

Teleste



Teleste Corporation
Interim Report 1.1.–30.9.2005

- Net sales grew by 36.1 per cent over the previous year amounting to EUR 58.3 million
- Operating profit nearly doubled over the previous year totalling EUR 5.5 million
- Orders received increased by 14.3 per cent in comparison with the corresponding period last year standing at EUR 60.9 million
- The favourable market situation will continue even in 2006

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 0.5 million in terms of operating profit and by EUR 0.5 million in terms of post-tax profitability.

Improved Net Sales and Profitability

Teleste's net sales grew by EUR 15.5 million – an increase of 36.1 % – over the previous year amounting to EUR 58.3 million (EUR 42.8 million). Operating profit increased by EUR 2.6 million totalling EUR 5.5 million, i.e. 9.5% of the net sales (EUR 2.9 million and 6.7%, respectively). Earnings per share were EUR 0.22 (EUR 0.11). Orders received went up by 14.3% standing at EUR 60.9 million (EUR 53.3 million). Order backlog totalled EUR 23.3 million (EUR 16.8 million).

Teleste's net sales for the third quarter were EUR 20.4 million (EUR 18 million) and operating profit EUR 2.7 million (EUR 2 million), i.e. 13.4% (11.3%) of the net sales. In the third quarter Teleste's orders received went up by 28.8 % over the year of comparison standing at EUR 23.9 million (EUR 18.6 million).

Business Units

Broadband Cable Networks' net sales grew by 36.8% to EUR 48.0 million (EUR 35.1 million). In the period under review, operating profit stood at EUR 4.9 million accounting for 10.2% of the net sales (EUR 2.8 million and 7.9%).

In addition to production's robust ability to deliver, growth in net sales and increased profitability in the favourable market situation were also contributed by a wider range of products and services. Orders received by Broadband Cable Networks increased by 14.7% amounting to EUR 51.8 million (EUR 45.2 million).

Broadband Cable Networks business unit's net sales in the third quarter amounted to EUR 16.6 million (EUR 15.5 million). Operating profit stood at EUR 2.3 million (EUR 2.0 million) accounting for 13.6% of the net sales (12.8%). In Q3, orders received went up by 28% standing at EUR 20.2 million (EUR 15.8 million). The market situation of the business unit was good. Broadband Cable Networks' order backlog totalled EUR 18.4 million (EUR 14.5 million).

Video Networks business unit's net sales grew by 32.9% standing at EUR 10.3 million (EUR 7.7 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 to the French National Railways (SNCF). In the period under review, operating profit stood at EUR 0.6 million accounting for 6.2% of the net sales (EUR 0.1 million and 1.3%). Orders received by the Video Networks business unit increased by 12.1% amounting to EUR 9.1 million (EUR 8.1 million).

Video Networks business unit's net sales for the third quarter amounted to EUR 3.8 million (EUR 2.6 million) and operating profit to EUR 0.5 million (EUR 0.06 million), i.e. 12.4% (2.5%) of the net sales. In Q3, orders received increased by 32.8% over the year of comparison standing at EUR 3.7 million (EUR 2.8 million). Video Networks' order backlog totalled EUR 4.9 million (EUR 2.3 million).

Personnel

At the end of the review period Teleste employed 543 (506) persons. At the end of the review period the number of hired personnel in Teleste's production was 20. Share of R&D personnel was approximately 24% (approx. 30%).

Research and Development and Investments

At the end of September Teleste R&D employed 129 (137) persons. In the period under review, the R&D expenses amounted to EUR 6.0 million accounting for 10.3% of the net sales (EUR 4.7 million and 11%). In the period under review, the amount of R&D subventions entered in the operating profit is EUR 1.4 million (EUR 0.4 million). Activated R&D expenses stood at EUR 1.1 million (EUR 0.9 million).

The Group's investments totalled EUR 2.5 million (EUR 2.9 million). The focus areas were product development and measuring instruments for production.

Finance

Operating cash flow totalled EUR 2.3 million (EUR 0.6 million). Operating cash flow for the third quarter amounted to EUR 0.6 million (EUR -0.1 million). At the end of September, Group's interest bearing debt amounted to EUR 9.6 million (EUR 11.1 million). During the year, liquid funds decreased by EUR 4.8 million (EUR -2.3 million) amounting to EUR 12.3 million. This decrease in liquid funds was contributed by a debt repayment item of EUR 1.4 million, a payment of dividends totalling EUR 2.0 million, payment of Flomatik additional purchase price of EUR 1.4 million and an increase in current assets by about EUR 5 million. The Group's gearing was -9.0% (-2.9%) and the equity ratio was 53.5% (50.3%).

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 currency 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

In the past year the trading price of shares fluctuated between EUR 5.85 (5.14) and EUR 8.35 (7.06). The closing price at the end of September was EUR 8.15 (5.32). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,259 (6,168). Foreign ownership accounted for 13.4% (14.7%). The value of shares traded on the Helsinki Exchanges was EUR 57.5 million (EUR 55.5 million) while the number thereof amounted to 8.4 million (9.1 million).

At the end of September the company possessed 485,000 own shares. Authorisation given to the Board by the AGM on 5 April 2005 for acquisition of own shares and increasing the share capital has not been used. The number of own shares conveyed in the payment of Flomatik additional purchase price was 5,000.

Outlook

The favourable development of Broadband Cable Networks and Video Networks business units will continue in the last quarter of 2005.

As to the entire 2005, Teleste's sales and profitability show a clear improvement over the previous year.

We believe Teleste's business environment will continue its favourable development also in 2006.

Teleste's final accounts for the year 2005 will be published on 31 January 2006.

24 October 2005

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
CEO

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Consolidated Statement of Income (tEUR)	1-9 /2005	1-9 /2004	Change %	1-12 /2004
Turnover	58 322	42 843	36.1 %	66 025
Change in inventories of finished goods	-399	649	-161,4 %	65
Other operating income	1 514	448	238.0 %	264
Materials and services	-25 250	-18 304	37.9 %	-27 670
Personnel expenses	-17 433	-14 059	24.0 %	-20 344
Other operating expenses	-9 795	-7 336	33.5 %	-10 945
Depreciation	-1 445	-1 353	6.8 %	-1 795
Operating profit	5 514	2 888	90.9 %	5 599
Financial income and expenses	-100	-179	-44.1 %	-192
Profit after financial items	5 414	2 709	99.9 %	5 407
Profit before taxes	5 414	2 709	99.9 %	5 407
Taxes	-1 592	-816	95.1 %	-1 530
Minority share	-103	33	n/a	32
Net profit	3 719	1 926	93.1 %	3 909
Consolidated Statement of Income (tEUR)	7-9 /2005	7-9 /2004	Change %	
Turnover	20 427	18 009	13.4 %	
Change in inventories of finished goods	36	1 009	-96.4 %	
Other operating income	610	170	258.9 %	
Materials and services	-9 929	-9 865	0.6 %	
Personnel expenses	-5 106	-4 496	13.6 %	
Other operating expenses	-2 745	-2 355	16.6 %	
Depreciation	-556	-434	28.1 %	
Operating profit	2 738	2 038	34.3 %	
Financial income and expenses	11	-83	n/a	
Profit after financial items	2 749	1 955	40.6 %	
Profit before taxes	2 749	1 955	40.6 %	
Taxes	-809	-585	38.3 %	
Minority share	0	33	n/a	
Net profit	1 940	1 403	38.2 %	
Balance sheet (tEUR)	30.9. 2005	30.9. 2004	Change %	31.12. 2004
Long-term assets				
Intangible assets	5 872	5 207	12.8 %	5 336
Goodwill	8 526	6 985	22.1 %	8 526
Tangible assets	2 049	1 228	66.9 %	1 590
Investments	1 116	1 116	0.0 %	1 116
	17 563	14 536	20.8 %	16 568
Current assets				
Inventories	8 772	7 379	18.9 %	7 908
Other current assets	17 640	17 287	2.0 %	12 776

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Short-term investments	7 000	10 774	-35.0 %	13 623
Liquid funds	5 294	1 070	394.8 %	3 485
	38 706	36 510	6.0 %	37 792
Total assets	56 269	51 046	10.2 %	54 360
Shareholder's equity and liabilities				
Share capital	6 935	6 935	0.0 %	6 935
Other equity	23 010	18 637	23.5 %	20 807
Minority share	71	0	n/a	0
	30 016	25 572	117.4 %	27 742
Non-current liabilities				
Provisions	2 239	1 710	30.9 %	2 065
Interest bearing liabilities	8 012	10 234	-21.7 %	9 059
	10 250	11 944	-14.2 %	11 124
Current liabilities				
Trade payables and other short-term liabilities	14 425	12 634	14.2 %	13 803
S-t interest bearing liabilities	1 577	896	76.0 %	1 691
	16 002	13 530	18.3 %	15 494
Total shareholder's equity and liabilities	56 269	51 046	10,2 %	54 360
Cash-flow				
	1-9 /2005	1-9 /2004	Change %	1-12 /2004
Cash-flow from operation	2 338	598	290.8 %	6 929
Cash in	54 341	39 962	36.0 %	65 086
Cash out	-52 003	-39 364	32.1 %	-58 158
Cash-flow from investments	-3 604	-1 509	138.8 %	-2 168
Cash in	0	5	n/a	81
Cash out	-3 604	-1 514	138.0 %	-2 249
Cash-flow from finance	-3 548	-1 437	146.9 %	-1 845
Cash in	0	0	n/a	647
Cash out	-1 564	-124	1161.0 %	-1 213
Paid dividend	-2 017	-1 337	50.9 %	-1 337
Other changes in share holder's equity	33	24	37.5 %	58
Change in liquid funds	-4 814	-2 348	105.0 %	2 916
Key figures				
	1-9 /2005	1-9 /2004	Change %	1-12 /2004
Earnings per share, EUR	0.22	0.11	100.0 %	0.23
Earnings per share fully diluted, EUR	n/a	n/a	n/a	n/a
Shareholders' equity per share, EUR	1.78	1.52	17.2 %	1.65
Return on equity	17.6 %	10.2 %	73.0 %	15.1 %
Return on capital employed	19.3 %	11.7 %	64.8 %	16.1 %
Equity ratio	53.5 %	50.3 %	6.4 %	51.1 %
Gearing	-9.0 %	-2.9 %	210.8 %	-22.9 %

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Investments, tEUR	2 450	2 942	-16.7 %	5 400
Order backlog, tEUR	23 294	16 770	38.9 %	20 720
Personnel, average	537	485	10.7 %	492
Number of shares (thousands)	17 340	17 332	0.0 %	17 334
Highest share price, EUR	8.35	7.06	18.3 %	7.06
Lowest share price, EUR	5.85	5.14	13.8 %	5.14
Average share price, EUR	6.81	6.11	11.5 %	6.03
Turnover, number in millions	8.4	9.1	-7.4 %	12.3
Turnover, in MEUR	57.5	55.5	3.6 %	74.2

Treasury shares

	Number of shares	Nominal value EUR	% of Share capital	% of votes
Parent company owns own shares 30.9.2005	485 000	194 000	2.80 %	2.80 %

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	1 845	1 372	34.5 %	1 691
	18 845	18 372	2.6 %	19 273

Derivative instruments (tEUR)

Value of underlying forward contracts	11 329	4 811	135.5 %	9 624
Market value of forward contracts	11 397	4 784	138.2 %	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)

Broadband Cable Networks

Order intake	51 803	45 180	14.7 %
Turnover	48 023	35 096	36.8 %
EBIT	4 875	2 789	74.8 %
EBIT %	10.2 %	7.9 %	27.7 %

Video Networks

Order intake	9 060	8 081	12.1 %
Turnover	10 299	7 747	32.9 %
EBIT	639	99	545.5 %
EBIT %	6.2 %	1.3 %	385.5 %

Total

Order intake	60 863	53 261	14.3 %
Turnover	58 322	42 843	36.1 %
EBIT	5 514	2 888	90.9 %
EBIT %	9.5 %	6.7 %	40.3 %

Information per 7-9 4-6 1-3 10-12 7-9 10/2004-

quarter (tEUR)	Luvut_ENG.ans					
	/05	/05	/05	/04	/04	9/2005
Teleste total						
Order intake	23 918	20 344	16 601	27 239	18 575	88 102
Turnover	20 427	18 129	19 765	23 182	18 009	81 503
EBIT	2 738	1 500	1 276	2 711	2 038	8 225
EBIT %	13.4 %	8.3 %	6.5 %	11.7 %	11.3 %	10.1 %

Shareholder groups	Shares	%
Corporations	1 887 370	10.88%
Financial and insurance institutions	5 421 847	31.27%
Public organizations	2 575 650	14.85%
Non-profit organizations	1 073 545	6.19%
Households	4 054 021	23.38%
Foreign and nominee register accounts	2 327 319	13.42%
Total	17 339 752	100.00%

Major shareholders	Shares	%
1. Sampo Life Insurance Company Ltd	1 624 200	9.37%
2. Ilmarinen Mutual Pension Insurance 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. FIM Fenno Mutual Fund	519 500	3.00%
6. Teleste Corporation	485 000	2.80%
7. Aktia capital Mutual Fund	476 450	2.75%
8. OP-Suomi Kasvu Mutual Fund	411 200	2.37%
9. State Pension Fund	400 000	2.31%
10. Mutual Insurance company Eläke-Fennia	300 000	1.73%