

Teleste



Teleste Corporation
Interim Report 1.1.-31.3.2005

Teleste Corporation Interim Report 1.1.– 31.3.2005

- Net sales grew by 76 per cent over the previous year amounting to EUR 19.7 million
- Operating profit increased manifold over the previous year totalling EUR 1.3 million
- Orders received improved by 48% over the previous year standing at EUR 16.6 million
- Broadband Cable Networks' orders received grew by 59%
- Video Networks' orders received were up by 7%

This interim report has been prepared in compliance with the IFRS regulations applied by Teleste since the beginning of 2005. Teleste announced this transition to IFRS reporting by a separate stock exchange release 30 March 2005. The impact of the IFRS reporting on the FAS reporting in the given period improved by EUR 0,3 million in terms of operating profit and by EUR 0,3 million in terms of profitability.

Improved Net Sales and Profitability

Teleste's net sales grew by EUR 8.5 million – an increase of 76% – over the previous year amounting to EUR 19,7 million (EUR 11.2 million). Operating profit increased by EUR 1.2 million totalling EUR 1.3 million (EUR 0.15 million). Earnings per share were 0.04 euros (0.01 euros).

Teleste's orders received went up by 48% standing at EUR 16.6 million (EUR 11.2 million). The order backlog totalled EUR 17.6 million (EUR 6.7 million).

Business Units

Broadband Cable Networks business unit's net sales grew by 92% to EUR 16.6 million (EUR 8.7 million). Operating profit stood at EUR 1.2 million (EUR 0.2 million). This improvement in the operating profit is attributable to Teleste's good supply capacity and the increased net sales brought in by the wider range of our products and services.

Orders received by the Broadband Cable Networks business unit increased by 59% to EUR 14.1 million in comparison with the previous fiscal year (EUR 8.9 million).

In line with the normal seasonal variation, the orders received and the net sales in the first quarter decreased over the last quarter of 2004.

In the reporting period the network investments of the European television operators followed their regular cycle. We expect to receive competitive bidding results in the second quarter. According to Teleste's internal market report the business unit maintained its leading position in the European market. The market in the Nordic Countries was particularly favourable.

The exchange rate between the euro and the US dollar has slightly decreased the market price of some product groups in our main market areas.

Video Networks business unit's net sales grew by 22% standing at EUR 3.1 million (EUR 2.6 million). This improvement in the net sales was primarily brought about by the increased number of deliveries of traffic control solutions to the United States market. Operating profit was EUR 0.1 million in the black (EUR -0.02 million).

Orders received by the Video Networks business unit increased amounting to EUR 2.5 million (EUR 2.3 million). The orders received and net sales decreased in comparison with the last quarter due to the order of EUR 5 million received in December 2004 from the French Railroad Authority.

The exchange rate between the euro and the US dollar has also slightly brought down the market price of products in Video Networks' business sector.

Personnel

The Group employed 526 people at the end of March (464), 403 (400) of them in Finland. The number of employees grew by 62. This growth was mainly due to the acquisition of Flomatik in July 2004 and the increase in the number of personnel employed by the Chinese subsidiary in the last quarter of 2004.

Research and Development and Investments

Teleste R&D employed 133 (127) persons out of which 102 (100) were in Finland. In the period under review, the R&D expenses amounted to EUR 1.9 million, which is 9.7% of turnover (EUR 1.6 million and 14.7%).

Activated R&D expenses stood at EUR 0.3 million (EUR 0.3 million). The Group's investments totalled EUR 0.8 million (EUR 0.4 million). Investments included primarily product development, measuring instruments for production and the enterprise resource management system introduced in the parent company in the beginning of the second quarter.

Finance

Operating cash flow stood at EUR -1.0 million (EUR -0.2 million). At the end of March, the Group's interest-bearing debt was EUR 9.4 million (EUR 10 million).

In the reporting period the liquid funds decreased by EUR 2.9 million (EUR -1.9 million) standing at EUR 14.2 million.

This decrease in liquid funds was due to the instalment of debt repayment of EUR 1.4 million and a decrease in the amount of short-term non-interest bearing debt. The Group's gearing was -16,9% (-10.2%) and the equity ratio was 55% (53%).

In compliance with its established policy Teleste hedges material exchange rate risks six months ahead. The value of forward exchange agreements is the closing price of [the share at the end of] the interim report and their effect on net profit is included in the result of the reporting period.

Shares and Shareholders

The share price fluctuated between 5.85 and 7.25 euros during the period. The closing price at the end of March was 6.95 euros. According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5,557 (6,125). Foreign ownership accounted for 16.2%.

The value of shares traded on the Helsinki Exchanges was EUR 18 million (EUR 27 million) and the number of shares amounted to 2.8 million (4.3 million).

At the end of March Teleste held 490,000 of the company's own shares.

Decisions by the Annual General Meeting

The Annual General Meeting on 5 April 2005 confirmed the financial statements for 2004 and discharged the Board and the CEO from liability for the financial period.

The AGM confirmed the dividend of EUR 0.12 per share as proposed by the Board of Directors.

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 Annual General Meeting elected Authorised Public Accountant KPMG Oy Ab as the auditor for the financial period 2005.

The AGM authorised the Board to acquire and convey at most 860,000 own shares. Since the company by this time possessed 490,000 own shares the additional authorisation amounts to maximum of 370,000 own shares. The AGM also authorised the company to increase the share capital by a private placement of no more than EUR 1,360,000 being equal to 3.4 million shares. These authorisations given by the Annual General Meeting have not been used.

Outlook

In our estimation the favourable development of the Broadband Cable Networks business will continue in 2005.

In spite of tight competition the unit's net sales and profitability will improve. The improvements made in the range of products, the wider offering of services and the network of offices near to the customer will strengthen our position in Europe.

We will also step up our marketing efforts in carefully selected areas outside Europe.

As to Video Networks, we particularly expect the demand for network management projects to strengthen. We believe medium-sized investment plans to take the shape of tangible orders and expect improvements both in net sales and profitability in the current year.

In comparison with the previous period, Teleste's sales and profitability will improve for the entire year.

Teleste's interim report for the January - June period will be published on 19 July 2005.

19 April 2005

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
CEO

Consolidated Statement of Income (tEUR)	1-3 /2005	1-3 /2004	Change%	1-12 /2004
Net Sales	19 765	11210	76.3 %	66 025
Change in inventories of finished goods	-502	-375	33.9 %	65
Other operating income	68	36	88.9 %	264
Materials and services	-8 398	-3609	132.7 %	-27 670
Personnel expenses	-6 200	-4394	41.1 %	-20 344
Other operating expenses	-3 061	-2231	32.9 %	-10 945
Depreciation	-397	-491	-19.2 %	-1 795
Operating profit	1 276	146	774.2 %	5 599
Financial income and expenses	-88	-18	387.1 %	-192
Profit after financial items	1 189	128	828.7 %	5 407
Profit before taxes	1 189	128	828.7 %	5 407
Taxes	-371	-15	2373.3%	-1 530
Minority share	-84	0	n/a	32
Net profit	734	113	549.3 %	3 909
Long-term assets	31.3. 2005	31.3. 2004	Change%	31.12. 2004
Intangible assets	5 431	5 323	2.0 %	5 336
Goodwill	8 526	6 607	29.0 %	8 526
Tangible assets	1 953	911	114.4 %	1 590
Investments	1 116	1 116	0.0 %	1 116
	17 026	13 957	22.0%	16 568
Current assets				
Inventories	7 511	5 032	49.3 %	7 908
Other current assets	13 660	11 931	14.5 %	12 776
Short-term investments	12 666	10 488	20.8 %	13 623
Liquid funds	1 536	1 839	-16.5 %	3 485
	35 373	29 290	20.8 %	37 792
Total assets	52 400	43 247	21.2 %	54 360
Shareholder's equity and liabilities				
Share capital	6 935	6 931	0.1 %	6 935
Other equity	21 703	15 956	36.0 %	20 807
	28 638	22 887	25.1 %	27 742
Minority share	84	0		0
	28 722	22 887	25.5 %	27 742
Non-current liabilities				
Provisions	2 065	1 867	10.6 %	2 065
Interest bearing liabilities	9 141	10 000	-8.6 %	9 059
	11 206	11 867	-5.6 %	11 124
Current liabilities				
Trade payables and other short-term liabilities	12 262	8 493	44.4 %	13 803
S-t interest bearing liabilities	211	0	n/a	1 691
	12 473	8 493	46.9 %	15 494
Total shareholder's equity and liabilities	52 400	43 247	21.2 %	54 360

Cash-flow	1-3 /2005	1-3 /2004	Change%	1-12 /2004
Cash-flow from operation	-1 033	-170	508.6 %	6 929
Cash in	19 363	11 241	72.3 %	65 086
Cash out	-20 396	-11 411	78.7 %	-58 158
Cash-flow from investments	-444	-375	18.4 %	-2 168
Cash in	0	0		81
Cash out	-444	-375	18.4 %	-2 249
Cash-flow from finance	-1 429	-1 320	8.3 %	-1 845
Cash in	0	0	n/a	647
Cash out	-1 429	0	n/a	-1 213
Paid dividend	0	-1 330	n/a	-1 337
Other changes in shareholder's equity	0	10	n/a	58
Change in liquid funds	-2 906	-1 865	55.8 %	2 916

Key figures

Earnings per share, EUR	0.04	0.01	335.4 %	0.23
Earnings per share fully diluted, EUR	n/a	n/a	n/a	n/a
Shareholders' equity per share, EUR	1.70	1.37	24.1 %	1.65
Return on equity	11.6 %	2.0 %	480.1 %	15.1 %
Return on capital employed	13.7 %	2.5 %	448.4 %	16.1 %
Equity ratio	55.0 %	53.0 %	3.8 %	51.1 %
Gearing	-16.9 %	-10.2 %	66.0 %	-22.9 %
Investments, tEUR	774	375	106.4 %	5 400
Order backlog, tEUR	17 563	6 663	163.6 %	20 720
Personnel, average	524	464	12.9 %	492
Number of shares (thousands)	17 340	17 318	0.1 %	17 334
Highest share price, EUR	7.25	7.06	2.7 %	7.06
Lowest share price, EUR	5.85	5.36	9.1 %	5.14
Average share price, EUR	6.65	6.39	4.1 %	6.03
Turnover, number in millions	2.8	4.3	-34.7 %	12.3
Turnover, in MEUR	18	27	-32.2 %	74

Treasury shares	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 31.3.2005	490 000	196 000	2.83 %	2.83 %

Contingent liabilities and pledged assets (tEUR)

For own debt

Mortgages on company assets	10 000	10 000	0.0 %	10 582
Mortgages on properties	7 000	7 000	0.0 %	7 000
Leasing and rent liabilities	1 863	1 511	23.3 %	1 691
	18 863	18 511	1.9 %	19 273

Derivative instruments (tEUR) booked to profit/loss account				
Value of underlying forward contracts	8 967	4 331	107.0 %	9 624
Market value of forward contracts	9 036	4 391	105.8 %	9 438

The figures are not audited.
Taxes are computed on the basis of the tax
on the profit for the period.

Primary segments information	1-3 /2005	1-3 /2004	Change%
Broadband Cable Networks			
Order intake	14 120	8 880	59.0 %
Net sales	16 637	8 650	92.3 %
EBIT	1 209	168	619.9 %
EBIT %	7.3 %	1.9 %	274.3 %
Video Networks			
Order intake	2 481	2 314	7.2 %
Net sales	3 128	2 560	22.2 %
EBIT	67	-22	n/a
EBIT %	2.1 %	-0.9 %	n/a
Total			
Order intake	16 601	11 194	48.3 %
Net sales	19 765	11 210	76.3 %
EBIT	1 276	146	774.2 %
EBIT %	6.5 %	1.3 %	395.8 %

Major Shareholders		Shares	%
1	Sampo Life Insurance Company Ltd	1,624,200	9.37 %
2	Ilmarinen Mutual Pension Ins. Company	840,350	4.85 %
3	Varma Mutual Pension Insurance Company	712,350	4.11 %
4	Kaleva Mutual Insurance Company	588,900	3.40 %
5	OP-Suomi Kasvu Mutual Fund	586,200	3.38 %
6	Teleste Corporation	490,000	2.83 %
7	FIM Fenno Mutual Fund	440,550	2.54 %
8	State Pension Fund	400,000	2.31 %
9	Nordea Nordic Small Cap Mutual Fund	275,350	1.59 %
10	Fondita Nordic Small Cap Placfond	260,000	1.50 %
11	Nordea Life Assurance Company Finland	218,800	1.26 %
12	Gyllenberg Finlandia Mutual Fund	218,525	1.26 %
13	Aktia Capital Mutual Fund	211,100	1.22 %
14	FIM Forte Mutual Fund	201,050	1.16 %
15	Pohjola Finland Kasvu mutual fund	127,900	0.74 %
16	Mutual Insurance Company Eläke-Fennia	120,950	0.70 %
17	Mutual Fund Fondita 2000 +	119,000	0.69 %
18	Gyllenberg Momentum Mutual Fund	119,000	0.69 %
19	Gyllenberg Small Firm Mutual Fund	118,150	0.68 %
20	Svenska litteratursällskapet i Finland	111,000	0.64 %
21	Mandatum Suomi Kasvuosake Mutual Fund	110,000	0.63 %
22	Pensionsförsäkringsaktiebolaget	108,750	0.63 %
23	Sumato Oy	107,660	0.62 %
24	eQ Nexus Mutual Fund	103,550	0.60 %
25	Rautaruukki Ltd Pension Fund	102,900	0.59 %
26	Aktia Secura Mutual Fund	100,000	0.58 %

27	Flogstad Olav	99,614	0.57 %
28	Alfred Berg Finland Mutual Fund	95,950	0.55 %
29	Renkkeli Oy	94,400	0.54 %
30	FIM Tekno Mutual Fund	93,250	0.54 %
	Nominee registered shares total	2,493,935	14.38 %
	Others	8,799,449	49.25 %
	Total	17,339,752	100.00 %