



Interim Report

January - September, 2000

Telelogic July - Sept 2000:

- Accelerating growth
195% growth during the third quarter
- Acquisition of the American software company, QSS
World leaders in requirement management
- Motorola continues to invest in Telelogic's solutions
Three year agreement for implementation of requirement management system
- Success for a focus on key customers
A division within Lucent chooses Telelogic's software for the entire development process
- New product for testing of Bluetooth products
Complement to the newly formed certification business for Bluetooth

*"This document is essentially a translation of Swedish language original thereof.
In the event of any discrepancies between this translation and the original Swedish document,
the latter shall be deemed correct."*



The growth is increasing

Telelogic has accelerated the growth during the first three quarters of 2000. During the third quarter the growth increased by 195% compared to the same period last year, resulting in a growth pace of 141% for the first nine months. An ever-strengthened position on the world market for development of real-time systems and smooth integrations of the acquired companies, are the key factors resulting in this increase.

During the third quarter the company's license income increased by 200% and income from services had a growth rate of 185%, compared to the same period last year. The total growth during the first nine months amounted to 128% for licenses and to 132% for services. The professional service business accounted for 35% of the total business by the end of the quarter.

Success in the USA makes way for Asia

Telelogic was in September chosen as winner of the "Strategic Excellence Award" by the Swedish Trade Council for its success in the USA. Telelogic is now building on these experiences when expanding in Asia. During the third quarter, the relationship with the Japanese customers has strengthened and Telelogic has reinforced its leading position within the third generation of mobile telephony. The 3G cooperation with NEC is the leading project in this area.

The number of employees in Japan totaled 17, as of September 30, which is a duplication compared to the same period last year. The objective is to double the business in Japan in the next twelve months. The company's subsidiary in Beijing, China, started in June this year, has also over performed and exceeded the expectations.

Profit Picture

The result for the quarter was negative as planned. Telelogic sustained a loss, goodwill depreciation excluded, of 20,6 million SEK and after net financial income/cost of 33,8 million SEK.

The result is charged with cost for integration of QSS and increased cost for product development. The integration of new product lines and the continued build-up of the test business as well as the business area for components are the areas Telelogic is investing in. The revenue from these businesses will be low this year, but the investments is expected to give full effect during 2001.

Acquisition of world leading software company

In September, the in July announced acquisition of QSS was closed. With its world leading position in requirement management, QSS is complementing Telelogic's leading position within analysis, design and test. Together, the two companies are creating a more complete offer for development of advanced software.

The integration work started in August and accelerated in September. A large number of activities have been executed with very good results. The first customer benefits were presented already with the Telelogic Tau 4.1 release, in which a tight integration with QSS' tool for requirement management, DOORS, is offered. This integration



was already started when the acquisition discussion was initiated, because of the strong demand from Telelogic's as well as QSS' customers.

Motorola cooperated with QSS since before and the two companies have both invested in the development of DOORS. In September, Telelogic received a larger license order from Motorola that will use Telelogic's (ex. QSS') requirement management system in the whole corporation.

Strengthened position on the market for advanced software development

Telelogic has its strongest position within the communication industry and in this segment, the company's analysis tool, Telelogic Tau UML Suite, has gained an ever-stronger position. Lucent has previously invested in Telelogic's design and test tools and during the third quarter they decided to use Telelogic's tools for analysis as well. Except for the tools advanced functionality, the company's ability to handle key accounts was one of the main factors influencing their decision.

During the quarter, Telelogic has also strengthened its position within the automotive industry. One of the DaimlerCrysler subsidiaries, Temic, leading supplier of car electronics, has taken a strategic decision to use Telelogic's tool, Scade, for the development of safety critical systems e.g. air bags.

Ericsson has intensified their cooperation related to the development of AXE switches, resulting in a large consultant order in August. The deal is part of a long-term cooperation where Telelogic has customized its software for Ericsson's development environment.

Continued investments in Bluetooth testing

The investment in the test business continues and during the quarter, a new product, PreQual, has been launched in a couple of selected segments. PreQual is used as a complement to Telelogic's test tools and gives the customer the possibility to test whether the customer's Bluetooth product will meet the standards for certification.

Further success for the component business

The component business is still in a build-up phase and discussions with several potential customers are in progress. During the third quarter, Telelogic received the first order for its Bluetooth component, developed in cooperation with Mecel. It was sold on the American market to a leading communication vendor, that, of competitive reasons, does not wish to state its name.

Investments

During the first nine months, the Telelogic made investments of 1 346 million SEK, of which the acquisition of QSS accounts for 1 130 million SEK. QSS will be written off over twenty years and will be consolidated from September. After this acquisition, the depreciation for goodwill is a significant item in the income statement and Telelogic will from this quarter report this entry individually.

**Financial position**

The number of shares amount to 125,1 millions. With the QSS acquisition, Telelogic took over staff options corresponding to 1,5 Telelogic shares. The number of options amount to 13,9 million shares, of which 11,7 millions is staff options. The number of staff options corresponds to about 9% of the total number of shares.

In addition, the extra shareholders' meeting has approved another 3 million share options for the next six months. This program has been designed according to similar option programs in the US because of the large portion of the staff increase coming from the US.

Personnel

During the third quarter, the company has increased the number of employees with 270 persons, of which 154 in the US, mainly because of the QSS acquisition. Telelogic has hired 466 persons during the first nine months, of which 178 organically and 288 through acquisitions. For recruitment and lead-time for introduction and education, Telelogic is estimating a cost of 0,5 million SEK which directly is shown in the income statement. The turnover rate is still low.

Outlook for 2000 and beyond

Telelogic's long-term goal that the average operating margin shall exceed 20% is still valid. Telelogic will the next coming years however focus on growth with the goal of an average yearly growth rate of 50% and a positive result.

The prerequisites for a growth rate exceeding 50% for year 2000 and 2001 are seen and the company has decided to speed up the growth pace. The growth rate for this year is expected to be 160% with a zero result after net financial income/cost, goodwill depreciation excluded. Telelogic's ambition, acquisitions included, is to grow with more than 100% next year as well.

The seasonal variations Telelogic has experienced during earlier years, is estimated to persist. The first, second and third quarters will thereby end with a loss and the fourth quarter is expected to contribute with a profit. Telelogic is planning to deliver a 5% operating margin, excluding goodwill depreciation, for the year 2001.

Beyond that, Telelogic's ambition is to increase the operating margin gradually until 2004. At that point the company is aiming at an operating margin of 20% before goodwill depreciation.

Malmö, Sweden, October 17, 2000
The Board of Directors



Financial Information

Dates for financial information:

- Annual Statement for year 2000, to be released on January 23, 2000.

Components

There is a trend towards more component-based development. Companies have realized how costly it is to develop the software from scratch. Instead, a more industrial method is preferred where the needed functionality is incorporated through components, that is, ready-made modules that can be combined to solve a specific problem.

Telelogic offers components for Bluetooth and 3G such as protocol stacks. These can in simplified terms be described as the part of the software that controls how the products (eg. a phone or base station) communicate with each other. To make a 3G phone work together with other phones and the base stations, they must all “speak the same language” which the protocol ensures that they do.

Key Ratios

	Jan – Sep 2000	Jan – Sep 1999	1999
Net sales (SEK million)	443.5	184.2	318.4
Sales increase (%)	141	60	78
Profit margin excl. goodwill (%)	-16.7	-12.1	1.5
Profit/Loss excl. goodwill (SEK million)	-73.9	-22.4	4.7
Profit per stock, after dilution & tax (SEK)	Neg	Neg	0.10
Share price at the close of period (SEK)	75.50	15.50	45.00
Market cap at the close of period (SEK million)	9 400	1 200	3 700
Stockholder's equity per share (SEK)	14.80	1.00	1.30
Equity to asset ratio (%)	81	39	23
Number of employees at close of period	916	330	450

All amounts are in millions of SEK:

Summary of income statement

	Jan - Sep 2000	Jan – Sep 1999	1999
License and maintenance income	268.7	117.6	210.4
Consulting and other income	174.8	66.6	108.0
Net sales	443.5	184.2	318.4
License and maintenance expenses	-30.1	-12.4	-24.5
Consulting and other expenses	-103.5	-38.0	-61.5
Gross margin	309.9	133.8	232.4
Selling expenses	-223.4	-92.7	-136.3
Administrative expenses	-54.2	-25.3	-34.8
Product development expenses	-112.0	-37.9	-54.5
Goodwill	-24.5	-1.8	-4.6
Operating profit/loss	-104.2	-23.9	2.2
Net financial income/expenses	5.8	-0.3	0.5
Net income/loss after financial items	-98.4	-24.2	2.7
Taxes	-	-	-2.6
Net profit/loss after tax	-98.4	-24.2	0.1
Net profit/loss excl goodwill & tax	-73.9	-22.4	4.7

Summary of the balance sheet

	30 Sep, 2000	30 Sep, 1999	31 Dec, 1999
Intangible capital assets	1 479.4	58.4	185.1
Tangible capital assets	66.6	20.2	29.1
Accounts receivable	291.3	67.5	144.7
Other current receivables	137.2	15.2	80.9
Cash and bank	322.9	42.1	30.9
Total assets	2 297.4	203.4	470.7
Stockholder's equity	1 851.4	78.7	109.0
Long-term liabilities	0.6	0.0	179.1
Accounts payable	56.0	23.1	26.5
Prepaid expenses and accrued income	229.0	56.3	95.0
Other liabilities	160.4	45.3	61.1
Total equity and liabilities	2 297.4	203.4	470.7

Summary of changes in financial position

	Jan – Sep, 2000	Jan – Sep, 1999	Jan – Dec, 1999
Cash flow from operations	-44.0	10.8	-1.8
Investment activities	-1 366.3	-29.7	-56.4
Financial activities	1 702.3	51.5	79.6
Change in liquid assets	292.0	32.6	21.4
Liquid assets – start of the period	30.9	9.5	9.5
Liquid assets – end of the period	322.9	42.1	30.9