

Teleste



Teleste Corporation Interim Report 1.1.–30.6.2003

- Operating result turned positive
- Central European cable operators continued freezing their investments, this together with the strengthened euro made trading difficult; Teleste adapted however, swiftly to the quiet market situation
- Net sales declined by EUR 9.6 million compared with the corresponding period last year
- Operating profit grew by EUR 2.4 million compared with the corresponding period last year and it was slightly positive, operative cash flow EUR 4.6 million positive
- Investment decisions of Video Networks clientele were delayed
- The latter part of the year is forecast to be slightly better than the first half and operating profit for the whole year is profitable

Turnover and Profitability

Teleste's net sales for the first six months were EUR 24.4 million (EUR 34 million). Operating profit was EUR 0.1 million profitable (loss of EUR 2.3 million). Earnings per share were EUR -0.01 (EUR -0.17).

Broadband Cable Networks business unit's net sales for the first six months were EUR 19.3 million (EUR 27.2 million). Video Networks business unit's net sales for the corresponding period were EUR 5.1 million (EUR 6.8 million). In the second quarter of the year the net sales of Broadband Cable Networks posted EUR 9.9 million (EUR 13.5 million) and Video Networks EUR 2.0 million (EUR 4.0 million).

Teleste's net sales for the second quarter were EUR 11.9 million (EUR 17.5 million) and operating profit EUR 0.4 million (EUR -1.0 million). The personnel lay offs and streamlining of the sales office activities carried out during the second quarter ensured the positive operating result.

Orders Received and Market Situation

Teleste's orders received were EUR 24.1 million (EUR 31.9 million). The quiet market situation and the strong euro affected negatively to the orders received. The order backlog at the end of June stood at EUR 9.2 million (EUR 14.2 million).

The market situation for Broadband Cable Networks remained quiet especially in the central Europe and orders received were EUR 19.4 million (EUR 24.0 million). The order from Beida Jade Bird in China, announced in January 2003, will not be realized due to customer's financial problems.

As for Video Networks, the market situation was a disappointment and orders received stayed at EUR 4.7 million (EUR 7.8 million). The comparison figure includes the orders from British Telecom in the United Kingdom (EUR 1.9 million) and from city of Austin in the US (EUR 1.4 million).

Personnel

The Group's active personnel at the end of June were 403 (487), out of which 344 (410) in Finland. The earlier announced lay off arrangements will be continued, should the market situation so require.

R&D and Investments

R&D costs during the review period were EUR 3.0 million (EUR 3.8 million) rising to 12.3 percent of the net sales. The main focus was in strategically important customer projects and in IP-transmission based information and video surveillance solutions.

The Group's investments were EUR 0.2 million (EUR 0.5 million). The investments were mainly for the equipments and measuring devices for production.

Finance

The Group's cash flow from operation was EUR 4.6 million positive (EUR 6.7 million negative). Interest bearing debt was EUR 10.0 million (EUR 20.0 million). Liquid funds were EUR 11.8 million. The Group's gearing was -8.3 percent (18.4 percent) and the equity ratio 50.6 percent (44.5 percent).

Teleste hedges main currency risks of forecasted currency flows for six months ahead.

Shares and Shareholders

The share price has fluctuated during the review period between EUR 2.40 and 3.19. The closing price at the end of June was EUR 2.95. According to the Finnish Central Depository, the number of shareholders at the end of the review period was 6,420. Foreign ownership accounted for 12.8 percent. The value of shares traded on the Helsinki Exchanges was EUR 5.46 million and the number of shares was 2.0 million.

With the warrants of Teleste's 1997 bond loan with warrants 26,740 shares were subscribed, thus bringing Teleste's registered share capital to EUR 6,824,856 divided among 17,062,140 shares.

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.

Outlook for the rest of the year

Teleste's business field is suffering of quiet market conditions for the second successive year.

The network investments have remained at a low level in Europe. The contributing factors include Technology sector's unclear ownership structures in Europe and especially cable operator's ongoing debt restructuring processes.

In the near term the market situation for Broadband Cable Networks is expected to remain quiet in Europe, but to pick up towards the end of the year in outside Europe.

The market situation for Video Networks is forecast to develop favourably, even though it has taken longer for customer projects to develop into orders in consequence of tight economy in the Public sector.

Time-to-market in R&D and production are shortened for ensuring company's competitiveness.

The company full year sales are estimated to be lower than last year, but profitability and operating result to be positive.

Teleste's Interim Report for January – September will be published on October 20, 2003.

July 22, 2003

Teleste Corporation Jukka Rinnevaara
Board of Directors CEO

Consolidated Statement of Income (tEUR)	1-6/2003	1-6/2002	Change %	1-12/2002
Turnover	24 408	33 967	-28,1 %	66 778
Change in inventories of finished goods	207	-104		-3 173
Other operating income	587	603	-2,7 %	994
Materials and services	-9 612	-16 576	-42,0 %	-30 930
Personnel expenses	-8 999	-11 173	-19,5 %	-21 034
Other operating expenses	-5 076	-7 512	-32,4 %	-13 904
Depreciation	-1 377	-1 487	-7,4 %	-3 016
Operating profit	138	-2 282		-4 286
Financial income and expenses	-203	-464	-56,3 %	-843
Profit after financial items	-65	-2 746	97,6 %	-5 129
Extraordinary items	0	0		-3 065
Profit before taxes	-65	-2 746	97,6 %	-8 194
Taxes	-23	7		1 076
Net profit	-88	-2 739	96,8 %	-7 118

Consolidated Statement of Income (tEUR)	4-6/2003	4-6/2002	Muutos %
Turnover	11 865	17 489	-32,2 %
Change in inventories of finished goods	-2	-360	-99,4 %
Other operating income	252	339	-25,7 %
Materials and services	-3 987	-8 632	-53,8 %
Personnel expenses	-4 459	-4 821	-7,5 %
Other operating expenses	-2 589	-4 316	-40,0 %
Depreciation	-681	-745	-8,6 %
Operating profit	399	-1 046	
Financial income and expenses	-6	-299	-98,0 %
Profit after financial items	393	-1 346	
Extraordinary items	0	0	
Profit before taxes	393	-1 346	
Taxes	7	112	-93,8 %
Net profit	400	-1 234	

Consolidated Balance Sheet (tEUR)	30.6.2003	30.6.2002	Change %	31.12.2002
Fixed assets	14 847	20 306	-26,9 %	15 722
Intangible assets	5 579	5 491	1,6 %	5 990
Tangible assets	6 321	8 511	-25,7 %	7 083
Long-term receivables	0	3 016		0
Investments	1 118	1 118	0,0 %	1 118
Treasury shares	1 829	2 170	-15,7 %	1 531
Current assets	28 637	41 863	-31,6 %	36 327
Inventories	5 599	10 642	-47,4 %	5 935
Other current assets	11 232	16 268	-31,0 %	16 726
Short-term investments	5 400	13 207	-59,1 %	8 539
Liquid funds	6 405	1 746	266,8 %	5 127
Total assets	43 484	62 169	-30,1 %	52 049
Equity	23 483	29 635	-20,8 %	24 640
Obligatory reserves	1 466	1 239	18,3 %	1 882
Non-current liabilities	10 000	20 000	-50,0 %	10 000
Current liabilities	8 535	11 295	-24,4 %	15 527
Total shareholders' equity and liabilities	43 484	62 169	-30,1 %	52 049

Cash-flow	1-6/2003	1-6/2002	Change %	1-12/2002
Cash-flow from operation	4 617	-6 663		-2 523
Cash in	30 489	33 484	-8,9 %	72 432
Cash out	-25 872	-40 147	-35,6 %	-74 955
Cash-flow from investments	-181	-1 547	-88,3 %	-2 084
Cash in	0	0		48
Cash out	-181	-1 547	-88,3 %	-2 132
Cash-flow from finance	-6 296	-3 780	66,6 %	-8 670
Cash in	0	0		0
Cash out	-5 000	-148	3278,4 %	-5 148
Paid dividend	-1 313	-2 640	-50,3 %	-2 640
Other changes in share holder's equity	17	-992		-882
Change in cash	-1 860	-11 990	-84,5 %	-13 277

Net sales by business unit (tEUR)	1-6/2003	1-6/2002	Change %	1-12/2002
Broadband Cable Networks	19 308	27 215	-29,1 %	52 178
Video Networks	5 100	6 752	-24,5 %	14 600
Total	24 408	33 967	-28,1 %	66 778

Orders received by business unit (tEUR)	1-6/2003	1-6/2002	Change %	1-12/2002
Broadband Cable Networks	19 385	24 020	-19,3 %	44 745
Video Networks	4 720	7 840	-39,8 %	14 781
Total	24 105	31 860	-24,3 %	59 526

Key figures	1-6/2003	1-6/2002	Change %	1-12/2002
Earnings per share, EUR	-0,01	-0,17	94,1 %	-0,25
Earnings per share without goodwill depreciation, EUR	0,02	-0,14		-0,19
Earnings per share fully diluted, EUR				-0,25
Shareholders' equity per share, EUR	1,32	1,67	-21,0 %	1,41
Return on equity, %	-1,0 %	-17,9 %	94,4 %	-14,2 %
Return on capital employed, %	1,3 %	-8,0 %		-7,6 %
Equity ratio, %	50,6 %	44,5 %	13,7 %	44,8 %
Gearing, %	-8,3 %	18,4 %		5,8 %
Investments, tEUR	181	470	-61,5 %	1 310
Order backlog, tEUR	9 240	14 160	-34,7 %	9 740
Personnel, average	455	526	-13,5 %	506
Active personnel, average	409	489	-16,4 %	466
Number of shares (average thousands)	16 424	16 482	-0,4 %	16 974
Highest share price, EUR	3,19	14,00	-77,2 %	14,00
Lowest share price, EUR	2,40	3,30	-27,3 %	2,21
Average share price, EUR	2,74	7,62	-64,0 %	5,52
Turnover, in thousands	1 995	8 291	-75,9 %	14 985
Turnover, in MEUR	5	63	-91,3 %	80

Treasury shares	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 30.6.2003	620 000	248 000	3,6 %	3,6 %

Contingent liabilities and pledged assets (tEUR)	30.6.2003	30.6.2002	Change %	31.12.2002
For own debt				
Mortgages on company assets	10 000	20 000	-50 %	15 000
Mortgages on properties	2 985	2 985	0 %	2 985
Guarantees	639	1 850	-65 %	767
Leasing and rent liabilities	1 547	1 512	2 %	1 490
Total	15 171	26 347	-42 %	20 242

Derivative instruments (tEUR)				
Value of underlying forward contracts	5 552	24 660	-77 %	7 607
Market value of forward contracts	-22	-759	-97 %	-114

The figures are not audited.
Taxes include the proportion of the estimated whole year taxes.

Development of business by quarters (tEUR)	4-6/2003	1-3/2003	10-12/2002	7-9/2002	4-6/2002	1-12/2002	7/2002-6/2003
Net Sales							
Broadband Cable Networks	9 867	9 441	14 512	10 451	13 537	52 178	44 271
Video Networks	1 999	3 101	3 583	4 265	3 952	14 600	12 948
Total	11 865	12 542	18 095	14 716	17 489	66 778	57 218
EBIT	399	-262	-2 160	156	-1 046	-4 286	-1 867
EBIT w/o goodwill depreciations	615	-46	-1 944	372	-830	-3 422	-1 003
Financial items	-6	-197	-269	-111	-299	-843	-582
Earnings after financial items	393	-459	-2 429	45	-1 345	-5 129	-2 449
Extraordinary items	0	0	-3 065	0	0	-3 065	-3 065
Earnings before taxes	393	-459	-5 494	45	-1 346	-8 194	-5 514

Largest shareholders at June 30, 2003

	Number of shares	% of shares
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
Merivirta Derivatives Oy	350 000	2,1
Aktia Funds	349 550	2,1
Alfred Berg Funds	262 700	1,4
Nominee registration	2 179 907	12,8
Others	8 893 133	52,1
Total	17 062 140	100 %