Corporate Governance. In regards to one item, Telelogic deviates, however, from the code. Item 3.6.2, Special declaration in financial reporting, requires that the Board of Directors and the Chief Executive Officer shall, prior to signing of the annual report, provide a special certification that it has been prepared in accordance with generally accepted accounting principles. Telelogic's Board of Directors considers that a separate certification is not required, as the signing of the annual report includes this type of certification.

Executive Management

JESPER CHRISTENSEN

Executive Vice President
Product Division Change
and Configuration
Management

Born: 1958

Employed since 2000

Shares: 0

Options: 145 000

Based in California, USA

STAFFAN SÖDERQVIST

President Market Division
Asia/Pacific

Born: 1957

Employed since 2006

Shares 0

Options: 100 000

Based in Singapore, Singapore

INGEMAR LJUNGDAHL

Chief Technology Officer
and EVP Product Division
Requirements Management

Born: 1953

Employed since 1984

CEO between 1991 and 1997.

Shares: 56 667

Options: 140 000

Based in Malmö, Sweden

NEERAJ CHANDRA

Executive Vice President
Corporate and Product
Strategy

Born: 1956

Employed since 2006

Shares: 0

Options: 100 000

Based in Boston, USA

CATHARINA PAULCÉN

Executive Vice President
Corporate Communications

Born: 1973

Employed since 1997

Shares: 169 000

Options: 135 000

Based in Malmö, Sweden

ANDERS LIDBECK

President and CEO

Born: 1962

Employed since 1998

Shares: 525 000

Options: 700 000

Based in Malmö, Sweden

GREG SIKES
Executive Vice President
Product Division Modeling
Born: 1962
Employed since 2003
Shares: 0
Options: 125 000
Based in California, USA

HÅKAN RIPPE
Executive Vice President
Corporate Development
Born: 1968
Employed 1999-2002 and from 2004
Shares: 160 000
Options: 105 000
Based in Stockholm, Sweden

HÅKAN PERSSON
President Market Division
EMEA
Born: 1961
Employed since 2007
Shares: 0
Options: 0
Based in Malmö, Sweden

SUSAN BOERS
President Market Division
Americas
Born: 1948
Employed since 2000
Shares: 0
Options: 75 000
Based in Washington, USA
Steve McGrath is new President since February 1, 2008.

PER ÅSBERG
Executive Vice President
Global Support
Born: 1961
Employed since 1999
Shares: 20 000
Options: 80 000
Based in California, USA

HÅKAN TJÄRNEMO
Chief Financial Officer
Born: 1960
Employed since 1998:
Shares: 326 318
Options: 165 000
Based in Malmö, Sweden

7 years in summary

MSEK	2007	2006	2005	2004	2003*	2002*	2001*
INCOME STATEMENTS							
License and maintenance revenue	1 429.2	1 253.2	1 025.9	854.2	763.9	856.2	970.5
Consulting revenue	288.1	271.7	264.0	185.1	173.1	264.8	524.5
Total revenue	**1 717.3**	**1 524.9**	**1 289.9**	**1 039.3**	**937.0**	**1 121.0**	**1 495.0**
License and maintenance expenses	-90.3	-75.4	-59.9	-56.3	-65.8	-85.0	-113.0
Consulting expenses	-224.9	-213.4	-205.3	-145.9	-153.4	-229.0	-351.0
Gross profit	**1 402.1**	**1 236.1**	**1 024.7**	**837.1**	**717.8**	**807.0**	**1 031.0**
Sales expenses	-673.9	-643.8	-527.5	-428.3	-433.2	-494.3	-739.7
Administrative expenses	-125.3	-113.6	-94.9	-78.1	-82.8	-111.4	-168.0
Product development expenses	-266.3	-230.6	-191.5	-154.2	-175.3	-173.2	-260.9
Other operating expenses	-26.7	-33.0	-15.7	-1.3	-17.9	-94.0	-1 983.9
Operating profit	**309.9**	**215.1**	**195.1**	**175.2**	**8.5**	**-65.9**	**-2 121.6**
Net financial items	0.0	-5.7	6.6	2.5	-3.3	-1.7	-2.0
Profit before taxes	**309.9**	**209.4**	**201.7**	**177.6**	**5.2**	**-67.6**	**-2 123.6**
Taxes	-77.5	-49.5	-36.5	-43.3	-21.3	-33.9	72.4
Profit after taxes	**232.4**	**159.9**	**165.2**	**134.3**	**-16.1**	**-101.5**	**-2 051.2**
BALANCE SHEETS							
Assets							
Goodwill	905.4	947.1	523.3	174.4	188.7	238.8	301.3
Capitalized development expenses	154.8	156.1	151.1	149.6	157.4	146.4	75.0
Other intangible assets	76.1	93.7	24.3	2.3	1.4	4.3	7.1
Property, plant and equipment	30.1	37.8	34.8	27.8	29.6	63.7	124.9
Financial assets	16.6	15.6	14.9	12.6	14.2	151.9	183.5
Deferred tax assets	129.8	188.1	179.1	90.0	118.4	-	-
Accounts receivable	456.0	398.7	458.3	331.5	305.3	290.7	486.3
Other current receivables	230.2	156.4	126.2	107.9	66.6	79.0	139.3
Cash and cash equivalents	645.2	462.0	447.3	249.5	139.8	160.0	128.4
Total assets	**2 644.2**	**2 455.5**	**1 959.3**	**1 145.6**	**1 021.5**	**1 134.8**	**1 445.8**
Equity and liabilities							
Shareholders' equity	1 614.8	1 426.8	1 359.8	702.7	550.2	627.2	716.2
Interest-bearing noncurrent liabilities	337.5	387.5	0.0	2.4	42.7	46.5	58.0
Other noncurrent liabilities	3.0	2.8	3.4	0.3	0.9	2.1	78.7
Accounts payable	35.0	28.8	42.1	33.5	29.1	45.8	46.8
Interest-bearing current liabilities	50.0	50.0	39.8	7.2	7.5	8.8	2.1
Other current liabilities	63.6	67.9	71.4	64.7	73.4	72.1	132.4
Accruals and deferred income	540.3	491.7	442.8	334.8	317.6	332.3	411.6
Total equity and liabilities	**2 644.2**	**2 455.5**	**1 959.3**	**1 145.6**	**1 021.5**	**1 134.8**	**1 445.8**
CASH FLOW STATEMENT							
Cash flow from current operations	286.4	288.9	183.1	152.8	34.4	122.4	-219.4
Investing activity	-56.2	-727.8	-298.8	-44.5	-41.7	-92.1	-160.7
Financing activity	-46.9	468.5	295.3	8.2	-1.2	11.5	257.2
Cash flow from the period	**183.3**	**29.6**	**179.6**	**116.4**	**-8.5**	**41.8**	**-122.9**
Cash and cash equivalents at the beginning of the period	462.0	447.3	249.5	139.8	160.0	128.4	240.8
Exchange rate difference in cash and cash equivalents	-0.1	-14.9	18.2	-6.7	-11.7	-10.2	10.5
Cash and cash equivalents at the end of the period	**645.2**	**462.0**	**447.3**	**249.5**	**139.8**	**160.0**	**128.4**

*The years 2001-2003 have not been adjusted for IFRS. This mainly affects depreciation of goodwill.

Quarterly data

	2007				2006			
MSEK	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1
INCOME STATEMENTS								
License revenue	255.2	193.2	155.6	159.9	212.4	152.4	160.5	127.9
Maintenance revenue	172.8	164.6	166.6	161.3	160.8	158.3	152.7	128.2
Consulting revenue	74.3	70.7	75.4	67.7	72.1	59.4	69.2	71.0
Net sales	**502.3**	**428.5**	**397.6**	**388.9**	**445.3**	**370.1**	**382.4**	**327.1**
License expenses	-10.3	-7.7	-8.6	-6.4	-6.8	-4.8	-6.0	-5.0
Maintenance expenses	-15.4	-14.0	-13.5	-14.4	-14.2	-13.6	-14.4	-10.6
Consulting expenses	-58.8	-55.9	-56.0	-54.2	-56.3	-46.2	-55.7	-55.2
Gross profit	**417.8**	**350.9**	**319.5**	**313.9**	**368.0**	**305.5**	**306.3**	**256.3**
Sales expenses	-174.7	-165.4	-168.3	-165.5	-167.5	-163.1	-167.9	-145.3
Administrative expenses	-32.4	-31.9	-30.8	-30.2	-29.9	-28.6	-30.3	-24.8
Product development expenses	-65.6	-66.7	-68.6	-65.4	-63.1	-59.7	-59.0	-48.8
Other operating expenses	-7.1	-11.2	-3.6	-4.8	-7.3	-9.6	-12.0	-4.1
Operating profit	**138.0**	**75.7**	**48.2**	**48.0**	**100.2**	**44.5**	**37.1**	**33.3**
Net financial item	1.3	-0.3	-0.7	-0.3	-1.8	-2.3	-3.3	1.7
Profit before taxes	**139.3**	**75.4**	**47.5**	**47.7**	**98.4**	**42.2**	**33.8**	**35.0**
Taxes	-34.1	-19.6	-12.2	-11.6	-25.1	-10.5	-7.3	-6.6
Profit after taxes	**105.2**	**55.8**	**35.3**	**36.1**	**73.3**	**31.7**	**26.5**	**28.4**
BALANCE SHEETS								
Assets								
Goodwill	905.4	906.0	950.4	966.6	947.1	1 001.5	988.1	972.4
Capitalized development expenses	154.8	155.7	155.9	156.0	156.1	155.5	153.8	151.4
Other intangible assets	76.1	75.5	83.7	89.8	93.7	96.9	105.5	126.6
Property, plant and equipment	30.1	35.9	39.3	38.9	37.8	36.7	36.3	39.3
Financial assets	16.6	16.6	15.9	14.9	15.6	13.9	13.6	14.3
Deferred tax assets	129.8	153.9	166.3	177.4	188.1	209.1	211.8	258.4
Accounts receivable	456.0	371.2	364.5	366.9	398.7	387.5	389.0	434.7
Other current receivables	230.2	184.5	157.4	171.7	156.4	122.7	121.5	132.7
Cash and cash equivalents	645.2	572.4	576.9	544.5	462.0	466.1	463.1	443.4
Total assets	**2 644.2**	**2 471.7**	**2 510.3**	**2 526.7**	**2 455.5**	**2 489.9**	**2 482.7**	**2 573.3**
Equity and liabilities								
Shareholders' equity	1 614.8	1 511.2	1 507.4	1 493.0	1 426.8	1 421.9	1 367.0	1 367.4
Interest-bearing noncurrent liabilities	337.5	350.0	362.5	375.0	387.5	425.0	437.5	450.0
Other noncurrent liabilities	3.0	4.9	4.3	4.9	2.8	3.0	0.0	0.0
Accounts payable	35.0	35.9	38.2	37.0	28.8	30.9	38.7	34.4
Interest-bearing current liabilities	50.0	50.0	50.0	50.0	50.0	50.0	50.0	92.0
Other current liabilities	63.6	48.0	42.3	54.7	67.9	81.6	92.8	89.5
Accruals and prepaid income	540.3	471.1	505.6	512.1	491.7	477.5	496.7	539.9
Total equity and liabilities	**2 644.2**	**2 471.1**	**2 510.3**	**2 526.7**	**2 455.5**	**2 489.9**	**2 482.7**	**2 573.3**
CASH FLOW STATEMENT								
Cash flow from current operations	96.5	21.4	60.0	108.5	74.3	35.0	74.7	104.9
Investing activity	-13.4	-10.7	-13.4	-18.7	-33.3	-21.7	-51.1	-621.7
Financing activity	-10.4	-11.9	-12.2	-12.4	-37.4	-11.9	2.5	515.3
Cash flow for the period	**72.7**	**-1.2**	**34.4**	**77.4**	**3.6**	**1.4**	**26.1**	**-1.5**
Cash and cash equivalents at the beginning of the period	572.4	576.9	544.5	462.0	466.1	463.1	443.4	447.3
Exchange rate difference in cash and cash equivalents	0.1	-3.3	-2.0	5.1	-7.7	1.6	-6.4	-2.4
Cash and cash equivalents at the end of the period	645.2	572.4	576.9	544.5	462.0	466.1	463.1	443.4

Key figures

	2007	2006	2005	2004	2003*	2002*	2001*
Margin, %							
Gross margin	81.6	81.1	79.4	80.5	76.6	72.0	69.0
Operating margin	18.1	14.1	15.1	16.8	0.9	-5.9	N/A
Profit margin	18.1	13.7	15.6	17.1	0.6	-6.0	N/A
Return on capital, %							
Return on operating capital	22.5	18.3	27.6	37.9	1.7	-11.3	-154.4
Return on capital employed	17.3	13.9	19.3	27.2	1.7	-8.6	-135.8
Return on equity	15.3	11.5	16.0	21.4	-2.7	-15.1	-134.4
Capital structure							
Operating capital, MSEK	1 357.1	1 402.3	952.3	462.9	460.7	522.5	647.9
Capital employed, MSEK	2 002.3	1 864.3	1 399.6	712.4	600.5	682.5	776.3
Shareholders' equity, MSEK	1 614.8	1 426.8	1 359.8	702.7	550.2	627.2	716.1
Interest-bearing net debt, MSEK	-257.7	-24.5	-407.5	-239.8	-89.6	-104.7	-68.3
Capital turnover rate, times	1.2	1.3	1.8	2.3	1.9	1.9	1.1
Net debt-equity ratio, times	-0.2	0.0	-0.3	-0.3	-0.2	-0.2	-0.1
Equity/assets ratio, %	61.1	58.1	69.4	61.3	53.9	55.3	49.5
Share data, shares in millions							
Number of basic shares at year-end	247.6	247.1	243.4	217.3	204.4	202.8	189.4
Number of diluted shares at year-end	248.9	248.2	248.3	221.5	220.1	216.9	211.2
Average number of basic shares during the year	247.2	246.2	235.6	214.7	203.6	198.5	148.5
Average number of diluted shares during the year	248.5	247.2	240.4	218.9	219.3	212.3	165.5
Dilution, %	0.5	0.4	2.0	1.9	7.7	7.0	11.5
Earnings per share, SEK							
Basic	0.94	0.65	0.70	0.63	-0.08	-0.51	-13.82
Diluted	0.94	0.65	0.69	0.61	-0.06	-0.46	-12.39
Shareholders' equity per share, SEK							
Basic	6.52	5.77	5.59	3.23	2.70	3.09	3.78
Diluted	6.49	5.75	5.48	3.17	2.51	2.89	3.39
P/E ratio, times							
Basic	19.9	23.6	29.1	24.9	neg	neg	neg
Diluted	20.0	23.7	29.6	25.7	neg	neg	neg
Share price quoted at year-end, SEK	18.70	15.30	20.40	15.70	11.50	6.20	8.30
Market capitalization at year-end, MSEK	4 631	3 781	4 966	3 411	2 351	1 258	1 572

*The years 2001-2003 have not been adjusted for IFRS.

Definitions

Key figures	**Definition**	**MSEK, unless otherwise noted**	**2007**
Gross margin	Gross profit as a percentage of total revenue	Gross profit Total revenue Gross margin, %	1 402.1 1 717.3 81.6
Operating margin	Operating profit as a percentage of total revenue	Operating profit Total revenue Operating margin, %	309.9 1 717.3 18.1
Profit margin	Profit before taxes as a percentage of total revenue	Profit before taxes Total revenue Profit margin, %	309.9 1 717.3 18.1
Return on operating capital	Operating profit as a percentage of average operating capital	Operating profit Average operating capital Rate of return on operating capital, %	309.9 1 379.7 22.5
Rate of return on capital employed	Operating profit plus financial income as a percentage of average capital employed	Operating profit Financial income Total Average capital employed Return on capital employed, %	309.9 23.7 333.6 1 933.3 17.3
Return on equity	Profit after taxes as a percentage of average shareholders' equity	Profit after taxes Average shareholders' equity Return on equity, %	232.4 1 520.8 15.3
Operating capital	Balance sheet total reduced by cash and cash equivalents and non-interest-bearing liabilities. Average operating capital has been calculated by adding the beginning and ending operating capital and dividing by two.	Total assets - cash and cash equivalents - non-interest-bearing liabilities Operating capital Average operating capital	2 644.2 -645.2 -641.9 1 357.1 1 379.7
Capital employed	Balance sheet total reduced by non-interest-bearing liabilities. Average capital employed has been calculated by adding the beginning and ending capital employed and dividing by two.	Balance sheet total - non-interest-bearing liabilities Capital employed Average capital employed	2 644.2 -641.9 2 002.3 1 933.3
Shareholders' equity	Shareholders' equity at year-end. Average shareholders' equity has been calculated by adding the beginning and ending shareholders' capital and dividing by two.	Shareholders' equity Average shareholders' equity	1 614.8 1 520.8
Interest-bearing net debt	Interest-bearing liabilities reduced by cash and cash equivalents	Interest-bearing liabilities -cash and cash equivalents Interest-bearing net debt	387.5 -645.2 -257.7
Asset turnover rate	Net sales divided by average operating capital	Net sales Average operating capital Rate of turnover of capital, times	1 717.3 1 379.7 1.2
Net debt ratio	Interest-bearing net liabilities divided by shareholders' equity	Interest-bearing net debt Shareholders' equity Net debt-equity ratio, times	-257.7 1 614.8 -0.2
Equity assets ratio	Shareholders' equity as a percentage of total assets	Shareholders' equity Balance sheet total Equity assets ratio, %	1 614.8 2 644.2 61.1
Earnings per share	Profit for the year divided by the weighted average number of outstanding shares during the year.	see Note 17	
Diluted earnings per share	Profit for the year divided by the weighted average number of outstanding diluted shares during the year.	see Note 17	
Equity per share	Shareholders' equity divided by the number of shares at year-end	Shareholders' equity Number of shares Equity per share, SEK	1 614.8 247 635 960 6.52
Per share, diluted	Shareholders' equity divided by the number of diluted shares at year-end	Shareholders' equity Number of diluted shares Equity per share after dilution, SEK	1 614.8 248 956 736 6.49
P/E ratio	Share price quoted at year-end divided by earnings per share	Share price quoted at year-end Earnings per share P/E ratio, times	18.70 0.94 19.9
Diluted P/E ratio	Share price quoted at year-end divided by earnings per share after dilution	Share price quoted at year-end Earnings per share after dilution P/E ratio after dilution, times	18.70 0.94 20.0

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Annual General Meeting 2008:

The Annual General Meeting of Telelogic AB will be held May 6, 2008 at 3 P.M at Börshuset, Skeppsbron 2, Malmö. For those interested, a shorter presentation of one of the company's fields of activity will be given at 2.30 P.M. Shareholders whose shares are registered with VPC in their own name on the record day, April 29, and who have filed a notice of intent to participate by April 29 at 4 P.M. have the right to participate in the Annual General Meeting. In case a shareholder wishes to bring a maximum of two assistants to the Annual General Meeting, he/she shall submit this information at the same time. Shareholders whose shares are nominee-registered must, in order to participate in the Annual General Meeting, register the shares temporarily in their own name. Shareholders wishing such re-registration must notify the administrator in good time before April 29.

A registration including the name, address phone number, number of shares, national ID number or organization number shall be made in writing:

by mail to:	Telelogic AB attn: Jenny Bothén P.O. Box 4128 203 12 Malmö
by email to:	jenny.bothen@telelogic.com
or by fax:	040-650 65 55

Telelogic will send a confirmation when the registration has been completed. If participation will take place by power of attorney, the power of attorney shall be submitted to the company at the time of registering. The complete proposal of the Board to the Annual General Meeting can be ordered through the company in accordance with the above.

Financial reports and information

For the fiscal year 2008, financial information about Telelogic will be given at the following points in time:

April 22, 2008	Interim report for the period January-March, 2008
May 6, 2008	Decision by the Annual General Meeting
July 22, 2008	Interim report for the period April-June, 2008
October 21, 2008	Interim report for the period July-September, 2008
January 27, 2009	Annual Statement 2008

In addition to these planned information events, Telelogic will give updates to the financial market during the year in many different ways:

On the day of publishing the interim reports, the company management will hold an analyst conference in Stockholm, which can also be followed by telephone and on the Internet. In connection with the publishing of the interim reports, some representatives of the company management will undertake a so-called road show for the larger financial markets, at which time the report is presented to shareholders and investors.

All news and events concerning Telelogic, considered to have a potential effect on the share price, are made public via press releases and published on the company's home page, www.telelogic.com. With regard to income from sales, the company's policy is to publish business deals exceeding SEK 5 million.

In order to share information about Telelogic, the company management meets regularly with financial analysts, investors, and private shareholders in different locations in Sweden and the world. A capital market day will be arranged once or twice per year for financial market participants.

Ways to obtain financial information about Telelogic AB

The fastest way to obtain information about Telelogic is through the Internet. Financial reports and press releases will be published on Telelogic's home page, www.telelogic.com, as soon as they have been made public.

You can also subscribe to financial reports in printed form via mail or in electronic form via email. You can also subscribe to Telelogic's press releases via email.

Annual reports and interim reports in Swedish and English can be ordered from:

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