

**Teleste**



**Teleste Corporation** Interim Report 1.1.–31.3.2003}

- Following the overall market situation the net sales declined, but due to effective cost reductions the operating result was EUR 1 million better, compared with the same quarter last year, however slightly negative
- Video Networks business unit's market still growing, yet sluggishness in investment decisions due to ongoing technology shift
- In the unsteady market environment large-scale investments from cable operators are delayed, smaller investments continue
- Cash flow from operations positive
- With cost cutting actions the operating result for the whole year will be profitable

## Turnover and Profitability

Teleste's net sales declined to EUR 12.5 million (EUR 16.5 million). Operating loss was EUR 0.3 million (EUR -1.2 million). Earnings per share were EUR -0.03 (EUR -0.09).

Broadband Cable Networks business unit's net sales was EUR 9.4 million (EUR 13.7 million) and Video Networks business unit's EUR 3.1 million (EUR 2.8 million).

## Orders Received and Market Situation

Teleste's orders received were EUR 11.1 million (EUR 17.4 million). The order backlog was EUR 8.1 million, a decline from the year-end EUR 1.6 million.

The market situation for Broadband Cable Networks business unit weakened and orders received stayed at EUR 8.4 million (EUR 13.5 million). The earlier announced order from Jade Bird Network in China worth EUR 1.0 million is still not included in the order book due to the customer's financial arrangements. The investments from Europe's largest cable operators are expected to restart at the end of year 2003 whilst the operators now concentrate on strengthening their cash flow. The sales of Deutsche Telecom's cable TV assets in the beginning of year 2003 will start the network upgrade investments in Germany during year 2004.

Orders received for Video Networks business unit were EUR 2.7 million (EUR 3.9 million).

The investment decisions mature slowly to orders especially in the United States.

## Personnel

Teleste continues according to its earlier announcement, the flexible adjustment of its resources to meet the current market situation with lay off arrangements. The group's active personnel at the end of March were 403 (489), out of which 339 (418) in Finland. Improvement of cost efficiency in the sales offices abroad is continued. During the period the activities in Norway have been reorganised to be taken care by a sales distributor. The sales office in Brazil has been closed.

## R&D and Investments

R&D costs during the reviewed period were EUR 1.5 million (EUR 1.9 million) corresponding 12.4% of the net sales. The main focus was in video-on-demand products and in new general European amplifier solutions and furthermore in IP-transmission based video surveillance solutions. R&D costs are booked as annual expenses.

The Group's investments were EUR 0.1 million (EUR 0.3 million). The investments were mainly for the measuring devices for production.

## Finance

The Group's interest bearing debt was EUR 10.0 million. Liquid funds were EUR 10.9 million. The Group's gearing was -3.9% (-9.9%) and the equity ratio 50.7% (46.0%). According to its policy Teleste hedges main currency risks of forecasted currency flows for at least six months ahead.

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## Shares and Shareholders

The share price has fluctuated between EUR 2.4 and 2.9. The closing price at the end of March 2003 was EUR 2.45. According to the Finnish Central Depository, the number of shareholders at the end of the reviewed period was 6,464. Foreign ownership accounted for 12,5%. The value of shares traded on the Helsinki Exchanges during the reviewed period was EUR 3 million and the number of shares was 1,1 million.

At the end of March the company possessed 620,000 own shares.

## General Meeting of Share Holders

The Annual General Meeting of Teleste Corporation on April 8, 2003 confirmed the financial statements for 2002 and discharged the Board of Directors and the CEO from liability for the financial period. The Annual General Meeting confirmed the Board's proposed dividend of EUR 0,08 per share.

The Annual General Meeting elected Mr.Tapio Hintikka as the Chairman of the Board and Mr.Tero Laaksonen, Mr.Pertti Raatikainen, Mr. Timo Toivola and Mr.Pekka Vennamo as members of the Board.

The Annual General Meeting approved the proposal of the Board of Directors to amend the company's Articles of Association. In addition to the technical amendments a new Article was added concerning the redemption obligation.

The Annual General Meeting elected Authorised Public Accountant KPMG Wideri Oy Ab as the auditor for the financial period 2003.

The Annual General Meeting authorised the Board to acquire, to convey own shares and to increase share capital by a new issue. The authorisations have not been used.

## Outlook for the rest of the year

The market situation for Broadband Cable Networks is expected to remain quiet in the next coming months and the net sales will be lower than the last year as cable operators concentrate on strengthening their cash flow structures. Market recovery appears to start towards the end of year 2003.

The market situation for Video Networks is expected to continue its favourable development and net sales are estimated to grow.

The company full year sales are estimated to be lower than last year, but profitability to get better. Despite the slightly negative result in the first quarter, the operating result for the whole year will be profitable.

Teleste's Interim Report for January - June will be published on July 22, 2003.

April 23, 2003

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

<b>Consolidated Statement of Income (tEUR)</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>1-12/2002</b>
Turnover	12 542	16 478	-23,9 %	66 778
Change in inventories of finished goods	209	256	-18,4 %	-3 173
Other operating income	335	264	26,9 %	994
Materials and services	-5 625	-7 944	-29,2 %	-30 930
Personnel expenses	-4 540	-6 352	-28,5 %	-21 034
Other operating expenses	-2 487	-3 196	-22,2 %	-13 904
Depreciation	-696	-742	-6,2 %	-3 016
Operating profit	-262	-1 236	78,8 %	-4 286
Financial income and expenses	-197	-165	19,6 %	-843
Profit after financial items	-459	-1 400	67,2 %	-5 129
Extraordinary items	0	0		-3 065
Profit before taxes	-459	-1 400	67,2 %	-8 194
Taxes	-30	-105	-71,4 %	1 076
Net profit	-489	-1 505	67,5 %	-7 118

<b>Consolidated Balance Sheet (tEUR)</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>31.12.2002</b>
Fixed assets	15 136	21 729	-30,3 %	15 722
Intangible assets	5 796	5 702	1,6 %	5 990
Tangible assets	6 703	8 552	-21,6 %	7 083
Long-term receivables	0	3 197		0
Investments	1 118	1 118	0,0 %	1 118
Treasury shares	1 519	3 160	-51,9 %	1 531
Current assets	29 954	49 682	-39,7 %	36 327
Inventories	5 629	11 809	-52,3 %	5 935
Other current assets	13 441	14 677	-8,4 %	16 726
Short-term investments	8 008	21 936	-63,5 %	8 539
Liquid funds	2 876	1 260	128,3 %	5 127
Total assets	45 090	71 411	-36,9 %	52 049
Equity	24 093	35 557	-32,2 %	24 640
Obligatory reserves	1 652	1 316	25,5 %	1 882
Non-current liabilities	10 000	20 000	-50,0 %	10 000
Current liabilities	9 345	14 538	-35,7 %	15 527
Total shareholders' equity and liabilities	45 090	71 411	-36,9 %	52 049

<b>Cash-flow</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>1-12/2002</b>
Cash-flow from operation	2 311	-3 155	173,2 %	-2 523
Cash in	17 914	19 664	-8,9 %	72 432
Cash out	-15 603	-22 819	-31,6 %	-74 955
Cash-flow from investments	-93	-296	-68,6 %	-2 084
Cash in	0	0		48
Cash out	-93	-296	-68,6 %	-2 132
Cash-flow from finance	-5 000	0		-8 670
Cash in	0	0		0
Cash out	-5 000	0		-5 148
Paid dividend	0	0		-2 640
Other changes in share holder's equity	0	0		-882
Cash-flow change	-2 782	-3 451	-19,4 %	-13 277

<b>Net sales by business unit (tEUR)</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>1-12/2002</b>
Broadband Cable Networks	9 441	13 678	-31,0 %	52 178
Video Networks	3 101	2 800	10,8 %	14 600
Total	12 542	16 478	-23,9 %	66 778

<b>Orders received by business unit (tEUR)</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>1-12/2002</b>
Broadband Cable Networks	8 401	13 492	-37,7 %	44 745
Video Networks	2 728	3 910	-30,2 %	14 781
Total	11 129	17 402	-36,0 %	59 526

<b>Key figures</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>Change %</b>	<b>1-12/2002</b>
Earnings per share, EUR	-0,03	-0,09	66,7 %	-0,25
Earnings per share without goodwill depreciation, EUR	-0,01	-0,08	87,5 %	-0,19
Earnings per share fully diluted, EUR	-0,03			-0,25
Shareholders' equity per share, EUR	1,38	1,96	-29,6 %	1,41
Return on equity	-8,6 %	-18,2 %	52,7 %	-14,2 %
Return on capital employed	-2,2 %	-7,6 %	71,1 %	-7,6 %
Equity ratio	50,7 %	46,0 %	10,2 %	44,8 %
Gearing	-3,9 %	-9,9 %	60,6 %	5,8 %
Investments, tEUR	93	296	-68,6 %	1 310
Order backlog, tEUR	8 163	18 932	-56,9 %	9 740
Personnel, average	455	532	-14,5 %	506
Active personnel, average	409	507	-19,3 %	466
Number of shares (thousands)	17 035	16 898	0,8 %	16 974
Highest share price, EUR	2,90	14,00	-79,3 %	14,00
Lowest share price, EUR	2,40	7,61	-68,5 %	2,21
Average share price, EUR	2,68	9,44	-71,6 %	5,52
Turnover, in thousands	1 133	4 676	-75,8 %	14 985
Turnover, in MEUR	3	44	-93,2 %	80
<b>Treasury shares</b>	Number of shares	Nominal value eur	% of share capital	% of votes
Parent company owns own shares 31.3.2003	620 000	248 000	3,6 %	3,6 %
<b>Contingent liabilities and pledged assets (tEUR)</b>				
For own debt				
Mortgages on company assets	10 000	20 000	-50 %	15 000
Mortgages on properties	7 000	2 985	135 %	2 985
Guarantees	647	1 355	-52 %	767
Leasing and rent liabilities	1 660	1 426	16 %	1 490
<b>Total</b>	<b>19 307</b>	<b>25 766</b>	<b>-25 %</b>	<b>20 242</b>
<b>Derivative instruments (tEUR)</b>				
Value of underlying forward contracts	6 565	17 230	-62 %	7 607
Market value of forward contracts	-126	185	-168 %	-114

The figures are not audited

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

<b>Development of business by quarters</b>	<b>1-3/2003</b>	<b>1-3/2002</b>	<b>10-12/2002</b>	<b>7-9/2002</b>	<b>4-6/2002</b>	<b>1-12/2002</b>	<b>3/2003</b>
Net Sales							
Broadband Cable Networks	9 441	13 678	14 512	10 451	13 537	52 178	47 941
Video Networks	3 101	2 800	3 583	4 265	3 952	14 600	14 901
Total	12 542	16 478	18 095	14 716	17 489	66 778	62 842
Ebit	-262	-1 236	-2 160	156	-1 046	-4 286	-3 312
Ebit w/o goodwill depreciations	-46	-1 020	-1 944	372	-830	-3 422	-2 448
Financial items	-197	-165	-269	-111	-299	-843	-875
Earnings after financial items	-459	-1 400	-2 429	45	-1 345	-5 129	-4 187
Extraordinary items	0	0	-3 065	0	0	-3 065	-3 065
Earnings before taxes	-459	-1 400	-5 494	45	-1 345	-8 194	-7 252

<b>Teleste's largest shareholders at March 31, 2003</b>	<b>Amount</b>	<b>Percent</b>
Sampo Life Insurance Company Limited	1 410 000	8,3 %
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 %
Kaleva Mutual Insurance Company	588 900	3,5 %
State Pension Institute	400 000	2,4 %
Nordea Funds	378 450	2,2 %
Aktia Funds	349 550	2,1 %
Alfred Berg Funds	265 700	1,5 %
Merivirta Derivatives Oy	250 000	1,4 %
Nominee registration	1 950 682	11,5 %
Others	9 192 618	54,0 %
<b>Total</b>	<b>17 035 400</b>	<b>100 %</b>