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

The business is improving according to plan

- **Sales SEK 648 M (645).**
- **International sales at 53% (44)**
- **Gradual improvements expected following weak results in autumn 2003. Outcome in line with expectations**
- **Profit before tax SEK 7.0 M (12.9); after tax SEK -1.2 M (1.7). Earnings per share SEK -0.02 (0.03); earnings per share excluding goodwill amortisation SEK 0.39 (0.46)**
- **Operating profit (EBITA) SEK 33 M (44)**
- **Continued strong development in Obigo. Significant growth in Mobile Devices**
- **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 M)**

Business activities

Earnings trend

Earnings for the first quarter of 2004 were in line with the board of directors' assessment contained in the Year-end report for 2003. Gradual improvements are expected following the weak results in autumn 2003, and full-year operating profits (EBITA) are expected to be significantly better than in 2003. The expectation for the forthcoming three quarters is the same as it was at the time for the Year-end report 2003.

Teleca's consulting activities are in the segments Mobile Devices, Operators & Networks and Enterprises & Industry. During autumn 2003 the earnings trend in these segments was weak and operating losses (EBITA) in the fourth quarter amounted to –SEK 73 M. The results in the fourth quarter were affected by costs accrued in restructuring insufficiently profitable areas of the organisation and by losses from fixed-price projects totalling SEK 83 M. During the first quarter of 2004 consulting activities showed an operating profit of (EBITA) of SEK 27.2 M.

In the Mobile Devices segment Teleca is now continuously accruing costs in its efforts to produce more reusable software modules. These will enable Teleca to shorten the development times of new mobile phones for its global customers and considerably reduce the number of development hours. These costs have affected profits during the past quarters, but the software modules are expected to generate income from the second half of 2004 onwards. They will also strengthen Teleca's strategic position and help it win business higher up the value chain.

The Year-end report for 2003 forecast that the operating profit for the first half of 2004 for the Products segment, which consists of Obigo, would be the same as in 2003. Significant improvements in both turnover and profits are expected during the second half of the year. These forecasts remain unchanged. The operating profit/loss (EBITA) for Obigo during the first quarter was SEK 5.7 M (–2.5).

Market trends

The telecom industry, which accounts for about 68% of Teleca's total turnover, is showing signs of increased activity. This is expected to lead to a gradual increase in orders during the year and a consequent increase in the utilisation during the second half of the year. Recruitment is also expected to increase in areas where demand is strong.

Teleca's trend towards internationalisation is continuing, during the first quarter of the year 53% (44) of turnover was from customers outside Sweden. Sales have developed especially rapidly in Asia, which now accounts for 14% (6) of total turnover. Teleca's business activities in Korea and Japan are developing well. There are now 79 (16) employees in Korea and 12 (0) in Japan. Recruitment is expected to continue.

Utilisation

The utilisation during the first quarter was 70.8% (68.6), compared with 71.2% in the fourth quarter of 2003 and an average of 69.6% for the whole of 2003.

Teleca's annual accounts for 2003 contained a provision of SEK 45 M for a large project. A final contract was expected to be signed in March 2004. However, the project was stopped by factors relating to a third party. The provision proved to be necessary. A new, significant contract has now been signed with the same customer. The nature of the assignment meant that it was smaller at the beginning, thereby having a negative effect on the utilisation, especially in March and April, before being scaled up to a similar level with accompanying increase in the utilisation.

Risks
Significant efforts have been made in the past few months to reduce Teleca's exposure to risks.

- Teleca has reinforced its risk management processes within the framework of its Risk Management function. These include contract procedures, control, support, following up and training, especially in relation to larger international fixed-price projects and the risks associated with them. Considerable improvements have been achieved since the beginning of the year.

- The risks associated with a large outsourcing contract in France, whose guaranteed volumes decrease significantly from June onwards, have been reduced owing to an increase in orders.

- Units that generated losses and underwent significant staff cuts, especially in the Enterprises & Industry segment, are now beginning to generate profits. The risk for new restructuring programmes has been substantially reduced.

To the above can be added risks associated with the business cycle. Teleca mentioned in its previous report that it was still too early to talk about a general economic upturn. However, there are increasing signs of an improvement in the market.

Teleca has undergone a strategic change from working primarily in local markets with research and development based on time and material contracts to become a significant independent global player. Projects have become bigger and now involve several countries. Strong demand in Mobile Devices and for Obigo have driven changes at the same time as local projects based on time and material contracts have been under considerable downward price pressure. This trend increases project-related risks but substantially strengthens Teleca because significant value is created, partly through the possibility to increase margins by reusing software, and partly through the possibility to realise value from products.

Segments

Key figures by segment

	Sales, SEK M	Operating profit (EBITA), SEK M	Operating margin, %	Average number of employees.
Products	36.5 (24.4)	5.7 (-2.5)	16 (-10)	54 (39)
Mobile Devices	271.9 (211.7)	19.0 (23.2)	7 (11)	1,043 (726)
Operators & Networks	169.2 (215.0)	9.2 (22.6)	5 (11)	724 (722)
Enterprises and Industry	206.7 (217.4)	5.1 (2.2)	2 (1)	775 (918)
Joint Group and eliminations	-36.7 (-23.4)	-6.1 (-1.9)	–	16 (15)
Total	647.6 (645.2)	32.9 (43.6)	5 (7)	2,612 (2,420)

Products
The level of interest in Obigo from mobile phone manufacturers, platform companies and operators is increasing. The business is developing well and during the first quarter ten new contracts were signed with both new and existing customers. Both turnover and profits have increased compared with the same period in 2003. The effects of introducing a royalty-based earnings model are beginning to be seen. So far this year more than 15 Obigo-equipped phone models have been launched in markets in Europe, America and Asia. Customers are increasingly choosing to use several Obigo applications in the same phone. The strategy of increasing market share, especially through existing customers, remains unchanged. Increasingly comprehensive requirements specifications for mobile phone functionality, especially from operators, are also changing mobile phone manufacturers' requirements for Obigo. This is also bringing about a clearer focus on and closer collaboration with leading operators.

Mobile Devices
Mobile Devices is progressing well with a 28% increase in turnover and global business activities involving the development of software for new mobile phones for customers such as Nokia, Panasonic, Samsung, Siemens, Sony Ericsson and Toshiba. Margins are expected to rise during the autumn, partly because the net costs generated by reusable software are expected to become net proceeds from the autumn onwards, and partly because the previously mentioned project that was stopped and replaced by another will affect the utilisation. With a staff of at least 1,000 people Teleca Mobile Devices is one of the biggest independent global players in this segment.

Operators & Networks
The trend towards operators slowly increasing their levels of investment is continuing. There is greater optimism and several customers are predicting growth in 2004. The competition is still strong and there is still downward pressure on prices in some local markets because of overrepresentation and because of competition from companies based in low-cost countries. Demand from the users of mobile services in above all southern Europe has increased in terms of both volume and scope. Teleca has successfully taken advantage of these new opportunities and intensified its collaboration with several operators in this market. Teleca's outsourcing activities, which primarily involve network equipment, have been stable during the first quarter. The sales organisation has been strengthened to ensure that these units gain a more diversified customer base.

Enterprises & Industry
Following a very tough 2003 the Enterprises & Industry segment is beginning to experience a somewhat improved market. After several restructuring programmes during 2003 the organisation is now better adapted to current market conditions. The segment has reversed its negative development and is now profitable (2% EBITA margin in the first quarter). Traditionally sales have predominantly taken place in local Swedish markets. Today more and more opportunities for new business are arising in Europe. One important reason for this is that Teleca has increased its range of packaged solutions.

Sales and earnings

Sales during the first quarter was SEK 648 M (645). Sales outside Sweden accounted for 53% (44). Sales per employee was SEK 248 thousand (267). Organic growth was 0% (25).

Operating profit before goodwill amortization (EBITA) amounted to SEK 33 M (44). The margin (EBITA) was 5% (7).

Profit after financial items amounted to SEK 7 M (13).

Personnel

The average number of employees increased 8% to 2,612 (2,420). The number of employees at the end of the period was 2,743 (2,708 at 31 December 2003).

Liquid funds and financial position

Telecas cash flow from current operations was SEK 15 M (-27). The Group's liquid funds and other interest bearing assets amounted to SEK 94 M (163 at 31 December 2003).

The Group's interest bearing net debt amounted to SEK 156 M (142 at 31 December 2003). The net debt/equity ratio was 9% (8 at 31 December 2003). Group shareholders' equity amounted to SEK 1,832 M (1,799 at 31 December 2003). The equity/assets ratio was 67% (65 at 31 December 2003).

The increase in goodwill during the first quarter is principally assignable to translation differences of currencies, in particular between the Swedish krona and the UK sterling. The same applies for the difference in shareholders' equity.

Investments

To fulfil the requirements of the standard Vodafone Live 4.5 at an early stage Teleca intensified the pace of its development work during the first quarter and consequently its investment in intangible assets. The pace of investment is expected to be lower in future quarters. The investment is expected to provide good profitability with payoff times of between 12 and 18 months from the time the products begin to be installed. Life cycles are expected to exceed 3 years.

The Group's investments during the period totalled SEK 29 M (42), of which SEK 1 M (24) was invested in goodwill, which is entirely connected to the completed compulsory acquisition of the remaining outstanding shares in Pronyx AB. SEK 2 M (1) were invested in equipment, and SEK 26 M (7) in intangible fixed assets. Of these, SEK 21 M (7) were investments in Obigo and SEK 5 M (0) were investments in PC Connectivity Suite. Depreciation for the period amounts to SEK 8 M (2). The deprecation period for software development is 3 years.

Parent Company

Sales during the period totalled SEK 16 M (12). After net financial items, a profit of SEK 0 M (-3) was reported. Liquid funds totalled SEK 23 M (43 at 31 December 2003).

During the period, the Parent Company invested SEK 1 M (42) in shares in subsidiaries. In addition, SEK 0 M (2) was invested in equipment.

Forecast

Lower prices, resulting from downward pressure on prices from customers and a stronger Swedish krona, have had an effect in the past 2 years and will also have an effect in 2004, even if new contracts with better prices are now starting to be signed.

Demand in all Teleca's segments has increased during the first quarter of the year. Despite the continued stiff competition Teleca is expected to be able to take advantage of the improved market conditions. The Mobile Devices segment is expected to remain strong, with good growth. The Products segment, which consists of Obigo, is expected to develop very well during the second half of the year. Operators & Networks is expected to be stable, while Enterprises & Industry is expected to turn last year's substantial loss into a profit in 2004, thanks, among other things, to the restructuring that has taken place.

The second quarter of the year contains 3 fewer working days than the first quarter. One working day less means a drop in profits of about SEK 8 M. Profit levels for the second quarter are therefore expected to be lower than for the first quarter, despite improvements in the underlying business activities.

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 M). Improvements in profitability are expected to be gradual because of Teleca's weak results in autumn 2003.

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 M resp. SEK 26 M). Taking existing contracts into consideration the results for the first half of the year are estimated to be at the same level as last year, whereas a substantial improvement is expected in the second half of the year.

Condensed consolidated income statement, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Net sales	647.6	645.2	2,455.5
Personnel expenses	-435.2	-391.1	-1,643.5
Other operating expenses	-164.1	-200.5	-708.5
Depreciation	-15.4	-10.0	-51.4
Goodwill amortisation	-24.9	-25.3	-160.4
Operating profit (EBIT)	**7.9**	**18.3**	**-108.3**
Operating margin, %	*1.2*	*2.8*	*-4.4*
Profit/loss from financial items *)	-0.9	-5.4	-17.9
Profit after financial items	**7.0**	**12.9**	**-126.2**
Profit margin. %	*1.1*	*2.0*	*-5.1*
Minority interests	0.0	0.0	0.0
Taxes	-8.2	-11.1	-42.6
Profit for the period	**-1.2**	**1.7**	**-168.8**
Operating profit before goodwill amortisation (EBITA)	32.9	43.6	52.1
Margin before goodwill amortisation, %	5.1	6.8	2.1
Earnings per share after full tax, SEK	-0.02	0.03	-2.80
Earnings per share after full tax excl. goodwill amortisation, SEK	0.39	0.46	-0.14

*) *Financial items Jan.-March 2004 consists of net interest costs of SEK 2.7 M, exchange gains of SEK 3.2 M, and other losses from other securities of SEK 1.4 M. For Jan.-March 2003 it consists of net interest costs of SEK 3.3 M and exchange losses of SEK 2.1 M.*

Condensed consolidated balance sheet, SEK M

	31 March 2004	31 March 2003	31 Dec. 2003
Assets			
Goodwill	1,571.2	1,699.7	1,562.6
Other intangible assets	78.4	28.1	59.8
Fixed assets	196.5	201.4	205.8
Current assets	784.6	818.3	755.8
Other interest bearing assets	3.7	43.0	4.8
Liquid funds	90.6	166.3	158.4
Total assets	**2725.1**	**2956.8**	**2,747.2**
Shareholders' equity and liabilities			
Shareholders' equity	1832.0	1,961.7	1,799.0
Minority share in shareholders' equity	0.1	0.1	0.0
Provisions *)	40.5	43.3	39.8
Long-term liabilities, interest bearing	6.9	6.8	6.2
Long-term liabilities, non interest bearing	13.3	15.1	13.1
Current liabilities, interest bearing	239.9	443.3	295.9
Current liabilities, non interest bearing	592.4	486.5	593.2
Total shareholders' equity and liabilities	**2725.1**	**2,956.8**	**2,747.2**
*) Incl. interest bearing	3.4	4.0	3.4

Changes in shareholders' equity, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Amount at the beginning of the year	1,799.0	1,975.7	1,975.7
New share issue for acquisitions *)	–	–	62.7
Translation differences	34.2	-15.7	-26.3
Dividend	–	–	-44.3
Profit for the period	-1.2	1.7	-168.8
Amount at the end of the period	**1832.0**	**1,961.7**	**1,799.0**

*) *After deduction for issue costs.*

Condensed consolidated cash flow analysis, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Cash flow from operations	44.3	37.0	64.0
Change in working capital	-29.4	-63.7	75.2
Cash flow from current operations	14.9	-26.7	*139.2*
Investment operations	-28.4	-42.1	-62.4
Financial operations	-56.7	42.3	-110.2
Exchange differences in liquid funds	2.4	-0.4	-2.4
Changes in liquid funds	**-67.8**	**-26.9**	**-34.8**

Net sales by segment, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Products	36.5	24.4	127.4
Mobile Devices	271.9	211.7	807.4
Operators & Networks	169.2	215.0	724.1
Enterprises and Industry	206.7	217.4	822.2
Joint Group and eliminations	-36.7	-23.4	-25.7
	647.6	**645.2**	**2,455.5**

Operating profit by segment, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Products	5.7	-2.5	25.7
Mobile Devices	19.0	23.2	63.8
Operators & Networks	9.2	22.6	31.2
Enterprises and Industry	5.1	2.2	-52.0
Segment (EBITA)	**39.0**	**45.5**	**68.7**
Joint Group and eliminations	-6.1	-1.9	-16.6
Operating profit (EBITA)	**32.9**	**43.6**	**52.1**
Goodwill amortisation	-24.9	-25.3	-160.4
Operating profit (EBIT)	**7.9**	**18.3**	**-108.3**

Net sales by geographical area, SEK M

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Sweden	305.5	362.4	1,281.8
Europe, excl. Sweden	215.1	239.1	856.7
Asia	93.8	36.0	243.3
USA	31.6	7.1	61.4
Rest of World	1.6	0.6	12.3
Total	**647.6**	**645.2**	**2,455.5**

Quarterly trend

	2001				2002				2003				2004
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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
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
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
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
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

*) *Excluding items affecting comparability.*
The numbers 2001 are Teleca excluding Sigma and Epsilon.
**) *The number of working days during Q2 through Q4 2004 are 60, 66 and 64.*

Key data, Teleca Group

	2004 Jan.-March	2003 Jan.-March	2003 Jan.-Dec.
Number of employees, period-end	2,743	2,520	2,708
Average number of employees	2,612	2,420	2,496
Net sales per employee, SEK thousands	248	267	984
Return on operating capital, %	0.2	0.1	-5.3
Return on capital employed, %	0.6	0.8	-4.2
Return on equity, %	-0.1	0.1	-8.9
Equity/assets ratio, %	67.2	66.3	65.5
Net debt/equity, %	8.5	12.5	7.9
Current ratio	1.1	1.1	1.0
Interest bearing net debt, SEK M	155.9	244.8	142.3
Gross margin, % (EBITDA)	7.5	8.3	4.2
Operating margin before goodwill amortisation, % (EBITA)	5.1	6.8	2.1
Operating margin, % (EBIT)	1.2	2.8	-4.4
Profit before tax, margin, %	1.1	2.0	-5.1
Number of shares, period-end	61,079,516	59,079,516	61,079,516
Ditto fully diluted	61,079,516	59,079,516	61,079,516
Number of shares, average	61,079,516	59,079,516	60,296,183
Ditto fully diluted	61,079,516	59,079,516	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	-0.02	0.03	-2.80
Ditto fully diluted, SEK	-0.02	0.03	-2.80
Earnings per share after full tax excl. goodwill amortisation, SEK	0.39	0.46	-0.14
Ditto fully diluted, SEK	0.39	0.46	-0.14
Shareholders' equity per share, SEK	29.99	33.20	29.45
Ditto fully diluted, SEK	29.99	33.20	29.45
Share price, period end	44.0	24.1	34.0

Accounting principles

This Interim report has been created in accordance with the Swedish Financial Accounting Standards Council recommendations and declarations. The same accounting principles and calculation methods have been used in the most recent Annual Report, with the additions described below.

No new accounting principles has been added during 2004.

Forthcoming report dates

Six-month interim report (Q2) 2004:	16 July 2004
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 May 6, 2004. The conference will also include a Question and Answer (Q&A) session with President & CEO Dan Olofsson.
Dial in number: +46 8 562 137 11
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, May 6, 2004
Teleca AB (publ)
(Corp. reg. no. 556250-3515)

For the Board of Directors:

Dan Olofsson, 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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This information is also available in Swedish.

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 2,700 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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