

Interim Report

- Net sales grew by 35.8% over the previous year amounting to EUR 61.8 million
- Operating profit stood at EUR 5.5 million, an increase of 33.8% over the previous year; undiluted result per share grew by 26.6% to EUR 0.22 per share
- Orders received improved by 22.5% over the previous year standing at EUR 59.3 million
- Broadband Cable Networks' orders received increased by 23.0% over the previous year
- Video Networks' orders received were up by 18.5% over the previous year

Improved Net Sales and Profitability

Year-on-year net sales increased by 35.8% standing at EUR 61.8 (45.5) million. Over the previous year operating profit grew by 33.8% standing at EUR 5.5 (4.1) million making 8.9% (9.0%) of net sales. Undiluted result per share equalled EUR 0.22 (EUR 0.18). Orders received improved by 22.5% from the previous year standing at EUR 59.3 (48.4) million. Order backlog totalled EUR 25.7 (25.7) million. No major delivery delays occurred at the end of the period under review.

Net sales in Q2 amounted to EUR 30.3 (22.7) million while operating profit equalled EUR 2.7 (1.9) million making 8.9% (8.6%) of net sales. Orders received in Q2 stood at EUR 23.0 (21.5) million. Accrual of orders received was affected by fluctuation of volumes ordered within the frame agreements.

In April 2007 Teleste strengthened its service business by acquiring the DINH Telecom companies.

Business Areas

Broadband Cable Networks

Broadband Cable Networks' year-on-year net sales grew by 42.6% (21.1%) standing at EUR 54.3 (38.1) million. Operating profit stood at EUR 5.9 (3.9) million making 10.8% (10.3%) of the net sales. This improvement in the operating profit is mainly attributed to increased net sales. Orders received increased by 23.0% (34.8%) over the previous year to EUR 52.4 (42.6) million. Order backlog totalled EUR 24.4 (23.9) million.

Q2 net sales for the business was EUR 26.3 (19.1) million. Operating profit stood at EUR 2.6 (1.9) million making 9.8% (10.0%) of the net sales. Orders received in Q2 stood at EUR 19.7 (18.4) million. Several EttH 100 Mbps deliveries are at testing and test-run stages.

In June the business area entered into a three-year frame agreement with Canal Digital Nordic on deliveries of cable network equipment.

In April 2007 the Belgian DINH Telecom was acquired to strengthen growth in the Broadband Cable Networks' service business.

Video Networks

Net sales of Video Networks amounted to EUR 7.5 (7.4) million. Operating profit remained EUR -0.4 (0.19) million in the red. Orders received by Video Networks increased by 18.5 % (9.3%) over the year of comparison to EUR 6.9 (5.8) million. Order backlog totalled EUR 1.3 (1.8) million.

Q2 net sales for the business totalled EUR 4.1 (3.5) million. Operating profit stood at EUR 0.1 (0.04) million making 2.7% (1.1%) of the net sales. Orders received in Q2 stood at 3.3 (3.0) million.

Significant Short-Term Risks and Uncertainty Factors for the Business Areas

As no essential changes have taken place in the short-term business risks and uncertainty factors our view remains in line with that issued in the interim report published on 24 April 2007.

Ownership rearrangements among our clientele may slow down the folding out of some investments in the business of Broadband Cable Networks. Strengthening of order backlog for Video Networks is dependent on timing of public sector decisions. Introduction to the market of new competing technologies is a characteristic risk factor for both of our business areas.

Personnel

At the end of June the number of people employed by the Group was 721 (662), out of which 530 (490) were stationed in Finland. The number of personnel includes 70 (55) summer substitutes. Temporary labour, equalling 75 (37) at the end of June, is not included in the stated number of personnel.

In June 2007 Johan Slotte was appointed company deputy CEO responsible for the company business development, marketing, quality and IT, human resources and legal affairs. Hanno Narjus was appointed Senior Vice President of Video Networks.

R&D and Investments

At the end of June Teleste's R&D personnel included 148 (128) persons. The R&D expenditure for the review period totalled EUR 6.6 (4.3) million making 10.7% (9.6%) of net sales. Activated R&D expenses stood at EUR 1.2 million (EUR 0.7 million). This growth in activated resources over the previous year was due to development work involving IP HeadEnd, the IP based video processing product family. Depreciation on previous R&D investments amounted to EUR 0.6 (0.4) million. In April 2007 the National Technology Agency of Finland (Tekes) decided to continue its contribution to the development of broadband integrated services digital networks. The total amount of development support stands at EUR 2.9 million spanning the period 2 January 2007 to 30 June 2008.

Investments for the Group totalled EUR 9.9 (4.5) million of which EUR 6.1 million involved the acquisition of DINH Telecom. Other investments focussed mainly on the new SMT line (1.4 million), R&D (1.2 million), production measuring instruments, air conditioning on production premises and information technology. The effect of the final price of S-Link shares on the investments for the period under review amounted to EUR 0.1 million.

Finance

Operating cash flow for the period under review stood at EUR 2.7 (-4.3) million. Short-term receivables for the period under review grew by EUR 7.1 million, inventories increased by EUR 2.1 million and non-interest bearing short-term debt by EUR 2.6 million. As to the growth in working capital for the period EUR 2.2 million was attributed to the extended Group structure. At the end of the review period, liquid funds stood at EUR 10.7 (8.2) million. At the end of June the Group's interest-bearing debt amounted to EUR 20.6 (14.8) million. The interest-bearing debt for the period increased by 12.6 million. The increased interest-bearing funds were used to finance investments and growth in working capital and to pay the dividend.

At the end of June, in addition to liquid funds the company's unused stand-by credits amounted to EUR 12.0 (17.0) million. The Group's gearing ratio was 25.0% (20.1%) and the equity ratio was 46.1% (47.7%). Teleste hedges main exchange rate risks of forecasted currency flows for six months ahead.

Shares and Shareholders

In the period under review the share price fluctuated between EUR 9.99 and EUR 12.34. The closing price at the end of June was EUR 10.79 (9.84). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5,277 (5,755) while foreign ownership accounted for 21.7% (19.5%). The value of shares traded on OMX Nordic Exchange was EUR 43.3 (89.5) million while the number thereof equalled 3.8 (9.2) million.

At the end of June the number of own shares in Teleste's possession was 352,482 equalling 2.0% of the entire capital stock. In February 2007 10,180 own shares, 0.06% of the capital stock, were conveyed to the share bonus scheme of the Management Group. In April 2007 92,338 own shares, 0.53% of the capital stock, were conveyed in the context of the DINH acquisition arrangement.

Decisions by the Annual General Meeting

The Annual General Meeting on 3 April 2007 confirmed the financial statements for 2006 and discharged the Board and the CEO from liability for the financial period. The AGM confirmed the dividend of EUR 0.20 per share as proposed by the Board of Directors. The dividend was paid out on 17 April 2007.

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 until the next AGM.

The AGM authorised the Board to acquire the maximum of 1,290,000 of the company's own shares and to convey the maximum of 1,730,000 company's own shares. Based on authorisations of 2001 and 2002 the company is in the possession of 352,482 of its own shares. The AGM also authorised the company to issue 4,500,000 new shares. Maximum number of significant shares accommodated by the special rights granted by the company equals 1,730,000. These authorisations will be valid until the AGM due to be held in 2008.

Nominal value of the company share was renounced.

The AGM accepted a share option plan involving key personnel. The plan authorises a subscription of 840,000 new shares.

Events after the End of the Period

Broadband Cable Networks obtained a significant order involving a network planning project from England. To implement the project 30 fixed-term network designers will be hired in England in line with the service business strategy.

Outlook

Broadband Cable Networks will continue to develop favourably. We believe the frame agreement accrual to stay on a good level. Sustained profitable growth will be secured by the control over material expenses, active development of the service business and its increasing demand.

Prospect list of Video Networks involving traffic control and urban area surveillance solutions is on a sound level. We believe the order accrual and deliveries to pick up in the second half of the year.

In our view Teleste's net sales for the current year will grow and the profitability will improve in comparison with the previous year.

Teleste's interim report for the January to September period will be published on 23 October 2007.

17.7.2007

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
President and CEO

This interim report has been compiled in compliance with IFRS 34 using the recognition and valuation principles identical with those used in the Annual Report. The data stated in this interim report is unaudited.

CONSOLIDATED STATEMENT OF INCOME (tEUR)	1-6/2007	1-6/2006	Change %	1-12/2006
Turnover	61 757	45 480	35.8 %	101 773
Change in inventories of finished goods	1 849	2 358	-21.6 %	6 066
Other operating income	866	1 242	-30.3 %	2 158
Materials and services	-32 653	-22 935	42.4 %	-54 743
Personnel expenses	-15 361	-13 259	15.9 %	-27 100
Other operating expenses	-9 481	-7 627	24.3 %	-16 006
Depreciation	-1 486	-1 158	28.3 %	-2 393
Operating profit	5 490	4 102	33.8 %	9 755
Financial income and expenses	-335	-149	124.8 %	-467
Profit after financial items	5 155	3 953	30.4 %	9 288
Profit before taxes	5 155	3 953	30.4 %	9 288
Taxes	-1 329	-956	39.0 %	-2 408
Net profit	3 826	2 997	27.6 %	6 879

Attributable to:

Equity holders of the parent	3 826	2 997	27.6 %	6 879
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Earnings per share for profit of the year attributable to the equity holders of the parent

(expressed in EUR per share)

Basic	0.22	0.18	26.6 %	0.41
Diluted	0.21	0.17	24.6 %	0.38

Consolidated Statement of Income (tEUR)	4-6/2007	4-6/2006	Change %
Turnover	30 342	22 669	33.8 %
Change in inventories of finished goods	2 465	2 331	5.7 %
Other operating income	824	539	52.8 %
Materials and services	-17 085	-12 796	33.5 %
Personnel expenses	-8 098	-6 571	23.2 %
Other operating expenses	-4 979	-3 659	36.1 %
Depreciation	-776	-565	37.4 %
Operating profit	2 693	1 949	38.2 %
Financial income and expenses	-99	-126	-21.2 %
Profit after financial items	2 593	1 823	42.3 %
Profit before taxes	2 593	1 823	42.3 %
Taxes	-635	-382	66.2 %
Net profit	1 959	1 441	35.9 %

BALANCE SHEET (tEUR)	30.6. 2007	30.6. 2006	Change %	31.12. 2006
Non-current assets				
Property, plant, equipment	7 362	5 774	27.5 %	5 578
Goodwill	12 731	12 581	1.2 %	12 127
Intangible assets	5 761	2 536	127.2 %	3 614
Investments	1 423	1 116	27.5 %	1 116
	27 277	22 007	23.9 %	22 435
Current assets				
Inventories	18 700	14 047	33.1 %	16 604
Other current assets	29 514	25 498	15.8 %	22 409
Liquid funds	10 745	8 152	31.8 %	6 789
	58 959	47 697	23.6 %	45 802
Total assets	86 236	69 704	23.7 %	68 236
Shareholder's equity and liabilities				
Share capital	6 967	6 942	0.4 %	6 955
Other equity	32 703	26 280	24.4 %	30 706
	39 670	33 222	19.4 %	37 661
Non-current liabilities				
Provisions	425	515	-17.5 %	425
Non interest bearing liabilities	832	0	n/a	368
Interest bearing liabilities	1 930	1 227	57.3 %	742
	3 187	1 742	83.0 %	1 535
Short-term liabilities				
Trade payables and other s-t liabilities	23 527	19 786	18.9 %	20 920
Provisions	1 135	1 356	-16.3 %	850
S-t interest bearing liabilities	18 717	13 598	37.6 %	7 270
	43 379	34 740	24.9 %	29 040
Total shareholder's equity and liabilities	86 236	69 704	23.7 %	68 236
Cash-flow (tEUR)	1-6/2007	1-6/2006	Change %	1-12/2006
Cash-flow from operation	2 746	-4 336	n/a	2 675
Cash in	58 024	39 234	47.9 %	103 931
Cash out	-55 278	-43 570	26.9 %	-101 256
Cash-flow from investments	-6 153	-3 278	87.7 %	-5 136
Cash in	377	315	19.8 %	376
Cash out	-6 530	-3 593	81.7 %	-5 512
Cash-flow from finance	7 381	7 226	2.1 %	731
Cash in	11 325	10 051	12.7 %	4 161
Cash out	-532	-128	315.9 %	-733
Paid dividend	-3 412	-2 697	26.5 %	-2 697
Other items	-18	17	n/a	-5
Effect of currency rates	-18	17	n/a	-5
Change in liquid funds	3 956	-372	n/a	-1 735
Key figures	1-6/2007	1-6/2006	Change %	1-12/2006
Earnings per share, EUR	0.22	0.18	26.6 %	0.41
Earnings per share fully	0.21	0.17	24.6 %	0.38

diluted, EUR				
Shareholders' equity per share, EUR	2.33	1.97	18.4 %	2.22
Return on equity	19.8 %	18.3 %	8.1 %	19.7 %
Return on capital employed	20.9 %	19.3 %	8.3 %	24.3 %
Equity ratio	46.1 %	47.7 %	-3.3 %	55.3 %
Gearing	25.0 %	20.1 %	24.2 %	3.2 %
Investments, tEUR	9 863	4 511	118.6 %	6 160
Investments % of net sales	16.0 %	9.9 %	61.0 %	6.1 %
Order backlog, tEUR	25 685	25 663	0.1 %	28 120
Personnel, average	666	590	12.9 %	608
Number of shares (thousands) including own shares	17 409	17 343	0.4 %	17 363
Highest share price, EUR	12.34	12.75	-3.2 %	12.75
Lowest share price, EUR	9.99	6.46	54.6 %	6.46
Average share price, EUR	11.31	9.83	15.1 %	9.83
Turnover, in million shares	3.8	9.2	-58.4 %	14.2
Turnover, in MEUR	43.3	89.5	-51.7 %	138.9

Contingent liabilities and pledged assets (tEUR)

For own debt				
Guarantees	414	888	-53.4 %	819
Other securities	365	0	n/a	731
Leasing and rent liabilities	2 550	2 159	18.1 %	2 865
	3 329	3 047	9.3 %	4 415

Derivative instruments (tEUR)

Value of underlying forward contracts	9 013	18 212	-50.5 %	9 980
Market value of forward contracts	8 981	18 271	-50.8 %	10 124

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

Primary segments information (tEUR)

Broadband Cable Networks

Order intake	52 402	42 603	23.0 %	92 821
Net sales	54 287	38 080	42.6 %	85 551
EBIT	5 890	3 912	50.6 %	9 055
EBIT%	10.8 %	10.3 %	5.6 %	10.6 %

Video Networks

Order intake	6 920	5 840	18.5 %	14 380
Net sales	7 470	7 400	0.9 %	16 222
EBIT	-400	190	n/a	700
EBIT%	-5.4 %	2.6 %	n/a	4.3 %

Total

Order intake	59 322	48 443	22.5 %	107 201
Net sales	61 757	45 480	35.8 %	101 773
EBIT	5 490	4 102	33.8 %	9 755
EBIT%	8.9 %	9.0 %	-1.4 %	9.6 %

Information per quarter (tEUR)	4-6/07	1-3/07	10-12/06	7-9/06	4-6/06	7/2006-6/2007
Broadband Cable Networks						
Order intake	19 659	32 743	29 777	20 441	18 435	102 620
Net sales	26 279	28 008	23 844	23 627	19 121	101 758
EBIT	2 585	3 305	1 849	3 294	1 909	11 033
EBIT %	9.8 %	11.8 %	7.8 %	13.9 %	10.0 %	10.8 %
Video Networks						
Order intake	3 300	3 620	4 162	4 428	3 045	15 510
Net sales	4 063	3 407	4 579	4 243	3 548	16 292
EBIT	108	-508	313	197	40	110
EBIT %	2.7 %	-14.9 %	6.8 %	4.6 %	1.1 %	0.7 %
Total						
Order intake	22 959	36 363	33 939	24 869	21 480	118 130
Net sales	30 342	31 415	28 423	27 870	22 669	118 050
EBIT	2 693	2 797	2 162	3 491	1 949	11 143
EBIT %	8.9 %	8.9 %	7.6 %	12.5 %	8.6 %	9.4 %

Attributable to equity holders of the parent (tEUR)	Share capital	Share premium	Translation differences	Retained earnings	Invested non-restricted equity fund	Total
Shareholder's equity 1.1.2007	6 955	1 417	65	29 224	0	37 661
Translation differences			-18			-18
Profit of the period				3 826		3 826
Equity-settled share-based payments	12	87		-3 087	1 189	-1 799
Shareholder's equity 30.6.2007	6 967	1 504	47	29 963	1 189	39 670
Shareholder's equity 1.1.2006	6 935	1 276	70	24 025	0	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	0	33 222

ACQUISITIONS 2007

The range of products and services of Broadband Cable Networks was strengthened by acquisition of 100% of shares of Belgian DINH Telecom SA at 4 April 2007. The purchase price was 6.1 MEUR. Treasury shares was conveyed as a part of the payment for the consideration of 1 MEUR i.e. 92.338 numbers. The conveyance was based on authorisation granted by the annual meeting of Teleste Corporation at 3 April 2007. The shares conveyed were measured at the average trading share price quoted in Helsinki Stock Exchange between 5 March and 30 March 2007, which was 10.83 EUR/share. The number of shares then conveyed accounted for 0.53 per cent of the shares of the Teleste Corporation.

The acquisition resulted in 1.785 thousand of intangible assets, which was allocated to trade marks, customer relationships and technology. The goodwill, amounted 460 thousand, is mainly due to synergy effects in the future.

1 000 tEUR	Recognised fair values on acquisition	
Fair values used in consolidation		
Trade marks (inc. in intangible assets)	400	
Customer relationship (inc. in intangible assets)	893	
Technology (inc. in intangible assets)	492	
Book values used in consolidation		
Tangible assets	481	
Shares and other rights	307	
Inventories	548	
Trade receivables	1 064	
Other receivables	2 850	
Cash and cash equivalents	377	
Total assets	7 412	
Book values used in consolidation		
Interest-bearing liabilities	253	
Deferred tax liabilities	464	
Other liabilities	1 065	
Total liabilities	1 782	
Net identifiable assets and liabilities	5 630	
Total consideration	6 000	
Other acquisition costs	90	
Goodwill on acquisition	460	
Consideration paid in cash	-5 000	
Cash and cash equivalents in acquired subsidiary	377	
Total net cash outflow on the acquisition	-4 623	
Sector Dispersion		
	Shares	%
Companies	1 659 369	9.50%
Financial institutions	5 349 657	30.63%
Public institutions	2 470 738	14.15%
Nonprofit organisations	1 063 211	6.09%
Private individuals	3 137 941	17.97%
Foreign and nominee-registered	3 783 352	21.66%
Total	17 464 268	100.00%
Major Shareholders		
	Shares	%
1. Sampo Life Insurance Company Ltd	1 624 200	9.30%
2. Ilmarinen Mutual Pension Insurance Company	1 076 538	6.16%
3. Kaleva Mutual Insurance Company	785 900	4.50%
4. FIM Fenno Mutual Fund	542 639	3.11%
5. Aktia Capital Mutual Fund	521 450	2.99%
6. State Pension Fund	500 000	2.86%
7. Op-Suomi Pienyhtiöt	478 289	2.74%

8.	Varma Mutual Pension Insurance Company	474 150	2.71%
9.	Fondita Nordic Small Cap Placfond	360 000	2.06%
10.	Teleste Corporation	352 482	2.02%

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