

Interim Report

- Net sales grew by 15.4% over the previous year amounting to EUR 22.8 million
- Operating profit stood at EUR 2.2 million, an increase of 68.7% over the previous year; earnings per share more than doubled to EUR 0.09 per share
- Orders received improved by 62.4% over the previous year standing at EUR 27.0 million
- Broadband Cable Networks' orders received increased by 71.2% over the previous year
- Video Networks' orders received were up by 12.7% over the previous year

Data unaudited. This interim report has been compiled in compliance with IFRS IAS 34.

Improved Net Sales and Profitability

Net sales grew by 15.4% over the same period last year amounting to EUR 22.8 million (EUR 19.8 million). Operating profit increased by 68.7% from previous year totalling EUR 2.2 million i.e. 9.4% of the net sales (EUR 1.3 million and 6.5%, respectively). Earnings per share were EUR 0.09 (EUR 0.04). Orders received went up by 62.4% over the previous year standing at EUR 27.0 million (EUR 16.6 million). The order backlog totalled EUR 27.0 million (EUR 17.6 million). Delays in deliveries occurred towards the end of the review period due to lengthened delivery times in some components.

Business Units

Broadband Cable Networks' net sales grew by 14% over last year to EUR 19.0 million (EUR 16.6 million). Operating profit stood at EUR 2.0 million (EUR 1.2 million). In addition to effective management of material expenses the improved operating profit was brought about by growth in net sales and other revenues. Orders received by the Broadband Cable Networks business unit increased by 71.2% over last year to EUR 24.2 million (EUR 14.1 million).

Framework agreements will only be recorded as orders received once the customer places a written order related to the agreement. The order backlog totalled EUR 24.1 million (EUR 12.2 million).

Video Networks' net sales grew by 23.1% over last year to EUR 3.9 million (EUR 3.1 million). Operating profit stood at EUR 0.15 million (EUR 0.07 million). Orders received by the Video Networks business unit increased by 12.7% over last year amounting to EUR 2.8 million (EUR 2.5 million). The order backlog totalled EUR 2.9 million (EUR 5.4 million).

Personnel

At the end of March, the Group employed 569 people (526), 405 (403) of them in Finland.

R&D and Investments

Teleste's R&D personnel included 124 (123) persons. In the period under review, the R&D expenses amounted to EUR 2.1 million accounting for 9.4% of the net sales (EUR 1.9 million and 9.7%).

Activated R&D expenses stood at EUR 0.3 million (EUR 0.3 million). In March 2006, the National Technology Agency of Finland decided to continue its contribution to the development of broadband integrated services digital networks. The total amount of development support stands at EUR 2.2 million and the decision is valid till 31 December 2006.

The Group's investments totalled EUR 0.4 million (EUR 0.8 million). The focus areas were product development, fixtures and measuring instruments for production. In the period under review, the real estate in Norway was sold with inconsequential capital gain.

Finance

Operating cash flow stood at EUR -0.3 million (EUR -1.0 million). Increase in current assets of EUR 2.3 million was caused by growth in partial deliveries. Inventories grew by 2.3 million while short-term non-interest bearing liabilities went up by EUR 2.4 million as we made preparations for deliveries in line with the order backlog and framework agreements.

At the end of March, the Group's interest-bearing debt was EUR 3.9 million (EUR 9.4 million). In Q1 liquid funds decreased by EUR 0.6 million (EUR -2.9 million) standing at EUR 7.9 million (EUR 14.2 million). In addition to liquid funds the company's unused stand-by credits amount to EUR 27 million. The Group's gearing was -11.8% (-16.9%) and the equity ratio was 58.3% (55%).

Teleste hedges main exchange rate risks of forecasted currency flows for six months ahead.

Shares and Shareholders

During the period under review the share price fluctuated between EUR 6.46 and EUR 11.17. At the end of March, the closing price was EUR 10.79 (EUR 6.95).

According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 6,146 (5,557). Foreign ownership accounted for 16.1% (16.2%).

The value of shares traded on the Helsinki Exchanges was EUR 46 million (EUR 18 million) while the number thereof amounted to 5.2 million (2.8 million).

At the end of March, Teleste held 485,000 of the company's own shares.

Decisions by the Annual General Meeting

The Annual General Meeting held on 4 April 2006 confirmed the financial statements for 2005 and discharged the Board and the CEO from liability for the financial period.

The AGM confirmed the dividend of EUR 0.16 per share as proposed by the Board of Directors. The dividend was paid on 18 April 2006.

Composition of Teleste's Board remained unchanged. 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.

Authorised Public Accountants KPMG Oy Ab continue as the auditor for the financial period 2006.

The AGM authorised the Board to acquire the maximum of 1,215,000 of the company's own shares and to convey 1,700,000 company's own shares. Based on authorisations of 2001 and 2002 the company is in the possession of 485,000 of its 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 expire on 4 April 2007. In the period under review the authorisations given by the AGM have not been used.

Outlook

In our estimation, the favourable development of the Broadband Cable Networks business will continue. The business unit concluded a significant cooperation agreement involving delivery of a 100 Mbps Ethernet to the Home (EttH) solution to the Dutch Essent Kabelcom. The related deliveries begin in June 2006.

In the beginning of April, the Video Networks business unit concluded a three-year framework agreement with British Telecommunications plc, thus, extending the on-going client relationship established in 1997. We believe the deliveries related to the new framework agreement will exceed EUR 10 million in the next three years and expect the network management projects to pick up towards the end of the year.

Teleste's favourable development will continue. Net sales and operating profit will improve from those of last year. In the near future, the working capital will increase as we prepare for deliveries in line with the order backlog and framework agreements while getting ready for a growing service business

Teleste's interim report for the January to June period will be published on 13 July 2006.

25.4.2006

Teleste Corporation
Board of Directors

Jukka Rinnevaara
President and CEO

Consolidated Statement of Income (tEUR)	1-3/2006	1-3/2005	Change %	1-12/2005
Turnover	22 811	19 765	15.4 %	82 588
Change in inventories of finished goods	27	-502	n/a	761
Other operating income	703	68	933.2 %	1 530
Materials and services	-10 138	-8 398	20.7 %	-36 443
Personnel expenses	-6 688	-6 200	7.9 %	-24 124
Other operating expenses	-3 968	-3 061	29.6 %	-13 791
Depreciation	-593	-397	49.7 %	-1 940
Operating profit	2 153	1 276	68.7 %	8 582
Financial income and expenses	-23	-88	-73.8 %	-261
Profit after financial items	2 130	1 189	79.2 %	8 321
Profit before taxes	2 130	1 189	79.2 %	8 321
Taxes	-574	-371	54.8 %	-2 363
Minority share	0	-84	n/a	0
Net profit	1 556	734	112.1 %	5 956

Attributable to:

Equity holders of the parent	1 556	734	112.1 %	5 956
Minority interest	0	84	n/a	0
	1 556	818	90.2 %	5 956

Earnings per share for profit of the year attributable to the equity holders of the parent

(expressed in € per share)

Basic	0.09	0.04	111.9 %	0.35
Diluted	0.09	0.04	111.9 %	0.33

BALANCE SHEET (tEUR)	31.3.2006	31.3.2005	Change %	31.12.2005
Non-current assets				
Property, plant, equipment	5 648	5 431	4.0 %	5 860
Goodwill	9 205	8 526	8.0 %	9 205
Intangible assets	2 344	1 953	20.0 %	2 589
Investments	1 116	1 116	0.0 %	1 116
	18 313	17 026	7.6 %	18 770
Current assets				
Inventories	11 911	7 511	58.6 %	9 623
Other current assets	20 166	13 660	47.6 %	17 878
Short-term investments	1 700	12 666	-86.6 %	2 000
Liquid funds	6 207	1 536	304.1 %	6 524
	39 984	35 373	13.0 %	36 025
Total assets	58 297	52 400	11.3 %	54 795

Shareholder's equity and liabilities

Share capital	6 935	6 935	0.0 %	6 935
Other equity	27 053	21 703	24.7 %	25 371
	33 988	28 638	18.7 %	32 306
Minority share	0	84	n/a	0
	33 988	28 722	18.3 %	32 306

Non-current liabilities				
Provisions	515	537	-4.1 %	515
Non interest bearing liabilities	60	0	n/a	433
Interest bearing liabilities	688	9 141	-92.5 %	706
	1 263	11 206	-88.7 %	1 654
Short-term liabilities				
Trade payables and other s-t liabilities	18 488	12 262	50.8 %	16 123
Provisions	1 343	1 528	-12.1 %	1 502
S-t interest bearing liabilities	3 215	211	1423.7 %	3 210
	23 047	12 473	84.8 %	20 835
Total shareholder's equity and liabilities	58 297	52 400	11.3 %	54 795

Cash-flow (tEUR)	1-3/2006	1-3/2005	Change %	1-12/2005
Cash-flow from operation	-270	-1 033	-73.9 %	5 537
Cash in	21 358	19 363	10.3 %	84 118
Cash out	-21 627	-20 396	6.0 %	-78 581
Cash-flow from investments	-288	-444	-35.1 %	-4 612
Cash in	315	0	n/a	0
Cash out	-603	-444	35.8 %	-4 612
Cash-flow from finance	-58	-1 429	-95.9 %	-9 545
Cash in	0	0	n/a	3 000
Cash out	-58	-1 429	-95.9 %	-10 523
Paid dividend	0	0	n/a	-2 022
Other items	-1	0	n/a	36
Effect of currency rates	-1	0		36
Change in liquid funds	-617	-2 906	-78.8 %	-8 584

Key figures	1-3/2006	1-3/2005	Change %	1-12/2005
Earnings per share, EUR	0.09	0.04	111.9 %	0.35
Earnings per share fully diluted, EUR	0.09	0.04	111.9 %	0.33
Shareholders' equity per share, EUR	2.02	1.70	18.6 %	1.92
Return on equity	18.8 %	11.6 %	62.0 %	19.8 %
Return on capital employed	23.7 %	13.7 %	73.2 %	23.7 %
Equity ratio	58.3 %	55.0 %	6.0 %	59.1 %
Gearing	-11.8 %	-16.9 %	-30.3 %	-14.3 %
Investments, tEUR	378	774	-51.2 %	4 073
Order backlog, tEUR	27 018	17 563	53.8 %	22 700
Personnel, average	565	524	7.8 %	546
Number of shares (thousands) including own shares	17 340	17 340	0.0 %	17 340
Highest share price, EUR	11.17	7.25	54.1 %	8.35
Lowest share price, EUR	6.46	5.85	10.4 %	5.85
Average share price, EUR	8.88	6.65	33.5 %	6.97
Turnover, in million shares	5.2	2.8	85.0 %	10.8
Turnover, in MEUR	46	18	151.2 %	75

Treasury shares

	Number of shares	Nominal value eur	% of share capital	% of votes
Parent company owns own shares 31.3.2006	485 000	194 000	2.80 %	2.80 %

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

For own debt				
Guarantees	659	0	n/a	320
Mortgages on company assets	0	10 000	n/a	0
Mortgages on properties	0	7 000	n/a	0
Leasing and rent liabilities	1 829	1 863	-1.8 %	1 779
	2 488	18 863	-86.8 %	2 099

Derivative instruments (tEUR)

Value of underlying forward contracts	15 517	8 967	73.0 %	16 503
Market value of forward contracts	15 440	9 036	70.9 %	16 597

Primary segments information (tEUR)

	1-3/2006	1-3/2005	Change %	1-12/2005
Broadband Cable Networks				
Order intake	24 168	14 120	71.2 %	72 850
Net sales	18 959	16 637	14.0 %	67 179
EBIT	2 003	1 209	65.6 %	7 374
EBIT%	10.6 %	7.3 %	45.3 %	11.0 %
Video Networks				
Order intake	2 795	2 481	12.7 %	12 500
Net sales	3 852	3 128	23.1 %	15 409
EBIT	150	67	123.9 %	1 208
EBIT%	3.9 %	2.1 %	81.8 %	7.8 %
Total				
Order intake	26 963	16 601	62.4 %	85 350
Net sales	22 811	19 765	15.4 %	82 588
EBIT	2 153	1 276	68.7 %	8 582
EBIT%	9.4 %	6.5 %	46.2 %	10.4 %

**Information per quarter
(tEUR)**

	1-3/06	10-12/05	7-9/05	4-6/05	1-3/05	4/2005- 3/2006
Broadband Cable Networks						
Order intake	24 168	21 047	20 202	17 481	14 120	82 898
Net sales	18 959	19 157	16 583	14 802	16 637	69 501
EBIT	2 003	2 499	2 260	1 406	1 209	8 168
EBIT %	10.6 %	13.0 %	13.6 %	9.5 %	7.3 %	11.8 %
Video Networks						
Order intake	2 795	3 490	3 716	2 863	2 481	12 864
Net sales	3 852	5 110	3 844	3 327	3 128	16 133
EBIT	150	569	478	94	67	1 291
EBIT %	3.9 %	11.1 %	12.4 %	2.8 %	2.1 %	8.0 %

Total						
Order intake	26 963	24 537	23 918	20 344	16 601	95 762
Net sales	22 811	24 267	20 427	18 129	19 765	85 634
EBIT	2 153	3 068	2 738	1 500	1 276	9 459
EBIT %	9.4 %	12.6 %	13.4 %	8.3 %	6.5 %	11.0 %

Attributable to equity holders of the parent (tEUR)

	Share capital	Share premium	Translation differences	Retained earnings	Total
Shareholder's equity 1.1.2006	6 935	1 276	70	24 025	32 306
Translation differences			-1		-1
Profit of the period				1 556	1 556
Equity-settled share-based payments				127	127
Shareholder's equity 31.3.2006	6 935	1 276	69	25 708	33 988

Distribution of ownership

	Shares	%
Companies	1,844,150	10.64 %
Financial institutions	5,116,590	29.51 %
Public institutions	2,830,642	16.32 %
Nonprofit organisations	940,845	5.43 %
Private individuals	3,819,188	22.03 %
Foreign and nominee-registered	2,788,337	16.08 %
Total	17,339,752	100.00 %

Shareholders

	Shares	%
Sampo Life Insurance Company Ltd	1,624,200	9.37 %
Ilmarinen Mutual Pension Insurance Company	1,162,500	6.70 %
Kaleva Mutual Insurance Company	785,900	4.53 %
Mutual Insurance Company Eläke-Fennia	530,000	3.06 %
FIM Fenno Mutual Fund	529,900	3.06 %
Aktia Capital Mutual Fund	521,450	3.01 %
Varma Mutual Pension Insurance Company	521,150	3.01 %
Teleste Corporation	485,000	2.80 %
State Pension Fund	400,000	2.31 %
Fondita Nordic Small Cap Placfond	300,000	1.73 %