

Teleste Corporation Interim Report 1.1.-31.3.2001

- The core division, Access Systems, almost doubled its operating profit as net sales increased 56 percent from the previous year
- Cable network operators are waiting for information about economic developments in the USA
- Group's order intake was 3 percent lower than last year
- Net sales increased 44 percent
- Earnings per share increased 61 percent
- Order backlog remained at a high level at 24.3 million euros

Unless otherwise stated, the comparison figures for last year's statement of income do not include Home Network division that was sold in October 2000.

Turnover and Profitability

Teleste's net sales increased 43.7 percent to 24.5 million euros from last year's 17.1 million euros. Operating profit improved to 2.6 million euros, 49.7 percent higher than last year. The net result increased 65.8 percent to 1.7 million euros. Group's order intake decreased 2.6 percent from the first quarter last year.

If the figures included the Home Networks division, which was sold last October, the growth in net sales would have been 27.3 percent and in operating profit 125.8 percent. The net result almost tripled and earnings per share increased 158.1 percent.

Teleste Access Systems

Net sales by the Group's core division were 22.6 million euros, an increase of 56.2 percent or 8.1 million euros compared to last year. Operating profit increased 97.3 percent to 3.2 million euros. Teleste Access Systems' order intake decreased 4.8 percent to 20.6 million euros from last year's 21.7 million euros.

Teleste Access Systems signed a frame agreement, worth of six million euros, with Norwegian Telenor Avidi to upgrade their cable networks. A strategic alliance was created with RiverDelta Networks of the USA regarding data traffic in the cable networks. Teleste Access Systems also continued its geographical expansion in March by opening an office in Brazil. The Surveillance Networks product group received an order valued at 1.7 million euros from the City of Austin in the USA.

Uncertainty about the development of the US economy is reflecting on the short-term outlook in Europe and gradually also in the Far East and in South America. Several customers have delayed both starting their investments and their decision-making about new investments. This is visible in the weaker order intake during March. According to its current strategy, Teleste does not take in the projects substantial financing risks, which could be required due to the financial position or other requirements of certain operators. In Germany the American cable operator Callahan's project to upgrade its networks for interactivity in the Nordrhein-Westphalia area probably will not generate deliveries for Teleste, at least in the first phase. The project is, after the pilot project won by Teleste in Berlin, the first significant upgrading project in Germany. It represents about five percent of the estimated 3-5 billion DM market potential in Germany during

this decade. Despite the unclear situation on the German market, Teleste Access Systems' sales in Germany in 2001 are expected to increase compared to last year.

Teleste Educational

Net sales were 1.9 million euros, a decrease of 29.4 percent from last year's 2.7 million euros. As a result of decreased sales, operating profit was 0.1 million euros. Teleste Educational's order intake, on the other hand, increased 17.6 percent to 2.1 million euros from last year's 1.8 million euros.

The increase in the sales of software-based products did not compensate for the drop in the traditional language laboratory market. Last year's extraordinarily large deliveries to China and Italy during the first few months further exacerbated the comparison situation.

Personnel

The Group employed 588 people at the end of March (2000: 488), 504 (2000: 430) of them in Finland. In line with the strategy, investments were continued to Teleste Access Systems, whose personnel strength increased by 107 from the year before. The number of personnel in Teleste Educational declined due to the on-going structural change.

R&D and Investments

R&D costs during the period amounted to 2.5 million euros (1.6 million euros in 2000) or 10.0 percent of net sales. The majority of the costs are related to Teleste Access Systems. R&D continued to concentrate on digital signal transmission in the fiber backbone. R&D costs are booked as annual expenses.

The Group's investments totaled 1.2 million euros (0.3 million euros last year). The investments during the period were mainly for information technology and for equipment and measuring devices for production.

Finance

During the period the Group's liquidity remained good. The Group's interest-bearing debt was 18.5 million euros at the end of March. Liquid funds were 6.1 million euros. The Group's gearing was 43.6 percent (2000: 45.9 percent) and the equity ratio was 45.1 percent (2000: 41.7 percent), as calculated from the balance sheet at the end of March (including the division sold).

Shares and shareholders

The share price fluctuated between 24.00 and 17.20 euros during the period. The closing price at the end of March was 17.60 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 3,528. Foreign ownership accounted for 65.2 percent. The value of shares traded on the Helsinki Exchanges was 90 million euros and the number of shares was 4.4 million.

Putnam Investment Management LLC and The Putnam Advisory Company LLC announced on January 8, 2001 that the holding of their funds increased to 10.33 percent of Teleste's share capital.

Robert Fleming Holdings announced on January 24, 2001 that the holding of their funds decreased to 3.97 percent of Teleste's share capital.

Putnam Investment Management LLC and The Putnam Advisory Company LLC announced on January 8, 2001 that the holding of their funds decreased to 7.36 percent of Teleste's share capital.

Decisions of the Annual General Meeting

The Annual General Meeting on April 6, 2001 confirmed the financial statements for 2000 and discharged the Board and the CEO from liability for the financial period. The Annual General Meeting confirmed the Board's proposed dividend of EUR 0.12 per share.

The Annual General Meeting elected Mr. Pekka Vennamo as the Chairman of the Board, Mr. Tapio Hintikka as the Vice Chairman of the Board, and Mr. Tero Laaksonen and Mr. Risto Hautamäki as members of the Board.

The Annual General Meeting decided to authorize the Board to decide on the acquisition and on the conveyance of the company's own shares as well as to authorize the Board to decide on the increase of the share capital by a new issue. The Board has not used the authorizations.

Events after the end of the period

With warrants of Teleste's 1997 bond loan with warrants, 29,500 shares were subscribed on April 12, 2001; subsequently, Teleste's registered share capital was 6,656,640 euros divided among 16,641,600 shares.

Outlook for the rest of the year

The continuing uncertainty about this year's developments in the US economy has also reflected on the primarily European-market focused Teleste, and it makes the forecasting of development for the rest of the year very challenging. In light of the current situation, this year's net sales are expected to grow, but at a slower rate than last year's. Comparable profitability is forecasted to be at least at last year's level. The strong investments started last year to secure long-term profitable growth will continue. The investments will be particularly focused on certain R&D projects and on the strengthening of the own office network.

Teleste's interim report for the January – June period will be published on July 31, 2001.

May 3, 2001

Teleste Corporation
Board of Directors

Timo Toivila
CEO

(1) sold Home Networks division excluded

Consolidated Statement of Income (tEUR)	1-3/2001	1-3/2000	Change %	1-3/2000	1-12/2000
	(1)				
Turnover	24 532	17 075	43,7 %	19 265	99 448
Other operating income	637	1 836	-65,3 %	1 993	3 245
Change in inventories of finished goods	76	22	245,5 %	22	1 145
Materials and services	-11 680	-8 753	33,4 %	-9 900	-46 575
Personnel expenses	-5 929	-4 398	34,8 %	-5 265	-23 570
Other operating expenses	-4 374	-3 468	26,1 %	-4 169	-18 216
Depreciation	-691	-596	15,9 %	-808	-3 269
Operating profit	2 571	1 718	49,7 %	1 138	12 208
Financial income and expenses	-134	-203	-34,0 %	-203	-1 268
Profit after financial items	2 437	1 515	60,9 %	935	10 940
Extraordinary items	0	0		0	1 377
Profit before taxes	2 437	1 515	60,9 %	935	12 317
Taxes	-772	-511	51,1 %	-310	-3 682
Net profit	1 665	1 004	65,8 %	625	8 635

Consolidated Balance Sheet (tEUR)	31.3.2001	31.3.2000	31.12.2000
			0
Fixed assets			
Intangible assets	7 377	7 384	6 716
Tangible assets	7 669	7 895	7 799
Long-term receivables	3 391	0	3 324
Investments	45	45	58
Current assets			
Inventories	14 247	11 928	13 450
Other current assets	24 552	17 539	24 905
Liquid funds	6 078	3 946	7 353
Total assets	63 359	48 737	63 605
Equity	28 465	20 091	26 806
Obligatory reserves	2 229	1 480	1 822
Non-current liabilities	11 456	9 565	6 038
Current liabilities	21 209	17 601	28 939
Total shareholders' equity and liabilities	63 359	48 737	63 605

Turnover by division (tEUR)	1-3/2001	1-3/2000	Change %	1-3/2000	1-12/2000
Access Systems	22 622	14 485	56,2 %	14 485	79 476
Educational	1 910	2 705	-29,4 %	2 705	12 608
Others and group items	0	-115	-100,0 %	-115	-336
Total	24 532	17 075	43,7 %	17 075	91 748
Sold operations				2 190	7 700
Total				19 265	99 448
Operating profit by division (tEUR)	1-3/2001	1-3/2000	Change %	1-3/2000	1-12/2000
Access Systems	3 174	1 609	97,3 %	1 609	13 106
Educational	75	440	-83,0 %	440	2 772
Others and group items	-678	-331	-104,8 %	-331	-1 749
Total	2 571	1 718	49,7 %	1 718	14 129
Sold operations				-580	-1 921
Total				1 138	12 208
Orders received by division (tEUR)	1-3/2001	1-3/2000	Change %	1-3/2000	1-12/2000
Access Systems	20 630	21 680	-4,8 %	21 680	91 908
Educational	2 129	1 810	17,6 %	1 810	8 786
Others and group items	0	-114	-100,0 %	-114	-316
Total	22 759	23 376	-2,6 %	23 376	100 378
Sold operations				2 235	8 569
Total				25 611	108 947
Key figures	1-3/2001	1-3/2000	Change %	1-3/2000	1-12/2000
Earnings per share	0,10	0,06	60,7 %	0,04	0,44
Earnings per share without goodwill depreciation	0,11	0,08	49,5 %	0,05	0,49
Shareholders' equity per share	1,71	1,25	37,3 %	1,25	1,61
Return on equity	24,1 %			12,6 %	31,4 %
Return on capital employed	23,3 %			14,9 %	31,4 %
Equity ratio	45,1 %			41,7 %	42,7 %
Gearing	43,6 %			45,9 %	51,1 %
Investments	1 245	320	289,1 %		3 102
Order backlog	24 312	24 751	-1,8 %		26 394
Personnel, average	583	482	21,0 %	614	616
Number of shares (thousands)	16 612	16 096			16 360
Highest share price, EUR	24,00	27,50			39,00
Lowest share price, EUR	17,20	12,90			12,90
Average share price, EUR	20,53	18,98			24,06
Turnover, in thousands	4 391	12 176			25 670
Turnover, in MEUR	90	231			617

Contingent liabilities and pledged assets (tEUR)

For own debt			
Mortgages	2 985	2 985	2 985
Guarantees	532	415	537
Leasing liabilities	1 206	1 629	1 389
Total	4 723	5 029	4 911

Derivative instruments (tEUR)

Value of underlying forward contracts	20 430	14 805	22 515
Market value of forward contracts	-85	570	-803

The figures are not audited

Taxes are computed on the basis of the tax on the profit for the period

Business development by quarters

	1-3/2001	1-3/2000	4-6/2000	7-9/2000	10-12/2000	1-12/2000	4/2000 - 3/2001
Turnover	24 532	17 075	19 923	24 768	29 982	91 748	99 205
Operating profit	2 571	1 718	2 254	4 468	5 689	14 129	14 982
Operating profit without goodwill depreciation	2 784	1 931	2 467	4 681	5 902	14 981	15 834
Financial items	-134	-203	-335	-328	-402	-1 268	-1 199
Profit before taxes	2 437	1 515	1 919	4 140	6 816	14 390	15 312

Largest owners 3.4.2001

	Number of shares	Percentage of shares
Varma-Sampo Mutual Pension Insurance Company	753 100	4,5 %
Ilmarinen Mutual Pension Insurance Company	500 000	3,0 %
The Local Government Pensions Institute	444 500	2,7 %
Nordea	377 750	2,3 %
Alfred Berg Funds	363 650	2,2 %
OP funds	298 830	1,8 %
Sampo	284 850	1,7 %
FIM Funds	250 400	1,5 %
Pohjola	120 000	0,7 %
Suomi Mutual Life Assurance Company	100 000	0,6 %
Nominee registration	10 770 061	64,8 %
Others	2 348 959	14,1 %
Total	16 612 100	100,0 %

Price Development March 30 1999 – April 30 2001

