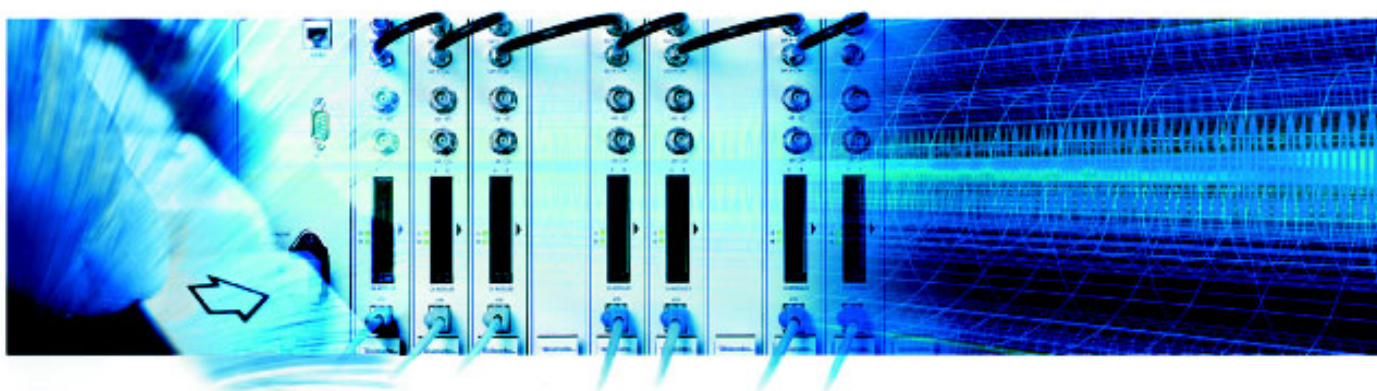


Teleste



Teleste Corporation
Interim Report 1.1.–30.6.2005

Teleste Corporation Interim Report 1.1.– 30.6.2005

- Net sales grew by 52.6 per cent over the previous year amounting to EUR 37.9 million
- Operating profit more than trebled over the previous year totalling EUR 2.8 million
- Orders received increased by 6.5 per cent in comparison with the corresponding period last year standing at EUR 36.9 million
- Combined, orders received and the made framework agreements spanning 2005 to 2007 amounted to EUR 50.9 million indicating a continuous favourable market development
- We believe profitability will continue to improve in the second half of the year

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 0.4 million in terms of operating profit and by EUR 0.4 million in terms of profitability.

Improved Net Sales and Profitability

Teleste's net sales grew by EUR 13.1 million – an increase of 52.6% – over the previous year amounting to EUR 37.9 million (EUR 24.8 million). Operating profit increased by EUR 1.9 million totalling EUR 2.8 million, i.e. 7.3% of the net sales (EUR 0.85 million and 3.5%, respectively). Earnings per share were EUR 0.11 (EUR 0.03).

Teleste's orders received went up by 6.5% standing at EUR 36.9 million (EUR 34.7 million). Out of the framework agreements reported in the period under review and totalling EUR 16 million, EUR 2 million has been entered in orders received. The increased amount of framework agreements signifies a greater emphasis on long-term planning in customer relationships. Order backlog totalled EUR 19.9 million (EUR 16.5 million).

Teleste's net sales for the second quarter were EUR 18.1 million (EUR 13.6 million) and operating profit EUR 1.5 million (EUR 0.7 million), i.e. 8.3 % (5.2 %) of the net sales. During the second quarter, Teleste's orders received amounted to EUR 20.3 million (EUR 23.5 million). Combined, orders received and the framework agreements for the second quarter stood at EUR 34.3 million.

Business Units

Broadband Cable Networks' net sales grew by 60% to EUR 31.4 million (EUR 19.6 million). In the period under review, operating profit stood at EUR 2.6 million accounting for 8.3 % of the net sales (EUR 0.8 million and 4.1 %). The improved operating profit is attributable to the increased net sales brought about by the widened range of products and services and a successful change made to the subcontracting strategy.

Orders received by Broadband Cable Networks increased by 7.5% amounting to EUR 31.6 million (EUR 29.4 million). Framework agreements included, orders received totalled EUR 45.6 million.

For the second quarter, Broadband Cable Networks' net sales stood at EUR 14.8 million (EUR 11 million). Operating profit stood at EUR 1.4 million (EUR 0.6 million) accounting for 9.5% of the net sales (5.9%).

Framework agreements included, the orders received increased to EUR 31.5 million. For the period under review, orders entered in order backlog stood at EUR 17.5 million (EUR 20.5 million).

According to Teleste's internal market report, the business unit maintained its leading position in the European market. Broadband Cable Networks' order backlog totalled EUR 14.8 million (EUR 14.4 million).

Video Networks business unit's net sales grew by 24.4% standing at EUR 6.5 million (EUR 5.2 million). Growth in net sales was largely induced by increased deliveries of traffic control solutions to the United States market and an expansion in the deliveries of network-based systems. In the period under review, operating profit stood at EUR 0.2 million accounting for 2.5% of the net sales (EUR 0.04 million and 0.7%). Video Networks' orders received remained on a par with the previous year amounting to EUR 5.3 million.

The business unit's net sales for the second quarter amounted to EUR 3.3 million (EUR 2.6 million) with operating profit standing at EUR 0.1 million (EUR 0.06 million), i.e. 2.8% (2.2%) of the net sales. In the second quarter, orders received remained on a par with the previous year amounting to EUR 3 million. Broadband Cable Networks' order backlog totalled EUR 5.1 million (EUR 2.1 million).

Personnel

Over the year of comparison, Teleste's personnel increased, on average, by 53 persons standing at 528 (475). This growth in the number of personnel was, for one thing, affected by the acquisition of Flomatik in July 2004.

Research and Development and Investments

At the end of June, Teleste R&D employed 131 (135) persons out of which 118 (118) were stationed in Finland. In the period under review, the R&D expenses amounted to EUR 4.1 million accounting for 10.8% of the net sales (EUR 3.5 million and 14%). In the period under review, the amount of R&D subventions entered in the operating profit is EUR 0.9 million (EUR 0.3 million). Activated R&D expenses stood at EUR 0.7 million (EUR 0.6 million).

The Group's investments in the third quarter totalled EUR 1.6 million (EUR 0.8 million). The made investments involved mostly product development, measuring instruments for production and the new enterprise resource management system introduced in the parent company in the beginning of the second quarter.

Finance

Operating cash flow stood at EUR 1.7 million (EUR 0.7 million) At the end of June, the Group's interest-bearing debt totalled EUR 9.5 million (EUR 10.0 million). During the year, total liquid funds decreased by EUR 3.1 million (EUR -1.4 million) amounting to EUR 13.9 million. This decrease in liquid funds was contributed by a debt repayment item of EUR 1.4 million and a payment of dividends totalling EUR 2 million. The Group's gearing was -16.8% (-11.9%) and the equity ratio was 52.1% per cent (52.2%).

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 operating profit for the reporting period.

Shares and Shareholders

During the period, the share price fluctuated between EUR 5.85 and 7.25. The closing price at the end of June was EUR 6.66. According to the Finnish Central Security Depository, at the end of the period the number of shareholders was 5539. Foreign ownership accounted for 13.60 %. The value of shares traded on the Helsinki Exchanges was EUR 36.4 million (EUR 43 million) while the number thereof amounted to 5.5 million (6.9 million).

At the end of June, the company possessed 490 000 own shares. Authorisation given to the Board by the AGM on 5 April 2005 for acquisition of own shares and increase of share capital has not been used.

Outlook

We confirm our previous estimation concerning the continuing favourable development of the Broadband Cable Networks business in 2005. In spite of fierce competition the business unit's profitability will improve in the second half of the financial period. Effective management of product costs and manufacturing of selected product groups in China improve the unit's competitive edge. Our position in Europe will be strengthened by the wider product range, improved provision of services and the network of offices close to the customer. We will also step up our marketing efforts in carefully selected areas outside Europe.

As to Video Networks, we especially expect the demand for network management projects to pick up. We believe that the business unit's net sales and profitability will grow for the entire year.

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

Teleste's interim report for the January - September period will be published on 25 October 2005.

19 July 2005

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
CEO

Consolidated Statement of Income (tEUR)	1-6 /2005	1-6 /2004	Change %	1-12 /2004
Turnover	37 894	24 834	52.6 %	66 025
Change in inventories of finished goods	-435	-360	20.7 %	65
Other operating income	904	278	225.2%	264
Materials and services	-15 321	-8 439	81.5 %	-27 670
Personnel expenses	-12 328	-9 563	28.9 %	-20 344
Other operating expenses	-7 050	-4 981	41.5 %	-10 945
Depreciation	-889	-919	-3.3 %	-1 795
Operating profit	2 776	850	226.6%	5 599
Financial income and expenses	-111	-96	15.3 %	-192
Profit after financial items	2 666	754	253.5%	5 407
Profit before taxes	2 666	754	253.5%	5 407
Taxes	-783	-231	239.1%	-1 530
Minority share	-103	0	n/a	32
Net profit	1 780	523	240.2%	3 909

Consolidated Statement of Income (tEUR)	4-6 /2005	4-6 /2004	Change %	
Turnover	18 129	13 624	33.1 %	
Change in inventories of finished goods	67	15	350.0%	
Other operating income	836	242	245.5%	
Materials and services	-6 923	-4 830	43.3 %	
Personnel expenses	-6 128	-5 169	18.6 %	
Other operating expenses	-3 989	-2 750	45.1 %	
Depreciation	-492	-428	15.0 %	
Operating profit	1 500	704	113.0%	
Financial income and expenses	-23	-78	-70.6%	
Profit after financial items	1 477	626	135.9%	
Profit before taxes	1 477	626	135.9%	
Taxes	-412	-216	90.8 %	
Minority share	-19	0	n/a	
Net profit	1 046	410	155.0%	

Balance sheet (tEUR)

Long-term assetts	30.6. 2005	30.6. 2004	Change %	31.12. 2004
Intangible assets	5 779	5 049	14.5 %	5 336
Goodwill	8 526	6 629	28.6 %	8 526
Tangible assets	1 859	1 184	57.0 %	1 590

Investments	1 116	1 116	0.0 %	1 116
	17 280	13 978	23.6 %	16 568
Current assets				
Inventories	7 202	4 945	45.6 %	7 908
Other current assets	15 168	13 136	15.5 %	12 776
Short-term investments	10 366	9 701	6.9 %	13 623
Liquid funds	3 598	3 090	16.4 %	3 485
	36 333	30 872	17.7 %	37 792
Total assets	53 614	44 850	19.5 %	54 360
Shareholder's equity and liabilities				
Share capital	6 935	6 936	0.0 %	6 935
Other equity	20 841	16 433	26.8 %	20 807
Minority share	71	0	n/a	0
	27 847	23 369	119.2%	27 742
Non-current liabilities				
Provisions	2 174	1 585	37.2 %	2 065
Interest bearing liabilities	9 306	10 000	-6.9 %	9 059
	11 481	11 585	-0.9 %	11 124
Current liabilities				
Trade payables and other short-term liabilities	14 099	9 896	42.5 %	13 803
S-t interest bearing liabilities	187	0	n/a	1 691
	14 286	9 896	44.4 %	15 494
Total shareholder's equity and liabilities	53 614	44 850	19.5 %	54 360
Cash-flow	1-6	1-6	Change	1-12
	/2005	/2004	%	/2004
Cash-flow from operation	1 714	721	137.7%	6 929
Cash in	37 384	23 623	58.3 %	65 086
Cash out	-35 670	-22 902	55.8 %	-58 158
Cash-flow from investments	-1 399	-809	72.9 %	-2 168
Cash in	0	5	n/a	81
Cash out	-1 399	-814	71.9 %	-2 249
Cash-flow from finance	-3 455	-1 313	163.1%	-1 845
Cash in	0	0	n/a	647
Cash out	-1 438	0	n/a	-1 213
Paid dividend	-2 017	-1 337	50.9 %	-1 337
Other changes in share holder's equity	0	24	n/a	58
Change in liquid funds	-3 140	-1 401	124.1%	2 916
Key figures	1-6	1-6	Change	1-12
	/2005	/2004	%	/2004
Earnings per share, EUR	0.11	0.03	266.7%	0.23

Earnings per share fully diluted, EUR	n/a	n/a	n/a	n/a
Shareholders' equity per share, EUR	1.65	1.40	17.9 %	1.65
Return on equity	13.5 %	4.4 %	206.8%	15.1 %
Return on capital employed	15.0 %	5.7 %	163.2%	16.1 %
Equity ratio	52.1 %	52.2 %	-0.2 %	51.1 %
Gearing	-16.8 %	-11.9 %	41.2 %	-22.9 %
Investments, tEUR	1 625	771	110.8%	5 400
Order backlog, tEUR	19 934	16 478	21.0 %	20 720
Personnel, average	528	475	11.2 %	492
Number of shares (thousands)	17 340	17 328	0.1 %	17 334
Highest share price, EUR	7.25	7.06	2.7 %	7.06
Lowest share price, EUR	5.85	5.14	13.8 %	5.14
Average share price, EUR	6.60	6.22	6.1 %	6.03
Turnover, number in millions	5.5	6.9	-19.8%	12.3
Turnover, in MEUR	36.4	43.0	-15.3%	74.2
Treasury shares				
	Number of shares	Nominal value eur	% of share capital	% of votes
Parent company owns own shares 30.6.2005	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	1 962	1 352	45.1 %	1 691
	18 962	18 352	3.3 %	19 273
Derivative instruments (tEUR)				
Value of underlying forward contracts	8 383	4 626	81.2 %	9 624
Market value of forward contracts	8 584	4 638	85.1 %	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 (tEUR)	1-6 /2005	1-6 /2004	Change %	
Broadband Cable Networks				
Order intake	31 601	29 403	7.5 %	

Turnover	31 439	19 644	60.0 %
EBIT	2 615	815	220.9%
EBIT %	8.3 %	4.1 %	100.5%
Video Networks			
Order intake	5 344	5 283	1.2 %
Turnover	6 455	5 190	24.4 %
EBIT	161	35	360.0%
EBIT %	2.5 %	0.7 %	269.9%
Total			
Order intake	36 945	34 686	6.5 %
Turnover	37 894	24 834	52.6 %
EBIT	2 776	850	226.6%
EBIT %	7.3 %	3.4 %	114.0%

Information per quarter(tEUR)	4-6/ 05	1-3/ 05	10-12/ 04	7-9/ 04	4-6/ 04	7/2004- 6/2005
Teleste total						
Order intake	20 344	16 601	27 239	18 575	23 492	82 759
Turnover	18 129	19 765	23 182	18 009	13 624	79 085
EBIT	1 500	1 276	2 711	2 038	704	7 525
EBIT %	8.3 %	6.5 %	11.7 %	11.3 %	5.2 %	9.5 %

Major Shareholders	Shares	%
1. Sampo Life Insurance Company Ltd	1 624 200	9.37 %
2. Keskinäinen Eläkevakuutusyhtiö Ilma	840 350	4.85 %
3. Varma Mutual Pension Insurance Company	712 350	4.11 %
4. OP-Suomi Kasvu Mutual Fund	611 200	3.52 %
5. Kaleva Mutual Insurance Company	588 900	3.40 %
6. FIM Fenno Mutual Fund	517 500	2.98 %
7. Teleste Corporation	490 000	2.83 %
8. State Pension Fund	450 000	2.60 %
9. Aktia Capital Mutual Fund	390 300	2.25 %
10. Nordea Nordic Small Cap Mutual Fund	275 350	1.59 %
11. Fondita Nordic Small Cap Placfond	270 000	1.56 %
12. Nordea Life Assurance Company FinlandLtd	226 350	1.31 %
13. Gyllenberg Finlandia Mutual Fund	218 525	1.26 %
14. Odin Finland	214 050	1.23 %
15. FIM Forte Mutual Fund	201 050	1.16 %
16. Pensionsförsäkringsaktiebolaget	175 000	1.01 %
17. Pohjola Finland Kasvu mutual fund	150 550	0.87 %
18. Gyllenberg Small Firm Mutual Fund	138 150	0.80 %
19. Mandatum Suomi Kasvuosake Mutual Fund	137 100	0.79 %
20. Finanssi-Sampo Oy	130 000	0.75 %
21. Gyllenberg Momentum Mutual Fund	119 000	0.69 %
22. Rausanne Oy	114 400	0.66 %
23. Sv. litteratursällskapet i Finland r.f.	111 000	0.64 %
24. Sumato Oy	107 660	0.62 %
25. Aktia Secura Mutual Fund	100 000	0.58 %
26. Flogstad Olav	99 614	0.57 %
27. Alfred Berg Finland Mutual Fund	97 350	0.56 %

28.	Renkkeli Oy	94 400	0.54 %
29.	Mutual Fund Fondita 2000 +	90 000	0.52 %
30.	Carnegie Osake Mutual Fund	84 150	0.49 %
	Foreign and nominee registered	2 357 698	13.60%
	Others	5 603 555	32.30%
	Total	17 339 752	100.0%