

Interim Report

Teleste Corporation Interim Report 1.1. - 30.6.2006

- Net sales grew by 20% over the previous year amounting to EUR 45.5 million
- Operating profit increased by 47.8% over the previous year totalling EUR 4.1 million, earnings per share increased 68.2% standing at EUR 0.18 per share
- Orders received improved by 31.1% over the previous year standing at EUR 48.4 million
- Broadband Cable Networks' orders received grew by 34.8% over the previous year
- Video Networks' orders received were up by 9.3% over the previous year

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

Net Sales and Profitability Developed Favourably

Net sales grew by 20.0% over the same period last year standing at EUR 45.5 million (EUR 37.9 million). Operating profit grew by 47.8% over the previous year amounting to EUR 4.1 million and was 9.0% of the net sales (EUR 2.8 million and 7.3%).

Undiluted result per share equalled EUR 0.18 (EUR 0.11). Orders received went up by 31.1% over the previous year standing at EUR 48.4 million (EUR 36.9 million). The order backlog totalled EUR 25.7 million (EUR 19.9 million).

Delays in deliveries persisted towards the end of the review period due to lengthened delivery times in some components. In addition, ability of cable TV operators to carry out network installations slowed down deliveries to some degree in the summer season.

Net sales for the second quarter totalled EUR 22.7 million (EUR 18.1 million) and operating profit was EUR 1.9 million (EUR 1.5 million), i.e. 8.6% (8.3%) of the net sales. In the second quarter, orders received amounted to EUR 21.4 million (EUR 20.3 million).

Teleste consolidated its competence through acquisition of Suomen Turvakamera Oy in May 2006 and the Swedish PromaCom AB in June.

Business Units

Broadband Cable Networks

Broadband Cable Networks' net sales grew by 21.1% over the previous year to EUR 38.1 million (EUR 31.4 million). Operating profit stood at EUR 3.9 million (EUR 2.6 million). This improvement in the operating profit was mainly attributed to increased net sales. Orders received by the Broadband Cable Networks business unit increased by 34.8% over the previous year to EUR 42.6 million (EUR 31.6 million). Order backlog totalled EUR 23.9 million (EUR 14.8 million).

In the second quarter, Broadband Cable Networks' net sales stood at EUR 19.1 million (EUR 14.8 million). Deliveries were delayed to some degree due to lengthened lead times of components and the shift in cable networks installations caused by the football world cup. Operating profit stood at EUR 1.9 million (EUR 1.4 million) accounting for 10.0% of the net sales (9.5%). In the second quarter, orders received amounted to EUR 18.4 million (EUR 17.5 million).

The Swedish PromaCom AB was acquired in June 2006 to consolidate integration expertise in Broadband Cable Networks' fibre technology (FttH) applications.

Video Networks

Video Networks business unit's net sales grew by 14.6% over the previous year standing at EUR 7.4 million (EUR 6.5 million). Operating profit stood at EUR 0.19 million (EUR 0.16 million). Orders received by the Video Networks business unit increased by 9.3% over the previous year amounting to EUR 5.8 million (EUR 5.3 million). Order backlog totalled EUR 1.8 million (EUR 5.1 million).

In the second quarter, Video Networks' net sales stood at EUR 3.5 million (EUR 3.3 million). Operating profit stood at EUR 0.04 million (EUR 0.09 million), i.e. 1.1% of net sales (2.8%). In the second quarter, orders received amounted to EUR 3.0 million (EUR 2.9 million).

Suomen Turvakamera Oy was acquired in May 2006 to expand the business unit's range of solutions provided for the mid-market segment of the clientele.

Personnel

At the end of June, the Group employed 662 (557) persons, 490 of them stationed in Finland. The number of personnel includes 55 (44) summer substitutes.

R&D and Investments

At the end of June, Teleste's R&D personnel included 128 (131) persons. In the period under review, the R&D expenses amounted to EUR 4.3 million accounting for 9.6% of the net sales (EUR 4.1 million and 10.8%). Activated R&D expenses stood at EUR 0.7 million (EUR 0.7 million).

The Group's investments totalled EUR 4.5 million (EUR 1.6 million). The priority areas included acquisitions, product development and measuring instruments for production. In the period under review, the real estate in Norway was sold with inconsequential capital gain.

Finance

In the period under review, cash flow from operations stood at EUR -4.3 million (EUR 1.7 million). The increase in current assets by EUR 7.6 million in the period under review was due to growth in accounts receivables and accrued income. Inventories grew by EUR 4.4 million and non-interest-bearing short-term debt increased by EUR 3.7 million.

At the end of the review period, liquid funds stood at EUR 8.2 million (EUR 14.0 million). At the end of June, the Group's interest-bearing debt was EUR 14.8 million (EUR 9.5 million). In the review period, interest-bearing debt increased by EUR 10.8 million. The increased interest-bearing funds were used to finance investments and growth in working capital.

At the end of June, in addition to liquid funds the company's undrawn available credit facilities amounted to EUR 17 million. The Group's gearing ratio stood at 20.1% (-16.8 %) and the equity ratio was 47.7% (52.1%).

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 12.75. The closing price at the end of June was EUR 9.84 (6.66). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5,755 (5,539) while foreign ownership accounted for 19.5% (13.6%).

The value of shares traded on the Helsinki Exchanges was EUR 89.5 million (EUR 36.4 million) and the number of shares amounted to 9.2 million (5.5 million).

In January 2006, Ilmarinen Mutual Pension Insurance Company reported its ownership having increased up to 5.42%. At the end of June, Teleste possessed 455,000 of its own shares.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) 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 out 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 Toivola and Mr. Pekka Vennamo continued as members on the Board of Directors.

Authorised Public Accountants KPMG Oy Ab continues 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. The AGM authorised the company to increase the share capital by a directed issue of no more than EUR 1,360,000 being equal to 3.4 million shares. These authorisations expire on 4 April 2007.

The authorisations granted by the AGM have been used by conveying 30,000 own shares in the acquisition of the share capital of Suomen Turvakamera Oy; other authorisations have not been used.

Based on authorisations granted in 2001 and 2002, the company is in possession of 455,000 of its own shares.

Outlook

In our estimation, the favourable development of the Broadband Cable Networks business will continue. There is a mounting interest among the clientele in Teleste's fast communications solution (100 Mbps) Ethernet to the Home and we expect orders to pick up in the latter part of the year. The unit has prepared for continuing favourable market situation by strengthening its competence in fibre solutions (FttH) and developing logistical processes.

We believe the order backlog on network products of Video Networks business unit will increase towards the end of the year. The acquisition of Suomen Turvakamera expands the business unit's product range in the mid-market segment of the clientele. In the latter part of the year we will start marketing surveillance solutions of Suomen Turvakamera in the United States and Europe for selected customers by means of Teleste's sales network and complementary technology.

Teleste's net sales and profitability will improve from those of last year. Cash flow from operations will improve in the second half of the year.

Teleste's interim report for the January to September period will be published on 24 October 2006.

13.7.2006

Teleste Corporation
Board of Directors

Jukka Rinnevaara
President and CEO

| Consolidated Statement of Income (tEUR) | 1-6 /2006 | 1-6 /2005 | Change % | 1-12 /2005 |
|--------------------------------------------|--------------|--------------|----------|---------------|
| Turnover | 45 480 | 37 894 | 20.0 % | 82 588 |
| Change in inventories of finished goods | 2 358 | -435 | n/a | 761 |
| Other operating income | 1 242 | 904 | 37.3 % | 1 530 |
| Materials and services | -22 935 | -15 321 | 49.7 % | -36 443 |
| Personnel expenses | -13 259 | -12 328 | 7.6 % | -24 124 |
| Other operating expenses | -7 627 | -7 050 | 8.2 % | -13 791 |
| Depreciation | -1 158 | -889 | 30.3 % | -1 940 |
| Operating profit | 4 102 | 2 776 | 47.8 % | 8 582 |
| Financial income and expenses | -149 | -111 | 34.9 % | -261 |
| Profit after financial items | 3 953 | 2 666 | 48.3 % | 8 321 |
| Profit before taxes | 3 953 | 2 666 | 48.3 % | 8 321 |
| Taxes | -956 | -783 | 22.1 % | -2 363 |
| Minority share | 0 | -103 | n/a | 0 |
| Net profit | 2 997 | 1 780 | 68.4 % | 5 956 |

| | | | | |
|---------------------------------|-------|-------|---------|-------|
| Attributable to: | | | | |
| Equity holders of the parent | 2 997 | 1 780 | 168.4 % | 5 956 |
| Minority interest | 0 | 103 | n/a | 0 |
| | 2 997 | 1 883 | 159.2 % | 5 956 |

| | | | | |
|-------------------------------------------------------------------------------------------------------------------------------|------|------|--------|------|
| Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in EUR per share) | | | | |
| Basic | 0.18 | 0.11 | 68.2 % | 0.35 |
| Diluted | 0.17 | 0.10 | 68.3 % | 0.33 |

| Consolidated Statement of Income (tEUR) | 4-6 /2006 | 4-6 /2005 | Change % |
|--------------------------------------------|--------------|--------------|----------|
| Turnover | 22 669 | 18 129 | 25.0 % |
| Change in inventories of finished goods | 2 331 | 67 | 3379.7 % |
| Other operating income | 539 | 836 | -35.5 % |
| Materials and services | -12 796 | -6 923 | 84.8 % |
| Personnel expenses | -6 571 | -6 128 | 7.2 % |
| Other operating expenses | -3 659 | -3 989 | -8.3 % |
| Depreciation | -565 | -492 | 14.8 % |
| Operating profit | 1 949 | 1 500 | 29.9 % |
| Financial income and expenses | -126 | -23 | 448.9 % |
| Profit after financial items | 1 823 | 1 477 | 23.4 % |
| Profit before taxes | 1 823 | 1 477 | 23.4 % |
| Taxes | -382 | -412 | -7.3 % |
| Minority share | 0 | -19 | n/a |
| Net profit | 1 441 | 1 046 | 37.7 % |

| BALANCE SHEET (tEUR) | 30.6. 2006 | 30.6. 2005 | Change % | 31.12. 2005 |
|--------------------------------------------|---------------|---------------|----------|----------------|
| Non-current assets | | | | |
| Property, plant, equipment | 5 774 | 5 779 | -0.1 % | 5 860 |
| Goodwill | 12 581 | 8 526 | 47.6 % | 9 205 |
| Intangible assets | 2 536 | 1 859 | 36.4 % | 2 589 |
| Investments | 1 116 | 1 116 | 0.0 % | 1 116 |
| | 22 007 | 17 280 | 27.4 % | 18 770 |
| Current assets | | | | |
| Inventories | 14 047 | 7 202 | 95.0 % | 9 623 |
| Other current assets | 25 498 | 15 168 | 68.1 % | 17 878 |
| Short-term investments | 0 | 10 366 | n/a | 2 000 |
| Liquid funds | 8 152 | 3 598 | 126.6 % | 6 524 |
| | 47 697 | 36 334 | 31.3 % | 36 025 |
| Total assets | 69 704 | 53 614 | 30.0 % | 54 795 |
| Shareholder's equity and liabilities | | | | |
| Share capital | 6 942 | 6 935 | 0.1 % | 6 935 |
| Other equity | 26 280 | 20 841 | 26.1 % | 25 371 |
| | 33 222 | 27 776 | 19.6 % | 32 306 |
| Minority share | 0 | 71 | n/a | 0 |
| | 33 222 | 27 847 | 19.3 % | 32 306 |
| Non-current liabilities | | | | |
| Provisions | 515 | 544 | -5.3 % | 515 |
| Non interest bearing liabilities | 0 | 0 | n/a | 433 |
| Interest bearing liabilities | 1 227 | 9 306 | -86.8 % | 706 |
| | 1 742 | 9 850 | -82.3 % | 1 654 |
| Short-term liabilities | | | | |
| Trade payables and other s-t liabilities | 19 786 | 14 099 | 40.3 % | 16 123 |
| Provisions | 1 356 | 1 630 | -16.8 % | 1 502 |
| S-t interest bearing liabilities | 13 598 | 187 | 7171.7 % | 3 210 |
| | 34 740 | 15 916 | 118.3 % | 20 835 |
| Total shareholder's equity and liabilities | 69 704 | 53 614 | 30.0 % | 54 795 |
| Cash-flow (tEUR) | 1-6/ /2006 | 1-6 /2005 | Change % | 1-12 /2005 |
| Cash-flow from operation | -4 336 | 1 714 | n/a | 5 537 |
| Cash in | 39 234 | 37 384 | 4.9 % | 84 118 |
| Cash out | -43 570 | -35 670 | 22.1 % | -78 581 |
| Cash-flow from investments | -3 278 | -1 399 | 134.3 % | -4 612 |
| Cash in | 315 | 0 | n/a | 0 |
| Cash out | -3 593 | -1 399 | 156.8 % | -4 612 |
| Cash-flow from finance | 7 226 | -3 455 | n/a | -9 545 |
| Cash in | 10 051 | 0 | n/a | 3 000 |
| Cash out | -128 | -1 438 | -91.1 % | -10 523 |
| Paid dividend | -2 697 | -2 017 | 33.7 % | -2 022 |
| Other items | 17 | 0 | n/a | 36 |
| Effect of currency rates | 17 | 0 | n/a | 36 |
| Change in liquid funds | -372 | -3 140 | -88.2 % | -8 584 |
| Key figures | 1-6 | 1-6 | Change % | 1-12 |

| | | | | |
|---------------------------------------|--------|---------|---------|---------|
| | /2006 | /2005 | | /2005 |
| Earnings per share, EUR | 0.18 | 0.11 | 68.2 % | 0.35 |
| Earnings per share fully diluted, EUR | 0.17 | 0.10 | 68.3 % | 0.33 |
| Shareholders' equity per share, EUR | 1.97 | 1.65 | 19.4 % | 1.92 |
| Return on equity | 18.3 % | 13.5 % | 35.6 % | 19.8 % |
| Return on capital employed | 19.3 % | 15.0 % | 28.7 % | 23.7 % |
| Equity ratio | 47.7 % | 52.1 % | -8.4 % | 59.1 % |
| Gearing | 20.1 % | -16.8 % | n/a | -14.3 % |
| Investments, tEUR | 4 511 | 1 625 | 177.6 % | 4 073 |
| Order backlog, tEUR | 25 663 | 19 934 | 34.1 % | 22 700 |
| Personnel, average | 590 | 528 | 11.7 % | 546 |
| Number of shares (thousands) | 17 343 | 17 340 | 0.0 % | 17 340 |
| including own shares | | | | |
| Highest share price, EUR | 12.75 | 7.25 | 75.9 % | 8.35 |
| Lowest share price, EUR | 6.46 | 5.85 | 10.4 % | 5.85 |
| Average share price, EUR | 9.83 | 6.60 | 48.9 % | 6.97 |
| Turnover, in million shares | 9.2 | 5.5 | 66.4 % | 10.8 |
| Turnover, in MEUR | 89.5 | 36.4 | 145.8 % | 75.3 |

Treasury shares

| | Number of shares | Nominal value Eur | % of share capital | % of votes |
|------------------------------------------|------------------|-------------------|--------------------|------------|
| Parent company owns own shares 30.6.2006 | 455 000 | 182 000 | 2.62 % | 2.62 % |

Contingent liabilities and pledged assets (tEUR)

| | | | | |
|---------------------------------------|--------|--------|---------|--------|
| For own debt | | | | |
| Guarantees | 888 | 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 | 2 159 | 1 962 | 10 % | 1 779 |
| | 3 047 | 18 962 | -83.9 % | 2 099 |
| Derivative instruments (tEUR) | | | | |
| Value of underlying forward contracts | 18 212 | 8 383 | 117.2 % | 16 503 |
| Market value of forward contracts | 18 271 | 8 584 | 112.8 % | 16 597 |

Taxes are computed on the basis of the tax on the profit for the period.

| Primary segments information (tEUR) | 1-6 /2006 | 1-6 /2005 | Change % | 1-12 /2005 |
|-------------------------------------|-----------|-----------|----------|------------|
| Broadband Cable Networks | | | | |
| Order intake | 42 603 | 31 601 | 34.8 % | 72 850 |
| Net sales | 38 080 | 31 439 | 21.1 % | 67 179 |
| EBIT | 3 912 | 2 615 | 49.6 % | 7 374 |
| EBIT% | 10.3 % | 8.3 % | 23.5 % | 11.0 % |
| Video Networks | | | | |
| Order intake | 5 840 | 5 344 | 9.3 % | 12 500 |

| | | | | |
|--------------|--------|--------|--------|--------|
| Net sales | 7 400 | 6 455 | 14.6 % | 15 409 |
| EBIT | 190 | 161 | 18.0 % | 1 208 |
| EBIT% | 2.6 % | 2.5 % | 2.9 % | 7.8 % |
| Total | | | | |
| Order intake | 48 443 | 36 945 | 31.1 % | 85 350 |
| Net sales | 45 480 | 37 894 | 20.0 % | 82 588 |
| EBIT | 4 102 | 2 776 | 47.8 % | 8 582 |
| EBIT% | 9.0 % | 7.3 % | 23.1 % | 10.4 % |

Information per quarter (tEUR) 4-6 /06 1-3 /06 10-12 /05 7-9 /05 4-6 /05 7/2005-6/2006

| | | | | | | |
|--------------------------|--------|--------|--------|--------|--------|--------|
| Broadband Cable Networks | | | | | | |
| Order intake | 18 435 | 24 168 | 21 047 | 20 202 | 17 481 | 83 852 |
| Net sales | 19 121 | 18 959 | 19 157 | 16 583 | 14 802 | 73 820 |
| EBIT | 1 909 | 2 003 | 2 499 | 2 260 | 1 406 | 8 671 |
| EBIT % | 10.0 % | 10.6 % | 13.0 % | 13.6 % | 9.5 % | 11.7 % |

| | | | | | | |
|----------------|-------|-------|--------|--------|-------|--------|
| Video Networks | | | | | | |
| Order intake | 3 045 | 2 795 | 3 490 | 3 716 | 2 863 | 13 046 |
| Net sales | 3 548 | 3 852 | 5 110 | 3 844 | 3 327 | 16 354 |
| EBIT | 40 | 150 | 569 | 478 | 94 | 1 237 |
| EBIT % | 1.1 % | 3.9 % | 11.1 % | 12.4 % | 2.8 % | 7.6 % |

| | | | | | | |
|--------------|--------|--------|--------|--------|--------|--------|
| Total | | | | | | |
| Order intake | 21 480 | 26 963 | 24 537 | 23 918 | 20 344 | 96 898 |
| Net sales | 22 669 | 22 811 | 24 267 | 20 427 | 18 129 | 90 174 |
| EBIT | 1 949 | 2 153 | 3 068 | 2 738 | 1 500 | 9 908 |
| EBIT % | 8.6 % | 9.4 % | 12.6 % | 13.4 % | 8.3 % | 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 | | | 17 | | 17 |
| Profit of the period | | | | 2 997 | 2 997 |
| Equity-settled share-based payments | 7 | 45 | | -2 150 | 2 098 |
| Shareholder's equity 30.6.2006 | 6 942 | 1 321 | 87 | 24 872 | 33 222 |

| | | |
|--------------------------------|------------|----------|
| Distribution of Ownership | | |
| | Shares | % |
| Companies | 1,767,443 | 10.18 % |
| Financial institutions | 4,728,590 | 27.25 % |
| Public institutions | 3,038,100 | 17.51 % |
| Nonprofit organisations | 949,445 | 5.47 % |
| Private individuals | 3,485,120 | 20.08 % |
| Foreign and nominee-registered | 3,383,054 | 19.49 % |
| Total | 17,353,752 | 100.00 % |

| | | |
|----------------------------------------------|-----------|--------|
| Major Shareholders | | |
| | Shares | % |
| 1 Sampo Life Insurance Company Ltd | 1,624,200 | 9.36 % |
| 2 Ilmarinen Mutual Pension Insurance Company | 1,606,900 | 9.26 % |

| | | | |
|----|-------------------------------------------|---------|--------|
| 3 | Kaleva Mutual Insurance Company | 785,900 | 4.53 % |
| 4 | FIM Fenno Mutual Fund | 529,900 | 3.05 % |
| 5 | Aktia Capital Mutual Fund | 521,450 | 3.00 % |
| 6 | Varma Mutual Pension Insurance Company | 486,150 | 2.80 % |
| 7 | Teleste Corporation | 455,000 | 2.62 % |
| 8 | State Pension Fund | 400,000 | 2.30 % |
| 9 | Mutual Insurance Company Eläke- Fennia | 350,000 | 2.02 % |
| 10 | Fondita Nordic Small Cap Placfond | 300,000 | 1.73 % |

ADDITIONAL INFORMATION:

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DISTRIBUTION:

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