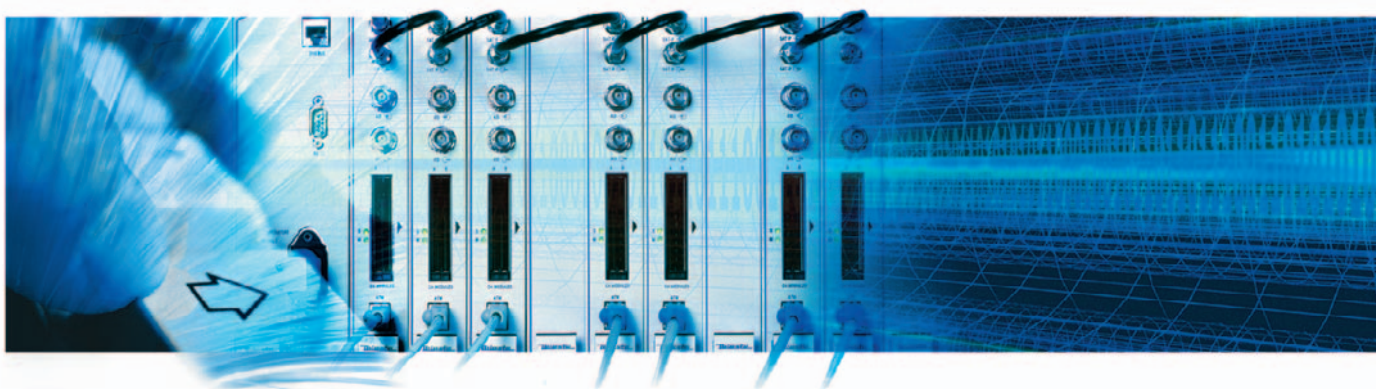


*Teleste*



**Teleste Corporation** Interim Report 1.1.–30.6.2002

- Operational result of the second quarter regained profitability – the credit loss from OMNE booked in May (-1.9 Me) dropped the operating result to -1.0 million euros
- Market situation of the main business unit is still quiet
- Video Networks received important orders from the UK and the USA
- The latter half of the year is believed to be clearly better than the first half and profitable

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 net sales in the first half were 34.0 million euros (45.4 million euros). Operating loss was 2.3 million euros (profit 5.0 million euros). In May the credit loss from OMNE Communications Ltd worth of 1.9 million euros was booked. Earnings per share for the first six months were -0.17 euros (0.18 euros).

Broadband Cable Networks business unit's net sales during the first six months were 27.2 million euros (38.0 million euros). Video Networks business unit's net sales during the first half of the year were 6.8 million euros (7.5 million euros). In the second quarter Broadband Cable Networks' net sales were 13.5 million euros (18.5 million euros) and Video Networks' net sales were 4.0 million euros (4.3 million euros).

Teleste's second quarter net sales were 17.5 million euros (22.8 million euros) operating loss 1.0 million euros (profit 2.5 million euros). The positive effect of the personnel cuts and other cost savings were already visible in the second quarter. Both net sales and operating result improved from the first quarter and without the OMNE credit loss that was booked in May the operational result was profitable.

## Orders Received and Market situation

Teleste's orders received were 31.9 million euros (46.9 million euros). The order backlog was at the end of June 14.2 million euros. The open orders from OMNE Communications have been taken off from the order backlog, but not from the orders received, which describe the development of the market situation.

The market situation for Broadband Cable Networks business unit continued to be weak and orders received were 24.0 million euros (39.2 million euros). Last year's comparison figure included two large projects, which were won in June last year. The market situation is burdened by the postponements of the investments due to the balance sheet problems of the customers. In May the business unit received a 1.2-million-euro order from Noos, the largest cable operator in France.

The market situation for Video Networks business unit continued to be good and orders received were 7.8 million euros (7.8 million euros). During the second quarter Video Networks received orders from British Telecom in the UK (1.9 million euros) and from City of Austin in the USA (1.4 million euros).

## Personnel

The Group employed 487 people at the end of June (534), 410 (460) of them in Finland. The figures do not include the persons that were cut off in March, but whose period of notice had not yet ended at the end of June.

## R&D and Investments

R&D costs during the period amounted to 3.8 million euros (4.9 million euros) or 11.2 percent of net sales. The focus was especially in strategically important projects. Special development areas were new IP-based products and products for optical signal transmission. R&D costs are booked as annual expenses.

The Group's investments totaled 2.1 million euros (2.1 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 June. Liquid funds were 15.0 million euros. The Group's gearing was 18.4 percent (23.7 percent) and the equity ratio was 44.5 percent as calculated from the balance sheet at the end of June (42.2 percent 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 3.30 euros during the period. The closing price at the end of June was 3.50 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,127. Foreign ownership accounted for 22.7 percent. The value of shares traded on the Helsinki Exchanges was 63 million euros and the number of shares was 8.3 million.

With warrants of Teleste's 1997 bond loan with warrants, 119,420 shares were subscribed during the quarter; subsequently, Teleste's registered share capital was 6,806,960 euros divided among 17,017,400 shares.

According to the authorization given by the Annual General Meeting Teleste acquired 220,000 own shares during the second quarter. At the end of June the company possessed 620,000 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.

Osuspankkikeskus informed on May 8, 2002 that its share holding had decreased to 4.8 percent of Teleste's share capital.

## CEO

CEO Timo Toivila announced his resignation at the end of April due to personal reasons. He will continue in his position until early Autumn. The recruitment process of a new CEO is on going.

## Outlook for the rest of the year

Teleste's business is experiencing an intermediate 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 to 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.

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 have been restructured to fit the current market situation.

This year's net sales are expected to be lower and profitability to be weaker than last year. As a result of the strategic decisions and cost cuttings during the first half of the year, the second half is expected to be profitable.

Teleste's interim report for the January–September period will be published on October 28, 2002.

July 29, 2002

Teleste Corporation  
Board of Directors

Timo Toivila  
CEO

(1) sold Educational division excluded. Sold division is eliminated until operating result.  
The effect of the elimination is taken into account in taxes. No changes have been made to balance sheet.

Consolidated Statement of Income (tEUR)	(1)		Change %	1-6/2001	1-12/2001
	1-6/2002	1-6/2001			
Turnover	33 967	45 449	-25,3 %	49 715	102 606
Other operating income	-104	1 908	-105,5 %	1 971	628
Change in inventories of finished goods	603	185	225,9 %	185	1 349
Materials and services	-16 576	-22 244	-25,5 %	-23 552	-44 817
Personnel expenses	-11 173	-11 355	-1,6 %	-12 849	-25 569
Other operating expenses	-7 512	-7 583	-0,9 %	-8 813	-17 398
Depreciation	-1 487	-1 392	6,8 %	-1 445	-2 977
Operating profit	-2 282	4 968	-145,9 %	5 212	13 822
Financial income and expenses	-464	-343	35,3 %	-343	-716
Profit after financial items	-2 746	4 625	-159,4 %	4 869	13 106
Extraordinary items	0	0		0	4 744
Profit before taxes	-2 746	4 625	-159,4 %	4 869	17 850
Taxes	7	-1 560	-100,4 %	-1 642	-4 360
Net profit	-2 739	3 065	-189,4 %	3 227	13 490

Consolidated Statement of Income (tEUR)			Change %	1-6/2001	1-12/2001
	4-6/2002	4-6/2001			
Turnover	17 489	22 827	-23,4 %		
Other operating income	-360	1 271	-128,3 %		
Change in inventories of finished goods	339	109	211,0 %		
Materials and services	-8 632	-10 990	-21,5 %		
Personnel expenses	-4 821	-6 191	-22,1 %		
Other operating expenses	-4 316	-3 824	12,9 %		
Depreciation	-745	-726	2,6 %		
Operating profit	-1 046	2 476	-142,3 %		
Financial income and expenses	-299	-209	43,2 %		
Profit after financial items	-1 346	2 267	-159,4 %		
Extraordinary items	0	0			
Profit before taxes	-1 346	2 267	-159,4 %		
Taxes	112	-813	-113,8 %		
Net profit	-1 234	1 454	-184,8 %		

Consolidated Balance Sheet (tEUR)			30.6.2001	31.12.2001
	30.6.2002			
Fixed assets				
Intangible assets	5 491		6 290	5 860
Tangible assets	8 511		8 988	8 050
Long-term receivables	3 016		3 334	3 390
Investments	1 118		45	1 118
Treasury shares	2 170		166	4 746
Current assets				
Inventories	10 642		15 005	11 583
Other current assets	16 268		19 603	15 181
Short-term investments	13 207		10 687	19 800
Liquid funds	1 746		2 670	7 143
Total assets	62 169		66 788	76 871
Equity	29 635		28 203	38 549
Obligatory reserves	1 239		2 131	1 463
Non-current liabilities	20 000		20 160	20 148
Current liabilities	11 295		16 294	16 711
Total shareholders' equity and liabilities	62 169		66 788	76 871

Net sales by business unit (tEUR)			Change %	1-6/2001	1-12/2001
	1-6/2002	1-6/2001			
Broadband Cable Networks	27 215	37 995	-28,4 %	37 995	79 501
Video Networks	6 752	7 454	-9,4 %	7 454	13 459
Total	33 967	45 449	-25,3 %	45 449	92 960
Sold operations				4 266	9 646
Total				49 715	102 606

Orders received by business unit (tEUR)	1-6/2002	1-6/2001	Change %	1-6/2001	1-12/2001
Broadband Cable Networks	24 020	39 162	-38,7 %	39 162	74 153
Video Networks	7 840	7 770	0,9 %	7 770	13 009
<b>Total</b>	<b>31 860</b>	<b>46 932</b>	<b>-32,1 %</b>	<b>46 932</b>	<b>87 162</b>
Sold operations				5 245	10 574
<b>Total</b>				<b>52 177</b>	<b>97 736</b>
Key figures	1-6/2002	1-6/2001	Change %	1-6/2001	1-12/2001
Earnings per share	-0,17	0,18		0,19	0,53
Earnings per share without goodwill depreciation	-0,14	0,21		0,22	0,58
Shareholders' equity per share	1,67	1,67	0,4 %	1,67	2,05
Return on equity	-17,9 %			23,6 %	28,9 %
Return on capital employed	-8,0 %			23,3 %	27,4 %
Equity ratio	44,5 %			42,2 %	44,5 %
Gearing	18,4 %			23,7 %	-20,5 %
Investments	2 077	2 034	2,1 %	2 077	3 713
Order backlog	14 160	26 807	-47,2 %	28 427	17 836
Personnel, average	526	518	1,5 %	592	594
Number of shares (thousands)	16 482			16 643	16 564
Highest share price, EUR	14,00			24,00	24,00
Lowest share price, EUR	3,30			8,70	7,80
Average share price, EUR	7,62			14,58	12,49
Turnover, in thousands	8 291			12 636	19 282
Turnover, in MEUR	63			184	263
Treasury shares					
	Number of shares	Nominal value	% of share capital	% of votes	
Parent company owns own shares 30.6.2002	620 000	248 000	3,6 %	3,6 %	
	Number of shares	Nominal value	Paid price (average)	Paid price (range)	
Acquired during the period	220 000	88 000	4,83	4,27 - 5,82	
Contingent liabilities and pledged assets (tEUR)					
For own debt					
Mortgages on company assets	20 000			20 000	20 000
Mortgages on properties	2 985			2 985	2 985
Guarantees	1 850			1 194	1 193
Leasing liabilities	1 512			1 206	1 500
<b>Total</b>	<b>26 347</b>			<b>25 385</b>	<b>25 678</b>
Derivative instruments (tEUR)					
Value of underlying forward contracts	24 660			29 545	24 619
Market value of forward contracts	-759			639	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	4-6/2002	4-6/2001	7-9/2001	10-12/2001	1-12/2001	7/2001 - 6/2002
Net sales							
Broadband Cable Networks	13 678	13 537	18 530	20 495	21 019	79 501	68 729
Video Networks	2 800	3 952	4 297	2 615	3 382	13 459	12 749
Total	16 478	17 489	22 827	23 110	24 401	92 960	81 478
Operating profit	-1 236	-1 046	2 476	3 309	4 244	12 521	5 271
Operating profit without goodwill depreciation	-1 020	-830	2 689	3 523	4 460	13 377	6 133
Financial items	-165	-299	-209	-523	151	-715	-836
Profit after financial items	-1 400	-1 346	2 267	2 786	4 395	11 806	4 435
Extraordinary items	0	0	0	0	4 744	4 744	4 744
Profit before taxes	-1 400	-1 346	2 267	2 786	9 139	16 550	9 179

#### Largest owners 8.7.2002

	Number of shares	Percentage of shares
Sampo	1 236 750	7,3 %
Ilmarinen Mutual Pension Insurance Company	840 350	4,9 %
Varma-Sampo Mutual Pension Insurance Company	789 150	4,6 %
Nordea	675 150	4,0 %
Teleste Corporation	620 000	3,6 %
The Local Government Pensions Institute	558 500	3,3 %
State's Pension Institute	400 000	2,4 %
Aktia Funds	327 900	1,9 %
Alfred Berg Funds	275 000	1,6 %
If Group	214 200	1,3 %
Nominee registration	3 654 699	21,5 %
Others	7 425 701	43,6 %
<b>Total</b>	<b>17 017 400</b>	<b>100,0 %</b>