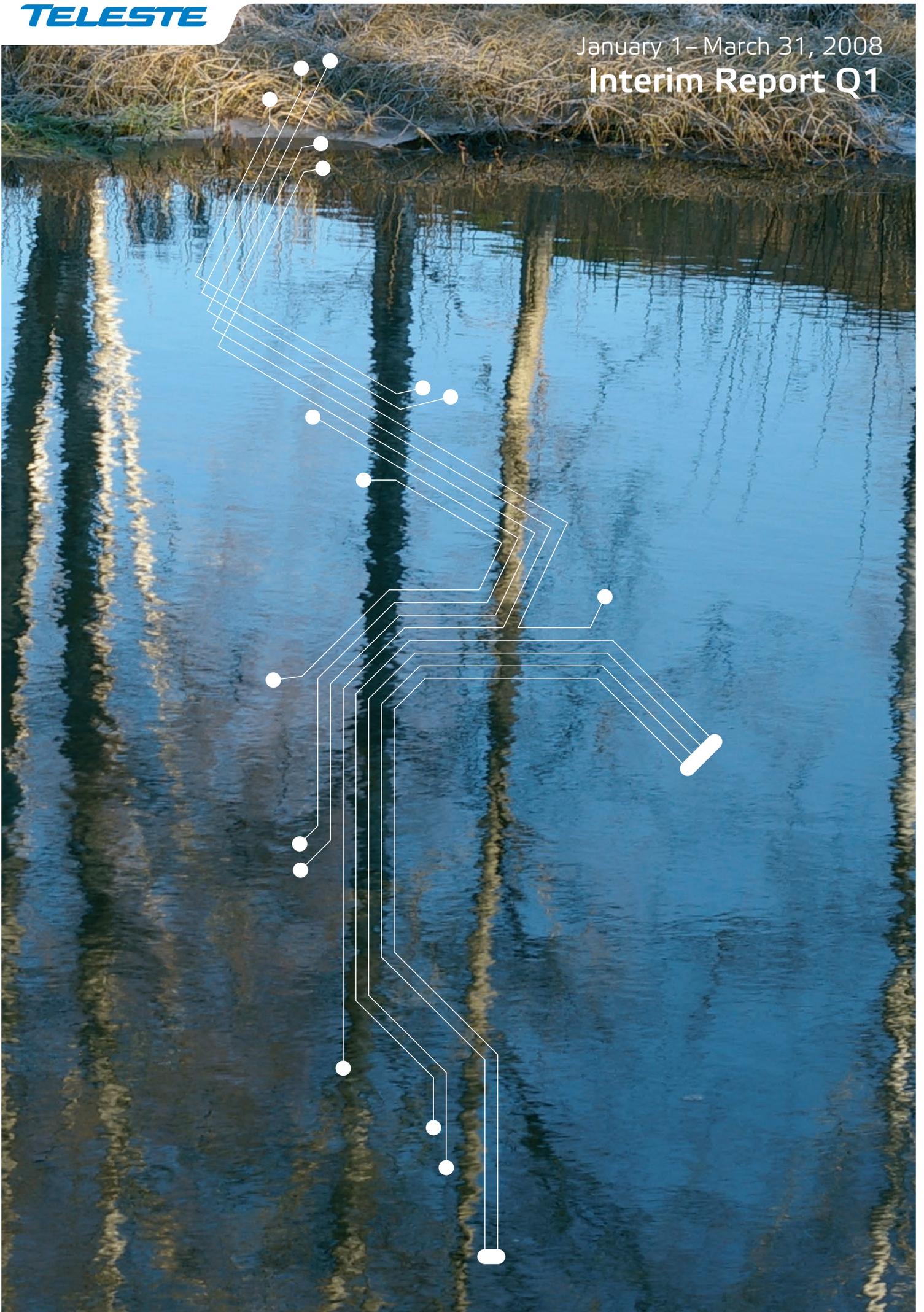


# Interim Report Q1



- Net sales amounted to EUR 27.2 (31.4) million, a fall of 13.4% over the year of comparison.
- Operating profit stood at EUR 0.9 (2.8) million, a fall of 68.5% over the previous year; undiluted result per share equalled EUR 0.03 (0.11) per share.
- Orders received amounted to EUR 29.4 (36.4) million, a fall of 19.2% over the year of comparison.
- Orders received by Broadband Cable Networks stood at EUR 26.0 (32.7) million, a fall of 20.5% over the year of comparison. Operating profit weakened.
- Orders received by Video Networks stood at EUR 3.3 (3.6) million, a fall of 8.0% over the year of comparison. Operating profit improved.

## Decline in Net Sales and Profit

Net sales fell as expected and ended up at EUR 27.2 (31.4) million. Net sales stood at 13.4% below the period of comparison, which included an EttH delivery of approximately EUR 5 million to South Korea.

Year-on-year operating profit fell standing at EUR 0.9 (2.8) million, which is 3.2% (8.9%) of net sales.

Weakening in the operating profit was mainly caused by diminished net sales. Undiluted result per share equalled EUR 0.03 (EUR 0.11). Orders received diminished over the previous year standing at EUR 29.4 (36.4) million. Order backlog totalled EUR 23.7 (33.3) million. No essential delays in deliveries related to the production capacity or availability of materials occurred at the end of the period under review.

## Changes in Group Structure

Teleste improved its standing as a supplier of IPTV solutions by acquiring the Finnish Ortikon Interactive Oy in the beginning of February. The acquisition will not have an essential effect on Teleste's financial figures for 2008.

## Business Areas

### Broadband Cable Networks

Net sales of Broadband Cable Networks stood at EUR 23.0 (28.0) million remaining 18.0% below the previous year. Net sales for the year of comparison included deliveries of Ethernet to the Home (EttH) to South Korea for approximately EUR 5 million. Volumes delivered to France based on frame agreements were as expected.

Operating profit stood at EUR 0.9 (3.3) million making 3.9% (11.8%) of the net sales. Weakened profitability was the result of diminished net sales. Orders received by the Broadband Cable Networks decreased over the year of comparison amounting to EUR 26.0 (32.7) million. Orders received for the year of comparison include delivery of amplifiers to Germany of EUR 5 million. Order backlog totalled EUR 22.2 (31.5) million.

Ortikon Interactive Oy acquired in February 2008 strengthens the provision of IPTV solutions for the business area.

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## Video Networks

Net sales of Video Networks grew by 23.9% over the year of comparison standing at EUR 4.2 (3.4) million. Operating profit was EUR -0.02 (-0.5) million in the red. Orders received by Video Networks fell by 8.0% amounting to EUR 3.3 (3.6) million. New orders failed to accumulate as expected due to slow decision-making in the public sector.

Prospect list of fairly sizeable project deliveries remains on a sound level. Order backlog totalled EUR 1.5 (1.9) million.

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

Increased insecurity concerning the world economy may undermine the demand for Teleste products. Significant strengthening of the euro against the US dollar may erode Teleste's competitiveness.

Ownership rearrangements among our clientele may slow down the folding out of network 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

The Group employed 686 people at the end of March (2007:639, 2006: 569), out of which 461 (448 and 405) were stationed in Finland. The stated number does not include temporary labour of 37 (78 and 25) at the end of March.

## R&D and Investments

The number of persons working in R&D related assignments was 158 (145 and 124). The R&D expenditure for the review period totalled EUR 3.2 (2.9) million making 11.8% (9.5%) of net sales.

Activated R&D expenses stood at EUR 0.8 (0.5) million and depreciation on previous activation items equalled EUR 0.4 (0.3) million.

Investments for the Group totalled EUR 1.0 (2.5) million and involved mainly product development. Acquisition of Ortikon Interactive Oy is included in the investments.

## Finance

Operating cash flow stood at EUR 0.6 (1.0) million. In the period under review inventories were reduced by EUR 1.4 million. EUR 2.0 million of new interest-bearing loan was taken so that the total interest-bearing debt at the end of March amounted to EUR 11.7 (12.3) million. At the end of the period under review the company liquid funds stood at EUR 8.8 (8.9) million.

At the end of the review period the amount of unused stand-by credits amounted to EUR 21.0 (20.0) million. These stand-by credits will be due in November 2008. The company has started negotiations on a new financing solution.

The Group's gearing was 6.2% (8.4%) and the equity ratio was 60.0% (50.5%).

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 5.90 (9.99) and EUR 7.49 (12.34). The closing price at the end of March was EUR 6.78 (11.50). According to the Finnish Central Security Depository the number of shareholders at the end of the period was 5,193 (5,401). Foreign ownership accounted for 18.7% (20.5%). The value of shares traded on OMX Nordic Exchange was EUR 23.4 (24.7) million while the number thereof equalled 3.5 (2.2) million.

At the end of March Teleste held 344,721 of the company's own shares. In the period under review 7,761 own shares were conveyed to the Management Team share bonus scheme.

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## Decisions by the Annual General Meeting

The Annual General Meeting (AGM) on 1 April 2008 confirmed the financial statements for 2007 and discharged the Board and the CEO from liability for the financial period. The AGM confirmed the Board's proposed dividend of EUR 0.24 per share. The dividend was paid out on 15 April 2008.

The AGM decided that the Board of Directors shall consist of six members. Mr. Tapio Hintikka was re-elected as Chairman of the Board whilst Mr. Tero Laaksonen, Mr. Pertti Raatikainen, Mr. Timo Toivila and Mr. Pekka Vennamo continue as members on the Board of Directors. Mr. Kai Telanne was elected new member of the Board.

Authorised Public Accountants KPMG Oy Ab continue as the auditor until the next AGM.

The AGM authorised the Board to acquire the maximum of 1,400,000 of the company's own shares and to convey the maximum of 1,744,721 company's own shares. Based on authorisations of 2001 and 2002 the company is in the possession of 344,721 of its own shares. The AGM also authorised the company to issue 5,000,000 new shares. The maximum number of shares that may be subscribed with the special rights granted by the Company is 2,000,000 shares.

These authorisations will be valid until the AGM due to be held in 2009.

## Outlook

In our view the business area of Broadband Cable Networks will grow towards the end of the current year. Growth prospects for the year are supported by the on-going solid deliveries based on frame agreements, growth in the demand for next generation broadband solutions (EttH/Fttx), deliveries of IP headend products and the increasing demand for services provided by the business area. Price competition in the markets of the business area will increase further still, driven particularly by the weak US dollar.

In our perspective, due to the strong prospect list involving large-scale traffic control and security surveillance solutions, growth of the Video Networks business area will continue for the entire year.

Business predictability has become more difficult due to the increased uncertainty in the world economy. We believe the market situation for our lines of business to remain active and that Teleste will continue on its path of profitable growth in the medium term perspective. As to the current year we estimate the orders received to pick up, but due to the dip in the beginning of the year, net sales and profitability may remain level with the last year.

In spite of the short-term risks to profitability caused by the uncertainty factors in the world economy, affecting also Teleste, the company will continue its efforts in the chosen priority areas of products (such as EttH and IP headend) and services that ensure profitable growth in the future.

Teleste's interim report for the January - June period will be published on 15 July 2008.

22.4.2008

Teleste Corporation  
Board of Directors

Jukka Rinnevaara  
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)	1-3/2008	1-3/2007	Change %	1-12/2007
<b>Turnover</b>	27 192	31 415	-13.4 %	125 100
Change in inventories of finished goods	-940	-616	52.6 %	-673
Other operating income	407	42	869.0 %	1 772
Materials and services	-12 510	-15 568	-19.6 %	-59 692
Personnel expenses	-8 020	-7 263	10.4 %	-31 455
Other operating expenses	-4 060	-4 502	-9.8 %	-18 324
Depreciation	-1 188	-710	67.3 %	-3 552
<b>Operating profit</b>	881	2 797	-68.5 %	13 176
Financial income and expenses	-159	-236	-32.6 %	-504
<b>Profit after financial items</b>	722	2 561	-71.8 %	12 672
<b>Profit before taxes</b>	722	2 561	-71.8 %	12 672
Taxes	-204	-694	-70.6 %	-3 309
<b>Net profit</b>	518	1 867	-72.3 %	9 363

### Attributable to:

Equity holders of the parent	518	1 867	-72.3 %	9 363
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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	0.03	0.11	-72.8 %	0.55
Diluted	0.03	0.10	-71.2 %	0.52

## BALANCE SHEET (teur)

	31.3.2008	31.3.2007	Change %	31.12.2007
<b>Non-current assets</b>				
Property, plant, equipment	7 448	7 224	3.1 %	7 757
Goodwill	13 291	12 271	8.3 %	12 686
Intangible assets	6 823	3 628	88.1 %	6 629
Investments	775	1 116	-30.6 %	723
	28 337	24 239	16.9 %	27 795
<b>Current assets</b>				
Inventories	14 536	18 206	-20.2 %	15 936
Trade and other receivables	27 219	27 778	-2.0 %	26 455
Cash	8 766	8 913	-1.6 %	7 702
	50 521	54 897	-8.0 %	50 093
<b>Total assets</b>	78 858	79 136	-0.4 %	77 888
<b>Equity and liabilities</b>				
Share capital	6 967	6 967	0.0 %	6 967
Other equity	40 343	32 866	22.7 %	39 702
	47 310	39 833	18.8 %	46 669

**Non-current liabilities**

Provisions	425	425	0.0 %	425
Non interest bearing liabilities	1 219	368	231.3 %	1 197
Interest bearing liabilities	1 702	1 743	-2.4 %	1 700
	3 346	2 536	31.9 %	3 322

**Short-term liabilities**

Trade payables and other s-t liabilities	17 694	25 150	-29.6 %	19 596
Provisions	518	1 106	-53.2 %	518
S-t interest bearing liabilities	9 990	10 511	-5.0 %	7 783
	28 202	36 767	-23.3 %	27 897

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<b>Total shareholder's equity and liabilities</b>	<b>78 858</b>	<b>79 136</b>	<b>-0.4 %</b>	<b>77 888</b>
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**CASH-FLOW**

(tEUR)	1-3/2008	1-3/2007	Change %	1-12/2007
Cash-flow from operation	630	951	-33.8 %	11 988
Cash in	26 755	26 088	2.6 %	125 663
Cash out	-26 125	-25 136	3.9 %	-113 675
Cash-flow from investments	-744	-1 794	-58.5 %	-8 468
Cash in	0	0	n/a	814
Cash out	-744	-1 794	-58.5 %	-9 282
Cash-flow from finance	1 227	3 024	-59.4 %	-2 490
Cash in	2 000	3 099	-35.5 %	12 630
Cash out	-773	-75	930.7 %	-11 707
Paid dividend	0	0	n/a	-3 413
Other Items	-49	-57	-14.0 %	-118
Effect of currency rates	-49	-57	-14.0 %	-118
Change in liquid funds	1 064	2 124	-49.9 %	912

**KEY FIGURES**

	1-3/2008	1-3/2007	Change %	1-12/2007
Earnings per share, EUR	0.03	0.11	-72.8 %	0.55
Earnings per share fully diluted, EUR	0.03	0.10	-71.2 %	0.52
Shareholders' equity per share, EUR	2.73	2.35	16.2 %	2.69
Return on equity	4.4 %	19.3 %	-77.2 %	22.2 %
Return on capital employed	6.5 %	22.9 %	-71.4 %	27.1 %
Equity ratio	60.0 %	50.5 %	18.8 %	60.2 %
Gearing	6.2 %	8.4 %	-26.2 %	3.8 %
Investments, tEUR	1 020	2 526	-59.6 %	12 284
Investments % of net sales	3.8 %	8.0 %	-53.3 %	9.8 %
Order backlog, tEUR	23 703	33 345	-28.9 %	21 523
Personnel, average	681	633	7.6 %	681
Number of shares (thousands) including own shares	17 672	17 394	1.6 %	17 494
Highest share price, EUR	7.49	12.34	-39.3 %	12.34
Lowest share price, EUR	5.90	9.99	-40.9 %	6.47
Average share price, EUR	6.62	11.43	-42.1 %	10.10
Turnover, in million shares	3.5	2.2	60.0 %	7.2
Turnover, in MEUR	23.4	24.7	-5.4 %	72.4

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## Own shares

	Number of shares	Percentage of share capital	Percentage of votes
Teleste Oyj owns own shares 31.3.2008	344 721	1.95 %	1.95 %

## Contingent liabilities and pledged assets (tEUR)

For own debt				
Guarantees	293	432	-32.2 %	184
Other securities	506	440	15.0 %	365
Leasing and rent liabilities	2 401	2 672	-10.1 %	2 635
	3 200	3 544	-9.7 %	3 184

## Derivative instruments (tEUR)

Value of underlying forward contracts	8 634	12 590	-31.4 %	7 746
Market value of forward contracts	-242	-213	13.6 %	-152

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

## Primary segments information (tEUR)

	1-3/2008	1-3/2007	Change %	1-12/2007
Broadband Cable Networks (tEUR)				
Order intake	26 040	32 743	-20.5 %	101 450
Net sales	22 972	28 008	-18.0 %	108 204
EBIT	901	3 305	-72.7 %	12 837
EBIT%	3.9 %	11.8 %	-66.8 %	11.9 %
Video Networks (tEUR)				
Order intake	3 332	3 620	-8.0 %	17 080
Net sales	4 220	3 407	23.9 %	16 896
EBIT	-20	-508	n/a	339
EBIT%	-0.5 %	-14.9 %	n/a	2.0 %
Total (tEUR)				
Order intake	29 372	36 363	-19.2 %	118 530
Net sales	27 192	31 415	-13.4 %	125 100
EBIT	881	2 797	-68.5 %	13 176
EBIT%	3.2 %	8.9 %	-63.6 %	10.5 %

Information per quarter (tEUR)	1-3/08	10-12/07	7-9/07	4-6/07	1-3/07	4/2007-3/2008
Broadband Cable Networks						
Order intake	26 040	25 250	23 798	19 659	32 743	94 747
Net sales	22 972	25 530	28 387	26 279	28 008	103 168
EBIT	901	2 371	4 576	2 585	3 305	10 433
EBIT %	3.9 %	9.3 %	16.1 %	9.8 %	11.8 %	10.1 %
Video Networks						
Order intake	3 332	4 510	5 650	3 300	3 620	16 792
Net sales	4 220	5 546	3 880	4 063	3 407	17 709
EBIT	-20	664	75	108	-508	827
EBIT %	-0.5 %	12.0 %	1.9 %	2.7 %	-14.9 %	4.7 %
Total						
Order intake	29 372	29 760	29 448	22 959	36 363	111 539
Net sales	27 192	31 076	32 267	30 342	31 415	120 877
EBIT	881	3 035	4 651	2 693	2 797	11 260
EBIT %	3.2 %	9.8 %	14.4 %	8.9 %	8.9 %	9.3 %

Attributable to equity holders of the parent

(tEUR)	Share capital	Share Premium	Translation differences	Retained Earnings	Invested nonrestricted equity fund	Total
Equity 1.1.2008	6 967	1 504	-53	35 720	2 531	46 669
Exchange differences			-49			-49
Profit for the period				518		518
Equity-settled share-based payments				108	56	164
Used share options					8	8
Equity 31.3.2008	6 967	1 504	-102	36 346	2 595	47 310
Equity 1.1.2007	6 955	1 417	65	29 224	0	37 661
Exchange differences			-57			-57
Profit for the period				1 867		1 867
Equity-settled share-based payments				263		263
Used share options	12	87				99
Equity 31.3.2007	6 967	1 504	8	31 354	0	39 833

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 equity holder of the parent ----- Weighted average number of ordinary shares outstanding during the period
Earnings per share, diluted:	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 of Shareholders

Owners	Number of shareholders	Number of shares	% of shares
Corporations	311	1 649 652	9.33
Financial and insurance corporations	32	5 634 369	31.88
Public institutions	12	2 686 656	15.20
Non-profit organizations	55	998 980	5.65
Households	4 733	3 394 538	19.21
Foreign and nominee -registered	50	3 311 010	18.73
Total	5 193	17 675 205	100.00

## Major Shareholders

	Number of shares	% of shares
1. Hs/Sampo Private Ss	1 624 200	9.19%
2. Ilmarinen Mutual Pension Insurance Company	894 776	5.06%
3. Kaleva Mutual Insurance Company	798 541	4.52%
4. Varma Mutual Pension Insurance Company	521 150	2.95%
5. State Pension Fund	500 000	2.83%
6. Abn Amro Finland Sijoitusrahasto	495 453	2.80%
7. Aktia Capital Mutual Fund	487 200	2.76%
8. Skagen Vekst Verdipapierfond	437 000	2.47%
9. Op-Suomi Pienyhtiöt	411 016	2.33%
10. FIM Fenno Mutual Fund	403 868	2.28%

## Preliminary calculation

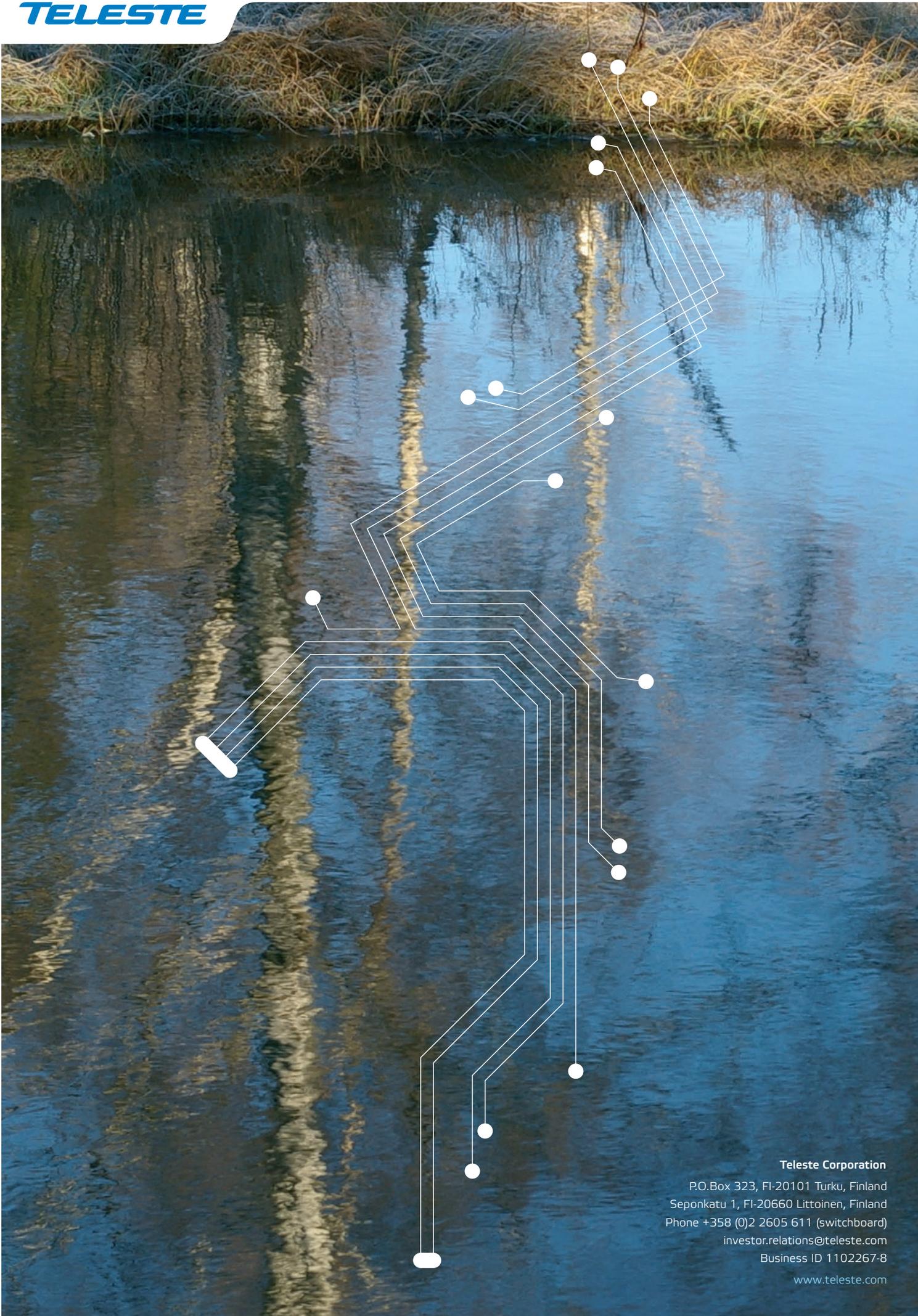
The following assets and liabilities were recognised in the acquisition Ortikon Oy:

(tEUR)

Fair values used in consolidation	
Trade marks (inc. in intangible assets)	46
Customer relationship (inc. in intangible assets)	108
Technology (inc. in intangible assets)	48
Book values used in consolidation	
Tangible assets	13
Trade receivables	19
Other receivables	126
Cash and cash equivalents	0
<b>Total assets</b>	<b>360</b>
Book values used in consolidation	
Interest-bearing liabilities	556
Deferred tax liabilities	53
Other liabilities	256
<b>Total liabilities</b>	<b>865</b>
<b>Net identifiable assets and liabilities</b>	<b>-505</b>
Total consideration	100
Goodwill on acquisition	605
Consideration paid in cash	-100
Cash and cash equivalents in acquired subsidiary	0
<b>Total net cash outflow on the acquisition</b>	<b>-100</b>







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