

# Interim Report

# Teleste Corporation Interim Report 1.1.-31.3.2007

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- Net sales improved significantly by 37.7% over the previous year amounting to EUR 31.4 (22.8) million
- Operating profit stood at EUR 2.8 (2.2) million, an increase of 29.9% over the previous year; undiluted result per share equalled EUR 0.11 (0.09) per share
- Orders received improved by 34.9% over the previous year standing at EUR 36.4 (27.0) million
- Year-on-year orders received by Broadband Cable Networks grew by 35.5% amounting to EUR 32.7 (24.2) million; the operating profit increased
- Orders received by Video Networks grew by 29.5% over the previous year amounting to EUR 3.6 (2.8) million, but the operating profit decreased

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

## Growth in Net Sales and Profitability

Year-on-year net sales increased by 37.7% standing at EUR 31.4 (22.8) million. Over the previous year operating profit grew by 29.9% standing at EUR 2.8 (2.2) million making 8.9% (9.4%) of net sales.

Undiluted result per share equalled EUR 0.11 (EUR 0.09). Orders received improved by 34.9% from the previous year standing at EUR 36.4 (27.0) million.

Order backlog totalled EUR 33.3 (27.0) million. Thanks to our increased assembly capacity there were no significant delays in deliveries at the end of the period under review.

## Business Areas

Broadband Cable Networks' net sales grew significantly, that is by 47.7%, year on year standing at EUR 28.0 (19.0) million. This growth can be attributed to the started Ethernet to the Home (EttH) deliveries to South Korea and the favourable situation regarding deliveries in HFC products. Operating profit stood at

EUR 3.3 (2.0) million making 11.8% (10.6%) of net sales.

The improved profitability was brought about by increased net sales. Orders received by the Broadband Cable Networks increased by 35.5% over the previous year amounting to EUR 32.7 (24.2) million. Order backlog totalled EUR 31.5 (24.1) million.

Net sales of Video Networks shrank by 11.6% from the previous year standing at EUR 3.4 (3.9) million. Due to the reduced volume operational profit was clearly EUR 0.5 million in the red (EUR 0.15 million in the black). Orders received by Video Networks increased by 29.5% over the previous year to EUR 3.6 (2.8) million. Order backlog totalled EUR 1.9 (2.9) million.

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

Ownership rearrangements among 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 March, the Group employed 639 people (569), 448 (405) of them in Finland. The stated number does not include temporary labour of 78 (25) at the end of March.

## R&D and Investments

The number of persons working in R&D related assignments was 145 (124). The R&D expenditure for the review period totalled EUR 2.9 (2.1) million making 9.5% (9.4%) of net sales. Activated R&D expenses stood at EUR 0.5 (0.3) million and depreciation on previous activation items equalled EUR 0.3 (0.3) million.

Investments for the Group totalled EUR 2.5 (0.4) million. The main items included a new SMT line, product development, air conditioning for the production premises and IT. 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 stood at EUR 1.0 (-0.3) million. In Q1, the short-term receivables increased by EUR 5.4 million. Circulation rate of accounts receivable remained on the established level. Inventories grew by EUR 1.6 million and non-interest bearing debt by EUR 4.5 million.

At the end of March, interest-bearing debt for the Group stood at EUR 12.3 (3.9) million. Liquid funds increased by EUR 2.1 (-0.6) million standing at EUR 8.9 (7.9) million. At the end of the period under review, in addition to liquid funds the company's unused stand-by credits amounted to EUR 20 (27) million.

The Group's gearing ratio was 8.4% (-11.8%) and the equity ratio was 50.5% (58.3%).

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

## Shares and Shareholders

In the period under review the trading price of shares fluctuated between EUR 9.99 (6.46) and EUR 12.34 (11.17). At the end of March the closing price was EUR 11.50 (10.79).

According to the Finnish Central Security Depository the number of shareholders at the end of the period was 5401 (6146). Foreign ownership accounted for 20.5% (16.1%). The value of shares traded on the Helsinki Exchanges was EUR 24.7 (46.0) million while the number thereof equalled 2.2 (5.2) million.

At the end of March, Teleste held 444,820 of the company's own shares. In the period under review 10,180 own shares were conveyed to the Management Team share bonus scheme.

## Decisions by the Annual General Meeting

The Annual General Meeting (AGM) 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 444,820 of its own shares.

The AGM also authorised the company to issue 4,500,000 new shares. The maximum number of shares that may be subscribed with the special rights granted by the Company is 1,730,000 shares. These authorisations will be valid until the AGM to be held in 2008.

Nominal value of the company share was renounced.

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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

Offering of products and services delivered by Broadband Cable Networks was strengthened on 4 April 2007 through acquisition of 100% holding of the Belgian DINH Telecom S.A. The company is the leading provider of house network technology and network maintenance services for the cable and phone operators in Belgium. The acquired company specialises in the design and manufacturing of house networks customized to specific operator requirements and the offering of network maintenance and repair services.

Net sales of DINH-Telecom for 2006 amounted to approximately EUR 8 million with good business profitability. The effect on Teleste's net sales in the second half of 2007 is estimated round EUR 6 million. The deal boosts Teleste's profitability for the current year while having no essential effect on Teleste's equity ratio or gearing.

The acquisition increases the number of Teleste personnel by 20. The consolidated equity of the acquired companies at the time of the deal equals about EUR 4.4 million with the balance sheet total amounting to approximately EUR 5.8 million. The minimum contract price for the capital stock stands at EUR 6 million. This price may increase depending on the development of the net profit in the next two years. As to the contract price, one million euro was paid using Teleste's own shares and five million euro through a liabilities.

bank loan. Acquisition cost and the values recorded on the merger will be reported in the Interim Report 1 January to 30 June 2007, whereby the acquisition cost has been allocated to the acquired assets and

### Outlook

Broadband Cable Networks will continue to develop favourably. Along with control over costs of material, positive development of profitability for the rest of the year will be ascertained by the sustained favourable level of deliveries under frame agreements.

The continued strong prospect list of Video Networks in traffic control and urban area surveillance solutions supports our view that the profitable growth of the business area will be maintained in 2007.

In our view Teleste's net sales for 2007 will grow and the profitability improve in comparison with the previous year.

Teleste's interim report for the January - June period will be published on 17.07.2007.

24 April 2007

Teleste Corporation  
The Board of Directors

Jukka Rinnevaara  
President and CEO

**CONSOLIDATED STATEMENT OF  
INCOME (tEUR)**

	<b>1-3/2007</b>	<b>1-3/2006</b>	<b>Change %</b>	<b>1-12/2006</b>
<b>Turnover</b>	<b>31 415</b>	<b>22 811</b>	<b>37.7 %</b>	<b>101 773</b>
Change in inventories of finished goods	-616	27	n/a	6 066
Other operating income	42	703	-94.0 %	2 158
Materials and services	-15 568	-10 138	53.6 %	-54 743
Personnel expenses	-7 263	-6 688	8.6 %	-27 100
Other operating expenses	-4 502	-3 968	13.5 %	-16 006
Depreciation	-710	-593	19.6 %	-2 393
<b>Operating profit</b>	<b>2 797</b>	<b>2 153</b>	<b>29.9 %</b>	<b>9 755</b>
Financial income and expenses	-236	-23	926.1 %	-467
<b>Profit after financial items</b>	<b>2 561</b>	<b>2 130</b>	<b>20.2 %</b>	<b>9 288</b>
<b>Profit before taxes</b>	<b>2 561</b>	<b>2 130</b>	<b>20.2 %</b>	<b>9 288</b>
Taxes	-694	-574	20.9 %	-2 408
<b>Net profit</b>	<b>1 867</b>	<b>1 556</b>	<b>20.0 %</b>	<b>6 879</b>

**Attributable to:**

Equity holders of the parent	1 867	1 556	20.0 %	6 879
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**Earnings per share for profit of the year attributable to the equity holders of the parent**

(expressed in Eur per share)

Basic	0.11	0.09	19.4 %	0.41
Diluted	0.10	0.09	19.8 %	0.38

**BALANCE SHEET (tEUR)**

	<b>31.3.2007</b>	<b>31.3.2006</b>	<b>Change %</b>	<b>31.12.2006</b>
<b>Non-current assets</b>				
Property, plant, equipment	7 224	5 648	27.9 %	5 578
Goodwill	12 271	9 205	33.3 %	12 127
Intangible assets	3 628	2 344	54.8 %	3 614
Investments	1 116	1 116	0.0 %	1 116
	<b>24 239</b>	<b>18 313</b>	<b>32.4 %</b>	<b>22 435</b>
<b>Current assets</b>				
Inventories	18 206	11 911	52.8 %	16 604
Other current assets	27 778	20 166	37.7 %	22 409
Short-term investments	0	1 700	n/a	0
Liquid funds	8 913	6 207	43.6 %	6 789
	<b>54 897</b>	<b>39 984</b>	<b>37.3 %</b>	<b>45 802</b>
<b>Total assets</b>	<b>79 136</b>	<b>58 297</b>	<b>35.7 %</b>	<b>68 236</b>

**Shareholder's equity and liabilities**

Share capital	6 967	6 935	0.5 %	6 955
Other equity	32 866	27 053	21.5 %	30 706
	<b>39 833</b>	<b>33 988</b>	<b>17.2 %</b>	<b>37 661</b>

**Non-current liabilities**

Provisions	425	515	-17.5 %	425
Non interest bearing liabilities	368	60	513.3 %	368
Interest bearing liabilities	1 743	688	153.3 %	742
	<b>2 536</b>	<b>1 263</b>	<b>100.8 %</b>	<b>1 535</b>

**Short-term liabilities**

Trade payables and other s-t liabilities	25 150	18 488	36.0 %	20 920
Provisions	1 106	1 343	-17.7 %	850
S-t interest bearing liabilities	10 511	3 215	226.9 %	7 270
	<b>36 767</b>	<b>23 047</b>	<b>59.5 %</b>	<b>29 040</b>

**Total shareholder's equity and liabilities**

	<b>79 136</b>	<b>58 297</b>	<b>35.7 %</b>	<b>68 236</b>
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<b>Cash-flow (tEUR)</b>	<b>1-3/2007</b>	<b>1-3/2006</b>	<b>Change %</b>	<b>1-12/2006</b>
<b>Cash-flow from operation</b>	<b>951</b>	<b>-270</b>	<b>n/a</b>	<b>2 675</b>
Cash in	26 088	21 358	22.1 %	103 931
Cash out	-25 136	-21 627	16.2 %	-101 256
<b>Cash-flow from investments</b>	<b>-1 794</b>	<b>-288</b>	<b>522.5 %</b>	<b>-5 136</b>
Cash in	0	315	n/a	376
Cash out	-1 794	-603	197.5 %	-5 512
<b>Cash-flow from finance</b>	<b>3 024</b>	<b>-58</b>	<b>n/a</b>	<b>731</b>
Cash in	3 099	0	n/a	4 161
Cash out	-75	-58	29.3 %	-733
Paid dividend	0	0	n/a	-2 697
<b>Other items</b>	<b>-57</b>	<b>-1</b>	<b>n/a</b>	<b>-5</b>
Effect of currency rates	-57	-1	n/a	-5
<b>Change in liquid funds</b>	<b>2 124</b>	<b>-617</b>	<b>n/a</b>	<b>-1 735</b>

**KEY FIGURES**

	<b>1-3/2007</b>	<b>1-3/2006</b>	<b>Change %</b>	<b>1-12/2006</b>
Earnings per share, EUR	0.11	0.09	19.4 %	0.41
Earnings per share fully diluted, EUR	0.10	0.09	19.8 %	0.38
Shareholders' equity per share, EUR	2.35	2.02	16.4 %	2.22
Return on equity	19.3 %	18.8 %	2.5 %	19.7 %
Return on capital employed	22.9 %	23.7 %	-3.6 %	24.3 %
Equity ratio	50.5 %	58.3 %	-13.4 %	55.3 %
Gearing	8.4 %	-11.8 %	n/a	3.2 %
Investments, tEUR	2 526	378	568.3 %	6 160
Investments % of net sales	8.0 %	1.7 %	385.2 %	6.1 %
Order backlog, tEUR	33 345	27 018	23.4 %	28 120
Personnel, average	633	565	12.0 %	608
Number of shares (thousands) including own shares	17 394	17 340	0.3 %	17 363
Highest share price, EUR	12.34	11.17	10.5 %	12.75
Lowest share price, EUR	9.99	6.46	54.6 %	6.46
Average share price, EUR	11.43	8.88	28.8 %	9.83
Turnover, in million shares	2.2	5.2	-58.3 %	14.2
Turnover, in MEUR	24.7	46.0	-46.3 %	138,9

**Treasury shares**

	<b>Number of shares</b>	<b>Nominal value eur</b>	<b>% of share capital</b>	<b>% of votes</b>
Parent company owns own shares 31.3.2007	444 820	177 928	2.6 %	2.6 %

## Contingent liabilities and pledged assets (tEUR)

For own debt				
Guarantees	432	659	-34.4 %	819
Other securities	440	0	n/a	731
Leasing and rent liabilities	2 672	1 829	46.1 %	2 865
	<b>3 544</b>	<b>2 488</b>	<b>42.4 %</b>	<b>4 415</b>

## Derivative instruments (tEUR)

Value of underlying forward contracts	12 590	15 517	-18.9 %	9 980
Market value of forward contracts	12 377	15 440	-19.8 %	10 124

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

Primary segments information (tEUR)	1-3/2007	1-3/2006	Change %	1-12/2006
<b>Broadband Cable Networks</b>				
Order intake	32 743	24 168	35.5 %	92 821
Net sales	28 008	18 959	47.7 %	85 551
EBIT	3 305	2 003	65.0 %	9 055
EBIT %	11.8 %	10.6 %	11.7 %	10.6 %
<b>Video Networks</b>				
Order intake	3 620	2 795	29.5 %	14 380
Net sales	3 407	3 852	-11.6 %	16 222
EBIT	-508	150	n/a	700
EBIT %	-14.9 %	3.9 %	n/a	4.3 %
<b>Total</b>				
Order intake	36 363	26 963	34.9 %	107 201
Net sales	31 415	22 811	37.7 %	101 773
EBIT	2 797	2 153	29.9 %	9 755
EBIT %	8.9 %	9.4 %	-5.7 %	9.6 %

Information per quarter (tEUR)	1-3/07	10-12/06	7-9/06	4-6/06	1-3/06	4/2006-3/2007
<b>Broadband Cable Networks</b>						
Order intake	32 743	29 777	20 441	18 435	24 168	101 396
Net sales	28 008	23 844	23 627	19 121	18 959	94 599
EBIT	3 305	1 849	3 294	1 909	2 003	10 357
EBIT %	11.8 %	7.8 %	13.9 %	10.0 %	10.6 %	10.9 %
<b>Video Networks</b>						
Order intake	3 620	4 162	4 428	3 045	2 795	15 255
Net sales	3 407	4 579	4 243	3 548	3 852	15 777
EBIT	-508	313	197	40	150	42
EBIT %	-14.9 %	6.8 %	4.6 %	1.1 %	3.9 %	0.3 %
<b>Total</b>						
Order intake	36 363	33 939	24 869	21 480	26 963	116 651
Net sales	31 415	28 423	27 870	22 669	22 811	110 376
EBIT	2 797	2 162	3 491	1 949	2 153	10 399
EBIT %	8.9 %	7.6 %	12.5 %	8.6 %	9.4 %	9.4 %

Attributable to equity holders of the parent (tEUR)	Share capital	Share premium	Translation differences	Retained earnings	Total
Shareholder's equity 1.1.2007	6 955	1 417	65	29 224	37 661
Translation differences			-57		-57
Profit of the period				1 867	1 867
Share-based payments	12	87		263	362
<b>Shareholder's equity 31.3.2007</b>	<b>6 967</b>	<b>1 504</b>	<b>8</b>	<b>31 354</b>	<b>39 833</b>

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
Share-based payments				127	127
<b>Shareholder's equity 31.3.2006</b>	<b>6 935</b>	<b>1 276</b>	<b>69</b>	<b>25 708</b>	<b>33 988</b>

#### **Sector Dispersion**

	<b>Shares</b>	<b>%</b>
Companies	1,673,078	9.61 %
Financial institutions	5,277,468	30.30 %
Public institutions	2,718,250	15.61 %
Nonprofit organisations	1,005,000	5.77 %
Private individuals	3,176,247	18.24 %
Foreign and nominee-registered	3,567,289	20.48 %
Total	17,417,332	100.00 %

#### **Major Shareholders**

	<b>Shares</b>	<b>%</b>
1 Sampo Life Insurance Company Ltd	1,624,200	9.33 %
2 Ilmarinen Mutual Pension Insurance Company	1,277,050	7.33 %
3 Kaleva Mutual Insurance Company	785,900	4.51 %
4 FIM Fenno Mutual Fund	542,639	3.12 %
5 Aktia Capital Mutual Fund	521,450	2.99 %
6 Varma Mutual Pension Insurance Company	521,150	2.99 %
7 State Pension Fund	500,000	2.87 %
8 Op-Suomi Pienyhtiöt	478,289	2.75 %
9 Teleste Corporation	444,820	2.55 %
10 Fondita Nordic Small Cap Placfond	360,000	2.07 %