



Teleca AB (publ)
Interim Report, January – June, 2004

Teleca enters new growth phase

- **Sales SEK 1,320 million (1,280)**
- **International sales at 54% (44)**
- **Rate of organic sales growth is beginning to increase and amounted to 6% in Q2**
- **Income before tax SEK -8 million (22); after tax SEK -19 million (1). Earnings per share SEK -0.32 (0.02); earnings per share excluding goodwill amortisation SEK 0.50 (0.86)**
- **Operating profit (EBITA) SEK 48 million (81). Cash flow from current operations SEK 67 million (11)**
- **Full-year forecast remains firm, sales are expected to continue to grow and operating profit (EBITA) is expected to increase substantially compared with 2003 (SEK 52 million)**



Business activities

The market has continued to stabilise during the second quarter of the year and demand has increased slightly. Customers are showing increasing interest in investments that lead to new business rather than just rationalisation. There is also a trend towards small price rises, albeit from low levels.

The utilisation rate increased in the second quarter to 72% (71% in first quarter), reflecting a slight increase in demand. Recruiting is under way in all segments. Organic sales growth was 6% in the second quarter compared with the same period 2003.

Sales are continuing to grow fast in Asia and accounted for 17% (8) of turnover in the first half of the year. Teleca is becoming an increasingly international company, with 54% (44) of its turnover in the first half of the year coming from customers outside Sweden.

The board of directors believes that the chances of achieving good profitability in Thailand are limited and has therefore decided to close this office with its staff of eight. Staff numbers are however increasing in the other offices in Asia.

The profitability of the group is not satisfactory but opportunities exist to improve profits. Mobile Devices has been in an investment phase in which significant value in the form of reusable software has been built up, which has had an immediate negative effect on results. The reusable software will increase margins and strengthen market positions in the next few quarters.

Teleca is entering a new growth phase. Improved market prospects are providing the conditions required for increased utilisation in all Teleca's segments.

Segments

Key figures by segment January-June 2004

| | Sales, SEK M | Operating profit (EBITA), SEK M | Operating margin, % | Average number of employees. |
|------------------------------|--------------------------|---------------------------------|---------------------|------------------------------|
| Products | 73.7 (53.5) | 9.1 (7.4) | 12 (14) | 60 (36) |
| Mobile Devices | 566.8 (432.2) | 28.7 (63.4) | 5 (15) | 1,083 (747) |
| Operators & Networks | 358.0 (405.5) | 14.1 (25.9) | 4 (6) | 674 (733) |
| Enterprises & Industry | 420.6 (439.9) | 10.1 (-8.3) | 2 (-2) | 798 (915) |
| Joint Group and eliminations | -99.1 (-51.0) | -14.1 (-7.6) | – | 16 (15) |
| Total | 1,320.0 (1,280.1) | 47.9 (80.8) | 4 (6) | 2,631 (2,446) |

Products

Obigo is continuing to develop well and 17 new contracts were signed in the second quarter. Operators and mobile phone manufacturers are setting higher requirements for Obigo's software specifications and are also asking for more functionality. Competition is increasingly intense. This means that Obigo's pace of development will be increased at the same time as the offering is expanded. Staff have continued to be recruited in the second quarter both to cope with these changes and to ensure the availability of core expertise and high-quality customer support. The Obigo offering was also expanded during the second quarter to include camera applications. This was done in collaboration with the Swedish company Scalado, which already works with some of the world's largest mobile phone manufacturers. Obigo is developing according to plan. The difference in profits compared with 2003 is due to a single significant licence income in the second quarter of 2003.



Mobile Devices

Demand in Mobile Devices continues to be high. The increase in turnover compared with the second quarter of 2003 is 34%. Recruitment in the segment is continuing, especially in Asia and Sweden. The acquisition of GeraCap, with about 150 staff in Finland, announced on 1 July confirmed Teleca's position as the world's leading independent integrator of Symbian OS and Nokia Series 60. It also strengthens relations with leading global mobile phone manufacturers and Teleca's position in the Finnish market. Mobile Devices' margins during the period have been affected by a large project with low hourly rates and by efforts put into creating reusable software.

Operators & Networks

Telecom operators are continuing to increase slowly their levels of investment. One important development for Teleca is that an increasing number of operators are launching new 3G networks. This in turn is leading to increased demand for data services and applications. The industry is gradually becoming more standardised, which is making it easier for operators to be in control of the development of services. This provides new business opportunities for Teleca.

Teleca is still being affected by the long recession in the telecommunications industry. However, some parts of the market, such as telecom suppliers, are improving, shown by the increasing number of inquiries about new projects. Teleca's biggest challenge in the area continues to be the transformation of units formed through outsourcing contracts with single customers and guaranteed incomes into consulting companies with diversified customer bases.

Enterprises & Industry

The segment is continuing to develop well with improved utilisation compared with last year. Recruiting has begun. Prices are stable and in some cases small price increases are possible. More customers are interested in signing larger contracts. Benima, Teleca's industrial IT and automation business, is developing well. Teleca continues to offer proven solutions from the local Swedish market internationally, where there is both a need and interest among customers, and several new international contracts have been signed.

New CEO

On 1 July Dag Sundström took up his duties as the new president and CEO of the Teleca group. Dan Olofsson has returned to his post as chairman of the board. Konstantin Caliacmanis has been appointed deputy chairman of the board.

Acquisitions

NewCon – Denmark

The acquisition was announced on 26 April and NewCon was consolidated from 1 May. NewCon has a staff of 18 and forms part of Benima's strategy to increase market share in the Nordic region.

GeraCap – Finland

The acquisition was announced on 1 July and GeraCap was consolidated from 30 June. GeraCap, which has a workforce of about 150, strengthens Teleca's position in Mobile Devices. Teleca has paid a basic purchase price of EUR 6 million made up of 1,297,961 newly issued series B shares and EUR 0.2 million in cash. In addition to this there may be a profits-based additional purchase cost. The acquisition strengthens Teleca's position in Finland and its relations with leading mobile phone manufacturers. It also provides Mobile Devices with advanced, cost-effective resources.



Popwire – Sweden

The acquisition was announced on 8 July and Popwire, with a staff of 20, will be consolidated from 1 July. The purchase price was SEK 7 million. Teleca has obtained technical expertise in multimedia that can be used immediately in its development projects, software products and patents and a loss carry-forward of SEK 31 million.

Sales and earnings

Sales during the first six months was SEK 1,320 million (1,280). Sales outside Sweden accounted for 54% (44). Sales per employee was SEK 502 thousand (523).

Organic growth in the first half of the year was 3% (19). During the past four quarters organic growth has been 6% (Q2, 2004), 0% (Q1, 2004), -5% (Q4, 2003) and 5% (Q3, 2003).

Operating profit before goodwill amortisation (EBITA) amounted to SEK 48 million (81). The margin (EBITA) was 4% (6).

Profit after financial items amounted to SEK -8 million (22).

Personnel

The average number of employees during the period increased by 8% to 2,631 (2,446). The number of employees at the end of the period was 2,955 (2,708 at 31 December 2003 and 2,608 at 30 June 2003).

Liquid funds and financial position

Telecas cash flow from current operations was SEK 67 million (11), of which SEK 52 million (37) during Q2. The Group's liquid funds and other interest bearing assets amounted to SEK 95 million (163 at 31 December 2003). Teleca has loss carry-forwards totalling SEK 335 million. Tax paid for 2004 will therefore be considerably lower than the tax amount stated in the accounts.

The Group's interest bearing net debt amounted to SEK 134 million (142 at 31 December 2003). The net debt/equity ratio was 7% (8 at 31 December 2003). Group shareholders' equity amounted to SEK 1,856 million (1,799 at 31 December 2003). The equity/assets ratio was 65% (65 at 31 December 2003).

The increase in goodwill during the first six months is principally assignable to the acquisitions of GeraCap and NewCon, and translation differences of currencies, in particular between the Swedish krona and the UK sterling.

Investments

The Group's investments during the period totalled SEK 160 million (70), of which SEK 98 M (26) was invested in goodwill. SEK 11 million (22) were invested in equipment, and SEK 51 million (22) in other intangible fixed assets. Of these, SEK 38 million (18) were investments in Obigo and SEK 11 million (4) were investments in PC Connectivity Suite. Depreciation of capitalised software development for the period amounts to SEK 17 million (5). The deprecation period for capitalised software development is 3 years.



Parent Company

Sales during the period totalled SEK 31 million (25). Profit after net financial items was SEK 5 million (28). Liquid funds totalled SEK 10 million (43 at 31 December 2003).

During the period, the Parent Company invested SEK 59 million (45) in shares in subsidiaries. In addition, SEK 2 million (4) was invested in equipment.

Forecast

Low prices caused by the difficult market of the past few years continue to have an adverse affect on margins. Teleca is increasingly supplying complete solutions to customers and can therefore improve margins. Great efforts are being made to implement changes so that, for example, the business model is adapted to large international projects.

Improved utilisation, increased recruiting, the opportunity to sell reusable software and eventually higher prices are all expected to improve Teleca's margins and profits.

The board of directors' forecast for Teleca in 2004 remains unchanged:

Sales are expected to continue to grow and operating profit (EBITA) is expected to increase substantially compared with 2003 (SEK 52 million). The results for the fourth quarter are expected to have a significant positive effect on profits.

The board of directors' forecast for Obigo in 2004 remains unchanged:

Sales and operating profit (EBITA) are expected to be substantially higher than 2003 (SEK 127 million and SEK 26 million respectively).

Condensed consolidated income statement, SEK million

| | 2004 | 2003 | 2004 | 2003 | 2003 |
|------------------------------------------------|--------------|-------------|--------------|-------------|---------------|
| | Jan.-June | Jan.-June | April-June | April-June | Jan.-Dec. |
| Net sales | 1,320.0 | 1,280.1 | 672.5 | 634.9 | 2,455.5 |
| Personnel expenses | -891.3 | -831.2 | -456.2 | -440.1 | -1,643.5 |
| Other operating expenses | -347.4 | -346.4 | -183.2 | -145.9 | -708.5 |
| Depreciation | -33.4 | -21.7 | -17.9 | -11.7 | -51.4 |
| Goodwill amortisation | -50.1 | -50.3 | -25.1 | -25.0 | -160.4 |
| Operating profit (EBIT) | -2.2 | 30.5 | -10.1 | 12.2 | -108.3 |
| Operating margin, % | -0.2 | 2.4 | -1.5 | 1.9 | -4.4 |
| Profit/loss from financial items ^{*)} | -5.9 | -8.0 | -5.0 | -2.6 | -17.9 |
| Profit after financial items | -8.1 | 22.5 | -15.1 | 9.6 | -126.2 |
| Profit margin, % | -0.6 | 1.8 | -2.2 | 1.5 | -5.1 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxes | -11.3 | -21.5 | -3.1 | -10.4 | -42.6 |
| Profit for the period | -19.4 | 1.0 | -18.2 | -0.8 | -168.8 |

| | | | | | |
|--------------------------------------------------------------------|-------|------|-------|-------|-------|
| Operating profit before goodwill amortisation (EBITA) | 47.9 | 80.8 | 15.0 | 37.2 | 52.1 |
| Margin before goodwill amortisation, % | 3.6 | 6.3 | 2.2 | 5.9 | 2.1 |
| Earnings per share after full tax, SEK | -0.32 | 0.02 | -0.30 | -0.01 | -2.80 |
| Earnings per share after full tax excl. goodwill amortisation, SEK | 0.50 | 0.86 | 0.11 | 0.40 | -0.14 |

^{*)} Financial items Jan.-June 2004 consists of net interest costs of SEK 4.9 million, exchange gains of SEK 0.9 million, and losses from other securities of SEK 1.9 million. For Jan.-June 2003 it consists of net interest costs of SEK 6.8 million and exchange losses of SEK 1.2 million.

Condensed consolidated balance sheet, SEK million

| | 30 June 2004 | 30 June 2003 | 31 Dec. 2003 |
|---------------------------------------------------|----------------|----------------|----------------|
| Assets | | | |
| Goodwill | 1,633.1 | 1,669.6 | 1,562.6 |
| Other intangible fixed assets | 93.0 | 44.7 | 59.8 |
| Other fixed assets | 204.7 | 200.2 | 205.8 |
| Current assets | 818.6 | 864.9 | 755.8 |
| Other interest bearing assets | 1.9 | 43.0 | 4.8 |
| Liquid funds | 93.5 | 152.5 | 158.4 |
| Total assets | 2,844.8 | 2,974.9 | 2,747.2 |
| Shareholders' equity and liabilities | | | |
| Shareholders' equity | 1,856.2 | 1,971.6 | 1,799.0 |
| Minority share in shareholders' equity | 0.7 | 0.1 | 0.0 |
| Provisions ^{*)} | 41.0 | 42.0 | 39.8 |
| Long-term liabilities, interest bearing | 6.0 | 6.0 | 6.2 |
| Long-term liabilities, non interest bearing | 60.8 | 13.5 | 13.1 |
| Current liabilities, interest bearing | 220.2 | 407.1 | 295.9 |
| Current liabilities, non interest bearing | 660.0 | 534.6 | 593.2 |
| Total shareholders' equity and liabilities | 2,844.8 | 2,974.9 | 2,747.2 |

^{*)} Incl. interest bearing

| | | | |
|--|-----|-----|-----|
| | 3.2 | 3.5 | 3.4 |
|--|-----|-----|-----|

Changes in shareholders' equity, SEK million

| | 2004 | 2003 | 2003 |
|------------------------------------------------|----------------|----------------|----------------|
| | Jan.-June | Jan.-June | Jan.-Dec. |
| Amount at the beginning of the year | 1,799.0 | 1,975.7 | 1,975.7 |
| New share issue for acquisitions ^{*)} | 52.6 | 62.7 | 62.7 |
| Translation differences | 24.0 | -23.5 | -26.3 |
| Dividend | – | -44.3 | -44.3 |
| Profit for the period | -19.4 | 1.0 | -168.8 |
| Amount at the end of the period | 1,856.2 | 1,971.6 | 1,799.0 |

^{*)} After deduction for issue costs.

Condensed consolidated cash flow analysis, SEK million

| | 2004 | 2003 | 2004 | 2003 | 2003 |
|--------------------------------------|--------------|--------------|------------|--------------|--------------|
| | Jan.-June | Jan.-June | Apr.-June | Apr.-June | Jan.-Dec. |
| Cash flow from operations | 67.0 | 73.0 | 22.6 | 36.0 | 64.0 |
| Change in working capital | 0.5 | -62.3 | 29.9 | 1.4 | 75.2 |
| Cash flow from current operations | 67.5 | 10.7 | 52.5 | 37.4 | 139.2 |
| Investment operations | -157.0 | -69.9 | -128.6 | -27.9 | -61.4 |
| Financial operations | 21.7 | 19.2 | 78.5 | -23.0 | -110.2 |
| Exchange differences in liquid funds | 2.9 | -0.7 | 0.5 | -0.3 | -2.4 |
| Changes in liquid funds | -64.9 | -40.7 | 2.9 | -13.8 | -34.8 |

Net sales by segment, SEK million

| | 2004 | 2003 | 2004 | 2003 | 2003 |
|------------------------------|----------------|----------------|--------------|--------------|----------------|
| | Jan.-June | Jan.-June | Apr.-June | Apr.-June | Jan.-Dec. |
| Products | 73.7 | 53.5 | 37.2 | 29.1 | 127.5 |
| Mobile Devices | 566.8 | 432.2 | 294.9 | 219.4 | 894.8 |
| Operators & Networks | 358.0 | 405.5 | 188.8 | 189.1 | 724.1 |
| Enterprises & Industry | 420.6 | 439.9 | 213.9 | 220.6 | 822.2 |
| Joint Group and eliminations | -99.1 | -51.0 | -62.3 | -23.4 | -113.1 |
| | 1,320.0 | 1,280.1 | 672.5 | 634.9 | 2,455.5 |

Operating profit by segment, SEK million

| | 2004 | 2003 | 2004 | 2003 | 2003 |
|---------------------------------|-------------|-------------|--------------|-------------|---------------|
| | Jan.-June | Jan.-June | Apr.-June | Apr.-June | Jan.-Dec. |
| Products | 9.1 | 7.4 | 3.4 | 9.8 | 25.7 |
| Mobile Devices | 28.7 | 63.4 | 9.6 | 40.2 | 63.8 |
| Operators & Networks | 14.1 | 25.9 | 4.9 | 3.4 | 31.2 |
| Enterprises & Industry | 10.1 | -8.3 | 5.0 | -10.5 | -52.0 |
| Segment (EBITA) | 62.0 | 88.4 | 22.9 | 42.9 | 68.7 |
| Joint Group and eliminations | -14.1 | -7.6 | -7.9 | -5.7 | -16.6 |
| Operating profit (EBITA) | 47.9 | 80.8 | 15.0 | 37.2 | 52.1 |
| Goodwill amortisation | -50.1 | -50.3 | -25.1 | -25.0 | -160.4 |
| Operating profit (EBIT) | -2.2 | 30.5 | -10.1 | 12.2 | -108.3 |



Net sales by geographical area, SEK million

| | 2004 Jan.-June | 2003 Jan.-June | 2004 Apr.-June | 2003 Apr.-June | 2003 Jan.-Dec. |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Sweden | 611.4 | 716.8 | 305.9 | 354.4 | 1,281.8 |
| Europe, excl. Sweden | 424.5 | 433.5 | 209.4 | 194.5 | 856.7 |
| Asia | 220.2 | 97.4 | 126.4 | 61.4 | 243.3 |
| USA | 60.7 | 23.2 | 29.1 | 16.0 | 61.4 |
| Rest of World | 3.2 | 9.2 | 1.7 | 8.6 | 12.3 |
| Total | 1,320.0 | 1,280.1 | 672.5 | 634.9 | 2,455.5 |

Quarterly trend

| | 2001 | | | | 2002 | | | | 2003 | | | | 2004 | |
|-----------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Net sales, SEK M | 297.9 | 309.9 | 282.8 | 297.3 | 430.9 | 526.1 | 500.7 | 632.3 | 645.2 | 634.9 | 557.9 | 617.6 | 647.6 | 672.5 |
| Operating profit before amortization of goodwill (EBITA), SEK M | 52.2* | 41.6* | 42.5* | 45.0* | 43.7 | 52.4 | 45.1 | 56.6 | 43.6 | 37.2 | 26.0 | -54.7 | 32.9 | 15.0 |
| Margin (EBITA), % | 17.5* | 13.4* | 15.0* | 15.1* | 10.1 | 10.0 | 9.0 | 9.0 | 6.8 | 5.9 | 4.7 | -8.9 | 5.1 | 2.2 |
| Number of working days, approx. **) | 63.5 | 59.0 | 64.0 | 62.0 | 62.0 | 60.0 | 66.0 | 62.0 | 62.0 | 59.0 | 66.0 | 63.0 | 63.0 | 60.0 |
| Number of employees end of period | 1,218 | 1,239 | 1,247 | 1,245 | 2,188 | 2,234 | 2,352 | 2,374 | 2,520 | 2,608 | 2,636 | 2,708 | 2,743 | 2,955 |

**) Excluding items affecting comparability.*

The numbers 2001 are Teleca excluding Sigma and Epsilon.

***) The number of working days during Q3 and Q4 2004 are 66 and 64.*



Key data, Teleca Group

| | 2004 | 2003 | 2003 |
|------------------------------------------------------------------------------|------------|------------|------------|
| | Jan.-June | Jan.-June | Jan.-Dec. |
| Number of employees, period-end | 2,955 | 2,608 | 2,708 |
| Average number of employees | 2,631 | 2,446 | 2,496 |
| Net sales per employee, SEK thousands | 502 | 523 | 984 |
| Return on operating capital, % | -0.1 | 1.4 | -5.3 |
| Return on capital employed, % | 0.1 | 1.4 | -4.2 |
| Return on equity, % | -1.0 | 0.0 | -8.9 |
| Equity/assets ratio, % | 65.3 | 66.3 | 65.5 |
| Net debt/equity, % | 7.2 | 11.2 | 7.9 |
| Current ratio | 1.0 | 1.1 | 1.0 |
| Interest bearing net debt, SEK million | 134.0 | 221.1 | 142.3 |
| Gross margin, % (EBITDA) | 6.2 | 8.0 | 4.2 |
| Operating margin before goodwill amortisation, % (EBITA) | 3.6 | 6.3 | 2.1 |
| Operating margin, % (EBIT) | -0.2 | 2.4 | -4.4 |
| Profit before tax, margin, % | -0.6 | 1.8 | -5.1 |
| Number of shares, period-end | 62,377,477 | 61,079,516 | 61,079,516 |
| Ditto fully diluted | 62,377,477 | 61,079,516 | 61,079,516 |
| Number of shares, average | 61,079,516 | 59,512,849 | 60,296,183 |
| Ditto fully diluted | 61,079,516 | 59,512,849 | 60,296,183 |
| No of warrants with subscription price below current share price, period end | 0 | 0 | 0 |
| No of warrants with subscription price over current share price, period end | 850,076 | 1,712,610 | 850,076 |
| Earnings per share after full tax, SEK | -0.32 | 0.02 | -2.80 |
| Ditto fully diluted, SEK | -0.32 | 0.02 | -2.80 |
| Earnings per share after full tax excl. goodwill amortisation, SEK | 0.50 | 0.86 | -0.14 |
| Ditto fully diluted, SEK | 0.50 | 0.86 | -0.14 |
| Shareholders' equity per share, SEK | 29.76 | 32.28 | 29.45 |
| Ditto fully diluted, SEK | 29.76 | 32.28 | 29.45 |
| Share price, period end | 40.5 | 37.0 | 34.0 |



Accounting principles

This interim report has been drawn up in accordance with the recommendations and opinions of the Swedish Financial Accounting Standards Council (Redovisningsrådet). The accounting principles and calculating methods used are identical to those used in the latest annual report with the exception of the accounting of pension costs, which has been changed to comply with Swedish Financial Accounting Standards Council recommendation RR29 Employee benefits, applicable from 1 January 2004. The changeover to the new rules has had no tangible effect on the group's shareholders' equity.

Forthcoming report dates

| | |
|--------------------------------------|------------------|
| Nine-month interim report (Q3) 2004: | 21 October 2004 |
| Year-end report (Q4) 2004: | 10 February 2005 |

Telephone conference

Teleca will be presenting the company and the Interim Report during a telephone conference held at 9.00 AM (CET) at Operaterassen, Stockholm, on July 16, 2004. The conference will also include a Question and Answer (Q&A) session with President & CEO Dag Sundström.

Dial in number: +46 8 500 500 92

The presentation can also be viewed on the Internet: www.teleca.com

This Interim Report has not been subject to an examination by the company's auditors.

Stockholm, July 16, 2004

Teleca AB (publ)

(Corp. reg. no. 556250-3515)

For the Board of Directors:

Dag Sundström, President and CEO



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

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Teleca is an international IT services company focused on R&D that develops and integrates advanced software and information technology solutions. With in-depth expertise in the latest technology and profound industrial knowledge, Teleca helps technology- and software-intensive customers worldwide to strengthen their market position and shorten their time to market. The company has more than 2,900 employees with operations in 15 countries in Asia, Europe and USA. Teleca is quoted on the Attract40 list of Stockholmsbörsen (Stockholm stock exchange). www.teleca.com

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