

Teleste



Teleste Corporation Interim Report 1.1.–30.9.2004

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- Net sales increased by 14% over the previous year amounting to EUR 42.8 million
- Operating profit improved by 93% standing at EUR 2.4 million
- Orders received stood at EUR 53.3 million showing a growth of 43% over the previous year
- Broadband Cable Networks business unit strengthened its market position by acquisition carried out to widen the offering
- Video Networks' business remained at par with the previous year
- The positive development having started in the third quarter will also continue in the last quarter

Net Sales and Profitability

Teleste's net sales during the period of nine months were EUR 42.8 million (January to September 2003: EUR 37.5 million). Operating profit showed a clear improvement amounting to EUR 2.4 million (EUR 1.2 million). During the nine-month period the operating profit exceeded that of the entire 2003 (EUR 1.8 million).

Earnings per share for the first nine months (not diluted) were EUR 0.08 (EUR 0.06).

In the first nine months of the year the net sales of the Broadband Cable Networks business unit were EUR 35.0 million (EUR 30.0 million). Video Networks business unit's net sales stood at EUR 7.7 million (EUR 7.5 million). In Q3 the Broadband Cable Networks net sales amounted to EUR 15.4 million (EUR 10.6 million). Video Networks' net sales were EUR 2.6 million (EUR 2.4 million).

In Q3 the net sales of Teleste stood at EUR 18.1 million (EUR 13.1 million). Operating profit grew by 77% standing at EUR 2.0 million (EUR 1.1 million). This improvement in the operating profit can be attributed to increased net sales.

Orders Received and Market Situation

Teleste's orders received amounted to EUR 53.2 million (EUR 37.3 million) and during the first nine months no less than exceeded the value of those of the whole of 2003.

The order backlog at the end of September amounted to EUR 16.8 million (EUR 9.4 million).

Orders received by the Broadband Cable Networks business unit stood at EUR 45.2 million (EUR 29.4 million). The sales structure did not essentially differ from that of the previous year. The product range of Flomatik Group acquired 1 July 2004 widened Teleste's overall product and service offering. The orders received in Q3 grew by 57% over the previous year standing at EUR 15.8 million (EUR 10 million).

The orders received by Video Networks business unit amounted to EUR 8.1 million, thus remaining at the level of the previous year (EUR 7.9 million). The orders received during the third quarter were EUR 2.8 million (EUR 3.1 million). These figures do not include the framework agreement of EUR 1.4 million signed with the Texas Department of Transportation in September.

Personnel

At the end of September the number of the Group's active personnel was 497 (413) of which 366 (350) were stationed in Finland. The increase in personnel is mainly attributable to acquisitions carried out in 2003 and 2004 contributed also by the going operational of the sourcing company in China. Approximately 30% of the personnel were involved in research and development.

Research and Development and Investments

In the period under review the R&D expenses stood at EUR 4.7 million out of which the amount of activated funds accounted for EUR 0.9 million. The R&D expenses were 11% of the net sales (EUR 4.1 million and 10.9% of net sales). This relates to the development projects involving Broadband Cable Networks business unit's very fast IP based data communication system (ETTH) and Video Network business unit's IP based flexible video surveillance solution. As to the above projects, TEKES – National Technology Agency of Finland – provided Teleste with an R&D grant of EUR 2.1 million available until 30 June 2005.

The Group's investments totalled EUR 2.9 million (EUR 0.2 million). The single most notable transaction involved the acquisition conducted 1 July 2004 of the entire share capital of Flomatik A/S worth EUR 1.6 million. Other investments during the period involved IT, R&D and measuring instruments for production. In the period under review Teleste placed an order for a new ERP system due to be commissioned in summer 2005.

Finance

The Group's cash flow from operations stood at EUR 0.6 million (EUR 5.7 million). At the end of September, the interest bearing debt amounted to EUR 11.1 million (EUR 10 million) while the liquid funds were EUR 11.8 million. Gearing stood at -2.9% (-12.8%). Equity ratio stood at 46.9 % (50.3 %). The slight drop in the equity ratio was primarily caused by increase in the amount of non-interest bearing debt and accounts receivable. The growth in gearing is in part attributable to the payment made in cash for the Flomatik acquisition (EUR 0.8 million) and to the increase of EUR 1.1 million in interest-bearing debt arisen as a consequence of the Flomatik acquisition.

Teleste hedges main currency risks of forecasted currency flows for 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 period under review the share price fluctuated between EUR 5.14 and EUR 7.06. The closing price at the end of September was EUR 5.32. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,168 of which foreign ownership accounted for 14.7%. The value of shares traded on the Helsinki Exchanges was EUR 55.5 million and the number thereof was 9.076 million.

In the first nine months following the issue of Teleste 1997 bond loan with equity warrants, the number of subscriptions amounted to 12,200, thus bringing Teleste's registered share capital to EUR 6,935,900.80 divided among 17,339,752 shares.

At the end of September, the company possessed 490,000 own shares. The number of own shares engaged in the acquisition of Flomatik A/S was 130,000.

The authorisations given to the Board by the Annual General Meeting to increase share capital have not been used.

Outlook for the rest of the Year

The recent positive business development of Teleste's Broadband Cable Networks' clientele and the widened range of the company's offering will strengthen the view of continued positive development in the last quarter of the year.

Regarding the Video Networks business unit we expect an increase in the number of orders particularly in network management projects.

The current year net sales will exceed EUR 60 million and the operating profit will show a significant improvement over the previous year.

We estimate the market for 2005 to develop favourably in our fields of business.

Teleste's financial statement for the January – December period will be published on 1 February 2005.

19 October 2004

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
CEO

Consolidated Statement of Income (tEUR)

	1-9/2004	1-9/2003	Change %	1-12/2003
Turnover	42 795	37 468	14.2 %	54 204
Change in inventories of finished goods	649	155	318.8 %	-343
Other operating income	448	855	-47.6 %	1 126
Materials and services	-18 304	-15 220	20.3 %	-21 320
Personnel expenses	-13 977	-12 749	9.6 %	-18 034
Other operating expenses	-7 336	-7 215	1.7 %	-11 125
Depreciation	-1 863	-2 047	-9.0 %	-2 741
Operating profit	2 412	1 247	93.4 %	1 765
Financial income and expenses	-179	-232	-22.8 %	-239
Profit after financial items	2 233	1 015	119.9 %	1 526
Extraordinary items	0	0	n/a	0
Profit before taxes	2 233	1 015	119.9 %	1 526
Taxes	-879	-89	891.8 %	133
Minority share	33	0	n/a	0
Net profit	1 387	927	49.7 %	1 659

Consolidated Statement of Income (tEUR)

	7-9/2004	7-9/2003	Change %
Turnover	18 021	13 060	38.0 %
Change in inventories of finished goods	1 009	-52	n/a
Other operating income	170	268	-36.6 %
Materials and services	-9 865	-5 608	75.9 %
Personnel expenses	-4 462	-3 750	19.0 %
Other operating expenses	-2 355	-2 139	10.1 %
Depreciation	-550	-670	-17.9 %
Operating profit	1 968	1 109	77.4 %
Financial income and expenses	-83	-29	n/a
Profit after financial items	1 885	1 080	74.5 %
Extraordinary items	0	0	n/a
Profit before taxes	1 885	1 080	74.5 %
Taxes	-599	-66	n/a
Minority share	0	0	n/a
Net profit	1 286	1 015	26.8 %

Consolidated Balance Sheet (tEUR)

	30.9.2004	30.9.2003	Change%	31.12.2003
Fixed assets	15 997	15 009	6.6 %	16 801
Intangible assets	7 067	5 375	31.5 %	6 687
Tangible assets	5 207	5 914	-12.0 %	5 644
Investments	1 116	1 116	0.0 %	1 116
Treasury shares	2 607	2 604	0.1 %	3 354
Current assets	36 581	30 542	19.8 %	31 316

Inventories	7 329	5 585	31.2 %	5 322
Other current assets	17 408	12 035	44.6 %	11 802
Short-term investments	10 774	11 547	-6.7 %	9 303
Liquid funds	1 070	1 375	-22.2 %	4 889
Total assets	52 578	45 550	15.4 %	48 117
Equity	27 105	25 374	6.8 %	26 971
Obligatory reserves	1 710	1 639	4.3 %	1 994
Non-current liabilities	10 234	10 000	2.3 %	10 000
Current liabilities	13 529	8 537	58.5 %	9 152
Total shareholders' equity and liabilities	52 578	45 550	15.4 %	48 117

Cash-flow	1-9/2004	1-9/2003	Change %	1-12/2003
Cash-flow from operation	598	5 733	-89.6 %	9 569
Cash in	39 962	43 014	-7.1 %	61 084
Cash out	-39 364	-37 282	5.6 %	-51 515
Cash-flow from investments	-1 509	-216	598.6 %	-2 892
Cash in	5	0		43
Cash out	-1 514	-216	598.6 %	-2 935
Cash-flow from finance	-1 437	-6 261	-77.0 %	-6 151
Cash in	0	0	n/a	0
Cash out	-124	-5 000	n/a	-5 000
Paid dividend	-1 337	-1 313	1.8 %	-1 312
Other changes in share holder's equity	24	52	-53.8 %	161
Change in cash	-2 348	-744	215.5 %	526

Net sales by business unit (tEUR)	1-9/2004	1-9/2003	Change %	1-12/2003
Broadband Cable Networks	35 048	29 965	17.0 %	43 180
Video Networks	7 747	7 503	3.3 %	11 024
Total	42 795	37 468	14.2 %	54 204

Orders received by business unit (tEUR)	1-9/2004	1-9/2003	Change %	1-12/2003
Broadband Cable Networks	45 180	29 403	53.7 %	40 052
Video Networks	8 081	7 859	2.8 %	12 162
Total	53 261	37 262	42.9 %	52 214

Key figures	1-9/2004	1-9/2003	Change %	1-12/2003
Earnings per share, EUR*	0.08	0.06	33.3 %	0.10
Earnings per share without goodwill depreciation, EUR*	0.13	0.10	30.0 %	0.16
Earnings per share fully diluted, EUR	n/a	n/a		n/a
Shareholders' equity per share, EUR	1.46	1.38	5.8 %	1.41
*not diluted				
Return on equity, %	7.5 %	5.4 %	38.9 %	7.1 %
Return on capital employed, %	10.1 %	5.1 %	96.1 %	5.3 %

Equity ratio, %	46.9 %	50.3 %	-6.8 %	49.3 %
Gearing, %	-2.9 %	-12.8 %	77.3 %	-17.7 %
Investments, tEUR	2 942	216	1262.0 %	3 400
Order backlog, tEUR	16 770	9 436	77.7 %	6 640
Personnel, average	485	450	7.8 %	452
Active personnel, average	464	407	14.0 %	413
Number of shares (average thousands), incl. own shares	17 332	17 052	1.6 %	17 095
Highest share price, EUR	7.06	5.20	35.8 %	6.49
Lowest share price, EUR	5.14	2.40	114.2 %	2.40
Average share price, EUR	6.11	3,63	68.4 %	4.41
Turnover, in thousands	9 076	5 278	72.0 %	9 946
Turnover, in MEUR	56	19	192.1 %	44

Treasury shares

	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 30.9.2004	490 000	196 000	2.8 %	2.8 %

Contingent liabilities and pledged assets (tEUR)

	30.9.2004	30.9.2003	Change%	31.12.2003
For own debt				
Mortgages on company assets				
	10 000	10 000	0 %	10 000
Mortgages on properties	7 000	7 000	0 %	7 000
Leasing and rent liabilities	1 372	1 401	-2 %	1 490
Total	18 372	18 401	0 %	18 490

Derivative instruments (tEUR)

Value of underlying forward contracts	4 811	4 356	10 %	4 258
Market value of forward contracts	4 784	4 406	9 %	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)

	7-9/2004	4-6/2004	1-3/2004	10-12/2003	37-9/2003	1-12/2003	10/2003- 9/2004
Net Sales							
Broadband Cable Networks	15 444	11 042	8 562	13 232	10 640	43 180	48 280
Video Networks	2 577	2 630	2 540	3 505	2 420	11 024	11 252
Total	18 021	13 672	11 102	16 737	13 060	54 204	59 532

EBIT							
1 968	579	-135	519	1 109	1 765	2 931	
EBIT w/o goodwill depreciations							
2 268	879	276	767	1 325	2 662	4 191	
Financial items							
-83	-78	-18	-7	-29	-239	-186	
Earnings after financial items							
1 885	501	-153	512	1 080	1 526	2 745	
Earnings before taxes							
1 885	501	-153	512	1 080	1 526	2 745	

Order intake

	Broadband Cable Networks						
15 777	20 523	8 880	10 649	10 018	40 052	55 829	
	Video Networks						
2 798	2 969	2 314	4 303	3 139	12 162	12 384	
	Total						
18 575	23 492	11 194	14 952	13 157	52 214	68 213	

Major Shareholders

* Nominee registered	SHARES	%
1. SAMPO LIFE INSURANCE COMPANY Ltd	1 624 200	9.37
2. *NORDEA PANKKI SUOMI OYJ	857 933	4.95
3. ILMARINEN MUTUAL PENSION INSURANCE COMPANY	840 350	4.85
4. VARMA MUTUAL PENSION INSURANCE COMPANY	724 150	4.18
5. *SVENSKA HANDELSBANKEN AB (PUBL), FILIALV	654 930	3.78
6. STATE PENSION FUND	600 000	3.46
7. KALEVA MUTUAL INSURANCE COMPANY	588 900	3.40
8. TELESTE CORPORATION	490 000	2.83
9. *HSS/SKANDINAVISKA ENSKILDA BANKEN AB	431 240	2.49
10. PLACERINGSFONDEN GYLLENBERG FINLANDIA	349 325	2.01
11. FIM FENNO MUTUAL FUND	331 900	1.91
12. NORDEA NORDIC SMALL CAP MUTUAL FUND	225 350	1.30
13. PLACERINGSFONDEN AKTIA CAPITAL	211 100	1.22
14. ELÄKE-FENNIA MUTUAL INSURANCE COMPANY	178 950	1.03
15. FONDITA NORDIC SMALL CAP PLACFOND	152 000	0.88
16. EVLI-SELECT MUTUAL FUND	148 200	0.85
17. PLACERINGSFONDEN GYLLENBERG SMALL FIRM	148 150	0.85
18. NORDEA AVANTI MUTUAL FUND	141 350	0.82
19. TOIVILA TIMO TAPIO	140 165	0.81
20. FIM FORTE MUTUAL FUND	138 250	0.80

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.

ADDITIONAL INFORMATION:

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