

Offer to the holders of shares  
in Telelogic AB (publ)

June 2007

LAZARD

Nordea 

## **THIS OFFER DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

This offer document, including the related acceptance form, contains important information and should be read carefully before any decision is made with respect to the Offer by IBM (as defined herein), through its indirect wholly-owned subsidiary Watchtower (as defined herein), to the holders of shares to tender all Telelogic shares to Watchtower.

In this offer document, except as otherwise stated, references to Telelogic are, depending on the context, to Telelogic AB (publ) and its subsidiaries or to Telelogic AB (publ). The figures reported in this offer document have been rounded off as appropriate, including certain totals set out in the tables contained herein.

Watchtower has not authorized anyone to provide holders of shares issued by Telelogic with information that is different or additional in relation to the information in this offer document. The information in this offer document may only be accurate as of the date of this document and no representation is made that it was or will remain accurate on any other date. The information in this offer document is furnished solely for the purpose of the Offer (as defined herein) and may not be relied upon for any other purposes.

Lazard is acting as financial advisor to IBM and its affiliates only in relation to the Offer (which is being made by IBM's indirectly wholly-owned subsidiary, Watchtower) and will not be responsible for providing advice, or the protections afforded to its clients, to any other person.

Nordea Corporate Finance, a unit within Nordea Bank AB (publ), is acting as arranger and advisor to IBM and its affiliates only in relation to the execution of the Offer (which is being made by IBM's indirectly wholly-owned subsidiary, Watchtower) and will not be responsible for providing advice, or the protections afforded to its clients, to any other person.

### *Forward-looking Statements*

This offer document contains forward-looking statements. These statements are not guarantees of future performance and are subject to inherent risks and uncertainties. Forward-looking statements may be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as "may", "will", "expects", "believes", "anticipates", "plans", "intends", "estimates", "projects", "forecasts", "seeks", "could", or the negative of such terms, and other variations on such terms or comparable terminology. Forward-looking statements include, but are not limited to, statements about the expected future business of Telelogic resulting from and following the Offer. These statements reflect IBM's and Watchtower's management's current expectations, based upon information currently available to it and are subject to various assumptions, as well as risks and uncertainties that may be outside of its control. Actual results could differ materially from those expressed or implied in such forward-looking statements. Any such forward-looking statements speak only as of the date on which they are made and IBM and Watchtower shall be under no obligation to (and expressly disclaims any such obligation to) update or alter such forward-looking statements whether as a result of new information, future events or otherwise, except to the extent legally required.

### *Choice of Law and Disputes*

This offer document has been prepared in accordance with the laws of Sweden, as well as relevant rules and regulations applicable to public offers in Sweden. In accordance with the Swedish Act on Public Takeover Offers on the Stock Market (lag (2006:451) om offentliga uppköpserbjudanden på aktiemarknaden), Watchtower has on June 4, 2007, prior to the announcement of the Offer in relation to the Stockholm Stock Exchange, and on June 11, 2007, in the press release announcing the Offer in relation to the holders of Telelogic shares, undertaken to comply with the Stockholm Stock Exchange's Rules regarding Takeover Offers on the Stock Market (the "Takeover Rules") and the Swedish Securities Council's (Aktie marknadsnämnden) rulings regarding interpretation and application of the Takeover Rules<sup>1)</sup>, and to submit to the sanctions that may be imposed by the Stockholm Stock Exchange upon breach of the Takeover Rules. On June 11, 2007 in connection with the announcement of the Offer, Watchtower informed the Swedish Financial Supervisory Authority of the Offer and of the above undertaking in relation to the Stockholm Stock Exchange. The courts of Sweden shall have exclusive jurisdiction over any dispute arising out of or in connection with the Offer and the City Court of Stockholm (Stockholms tingsrätt) shall be the court of first instance. The Offer shall be governed by the substantive laws of Sweden.

A Swedish language version of this offer document has been approved by and registered with the Swedish Financial Supervisory Authority (Finansinspektionen) in accordance with the provisions of Chapter 2, Section 3 of the Swedish Act on Public Takeover Offers on the Stock Market (lag (2006:451) om offentliga uppköpserbjudanden på aktiemarknaden) and Chapter 2 a, Section 9 of the Swedish Financial Instruments Trading Act (lag (1991:980) om handel med finansiella instrument). Approval by and registration with the Swedish Financial Supervisory Authority does not imply that the Swedish Financial Supervisory Authority guarantees that the factual information provided herein is correct or complete.

In the event of any discrepancy between the English and the Swedish language versions, the Swedish language version of this document shall prevail.

The description of Telelogic on pages 17-37 in this offer document has been reviewed by the Board of Directors of Telelogic. Watchtower does not represent that the information contained herein with respect to Telelogic is accurate and complete, and does not take any responsibility for such information being accurate and complete.

### *Information for Holders of Shares Outside Sweden*

The Offer pursuant to the terms and conditions presented in this offer document is not being made to persons whose participation in the Offer requires that an additional offer document is prepared or registration is effected or that any other measures are taken in addition to those required under Swedish law. This offer document, the relevant acceptance form and any related offer documentation are not being distributed and must not be mailed or otherwise distributed or sent in or into any country in which the distribution or offering would require any such additional measures to be taken or would be in conflict with any law or regulation in such country – any such action will not be permitted or sanctioned by Watchtower. Any purported acceptance of the Offer resulting directly or indirectly from a violation of these restrictions may be disregarded. The Offer is not being made, directly or indirectly, by use of mail or any other means or instrumentality (including, without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) in or into Australia, Canada, Japan or South Africa, and the Offer cannot be accepted by any such use, means, instrumentality or facility of, or from within, Australia, Canada, Japan or South Africa. Accordingly, this offer document, the relevant acceptance form and any related offer documentation are not being and should not be mailed or otherwise distributed, forwarded or sent in or into Australia, Canada, Japan or South Africa. Watchtower will not deliver any consideration from the Offer into Australia, Canada, Japan or South Africa. Notwithstanding the foregoing, Watchtower retains the right to permit the Offer to be accepted by persons not resident in Sweden if, in its sole discretion, it is satisfied that the transaction in question can be undertaken in compliance with applicable laws and regulations. The availability of the Offer to persons not resident in Sweden may be affected by the laws and regulations of the relevant jurisdiction. Persons who are not resident in Sweden should inform themselves about and observe any applicable requirements.

### *Specific Information for U.S. Securities Holders*

The Offer described in this offer document is made for the securities of Telelogic and is subject to the laws of Sweden. It is important that U.S. holders understand that this offer document is subject to disclosure and takeover laws and regulations in Sweden that may be different from those in the United States. To the extent applicable, Watchtower will comply with Regulation 14E under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Watchtower does intend, however, to treat the Offer as one to which the "Tier II" exemption mentioned in Rule 14d-1(d) under the Exchange Act is applicable. Pursuant to an exemption from Rule 14e-5 under the Exchange Act, Watchtower may, from time to time, purchase or make arrangements to purchase shares outside the Offer from the time the Offer was announced until the expiration of the acceptance period of the Offer, including purchases in the open market at prevailing prices or in private transactions at negotiated prices, in each case, outside of the United States and to the extent permitted under the applicable Swedish laws and regulations. No such purchases have been made. Any such purchases will not be made at prices higher than the Offer Price (as defined herein) or on terms more favorable than those offered pursuant to the Offer unless the Offer Price is increased accordingly. Any future purchases will be made in accordance with applicable laws, rules and regulations. Any purchases of shares in Telelogic outside the Offer by IBM or Watchtower will be notified to Telelogic and the Swedish Financial Supervisory Authority on the following trading day in accordance with the Swedish rules on disclosure of information on acquisition and disposal of shares that took effect on July 1, 2007 subject to the following thresholds: every 5% (up to 30%) and at 50%, 66 2/3% and 90% of the total number of shares and voting rights in Telelogic. The Swedish Financial Supervisory Authority will make the information public by no later than at noon the next trading day following receipt by the Swedish Financial Supervisory Authority of the notification. Such information regarding purchases of shares in Telelogic outside of the Offer will also be disclosed in the United States.

Neither the U.S. Securities and Exchange Commission nor any securities commission of any state of the United States has (a) approved or disapproved of the Offer; (b) passed upon the merits of fairness of the Offer; or (c) passed upon the adequacy or accuracy of the disclosure in this offer document. Any representation to the contrary is a criminal offense in the United States.

1) This includes its former rulings with respect to the rules on public offers for the acquisition of shares issued by the Swedish Industry and Commerce Stock Exchange Committee, where applicable.

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## THE OFFER IN BRIEF

Price per share in Telelogic:	SEK 21 in cash
Start of acceptance period:	July 5, 2007
End of acceptance period:	August 2, 2007
Estimated date for payment:	Approximately one week after the expiry of the acceptance period.

Watchtower reserves the right to extend the acceptance period and to defer the date of settlement.

# The Offer

International Business Machines Corporation (“IBM”), through its indirect wholly-owned subsidiary Watchtower AB (“Watchtower”) (previously Goldcup D 2933 AB), a Swedish private limited liability company, announced on June 11, 2007 a recommended public cash offer to the holders of all issued and outstanding shares in Telelogic AB (publ) (“Telelogic”), to tender all Telelogic shares to Watchtower (the “Offer”). The resolution to make the Offer was adopted by Watchtower on June 11, 2007. Telelogic is listed on the Stockholm Stock Exchange (Stockholmsbörsen), under the symbol TLOG.

Watchtower is offering SEK 21 in cash for each Telelogic share (the “Offer Price”).

The total value of the Offer amounts to approximately SEK 5.2 billion, based on 247,179,481 shares outstanding.

Watchtower reserves the right to adjust the Offer Price should Telelogic pay any dividend or make any other value transfer (*värdeöverföring*) prior to the settlement of the Offer. In the case of a cash dividend or other cash value transfer, the Offer Price will be reduced by the same amount as paid out or transferred per share. In the case of value transfer in kind, the reduction of the Offer Price shall equal the market value of what has been transferred. Watchtower reserves the right to determine whether this adjustment mechanism or condition 7 below (which relates to Telelogic not taking any measures that are liable to impair the prerequisites for making the Offer or the implementation of the Offer) will be invoked.

## *The Offer Price represents:*

- a premium of 42% relative to the average closing share price of the Telelogic share on the Stockholm Stock Exchange for the 120 trading-day period up to and including May 31, 2007;
- a premium of 39% relative to the average closing share price of the Telelogic share on the Stockholm Stock Exchange for the 60 trading-day period up to and including May 31, 2007;

- a premium of 25% relative to the average closing share price of the Telelogic share on the Stockholm Stock Exchange for the 20 trading-day period up to and including May 31, 2007; and
- a premium of 21% to the closing share price of the Telelogic share on the Stockholm Stock Exchange of SEK 17.3 on May 31, 2007.

May 31, 2007 was the last day of trading prior to market speculation regarding a potential public offer for Telelogic.

Pursuant to an exemption received from the Swedish Securities Council (Ruling 2007:21) the Offer is not being made in respect of any warrants held by Telelogic’s subsidiary Telelogic Options AB, or certain other options held by employees of the Telelogic Group. For more information on the warrants, please see Share capital on page 20 of this offer document.

Neither IBM nor Watchtower currently owns or controls any Telelogic shares or warrants. Neither IBM nor Watchtower has acquired any Telelogic shares or warrants during the last six months preceding the day the Offer was announced.

The Board of Directors of Telelogic unanimously recommends that the holders of Telelogic shares accept the Offer.<sup>1)</sup>

In connection with the preparation of the Offer, IBM has conducted due diligence on Telelogic. As set out in the offer agreement described below (see page 40 of this offer document), Telelogic has confirmed that no information liable to significantly affect the valuation of the shares in Telelogic has been disclosed either to IBM or Watchtower.

Telelogic and Watchtower have on June 11, 2007 entered into an agreement relating to the Offer (which is disclosed in full on page 40 of this offer document).<sup>2)</sup> The offer agreement includes, amongst other things, the following key terms and conditions:

- Telelogic’s Board has agreed to recommend the Offer and, if a higher competing offer for Telelogic is announced, continue to recommend the Offer, provided that (i) Watchtower by no later

1) Due to conflict of interest, the CEO of Telelogic, Anders Lidbeck, has not participated in Telelogic’s Board of Directors’ deliberations and resolutions regarding the Offer.

2) Pursuant to an exemption from the Swedish Securities Council (Ruling 2007:22), the offer document will not contain appendices to this agreement. Furthermore, the parties have, after entering into the offer agreement, agreed to extend the period in section 9.5 of the agreement from ten to twenty business days following publication of the Offer announcement.

than the fifth business day following the announcement of the higher competing offer increases the Offer Price to a level that is equal to or greater than the offer consideration under the competing offer; (ii) the terms of the Offer are otherwise substantially equal to those contained in the competing offer; and (iii) Telelogic's Board does not otherwise reasonably consider that it would be in breach of or that it would be clearly inappropriate in light of its duties under applicable laws and regulations;

- Telelogic has agreed to reimburse Watchtower for its costs, fees and expenses incurred in connection with the Offer up to a maximum amount of SEK 51,907,691 if Telelogic's Board withdraws or adversely modifies its recommendation of the Offer and in the event of certain breaches of the agreement. The obligation to reimburse is conditional on not being contrary to applicable laws and on the Swedish Securities Council, on submission by Watchtower, determining that the fee would not violate the Stockholm Stock Exchange's Rules regarding Public Takeover Offers on the Stock Market, the Swedish Act on Public Takeover Offers on the Stock Market or good practice on the Swedish Securities Market. Furthermore, Telelogic would not be obliged to reimburse if the Telelogic Board recommends a higher competing offer, provided that (i) Telelogic has not breached certain provisions in the agreement; (ii) the Telelogic Board does not become obliged to recommend a revised offer by Watchtower as set forth in the first bullet point above; and (iii) the higher competing offer or any other higher competing offer is not completed within six months of the announcement of the higher competing offer;
- Telelogic has undertaken, subject to conditions set out in the agreement, not to solicit any third party to make a public offer for Telelogic;
- Telelogic has undertaken, to the extent permissible under applicable laws and regulations, not to take any actions that are liable to frustrate the Offer or propose such actions to the general meeting of Telelogic, unless such action is proposed to the general meeting by Telelogic shareholders representing at least 10% of the share capital and the action is approved by the general meeting of Telelogic;
- Telelogic has agreed to make an offer to the holders of Telelogic employee options to waive their rights under the options in exchange for cash consideration, such offer to be conditional on the Offer being declared unconditional at an acceptance level above two-thirds on a fully diluted basis;
- Telelogic has undertaken to operate its business in the ordinary course and not to engage in transactions or take actions outside the ordinary course of business;
- Telelogic has made certain representations, including representations concerning the capital structure of Telelogic and the title to Telelogic subsidiaries;
- Telelogic has also agreed to take certain actions in order to facilitate completion of the Offer, such as cooperating with Watchtower in the preparation of the offer document and the filing of the offer document to the Swedish Financial Supervisory Authority, as well as to give Watchtower the assistance necessary to prepare and file applications for regulatory approvals; and
- Watchtower has agreed, subject to conditions set out in the agreement, not to solicit or entice away any key employee of the Telelogic Group.

Watchtower has received conditional undertakings from members of the Telelogic Board, holding in aggregate approximately 0.5% of the total number of shares and voting rights in Telelogic, to accept the Offer and tender all of their Telelogic shares in accordance with the Offer. These undertakings would lapse in the event that a third party announces a public offer to acquire all outstanding shares in Telelogic at a price per share that is higher than the price per share under the Offer. However, if Watchtower announces a revised Offer and such revised Offer receives the Telelogic Board's recommendation, the acceptance undertakings would become binding again.

Completion of the Offer is subject to the conditions set forth on page 5 of this offer document.

The Offer is not subject to any financing conditions and will be financed using existing credit facilities and available cash on hand at IBM and Watchtower.

The Board of Telelogic has decided to offer employees that hold stock options to waive their rights under the stock options redeemed against a cash consideration corresponding to the value of their respective stock options, such offer to be conditional on the Offer being declared unconditional at an acceptance level above two-thirds on a fully diluted basis. As a result, the Offer does not extend to these options or the warrants pertaining thereto, which warrants are held by the subsidiary Telelogic Options AB.<sup>1)</sup> The cash consideration to be received per option is SEK 21 less the strike price of each option. If Watchtower were to increase the Offer Price, the cash consideration per option would be increased by the corresponding amount. The period during which employees can accept to waive their rights under the options in exchange for the cash consideration is identical to the acceptance period under the Offer; from and including July 5, 2007 to and including August 2, 2007. Settlement of the cash consideration received in exchange for the waived options will commence simultaneously with the settlement of the Offer. Employees who hold stock options in Telelogic will be informed separately of their possibility to waive their rights under the options in exchange for cash consideration.

For more information on options in Telelogic, see Share capital on page 20 of this offer document.

Watchtower has through Telelogic offered and will offer relevant key people at Telelogic to be part of a separate bonus plan, a so-called retention arrangement, provided that the Offer is completed at an acceptance level above 50% of all Telelogic shares on a fully diluted basis. The aim of this arrangement is to encourage these people to remain with Telelogic or IBM following completion of the Offer and during an integration phase thereafter. In connection with the retention arrangement, the relevant key people have been requested to accept certain non-compete and non-solicitation undertakings to IBM. For more information on the retention arrangement, see Background and Reasons for the Offer on page 8 of this offer document.

The Swedish Securities Council has in its ruling 2007:15 issued a statement regarding the described arrangement. The Swedish Securities Council states that the arrangement complies with good practice on the Swedish securities market, provided that the Telelogic Board approves the arrangement, the Telelogic shareholders and the securities market are informed of the arrangement and the CEO, Anders Lidbeck who is part of the arrangement, does not participate in the Telelogic Board's deliberations and resolution regarding the Offer.

In accordance with the Swedish Act on Public Takeover Offers on the Stock Market (*lag (2006:451) om offentliga uppköps-erbjudanden på aktiemarknaden*), Watchtower has on June 4, 2007, prior to the announcement of the Offer in relation to the Stockholm Stock Exchange, and on June 11, 2007, in the press release announcing the Offer in relation to the holders of Telelogic shares, undertaken to comply with the Stockholm Stock Exchange's Rules regarding Public Takeover Offers on the Stock Market (the Takeover Rules) and the Swedish Securities Council's (*Aktiemarknadsnämnden*) rulings regarding interpretation and application of the Takeover Rules, and to submit to the sanctions that may be imposed by the Stockholm Stock Exchange upon breach of the Takeover Rules.<sup>2)</sup> On June 11, 2007 in connection with the announcement of the Offer, Watchtower informed the Swedish Financial Supervisory Authority of the Offer and of the above undertaking in relation to the Stockholm Stock Exchange.

The courts of Sweden shall have exclusive jurisdiction over any dispute arising out of or in connection with the Offer and the City Court of Stockholm (Stockholms tingsrätt) shall be the court of first instance. The Offer shall be governed by the substantive laws of Sweden.

In the event of any discrepancy between the English and the Swedish language versions of this offer document, the Swedish language version of this document shall prevail.

1) Pursuant to an exemption from the Swedish Securities Council (Ruling 2007:21).

2) This includes its former rulings with respect to the rules on public offers for the acquisition of shares issued by the Swedish Industry and Commerce Stock Exchange Committee, where applicable.

# Terms and conditions

## THE OFFER

Watchtower is offering SEK 21 in cash for each Telelogic share (the "Offer Price").

Watchtower reserves the right to adjust the Offer Price should Telelogic pay any dividend or make any other value transfer (värdeöverföring) prior to the settlement of the Offer. In the case of a cash dividend or other cash value transfer, the Offer Price will be reduced by the same amount as paid out or transferred per share. In the case of value transfer in kind, the reduction of the Offer Price shall equal the market value of what has been transferred. Watchtower reserves the right to determine whether this adjustment mechanism or condition 7 below will be invoked.

No commission will be charged in connection with the Offer.

## CONDITIONS TO THE OFFER

Completion of the Offer is conditional upon:

1. the Offer being accepted to such an extent that Watchtower becomes the owner of more than 90% of the total number of shares in Telelogic on a fully diluted basis;
2. no other party announcing an offer to acquire shares in Telelogic on terms that are more favourable to the shareholders in Telelogic than the Offer;
3. with respect to the Offer and the acquisition of Telelogic, receipt of all necessary regulatory, governmental or similar clearances, approvals and decisions, including from competition authorities, in each case on terms which, in Watchtower's opinion, are acceptable;
4. neither the Offer nor the acquisition of Telelogic being wholly or partly prevented or materially adversely affected by any legislation or other regulation, court decision, public authority decision or similar circumstance, which is actual or could reasonably be anticipated, outside the control of Watchtower and which Watchtower could not reasonably have foreseen at the time of the announcement of the Offer;
5. no information made public by Telelogic or disclosed by Telelogic to IBM or Watchtower being materially inaccurate, incomplete or misleading, and Telelogic not having failed to make public any information that should have been made public by it;

6. there being no circumstances, which Watchtower did not have knowledge about at the time of the announcement of the Offer, having occurred that have a material adverse effect upon Telelogic's sales, results, liquidity, assets or equity; and

7. Telelogic not taking any measures that are liable to impair the prerequisites for making the Offer or its implementation.

Watchtower reserves the right to withdraw the Offer made in the event that it is clear that any of the above conditions is not fulfilled or cannot be fulfilled. However, with regard to conditions 3–7, such withdrawal will only be made provided that the non-fulfillment of such condition is of material importance to Watchtower's acquisition of shares in Telelogic.

Watchtower reserves the right to waive, in whole or in part, one or more of the conditions above including, with respect to condition 1 above, to complete the Offer at a lower level of acceptance.

## ACCEPTANCE

Shareholders in Telelogic, whose shares are directly registered with VPC AB ("VPC") (the Swedish Central Securities Depository) and who wish to accept the Offer must, during the period from and including July 5, 2007 to and including August 2, 2007 sign and submit a duly completed acceptance form to:

Nordea Bank AB (publ)  
Svarspost 204 826 83  
SE-110 56 Stockholm  
Sweden

Acceptance forms may also be submitted to bank offices or other securities firms in Sweden for forwarding, or be sent in the attached prepaid envelope, to Nordea. Acceptance forms must be submitted or sent by mail in sufficient time prior to the final acceptance day in order to be received by Nordea no later than 5 p. m. (CET) on August 2, 2007. VP account details of current holdings of shares will be provided on the pre-printed acceptance form mailed together with this offer document. The shareholders should verify that the information on the acceptance form is correct.

Note that incorrect or incomplete acceptance forms may be disregarded.

Additional acceptance forms may be obtained from Nordea at +46 8 678 04 80.



#### NOMINEE REGISTERED HOLDINGS

Shareholders in Telelogic whose holdings are registered in the name of a nominee in the VPC system, such as a bank or other nominee in the VPC system, will not receive this offer document or a pre-printed acceptance form. Acceptance shall be made in accordance with the instructions from the nominee of such shareholder.

#### PLEGGED HOLDINGS

Where shares in Telelogic have been pledged in the VPC system, the shareholder as well as the pledgee must sign the acceptance form.

#### CONFIRMATION NOTICES AND TRANSFER OF SHARES TO BLOCKED VP ACCOUNTS

Following receipt and registration by Nordea of duly completed acceptance forms, the shares will be transferred to a newly opened, blocked VP account (a non-cash transfer account) in the name of each shareholder. Each shareholder will receive as confirmation a VPC statement indicating the number of shares transferred from the shareholder's original VP account and a VPC statement showing the deposit of shares into the newly opened, blocked VP account in the name of the holder.

#### SETTLEMENT

Settlement (payment of consideration to the shareholders in Telelogic) will not commence until Watchtower has announced that the conditions for the Offer have either been satisfied or waived. Settlement of the Offer is, subject to such announcement, expected to begin approximately one week after the expiry of the acceptance period. Holders of shares who accept the Offer will receive a confirmation in the form of a contract note. If the relevant shares are registered with a nominee, the contract note will be sent by that nominee. Payment will be credited to the cash account tied to the VP account of the shareholder. Shareholders who do not have a cash account tied to the VP account, and shareholders who have a bankgiro account, will receive payment by payment advice. In connection with settlement, tendered shares will be removed from the blocked VP account, and the account will be closed. Shareholders will not receive notice confirming the removal of the blocked VP account. If the shareholding is registered in the name of a nominee, the statement will be sent to the nominee.

If the shares are pledged, payment will be made to the bank account connected to the pledge account or by payment advice if there is no bank account.

#### RIGHT TO EXTEND THE OFFER, ETC

Watchtower reserves the right to extend the acceptance period of the Offer and in connection therewith prescribe that the above mentioned conditions also will apply during the extended acceptance period, as well as to defer the date of settlement.

#### RIGHT TO WITHDRAW ACCEPTANCE

Holders of shares in Telelogic have the right to withdraw their acceptance. To be valid, a withdrawal must be received in writing by Nordea (at the address above), before an announcement is made by Watchtower that the conditions for the completion of the Offer have been satisfied or, if such an announcement has not been made during the acceptance period, not later than 5 p.m. (CET) on the last day that acceptance can be made. Shareholders in Telelogic holding nominee registered shares wishing to withdraw their acceptance shall do so in accordance with instructions from the nominee. If any conditions of the Offer, which Watchtower may waive, remain during any extension of the Offer, the right to withdraw an acceptance will apply in the same manner during any such extension.

#### MARKET PURCHASES OF SHARES OUTSIDE OF THE OFFER

IBM and Watchtower may purchase, or make arrangements to purchase shares in Telelogic outside of the Offer from the time the Offer was announced until the expiration of the acceptance period of the Offer, including purchases in the open market at prevailing prices or in private transactions at negotiated prices outside of the United States and, in each case, to the extent permitted under the applicable Swedish laws and regulations. No such purchases have been made. Any such purchases will not be made at prices higher than the Offer Price (as defined herein) or on terms more favorable than those offered pursuant to the Offer unless the Offer Price is increased accordingly. Any future purchases will be made in accordance with applicable laws, rules and regulations. Any purchases of shares in Telelogic outside the Offer by IBM or Watchtower will be notified to Telelogic and the Swedish Financial Supervisory Authority on the following trading day in accordance with the Swedish rules on disclosure of information on acquisition and disposal of shares that took effect on July 1, 2007 subject to the following thresholds: every 5% (up to 30%) and at 50%, 66 2/3% and 90% of the total number of shares and voting rights in Telelogic. The Swedish Financial Supervisory Authority will make the information public by no later than at noon the next trading day following receipt by the Swedish Financial Supervisory Authority of the notification. Such information regarding purchases of shares in Telelogic outside of the Offer will also be disclosed in the United States.



#### COMPULSORY ACQUISITION AND DELISTING

As soon as practicable following Watchtower's acquisition of shares representing more than 90% of the total number of shares in Telelogic, Watchtower intends to initiate a compulsory acquisition procedure of the then outstanding minority shares. In connection hereto, Watchtower intends to have the shares in Telelogic de-listed from the Stockholm Stock Exchange. It should be noted that delisting of a share implies different tax consequences than those for listed shares.

# Background and reasons for the Offer

Telelogic is a leading provider of software development solutions with more than 8,000 customers worldwide, primarily in the aerospace and defense, telecommunications and electronics industries. Telelogic products help organizations define, model, build, test, deliver and govern the development of complex systems, including real-time and embedded software systems. For example, a consumer electronics company could use IBM and Telelogic technologies to design an intelligent home network that controls the entertainment devices, security systems, appliances and lighting. An automotive manufacturer would use IBM and Telelogic solutions to build and deliver software that runs the navigation systems in vehicles.

Together, IBM, Telelogic, and our business partners, will accelerate our customers' ability to develop high-quality complex systems. Clients will benefit from the combined technologies and services of both companies, providing them a wider range of software and system development capabilities from which to build complex systems. Our business partners will be able to leverage an extended enterprise lifecycle systems solutions and Telelogic partners will benefit from access to IBM's world class ecosystem and programs. Telelogic will have access to IBM's worldwide channels allowing for expansion and extension to a wide array of customers. IBM plans to preserve client investment in both Telelogic and IBM products, providing customers with increased choice and flexibility throughout the entire software development lifecycle.

Telelogic will over-time become part of the Rational Software division of IBM, reporting to Dr. Danny Sabbah, General Manager of IBM Rational Software.

IBM has high regard for Telelogic's management team and employees and intends to continue the excellent employee relations that it believes exist at Telelogic. Telelogic's employees, products and technology are, and will continue to be, very important for the continued successful development of the business. Following completion of the Offer IBM and Watchtower intend, together with Telelogic's management, to continuously develop Telelogic's business. IBM and Watchtower intend to continuously develop the management structure in cooperation with management. Organic growth and acquisitions will continue to be a very important part of the strategic development of Telelogic.

Watchtower has through Telelogic offered and will offer relevant key people at Telelogic to be part of a separate bonus plan, a so-called retention arrangement, provided that the Offer is completed at an acceptance level above 50% of all Telelogic shares on a fully diluted basis. The aim of this arrangement is to encourage these people to remain with Telelogic or IBM following completion of the Offer and during an integration phase thereafter. Agreements on the retention arrangement had, at the time of the announcement of the Offer, been entered into with 13 executives within Telelogic, who will receive bonus payments during a period of one to three years. The payments are conditional upon certain general performance requirements as well as upon continued employment during the relevant period. In connection with entering into the retention arrangement agreement, these executives have accepted certain non-compete and non-solicitation undertakings to IBM. Furthermore, after the announcement of the Offer, Watchtower has through Telelogic offered, or will offer, additional key people at Telelogic to be part of the retention arrangement. These people have been offered, or will be offered, bonus payments during a period of two years on average. The payments are conditional upon certain general requirements of performance as well as upon continued employment during the relevant period. The arrangement may result in payments of up to USD 22 million and may comprise approximately 15% of the Telelogic employees.

Further reference is made to the information contained in this offer document, which has been prepared for the purpose of the Offer.

The description of Telelogic on pages 17–37 in this offer document has been reviewed by the Board of Directors of Telelogic. Assurance is given that, to the best knowledge of the Board of Directors of Watchtower, the information regarding IBM and Watchtower presented in the offer document conforms with actual conditions.

Stockholm, June 29, 2007

**Watchtower AB**

*The Board of Directors*

# Statement by the Board of Directors of Telelogic

On June 11, 2007, in connection with the announcement by Watchtower of the Offer, the following statement was published by the Telelogic Board of Directors.



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## News Release

NOT FOR RELEASE, DISTRIBUTION OR PUBLICATION INTO OR IN AUSTRALIA, CANADA,  
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### Telelogic's Board of Directors recommends the offer from IBM

**MALMÖ, Sweden – June 11, 2007** – Statement by the Board of Directors of Telelogic AB (publ) in relation to the public offer from International Business Machines Corporation.

#### Summary

- Offer price of SEK 21 in cash per Telelogic share, which values the Offer at approximately SEK 5.2 billion.
- The Offer represents a premium of approximately (i) 21 per cent to the closing share price on 31 May 2007, being the last day prior to market speculation regarding a potential acquisition of Telelogic; (ii) 25 per cent to the average closing share price for the last 20 trading days up to and including 31 May 2007; (iii) 39 per cent to the average closing share price for the last 60 trading days up to and including 31 May 2007; and (iv) 42 per cent to the average closing share price for the last 120 trading days up to and including 31 May 2007.
- The Board of Directors of Telelogic unanimously recommends shareholders to accept the Offer.<sup>1</sup>
- A press conference will be held at Operaterrassen, in Stockholm, today at 13.00 (CET). Details are set out below.

Bo Dimert, Chairman of the Board of Telelogic, said: *"After carefully evaluating the Offer and considering the future prospects of Telelogic, it is the Board's opinion that the transaction is favourable to our shareholders. Therefore, the Board unanimously recommends this Offer. By combining with IBM, Telelogic will have a greater opportunity to accelerate its growth globally and be able to provide customers a more comprehensive solution for complex software development."*

Anders Lidbeck, President and CEO of Telelogic, said: *"This transaction creates potential for offering our customers further support in developing and implementing complex systems across the globe. Our combined customer base will now be able to leverage a full powerful end-to-end set of products and services. For our employees, the transaction has potential to create new, interesting opportunities worldwide in a leading IT company."*

#### Background

This statement is issued by the Board of Directors of Telelogic AB (publ) ("Telelogic") pursuant to section II.14 of the Stockholm Stock Exchange Takeover Rules.

Today, International Business Machines Corporation ("IBM"), through its indirect wholly-owned subsidiary Goldcup D 2933 AB (with a proposed change of name to Watchtower AB) ("Watchtower"), announced a public cash offer to the shareholders of Telelogic to acquire all

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<sup>1</sup> The President and CEO of Telelogic, Anders Lidbeck, has not participated in Telelogic's Board of Directors' deliberations and resolutions regarding the Offer and this recommendation.

outstanding shares of Telelogic (the "Offer"). Telelogic's shareholders are offered SEK 21 in cash for each Telelogic share tendered.

Together, Telelogic and IBM will be able to expand and accelerate its customers' ability to define, model, build, test, deliver and govern the development of complex systems with higher quality and faster time to market. Telelogic will also benefit from access to IBM's worldwide sales and services organization.

After completion of the transaction, Telelogic will become part of IBM's Rational Software unit.

IBM has stated that it believes that Telelogic's employees, products and technology are, and will continue to be, very important for the continued successful development of the business. Furthermore, according to IBM, organic growth and acquisitions will continue to be an important part of the strategic development of Telelogic. The Board of Directors of Telelogic trusts that this description is accurate and has no different opinion.

For details regarding the Offer, please see today's offer announcement from IBM.

Members of the Board of Directors of Telelogic holding shares in Telelogic have irrevocably undertaken to accept the Offer and tender all of their Telelogic shares into the Offer. Those board members hold in aggregate approximately 0.5 per cent of the issued and outstanding share capital and voting rights in Telelogic. The irrevocable undertakings would lapse in the event that a third party announces a public offer to acquire all outstanding shares in Telelogic at a price per share that is higher than the price per share under the Offer. However, if Watchtower announces a revised Offer and such revised Offer receives the Telelogic Board's recommendation, the irrevocables would become binding again.

As set forth in IBM's offer announcement, IBM has offered and will offer relevant key people at Telelogic to be part of a separate bonus plan, a so called retention arrangement, provided that the Offer is completed at an acceptance level above 50 per cent of all Telelogic shares on a fully diluted basis. In connection therewith such employees have been requested to accept certain no-compete and non-solicitation undertakings to IBM. The Swedish Securities Council has accepted this arrangement, subject among other things to the Telelogic Board's prior approval.<sup>2</sup> The Board has approved such an arrangement, provided that it be made conditional upon the Offer being completed at an acceptance level above 50 per cent of all Telelogic shares on a fully diluted basis. Further information on the retention arrangement will be set out in the offer document that will be drawn up and published by IBM for the purposes of the Offer.

#### **Due diligence and offer agreement**

At IBM's request, the Board of Directors of Telelogic has permitted IBM to perform due diligence prior to the announcement of the Offer, since the Board of Directors judged that a public offer from IBM would be of interest for Telelogic's shareholders to assess.

Telelogic and IBM have entered into an offer agreement, the content of which is summarized in IBM's offer announcement. As set forth therein, Telelogic has agreed, subject to among other things approval from the Swedish Securities Council, to reimburse Watchtower for costs, fees and expenses incurred in connection with the Offer if Telelogic's Board of Directors withdraws or adversely modifies its recommendation of the Offer and in the event of certain breaches of the agreement. The offer agreement will be disclosed in its entirety in the offer document that will be drawn up and published by IBM for the purposes of the Offer.

#### **Employee stock options**

The Board of Directors of Telelogic has agreed with IBM that the holders of Telelogic employee stock options are to be offered to waive their rights under these options in exchange for cash consideration, conditional upon the Offer being declared unconditional at an acceptance level

<sup>2</sup> Securities Council Statement 2007:15.

above two-thirds of all Telelogic shares on a fully diluted basis. The employees concerned will be informed separately of the details of such offer.

**The recommendation by the Board of Directors**

The Board of Directors has based its recommendation on an evaluation of factors and considerations that the Board has deemed relevant in relation to the Offer. These include, but are not limited to, Telelogic's current and estimated forward operating and financial performance in a highly competitive environment, Telelogic's position in the consolidating software development industry, the commercial benefits of the proposed combination, other strategic alternatives available to Telelogic and its potential to make the necessary investments to increase its scale and generate enhanced shareholder value on a stand-alone basis. It is the opinion of the Board, based on the strategic plans and objectives set forth in the Offer, that a combination of the two companies would create a strong, competitive and stable global platform for the further development of Telelogic's business.

Telelogic's Board of Directors has been advised by financial and other advisers in its assessment of the Offer. The Board of Directors' financial adviser is UBS Limited ("UBS Investment Bank") and its legal adviser is Advokatfirman Vinge KB. UBS Investment Bank has issued a Fairness Opinion to the Board of Directors with the opinion that, subject to the qualifications and assumptions therein, the consideration offered is fair from a financial point of view. The Fairness Opinion will be disclosed in its entirety in the offer document that will be drawn up and published by IBM for the purposes of the Offer and should be read in full to understand the limitations set out therein.<sup>3</sup>

Based on the above, the Board of Directors of Telelogic unanimously recommends the shareholders of Telelogic to accept the Offer.<sup>4</sup>

This statement shall in all respects be governed by and construed in accordance with Swedish law. Any dispute arising out of or in connection with this statement shall be settled exclusively by Swedish courts.

Malmö, 11 June 2007

Board of Directors  
Telelogic AB (publ)

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<sup>3</sup> In its capacity as Telelogic's financial adviser in connection with this transaction, UBS Investment Bank is entitled to receive a so called success fee in the event that an offer for Telelogic is completed.

<sup>4</sup> Due to a potential conflict of interest - caused by the fact that he has entered into a retention arrangement with IBM and accepted certain no-compete and non-solicitation undertakings to IBM in connection therewith (see above and Securities Council Statement 2007:15) - Anders Lidbeck, who is also the President and CEO of Telelogic, has not participated in Telelogic's Board of Directors' deliberations and resolutions regarding the Offer and this recommendation.

# Fairness opinion



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The Board of Directors

Telelogic AB (publ)  
P.O. Box 4128  
SE-203 12 Malmö  
Sweden

10 June 2007

Dear Sirs,

The Board of Directors of Telelogic AB (publ) (the "**Company**" or "**Telelogic**") has requested UBS Limited ("**UBS**") to provide you with an opinion (the "**Opinion**") as to the fairness from a financial point of view of the Consideration (as defined below).

The Chairman of the Board of Directors was informed on 10 June 2007 that International Business Machines Corporation ("**IBM**") was intending on making a public offer to the shareholders of Telelogic to acquire all the issued and outstanding shares of the Company (the "**Offer**"). The Offer is intended to be made public on 11 June 2007 through a press release. Pursuant to the Offer, the shareholders of Telelogic will be offered SEK 21.0 in cash per share (the "**Consideration**"). The Consideration is subject to adjustment in the event that Telelogic would pay any dividend or make any other value transfer prior to settlement of the Offer. In the case of a cash dividend or other cash value transfer, the Consideration will be reduced by the same amount as paid out or transferred per share. In the case of value transfer in kind, the reduction of the Consideration shall equal the market value of what has been transferred.

UBS has acted as financial adviser to Telelogic in connection with the Offer and will receive a fee for its services, a substantial portion of which is contingent upon completion of the Offer.

From time to time, UBS, other members of the UBS Group (which for this letter means UBS AG and any subsidiary, branch or affiliate of UBS AG) and any of their predecessors may have provided investment banking services to IBM and Telelogic or any of their affiliates and received customary compensation for the rendering of such services. In the ordinary course of business, UBS, any members of the UBS Group or their successors may trade securities of IBM and Telelogic for their own accounts or for the accounts of their customers and, accordingly, may at any time hold long or short positions in such securities.

In determining our Opinion we have used such customary valuation methodologies as we have deemed necessary or appropriate for the purposes of this Opinion.

The Opinion does not address the relative merits of the Offer as compared to other business strategies or transactions that might be available with respect to the Company. We have not been

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asked to, nor do we, offer any opinion as to the material terms of the Offer, other than the financial terms thereof, or the form of the Offer. Our Opinion does not necessarily reflect such factors as hedging and transaction costs, credit considerations, market liquidity and bid-ask spreads, all of which could be relevant in establishing a price for the Company's shares.

In rendering this Opinion, we have assumed that the Offer completes in accordance with the terms of IBM's draft announcement in all material respects and that all conditions to the Offer are met or waived by IBM.

In determining our Opinion, we have, among other things:

- (i) reviewed certain publicly available business and historical financial information relating to the Company;
- (ii) reviewed a final draft announcement, dated 10 June 2007, containing the terms and conditions of the Offer;
- (iii) reviewed certain internal financial information and other data relating to Telelogic, including short-term estimates prepared by management of the Company, that were provided to us by the Company and are not publicly available;
- (iv) conducted discussions with, and relied on statements made by, members of the senior management team of Telelogic concerning the business and long-term financial prospects of the Company;
- (v) reviewed publicly available financial and stock market information with respect to certain other companies in lines of business we believe to be generally comparable to those of the Company;
- (vi) compared the financial terms of the Offer with the publicly available financial terms of certain other transactions which we believe to be generally relevant;
- (vii) reviewed publicly available information in relation to the price and trading volumes of Telelogic shares; and
- (viii) conducted such other financial studies, analyses, and investigations, and considered such other information as we deemed necessary or appropriate.

In connection with our review, at your direction, we have assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or was furnished to us by or on behalf of the Company, or otherwise reviewed by us for the purposes of this Opinion, and we have not assumed and we do not assume any responsibility or liability therefor. In addition, we have not made any independent valuation or appraisal of the physical assets of the Company, nor have we been furnished with any such evaluation or appraisal.

With respect to the short-term estimates and long-term financial prospects, prepared by and communicated by the Company to UBS as referred to above, we have assumed, at your direction, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future performance of the Company. In addition, we have assumed with your approval that the future financial results referred to above will be realised in the amounts and time periods contemplated thereby.

To the extent we have relied on publicly available financial forecasts from various equity research analysts, we have assumed that they have been reasonably prepared based on assumptions





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reflecting the best currently available estimates and judgments by the analysts as to the expected future results of operations and financial condition of the companies for which they have published financial forecasts. With regards to research published on Telelogic, management of the Company have confirmed that it believes such forecasts to be reasonably prepared and based on estimates in line with the Company's own internal financial forecasts.

Our Opinion is necessarily based on the economic, regulatory, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this Opinion, which we are under no obligation to update, revise or reaffirm.

We accept no responsibility for the accounting or other data and commercial assumptions on which this Opinion is based. Furthermore, our Opinion does not address any legal, regulatory, taxation or accounting matters, as to which we understand that the Company has obtained such necessary advice as it deemed necessary from qualified professionals.

Based on and subject to the foregoing, it is our Opinion, as of the date hereof, that the Consideration is fair, from a financial point of view.

This letter and the Opinion are provided solely for the benefit of the Board of Directors of the Company, in their capacity as Directors of the Company, in connection with the Offer. This letter is not on behalf of, and shall not confer rights or remedies upon, may not be relied upon, and does not constitute a recommendation by UBS to, any holder of securities of the Company or any other person other than the Board of Directors of the Company.

This letter may not be used for any other purpose, or reproduced (other than for the Board of Directors, acting in such capacity, and its advisers), disseminated or quoted at any time and in any manner without our prior written consent. However, the Company may, subject to UBS's consent on each occasion and inclusion of appropriate disclaimers in a form to be approved by UBS on a case by case basis, refer to the existence of the Opinion in any press release issued by the Company in connection with the Offer and a subsequent offer document.

We accept no responsibility to any persons or entities other than the Board of Directors of the Company in relation to the contents of this letter, even if it has been disclosed with our consent.

This Opinion has been drafted in the English language. Should a version become available in a different language, the English text shall prevail in the event of an inconsistency between the two versions.

Yours faithfully  
**UBS Limited,**

Handwritten signature of Tom Cooper in black ink.

\_\_\_\_\_  
Tom Cooper  
Managing Director

Handwritten signature of Knut Ramel in black ink.

\_\_\_\_\_  
Knut Ramel  
Managing Director

# Tax issues in Sweden

*Below follows a summary of certain Swedish tax issues arising from the Offer relating to shareholders who are resident in Sweden for tax purposes, unless otherwise is stated. The summary is intended as general information only and does not cover situations where shares are held as current assets in business operations or by a partnership. The special provisions governing tax free capital gains (including non-deductible capital losses) that may be applicable on holdings in Telelogic that are deemed to be held for business purposes<sup>1)</sup> are not covered. Furthermore, the special provisions that may apply to holdings in companies that are, or previously have been, a closely held company or on shares acquired on the basis of such holdings are not covered. Special tax provisions apply to certain categories of corporate shareholders. The tax treatment of each individual shareholder depends in part on the shareholder's particular circumstances. Therefore, each shareholder is advised to consult a tax advisor on the tax consequences that could arise from the Offer on their part.*

## SWEDISH TAXATION UPON DISPOSAL OF SHARES

For shareholders that accept the Offer and dispose of their shares, capital gains taxation will arise. A capital gain or capital loss is calculated as the difference between the sales proceeds, less any sales costs, and the acquisition cost of the sold shares. Please note that the acquisition cost may have been affected by other transactions or offerings.<sup>2)</sup>

When calculating a capital gain or capital loss, the acquisition cost for all shares of the same class and type are added together and calculated collectively in accordance with the average method (*Sw. genomsnittsmetoden*). For listed shares the acquisition cost may alternatively be determined in accordance with the standard method to 20% of the sales proceeds less any sales costs.

### *Private Individuals*

For private individuals, all income from capital, such as interest, dividend and capital gains, is taxed in the capital income category. The tax rate is 30%. Capital losses on listed shares may be fully offset against capital gains on shares and other listed securities that are taxed as shares<sup>3)</sup> realised in the same year as the capital loss. Should a deficit arise in the capital income category, such deficit may reduce the tax on income from employment and business operations as well as real estate tax. A tax reduction of 30% is provided for deficits that do not exceed SEK 100,000 and 21% of any remaining deficit. The deficit cannot be carried forward to later fiscal years.

### *Limited Liability Companies*

For limited liability companies (*Sw. aktiebolag*), all income, including capital gains, is taxed as income from business operations. The tax rate is 28%. Deductible capital losses on shares

may only be offset against taxable capital gains on shares and other securities that are taxed as shares. If a capital loss cannot be deducted by the company that has suffered the loss, it may, in certain cases, be offset against capital gains on shares and other securities that are taxed as shares realised by another company within the same group, provided that group contributions are permitted among the companies. Capital losses that cannot be utilized during a certain year may be carried forward and be offset against capital gains on shares and other securities taxed as shares in future years without any limitation in time. Special tax provisions apply to certain categories of companies.

### *Certain Swedish Tax Issues for shareholders with limited tax liability in Sweden*

Holders of Telelogic shares who are not resident in Sweden for tax purposes (limited tax liability) and who are not carrying on business operations from a fixed place or a permanent establishment in Sweden are generally not liable for capital gains taxation in Sweden upon disposal of shares (see below regarding certain exceptions). Such holders may, however, be liable for tax in their country of residence. Such holders should seek advice from their own tax advisor on the particular tax consequences that may arise for them as a result of the Offer. Private individuals not resident in Sweden for tax purposes may be liable for capital gains taxation in Sweden upon disposal of Swedish shares if they have been resident in Sweden or lived permanently in Sweden at any time during the year of the disposal or the ten calendar years preceding the year of disposal. However, in many cases this rule is limited by tax treaties Sweden has concluded with other countries. It should be noted that Swedish withholding tax is levied on cash payments distributed in case of a merger.

1) Listed shares are deemed to be held for business purposes if the shareholding constitutes a capital asset for the investor and the holding amounts to at least 10% of the voting rights or is connected to the business conducted by the owner company (or another closely associated company defined in certain manner). Listed shares must be held for a certain time in order for the provisions to apply.

2) See for example the Swedish Tax Agency's general advice SKV A 2005:47.

3) With the exception of shares in Swedish mutual funds consisting solely of receivables denominated in the Swedish currency (interest funds).

# Information on IBM and Watchtower

IBM is a globally integrated innovation company, serving the needs of enterprises and institutions worldwide. IBM is incorporated in New York, US and listed on the New York Stock Exchange under the symbol IBM. In 2006, IBM's total revenues amounted to approximately USD 91.4 billion.

Watchtower is a Swedish limited company and is indirectly wholly owned by IBM. Watchtower's corporate identity number is 556730-4018 and its registered office is in the municipality of Stockholm. Watchtower's address is c/o IBM Legal Department Stockholm, SE-164 92 Stockholm, Sweden. Watchtower was established on May 24, 2007. Watchtower has never conducted any business and at present does not conduct any business and its sole purpose is to make the Offer and take all actions to finance and complete the Offer and subsequently operate as parent company of Telelogic.

The Offer is not subject to any financing conditions and will be financed using existing credit facilities and available cash on hand at IBM and Watchtower.

For more information about IBM, go to [www.ibm.com](http://www.ibm.com).

# Information on Telelogic

## OPERATIONS

Telelogic is a global supplier of software solutions to optimize, align, and automate its customers' business processes.

Telelogic offers software solutions for requirements management, software asset management and enterprise architecture modeling. Telelogic also offers consulting and training services.

Telelogic's software solutions can be used independently or in combination.

Telelogic's customers primarily include larger, leading companies within numerous business areas. Sectors of particular interest include aerospace and defence, telecom, automotive, banking and finance as well as software and systems companies.

Telelogic is divided into three primary geographical markets; EMEA (45% of 2006 sales), Americas (42% of sales) and Asia/Pacific (13% of sales).

Telelogic has its own companies in twenty countries and has been listed on the O-list of the Stockholm Stock Exchange since March 1999.

## PRODUCT GROUPS

### Requirements management solutions

Telelogic offers two software solutions for requirements management:

- Telelogic Focal Point™
- Telelogic DOORS®

Focal Point is a web-based solution for decision support, product management, and portfolio management, especially in requirement analysis. DOORS is a requirements management tool that helps customers gather, sort, analyze, communicate, and follow up on requirements within and between organizations throughout a project. A majority of sales comes from DOORS.

### Software assets management solutions

Telelogic offers two software solutions within the product category:

- Telelogic Synergy™
- Telelogic Change™

Telelogic Synergy is the company's tool family for managing changes, configurations, and versions in development projects. Change is an add-on to Synergy. A majority of sales comes from Synergy.

### Enterprise architecture and modeling solutions

Telelogic offers numerous products within the product category. The three largest include:

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

These products cover two different areas within modeling. Systems Architect is used for modeling of business processes. Rhapsody and Tau are used for modeling of software; Tau for embedded systems and Rhapsody for general IT applications. Sales of Rhapsody is somewhat higher than sales of System Architect and Tau.

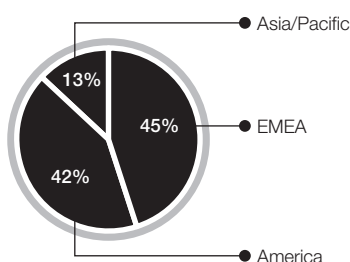
## SHAREHOLDERS' AGREEMENTS ETC.

To the knowledge of the Board of Directors of Telelogic, there are no agreements among shareholders of Telelogic, among shareholders and Watchtower or IBM, or between shareholders and Telelogic (other than those described in this offer document).

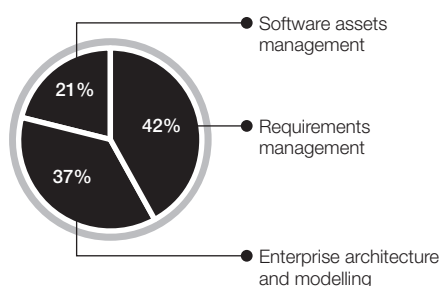
## LEGAL PROCEEDINGS

Currently, Telelogic is involved in a few legal proceedings of normal commercial nature, of which none is expected to have significant impact on the company's results.

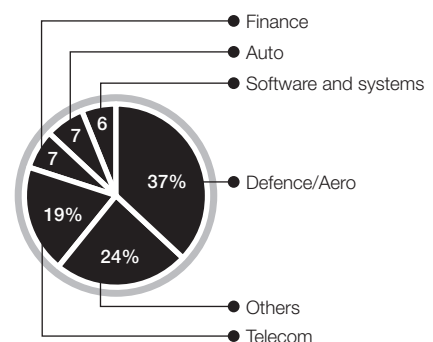
REVENUE PER REGION



REVENUE PER PRODUCT



REVENUE PER SEGMENT



## SUMMARY OF FINANCIAL INFORMATION

January 1 – December 31 (MSEK)	2006 IFRS	2005 IFRS	2004 IFRS
<b>Income statement</b>			
Licensing and maintenance revenues	1,253	1,026	854
Consulting and other revenues	272	264	185
<b>Net sales</b>	<b>1,525</b>	<b>1,290</b>	<b>1,039</b>
Licensing and maintenance expenses	-75	-60	-56
Consulting and other expenses	-213	205	-146
<b>Gross income</b>	<b>1,236</b>	<b>1,025</b>	<b>837</b>
Sales expenses	-644	-528	-428
Administrative expenses	-114	-95	-78
Product development expenses	-231	-192	-154
Other costs	-33	-16	-1
<b>Operating income</b>	<b>215</b>	<b>195</b>	<b>175</b>
Net financial income/expenses	-6	7	3
<b>Pre tax profit</b>	<b>209</b>	<b>202</b>	<b>178</b>
Tax	-50	-37	-43
<b>Income after tax</b>	<b>160</b>	<b>165</b>	<b>134</b>
<b>Balance sheet</b>			
Total non-current assets	1,438	928	457
Total current assets	1,017	1,032	689
<b>Total assets</b>	<b>2,456</b>	<b>1,959</b>	<b>1,146</b>
<b>Total equity</b>	<b>1,427</b>	<b>1,360</b>	<b>703</b>
Total non-current liabilities	390	3	3
Total current liabilities	638	596	440
<b>Total liabilities</b>	<b>1,029</b>	<b>600</b>	<b>443</b>
<b>Total equity and liabilities</b>	<b>2,456</b>	<b>1,959</b>	<b>1,146</b>
<b>Cash flow</b>			
<b>Current operations</b>	<b>289</b>	<b>183</b>	<b>153</b>
Investing activities	-728	-299	-45
Financing activities	469	295	8
<b>Cash flow during the period</b>	<b>30</b>	<b>180</b>	<b>116</b>
Liquid funds at beginning of period	447	250	140
Exchange rate difference in liquid funds	-15	18	-7
<b>Liquid funds at end of period</b>	<b>462</b>	<b>447</b>	<b>250</b>
<b>Data per share</b>			
Earnings per share after full tax, basic	0.65	0.70	0.63
Earnings per share after full tax, diluted	0.65	0.69	0.61

## SUMMARY OF FINANCIAL KEY RATIOS

<b>Key ratios</b>	<b>2006 IFRS</b>	<b>2005 IFRS</b>	<b>2004 IFRS</b>
Gross Margin, (%)	81.1	79.4	80.5
Operating Margin, (%)	14.1	15.1	16.9
Profit Margin, (%)	13.7	15.6	17.1
Return on operating capital, (%)	18.3	27.6	37.9
Return on capital employed, (%)	13.9	19.3	27.2
Return on equity, (%)	11.5	16.0	21.4
<b>Capital structure</b>			
Operating capital	1,402	952	463
Capital employed	1,864	1,400	712
Equity	1,427	1,360	703
Interest-bearing net debts,	-25	-408	-240
Equity/assets ratio, (%)	58.1	69.4	61.3

## DEFINITIONS

<b>Gross margin</b>	Gross margin as % of net sales.
<b>Operating margin</b>	Operating income as % of sales.
<b>Profit margin</b>	Income after financial items as % of net sales.
<b>Return on operating capital</b>	Operating income as % of average operating capital.
<b>Return on capital employed</b>	Operating income plus financial income as % of average capital employed.
<b>Return on shareholders' equity</b>	Net income after tax in relation to average shareholders' equity.
<b>Operating capital</b>	Balance sheet total minus non-interest-bearing debts, and cash and bank accounts.
<b>Capital employed</b>	Balance sheet total non-interest-bearing debts.
<b>Shareholders' equity</b>	Shareholders' equity at year-end. Calculated as shareholders' equity plus shareholders equity share of untaxed reserves.
<b>Net interest-bearing debt</b>	Interest-bearing debts minus cash and bank accounts.
<b>Equity/assets ratio</b>	Shareholders' equity as % of balance sheet total.
<b>Earnings per share</b>	Profit for the year divided by average number of shares.
<b>Earnings per share after full dilution</b>	Profit for the year divided by average number of shares after full dilution.

## SHARE CAPITAL AND OWNERSHIP STRUCTURE

The Telelogic share was initially offered on the O-list of the Stockholm Stock Exchange on March 8, 1999. The initial offering price was SEK 5.00, recalculated after splits. Telelogic is listed on the Stockholm Stock Exchange, under the symbol TLOG. One trading lot comprises 1,000 shares.

## SHARE CAPITAL

The registered share capital of Telelogic totalled SEK 2,471,795 as at May 31, 2007, distributed among 247,179,481 shares. All Telelogic shares entitle to one vote per share, and all shares carry equal rights to the company's profit and assets.

On May 3, 2007, the Annual General Meeting resolved to authorize the Board of Directors, for the period up until the next Annual General Meeting, on one or several occasions, and with the right to deviate from the shareholders' preferential rights, to resolve to issue a maximum of 27,000,000 shares, by issuing shares or warrants or raising loans of up to SEK 700 million through new issues of convertibles. The purpose of the authorization is to enable the Board of Directors to finance acquisitions through new issue. New issue for consideration in cash or by way of set-off of claims shall primarily entail preferential rights for the shareholders. Deviation from this shall only be made in the event of imminent acquisitions where time does not allow a new issue with preferential rights for the shareholders. Where the new issues deviate from the shareholders' preferential rights, the subscription price shall be set as close as possible to the stock exchange quotation at the time.

The Annual General Meeting 2007 also resolved to authorize the Board of Directors, for the period up until the next Annual General Meeting, on one or several occasions, to resolve on acquisitions of own shares on the Stockholm Stock Exchange, and on transfers of own shares on the Stockholm Stock Exchange or in other manner than on the Stockholm Stock Exchange, including a right to resolve on deviations from the shareholders' preferential rights and on consideration in kind, by way of set-off of claims or other conditions. Under the authorization acquisitions may be made of such number of shares that the company's

holding of own shares after the acquisition amounts to not more than one tenth of all the shares in the company, however not more than 24,700,000 shares. The purpose of the authorization is to give the Board of Directors extended possibilities to take measures in order to make the company's capital structure more efficient and to enable the Board of Directors to transfer own shares as consideration in connection with acquisitions or in connection with the exercise of call options within the Group's global option plan. Transfers of own shares on the Stockholm Stock Exchange may only be made for the purpose of financing acquisitions, and deviations from the shareholders' preferential rights in connection with transfers outside the Stockholm Stock Exchange may only be made in connection with corporate acquisitions or for the delivery of shares pursuant to the terms for call options issued by the Group. Telelogic does not at the time of this offer document hold any own shares.

Furthermore, the Board of Directors was authorized by the Annual General Meeting, for the period up to the next Annual General Meeting, on one or several occasions, to resolve to issue a maximum of 4,500,000 warrants in total, each warrant entitling the holder to subscribe for one share in the company. The right to subscribe for warrants, with deviation from the shareholder's preferential rights, belong to wholly-owned subsidiaries within the Group. The reason for deviating from the shareholders' preferential rights is to hedge the performance of the option undertakings in accordance with the option plan set out above, and to cover administrative costs and social security contributions and equivalent foreign taxes which may arise due to the option plan.

Furthermore, the Annual General Meeting resolved to authorize the Board to, in accordance with the Group's global option plan, resolve to issue a maximum of 2,500,000 call options to be allocated to the employees of the present Group, and to resolve on new issue of a maximum of 2,000,000 call options to be allotted to employees in companies which are acquired. No such options have been issued or allotted.

## DIVIDEND POLICY

Since 1999 Telelogic applies a restrictive dividend policy. The Annual General Meeting 2007 resolved not to pay any dividend.



## DEVELOPMENT OF THE SHARE CAPITAL

Development of the Telelogic share capital as of May 31, 2007:

Year	Transaction	Change (number of shares)	Total number
1998	Opening balance	0	6,000
1999	Split 1:1000	5,994,000	6,000,000
1999	New issue (stock-market floatation)	2,000,000	8,000,000
2000	Redemption of warrants (owner)	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	Exercise of warrants	10,811,470	125,364,964
2001	New issues	61,466,850	186,831,814
2001	Exercise of warrants	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	Exercise of warrants	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	Exercise of warrants	1,130,506	205,563,978
2004	Conversion of convertibles	11,652,931	217,216,909
2005	Exercise of warrants	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	Exercise of warrants	3,675,143	247,105,247
2007	Exercise of warrants	74,234	247,179,481

## SHAREHOLDERS

According to the VPC AB share register for direct and nominee registered shareholders, the 10 largest shareholders in Telelogic as of May 31, 2007 are:

Name	Total number of shares	Holding/Votes (%)
Fjärde AP-fonden	19,736,800	7.98
Swedbank Robur fonder	17,156,346	6.94
IF Skadeforsäkrings AB	12,210,000	4.94
Goldman Sach International LTD, W8IMY	10,478,424	4.24
Lannebo fonder	10,202,700	4.13
AMF Pensionsförsäkrings AB	9,501,000	3.84
SEB fonder	5,531,381	2.24
Fidelity Fd-Europe Small Comp	5,384,000	2.18
Skandia fonder	4,461,099	1.80
Handelsbanken fonder	3,688,372	1.60
<b>Total ten largest shareholders</b>	<b>98,350,122</b>	<b>39.80</b>
Total other largest shareholders	148,829,359	60.20
<b>Total</b>	<b>247,179,481</b>	<b>100.00</b>

## EMPLOYEE STOCK OPTIONS

As of May 31, 2007 Telelogic had five outstanding series of employee stock options granted under the global employee stock option plan. Telelogic's undertakings under the options and certain costs related to the option program are hedged by corresponding series of warrants, which are held by a subsidiary of Telelogic, Telelogic Options AB. If all of the employee stock options were exercised to acquire shares, 7,611,612 new shares in Telelogic would be issued, after which the total number of shares would reach 254,791,093 corresponding to dilution of approximately 2.99%.<sup>1)</sup>

Program	Exercise Price	Exercise deadline	Equivalent number of shares	Dilution at full subscription (%)
TO 10 (2003/2007)	5.15	31-Oct-07	495,401	0.19
TO 11 (2004/2008)	17.3	31-Jul-08	1,308,311	0.51
TO 13 (2005/2010)	17.5	31-Jan-10	2,626,000	1.03
TO 14 (2006/2010)	22.1	31-Oct-10	952,500	0.37
TO 15 (2006/2011)	13.2	31-Jan-11	2,229,400	0.87
<b>Total</b>			<b>7,611,612</b>	<b>2.99</b>

Furthermore, former employees of QSS Inc. who are currently employed within the Telelogic group, hold options entitling to acquisition of shares in Telelogic. The number of outstanding options are 226,043, each of which entails the right to acquire one Telelogic share. The obligation to deliver shares upon any exercise of the options is incumbent on a trust outside the Telelogic group. The trust holds such number of Telelogic shares that is necessary to secure the undertakings under the options. Hence, exercise of these options does not result in any dilution.

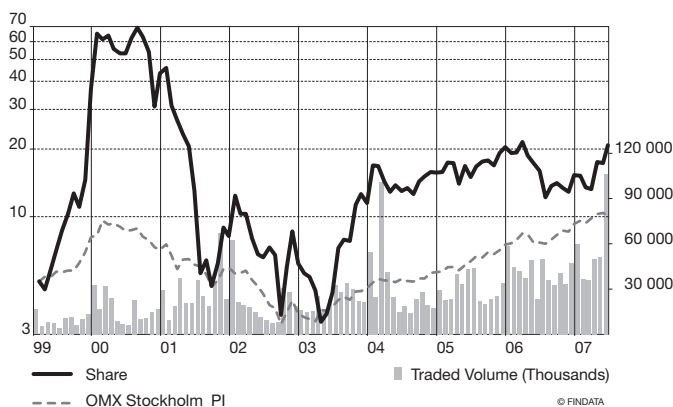
## OWNERSHIP STRUCTURE

Distribution of ownership per holding as of May 31, 2007:

Holdings	Total shares	%	Total owners	%
1–10,000	36,190,847	14.64	20,231	93.28
10,001–50,000	24,745,344	10.01	1,131	5.21
50,001–100,000	10,337,133	4.18	140	0.65
100,001–1,000,000	56,188,018	22.73	147	0.68
1,000,001–5,000,000	56,570,215	22.89	33	0.15
5,000,001–	63,147,924	25.55	6	0.03
<b>Total</b>	<b>247,179,481</b>	<b>100.00</b>	<b>21,688</b>	<b>100.00</b>

## SHARE PRICE DEVELOPMENT

Telelogic share, March 8, 1999 – June 21, 2007:



1) In addition, Telelogic may have additional warrants at its disposal to cover costs (mainly social security contributions) related to the exercise of options. The additional potential dilution as a result thereof amounts to approximately 0.67% in total.

## BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND AUDITORS

### BOARD OF DIRECTORS

#### *Jörgen Centerman*

Board member since 2005. Born in 1951. He is also the chairman of Dacke PMC AB and HMS Networks AB as well as a Board member of Micronic Laser Systems AB, XPonCard AB and AB Segulah. MSc in Engineering from Lunds University. Owns 0 shares in Telelogic.

#### *Bo Dimert*

Chairman of the Board. Board member since 2001. Born in 1943. He is also the chairman of ipUnplugged AB, IKIVO AB and AddPro AB as well as a Board member of Genesys S.A., Advoco AB and the Sverige-Amerika foundation. Holds an MSc in Business Administration and Economics from the Stockholm School of Economics. Owns 65,000 shares in Telelogic.

#### *Kjell Duveblad*

Board member since 1998. Born in 1954. He is also the chairman of Tradedoubler and Remium Fondkommission and Board member of Bure Equity, Drutt Corporation, FSAB, Retea-Energo, Technology Nexus and Teleopti. Holds an MSc in Business Administration and Economics from the Stockholm School of Economics. Owns 600,000 shares in Telelogic.

#### *Märtha Josefsson*

Board member since 2006. Born in 1947. Also a Board member of Anoto, Fabege, Ledstiernan, Luxonen, Andra AP-fonden, Uppsala Nya Tidning, Skandia fonder and Lärarfonder. Bachelors degree from Uppsala University. Owns 75,000 shares in Telelogic.

#### *Birgitta Klasén*

Board member since 2006. Born in 1949. Also a Board member of OMX and Bisnode. MSc in Applied Engineering, Royal Institute of Technology, business education and teachers education from the University of Stockholm. Owns 20,000 shares in Telelogic.

#### *Anders Lidbeck*

President & CEO. Board member since 1998. Born in 1962. He is also the chairman of Cerandum Advisor and a Board member in a number of Telelogic's subsidiaries. MSc in Business Administration and Economics from Lunds University. Owns 525,000 shares and 700,000 options in Telelogic.

#### *Ola Eklundh*

Employee Representative. Board member since 2003. Born in 1969. Owns 10,158 shares.

#### *Brandon Jones*

Employee Representative. Board member since 2002. Born in 1975. Owns 14,000 shares and 8,000 options.

#### *Martin Axelsson*

Deputy Employee Representative. Board member since 2006. Born in 1974. Owns 3,000 shares.

## EXECUTIVE MANAGEMENT

#### *Susan Boers*

President Market Division Americas. Born in 1948. Employed since 2000. Owns 0 shares in Telelogic. Based in Washington, USA.

#### *Neeraj Chandra*

Executive Vice President Corporate and Product Strategy. Born in 1956. Employed since 2006. Owns 0 shares and 100,000 options in Telelogic. Based in Boston, USA.

#### *Jesper Christensen*

Executive Vice President Product Division Change and Configuration Management. Born in 1958. Employed since 2000. Owns 0 shares in Telelogic. Based in California, USA.

#### *Anders Lidbeck*

President & CEO. Born in 1962. Employed since 1998. Owns 525,000 shares and 700,000 options in Telelogic. Based in Malmö, Sweden.

#### *Ingemar Ljungdahl*

Chief Technology Officer and EVP Product Division Requirements Management. Born in 1953. Employed since 1984. Owns 40,000 shares and 156,667 options in Telelogic. Based in Malmö, Sweden.

#### *Catharina Paulcén*

Executive Vice President Corporate Communications. Born in 1973. Employed since 1997. Owns 169,000 shares and 135,000 options in Telelogic. Based in Malmö, Sweden.

#### *Håkan Persson*

President Market Division EMEA. Born in 1961. Employed since 2007. Owns 0 shares in Telelogic. Based in Malmö, Sweden.

## Information on Telelogic

### *Håkan Rippe*

Executive Vice President Corporate Development. Born in 1968. Employed during 1999–2002 and since 2004. Owns 160,000 shares and 105,000 options in Telelogic. Based in Stockholm, Sweden.

### *Greg Sikes*

Executive Vice President Product Division Modelling Solutions. Born in 1962. Employed since 2003. Owns 4 225 shares and 125,000 options in Telelogic. Based in California, USA.

### *Staffan Söderqvist*

President Market Division Asia/Pacific. Born in 1957. Employed since 2006. Owns 0 shares and 100,000 options in Telelogic. Based in Singapore.

### *Håkan Tjärnemo*

Chief Financial Officer. Born in 1960. Employed since 1998. Owns 326,318 shares and 165,000 options in Telelogic. Based in Malmö, Sweden.

### *Per Åsberg*

Executive Vice President Global Support. Born in 1961. Employed since 2000. Owns 20,000 shares and 80,000 options in Telelogic. Based in California, USA.

## AUDITORS

### *KPMG Bohlins AB*

Lead auditor Eva Melzig Henriksson. Lead auditor for Telelogic since 2007. Born in 1961.

## ARTICLES OF ASSOCIATION OF TELELOGIC

*(Org. Nr. 556049-9690)*

Adopted at the annual general meeting on May 2, 2006.

### § 1.

The company's name is Telelogic AB (publ).

### § 2.

The company's registered office shall be situated in Malmö, Skåne.

### § 3.

The company shall develop, produce and sell productivity increasing software techniques, including language, methods and tools, and carry on business which is compatible thereto.

### § 4.

The share capital shall be not less than SEK 1,800,000 and not more than SEK 7,200,000.

### § 5.

The number of shares shall be not less than 180,000,000 and not more than SEK 720,000,000.

### § 6.

The Board of Directors shall consist of not less than three and not more than nine Board members with not more than three alternate Board members. The company shall have one or two auditors with not more than two alternate auditors. An authorized public accountant or a registered public accounting firm shall be elected as auditor. The Board of Directors may appoint one or several special purpose auditors to audit a merger plan, a division plan, the Board of Directors' statement in connection with a new issue with provision regarding payment in kind or by way of set-off, or with other conditions, or the Board of Directors' statement in connection with a reduction of the share capital with a provision regarding payment to the shareholders in kind or by way of set-off, or with other conditions.

### § 7.

Notice of general meetings shall be published in Post- och Inrikes Tidningar and in Svenska Dagbladet.

### § 8.

A shareholder who wishes to participate in a general meeting shall notify the company at latest on the day set out in the notice of the general meeting. This may not be a Sunday, a public holiday, a Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and may not be earlier than five workdays before the general meeting. If a shareholder wishes to bring assistants to the shareholders' meeting, the number of assistants (two at the most) shall be stated in the notification.

### § 9.

The company's shares shall be registered in a central securities depository register in accordance with the Financial Instruments (Account Keeping) Act of 1998.

### § 10.

The company's financial year shall be the calendar year.

## Telelogic Interim Report January - March 2007



Key numbers SEK million	Jan-Mar		Jan-Dec	
	2007	2006	2006	2005
Revenue	388.9	327.1	1 524.9	1 289.9
Pre-tax profit	47.7	35.0	209.4	201.7
Income after tax	36.1	28.4	159.9	165.2
Earnings per share, SEK	0.15	0.12	0.65	0.70
Cash flow, current operations	108.5	104.9	288.9	183.1

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.

**Telelogic**  
Requirements-Driven Innovation

## Telelogic Interim Report, January - March 2007

- Revenue grew with 25% in local currency during the first quarter to SEK 388.9 million.
- Sales of licenses and maintenance rose 33% in local currency. Sales of services remained at the same level as during the first quarter last year.
- Pre-tax profit increased 36% to SEK 47.7 million for the quarter.
- Earnings per share increased 25% for the first quarter and amounted to SEK 0.15/share.
- Cash flow from current operations was SEK 108.5 million during the quarter.
- Forecast adjusted upward for the full year 2007.

### CEO's comments on the quarter:

"The favorable trend that began in autumn 2006 continued during the first quarter of 2007. Telelogic posted double-digit increases in both revenue and earnings. Cash flow has also continued to be strong.

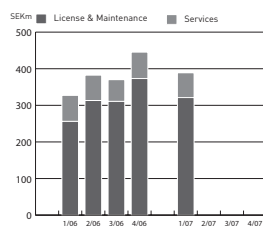
We see positive trends in all regions, though individual countries may still show weak growth. The market situation in general feels stable with good demand.

On the product side, the Requirements Management category recovered, which is clearly positive. This is partly related to the specialization of the organization which began in 2006, which has resulted in adding new customers, both on the civilian side of the industry and at the same time in other industries.

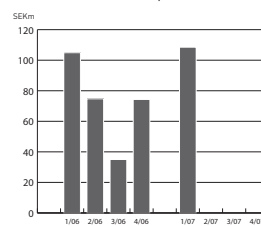
Based on our strong first quarter we have chosen to adjust our revenue growth forecast upward to 7-12 percent as well as our forecast for earnings per share which is adjusted upward to 15-20 percent compared with last year."

*Anders Lidbeck, CEO and President for Telelogic*

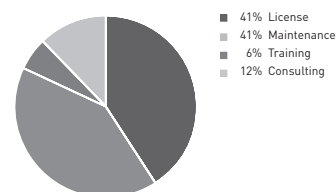
Revenue



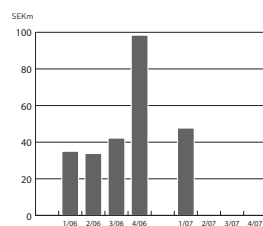
Cash flow from current operations



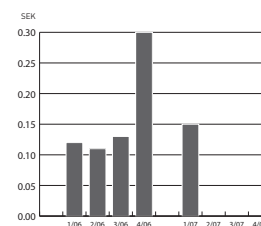
Revenue mix (Jan-Mar)



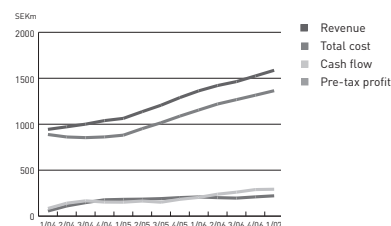
Pre-tax profit



Earnings per share



Moving four quarters





## Revenue, profits and cash flow

Jan-Mar, SEK million	2007	2006
Revenue	388.9	327.1
Pre-tax profit	47.7	35.0
Income after tax	36.1	28.4
Earnings per share, SEK	0.15	0.12
Cash flow, current operations	108.5	104.9

### Bright beginning for 2007

First quarter revenue rose to SEK 388.9 million, representing growth of 25 percent in local currency, which is equivalent to 19 percent when calculated in Swedish kronor, compared with the same period in 2006.

License and maintenance revenue accounted for 83 percent of Telelogic's total revenue for the quarter, an increase of 33 percent in local currency and 26 percent when calculated in Swedish currency.

Maintenance revenue has shown an upward trend for some time. Maintenance revenue for the first quarter totaled 41 percent of the revenue, compared with 39 percent during the corresponding period in 2006. This can be explained by the fact that the maintenance customer base increases with each licensing agreement.

Licensing revenues have also shown robust growth. During the quarter licensing revenues increased in all product divisions. Telelogic endeavors to increase the percentage of term based licensing agreements so they also become a recurring item. Term based agreements accounted for 18 percent of revenues during the first quarter.

Revenue from consulting and training services remained unchanged in local currency which represents a decrease with 5 percent in Swedish currency.

### Strong financial performance

The operating margin for the first quarter was 12.3 percent, an improvement of more than two percentage points over the same period last year.

Pre-tax profit for the first quarter improved by 36 percent and totaled SEK 47.7 million. A charge of SEK 4.8 million (in accordance with IFRS) was taken against profit for the quarter for amortization of intangible assets relating to acquisitions carried out in 2005 and 2006. Earnings after taxes improved by 27 percent to SEK 36.1 million.

Earnings per share totaled SEK 0.15 for the first quarter, an improvement of SEK 0.03 or 25 percent compared with the same period last year.

### Continued strong cash flow

Cash flow from current operations during the first quarter was SEK 108.5 million, up 3 percent compared with the same period last year.

Cash flow was positively impacted by an increasing percentage of maintenance revenue and also because taxes paid continued to be low. In 2006 Telelogic paid SEK 20 million in taxes due to the effects of tax loss carry-forwards. The Group still has substantial tax loss carry-forwards and Telelogic estimates that paid tax will continue to be low during the years to come.

In 2006 cash flow was also positively affected by efficiency gains relating to accounts receivable management and shorter collection periods. However, we do not expect this to change appreciably in 2007 and therefore we will not see an equivalent impact on cash flow this year.

### Strong financial position

Cash and cash equivalents increased to SEK 544.5 million, compared with SEK 462.0 million at the turn of the year. The change was due to a positive cash flow from current operations of SEK 108.5 million, payment of additional consideration relating to the I-Logix acquisition of SEK 4.7 million, amortization of loans for SEK 12.5 million, other investments of SEK 14.0 million, warrant redemptions of SEK 0.1 million, and positive exchange rate differences of SEK 5.1 million in cash and cash equivalents. In addition to cash and cash equivalents amounting to SEK 544.5 million, Telelogic has unused overdraft facilities of more than SEK 500 million.

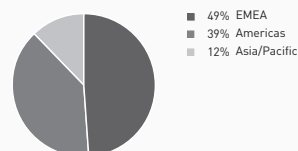
### Personnel

At the end of the quarter Telelogic had 1,164 employees, which is 26 persons more than at the end of 2006. The Company will continue to focus on hiring new employees in those regions and product areas that show good profitability and potential to safely continue expansion.

### Geographical development

Jan-Mar	Growth <small>(local currency)</small>	Contribution
America	22%	34%
EMEA	25%	40%
Asia/Pacific	28%	30%

### Revenue/region



#### Robust growth in all market divisions

Telelogic's Americas Market Division (operations in North and South America) showed good growth during the quarter. Telelogic has considerable exposure toward the aerospace/defense industry in the United States and the market climate in this customer group has been stable during the period. Telelogic considers the trend in the rest of the market in the United States to be consistent with the country's market climate in general. The contribution margin was in line with Telelogic's plan.

The EMEA Market Division (operations in Europe, the Middle East and Africa) reported strong growth during the quarter. The

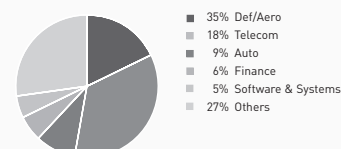
market climate varies among the countries, but overall Telelogic considers this market to be good. The contribution margin was very high, especially for a first quarter, an indication of excellent cost control in the division.

Growth in the Asia/Pacific Market Division (operations in Asia and Australia) was the highest of all three divisions. The market climate is estimated to continued to be positive. However, the contribution margin was low because of investments in continued expansion.

### Development per customer group

Jan-Mar	Growth <small>(local currency)</small>	% of revenue
Def/Aero	28%	35%
Telecom	16%	18%
Automotive	77%	9%
Finance	-2%	6%
Software & Systems	-5%	5%
Others	33%	27%

### Revenue/segment



#### Defense/aerospace continues to dominate

The defense/aerospace category continued to be Telelogic's biggest customer group. Revenue in this segment grew by 28% during the fourth quarter, compared with the same quarter in 2006. This category has shown stable development over the past few quarters. Telelogic has gradually strengthened its position among new customers on the civilian side of this industry and within new regions, and at the same time been successful in cross-selling of new products.

Revenue in the telecom category rose 16 percent during the first quarter, mainly due to the signing of a large contract during the quarter. However, the segment also showed strength in general during the period, compared with a negative trend throughout 2006.

Revenue in the automotive category climbed sharply during the quarter. A major deal was signed in the United States, which is an important step in Telelogic's aspiration to strengthen its position in this segment even outside Germany. Meanwhile, this deal is not expected to substantially influence Telelogic's continued growth in the segment in the near term.

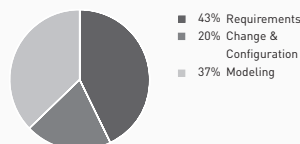
The finance category and the software & systems category declined slightly during the quarter. However, these customer groups are too small for any detailed conclusions to be drawn based on individual quarters.

Segments that do not achieve 5 percent of total revenue on an annual basis are categorized as "other" segments.

### Development per product category

Jan-Mar	Growth <small>(lokal valuta)</small>	% of revenue
Requirements	17%	43%
Configuration	1%	20%
Modeling	74%	37%

### Revenue/product



#### Requirements returns to double-digit growth

The Requirements Management product group rose 17 percent during the quarter - the highest growth rate for this product group over the past four quarters. Telelogic is very well positioned globally in this product category with its world-leading product DOORS and the fast-growing, web-based product Focal Point.

Modeling is the product category that grew most, with 74% growth during the first quarter. This strong growth is due to a strong growth rate for Rhapsody, which was included in the I-Logix acquisition and which has been a very good performer as part of the Telelogic Group. System Architect, another product in this product category, also continued to perform well and posted a growth rate of 48 percent.

The Change & Configuration Management product group grew during the quarter by 1 percent. This category continued to invest in both product development and the sales organizations in order to strengthen Telelogic's position. Interestingly, this product group grew most in the Asia/Pacific Market Division.

#### Product news

- During the quarter Telelogic launched a simplified modeling product. This introduction license is offered without charge with the purpose to spread the use of Telelogic's products to new customer groups.
- System Architect, Telelogic's modeling product for business processes, was released in a version with support for Japanese characters. System Architect also improved its support for analysis of organizational structures.
- Telelogic also launched a simplified version of its Requirements Management product. It is marketed under the name DOORS Fastrak and is intended for use by customers looking for a fast, flexible, small-scale Requirements Management solution.
- Other product news includes integration with OSEK, a standard in the automotive industry, as well as improved versions of the modeling products Rhapsody and SDL Suite.

#### Annual General Meeting and annual report

The Annual General Meeting will be held in Malmö at 3:00 P.M. on May 3, 2007. For those interested, a presentation of one of the Company's business areas will be given at 2:30 P.M.

Information about notification as well as the Board of Directors' complete proposal are available on the Company's website and may also be sent to those who so desire.

The Annual report in Swedish has been available on the Telelogic website since April 13.

#### Outlook for 2007

Underlying market demand is anticipated to be good, with similar quarterly fluctuations as in previous years.

Telelogic had previously forecast that sales would grow with 5 to 10 percent, but now predicts that revenue will grow with 7 to 12 percent in local currency compared with the previous year.

Telelogic had previously forecast that earnings per share in 2007 would increase 10 to 15 percent, but now predicts that earnings per share will increase 15 to 20 percent compared with the previous year.

Malmö, April 24, 2007  
Board of Directors

Questions are answered by CEO Anders Lidbeck, phone +46 40-650 00 00 or by EVP Corporate Communications, Catharina Paulcén, phone +46 705-174730.

This interim report has been prepared in line with LAS 34. No change in the accounting principles has been made. This report has not been subject to special review by Telelogic's auditors.

## Telelogic's Solutions Improve Quality and Reduce Time-to-Market

Traditionally, SwitchCore managed software and product requirements using word processing and spreadsheet programs. Consequently, the company had limited traceability between documents and no traceability between requirements and test specifications.

In 2005, the company began evaluating requirements management solutions. However, because SwitchCore sub-contracts the development of software drivers to Mindtree Consulting, Bangalore, India, the solution had to support distributed development.

After implementing Telelogic DOORS, SwitchCore is now able to maintain traceability between all documents for all requirements specifications.



Based on the company's quick success with DOORS, it explored other Telelogic solutions and selected solutions from Telelogic's Tau product family to automate design and development best practices.



In the future, SwitchCore will investigate the possibility of automatically generating a reference model from UML specifications.

"The investment in DOORS and Tau has increased the quality of our requirements and design specifications" says Jens Hultman, Manager of Systems and Software at SwitchCore AB.

"The improvements in traceability and the closer connection between requirements and testing has minimized the risk of a product not meeting requirements, which is extremely costly and of course unwanted."

### Major deals during the first quarter

- Telelogic signed its largest agreement ever, worth SEK 49 million. The three-year agreement was signed with a government customer in the EMEA and included all product categories.
- A supplier of signal systems for the rail industry invested SEK 8 million over five years in all product families.
- A European telecom operator extended an agreement worth SEK 6.9 million. The 3.5 year agreement included all product categories.
- A North American supplier of aviation electronics purchased the requirements management product DOORS for a value of SEK 4.3 million.
- A global automotive manufacturer signed an agreement worth SEK 4 million that included licenses for DOORS.
- A financial services enterprise invested SEK 3.9 million in DOORS and modeling product System Architect over a three-year period.



# Technology description: Requirements Management

Telelogic provides software solutions to optimize, align, and automate its customers' business processes, tailored to business operations objectives and end customer needs. The purpose is to save time, improve quality and reduce costs.

Telelogic's software is divided into three product groups: Requirements Management, Change & Configuration Management, and Modeling. Each quarter we describe one product group in the Interim Report.

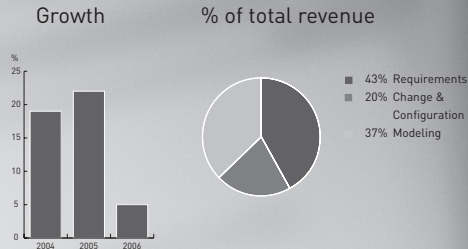
## Requirements Management

### What is Requirements Management?

When an enterprise creates a new product, the first phases focus on increasing understanding and knowledge about the system or the product to be built. All requirements for the product are gathered and compiled. Requirements often come from many different sources, such as the sales department, sales force, and the sourcing department.

Once the enterprise compiles the requirements they are analyzed. Some requirements may be contradictory and must be resolved. Some requirements may be eliminated due to technical or financial limitations. Some requirements belong together with other requirements and are then linked together. Requirements also usually need to be refined and expanded upon in greater detail.

Requirements Management continues throughout the development period, in part to enable the project manager to confirm that requirements are actually met and in part because requirements often change and are refined over the course of the project.

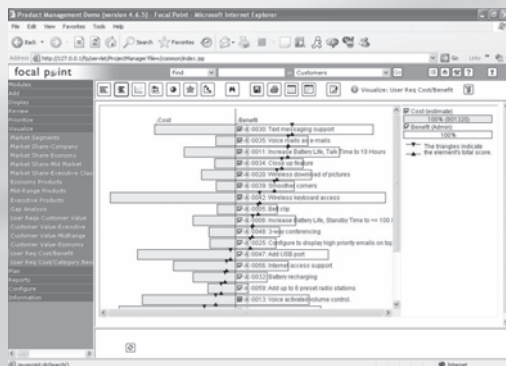


### Users

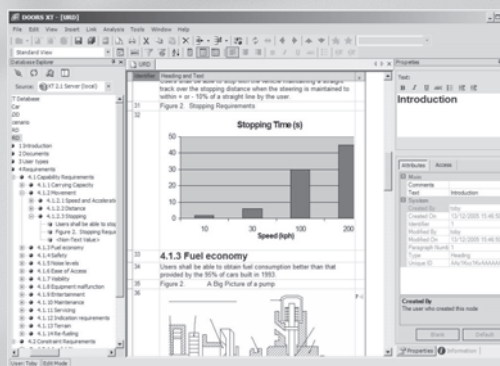
- Product managers are responsible for gathering and organizing requirements. They may also be assisted by dedicated requirements engineers.
- Project managers want an overview of all requirements in the project, to ensure that requirements have actually been met.
- Developers want to see which requirements are included in the project so they know what to develop and why.

### Advantages of Requirements Management

- The enterprise develops the products that their customers really want, not the products they think their customers want.
- By organizing the requirements - and therefore the project - from the start, the project becomes more efficient, which saves time and money.
- Everyone involved in the project gains an understanding of what is being developed and why.



Telelogic Focal Point is a web-based solution for requirements analysis and for decision-making support systems for product development. Focal Point helps customers make better and faster decisions by prioritizing requirements and weighing them against each other based on various parameters, such as cost and customer benefit.



Telelogic DOORS, the world's leading Requirements Management tool, helps customers gather, sort, analyze, communicate, and follow up on requirements. DOORS makes it easy to follow a requirement at any time in the development process, from concept to test, to see how the requirement affects the end product.

## Income statements in summary

SEK million	Jan-Mar		Full year	
	2007	2006	2006	2005
Licensing revenue	159.9	127.9	653.2	564.7
Maintenance revenue	161.3	128.2	600.0	461.2
Consulting and other revenue	67.7	71.0	271.7	264.0
<b>Total revenue</b>	<b>388.9</b>	<b>327.1</b>	<b>1,524.9</b>	<b>1,289.9</b>
License expenses	-6.4	-5.0	-22.5	-15.0
Maintenance expenses	-14.4	-10.6	-52.9	-44.9
Consulting and other expenses	-54.2	-55.2	-213.4	-205.3
<b>Gross income</b>	<b>313.9</b>	<b>256.3</b>	<b>1,236.1</b>	<b>1,024.7</b>
Sales expenses	-165.5	-145.3	-643.8	-527.5
Administration expenses	-30.2	-24.8	-113.6	-94.9
Product development expenses	-65.4	-48.8	-230.6	-191.5
Other operating expenses	-4.8	-4.1	-33.0	-15.7
<b>Operating income</b>	<b>48.0</b>	<b>33.3</b>	<b>215.1</b>	<b>195.1</b>
Net financial income/expenses	-0.3	1.7	-5.7	6.6
<b>Pre-tax profit</b>	<b>47.7</b>	<b>35.0</b>	<b>209.4</b>	<b>201.7</b>
Tax	-11.6	-6.6	-49.5	-36.5
<b>Income after tax</b>	<b>36.1</b>	<b>28.4</b>	<b>159.9</b>	<b>165.2</b>
<b>Earnings per share, basic (SEK)</b>	<b>0.15</b>	<b>0.12</b>	<b>0.65</b>	<b>0.70</b>
Earnings per share, diluted (SEK)	0.15	0.11	0.65	0.69
Average number of shares, basic (million)	247.1	244.3	246.2	235.6
Average number of shares, diluted (million)	247.8	248.3	247.2	240.4

## Key numbers

	Jan-Mar		Full year	
	2007	2006	2006	2005
<b>Sales growth (%)</b>	<b>19</b>	<b>29</b>	<b>18</b>	<b>24</b>
" Licensing revenue	25	18	16	15
" maintenance revenue	26	35	30	26
" consultant & other revenue	-5	42	3	43
<b>Gross margin (%)</b>	<b>80.7</b>	<b>78.4</b>	<b>81.1</b>	<b>79.4</b>
" licensing revenue	96.0	96.1	96.6	97.3
" maintenance revenue	91.1	91.7	91.2	90.3
" consultant & other revenue	19.9	22.3	21.5	22.2
<b>Indirect expenses in % of revenue</b>	<b>68.4</b>	<b>68.2</b>	<b>67.0</b>	<b>64.3</b>
Sales expenses in % of revenue	42.6	44.4	42.2	40.9
Administration expenses in % of revenue	7.8	7.6	7.4	7.4
Product development expenses in % of revenue	16.8	14.9	15.1	14.8
Other expenses in % of revenue	1.2	1.3	2.2	1.2
<b>Operating margin (%)</b>	<b>12.3</b>	<b>10.2</b>	<b>14.1</b>	<b>15.1</b>
EBITA margin* (%)	13.6	11.4	16.3	16.3
EBITDA margin (%)	17.4	15.2	19.8	20.0

\* Operating income excluding amortization on intangible assets related to acquisitions as percentage of total revenue

## Segment Information

	Jan-Mar		Full year	
	2007	2006	2006	2005
<b>Revenue (SEK million)</b>				
Americas	151.0	136.0	636.8	527.6
EMEA	191.6	152.7	695.3	603.8
Asia/Pacific	46.3	38.4	192.8	158.5
<b>Operating income (SEK million)</b>				
Americas	51.8	44.3	238.6	200.6
EMEA	77.5	51.0	261.3	205.3
Asia/Pacific	14.0	11.5	66.5	54.8
Product development, Parent Company and other	-95.3	-73.5	-351.3	-265.6
<b>Contribution margin (%)</b>				
Americas	34	33	37	38
EMEA	40	33	38	34
Asia/Pacific	30	30	34	35

Balance sheets in summary SEK million	Mar 31		Dec 31	
	2007	2006	2006	2005
Goodwill	966.6	972.4	947.1	523.3
Other intangible assets	89.8	126.6	93.7	24.3
Capitalized development costs	156.0	151.4	156.1	151.1
Property, plant, and equipment	38.9	39.3	37.8	34.8
Financial fixed assets	14.9	14.3	15.6	14.9
Deferred tax assets	177.4	258.4	188.1	179.1
Accounts receivables	366.9	434.7	398.7	458.3
Other current receivables	171.7	132.7	156.4	126.2
Cash and cash equivalents	544.5	443.4	462.0	447.3
<b>Total assets</b>	<b>2,526.7</b>	<b>2,573.3</b>	<b>2,455.5</b>	<b>1,959.3</b>
Equity	1,493.0	1,367.4	1,426.8	1,359.8
Interest-bearing long-term liabilities	375.0	450.0	387.5	0.0
Other non-current liabilities	4.9	0.0	2.8	3.4
Interest-bearing current liabilities	50.0	92.0	50.0	39.8
Accounts payable	37.0	34.4	28.8	42.1
Accruals and deferred income	512.1	539.9	491.7	442.8
Other current liabilities	54.7	89.5	67.9	71.4
<b>Total liabilities and equity</b>	<b>2,526.7</b>	<b>2,573.3</b>	<b>2,455.5</b>	<b>1,959.3</b>

Equity in brief SEK million	No. of shares		Full year		
	Jan-Mar 2007	Jan-Mar 2007	2006	2006	2005
Opening balance, January 1	247,105,247	1,426.8	1,359.8	1,359.8	702.7
Change in translation reserve for the year		27.9	-37.7	-130.7	72.8
Income for the year		36.1	28.4	159.9	165.2
<b>Total change in net assets, excl. transactions with the Company's shareholders</b>		<b>64.0</b>	<b>-9.3</b>	<b>29.2</b>	<b>238.0</b>
New equity issues	17,984	0.1	15.3	31.0	414.6
Options program		2.1	1.6	6.8	4.5
<b>Closing balance</b>	<b>247,123,231</b>	<b>1,493.0</b>	<b>1,367.4</b>	<b>1,426.8</b>	<b>1,359.8</b>

Key numbers	Jan-Mar		Full year	
	2007	2006	2006	2005
Number of employees, end of period	1,164	1,054	1,138	929
Cash and cash equivalents (SEK million)	544.5	443.4	462.0	447.3
Interest bearing liabilities (SEK million)	425.0	542.0	437.5	39.8
Equity/assets ratio (%)	59.1	53.1	58.1	69.4
Equity per share (SEK)	6.04	5.57	5.77	5.59

Cash flow in summary SEK million	Jan-Mar		Full year	
	2007	2006	2006	2005
Operating activities	108.5	104.9	288.9	183.1
Investing activities	-18.7	-621.7	-727.8	-298.8
Financing activities	-12.4	515.3	468.5	295.3
<b>Cash flow for the period</b>	<b>77.4</b>	<b>-1.5</b>	<b>29.6</b>	<b>179.6</b>
Cash and cash equivalents at beginning of period	462.0	447.3	447.3	249.5
Exchange rate differences in cash and cash equivalents	5.1	-2.4	-14.9	18.2
Cash and cash equivalents at end of period	544.5	443.4	462.0	447.3



## Quarterly data in summary

## Income Statements

SEK million	2007				2006				2005				
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Licensing revenue	159.9	212.4	152.4	160.5	127.9	181.4	138.1	136.7	108.5				
Maintenance revenue	161.3	160.8	158.3	152.7	128.2	128.9	123.0	114.0	95.3				
Consulting and other revenue	67.7	72.1	59.4	69.2	71.0	73.8	66.3	74.0	49.9				
<b>Total revenue</b>	<b>388.9</b>	<b>445.3</b>	<b>370.1</b>	<b>382.4</b>	<b>327.1</b>	<b>384.1</b>	<b>327.4</b>	<b>324.7</b>	<b>253.7</b>				
License expenses	-6.4	-6.8	-4.8	-6.0	-5.0	-4.2	-3.6	-2.9	-4.3				
Maintenance expenses	-14.4	-14.2	-13.6	-14.4	-10.6	-11.6	-11.8	-11.5	-10.0				
Consulting and other expenses	-54.2	-56.3	-46.2	-55.7	-55.2	-58.7	-49.9	-58.0	-38.7				
<b>Gross income</b>	<b>313.9</b>	<b>368.0</b>	<b>305.5</b>	<b>306.3</b>	<b>256.3</b>	<b>309.6</b>	<b>262.1</b>	<b>252.3</b>	<b>200.7</b>				
Sales expenses	-165.5	-167.5	-163.1	-167.9	-145.3	-141.8	-137.3	-134.0	-114.4				
Administration expenses	-30.2	-29.9	-28.6	-30.3	-24.8	-25.7	-24.3	-25.1	-19.8				
Product development expenses	-65.4	-63.1	-59.7	-59.0	-48.8	-54.4	-48.7	-48.2	-40.2				
Other operating expenses	-4.8	-7.3	-9.6	-12.0	-4.1	-4.4	-5.9	-5.4	0.0				
<b>Operating income</b>	<b>48.0</b>	<b>100.2</b>	<b>44.5</b>	<b>37.1</b>	<b>33.3</b>	<b>83.3</b>	<b>45.9</b>	<b>39.6</b>	<b>26.3</b>				
Net financial income/expenses	-0.3	-1.8	-2.3	-3.3	1.7	1.8	1.2	1.9	1.7				
<b>Pre-tax profit</b>	<b>47.7</b>	<b>98.4</b>	<b>42.2</b>	<b>33.8</b>	<b>35.0</b>	<b>85.1</b>	<b>47.1</b>	<b>41.5</b>	<b>28.0</b>				
Tax	-11.6	-25.1	-10.5	-7.3	-6.6	-13.4	-9.9	-8.1	-5.1				
<b>Income after tax</b>	<b>36.1</b>	<b>73.3</b>	<b>31.7</b>	<b>26.5</b>	<b>28.4</b>	<b>71.7</b>	<b>37.2</b>	<b>33.4</b>	<b>22.9</b>				

## Balance sheets

SEK million	2007				2006				2005				
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Goodwill	966.6	947.1	1 001.5	988.1	972.4	523.3	508.7	512.4	184.0				
Other intangible assets	89.8	93.7	96.9	105.5	126.6	24.3	28.4	34.7	2.2				
Capitalized development costs	156.0	156.1	155.5	153.8	151.4	151.1	151.6	152.1	147.4				
Property, plant, and equipment	38.9	37.8	36.7	36.3	39.3	34.8	34.9	36.4	28.0				
Financial fixed assets	14.9	15.6	13.9	13.6	14.3	14.9	14.9	14.3	13.8				
Deferred tax assets	177.4	188.1	209.1	211.8	258.4	179.1	195.3	196.3	90.0				
Accounts receivables	366.9	398.7	387.5	389.0	434.7	458.3	345.5	329.7	268.5				
Other current receivables	171.7	156.4	122.7	121.5	132.7	126.2	137.9	143.2	119.3				
Cash and cash equivalents	544.5	462.0	466.1	463.1	443.4	447.3	401.0	399.3	617.6				
<b>Total assets</b>	<b>2,526.7</b>	<b>2,455.5</b>	<b>2,489.9</b>	<b>2,482.7</b>	<b>2,573.3</b>	<b>1,959.3</b>	<b>1,818.2</b>	<b>1,818.5</b>	<b>1,470.7</b>				
Equity	1,493.0	1,426.8	1,421.9	1,367.0	1,367.4	1,359.8	1,257.6	1,226.1	1,041.4				
Interest-bearing long-term liabilities	375.0	387.5	425.0	437.5	450.0	0.0	2.3	2.4	2.4				
Other non-current liabilities	4.9	2.8	3.0	0.0	0.0	3.4	3.4	3.7	0.3				
Interest-bearing current liabilities	50.0	50.0	50.0	50.0	92.0	39.8	38.8	34.6	0.1				
Accounts payable	37.0	28.8	30.9	38.7	34.4	42.1	27.4	40.9	32.2				
Accruals and deferred income	512.1	491.7	477.5	496.7	539.9	442.8	397.3	416.3	334.4				
Other current liabilities	54.7	67.9	81.6	92.8	89.5	71.4	91.3	94.4	59.9				
<b>Total liabilities and equity</b>	<b>2,526.7</b>	<b>2,455.5</b>	<b>2,489.9</b>	<b>2,482.7</b>	<b>2,573.3</b>	<b>1,959.3</b>	<b>1,818.2</b>	<b>1,818.5</b>	<b>1,470.7</b>				

## Cash Flow Statements

SEK million	2007				2006				2005				
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating activities	108.5	74.3	35.0	74.7	104.9	46.2	13.0	39.9	84.0				
Investing activities	-18.7	-33.3	-21.7	-51.1	-621.7	-8.8	-11.2	-270.6	-8.2				
Financing activities	-12.4	-37.4	-11.9	2.5	515.3	6.2	2.6	1.9	284.6				
<b>Cash flow for the period</b>	<b>77.4</b>	<b>3.6</b>	<b>1.4</b>	<b>26.1</b>	<b>-1.5</b>	<b>43.6</b>	<b>4.4</b>	<b>-228.8</b>	<b>360.4</b>				
Cash and cash equivalents at beginning of period	462.0	466.1	463.1	443.4	447.3	401.0	399.3	617.6	249.5				
Exchange rate diff. in cash and cash equivalents	5.1	-7.7	1.6	-6.4	-2.4	2.7	-2.7	10.5	7.7				
Cash and cash equivalents at end of period	544.5	462.0	466.1	463.1	443.4	447.3	401.0	399.3	617.6				

## 7-Year Summary

### Income Statements

SEK million	2006	2005	2004	2003*	2002*	2001*	2000*
Licensing and maintenance revenue	1,253.2	1,025.9	854.2	763.9	856.2	970.5	569.6
Consulting and other revenue	271.7	264.0	185.1	173.1	264.8	524.5	311.6
<b>Total revenue</b>	<b>1,524.9</b>	<b>1,289.9</b>	<b>1,039.3</b>	<b>937.0</b>	<b>1,121.0</b>	<b>1,495.0</b>	<b>881.2</b>
License and maintenance expenses	-75.4	-59.9	-56.3	-65.8	-85.0	-113.0	-57.5
Consulting and other expenses	-213.4	-205.3	-145.9	-153.4	-229.0	-351.0	-196.5
<b>Gross income</b>	<b>1,236.1</b>	<b>1,024.7</b>	<b>837.1</b>	<b>717.8</b>	<b>807.0</b>	<b>1,031.0</b>	<b>627.2</b>
Sales expenses	-643.8	-527.5	-428.3	-433.2	-494.3	-739.7	-362.8
Administration expenses	-113.6	-94.9	-78.1	-82.8	-111.4	-168.0	-92.2
Product development expenses	-230.6	-191.5	-154.2	-175.3	-173.2	-260.9	-171.5
Other operating expenses	-33.0	-15.7	-1.3	-17.9	-94.0	-1,983.9	-50.4
<b>Operating income</b>	<b>215.1</b>	<b>195.1</b>	<b>175.2</b>	<b>8.5</b>	<b>-65.9</b>	<b>-2,121.6</b>	<b>-49.7</b>
Net financial income/expenses	-5.7	6.6	2.5	-3.3	-1.7	-2.0	8.1
<b>Pre-tax profit</b>	<b>209.4</b>	<b>201.7</b>	<b>177.6</b>	<b>5.2</b>	<b>-67.6</b>	<b>-2,123.6</b>	<b>-41.6</b>
Tax	-49.5	-36.5	-43.3	-21.3	-33.9	72.4	-7.1
<b>Income after tax</b>	<b>159.9</b>	<b>165.2</b>	<b>134.3</b>	<b>-16.1</b>	<b>-101.5</b>	<b>-2,051.2</b>	<b>-48.7</b>

### Balance sheets

SEK million	2006	2005	2004	2003*	2002*	2001*	2000*
Goodwill	947.1	523.3	174.4	188.7	238.8	301.3	1 951.1
Other intangible assets	93.7	24.3	2.3	1.4	4.3	7.1	8.8
Capitalized development costs	156.1	151.1	149.6	157.4	146.4	75.0	0.0
Property, plant, and equipment	37.8	34.8	27.8	29.6	63.7	124.9	133.8
Financial fixed assets	15.6	14.9	12.6	14.2	151.9	183.5	102.0
Deferred tax assets	188.1	179.1	90.0	118.4	-	-	-
Accounts receivables	398.7	458.3	331.5	305.3	290.7	486.3	537.6
Other current receivables	156.4	126.2	107.9	66.6	79.0	139.3	101.0
Cash and cash equivalents	462.0	447.3	249.5	139.8	160.0	128.4	240.8
<b>Total assets</b>	<b>2,455.5</b>	<b>1,959.3</b>	<b>1,145.6</b>	<b>1,021.5</b>	<b>1,134.8</b>	<b>1,445.8</b>	<b>3,075.1</b>
Equity	1,426.8	1,359.8	702.7	550.2	627.2	716.2	2,337.2
Interest-bearing long-term liabilities	387.5	0.0	2.4	42.7	46.5	58.0	0.0
Other non-current liabilities	2.8	3.4	0.3	0.9	2.1	78.7	67.1
Interest-bearing current liabilities	50.0	39.8	7.2	7.5	8.8	2.1	4.4
Accounts payable	28.8	42.1	33.5	29.1	45.8	46.8	79.7
Accruals and deferred income	491.7	442.8	334.8	317.6	332.3	411.6	448.7
Other current liabilities	67.9	71.4	64.7	73.4	72.1	132.4	138.0
<b>Total liabilities and equity</b>	<b>2,455.5</b>	<b>1,959.3</b>	<b>1,145.6</b>	<b>1,021.5</b>	<b>1,134.8</b>	<b>1,445.8</b>	<b>3,075.1</b>

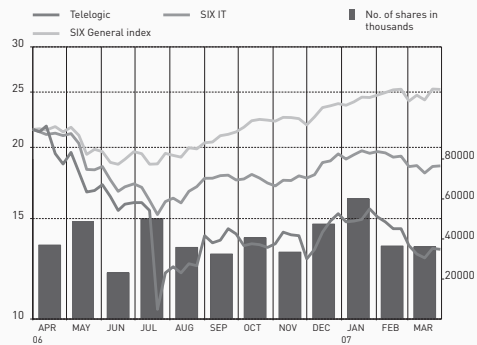
### Cash Flow Statements

SEK million	2006	2005	2004	2003*	2002*	2001*	2000*
Operating activities	288.9	183.1	152.8	34.4	122.4	-219.4	-146.8
Investing activities	-727.8	-298.8	-44.5	-41.7	-92.1	-160.7	-648.6
Financing activities	468.5	295.3	8.2	-1.2	11.5	257.2	1 004.2
Cash flow for the period	<b>29.6</b>	<b>179.6</b>	<b>116.4</b>	<b>-8.5</b>	<b>41.8</b>	<b>-122.9</b>	<b>208.8</b>
Cash and cash equivalents at beginning of period	447.3	249.5	139.8	160.0	128.4	240.8	30.9
Exchange rate diff. in cash and cash equivalents	-14.9	18.2	-6.7	-11.7	-10.2	10.5	1.1
Cash and cash equivalents at end of period	462.0	447.3	249.5	139.8	160.0	128.4	240.8

\* The years 2000-2003 are not restated under IFRS. This mainly affects amortization for goodwill.

## The Telelogic share

Market value (March 31)	SEK 3,274 million
Share price (March 31)	SEK 13.25
Number of shares (March 31)	247,123,231
Average number of shares per day	2,070,880
Highest share price during the quarter	SEK 15.90
Lowest share price during the quarter	SEK 12.50
Share price development during the quarter	-13%



## Financial calendar

Annual General Meeting	May 3, 2007
Interim Report, April-June	July 24, 2007
Interim Report, July-September	October 23, 2007
Annual Statement	January 29, 2008

## Information to shareholders

Telelogic's financial information is available in Swedish and English. The quickest way to obtain information from Telelogic is via the Internet. Interested parties may subscribe to financial reports on Telelogic's website in printed form by conventional mail, or in digital form by e-mail. Telelogic also offers subscriptions to press releases via e-mail.

Telelogic's Investor Relations team can be reached at:

Telelogic AB	Tel: +46 (0)40-650 00 00
Investor Relations	Fax: +46 (0)40-650 65 55
P.O. Box 4128	E-mail: <a href="mailto:ir@telelogic.com">ir@telelogic.com</a>
SE-203 12 Malmö	<a href="http://www.telelogic.com/investors">www.telelogic.com/investors</a>
Sweden	

### International Headquarters

Telelogic AB  
P.O. Box 4128  
SE-203 12 Malmö  
Sweden  
Phone: +46 40-650 00 00  
Fax: +46 40-650 65 55  
Company reg. no: 556049-9690  
Registered office: Malmö, Sweden

Offices in Europe, North America, Asia, and Australia

Web: [www.telelogic.com](http://www.telelogic.com)  
E-mail: [info@telelogic.com](mailto:info@telelogic.com)

**Telelogic**

Requirements driven innovation

# Report of the Board of Directors of Telelogic

The information regarding Telelogic on pages 17–37 of this offer document has been reviewed by the Board of Directors of Telelogic. It is the opinion of the Board of Directors that this short description provides an accurate and fair – although not complete – picture of Telelogic. For additional information refer to Telelogic’s Annual Reports for 2005 and 2006 and Telelogic’s website, [www.telelogic.com](http://www.telelogic.com).

Malmö, June 29, 2007

**Telelogic AB (publ)**

*The Board of Directors*

# Auditor's report

In our capacity as auditors of Telelogic AB (publ), we have reviewed the financial information regarding Telelogic AB (publ), Summary of financial information, on page 18 of this offer document. The financial information for 2004, 2005 and 2006 has been extracted from the Annual Report for 2006 and is accurately reflected.

The Annual Report for 2006 has been audited by KPMG Bohlins AB. Auditor's Report without qualification was submitted on March 20, 2007.

Malmö, June 29, 2007

**KPMG Bohlins AB**

*Eva Melzig Henriksson*

Authorized Public Accountant

# Agreement with Telelogic

## OFFER AGREEMENT

**THIS AGREEMENT** is entered into on the day last written below by and between:

Goldcup D 2933 AB (with a proposed change of name to Watchtower AB), registered in Sweden with corporate identity number 556730-4018 (the "Bidder")

and

Telelogic AB (publ), registered in Sweden with corporate identity number 556049-9690 (the "Target")

hereinafter individually referred to as a "Party" and collectively as the "Parties".

### 1. BACKGROUND

1.1 The Bidder Board has unanimously resolved to make the Offer and to approve that the Bidder enters into this Agreement. The Bidder is a wholly-owned subsidiary of IBM International Group B.V. The board of directors of IBM International Group B.V. has unanimously resolved to approve that the Bidder makes the Offer and enters into this Agreement.

1.2 The Target Board has unanimously resolved to recommend the Target Shareholders to accept the Offer and has approved that the Target enters into this Agreement. The Parties acknowledge that Mr. Anders Lidbeck did not participate in the Target Board's deliberations or resolution concerning the recommendation of the Offer due to conflicts of interests.

1.3 The Target Shares are traded on the Stockholm Stock Exchange. The Bidder has undertaken towards the Stockholm Stock Exchange to comply with the Takeover Rules and the Securities Council's rulings regarding the interpretation and application of the Takeover Rules and to submit to the sanctions that may be imposed by the Stockholm Stock Exchange upon breach of the Takeover Rules.

### 2. DEFINITIONS

In this Agreement (including the Appendices) the following terms shall, unless the context otherwise requires, have the following meanings:

**Bidder Board:** the board of directors of the Bidder

**Confidentiality Agreement:** the confidentiality agreement between the International Business Machines Corporation and the Target, dated 26 February 2007

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<b>Employee Options:</b>	the options issued to Target Employees under the Option Programs
<b>Exclusivity Agreement:</b>	the exclusivity agreement between the International Business Machines Corporation and the Target, dated 24 April 2007
<b>Matching Right:</b>	the Bidder's right to match a Superior Takeover Proposal under section 5.1 below
<b>Offer:</b>	the public offer for the Target by the Bidder as set out in the Offer Announcement
<b>Offer Announcement:</b>	the announcement set out in <u>Appendix 1</u>
<b>Offer Document:</b>	the offer document that will be prepared for the purposes of the Offer, including any supplements to such document
<b>Option Programs:</b>	the Target's option programs: TO10; TO11; TO13; TO14; TO15; the options issued to employees of the Target's subsidiary, QSS Inc.; and the options issued to Mr. Jan Popkin.
<b>Representatives:</b>	a Party's affiliates and the agents, directors, officers, advisers (including, without limitation, financial, legal and accounting advisers) and representatives of such party and its affiliates
<b>Revised Offer:</b>	the Offer following a modification, revision or waiver of the terms of the Offer
<b>Securities Council:</b>	the Swedish Securities Council (Sw. <i>Aktiemarknadsnämnden</i> )
<b>Superior Takeover Proposal:</b>	a Takeover Proposal which in the good faith judgment of the Target Board (after consultation with a reputable financial adviser and outside legal counsel) would provide a higher value to the Target Shareholders than the Offer and which in the reasonable opinion of the Target Board (after consultation with a reputable financial adviser and outside legal counsel) is capable of being completed taking into account all aspects of such proposal.
<b>Takeover Act:</b>	the Swedish Takeover Act ( <i>Sw. lag(2006:451) om offentliga uppköpserbjudanden på aktiemarknaden</i> )
<b>Takeover Proposal:</b>	shall mean any inquiry, proposal or offer from any person unrelated to the Bidder relating to, or that could reasonably

be expected to lead to, any direct or indirect acquisition, in one transaction or a series of transactions, including any merger, consolidation, tender offer, exchange offer, stock acquisition, asset acquisition, joint venture or similar transactions of (A) assets or businesses that constitute or represent 10% or more of the total revenue, operating income, EBITDA or assets of the Target and its subsidiaries, taken as a whole, or (B) 10% or more of the outstanding Target Shares and other Target Securities or of any of the Target's subsidiaries directly or indirectly holding, individually or taken together, the assets and businesses referred to in clause (A) above, in each case other than the Offer or Revised Offer

<b>Takeover Rules:</b>	the Takeover Rules adopted by the Stockholm Stock Exchange
<b>Target Board:</b>	the board of directors of the Target
<b>Target Convertible Debt Instruments:</b>	convertible debt instruments ( <i>Sw. konvertibler</i> ) issued by the Target
<b>Target Employees:</b>	the employees of the Target and the employees of the Target's subsidiaries and affiliated companies
<b>Target Securities:</b>	share-related ( <i>Sw. aktierelaterade</i> ) securities issued by the Target
<b>Target Shareholders:</b>	the shareholders in the Target
<b>Target Shares:</b>	shares issued by the Target
<b>Target Warrants:</b>	warrants ( <i>Sw. teckningsoptioner</i> ) issued by the Target

### 3. THE OFFER

3.1 The details of the Offer are set out in the Offer Announcement. The Bidder will make the Offer through publication of the Offer Announcement by no later than 9 a.m. (CET) on 11 June 2007 in accordance with the Takeover Rules.

3.2 The Offer is made on the basis that, and the Target represents that:

- (A) there are in total 247.179.481 Target Shares issued;
- (B) no Target Shares are held by the Target in treasury;
- (C) there are in total 9.400.600 Target Warrants issued that entitle to the subscription of in total 9.400.600 Target Shares;



- (D) all 9.400.600 Target Warrants are held by the Target subsidiary Telelogic Options AB, with corporate identity number 556558-9149, and that no Target Warrants are held by parties other than the Target subsidiary Telelogic Options AB;
- (E) the Target has not adopted any option programs or other share-related incentive programs other than the Option Programs;
- (F) the Target has not issued any American Depository Shares;
- (G) the Target, directly or indirectly, owns 100% of the entire issued share capital of all the Target's subsidiaries listed in Appendix 2;
- (H) that the key Target Employees listed in Appendix 3 have signed retention letters; and
- (I) that the key Target Employees listed in Appendix 4 have entered into holder agreements that would contain agreed upon non-compete and no hire provisions.

3.3 The Bidder has been granted a dispensation by the Securities Council from the requirement to make a public offer in respect of the Target Warrants held by the Target subsidiary Telelogic Options AB. The Parties acknowledge that the Offer will not cover the Target Warrants held by Telelogic Options AB or the outstanding Employee Options.

3.4 The Target acknowledges that the Bidder may modify, revise and/or waive the terms of the Offer or any Revised Offer as set out in the Offer Announcement and in accordance with the Takeover Rules.

3.5 The acceptance period of the Offer shall commence no later than four weeks of announcement of the Offer and shall initially run for a period of 20 business days. The Target acknowledges that the acceptance period of the Offer or any Revised Offer may be extended by the Bidder from time to time in accordance with the Takeover Rules.

#### **4. RECOMMENDATION OF THE OFFER BY THE TARGET BOARD**

4.1 The Target Board has unanimously (but without the participation of Mr. Anders Lidbeck) resolved to recommend the Target Shareholders to accept the Offer. The Target undertakes to announce the recommendation of the Offer, substantially in the form set out in Appendix 5, simultaneously with publication of the Offer Announcement. The Target hereby consents to the inclusion of the recommendation of the Offer and, as the case may be, any Revised Offer and the complete fairness opinion and, as the case may be, any future fairness opinion that may be provided by the Target's financial adviser, in the Offer Document and any supplement to the Offer Document, as well as to the Bidder referring to the recommendation of the Offer in the Offer Announcement.

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## **5. MATCHING RIGHT**

- 5.1 If the Bidder makes a Revised Offer following the announcement of a Superior Takeover Proposal, the Target Board agrees to give its unqualified recommendation of the Revised Offer and not to recommend the Superior Takeover Proposal, provided that (i) the Bidder announces its Revised Offer by 09.00 (CET) on the fifth business day from the date of the announcement of the Superior Takeover Proposal and the Revised Offer is at a price per share which is equal or greater than that provided under the Superior Takeover Proposal, (ii) the Revised Offer is otherwise on terms which are, in the reasonable opinion of the Target Board (after consultation with a reputable financial adviser and outside legal counsel), substantially equal to those contained in the Superior Takeover Proposal; and (iii) the Target Board does not otherwise reasonably consider (after consultation with a reputable financial adviser and outside legal counsel) that it would be in breach of or clearly inappropriate in light of its duties under applicable laws and regulations including the Takeover Rules. The Parties acknowledge that Mr. Anders Lidbeck will not participate in the Target Board's deliberations or resolution concerning the recommendation of a Revised Offer under this section 5.1 due to conflicts of interests.

## **6. NON-SOLICITATION**

- 6.1 The Target shall not, nor shall it permit its Representatives to, directly or indirectly (i) solicit, initiate or encourage, or take any other action to facilitate, any Takeover Proposal for the Target or any inquiries or the making of any proposal that constitutes or could reasonably be expected to lead to a Takeover Proposal; or (ii) enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or otherwise cooperate in any way with, any Takeover Proposal.
- 6.2 Notwithstanding section 6.1 above, but subject to section 6.3 below, the Target Board may, in response to a written Takeover Proposal that it (after consultation with a reputable financial adviser and outside legal counsel) determines in good faith constitutes or could reasonably be expected to lead to a Superior Takeover Proposal, and provided that the Takeover Proposal is unsolicited and did not result from a breach of this Agreement, furnish information with respect to the Target and its subsidiaries to the person making the Takeover Proposal and participate in discussions and negotiations with that person regarding the Takeover Proposal. The Target may furnish such information only pursuant to a confidentiality agreement which contains terms that are no less restrictive than those of the Confidentiality Agreement.
- 6.3 To the extent that the Target's actions in relation to a Takeover Proposal would constitute frustrating actions under the Takeover Act, the restrictions under section 9.6 below shall apply.

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## 7. NON-SOLICITATION OF KEY EMPLOYEES

- 7.1 The Bidder shall not, without the Target's prior written consent, directly or indirectly, solicit, interfere with or endeavour to entice away from any member of the Target group any of the key persons listed in Appendix 6. However, this shall not prohibit the Bidder from discussing employment opportunities with, or hiring, any employee of the Target group that has responded to a general solicitation for employment which is not specifically directed at any employees of the Target group and by advertisements.

## 8. INDUCEMENT FEE

- 8.1 As an inducement to the Bidder to make the Offer, the Target undertakes, subject to section 8.2 below, to reimburse the Bidder for its costs, fees and expenses incurred in connection with the Offer up to a maximum amount of SEK 51,907,691, inclusive of any amounts in respect of VAT, (being one per cent of the total consideration payable under the Offer) if:
- (A) the Target Board does not announce its unanimous and unqualified recommendation of the Offer or its unqualified recommendation of any Revised Offer in accordance with this Agreement;
  - (B) the Target Board withdraws, qualifies or adversely modifies its unqualified recommendation of the Offer or any Revised Offer for any reason;
  - (C) the Target breaches its obligations under section 6 above;
  - (D) the Target breaches its obligations under section 8.3 below; or
  - (E) the Target breaches its obligations under section 9.6 below.
- 8.2 The Target shall not be obliged to pay any amount under section 8.1 above to the Bidder if the Target Board withdraws its unqualified recommendation of the Offer or any Revised Offer in order to recommend a Superior Takeover Proposal that has been announced, provided that; (i) the Target has not breached its obligations under sections 6, 8.3 or 9.6; (ii) the Target Board does not become obliged pursuant to section 5.1 to recommend a Revised Offer by the Bidder; and (iii) the Superior Takeover Proposal or any other Superior Takeover Proposal is not completed within 6 months of the date of the announcement of the Superior Takeover Proposal. Furthermore, section 8.1 above shall apply only to the extent permissible under applicable laws and to the extent the Securities Council, on submission by the Bidder, determines that payment under section 8.1 above would not be contrary to the Takeover Act, the Takeover Rules or best practices in the Swedish stock market (*Sw. god sed på aktiemarknaden*).
- 8.3 The Target undertakes not to enter into any break fee or other inducement fee arrangement with any third party unless that party has announced a Superior Takeover Proposal and the Bidder does not exercise its Matching Right in relation to the Superior Takeover Proposal.

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**9. COVENANTS**

9.1 The Target undertakes:

- (A) to procure that Telelogic Options AB does not transfer, exercise or distribute any Target Warrants, except so as to transfer Target Shares to Target Employees who are not required under the terms and conditions of the Option Programs to accept cash settlement of their Employee Options and who, prior to the Offer or any Revised Offer being declared unconditional, exercise their Employee Options in order to acquire Target Shares in accordance with the terms and conditions of the Option Programs;
- (B) not to issue any Target Shares, Target Warrants or Target Convertible Debt Instruments except that the Target may, if required in order to satisfy its obligations under the Option Programs, issue Target Warrants to Telelogic Options AB, prior to the Offer or any Revised Offer being declared unconditional, for the purpose of transferring Target Shares to Target Employees who are not required under the terms and conditions of the Option Programs to accept cash settlement of their Employee Options and who exercise their Employee Options in order to acquire Target Shares in accordance with the terms and conditions of the Option Programs;
- (C) not to acquire any Target Shares;
- (D) not to allot any Employee Options; and
- (E) to deal with any request by holders of Employee Options in accordance with section 9.5 below.

9.2 As soon as practicable, the Bidder will file the Offer Document with the Swedish Financial Supervisory Authority for approval and registration. The Target undertakes to assist and to co-operate with the Bidder in the preparation and filing of the Offer Document and any supplements to the Offer Document. In particular, the Target Board shall review and comment on those sections of the Offer Document that contain information relating to or concerning the Target and shall prepare a responsibility statement to be included in the Offer Document.

9.3 As soon as practicable following the execution of this Agreement, the Bidder shall prepare and make filings (and any necessary changes to such filings) for the purposes of obtaining the regulatory consents and approvals necessary to complete the Offer or any Revised Offer. The Target undertakes to cooperate with and to give the Bidder the assistance necessary in order to prepare and make such filings as well as to respond to and comply with any requests for information from any public authority in connection with the Offer or any Revised Offer. Nothing in this Agreement shall however oblige the Parties to agree to any disposal of businesses or assets or to any limitation or restriction imposed by any public competition authority as a condition for approving the completion of the Offer or any Revised Offer.

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- 9.4 The Target hereby confirms that it has not provided the Bidder or International Business Machines Corporation with any unpublished price-sensitive information under item II.2 of the Takeover Rules.
- 9.5 The Target undertakes, as soon as practicable following announcement of the Offer, to make an offer to the Target Employees that hold Employee Options to waive their right to exercise the Employee Options in exchange for cash consideration per Employee Option equal to the price per Target Share offered under the Offer or any Revised Offer less the strike price of each Employee Option. Such offer to the Target Employees shall be made by the Target by no later than the tenth business day following publication of the Offer Announcement and shall be made conditional on the Offer or any Revised Offer being declared unconditional, provided that the Offer or Revised Offer is not declared unconditional at an acceptance level below two-thirds of all Target Shares on a fully diluted basis. The documentation in relation to the offer to the Employees shall be prepared jointly by the Parties on the basis of a full, detailed draft to be prepared by the Bidder based on information provided by the Target and with the reasonable cooperation of the Target.
- 9.6 The Target undertakes not to take any frustrating action (as defined in the Takeover Act) in relation to the Offer or any Revised Offer or propose that the general meeting of the Target approves any frustrating action in relation to the Offer or any Revised Offer. The restrictions in this section 9.6 shall not apply where Target Shareholders representing at least ten per cent of the share capital of the Target exercise their right under the Swedish Companies Act to request that the Target Board convene an extra general meeting of the Target for the purposes of approving a frustrating action and the frustrating action is approved by the extra general meeting of the Target. This section 9.6 shall apply only to the extent permissible under applicable laws and regulations including the Takeover Rules.
- 9.7 The Target undertakes to operate its business in the ordinary course and not to engage in transactions or otherwise take actions outside the ordinary course of business. The Target further undertakes to procure that the business of the Target's subsidiaries is operated in the ordinary course and that no Target subsidiary engages in transactions or otherwise takes actions outside the ordinary course of business.
- 9.8 The Parties undertake to comply with applicable Swedish laws and regulations, including the Takeover Rules, the Takeover Act as well as statements and rulings by the Swedish Securities Council.

## **10. TERM AND TERMINATION**

- 10.1 Subject to sections 10.2 and 10.3 below, this Agreement shall automatically terminate on the earlier of:

- 
- (A) the Offer or any Revised Offer being declared unconditional;
  - (B) the Offer or any Revised Offer being withdrawn;
  - (C) on the fifth business day from the date of the announcement of a Superior Takeover Proposal if the Bidder does not exercise its Matching Right in relation to such Superior Takeover Proposal;
  - (D) 31 October 2007 if the Offer or any Revised Offer has not been declared unconditional or withdrawn by such date; and
  - (E) 11 June 2007 if the Bidder has not made the Offer through publication of the Offer Announcement by such date.

10.2 Sections 8, 11 and 12 shall survive the termination of this Agreement. Section 7 shall survive the termination of this Agreement if this Agreement terminates in accordance with sections 10.1 (B-E) above, but not for a longer period than 12 months after execution of the Exclusivity Agreement.

10.3 All accrued obligations and claims shall survive termination of this Agreement.

**11. MISCELLANEOUS**

11.1 This Agreement supersedes the Exclusivity Agreement and on execution of this Agreement, the Exclusivity Agreement shall automatically terminate, except for any accrued obligations or claims. The execution of this Agreement shall however not affect the Parties' rights and obligations under the Confidentiality Agreement, except that the restrictions contained in the Confidentiality Agreement shall not prevent or restrict the Bidder from making and completing the Offer or any Revised Offer and, in the event of any inconsistency between this Agreement and the Confidentiality Agreement, this Agreement shall prevail.

11.2 The Parties acknowledge the reasonableness of the provisions of this Agreement. If any provision of this Agreement (including, without limitation, any sentence, clause or part hereof) shall be adjudicated to be invalid or unenforceable, such provision shall be deemed amended to delete therefrom the portion thus adjudicated to be invalid or unenforceable, such deletion to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made. In addition, if any particular provision contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, it shall be construed by limiting and reducing such provision as to such characteristic so that the provision is enforceable to the fullest extent compatible with the applicable law as it shall then appear.

11.3 All notices, requests, claims, demands, waivers and other communications under this Agreement shall be in writing and shall be deemed given upon (a) personal delivery, (b) transmitter's confirmation of a receipt of a facsimile transmission, (c) confirmed delivery by standard overnight carrier or when mailed in the United States by certified or registered mail, postage prepaid,

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addressed to the parties at the following addresses (or at such other address for a party as shall be specified by notice hereunder):

if to Goldcup D 2933 AB, to:

International Business Machines Corporation  
New Orchard Road Avenue  
Armonk, NY 10504

Attention: Archie Colburn

Telecopy: +1-914-499-7803

if to Telelogic, to:

Telelogic AB  
Attention: Anders Lidbeck  
Kungsgatan 6  
PO Box 4128  
203 12 Malmo  
Sweden

Telecopy: +46-40-650-65-55

- 11.4 No modification of this Agreement or waiver of the terms and conditions hereof shall be binding upon the Bidder or the Target, unless approved in writing by each of them. Each Party agrees that no failure or delay by another party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege thereunder.
- 11.5 The Parties consent to:
- (A) this Agreement being disclosed in full in the Offer Document; and
  - (B) a summary of the key terms of this Agreement being disclosed in the Offer Announcement.
- 11.6 If this Agreement is translated, the English language shall prevail.

**12. GOVERNING LAW AND ARBITRATION**

- 12.1 This Agreement shall be governed by and construed in accordance with the substantive laws of Sweden.
- 12.2 Any dispute, controversy or claim arising out of or in connection with this Agreement, or the breach, termination or invalidity thereof, shall be finally settled by arbitration in accordance with the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce. The arbitral tribunal shall be composed of three arbitrators. The place of arbitration shall be Stockholm. The language used in the arbitral proceedings shall be English.

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This Agreement has been duly executed in two original copies, of which each of the Parties has taken one copy.

Date:  
GOLDCUP D 2933 AB

Date:  
TELELOGIC AB (PUBL)

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Johan Ekessiö

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Anders Lidbeck

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INTERNATIONAL BUSINESS MACHINES CORPORATION hereby consents to  
GOLDCUP D 2933 AB entering into and authorizes GOLDCUP D 2933 AB to enter into  
the agreement set out above:

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David L. Johnson  
Vice President, Corporate Development

# Addresses

**Telelogic AB (publ)**

PO Box 4128, Kungsgatan 6  
SE-203 12 Malmö  
Sweden

**Watchtower AB**

c/o IBM Legal Department Stockholm  
SE-164 92 Stockholm  
Sweden

**International Business Machines Corp.**

New Orchard Road  
Armonk, New York 10504  
US



