

Interim Report

- Net sales grew by 25.8% amounting to EUR 73.4 (58.3) million
- Operating profit grew by 37.7% equalling EUR 7.6 (5.5) million
- Undiluted result per share increased by 46% standing at EUR 0.32 (0.22)
- Orders received improved by 20.5% standing at EUR 73.3 (60.9) million
- Orders received by Broadband Cable Networks increased by 21.7% amounting to EUR 63.0 (51.8) million
- Orders received by Video Networks increased by 13.3% standing at EUR 10.3 (9.1) million

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

Growth in Net Sales and Profitability

Year-on-year net sales grew by 25.8% amounting to EUR 73.4 (January to September 2005: 58.3) million. Compared to the same time period in the previous year operating profit grew by 37.7% standing at EUR 7.6 (5.5) million making 10.4% (9.5%) of net sales.

Undiluted result per share equalled EUR 0.32 (EUR 0.22). Year over year, orders received improved by 20.5% standing at EUR 73.3 (60.9) million. Order backlog totalled EUR 22.7 (23.3) million. Some EUR 6.9 million of deliveries in the backlog are scheduled for 2007 or later.

Contingency planning required for deliveries under framework agreements involved, among others, increased inventories, but therefore, delays in deliveries could essentially be avoided towards the end of the review period.

Net sales in Q3 amounted to EUR 27.9 (20.4) million while operating profit equalled EUR 3.5 (2.7) million making 12.5% (13.4%) of net sales. Orders received in Q3 stood at EUR 24.9 (23.9) million.

Business Units

Broadband Cable Networks

Year-on-year net sales increased by 28.5% amounting to EUR 61.7 (48.0) million. Operating profit stood at EUR 7.2 (4.9) million. This enhancement in the operating profit can be attributed to increased net sales. Orders received improved by 21.7% from the previous year standing at EUR 63.0 (51.8) million. Order backlog totalled EUR 20.8 (18.4) million.

The Q3 net sales for the business was EUR 23.6 (16.6) million. Operating profit stood at EUR 3.3 (2.3) million making 13.9% (13.6%) of the net sales. Orders received in Q3 stood at EUR 20.4 (20.2) million.

Video Networks

Year-on-year net sales increased by 13% amounting to EUR 11.6 (10.3) million. Operating profit stood at EUR 0.4 (0.6) million. Orders received by the business increased by 13.3% compared to the same period in the previous year standing at EUR 10.3 (9.1) million. Order backlog totalled EUR 1.9 (4.9) million.

Drop in the order backlog compared to the same time period in the previous year is mainly due to revenue recognition from the project involving the CCTV management system for the French National Railway Authority (SNCF).

The Q3 net sales for the business was EUR 4.2 (3.8) million. Operating profit stood at EUR 0.2 (0.5) million making 4.6% (12.4%) of the net sales. Decreased profitability over the corresponding period in 2005 is attributable to investments made in network management resources and R&D. Orders received in Q3 stood at EUR 4.4 (3.7) million.

Personnel

At the end of September, the Group employed 607 (543) people, 177 of them stationed outside Finland. The number of staff does not include hired labour amounting to 50 (19) persons at the end of the review period.

R&D and Investments

At the end of September, the number of Teleste's R&D personnel was 128 (129). The R&D expenditure for the review period totalled EUR 5.9 (6.0) million making 8.1% (10.3%) of net sales. Activated R&D expenses stood at EUR 0.9 (1.1) million. Depreciation on activated R&D expenses for the period under review amounted to EUR 0.7 (0.4) million.

Investments for the Group totalled EUR 5.3 (2.5) million. Priority areas included acquisitions, product development and measuring instruments for production.

To shorten the turnaround time in R&D the company has placed an order for a new SMT component placement line scheduled for commissioning in the first half of 2007.

In the period under review, the real estate in Norway was sold with inconsequential capital gain.

Finance

Operating cash flow for the period under review stood at EUR -1.3 (2.3) million. In the relevant period the amount of working capital tied was EUR 9.3 million consisting of short-term receivables of EUR 8.5 million and inventories of EUR 6.2 million. Increased inventories were designed to ensure availability of components with longer-than-average delivery time. Non-interest bearing liabilities grew by EUR 5.4 million.

At the end of the review period, liquid funds stood at EUR 9.6 (12.3) million. At the end of September, interest-bearing debt for the Group stood at EUR 14.9 million. Made investments and the increased working capital were partially financed using interest-bearing debt.

At the end of September, in addition to liquid funds the company's unused stand-by credits amounted to EUR 17 million. Teleste's gearing ratio was 14.6% (-9%) while the equity ratio was 48.3% (53.5%).

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

Shares and Shareholders

In the past year the trading price of shares fluctuated between EUR 6.46 (5.85) and EUR 12.75 (8.35). The closing price at the end of September was EUR 8.95 (8.15). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5875 (6259) while foreign ownership accounted for 19.3% (13.4%).

The value of shares traded on the Helsinki Exchanges was EUR 98.0 (57.5) million while the number thereof equalled 10.1 (8.4) million.

In January 2006, Ilmarinen Mutual Pension Insurance Company reported its ownership having increased up to 5.42%. In August 2006, Schroder Investment Management Limited flagged their holding to have reached 5.01%.

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 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. The AGM authorised the company to increase the share capital by 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 capital stock 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 current favourable development of the Broadband Cable Networks business will continue in the last quarter of 2006. We estimate accrual for orders placed for the Ethernet to the Home (EttH) to start in the last quarter of the year. We will sustain our focus on innovative network solutions designed to support the cable operators' business and continue the efforts in strengthening our command of fibre technology (FttH) while developing and providing value added services suited to the requirements of the cable operators.

Video Networks will sustain its efforts in chosen markets to commoditise solutions tailored to meet requirements set by specific industries. Additionally, the priority areas include large-scale CCTV solutions related to traffic and urban area surveillance.

Teleste's net sales and post-tax profit for 2006 will increase from the previous year.

We estimate the market for 2007 to continue favourably in both our businesses. However, changes in the ownership arrangements of some cable operators may cause temporary delays in scheduled deliveries. Order accrual for Video Networks is greatly dependent on timing of decisions taken by public authorities in different countries.

Teleste's final accounts for the financial year 2006 will be released on 30 January 2007.

24.10.2006

Teleste Corporation
Board of Directors

Jukka Rinnevaara
President and CEO

Consolidated Statement of Income (tEUR)	1-9 /2006	1-9 /2005	Change %	1-12 /2005
Turnover	73 350	58 322	25.8 %	82 588
Change in inventories of finished goods	6 268	-399	n/a	761
Other operating income	1 618	1 514	6.8 %	1 530
Materials and services	-40 459	-25 250	60.2 %	-36 443
Personnel expenses	-19 720	-17 433	13.1 %	-24 124
Other operating expenses	-11 696	-9 795	19.4 %	-13 791
Depreciation	-1 769	-1 445	22.4 %	-1 940
Operating profit	7 593	5 514	37.7 %	8 582
Financial income and expenses	-306	-100	205.6 %	-261
Profit after financial items	7 288	5 414	34.6 %	8 321
Profit before taxes	7 288	5 414	34.6 %	8 321
Taxes	-1 864	-1 592	17.1 %	-2 363
Minority share	0	-103	n/a	0
Net profit	5 424	3 719	45.8 %	5 956
Attributable to:				
Equity holders of the parent	5 424	3 719	45.8 %	5 956
Minority interest	0	103	n/a	0
	5 424	3 822	41.9 %	5 956
Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in EUR per share)				
Basic	0.32	0.22	46.0 %	0.35
Diluted	0.30	0.21	45.7 %	0.33

Consolidated Statement of Income (tEUR)	7-9 /2006	7-9 /2005	Change %	
Turnover	27 870	20 427	36.4 %	
Change in inventories of finished goods	3 910	36	n/a	
Other operating income	376	610	-38.3 %	
Materials and services	-17 524	-9 929	76.5 %	
Personnel expenses	-6 461	-5 106	26.5 %	
Other operating expenses	-4 069	-2 745	48.2 %	
Depreciation	-610	-556	9.8 %	
Operating profit	3 491	2 738	27.5 %	
Financial income and expenses	-156	11	n/a	
Profit after financial items	3 335	2 749	21.3 %	
Profit before taxes	3 335	2 749	21.3 %	
Taxes	-908	-809	12.2 %	
Minority share	0	0	n/a	
Net profit	2 427	1 940	25.1 %	

BALANCE SHEET (tEUR)	30.9. 2006	30.9. 2005	Change %	31.12. 2005
Non-current assets				
Property, plant, equipment	5 691	5 872	-3.1 %	5 860
Goodwill	12 327	8 526	44.6 %	9 205

Intangible assets	3 272	2 049	59.7 %	2 589
Investments	1 116	1 116	0.0 %	1 116
	22 406	17 563	27.6 %	18 770
Current assets				
Inventories	15 807	8 772	80.2 %	9 623
Other current assets	26 380	17 640	49.5 %	17 878
Short-term investments	788	7 000	n/a	2 000
Liquid funds	8 832	5 294	66.8 %	6 524
	51 807	38 706	33.8 %	36 025
Total assets	74 213	56 269	31.9 %	54 795
Shareholder's equity and liabilities				
Share capital	6 954	6 935	0.3 %	6 935
Other equity	28 855	23 010	25.4 %	25 371
	35 809	29 945	19.6 %	32 306
Minority share	0	71	n/a	0
	35 809	30 016	19.3 %	32 306
Non-current liabilities				
Provisions	515	609	-15.4 %	515
Non interest bearing liabilities	0	0	n/a	433
Interest bearing liabilities	1 599	8 012	-80.0 %	706
	2 114	8 621	-75.5 %	1 654
Short-term liabilities				
Trade payables and other s-t liabilities	21 960	14 425	52.2 %	16 123
Provisions	1 071	1 630	-34.3 %	1 502
S-t interest bearing liabilities	13 259	1 577	740.8 %	3 210
	36 290	17 632	105.8 %	20 835
Total shareholder's equity and liabilities	74 213	56 269	31.9 %	54 795
Cash-flow (tEUR)	1-9	1-9	Change	1-12
	/2006	/2005	%	/2005
Cash-flow from operation	-1 320	2 338	n/a	5 537
Cash in	67 783	54 341	24.7 %	84 118
Cash out	-69 103	-52 003	32.9 %	-78 581
Cash-flow from investments	-4 758	-3 604	32.0 %	-4 612
Cash in	321	0	n/a	0
Cash out	-5 079	-3 604	40.9 %	-4 612
Cash-flow from finance	7 224	-3 581	n/a	-9 545
Cash in	10 094	0	n/a	3 000
Cash out	-319	-1 564	-79.6 %	-10 523
Emission	146	0	n/a	0
Paid dividend	-2 697	-2 017	33.7 %	-2 022
Other items	-50	33	n/a	36
Effect of currency rates	-50	33	n/a	36
Change in liquid funds	1 096	-4 814	n/a	-8 584
Key figures	1-9	1-9	Change	1-12
	/2006	/2005	%	/2005
Earnings per share, EUR	0.32	0.22	46.0 %	0.35
Earnings per share fully diluted, EUR	0.30	0.21	45.7 %	0.33
Shareholders' equity per share, EUR	2.12	1.78	19.0 %	1.92

Return on equity	21.2 %	17.6 %	20.3 %	19.8 %
Return on capital employed	23.1 %	19.3 %	20.0 %	23.7 %
Equity ratio	48.3 %	53.5 %	-9.9 %	59.1 %
Gearing	14.6 %	-9.0 %	n/a	-14.3 %
Investments, tEUR	5 340	2 450	118.0 %	4 073
Order backlog, tEUR	22 662	23 294	-2.7 %	22 700
Personnel, average	604	537	12.5 %	546
Number of shares (thousands) including own shares	17 355	17 340	0.1 %	17 340
Highest share price, EUR	12.75	8.35	52.7 %	8.35
Lowest share price, EUR	6.46	5.85	10.4 %	5.85
Average share price, EUR	9.79	6.81	43.8 %	6.97
Turnover, in million shares	10.1	8.4	19.8 %	10.8
Turnover, in MEUR	98.0	57.5	70.5 %	75.3

Treasury shares

	Number of shares	Nominal value EUR	% of share capital	% of votes
Parent company owns own shares 30.9.2006	455 000	182 000	2.62 %	2.62 %

Contingent liabilities and pledged assets (tEUR)

For own debt				
Guarantees	794	0	n/a	320
Mortgages on company assets	475	10 000	-95.3 %	0
Mortgages on properties	0	7 000	n/a	0
Leasing and rent liabilities	2 866	1 845	55,3 %	1 779
	4 135	18 845	-78.1 %	2 099

Derivative instruments (tEUR)

Value of underlying forward contracts	11 471	8 383	36.8 %	16 503
Market value of forward contracts	11 430	8 584	33.2 %	16 597

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

Primary segments information (tEUR)	1-9 /2006	1-9 /2005	Change %	1-12 /2005
--	--------------	--------------	-------------	---------------

Broadband Cable Networks

Order intake	63 044	51 803	21.7 %	72 850
Net sales	61 707	48 023	28.5 %	67 179
EBIT	7 206	4 875	47.8 %	7 374
EBIT%	11.7 %	10.2 %	15.0 %	11.0 %

Video Networks

Order intake	10 268	9 060	13.3 %	12 500
Net sales	11 643	10 299	13.0 %	15 409
EBIT	387	639	-39.4 %	1 208
EBIT%	3.3 %	6.2 %	-46.4 %	7.8 %

Total						
Order intake		73 312	60 863	20.5 %		85 350
Net sales		73 350	58 322	25.8 %		82 588
EBIT		7 593	5 514	37.7 %		8 582
EBIT%		10.4 %	9.5 %	9.5 %		10.4 %

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

Broadband Cable Networks

Order intake	20 441	18 435	24 168	21 047	20 202	84 091
Net sales	23 627	19 121	18 959	19 157	16 583	80 864
EBIT	3 294	1 909	2 003	2 499	2 260	9 705
EBIT %	13.9 %	10.0 %	10.6 %	13.0 %	13.6 %	12.0 %

Video Networks

Order intake	4 428	3 045	2 795	3 490	3 716	13 758
Net sales	4 243	3 548	3 852	5 110	3 844	16 753
EBIT	197	40	150	569	478	956
EBIT %	4.6 %	1.1 %	3.9 %	11.1 %	12.4 %	5.7 %

Total

Order intake	24 869	21 480	26 963	24 537	23 918	97 849
Net sales	27 870	22 669	22 811	24 267	20 427	97 617
EBIT	3 491	1 949	2 153	3 068	2 738	10 661
EBIT %	12.5 %	8.6 %	9.4 %	12.6 %	13.4 %	10.9 %

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			-50		-50
Profit of the period				5 424	5 424
Equity-settled share-based payments	19	126		-2 016	-1 871
Shareholder's equity 30.9.2006	6 954	1 402	20	27 433	35 809

Distribution of Ownership

	Shares	%
Companies	1 763 218	10.14%
Financial institutions	4 766 651	27.42%
Public institutions	2 926 283	16.83%
Nonprofit organisations	954 045	5.49%
Private individuals	3 613 122	20.78%
Foreign and nominee-registered	3 361 533	19.33%
Total	17 386 852	100.00%

Shareholders

	Shares	%
1. Sampo Life Insurance Company Ltd	1 624 200	9.34%
2. Ilmarinen Mutual Pension Insurance Company	1 569 083	9.02%
3. Kaleva Mutual Insurance Company	785 900	4.52%
4. FIM Fenno Mutual Fund	529 900	3.05%
5. Aktia Capital Mutual Fund	521 450	3.00%

6.	Teleste Corporation	455 000	2.62%
7.	Varma Mutual Pension Insurance Company	407 150	2.34%
8.	State Pension Fund	400 000	2.30%
9.	Mutual Insurance Company Eläke-Fennia	350 000	2.01%
10.	Nordea Nordic Small Cap Mutual Fund	305 350	1.76%