

Teleste



Teleste Corporation Interim Report 1.1.–31.3.2004

- Orders received were on a par with the previous year while the main business order intake showed an increase of 6% over 2003
- Net sales decreased by 11% compared to the previous year. The operating profit improved, but still remained EUR 0.1 million negative
- The Q1 investment activities of the European cable operators continued to be at a low level, yet signs of upswing are in sight.
- Investment plans for the Video Networks business unit clientele did not materialise into orders yet.

Net Sales and Profitability

Teleste's net sales decreased from the previous year by 11 per cent and stood at EUR 11.1 million (EUR 12.5 million). The modest net sales was impacted by the strong euro and increased price competition. In spite of the dip in the volume of net sales, operating profit improved, but remained, nevertheless, at a loss of EUR 0.1 million (EUR -0.3 million). This strengthening of the operating profit can be contributed to the intensification of the company's internal processes, especially in material management. Earnings per share were -0.01 euros (-0.03 euros).

Broadband Cable Networks business unit's net sales were down by 10 per cent standing at EUR 8.6 million (EUR 9.4 million). Video Networks business unit's net sales were EUR 2.5 million (EUR 3.1 million).

Orders Received and Market Situation

Teleste's orders received were 11.2 million euros (11.1 million euros). The order backlog was to the value of EUR 6.7 million (EUR 8.1 million).

Orders received by the Broadband Cable Networks business unit increased by 6 per cent to EUR 8.9 million in comparison with the previous year (EUR 8.4 million). The market situation for the business unit as a whole remained as expected due to the cable operators holding back on any major investments. Contrary to expectations the Netherlands exceeded the set targets whereas the performance of German house network

fell short of the expected. Having acquired three regional cable operators - KBW, IESY and ISH - Kabel Deutschland reported wide-ranging network modernisation plans. The designed acquisitions are, however, subject to approval by competition authorities.

Orders received by Video Networks business unit fell 15 per cent from the previous year to EUR 2.3 million (EUR 2.7 million). Delays in the launch of large-scale projects still characterises the market situation. The UK stood out by complying with the expected market development.

Personnel

Teleste has continued to flexibly adjust the production by rotating layoff arrangements. The Group's active personnel at the end of March stood at 433 (403), out of which 347 (339) were in Finland. The increased number of personnel in the last quarter of 2003 over the previous year is mainly attributable to the purchase of S-Link AB and commencement of sourcing functions in China.

R&D and Investments

Teleste R&D employed 127 persons out of which 114 were in Finland. The R&D of Broadband Cable Networks and Video Networks businesses employed 94 and 33 persons, respectively.

In the period under review, the R&D expenses amounted to EUR 1.6 million, which is 14 per cent of turnover (EUR 1.5 million). From R&D costs EUR 0.3 million were activated to balance sheet to develop programmes for the very fast IP based data communication system (ETTH) of Broadband Cable Networks and, the IP based flexible video surveillance solution of Video Networks. In the period under review new products on the AC product line were introduced to the market by Broadband Cable Networks. The Group's investments totaled 0.4 million euros (0.1 million euros).

Finance

Operating cash flow stood at EUR -0.2 million (EUR 2.3 million). The Group's interest-bearing debt stood at EUR 10.0 million at the end of March. Liquid funds were EUR 12.3 million. The Group's gearing was -10.5 per cent (-3.9 per cent) and the equity ratio was 48.4 per cent (50.7 per cent). In compliance with its established policy Teleste hedges material exchange rate risks six months ahead.

Preparations for the IFRS reporting went ahead.

Shares and Shareholders

The share price fluctuated between 5.36 and 7.06 euros during the period. The closing price at the end of March was 5.62 euros. According to the Finnish Central Security Depository, at the end of the period the number of shareholders was 6125. Foreign ownership accounted for 14.96 per cent. The value of shares traded on the Helsinki Exchange amounted to EUR 27 million, the number of shares was 4 million.

At the end of March Teleste held 620,000 of the company's own shares.

General Meetings

The Annual General Meeting (AGM) on 16.3.2004 confirmed the financial statements for 2003 and discharged the Board and the CEO from liability for the financial period. The AGM confirmed the Board's proposed dividend of EUR 0.08 per share.

No changes were made to Teleste's Board of Directors. Mr. Tapio Hintikka was re-elected as Chairman whilst Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo continued as members on the Board of Directors.

The AGM selected KPMG Wideri Oy Ab as the auditor for 2004.

The meeting authorised the Board of Directors to acquire and convey own shares and to increase the share capital by a new issue. The Board has not exercised these rights.

The AGM decided to annul the Teleste Corporation 2000 stock options in the company's possession on 31 December 2003. The annulled stock options entitled a subscription for 270,500 shares.

The AGM approved the proposal of the Board of Directors to issue stock options to key personnel. The new options allow for subscriptions of 600,000 shares of Teleste Corporation. After the annulment of 270,500 options the dilution effect of the subscription is 3.2 per cent.

Future Outlook

Our view on the outlook of Broadband Cable Networks for the current year is optimistic anticipating an improvement over the past year. In spite of the stringent price competition in the business field, we are confident of being able to meet the competition by providing an ever-widening range of products and services for our current clientele.

Project plans devised by the Video Networks clients are still in the process, yet their commencements have been postponed. We believe the existing investment plans will gradually start materialising into orders and translating into growth in the current year.

We expect Teleste's sales and operating profit for the full year to improve from the last year's.

Teleste's interim report for the January - June period will be published on 20.07.2004.

April 20, 2004

Teleste Corporation	Jukka Rinnevaara
Board of Directors	CEO

Consolidated Statement of Income (tEUR)

	1-3/2004	1-3/2003	Change%	1-12/2003
Turnover	11,102	12,542	-11.5 %	54,204
Change in inventories of finished goods	-375	209		-343
Other operating income	36	335	-89.3 %	1,126
Materials and services	-3,609	-5,625	-35.8 %	-21,320
Personnel expenses	-4,370	-4,540	-3.7 %	-18,034
Other operating expenses	-2,231	-2,487	-10.3 %	-11,125
Depreciation	-688	-696	-1.2 %	-2,741
Operating profit	-135	-262	48.3 %	1,765
Financial income and expenses	-18	-197	-90.9 %	-239
Profit after financial items	-153	-459	66.6 %	1,526
Extraordinary items	0	0		0
Profit before taxes	-153	-459	66.6 %	1,526
Taxes	-36	-30	21.5 %	133
Net profit	-190	-489	61.2 %	1,659

Consolidated Balance Sheet (tEUR)

	3/31/2004	3/31/2003	Change%	12/31/2003
Fixed assets	16,602	15,136	9.7 %	16,801
Intangible assets	6,616	5,796	14.1 %	6,687
Tangible assets	5,386	6,703	-19.6 %	5,644
Long-term receivables	0	0		0
Investments	1,116	1,118	-0.2 %	1,116
Treasury shares	3,484	1,519	129.4 %	3,354
Current assets	29,348	29,954	-2.0 %	31,316
Inventories	4,982	5,629	-11.5 %	5,322
Other current assets	12,039	13,441	-10.4 %	11,802
Short-term investments	10,478	8,008	30.8 %	9,303
Liquid funds	1,849	2,876	-35.7 %	4,889
Total assets	45,950	45,090	1.9 %	48,117
Equity	25,591	24,093	6.2 %	26,971
Obligatory reserves	1,867	1,652	13.0 %	1,994
Non-current liabilities	10,000	10,000	0.0 %	10,000
Current liabilities	8,492	9,345	-9.1 %	9,152
Total shareholders' equity and liabilities	45,950	45,090	1.9 %	48,117

Cash-flow

	1-3/2004	1-3/2003	Change%	1-12/2003
Cash-flow from operation	-170	2,311		9,569
Cash in	11,241	17,914	-37.2 %	61,084
Cash out	-11,411	-15,603	-26.9 %	-51,515
Cash-flow from investments	-375	-93	303.2 %	-2,892
Cash in	0	0		43
Cash out	-375	-93	303.2 %	-2,935
Cash-flow from finance	-1,320	-5,000	-73.6 %	-6,151
Cash in	0	0		0

Cash out	0	-5,000		-5,000
Paid dividend	-1,330	0		-1,312
Other changes in share holder's equity	10	0		161
Change in liquid funds	-1,865	-2,782		526

Net sales by business unit (tEUR)

	1-3/2004	1-3/2003	Change%	1-12/2003
Broadband Cable Networks	8,562	9,441	-9.3 %	43,180
Video Networks	2,540	3,101	-18.1 %	11,024
Total	11,102	12,542	-11.5 %	54,204

Orders received by business unit (tEUR)

	1-3/2004	1-3/2003	Change%	1-12/2003
Broadband Cable Networks	8,880	8,401	5.7 %	40,052
Video Networks	2,314	2,728	-15.2 %	12,162
Total	11,194	11,129	0.6 %	52,214

Key figures

	1-3/2004	1-3/2003	Change %	1-12/2003
Earnings per share, EUR	-0.01	-0.03	66.7 %	0.10
Earnings per share without goodwill depreciation, EUR	0.01	-0.01		0.16
Earnings per share fully diluted, EUR	n/a	-0.03		n/a
Shareholders' equity per share, EUR	1.32	1.38	-4.1 %	1.41
Return on equity	-2.1 %	-8.6 %		7.1 %
Return on capital employed	-0.9 %	-2.2 %		5.3 %
Equity ratio	48.4 %	50.7 %	-4.5 %	49.3 %
Gearing	-10.5 %	-3.9 %		-17.7 %
Investments, tEUR	375	93	303.2 %	3,400
Order backlog, tEUR	6,663	8,163	-18.4 %	6,640
Personnel, average	464	455	2.0 %	452
Active personnel, average	423	409	3.4 %	413
Number of shares (thousands)	17,318	17,035	1.7 %	17,095
Highest share price, EUR	7.06	2.90	143.4 %	6.49
Lowest share price, EUR	5.36	2.40	123.3 %	2.40
Average share price, EUR	6.39	2.68	138.4 %	4.41
Turnover, in thousands	4,291	1,133	278.7 %	9,946
Turnover, in MEUR	27	3	813.3 %	44

Treasury shares

	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 31.3.2004	620,000	620,000	3.6 %	3.6 %

Contingent liabilities and pledged assets (tEUR)

For own debt

Mortgages on company assets	10,000	10,000	0.0 %	10,000
Mortgages on properties	7,000	7,000	0.0 %	7,000
Leasing and rent liabilities	1,511	1,660	0.0 %	1,421
Total	18,511	18,660	-0.8 %	18,421

Derivative instruments (tEUR)

Value of underlying forward contracts	4,331	6,565	-34.0 %	4,258
Market value of forward contracts	4,391	6,439	-31.8 %	4,210

The figures are not audited.

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

Development of business by quarters

1-3/2004	10-12/2003	7-9/2003	4-6/2003	1-3/2003	1-12/2003	4/2003 - 3/2004
Net Sales						
Broadband Cable Networks						
8,562	13,232	10,640	9,867	9,441	43,180	42,301
Video Networks						
2,540	3,505	2,420	1,998	3,101	11,024	10,463
Total						
11,102	16,737	13,060	11,865	12,542	54,204	52,764
EBIT						
-135	519	1,109	399	-262	1,765	1,892
EBIT w/o goodwill depreciations						
276	767	1,325	615	-46	2,662	2,984
Financial items						
-18	-7	-29	-6	-197	-239	-60
Earnings after financial items						
-153	512	1,080	393	-459	1,526	1,832
Earnings before taxes						
-153	512	1,080	393	-459	1,526	1,832

Order intake

Broadband Cable Networks						
8,880	10,649	10,018	10,984	8,401	40,052	40,531
Video networks						
2,314	4,303	3,139	1,992	2,728	12,162	11,748
Total						
11,194	14,952	13,157	12,976	11,129	52,214	52,279

Major Shareholders

		Shares	Owing %
* Nominee registration			
1	SAMPO LIFE INSURANCE COMPANY LIMITED	1 624 200	9.37
2	* NORDEA	948 190	5.47
3	ILMARINEN MUTUAL PENSION INSURANCE COMPANY	840 350	4.85
4	VARMA MUTUAL PENSION INSURANCE COMPANY	754 150	4.35
5	* SVENSKA HANDELSBANKEN AB (PUBL), FILIALV	660 015	3.81
6	* SVENSKA HANDELSBANKEN AB (PUBL), FILIALV	660 015	3.81
7	TELESTE CORPORATION	620 000	3.58
8	KALEVA MUTUAL INSURANCE COMPANY	588 900	3.40
9	STATE PENSION INSTITUTE	500 000	2.89
10	* HSS/SKANDINAVISKA ENSKILDA BANKEN AB	488 187	2.82
11	ELÄKE-FENNIA MUTUAL INSURANCE COMPANY	249 350	1.44
12	FIM FENNO MUTUAL FUND	227 000	1.31
13	NORDEA NORDIC SMALL CAP MUTUAL FUND	225 350	1.30
14	PLACERINGSFONDEN GYLLENBERG SMALL FIRM	214 250	1.24
15	PLACERINGSFONDEN AKTIA CAPITAL	211 100	1.22
16	MANDATUM SUOMI KASVUOSAKE MUTUAL FUND	162 950	0.94
17	* HSS/SVENSKA HANDELSBANKEN	152 500	0.88
18	FONDITA NORDIC SMALL CAP PLACFOND	152 000	0.88
19	SUOMI MUTUAL INSURANCE COMPANY	150 000	0.87
20	OP-SUOMI KASVU MUTUAL FUND	150 000	0,87

The information on shareholders is based on register data kept by the Finnish Central Securities Depository and includes only direct registered holdings.

The list is therefore incomplete.