

Teleste Corporation

Interim Report 1.1.-31.3.2002

- Intermediate year for cable operators' investments
- Despite of increased market share net sales declined and the result was slightly negative
- Restructuring measures will keep full year result clearly positive
- Important customer Omne Communications Ltd has called in the administrators – credit loss risk of about two million euros

Unless otherwise stated, the comparison figures for last year's statement of income do not include Educational division that was sold in December 2001.

Turnover and Profitability

Teleste's long-lasting fast growth came to an end as net sales were 16.5 million euros (22.6 million euros). Operating loss was 1.2 million euros (2.5 million euros). Earnings per share were –0.09 euros (0.10 euros). Operating profit includes a one-time expense worth of 0.6 million euros, which is related to 34 jobs that were cut in March. The personnel cuts, planned cost deductions and other cost savings are estimated to amount about five million euros on annually.

Broadband Cable Networks business unit's net sales were 13.7 million euros (19.5 million euros) and Video Networks business unit's net sales were 2.8 million euros (3.2 million euros).

Orders Received and Market situation

Teleste's orders received were 17.4 million euros (20.6 million euros). Due to delivery delays order backlog increased during the quarter to 18.9 million euros from 17.8 million euros in the beginning of the year.

The market situation for Broadband Cable Networks business unit continued to be weak and orders received were 13.5 million euros (15.5 million euros). The beginning of investments in the main markets for Teleste's line of business is probably postponed to next year. Europe's largest cable operators are restructuring their balance sheets and the sale of Deutsche Telekom's cable assets, which was expected during the first quarter, was further postponed due to regulatory decisions. The problems in launching digital television are visible in the demand of digital products. In addition to this the operators have delayed their sustaining investments, which are in some cases already a necessity. When the investments begin in Europe, Teleste expects the market growth to be fast.

Video Networks business unit's orders received were 3.9 million euros (5.1 million euros). In a small business unit the timing of the projects enhances the fluctuations between quarters. For example last year's first quarter included a 1.7-million-euro order from the USA, which was large compared to the size of the unit.

Personnel

The Group employed 486 people at the end of March (514), 418 (448) of them in Finland. It was decided in March that 34 jobs will be cut and 13 persons will be laid off indefinitely. These persons are excluded from above figures.

R&D and Investments

R&D costs during the period amounted to 1.9 million euros (2.3 million euros) or 11.4 percent of net sales. R&D concentrated on digital product families. R&D costs are booked as annual expenses.

The Group's investments totaled 0.3 million euros (1.2 million euros). 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 March. Liquid funds were 23.2 million euros. The Group's gearing was -9.9 percent (43.6 percent) and the equity ratio was 46.0 percent (45.1 percent), as calculated from the balance sheet at the end of March (including the division sold). According to its policy Teleste hedges all material currency risks at least six months ahead.

Shares and shareholders

The share price fluctuated between 14.00 and 7.60 euros during the period. The closing price at the end of March was 7.90 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,043. Foreign ownership accounted for 28.2 percent. The value of shares traded on the Helsinki Exchanges was 44 million euros and the number of shares was 4.7 million.

At the end of March the company possessed 400,000 own shares.

Decisions of the Annual General Meeting

The Annual General Meeting on April 8, 2002 confirmed the financial statements for 2001 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 0.16 per share.

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

The Annual General Meeting decided to issue stock options to key personnel. As a result of this the share capital may increase by a maximum of 550,000 shares, i.e. 220,000 euros.

Events after the end of the period

CEO Timo Toivola announced his resignation at the end of April. He will continue in his position until early Autumn. The Board has started the recruitment process of a new CEO.

In May Broadband Cable Networks received an 1.2 million-euro-order from the largest cable operator in France, Noos, and Video Networks received an 1.9 million-euro-order from British Telecom in the UK.

According to unofficial information received today Teleste's important customer Omne Communications Ltd in the UK has called in the administrators. In the worst case Teleste might suffer a credit loss of two million euros during the second quarter resulting slightly negative result in the second quarter. Should the agreed deliveries during the rest of the year be cancelled or delayed, there is a risk to lose about four million of sales.

Outlook for the rest of the year

The common difficulties in the telecommunication business and especially the balance sheet problems of certain cable operators have led to exceptionally low level of network investments. Broadband Cable Networks' market situation is expected to be weak the whole year and the net sales be lower than last year. Market recovery is expected to begin next year and already in a next few years the market is believed to grow strongly.

Video Networks' market is expected develop positively and the net sales to grow this and in coming years.

Teleste's business is experiencing an intermediate year and the investments are beginning slower than earlier anticipated. The changes made in the group structure and focusing in the core business have improved competitiveness

and have created prerequisites for faster-than-the-market growth. With cost savings and by reallocating R&D projects the activities has been restructured to fit the current situation.

This year's net sales are expected to be lower than last year and profitability to be lower. Despite of the losses during the beginning of the year the full year result is estimated to be clearly positive.

Teleste's interim report for the January – June period will be published on July 29, 2002.

May 6, 2002

Teleste Corporation
Board of Directors

Timo Toivila
CEO

(1) sold Educational division excluded

Consolidated Statement of Income (tEUR)	(1)			1-3/2001	1-12/2001
	1-3/2002	1-3/2001	Change %		
Turnover	16 478	22 622	-27,2 %	24 532	102 606
Other operating income	256	637	-59,8 %	637	628
Change in inventories of finished goods	264	76	247,4 %	76	1 349
Materials and services	-7 944	-11 254	-29,4 %	-11 680	-44 817
Personnel expenses	-6 352	-5 164	23,0 %	-5 929	-25 569
Other operating expenses	-3 196	-3 759	-15,0 %	-4 374	-17 398
Depreciation	-742	-666	11,4 %	-691	-2 977
Operating profit	-1 236	2 492	-149,6 %	2 571	13 822
Financial income and expenses	-165	-134	22,9 %	-134	-716
Profit after financial items	-1 400	2 358	-159,4 %	2 437	13 106
Extraordinary items	0	0		0	4 744
Profit before taxes	-1 400	2 358	-159,4 %	2 437	17 850
Taxes	-105	-746	-85,9 %	-772	-4 360
Net profit	-1 505	1 612	-193,4 %	1 665	13 490

Consolidated Balance Sheet (tEUR)	31.3.2002	31.3.2001	31.12.2001
Fixed assets			
Intangible assets	5 702	7 377	5 860
Tangible assets	8 552	7 669	8 050
Long-term receivables	3 197	3 391	3 390
Investments	1 118	45	1 118
Treasury shares	3 160	0	4 746
Current assets			
Inventories	11 809	14 247	11 583
Other current assets	14 677	24 552	15 181
Short-term investments	21 936	4 533	19 800
Liquid funds	1 260	1 545	7 143
Total assets	71 411	63 359	76 871
Equity	35 557	28 465	38 549
Obligatory reserves	1 316	2 229	1 463
Non-current liabilities	20 000	11 456	20 148
Current liabilities	14 538	21 209	16 711
Total shareholders' equity and liabilities	71 411	63 359	76 871

Net sales by business unit (tEUR)	1-3/2002	1-3/2001	Change %	1-3/2001	1-12/2001
Broadband Cable Networks	13 678	19 465	-29,7 %	19 465	79 501
Video Networks	2 800	3 157	-11,3 %	3 157	13 459
Total	16 478	22 622	-27,2 %	22 622	92 960
Sold operations				1 910	9 646
Total				24 532	102 606
Orders received by business unit (tEUR)	1-3/2002	1-3/2001	Change %	1-3/2001	1-12/2001
Broadband Cable Networks	13 492	15 489	-12,9 %	15 489	74 153
Video Networks	3 910	5 141	-23,9 %	5 141	13 009
Total	17 402	20 630	-15,6 %	20 630	87 162
Sold operations				2 129	10 574
Total				22 759	97 736
Key figures	1-3/2002	1-3/2001	Change %	1-3/2001	1-12/2001
Earnings per share	-0,09	0,10		0,10	0,53
Earnings per share without goodwill depreciation	-0,08	0,11		0,11	0,58
Shareholders' equity per share	1,96	1,71	14,6 %	1,71	2,05
Return on equity	-18,2 %			24,1 %	28,9 %
Return on capital employed	-7,6 %			23,3 %	27,4 %
Equity ratio	46,0 %			45,1 %	44,5 %
Gearing	-9,9 %			43,6 %	-20,5 %
Investments	296	1 209	-75,5 %	1 245	3 713
Order backlog	18 932	23 482	-19,4 %	24 312	17 836
Personnel, average	532	509	4,5 %	583	594
Number of shares (thousands)	16 898			16 612	16 564
Highest share price, EUR	14,00			24,00	24,00
Lowest share price, EUR	7,61			17,20	7,80
Average share price, EUR	9,44			20,53	12,49
Turnover, in thousands	4 676			4 391	19 282
Turnover, in MEUR	44			90	263

Treasury shares

	Number of shares	Nominal value	% of share capital	% of votes
Parent company owns own shares 31.3.2002	400 000	160 000	2,4 %	2,4 %

Contingent liabilities and pledged assets (tEUR)

For own debt			
Mortgages on company assets	20 000	0	20 000
Mortgages on properties	2 985	2 985	2 985
Guarantees	1 355	532	1 193
Leasing liabilities	1 426	1 206	1 500
Total	25 766	4 723	25 678

Derivative instruments (tEUR)

Value of underlying forward contracts	17 230	20 430	24 619
Market value of forward contracts	185	-85	359

The figures are not audited

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

Development of continuing business by quarters

	1-3/2002	1-3/2001	4-6/2001	7-9/2001	10-12/2001	1-12/2001	4/2001 - 3/2002
Turnover	16 478	22 622	22 827	23 110	24 401	92 960	86 816
Operating profit	-1 236	2 492	2 476	3 309	4 244	12 521	8 793
Operating profit without goodwill depreciation	-1 020	2 705	2 689	3 523	4 460	13 377	9 652
Financial items	-165	-134	-209	-523	151	-715	-746
Profit after financial items	-1 400	2 358	2 267	2 786	4 395	11 806	8 048
Extraordinary items	0	0	0	0	4 744	4 744	4 744
Profit before taxes	-1 400	2 358	2 267	2 786	9 139	16 550	12 792

Development of business units by quarter in 2001

	1-3/2001	4-6/2001	7-9/2001	10-12/2001	1-12/2001
Orders received					
Broadband Cable Networks	15 489	23 673	16 753	18 238	74 153
Video Networks	5 141	2 629	1 969	3 270	13 009
Total	20 630	26 302	18 722	21 508	87 162
Net sales					
Broadband Cable Networks	19 465	18 522	20 803	20 711	79 501
Video Networks	3 157	4 305	2 615	3 382	13 459
Total	22 622	22 827	23 418	24 093	92 960

Largest owners 27.3.2002

	Number of shares	Percentage of shares
OP funds	895 650	5,3 %
Ilmarinen Mutual Pension Insurance Company	840 350	5,0 %
Varma-Sampo Mutual Pension Insurance Company	789 150	4,7 %
Nordea funds	737 800	4,4 %
Sampo	592 450	3,5 %
The Local Government Pensions Institute	558 500	3,3 %
State's Pension Institute	400 000	2,4 %
Teleste Corporation	400 000	2,4 %
Alfred Berg Funds	342 150	2,0 %
Aktia funds	230 750	1,4 %
Nominee registration	4 656 752	27,6 %
Others	6 454 428	38,2 %
Total	16 897 980	100,0 %

Share price development
30.3.1999-30.4.2002

