

*Teleste*



**Teleste Corporation** Interim Report 1.1.–30.9.2002

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- The decline in network operators' investments in Teleste's core business has not eased off
- Market outlook for the Video Networks business unit is bright
- Teleste's third quarter profitability improved compared to previous quarters, but did not reach last year's level. Operating profit in the reviewed period was profitable and cash flow positive
- Due to the weak first half of the year the result for the first nine months of the year was negative
- 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 nine months were 48.7 million euros (68.6 million euros). Operating loss was 2.1 million euros (profit 8.3 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 nine months were -0.16 euros (0.30 euros).

Broadband Cable Networks business unit's net sales in the first nine months were 37.7 million euros (58.5 million euros). Video Networks business unit's net sales were 11.0 million euros (10.0 million euros). In the third quarter Broadband Cable Networks' net sales were 10.5 million euros (20.5 million euros) and Video Networks' net sales were 4.3 million euros (2.6 million euros).

Teleste's third quarter net sales were 14.7 million euros (23.1 million euros) and operating profit 0.2 million euros (3.3 million euros). Despite the lowered turnover due to the difficult market situation, the result of the third quarter was improved compared to previous quarters and the result was profitable. The effect of the personnel cuts and other cost saving measures is clearly visible already in the second half of the year.

## Orders Received and Market situation

Teleste's orders received during the reviewed period were 45.0 million euros (66.0 million euros). The order backlog at the end of September was 12.6 million euros. The open orders from OMNE Communications have been written off from the order backlog, but not from

the orders received, which describe the development of the market situation.

Due to the balance sheet problems of the customers the market situation for Broadband Cable Networks business unit has remained weak. According to Teleste's estimates the market in all target areas, except for the German market, has fallen almost to one third compared to the last year. Business unit's orders received were 33.3 million euros (56.2 million euros). Typical for the market in the business sector has been the lack of sizeable orders and very short delivery times for smaller orders, which has caused clear reduction in companies' order backlog volumes.

The market situation for Video Networks business unit continued to be good and orders received amounted to 11.7 million euros (9.7 million euros) during the reviewed period.

## Personnel

The Group employed 432 people at the end of September (511), 360 (432) of them in Finland.

## R&D and Investments

R&D costs in the third quarter amounted to 4.8 million euros (6.1 million euros) rising to 9.9 percent of the 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 in the third quarter totaled 1.0 million euros (2.4 million euros). The investments were mainly for information technology and for equipment

and measuring devices for production. The advance payments of the ERP-project amounting approximately one million euros, which were included in the investments in the previous quarter are excluded from the third quarter figures. The project time schedule has been postponed with over a year.

### Finance

The Group's interest-bearing debt was 20.0 million euros at the end of September. Liquid funds were 17.3 million euros. The Group's gearing was 9.7 percent (43.7 percent) and the equity ratio was 46.7 percent as calculated from the balance sheet at the end of September (38.7 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 2.21 euros during the reviewed period. The closing price at the end of September was 2.32 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the reviewed period was 6,392. Foreign ownership accounted for 15.8 percent. The value of shares traded on the Helsinki Exchanges was 70.2 million euros and the number of shares was 10.8 million.

With warrants of Teleste's 1997 bond loan with warrants, 130,420 shares were subscribed during the third quarter; subsequently, Teleste's registered share capital was 6,811,360 euros divided among 17,028,400 shares.

The Annual General Meeting resolved on April 8, 2002 to issue new stock options to personnel. The option program entitles to subscribe Teleste's shares by a maximum amount of 550,000 shares.

On August 26, 2002 the Extraordinary General Meeting reapproved year 2000 option program. The option program entitles personnel to subscribe Teleste's shares by a maximum amount of 820,000 shares.

The Annual General Meeting gave on April 8, 2002 authorization to the Board to acquire 440,000 Teleste's own shares. 220,000 own shares have been acquired during the reviewed period. At the end of September 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.

Sampo Life Insurance Company Limited informed on September 25, 2002, that its share holding had increased to 5,85 percent of Teleste's share capital.

### CEO

Jukka Rinnevaara has been appointed the new CEO starting November 1, 2002.

The present CEO Timo Toivila announced his resignation at the end of April due to personal reasons. He will continue in his position until the end of October.

### Outlook for the rest of the year

The well-known difficulties in the telecommunication sector and especially the balance sheet problems of cable operators have led to an exceptionally low level of network investments. The market in the Broadband Cable Networks' target areas is estimated to have fallen to almost one third of the value of the previous year, with the exception of the German market.

In consequence of the market situation the net sales of the core business unit will be lower than last year. Despite of the bright long-term growth expectations caused by the re-start of delayed network investments, the next year's market will remain relatively quiet.

Video Networks' market is expected to 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.

Due to the weak market situation the full year sales in Teleste's core business will be lower than last year and in spite of the strategic decisions taken and the cost cutting measures implemented the profitability will be weaker than in the previous year. Despite this, the latter part of the year is expected to be profitable.

Teleste's full year results will be published on February 4, 2003.

October 28, 2002

Teleste Corporation  
Board of Directors

Timo Toivila  
CEO

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

<b>Consolidated Statement of Income (tEUR)</b>	<b>1-9/2002</b>	<b>1-9/2001</b>	<b>Change %</b>	<b>1-9/2001</b>	<b>1-12/2001</b>
Turnover	48 683	68 559	-29,0 %	76 089	102 606
Change in inventories of finished goods	-1 701	2 329	-173,0 %	2 329	628
Other operating income	655	913	-28,3 %	913	1 349
Materials and services	-21 884	-34 016	-35,7 %	-36 355	-44 817
Personnel expenses	-15 127	-16 313	-7,3 %	-18 666	-25 569
Other operating expenses	-10 501	-11 061	-5,1 %	-12 671	-17 398
Depreciation	-2 252	-2 134	5,5 %	-2 199	-2 977
Operating profit	-2 126	8 277	-125,7 %	9 440	13 822
Financial income and expenses	-575	-833	-31,0 %	-833	-716
Profit after financial items	-2 701	7 444	-136,3 %	8 607	13 106
Extraordinary items	0	0		0	4 744
Profit before taxes	-2 701	7 444	-136,3 %	8 607	17 850
Taxes	7	-2 497	-100,3 %	-2 855	-4 360
Net profit	-2 694	4 947	-154,5 %	5 752	13 490

<b>Consolidated Statement of Income (tEUR)</b>	<b>7-9/2002</b>	<b>7-9/2001</b>	<b>Change %</b>		
Turnover	14 716	23 110	-36,3 %		
Change in inventories of finished goods	-1 597	421	-479,3 %		
Other operating income	52	728	-92,9 %		
Materials and services	-5 307	-11 772	-54,9 %		
Personnel expenses	-3 954	-4 958	-20,2 %		
Other operating expenses	-2 989	-3 478	-14,1 %		
Depreciation	-765	-742	3,1 %		
Operating profit	156	3 309	-95,3 %		
Financial income and expenses	-111	-523	-78,8 %		
Profit after financial items	45	2 786	-98,4 %		
Extraordinary items	0	0			
Profit before taxes	45	2 786	-98,4 %		
Taxes	0	-937	-100,0 %		
Net profit	45	1 849	-97,5 %		

<b>Consolidated Balance Sheet (tEUR)</b>	<b>30.9.2002</b>			<b>30.9.2001</b>	<b>31.12.2001</b>
Fixed assets					
Intangible assets	5 252			6 091	5 860
Tangible assets	8 386			8 487	8 050
Long-term receivables	3 113			3 772	3 390
Investments	1 118			45	1 118
Treasury shares	1 438			4 746	4 746
Current assets					
Inventories	9 145			14 633	11 583
Other current assets	13 583			20 891	15 181
Short-term investments	16 171			3 700	19 800
Cash and cash equivalents	1 159			4 986	7 143
Total assets	59 365			67 351	76 871
Equity	28 987			30 660	38 549
Obligatory reserves	1 410			2 300	1 463
Non-current liabilities	20 000			20 159	20 148
Current liabilities	8 968			14 232	16 711
Total shareholders' equity and liabilities	59 365			67 351	76 871

<b>Net sales by business unit (tEUR)</b>	<b>1-9/2002</b>	<b>1-9/2001</b>	<b>Change %</b>	<b>1-9/2001</b>	<b>1-12/2001</b>
Broadband Cable Networks	37 666	58 469	-35,7 %	58 469	79 501
Video Networks	11 017	10 090	10,2 %	10 090	13 459
Total	48 683	68 559	-29,0 %	68 559	92 960
Sold operations				7 530	9 646
Total				76 089	102 606

<b>Orders received by business unit (tEUR)</b>	<b>1-9/2002</b>	<b>1-9/2001</b>	<b>Change %</b>	<b>1-9/2001</b>	<b>1-12/2001</b>
Broadband Cable Networks	33 268	56 223	-40,8 %	56 223	74 153
Video Networks	11 689	9 739	20,0 %	9 739	13 009
<b>Total</b>	<b>44 957</b>	<b>65 962</b>	<b>-31,8 %</b>	<b>65 962</b>	<b>87 162</b>
Sold operations				8 125	10 574
<b>Total</b>	<b>44 957</b>	<b>65 962</b>		<b>74 087</b>	<b>97 736</b>
<b>Key figures</b>	<b>1-9/2002</b>	<b>1-9/2001</b>	<b>Change %</b>	<b>1-9/2001</b>	<b>1-12/2001</b>
Earnings per share	-0,16	0,30		0,35	0,53
Earnings per share without goodwill depreciation	-0,12	0,33		0,38	0,58
Shareholders' equity per share	1,68	1,58		1,58	2,05
Return on equity	-11,7 %	25,0 %		29,1 %	28,9 %
Return on capital employed	-4,5 %	23,3 %		26,4 %	27,4 %
Equity ratio	46,7 %	38,7 %		38,7 %	44,5 %
Gearing	9,7 %	43,7 %		43,7 %	-20,5 %
Investments	1 022	2 379	-76,5 %	2 379	3 713
Order backlog	12 647	20 378	-37,9 %	21 609	17 836
Personnel, Average	517	523	-1,1 %	597	594
Personnel, average as whole time	476	507		581	577
Number of shares (thousands)	16 453	16 610		16 610	16 564
Highest share price, EUR	14,00			24,00	24,00
Lowest share price, EUR	2,21			7,80	7,80
Average share price, EUR	6,51			13,93	12,49
Turnover, in Thousands	10 787			15 981	19 282
Turnover, in MEUR	70			223	263
<b>Treasury shares</b>					
	Number of shares	Nominal value	% of share capital	% of votes	
Parent company owns own shares 30.9.2002	620 000	248 000	3,6 %	3,6 %	
	Number of shares	Nominal value	Paid price (average)	Paid price (range)	
Bought 1.1.-30.9.2002	220 000	88 000	4,83	4,27 - 5,82	
<b>Contingent liabilities and pledged assets (tEUR)</b>	<b>30.9.2002</b>			<b>30.9.2001</b>	<b>31.12.2001</b>
For own debt					
Mortgages on company assets	20 000			20 000	20 000
Mortgages on properties	2 985			2 985	2 985
Guarantees	1 773			1 554	1 193
Leasing liabilities	1 465			1 516	1 500
<b>Total</b>	<b>26 223</b>			<b>26 055</b>	<b>25 678</b>
<b>Derivative instruments (tEUR)</b>					
Value of underlying forward contracts	15 511			27 715	24 619
Market value of forward contracts	-15			-322	359

Taxes are computed on the basis of the tax on the profit for the period.  
The figures are not audited.

## Development of continuing business by quarters

	1-3/2002	4-6/2002	7-9/2002	7-9/2001	10-12/2001	1-12/2001	10/2001 -9/2002
Turnover							
Broadband Cable Networks	13 678	13 537	10 451	20 495	21 019	79 501	58 685
Video Networks	2 800	3 952	4 265	2 615	3 382	13 459	14 399
Total	16 478	17 489	14 716	23 110	24 401	92 960	73 084
Operating profit	-1 236	-1 046	156	3 309	4 244	12 521	2 119
Operating profit without goodwill depreciation	-1 020	-830	372	3 523	4 460	13 377	2 983
Financial items	-165	-299	-111	-523	151	-715	-423
Profit after financial items	-1 400	-1 346	45	2 786	4 395	11 806	1 694
Extraordinary items	0	0	0	0	4 744	4 744	4 744
Profit before taxes	-1 400	-1 346	45	2 786	9 139	16 550	6 438

## Largest owners 30.9.2002

	Number of shares	Percentage of shares
Sampo plc	1 573 700	9,3 %
Ilmarinen Mutual Pension Insurance Company	840 350	4,9 %
Varma-Sampo Mutual Pension Insurance Company	789 150	4,6 %
Teleste Corporation	620 000	3,6 %
The Local Government Pensions Institute	558 500	3,3 %
State Pension Institute	400 000	2,4 %
Nordea Funds	378 450	2,2 %
Aktia Funds	349 750	2,0 %
Alfred Berg Funds	271 300	1,6 %
Kaleva Mutual Insurance Company	230 000	1,3 %
Nominee registration	2 696 370	15,8%
Others	8 320 830	49,0%
Total	17 028 400	100 %