

Teleste Corporation

Interim Report 1.1.-30.9.2001

- Teleste reached its targets during the third quarter and full year net sales and operating profit will improve from last year
- The core division, Access Systems' operating profit increased 32 percent as net sales increased 30 percent from the previous year
- Group's comparable net sales increased 23 percent to 76 million euros while operating profit increased 12 percent to 9.4 million euros
- The largest ever contract with British Telecom, worth of 33 million euros
- Order backlog remained on a strong level at 21.6 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 23.2 percent to 76.1 million euros from last year's 61.8 million euros. Operating profit improved to 9.4 million euros, 11.8 percent higher than last year. According to its strategy Teleste did not cut its investments to items vital for future success. This burdened operating profit during the last months' period of slower growth. For example the costs related to increased personnel were 1.0 million euros higher during the quarter compared to last year's third quarter. Profit before taxes increased 13.6 percent to 8.6 million euros. The costs of currency hedging increased the financial expenses during the quarter. Earnings per share increased 1.5 percent to 0.35 euros. Special attention was paid on working capital and it was clearly on a lower level than a year ago.

Group's order intake was 3.1 percent higher than last year and the order backlog stood at 21.6 million euros. Teleste has succeeded in its strategy and has in the weak global economical situation managed to further strengthen its market position. Majority of the order backlog is related to current year. 87 percent of the net sales were generated outside Finland.

Teleste Access Systems

Net sales by the Group's core division were 68.6 million euros, an increase of 30.2 percent or 15.9 million euros compared to last year. Operating profit increased 32.0 percent to 9.9 million euros. Teleste Access Systems' order intake increased 0.8 percent to 66.0 million euros from last year's 65.5 million euros.

The product mix during the quarter focused more than normally on lower margin products such as fiber nodes and amplifiers (HFC-product family). During the third quarter Teleste made several important contracts. In early July a three-year deal was made with British Telecom for surveillance network products, worth of 33 million euros. Norwegian Telenor ordered equipment for upgrading their networks worth of 2.9 million euros. To Spanish Retecal a 0.8-million-euro signal transmission system for their backbone will be delivered. French Noos ordered fiber nodes, worth of 2.8 million euros. In France Teleste has won all the major projects during this year. Finnish sales have increased their share of the total sales as Teleste has won all those orders, which have been decided, for digitalization of Finnish cable networks.

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

Teleste Educational

Net sales were 7.5 million euros, a decrease of 20.0 percent from last year's 9.4 million euros. Operating profit was 1.2 million euros compared with previous year's 2.2 million euros mainly due to lower sales.

Teleste Educational's order intake, on the other hand, increased 21.5 percent to 8.1 million euros from last year's 6.7 million euros.

The third quarter was the second consecutive quarter with clearly higher order intake than during the past two years. In a demanding technological transformation and in a difficult economical environment Teleste Educational has proceeded according to its targets and the share of software products was 67 percent of the sales.

Personnel

The Group employed 602 people at the end of September (2000: 535), 508 (2000: 458) of them in Finland. Main investments were focused on Access Systems division's R&D and sales, where the number of personnel continued to increase, while personnel in production decreased during the quarter due to decrease in temporary personnel.

R&D and Investments

R&D costs during the period amounted to 6.7 million euros (5.8 million euros in 2000) or 8.8 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 2.4 million euros (1.8 million euros last year). The investments during the period were mainly for information technology and for equipment and measuring devices for production.

Finance

The Group's interest-bearing debt was 20.0 million euros at the end of September. Liquid funds were 8.7 million euros. The Group's gearing was 43.7 percent (2000: 81.9 percent) and the equity ratio was 38.7 percent (2000: 34.0 percent), as calculated from the balance sheet at the end of September (including the division sold). The figures were burdened by the acquisition of own shares. According to its policy Teleste hedges all material currency risks at least six months ahead. The costs related to this increased financial expenses during the quarter.

Shares and shareholders

The share price fluctuated between 24.00 and 7.80 euros during the year. The closing price at the end of September was 9.38 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 4,368. Foreign ownership accounted for 39.1 percent. The value of shares traded on the Helsinki Exchanges was 223 million euros and the number of shares was 16.0 million.

With warrants of Teleste's 1997 bond loan with warrants, 1,040 shares were subscribed during the quarter; subsequently, Teleste's registered share capital was 6,727,016 euros divided among 16,817,540 shares.

The trading with warrants of Teleste's 1997 bond loan with warrants began in Helsinki Exchanges on September 3, 2001.

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 September the company possessed 400,000 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.

Events after the end of the period

In October Teleste received an order from Russia for digital headend and signal transmission system for the backbone, worth of 1.2 million euros. German Tele Columbus ordered broadband amplifiers worth of 2.5 million euros.

According to its strategy Teleste has continued its geographical expansion and has after the end of the quarter opened offices in Poland and in the growing surveillance network market in the US. Teleste opened own offices at the beginning of the year in India and in April in Brazil.

With warrants of Teleste's 1997 bond loan with warrants, 11,540 shares were subscribed on October 30, 2001; subsequently, Teleste's registered share capital was 6,731,632 euros divided among 16,829,080 shares.

Outlook for the rest of the year

The demand for fast internet connections for homes and for digital television will increase strongly in the next few years. It is a must for cable operators to invest in their networks in order to keep up with the competition. According to current view the market is believed to begin recovering during next year as the investment flow is expected pick up. Teleste estimates that its markets will grow annually on average 30 percent during the five-year period from the turning point. Teleste's aim is also in the future to grow faster than the market. In order to reach even stronger position in the growing markets in the coming years Teleste has chosen a strategy, according to which its invest also during weak economical situation in R&D and in expanding and strengthening its own sales network.

The company estimates its growth to continue also this year. Profitability remains on a good level and operating profit improves from last year.

In 2002 sales are expected to grow further and operating profit to be at least on the same level as in 2001.

Teleste's full year results will be published on February 5, 2002.

November 6, 2001

Teleste Corporation
Board of Directors

Timo Toivila
CEO

(1) sold Home Networks division excluded

Consolidated Statement of Income (tEUR)	1-9/2001	1-9/2000	Change %	1-9/2000	1-12/2000
		(1)			
Turnover	76 089	61 766	23,2 %	68 577	99 448
Other operating income	2 329	3 815	-39,0 %	4 043	3 245
Change in inventories of finished goods	913	410	122,7 %	410	1 145
Materials and services	-36 355	-30 688	18,5 %	-34 559	-46 575
Personnel expenses	-18 666	-14 996	24,5 %	-17 412	-23 570
Other operating expenses	-12 671	-9 894	28,1 %	-12 033	-18 216
Depreciation	-2 199	-1 973	11,5 %	-2 555	-3 269
Operating profit	9 440	8 440	11,8 %	6 471	12 208
Financial income and expenses	-833	-866	-3,8 %	-866	-1 268
Profit after financial items	8 607	7 574	13,6 %	5 605	10 940
Extraordinary items	0	0		0	1 377
Profit before taxes	8 607	7 574	13,6 %	5 605	12 317
Taxes	-2 855	-2 011	42,0 %	-1 788	-3 682
Net profit	5 752	5 563	3,4 %	3 817	8 635

Consolidated Statement of Income (tEUR)	7-9/2001	7-9/2000	Change %	7-9/2000
		(1)		
Turnover	26 374	24 768	6,5 %	27 472
Other operating income	358	898	-60,1 %	721
Change in inventories of finished goods	728	248	193,5 %	248
Materials and services	-12 803	-12 922	-0,9 %	-14 401
Personnel expenses	-5 817	-4 829	20,5 %	-5 581
Other operating expenses	-3 858	-2 935	31,4 %	-3 721
Depreciation	-754	-760	-0,8 %	-932
Operating profit	4 228	4 468	-5,4 %	3 806
Financial income and expenses	-490	-328	49,4 %	-328
Profit after financial items	3 738	4 140	-9,7 %	3 478
Extraordinary items	0	0		0
Profit before taxes	3 738	4 140	-9,7 %	3 478
Taxes	-1 213	-892	36,0 %	-1 032
Net profit	2 525	3 248	-22,3 %	2 446

Consolidated Balance Sheet (tEUR)	30.9.2001	30.9.2000	31.12.2000
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Fixed assets			
Intangible assets	6 091	6 855	6 716
Tangible assets	8 487	8 403	7 799
Long-term receivables	3 772	0	3 324
Investments	4 791	43	58
Current assets			
Inventories	14 633	17 345	13 450
Other current assets	20 891	27 107	24 905
Liquid funds	8 686	5 063	7 353
Total assets	67 351	64 816	63 605
Equity	30 660	21 973	26 806
Obligatory reserves	2 300	1 513	1 822
Non-current liabilities	20 159	6 240	6 038
Current liabilities	14 232	35 090	28 939
Total shareholders' equity and liabilities	67 351	64 816	63 605

Turnover by division (tEUR)	1-9/2001	1-9/2000	Change %	1-9/2000	1-12/2000
Access Systems	68 559	52 673	30,2 %	52 673	79 476
Educational	7 530	9 407	-20,0 %	9 407	12 608
Others and group items	0	-314	-100,0 %	-314	-336
Total	76 089	61 766	23,2 %	61 766	91 748
Sold operations				6 811	7 700
Total				68 577	99 448

Operating profit by division (tEUR)	1-9/2001	1-9/2000	Change %	1-9/2000	1-12/2000
Access Systems	9 866	7 475	32,0 %	7 475	13 106
Educational	1 163	2 239	-48,1 %	2 239	2 772
Others and group items	-1 589	-1 274	-24,7 %	-1 274	-1 749
Total	9 440	8 440	11,8 %	8 440	14 129
Sold operations				-1 969	-1 921
Total				6 471	12 208

Orders received by division (tEUR)	1-9/2001	1-9/2000	Change %	1-9/2000	1-12/2000
Access Systems	65 962	65 468	0,8 %	65 468	91 908
Educational	8 125	6 689	21,5 %	6 689	8 786
Others and group items	0	-305	-100,0 %	-305	-316
Total	74 087	71 852	3,1 %	71 852	100 378
Sold operations				7 350	8 569
Total				79 202	108 947

Key figures	1-9/2001	1-9/2000	Change %	1-9/2000	1-12/2000
Earnings per share	0,35	0,34	1,5 %	0,23	0,44
Earnings per share without goodwill depreciation	0,38	0,38	1,1 %	0,27	0,49
Shareholders' equity per share	1,58	1,33	18,7 %	1,35	1,61
Return on equity	29,1 %			35,8 %	31,4 %
Return on capital employed	26,4 %			29,9 %	31,4 %
Equity ratio	38,7 %			34,0 %	42,7 %
Gearing	43,7 %			81,9 %	51,1 %
Investments	2 379	1 789	33,0 %		3 102
Order backlog	21 609	27 342	-21,0 %		26 394
Personnel, average	597	505	18,2 %	625	616
Number of shares (thousands)	16 610	16 302			16 360
Highest share price, EUR	24,00	39,00			39,00
Lowest share price, EUR	7,80	12,90			12,90
Average share price, EUR	13,93	23,19			24,06
Turnover, in thousands	15 981	21 404			25 670
Turnover, in MEUR	223	496			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	1 554	713			537
Leasing liabilities	1 516	1 516			1 389
Total	26 055	5 214			4 911

Derivative instruments (tEUR)

Value of underlying forward contracts	27 715	24 116			22 515
Market value of forward contracts	-322	319			-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	7-9/2001	7-9/2000	10-12/2000	1-12/2000	10/2000 - 9/2001
Turnover	24 532	25 183	26 374	24 768	29 982	91 748	106 071
Operating profit	2 571	2 641	4 228	4 468	5 689	14 129	15 129
Operating profit without goodwill depreciation	2 784	2 854	4 440	4 681	5 902	14 981	15 980
Financial items	-134	-209	-490	-328	-402	-1 268	-1 235
Profit after financial items	2 437	2 432	3 738	4 140	5 287	12 861	13 894
Extraordinary items	0	0	0	0	1 377	1 377	1 377
Profit before taxes	2 437	2 432	3 738	4 140	6 664	14 238	15 271

Largest owners 28.9.2001

	Number of shares	Percentage of shares
Ilmarinen Mutual Pension Insurance Company	840 350	5,0 %
OP funds	835 380	5,0 %
Varma-Sampo Mutual Pension Insurance Company	789 150	4,7 %
Nordea	751 100	4,5 %
The Local Government Pensions Institute	553 500	3,3 %
Alfred Berg Funds	496 950	3,0 %
Teleste Corporation	400 000	2,4 %
Sampo	303 750	1,8 %
FIM Funds	277 550	1,7 %
State's Pension Institution	263 200	1,6 %
Nominee registration	6 468 430	38,5 %
Others	4 838 180	28,8 %
Total	16 817 540	100,0 %

Share price development 30.3.1999-2.11.2001

