

## **Teleste Corporation Interim Report 1.1.-30.6.2001**

- The largest contracts in Teleste's history from the UK
- The core division, Access Systems' operating profit increased 69 percent as net sales increased 44 percent from the previous year
- Net sales increased 34 percent to 49.7 million euros
- Earnings per share increased 38 percent to 0.19 euros
- Order backlog remained at a high level at 28.4 million euros, an increase of 17 percent during the second quarter

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 34.4 percent to 49.7 million euros from last year's 37.0 million euros. Operating profit improved to 5.2 million euros, 31.2 percent higher than last year. The net result increased 39.4 percent to 3.2 million euros and earnings per share 38.1 percent to 0.19 euros. Group's order intake was 6.2 percent higher than last year. During the second quarter order intake increased 14.3 percent from previous year and the order backlog reached 28.4 million euros. 86.8 percent of the net sales were generated outside Finland.

If the figures included the Home Networks division, which was sold last October, the growth in net sales would have been 20.9 percent and in operating profit 95.5 percent. The net result increased 135.4 percent and earnings per share increased 133.2 percent.

### **Teleste Access Systems**

Net sales by the Group's core division were 45.4 million euros, an increase of 43.6 percent or 13.8 million euros compared to last year. Operating profit increased 68.8 percent to 6.1 million euros. Teleste Access Systems' order intake increased 4.3 percent to 46.9 million euros from last year's 45.0 million euros.

During the second quarter positive signs were seen in the market situation of Teleste Access Systems. Teleste signed in June a contract with EON Communications of the UK, worth of 13.4 million euros. At the end of June Access Systems received a 8.6 million euro order from France. During the quarter orders from Tele Columbus and Kabel Nordrhein-Westfalen (Callahan) in Germany. At the beginning of July two orders were received from Norway.

Teleste's digital product families proved their competitiveness also during this quarter and they were once again the fastest growing product group.

During the quarter surveillance networks product group's development continued very positively, a proof of which was an order from South Africa. In July the development continued and Teleste signed a contract with British Telecom, worth of 33 million euros.

According to Teleste's practice these large multiyear contracts are booked in orders received and in order backlog only when the customer places orders for individual equipment.

### **Teleste Educational**

Net sales were 4.3 million euros, a decrease of 18.7 percent from last year's 5.3 million euros. As a result of lower sales, operating profit was 0.2 million euros. Teleste Educational's order intake, on the other hand, increased 20.5 percent to 5.2 million euros from last year's 4.4 million euros.

Teleste Educational's product mix changed according to the expectations and share of traditional cassette recorder based products decreased to 33 percent of the deliveries. The demand for software products continued to grow strongly. The changes, demanded by this development, in the operating procedures and in the organization continued.

### **Personnel**

The Group employed 608 people at the end of June (2000: 516), 506 (2000: 440) of them in Finland. In line with the strategy, investments were continued to Teleste Access Systems, while 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 4.9 million euros (3.9 million euros in 2000) or 9.8 percent of net sales. The majority of the costs are related to Teleste Access Systems. R&D continued to concentrate on digital product families. R&D costs are booked as annual expenses.

The Group's investments totaled 2.1 million euros (1.7 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. Teleste signed in May a 40 million euro syndicated credit facility with Nordea, Svenska Handelsbanken and LB-Kiel. The arrangement is valid for five years. The Group's interest-bearing debt was 20.0 million euros at the end of June. Liquid funds were 13.4 million euros. The Group's gearing was 23.7 percent (2000: 72.6 percent) and the equity ratio was 42.2 percent (2000: 36.6 percent), as calculated from the balance sheet at the end of June (including the division sold).

### **Shares and shareholders**

The share price fluctuated between 24.00 and 8.70 euros during the period. The closing price at the end of June was 11.75 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 4,384. Foreign ownership accounted for 43.9 percent. The value of shares traded on the Helsinki Exchanges was 184 million euros and the number of shares was 12.6 million.

With warrants of Teleste's 1997 bond loan with warrants, 204,400 shares were subscribed during the period; subsequently, Teleste's registered share capital was 6,726,600 euros divided among 16,816,500 shares.

Teleste's Board decided on June 18, 2001 to cancel the B warrants related to the bond loan with warrants issued by the Annual General Meeting on April 12, 2000. These warrants have all been possessed by Teleste's subsidiary. After the cancellation the remaining amount of the warrants issued in year 2000 is 820,000 and they are entitled to subscribe 820,000 Teleste's shares during 2002 and 2005.

According to the authorization given to the Board by the Annual General Meeting, Teleste launched in June the acquisition of the company's own shares. At the end of June the company possessed 16,650 own shares. At the end of July the company possessed 238,250 own shares.

The authorizations given to the Board by the Annual General Meeting to convey own shares and increase share capital have not been used.

Osuuspankkikeskus informed on July 16, 2001 that its share holding had increased to 5.1 percent of Teleste's share capital.

**Outlook for the rest of the year**

The positive development of the order backlog at the end of the quarter confirms the previous views of group's development during this year. In the light of current information group's this year's net sales are forecasted to increase from previous year and the profitability to remain good. This has enabled the continuation of strong investments on R&D and on strengthening of own office network. Teleste's good competitive position is believed to create prerequisites to increase market share and strong growth as soon as the world economic situation improves.

Teleste's interim report for the January – September period will be published on November 6, 2001.

July 31, 2001

Teleste Corporation  
Board of Directors

Timo Toivila  
CEO

(1) sold Home Networks division excluded

Consolidated Statement of Income (tEUR)	1-6/2001	1-6/2000	Change %	1-6/2000	1-12/2000
		(1)			
Turnover	49 715	36 998	34,4 %	41 105	99 448
Other operating income	1 971	2 917	-32,4 %	3 322	3 245
Change in inventories of finished goods	185	162	14,2 %	162	1 145
Materials and services	-23 552	-17 766	32,6 %	-20 158	-46 575
Personnel expenses	-12 849	-10 167	26,4 %	-11 831	-23 570
Other operating expenses	-8 813	-6 959	26,6 %	-8 312	-18 216
Depreciation	-1 445	-1 213	19,1 %	-1 623	-3 269
Operating profit	5 212	3 972	31,2 %	2 665	12 208
Financial income and expenses	-343	-538	-36,2 %	-538	-1 268
Profit after financial items	4 869	3 434	41,8 %	2 127	10 940
Extraordinary items	0	0		0	1 377
Profit before taxes	4 869	3 434	41,8 %	2 127	12 317
Taxes	-1 642	-1 119	46,7 %	-756	-3 682
Net profit	3 227	2 315	39,4 %	1 371	8 635

Consolidated Statement of Income (tEUR)	4-6/2001	4-6/2000	Change %
		(1)	
Turnover	25 183	19 923	26,4 %
Other operating income	1 334	1 081	23,4 %
Change in inventories of finished goods	109	140	-22,1 %
Materials and services	-11 872	-9 013	31,7 %
Personnel expenses	-6 920	-5 769	20,0 %
Other operating expenses	-4 439	-3 491	27,2 %
Depreciation	-754	-617	22,2 %
Operating profit	2 641	2 254	17,2 %
Financial income and expenses	-209	-335	-37,6 %
Profit after financial items	2 432	1 919	26,7 %
Extraordinary items	0	0	
Profit before taxes	2 432	1 919	26,7 %
Taxes	-870	-608	43,1 %
Net profit	1 562	1 311	19,1 %

Consolidated Balance Sheet (tEUR)	30.6.2001	30.6.2000	31.12.2000
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Fixed assets

Intangible assets	6 290	7 168	6 716
Tangible assets	8 988	8 578	7 799
Long-term receivables	3 500	0	3 324
Investments	45	45	58
Current assets			
Inventories	15 005	15 117	13 450
Other current assets	19 603	19 845	24 905
Liquid funds	13 357	3 357	7 353
Total assets	66 788	54 110	63 605

Equity	28 203	19 564	26 806
Obligatory reserves	2 131	1 438	1 822
Non-current liabilities	20 160	14 168	6 038
Current liabilities	16 294	18 940	28 939
Total shareholders' equity and liabilities	66 788	54 110	63 605

Turnover by division (tEUR)	1-6/2001	1-6/2000	Change %	1-6/2000	1-12/2000
Access Systems	45 449	31 650	43,6 %	31 650	79 476
Educational	4 266	5 250	-18,7 %	5 250	12 608
Others and group items	0	98	-100,0 %	98	-336
Total	49 715	36 998	34,4 %	36 998	91 748
Sold operations				4 107	7 700
Total				41 105	99 448

Operating profit by division (tEUR)	1-6/2001	1-6/2000	Change %	1-6/2000	1-12/2000
Access Systems	6 109	3 619	68,8 %	3 619	13 106
Educational	244	1 030	-76,3 %	1 030	2 772
Others and group items	-1 141	-677	-68,5 %	-677	-1 749
Total	5 212	3 972	31,2 %	3 972	14 129
Sold operations				-1 307	-1 921
Total				2 665	12 208

Orders received by division (tEUR)	1-6/2001	1-6/2000	Change %	1-6/2000	1-12/2000
Access Systems	46 932	45 010	4,3 %	45 010	91 908
Educational	5 245	4 353	20,5 %	4 353	8 786
Others and group items	0	-248	-100,0 %	-248	-316
Total	52 177	49 115	6,2 %	49 115	100 378
Sold operations				4 291	8 569
Total				53 406	108 947

Key figures	1-6/2001	1-6/2000	Change %	1-6/2000	1-12/2000
Earnings per share	0,19	0,14	38,1 %	0,08	0,44
Earnings per share without goodwill depreciation	0,22	0,17	32,0 %	0,11	0,49
Shareholders' equity per share	1,67	1,19	40,6 %	1,19	1,61
Return on equity	23,6 %			14,1 %	31,4 %
Return on capital employed	23,3 %			15,7 %	31,4 %
Equity ratio	42,2 %			36,6 %	42,7 %
Gearing	23,7 %			72,6 %	51,1 %
Investments	2 077	1 740	19,4 %		3 102
Order backlog	28 427	31 052	-8,5 %		26 394
Personnel, average	592	497	19,1 %	621	616
Number of shares (thousands)	16 643	16 478			16 360
Highest share price, EUR	24,00	33,00			39,00
Lowest share price, EUR	8,70	12,90			12,90
Average share price, EUR	14,58	21,09			24,06
Turnover, in thousands	12 636	17 506			25 670
Turnover, in MEUR	184	369			617

#### Contingent liabilities and pledged assets (tEUR)

For own debt					
Mortgages on company assets	20 000	0			0
Mortgages on properties	2 985	2 985			2 985
Guarantees	1 206	415			537
Leasing liabilities	1 194	1 629			1 389
<b>Total</b>	<b>25 385</b>	<b>5 029</b>			<b>4 911</b>

#### Derivative instruments (tEUR)

Value of underlying forward contracts	29 545	16 099			22 515
Market value of forward contracts	639	886			-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	4-6/2001	4-6/2000	7-9/2000	10-12/2000	1-12/2000	7/2000 - 6/2001
Turnover	24 532	25 183	19 923	24 768	29 982	91 748	104 465
Operating profit	2 571	2 641	2 254	4 468	5 689	14 129	15 369
Operating profit without goodwill depreciation	2 784	2 854	2 467	4 681	5 902	14 981	16 221
Financial items	-134	-209	-335	-328	-402	-1 268	-1 073
Profit after financial items	2 437	2 432	1 919	4 140	5 287	12 861	14 296
Extraordinary items	0	0	0	0	1 377	1 377	1 377
Profit before taxes	2 437	2 432	1 919	4 140	6 664	14 238	15 673

## Largest owners 30.6.2001

	Number of shares	Percentage of shares
Nordea	796 100	4,7 %
Varma-Sampo Mutual Pension Insurance Company	789 150	4,7 %
OP funds	727 750	4,3 %
Ilmarinen Mutual Pension Insurance Company	700 000	4,2 %
The Local Government Pensions Institute	532 500	3,2 %
Alfred Berg Funds	495 077	2,9 %
Gyllenberg Funds	353 400	2,1 %
Sampo	329 000	2,0 %
Evli Funds	250 850	1,5 %
FIM Funds	191 050	1,1 %
Enterprise-Fennia Mutual Insurance Company	177 500	1,1 %
Nominee registration	7 263 807	43,2 %
Others	4 210 316	25,0 %
<b>Total</b>	<b>16 816 500</b>	<b>100,0 %</b>

## Share Price 30.3.1999 - 23.7.2001

