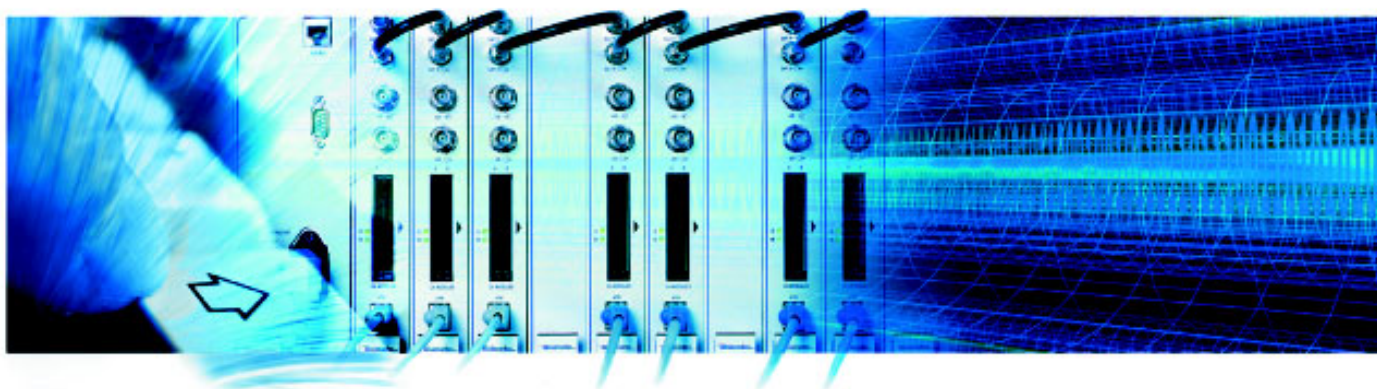


Teleste



Teleste Corporation Interim Report 1.1.–30.9.2003

- Operating profit EUR 3.4 million better compared with the corresponding period last year, being EUR 1.2 million positive
- Cash flow from operations was EUR 5.7 million positive
- Investments by the cable operators in Europe are slightly increasing
- Within the Video Networks clientele, several medium-size network-based plans materialized as orders
- The level of orders received and net sales was higher than in the previous quarter
- The market situation in the last quarter is believed to be better than in the third quarter of the year

Turnover and Profitability

Teleste's net sales during a period of nine months were EUR 37.5 million (EUR 48.7 million). Operative profit for the financial period clearly improved, being EUR 1.2 million positive (loss of EUR 2.1 million). Earnings per share for the first nine months were EUR 0.06 (EUR -0.16).

The net sales of the Broadband Cable Networks business unit in the first nine months of the year were EUR 30 million (EUR 37.7 million). The net sales of the Video Networks business unit were EUR 7.5 million (EUR 11 million). In the third quarter, Broadband Cable Networks' net sales were EUR 10.6 million (EUR 10.5 million) and Video Networks' net sales EUR 2.4 million (EUR 4.3 million).

Teleste's third quarter net sales were EUR 13.1 million (EUR 14.7 million) and the operating income was EUR 1.1 million (EUR 0.2 million).

When comparing the net sales of the review period in foreign currency at last year's currency rate levels, the sterling currency rate impact was EUR -0.7 million.

Orders Received and Market Situation

The value of orders received by Teleste was EUR 37.3 million (EUR 45 million). The order backlog at the end of September stood at EUR 9.4 million (EUR 12.6 million).

The orders received by the Broadband Cable Networks business unit were EUR 29.4 million (EUR 33.3 million). The sales structure mainly corresponded to that of the previous year, except for Germany's house network deliveries, where the net sales decreased from EUR 4 million to EUR 1.7 million.

Orders received by the Video Networks business unit were EUR 7.9 million (EUR 11.7 million). Orders received for the third quarter were EUR 3.1 million, which is 58% higher than the orders received during the second quarter. The sales structure corresponded to that of the previous year. We expect the volume of Easi products to increase during the fourth quarter of the year.

Personnel

The Group's active personnel at the end of September were 413 (432) employees, of which 350 (360) in Finland. Approximately 27% of the active personnel worked in research and development.

R&D and Investments

The costs for research and development during the financial period were EUR 4.1 million (EUR 4.8 million), which is 10.9% of the net sales.

R&D and Investments

During the review period, the Broadband Cable Networks business unit launched a new AC product family to replace the last generation's DX product family. AC equipment can be used in the operator's subscriber network either as an optical node or as a broadband amplifier. If necessary, the equipment of this product family can be reconverted in the field when the optical fiber is being extended. A strategic customer-oriented project with the Dutch company Essent Kablecom was launched at the end of the review period in order to develop a revolutionary fast data access technology.

During the review period, the Video Networks business unit launched an IP transmission based information and video surveillance solution. First delivery for the Muurla – Paimio motorway traffic control system will take place before the end of the year.

The Group's investments were EUR 0.2 million (EUR 1.0 million). These investments mainly concerned equipment and measuring devices for production.

Finance

The Group's cash flow from operations was EUR 5.7 million positive, mainly due to an decrease in sales receivables. Interest bearing debt was EUR 10.0 million (EUR 20 million) at the end of September. Liquid funds were EUR 12.9 million. The Group's gearing ratio was -12.8% (9.7%) and the equity ratio was 50.3% (46.7%) as calculated from the balance sheet at the end of September. Teleste hedges main currency risks of forecasted currency flows for six months ahead.

Shares and Shareholders

The share price fluctuated between EUR 2.40 and EUR 5.20 during the past year. The closing price at the end of September was EUR 4.20. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,596. Foreign ownership accounted for 11.46%. The value of shares traded on the Helsinki Exchanges was EUR 19.1 million and the number of shares was 5.3 million.

In the first nine months following the issue of Teleste 1997 bond loan with equity warrants, the number of subscriptions amounted to 85,940, thus bringing Teleste's registered share capital to EUR 6,848,536 divided among 17,121,340 shares.

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.

Outlook

The recent positive business development of Teleste's Broadband Cable Networks' clientele backs up our belief that investments will gradually increase during 2004.

We expect the market situation for Video Networks to develop favorably in the near future.

The development of the processes is continued to shorten turnaround time, and the delivery chains in the materials administration are improved to ensure the company's competitiveness. We expect cost savings in the future, especially through the sourcing activity launched in China.

In spite of the positive signals, the sales for the current year will be lower than last year. The whole year operating profit will be better than last year and clearly positive.

Teleste's financial statement for the January – December period will be published on February 3, 2004.

October 20, 2003

Teleste Corporation
Board of Directors

Jukka Rinnevaara
CEO

Consolidated Statement of Income (tEUR)	1-9/2003	1-9/2002	Change %	1-12/2002
Turnover	37 468	48 683	-23,0 %	66 778
Change in inventories of finished goods	155	-1 701		-3 173
Other operating income	855	655	30,5 %	994
Materials and services	-15 220	-21 884	-30,5 %	-30 930
Personnel expenses	-12 749	-15 127	-15,7 %	-21 034
Other operating expenses	-7 215	-10 501	-31,3 %	-13 904
Depreciation	-2 047	-2 252	-9,1 %	-3 016
Operating profit	1 247	-2 126		-4 286
Financial income and expenses	-232	-575	-59,6 %	-843
Profit after financial items	1 015	-2 701		-5 129
Extraordinary items	0	0		-3 065
Profit before taxes	1 015	-2 701		-8 194
Taxes	-89	7		1 076
Net profit	927	-2 694		-7 118

Consolidated Statement of Income (tEUR)	7-9/2003	7-9/2002	Change %	
Turnover	13 060	14 716	-11,3 %	
Change in inventories of finished goods	-52	-1 597	-96,7 %	
Other operating income	268	52	415,4 %	
Materials and services	-5 608	-5 307	5,7 %	
Personnel expenses	-3 750	-3 954	-5,2 %	
Other operating expenses	-2 139	-2 989	-28,4 %	
Depreciation	-670	-765	-12,5 %	
Operating profit	1 109	156	610,1 %	
Financial income and expenses	-29	-111	-73,8 %	
Profit after financial items	1 080	45	2378,7 %	
Extraordinary items	0	0		
Profit before taxes	1 080	45	2278,7 %	
Taxes	-66	0		
Net profit	1 015	45	2134,2 %	

Consolidated Balance Sheet (tEUR)	30.9.2003	30.9.2002	Change %	31.12.2002
Fixed assets	15 009	19 307	-22,3 %	15 722
Intangible assets	5 375	5 252	2,3 %	5 990
Tangible assets	5 914	8 386	-29,5 %	7 083
Long-term receivables	0	3 113		0
Investments	1 116	1 118	-0,2 %	1 118
Treasury shares	2 604	1 438	81,1 %	1 531
Current assets	30 542	40 058	-23,8 %	36 327
Inventories	5 585	9 145	-38,9 %	5 935
Other current assets	12 035	13 583	-11,4 %	16 726
Short-term investments	11 547	16 171	-28,6 %	8 539
Liquid funds	1 375	1 159	18,6 %	5 127
Total assets	45 550	59 365	-23,3 %	52 049
Equity	25 374	28 987	-12,5 %	24 640
Obligatory reserves	1 639	1 410	16,3 %	1 882
Non-current liabilities	10 000	20 000	-50,0 %	10 000
Current liabilities	8 537	8 968	-4,8 %	15 527
Total shareholders' equity and liabilities	45 550	59 365	-23,3 %	52 049

Cash-flow	1-9/2003	1-9/2002	Change %	1-12/2002
Cash-flow from operation	5 733	-3 879		-2 523
Cash in	43 014	51 266	-16,1 %	72 432
Cash out	-37 282	-55 145	-32,4 %	-74 955
Cash-flow from investments	-216	-1 962	-89,0 %	-2 084
Cash in	0	0		48
Cash out	-216	-1 962	-89,0 %	-2 132
Cash-flow from finance	-6 261	-3 772	66,0 %	-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 shareholder's equity	52	-984		-882
Change in cash	-744	-9 613	-92,3 %	-13 277

Net sales by business unit (tEUR)	1-9/2003	1-9/2002	Change %	1-12/2002
Broadband Cable Networks	29 965	37 666	-20,4 %	52 178
Video Networks	7 503	11 017	-31,9 %	14 600
Total	37 468	48 683	-23,0 %	66 778

Orders received by business unit (tEUR)	1-9/2003	1-9/2002	Change %	1-12/2002
Broadband Cable Networks	29 403	33 268	-11,6 %	44 745
Video Networks	7 859	11 689	-32,8 %	14 781
Total	37 262	44 957	-17,1 %	59 526

Key figures	1-9/2003	1-9/2002	Change %	1-12/2002
Earnings per share, EUR	0,06	-0,16		-0,25
Earnings per share without goodwill depreciation, EUR	0,10	-0,12		-0,19
Earnings per share fully diluted, EUR				-0,25
Shareholders' equity per share, EUR	1,38	1,68	-17,9 %	1,41
Return on equity, %	5,4 %	-11,7 %		-14,2 %
Return on capital employed, %	5,1 %	-4,5 %		-7,6 %
Equity ratio, %	50,3 %	46,7 %	7,7 %	44,8 %
Gearing, %	-12,8 %	9,7 %		5,8 %
Investments, tEUR	216	1 022	-78,9 %	1 310
Order backlog, tEUR	9 436	12 647	-25,4 %	9 740
Personnel, average	450	517	-13,0 %	506
Active personnel, average	407	476	-14,5 %	466
Number of shares (average thousands) *	16 432	16 455	-0,1 %	16 445
* excluding own shares owned by Teleste				
Highest share price, EUR	5,20	14,00	-62,9 %	14,00
Lowest share price, EUR	2,40	2,21	8,6 %	2,21
Average share price, EUR	3,63	6,51	-44,3 %	5,52
Turnover, in thousands	5 278	10 787	-51,1 %	14 985
Turnover, in MEUR	19	70	-72,9 %	80

Treasury shares	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 30.9.2003	620 000	248 000	3,6 %	3,6 %

Contingent liabilities and pledged assets (tEUR)	30.9.2003	30.9.2002	Change %	31.12.2002
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	1 017	1 773	-43 %	767
Leasing and rent liabilities	1 401	1 465	-4 %	1 490
Total	19 418	26 223	-26 %	20 242

Derivative instruments (tEUR)	30.9.2003	30.9.2002	Change %	31.12.2002
Value of underlying forward contracts	4 356	15 511	-72 %	7 607
Market value of forward contracts	50	-15		-114

The figures are not audited.

Taxes include the proportion of the estimated whole year taxes.

Development of business by quarters (tEUR)

	7-9/2003	4-6/2003	1-3/2003	10-12/2002	7-9/2002	1-12/2002	10/2002- 10/2003
Net Sales							
Broadband Cable Networks	10 640	9 867	9 441	14 512	10 451	52 178	44 460
Video Networks	2 420	1 998	3 101	3 583	4 265	14 600	11 102
Total	13 060	11 865	12 542	18 095	14 716	66 778	55 562
Ebit	1 109	399	-262	-2 160	156	-4 286	-914
Ebit w/o goodwill depreciations	1 325	615	-46	-1 944	372	-3 422	-50
Financial items	-29	-6	-197	-269	-111	-843	-501
Earnings after financial items	1 080	393	-459	-2 429	45	-5 129	-1 414
Extraordinary items	0	0	0	-3 065	0	-3 065	-3 065
Earnings before taxes	1 080	393	-459	-5 494	45	-8 194	-4 479
Order intake							
Broadband Cable Networks	10 018	10 984	8 401	11 477	9 248	44 745	40 880
Video Networks	3 139	1 992	2 728	3 092	3 849	14 781	10 951
Total	13 157	12 976	11 129	14 569	13 097	59 526	51 831

Largest owners 30.9.2003

	Number of shares	Percentage of shares
Sampo Life Insurance Company Limited	1 557 500	9,1%
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	370 450	2,2%
Merivirta Derivatives Oy	350 000	2,0%
Aktia Funds	349 550	2,0%
Alfred Berg Funds	260 200	1,5%
Nominee registration	1 961 609	11,5%
Others	9 033 631	52,70 %
Total	17 121 340	100 %

Teleste share price 30.3.1999-30.9.2003

