

Interim Report

- Net sales grew by 28.2% over the previous year amounting to EUR 94.0 million
- Operating profit stood at EUR 10.1 million, an increase of 33.6% over the previous year; undiluted result per share grew by 27.8% to EUR 0.41 per share
- Orders received improved by 21.1% over the previous year standing at EUR 88.8 million
- Broadband Cable Networks' orders received increased by 20.9% over the previous year
- Video Networks' orders received were up by 22.4% over the previous year

Improved Net Sales and Profitability

Year-on-year net sales increased by 28.2% standing at EUR 94.0 (73.4) million. Over the previous year operating profit grew by 33.6% standing at EUR 10.1 (7.6) million making 10.8% (10.4%) of net sales. Undiluted result per share equalled EUR 0.41 (EUR 0.32). Orders received improved by 21.1% from the previous year standing at EUR 88.8 (73.3) million. Order backlog totalled EUR 23.3 (22.7) million.

Net sales in Q3 amounted to EUR 32.3 (27.9) million while operating profit equalled EUR 4.7 (3.5) million making 14.4% (12.5%) of net sales. Orders received in Q3 stood at EUR 29.4 (24.9) million.

Business Areas

Broadband Cable Networks

Broadband Cable Networks' year-on-year net sales grew by 34.0% (28.5%) standing at EUR 82.7 (61.7) million. Operating profit stood at EUR 10.5 (7.2) million making 12.7% (11.7%) of the net sales. Increase in the business result was based on increased net sales, improved margin in frame agreements and

efficient cost control. Orders received increased by 20.9% (21.7%) over the previous year to EUR 76.2 (63.0) million. Order backlog totalled EUR 20.5 (20.8) million.

The Q3 net sales for the business was EUR 28.4 (23.6) million. Operating profit stood at EUR 4.6 (3.3) million making 16.1% (13.9%) of the net sales. Orders received in Q3 stood at EUR 23.8 (20.4) million.

Development on the EttH system continues and its performance has reached a good level. A number of EttH 100 Mb/s deliveries are being tested by the customers. Field installations of the EttH system delivered to Hanaro Telecom are on-going.

Video Networks

Net sales of Video Networks amounted to EUR 11.4 (11.6) million. Operating profit was in the red standing at EUR -0.3 (0.4) million. Orders received by Video Networks increased by 22.4% (13.3%) over the year of comparison to EUR 12.6 (10.3) million. Order backlog totalled EUR 2.8 (1.9) million.

The Q3 net sales for the business was EUR 3.9 (4.2) million. Operating profit stood at EUR 0.1 (0.2) million making 1.9% (4.6%) of the net sales. Orders received in Q3 stood at EUR 5.7 (4.4) million.

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

In reference to risks and uncertainty factors specified in the latest annual report no essential changes have taken place in the short-term risks and uncertainty factors involving Teleste Business Areas. 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 units.

Personnel

The number of people employed by the Group at the end of September was 677 (607), out of which 446 (430) were stationed in Finland. At the end of September the number of temporary labour was 69 (50). The stated number of personnel does not include temporary labour.

R&D and Investments

At the end of September, the number of Teleste's R&D personnel was 142 (128). The R&D expenditure for the review period totalled EUR 9.6 (5.9) million making 10.2% (8.1%) of net sales.

Activated R&D expenses stood at EUR 1.7 (0.9) 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 R&D investments amounted to EUR 1.0 (0.7) million.

Investments for the Group made in the period under review totalled EUR 10.5 (5.3) million of which EUR 6.1 million involved acquisition of DINH Telecom. Other investments made included EUR 1.4 million on the new SMT line and EUR 1.7 million on R&D. The remaining investments involved measuring instruments for the production, air conditioning for the production premises and IT. The effect of the final contract 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 5.3 (-1.3) million. Short-term receivables for the period under review grew by EUR 6.4 million, inventories increased by EUR 2.7 million and non-interest bearing short-term debt by EUR 1.3 million. As to the growth in working capital for the period EUR 2.2 million was attributed to the extended Group structure. Financing cash flow includes EUR 1.2 million involving subscriptions for Teleste 2002 options.

At the end of the review period the funds stood at EUR 13.5 (9.6) million. At the end of September, interest-bearing debt for the Group stood at EUR 20.8 (14.9) million. The interest-bearing debt for the period increased by 12.8 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 September, 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 16.6% (14.6%) and the equity ratio was 49.8% (48.3%). 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 8.50 (6.46) and EUR 12.34 (12.75). At the end of September, the closing price was EUR 8.70 (8.95). According to the Finnish Central Security Depository, the number of shareholders at the end of the period was 5313 (5875) while foreign ownership accounted for 21.7% (19.3%).

The value of shares traded on OMX Nordic Exchange was EUR 56.1 (98.0) million while the number thereof equalled 5.2 (10.1) million. At the end of September the number of own shares in Teleste's possession was 352,482 equalling 2.0% of the entire capital stock at the end of the period under review.

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 (AGM) held 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 Toivila 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 subscribed shares accommodated by the special rights and 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.

Outlook

In our estimation the business area of Broadband Cable Networks will continue to develop favourably. Cable operators continue their investments made in increased network capacity and digitalisation. Sustained profitable growth will be secured by the efficient control over material expenses, active development of the service business and increasing demand. We will sustain our focus on 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. As to the EttH solution, active marketing and product development will continue. Marketing efforts involving the new IP based video processing product family (IP headend) will be initiated in the last quarter of this year.

Prospect list of Video Networks related to traffic control, urban area surveillance and integration solutions of specific industries is on a sound level. We believe the order accrual and deliveries will grow.

Teleste's net sales and post-tax profit for the current year will increase considerably from the previous one. In our estimation the favourable market situation in our business areas will continue even in 2008.

Teleste's final accounts for the financial year 2007 will be released on 29 January 2008.

23 October 2007

Teleste Corporation
The Board of Directors

Jukka Rinnevaara
President and CEO

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

CONSOLIDATED STATEMENT OF INCOME

(tEUR)	1-9/2007	1-9/2006	Change %	1- 12/2006
Turnover	94,024	73,350	28.2 %	101,773
Change in inventories of finished goods	3,395	6,268	-45.8 %	6,066
Other operating income	1,154	1,618	-28.7 %	2,158
Materials and services	-49,513	-40,459	22.4 %	-54,743
Personnel expenses	-22,619	-19,720	14.7 %	-27,100
Other operating expenses	-13,766	-11,696	17.7 %	-16,006
Depreciation	-2,534	-1,769	43.3 %	-2,393
Operating profit	10,141	7,593	33.6 %	9,755
Financial income and expenses	-696	-306	127.8 %	-467
Profit after financial items	9,445	7,288	29.6 %	9,288
Profit before taxes	9,445	7,288	29.6 %	9,288
Taxes	-2,447	-1,864	31.3 %	-2,408
Net profit	6,998	5,424	29.0 %	6,879

Attributable to:

Equity holders of the parent	6,998	5,424	29.0 %	6,879
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Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in euro per share)

Basic	0.41	0.32	27.8 %	0.41
Diluted	0.39	0.30	29.4 %	0.38

Consolidated Statement of Income (tEUR)	7-9/2007	7-9/2006	Change %
Turnover	32,267	27,870	15.8 %
Change in inventories of finished goods	1,546	3,910	-60.5 %
Other operating income	288	376	-23.4 %
Materials and services	-16,859	-17,524	-3.8 %
Personnel expenses	-7,257	-6,461	12.3 %
Other operating expenses	-4,285	-4,069	5.3 %
Depreciation	-1,048	-610	71.6 %
Operating profit	4,651	3,491	33.2 %
Financial income and expenses	-361	-156	130.7 %
Profit after financial items	4,291	3,335	28.7 %
Profit before taxes	4,291	3,335	28.7 %
Taxes	-1,118	-908	23.2 %
Net profit	3,173	2,427	30.7 %

Earnings per share for profit of the year attributable to the equity holders of the parent (expressed in euro per share)

Basic	0.19	0.14	29.4 %
Diluted	0.18	0.13	31.1 %

BALANCE SHEET

(tEUR)	30/09/2007	30/09/2006	Change %	31/12/2006
Non-current assets				
Property, plant, equipment	7,536	5,691	32.4 %	5,578
Goodwill	12,871	12,327	4.4 %	12,127
Intangible assets	6,095	3,272	86.3 %	3,614
Investments	1,116	1,116	0.0 %	1,116
	27,618	22,406	23.3 %	22,435
Current assets				
Inventories	19,351	15,807	22.4 %	16,604
Other current assets	28,786	26,380	9.1 %	22,409
Short-term investments	2,006	788	154.6 %	0
Liquid funds	11,480	8,832	30.0 %	6,789
	61,623	51,807	18.9 %	45,802
Total assets	89,241	74,213	20.2 %	68,236
Shareholder's equity and liabilities				
Share capital	6,967	6,954	0.2 %	6,955
Other equity	37,163	28,855	28.8 %	30,706
	44,130	35,809	23.2 %	37,661
Non-current liabilities				
Provisions	425	515	-17.5 %	425
Non interest bearing liabilities	939	0	n/a	368
Interest bearing liabilities	2,110	1,599	32.0 %	742
	3,474	2,114	64.3 %	1,535
Short-term liabilities				
Trade payables and other s-t liabilities	22,258	21,960	1.4 %	20,920
Provisions	658	1,071	-38.6 %	850
S-t interest bearing liabilities	18,721	13,259	41.2 %	7,270
	41,637	36,290	14.7 %	29,040
Total shareholder's equity and liabilities	89,241	74,213	20.2 %	68,236

CASH-FLOW

(tEUR)	1-9/2007	1-9/2006	Change %	1-12/2006
Cash-flow from operation	5,284	-1,320	n/a	2,675
Cash in	91,204	67,783	34.6 %	103,931
Cash out	-85,920	-69,103	24.3 %	-101,256
Cash-flow from investments	-6,282	-4,758	32.0 %	-5,136
Cash in	377	321	17.4 %	376
Cash out	-6,659	-5,079	31.1 %	-5,512
Cash-flow from finance	7,704	7,224	6.6 %	731
Cash in	12,222	10,240	19.4 %	4,161
Cash out	-1,106	-319	247.1 %	-733
Paid dividend	-3,412	-2,697	26.5 %	-2,697
Other items	-9	-50	n/a	-5
Effect of currency rates	-9	-50	n/a	-5
Change in liquid funds	6,697	1,096	n/a	-1,735

KEY FIGURES

	1-9/2007	1-9/2006	Change %	1- 12/2006
Earnings per share, EUR	0.41	0.32	27.8 %	0.41
Earnings per share fully diluted, EUR	0.39	0.30	29.4 %	0.38
Shareholders' equity per share, EUR	2.55	2.12	20.4 %	2.22
Return on equity	22.8 %	21.2 %	7.5 %	19.7 %
Return on capital employed	24.7 %	23.1 %	6.7 %	24.3 %
Equity ratio	49.8 %	48.3 %	3.3 %	55.3 %
Gearing	16.6 %	14.6 %	13.8 %	3.2 %
Investments, tEUR	10,475	5,340	96.2 %	6,160
Investments % of net sales	11.1 %	7.3 %	53.0 %	6.1 %
Order backlog, tEUR	23,305	22,662	2.8 %	28,120
Personnel, average	683	604	13.0 %	608
Number of shares (thousands) including own shares	17,437	17,355	0.5 %	17,363
Highest share price, EUR	12.34	12.75	-3.2 %	12.75
Lowest share price, EUR	8.50	6.46	31.6 %	6.46
Average share price, EUR	10.85	9.79	10.8 %	9.83
Turnover, in million shares	5.2	10.1	-48.3 %	14.2
Turnover, in MEUR	56.1	98.0	-42.8 %	138.9
Contingent liabilities and pledged assets (tEUR)				
For own debt				
Guarantees	404	794	-49.1 %	819
Other securities	568	475	19.6 %	731
Leasing and rent liabilities	2,167	2,866	-24.4 %	2,865
	3,139	4,135	-24.1 %	4,415
Derivative instruments (tEUR)				
Value of underlying forward contracts	11,717	11,471	2.1 %	9,980
Market value of forward contracts	-307	-41	648.8 %	144
Taxes are computed on the basis of the tax on the profit for the period.				
Primary segments information (tEUR)				
	1-9/2007	1-9/2006	Change %	1- 12/2006
Broadband Cable Networks				
Order intake	76,200	63,044	20.9 %	92,821
Net sales	82,674	61,707	34.0 %	85,551
EBIT	10,466	7,206	45.2 %	9,055
EBIT%	12.7 %	11.7 %	8.4 %	10.6 %
Video Networks				
Order intake	12,570	10,268	22.4 %	14,380
Net sales	11,350	11,643	-2.5 %	16,222
EBIT	-325	387	n/a	700
EBIT%	-2.9 %	3.3 %	n/a	4.3 %
Total				
Order intake	88,770	73,312	21.1 %	107,201
Net sales	94,024	73,350	28.2 %	101,773
EBIT	10,141	7,593	33.6 %	9,755
EBIT%	10.8 %	10.4 %	4.2 %	9.6 %

Information per quarter (tEUR)	7-9/07	4-6/07	1-3/07	10-12/06	7-9/06	10/2006-9/2007
Broadband Cable Networks						
Order intake	23,798	19,659	32,743	29,777	20,441	105,977
Net sales	28,387	26,279	28,008	23,844	23,627	106,518
EBIT	4,576	2,585	3,305	1,849	3,294	12,315
EBIT %	16.1 %	9.8 %	11.8 %	7.8 %	13.9 %	11.6 %
Video Networks						
Order intake	5,650	3,300	3,620	4,162	4,428	16,732
Net sales	3,880	4,063	3,407	4,579	4,243	15,929
EBIT	75	108	-508	313	197	-12
EBIT %	1.9 %	2.7 %	-14.9 %	6.8 %	4.6 %	-0.1 %
Total						
Order intake	29,448	22,959	36,363	33,939	24,869	122,709
Net sales	32,267	30,342	31,415	28,423	27,870	122,447
EBIT	4,651	2,693	2,797	2,162	3,491	12,303
EBIT %	14.4 %	8.9 %	8.9 %	7.6 %	12.5 %	10.0 %

Attributable to equity holders of the parent (tEUR)	Share capital	Share Premium	Translation differences	Retained Earnings	Invested nonrestricted equity fund	Total
Shareholder's equity 1.1.2007	6,955	1,417	65	29,224	0	37,661
Translation differences			-9			-9
Profit of the period				6,998		6,998
Equity-settled share-based payments	12	87		-3,021	2,402	-520
Shareholder's equity 30.9.2007	6,967	1,504	56	33,201	2,402	44,130
Shareholder's equity 1.1.2006	6,935	1,276	70	24,025	0	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	0	35,809

CALCULATION OF KEY FIGURES

Return on equity:	Profit/loss for the financial period ----- * 100 Shareholders' equity (average)
Return on capital employed:	Profit/loss for the period after financial items + financing charges ----- * 100 Total assets - non-interest-bearing liabilities (average)
Equity ratio:	Shareholders' equity ----- * 100 Total assets - advances received
Gearing:	Interest bearing liabilities - cash in hand and in bank - interest bearing assets ----- * 100 Shareholders' equity
Earnings per share:	Profit for the period attributable to equityholder of the parent -----
Earnings per share, diluted:	Weighted average number of ordinary shares outstanding during the period Profit for the period attributable to equity holder of the parent (diluted) ----- Average number of shares - own shares + number of options at the period-end

Sector Dispersion	Shares	%
Companies	1 575 521	9.01%
Financial institutions	5 411 688	30.95%
Public institutions	2 374 738	13.58%
Nonprofit organisations	1 046 911	5.99%
Private individuals	3 276 977	18.74%
Foreign and nominee-registered	3 797 431	21.72%
Total	17 483 266	100.00%

Major Shareholders	Shares	%
1. Sampo Life Insurance Company Ltd	1 624 200	9.29%
2. Ilmarinen Mutual Pension Insurance Company	976 538	5.59%
3. Kaleva Mutual Insurance Company	798 541	4.57%
4. FIM Fenno Mutual Fund	542 639	3.10%
5. Aktia Capital Mutual Fund	521 450	2.98%
6. State Pension Fund	500 000	2.86%
7. Op-Suomi Pienyhtiöt	478 289	2.74%
8. Varma Mutual Pension Insurance Company	473 150	2.71%
9. Fondita Nordic Small Cap Placfond	360 000	2.06%
10. Teleste Corporation	352 482	2.02%

Notes

TELESTE

www.teleste.com