

*Teleste*



**Teleste Corporation Interim Report 1.1.–30.6.2004**

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- Orders received stood at EUR 34.7 million, increase of 44% over the previous year, order backlog grew by 78% standing at EUR 16.5 million
- Net sales EUR 24.8 million was on a par with previous year, operating profit amounted to EUR 0.4 million
- Teleste has remained its leading position in Europe
- Broadband Cable Networks – European cable operators have started network investments
- Video Networks – clientele investment decisions about to be activated
- For the second half of the year the net sales and operating profit will show a clear improvement

## Net Sales and Profitability

Teleste's net sales in the first half stood at EUR 24.8 million (EUR 24.4 million). Operating profit increased to EUR 0.4 million (EUR 0.1 million). Earnings per share for the first six months were EUR 0.00 (EUR -0.01). The first half net sales and operating profit were still affected by the last year's lower order intake. Teleste's second quarter net sales stood at EUR 13.7 million (EUR 11.9 million) while operating profit was EUR 0,6 million (EUR 0.4 million).

Broadband Cable Networks Business Unit's net sales during the first six months stood at EUR 19.6 million (EUR 19.3 million). Video Networks Business Unit's net sales for the same period stood at EUR 5.2 million (EUR 5.1 million). In the second quarter of the year, the net sales of Broadband Cable Networks posted EUR 11.0 million (EUR 9.9 million) and Video Networks EUR 2.6 million (EUR 2.0 million).

## Orders Received and Market Situation

Teleste's orders received increased to EUR 34.7 million (EUR 24.1 million). Market situation improved particularly in Europe. Orders received by Video Networks Business Unit were still negatively affected by the strong euro. The order backlog at the end of June stood at EUR 16.5 million (EUR 9.2 million).

The market situation for Broadband Cable Networks Business Unit showed a clear improvement and orders

increased to EUR 29.4 million (EUR 19.4 million). European Market situation improved particularly in the Netherlands and Germany.

Market situation of Video Networks Business Unit showed improvement and the orders received increased by 11.9 per cent over the previous year standing at EUR 5.3 million (EUR 4.7 million).

## Personnel

Strong growth in order backlog and holiday season stands-in pushed up the number of active personnel by 15 per cent during the second quarter, signifying 66 persons, of which the amount of the holiday season stands-in was 45 persons.

The Group's active personnel at the end of June stood at 499 (403), out of which 414 (344) in Finland. Increase in the number of personnel was affected by the acquisition of S-Link AB and the launch of Sourcing in China in the second half of 2003.

## R&D and Investments

At the end of June, Teleste R&D employed 135 persons out of which 121 were in Finland. At the same time the R&D of Broadband Cable Networks and Video Networks businesses employed 105 and 30 persons, respectively. In the period under review, the R&D expenses amounted to EUR 3.3 million, which is 13.5 per cent of turnover (EUR 3.0 million).

EUR 0.6 million of R&D costs were activated to develop programmes for the very fast IP based data communication system (ETTH) of Broadband Cable Networks reported on 4 September 2003 and the IP based flexible video surveillance solution of Video Networks.

The Group's total investments stood at EUR 0.8 million (EUR 0.2 million). A new circuit board production line improving capacity and delivery cycles will be introduced in Q3/2004.

## Finance

Cash-flow from operation was EUR 0.7 million on the positive (EUR 4.6 million positive) having been EUR 0.2 on the negative in Q1. Intensification of internal processes turned the operating cash flow positive in Q2. Interest bearing debt amounted to EUR 10.0 million (EUR 10.0 million). Liquid funds stood at EUR 12.8 million (EUR 11.8 million). The group's debt-equity ratio was -12.4 per cent (-8.3 per cent) and the equity ratio was 47.1 per cent (50.6 per cent). In compliance with its established policy, Teleste hedges material exchange rate risks six months ahead.

Preparations for the IFRS reporting went ahead. During the period under review, we focused on specifying data required for the opening balance and collecting comparative information concerning the reporting period.

## Shares and Shareholders

During the year, the share price has fluctuated between EUR 5.14 and EUR 7.06. Closing price at the end of June was EUR 6.40. At the end of the period, the number of shareholders reported by the Finnish Central Security Depository was 6,070. Foreign ownership accounted for 14.7 per cent. The value of shares traded on the Helsinki Exchanges was EUR 43 million and the number of shares amounted to 6.9 million.

With the warrants of Teleste's 1997 bond loan with warrants 12,200 shares were subscribed, thus bringing Teleste's registered share capital to EUR 6,935,900.80 divided among 17,339,752 shares.

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

In the period under review, authorisations for purchasing or conveying own shares and increasing share capital given to the Board of Directors by the Annual General Meeting have not been used.

## Events After the end of Period

Teleste expanded its range of products and services provided for cable operators by acquiring the Norwegian Flomatik A/S on 1 July 2004. The acquisition has no significant effect on Teleste's financial position. Contract price of EUR 0.8 million in cash and EUR 0.8 million in own shares possessed by Teleste Corporation will be paid in July 2004. Maximum additional contract price given the specified financial criteria is EUR 1.4 million. The possible additional contract price will be due in August 2005. The acquisition will support growth in terms of operating profit and turnover. The acquisition is subject to approval of the Norwegian competition authority.

## Outlook for the rest of the Year

Both Teleste's order backlog and market situation in general are better than the previous year. Investments made by the clientele of the Broadband Cable Networks Business Unit are expected to continue to develop favourably. Active investment prospects of the Video Networks Business Unit clientele have increased and we believe they will turn into tangible orders already in the second half of the year.

Teleste's net sales and operating profit for the full year will improve from the last year's.

Teleste's Interim Report for January – September will be published on 19 October 2004.

20 July 2004

Teleste Corporation  
The Board of Directors

Mr. Jukka Rinnevaara  
CEO

## Consolidated Statement of Income (tEUR)

	1-6/2004	1-6/2003	Change %	1-12/2003
Turnover	24 774	24 408	1.5 %	54 204
Change in inventories of finished goods	-360	207	n/a	-343
Other operating income	278	587	-52.6 %	1 126
Materials and services	-8 439	-9 612	-12.2 %	-21 320
Personnel expenses	-9 515	-8 999	5.7 %	-18 034
Other operating expenses	-4 981	-5 076	-1.9 %	-11 125
Depreciation	-1 313	-1 377	-4.6 %	-2 741
Operating profit	444	138	221.7 %	1 765
Financial income and expenses	-96	-203	-52.7 %	-239
Profit after financial items	348	-65	n/a	1 526
Extraordinary items	0	0	n/a	0
Profit before taxes	348	-65	n/a	1 526
Taxes	-280	-23	n/a	133
Minority share	33	0	n/a	0
Net profit	101	-88	n/a	1 659

## Consolidated Statement of Income (tEUR)

	4-6/2004	4-6/2003	Change %
Turnover	13 672	11 865	15.2 %
Change in inventories of finished goods	15	-2	n/a
Other operating income	242	252	-4.0 %
Materials and services	-4 830	-3 987	21.1 %
Personnel expenses	-5 145	-4 459	15.4 %
Other operating expenses	-2 750	-2 589	6.2 %
Depreciation	-625	-681	-8.2 %
Operating profit	579	399	45.2 %
Financial income and expenses	-78	-6	n/a
Profit after financial items	501	393	27.6 %
Extraordinary items	0	0	n/a
Profit before taxes	501	393	27.6 %
Taxes	-244	7	n/a
Minority share	33	0	n/a
Net profit	291	400	-27.3 %

## Consolidated Balance Sheet (tEUR)

	30.6.2004	30.6.2003	Change%	31.12.2003
Fixed assets	16 916	14 847	13.9 %	16 801
Intangible assets	6 722	5 579	20.5 %	6 687
Tangible assets	5 110	6 321	-19.2 %	5 644

Investments	1 116	1 118	-0.2 %	1 116
Treasury shares	3 968	1 829	116.9 %	3 354
Current assets	30 952	28 637	8.1 %	31 316
Inventories	4 895	5 599	-12.6 %	5 322
Other current assets	13 266	11 232	18.1 %	11 802
Short-term investments	9 701	5 400	79.6 %	9 303
Liquid funds	3 090	6 405	-51.8 %	4 889
Total assets	47 868	43 484	10.1 %	48 117
Equity	26 387	23 483	12.4 %	26 971
Obligatory reserves	1 585	1 466	8.1 %	1 994
Non-current liabilities	10 000	10 000	0.0 %	10 000
Current liabilities	9 896	8 535	15.9 %	9 152
Total shareholders' equity and liabilities	47 868	43 484	10.1 %	48 117

Cash-flow	1-6/2004	1-6/2003	Change %	1-12/2003
Cash-flow from operation	721	4 617	-84.4 %	9 569
Cash in	23 623	30 489	-22.5 %	61 084
Cash out	-22 902	-25 872	-11.5 %	-51 515
Cash-flow from investments	-809	-181	347.0 %	-2 892
Cash in	5	0		43
Cash out	-814	-181	349.7 %	-2 935
Cash-flow from finance	-1 313	-6 296	-79.1 %	-6 151
Cash in	0	0		0
Cash out	0	-5 000	-100.0 %	-5 000
Paid dividend	-1 337	-1 313	1.8 %	-1 312
Other changes in share holder's equity	24	17	41.2 %	161
Change in cash	-1 401	-1 860	-24.7 %	526

Net sales by business unit (tEUR)	1-6/2004	1-6/2003	Change %	1-12/2003
Broadband Cable Networks	19 604	19 308	1.5 %	43 180
Video Networks	5 170	5 100	1.4 %	11 024
Total	24 774	24 408	1.5 %	54 204

Orders received by business unit (tEUR)	1-6/2004	1-6/2003	Change %	1-12/2003
Broadband Cable Networks	29 403	19 385	51.7 %	40 052
Video Networks	5 283	4 720	11.9 %	12 162
Total	34 686	24 105	43.9 %	52 214

Key figures	1-6/2004	1-6/2003	Change %	1-12/2003
Earnings per share, EUR	0.00	-0.01	n/a	0.10
Earnings per share without goodwill depreciation, EUR	0.04	0.02	100.0 %	0.16
Earnings per share fully diluted, EUR				n/a

Shareholders' equity per share, EUR	1.31	1.32	-0.8 %	1.41
Return on equity, %	0.6 %	-1.0 %	n/a	7.1 %
Return on capital employed, %	3.3 %	1.3 %	151.5 %	5.3 %
Equity ratio, %	47.1 %	50.6 %	-6.9 %	49.3 %
Gearing, %	-12.4 %	-8.3 %	-49.4 %	-17.7 %
Investments, tEUR	771	181	326.0 %	3 400
Order backlog, tEUR	16 478	9 240	78.3 %	6 640
Personnel, average	475	455	4.4 %	452
Active personnel, average	446	409	9.0 %	413
Number of shares (average thousands) incl. own shares	17 328	17 043	1.7 %	17 095
Highest share price, EUR	7.06	3.19	121.3 %	6.49
Lowest share price, EUR	5.14	2.40	114.2 %	2.40
Average share price, EUR	6.22	2.74	127.0 %	4.41
Turnover, in thousands	6 858	1 995	243.8 %	9 946
Turnover, in MEUR	43	5	682.1 %	44

#### Treasury shares

	Number of shares	Nominal value EUR	% of % share capital	of votes
Parent company owns own shares 30.6.2004	620 000	248 000	3.6 %	3.6 %

#### Contingent liabilities and pledged assets (tEUR)

	30.6.2004	30.6.2003	Change%	31.12.2003
For own debt				
Mortgages on company assets	10 000	10 000	0 %	10 000
Mortgages on properties	7 000	2 985	135 %	7 000
Leasing and rent liabilities	1 352	1 547	-13 %	1 490
Total	18 352	14 532	26 %	18 490

#### Derivative instruments (tEUR)

Value of underlying forward contracts	4 626	5 552	-17 %	4 258
Market value of forward contracts	4 638	5 530	-16 %	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 units by quarters (tEUR)

4-6/2004	1-3/2004	10-12/2003	7-9/2003	4-6/2003	1-12/2003	7/2003 - 6/2004
Net Sales						
Broadband Cable Networks						
11 042	8 562	13 232	10 640	9 867	43 180	43 476
Video Networks						
2 630	2 540	3 505	2 420	1 998	11 024	11 095
Total						
13 672	11 102	16 737	13 060	11 865	54 204	54 571
EBIT						
579	-135	519	1 109	399	1 765	2 072
EBIT w/o goodwill depreciations						
879	276	767	1 325	615	2 662	3 248
Financial items						
-78	-18	-7	-29	-6	-239	-132
Earnings after financial items						
501	-153	512	1 080	393	1 526	1 940
Earnings before taxes						
501	-153	512	1 080	393	1 526	1 940

Order intake

Broadband Cable Networks						
20 523	8 880	10 649	10 018	10 984	40 052	50 070
Video Networks						
2 969	2 314	4 303	3 139	1 992	12 162	12 725
Total						
23 492	11 194	14 952	13 157	12 976	52 214	62 795

Major Shareholders

* Nominee registered		SHARES	%
1	SAMPO LIFE INSURANCE COMPANY Ltd	1 624 200	9.37
2	* NORDEA PANKKI SUOMI OYJ	1 019 973	5.88
3	ILMARINEN MUTUAL PENSION INSURANCE COMPANY	840 350	4.85
4	VARMA MUTUAL PENSION INSURANCE COMPANY	724 150	4.18
5	TELESTE CORPORATION	620 000	3.58
6	* SVENSKA HANDELSBANKEN AB (PUBL), FILIALV	603 330	3.48
7	KALEVA MUTUAL INSURANCE COMPANY	588 900	3.4
8	STATE PENSION FUND	500 000	2.88
9	* HSS/SKANDINAVISKA ENSKILDA BANKEN AB	402 422	2.32
10	FIM FENNO MUTUAL FUND	331 900	1.91
11	PLACERINGSFONDEN GYLLENBERG FINLANDIA	300 000	1.73
12	MUTUAL INSURANCE COMPANY ELÄKE-FENNIA	274 350	1.58
13	NORDEA NORDIC SMALL CAP MUTUAL FUND	225 350	1.3
14	PLACERINGSFONDEN AKTIA CAPITAL	211 100	1.22
15	MANDATUM SUOMI KASVUOSAKE MUTUAL FUND	162 950	0.94
16	* HSS/SVENSKA HANDELSBANKEN	152 500	0.88
17	FONDITA NORDIC SMALL CAP PLACFOND	152 000	0.88
18	PLACERINGSFONDEN GYLLENBERG SMALL FIRM	150 150	0.87
19	EVLI-SELECT MUTUAL FUND	148 200	0.85

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.