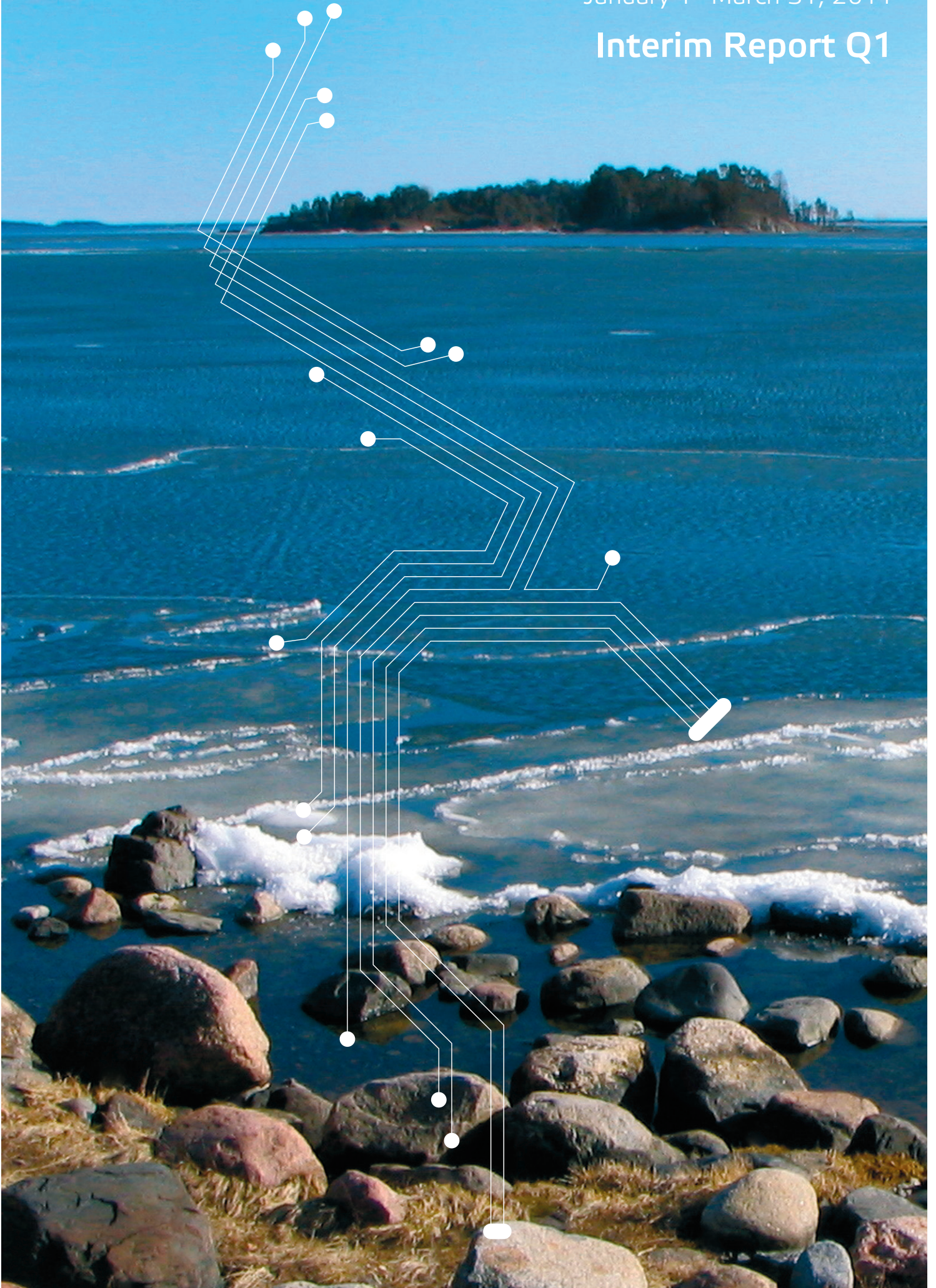
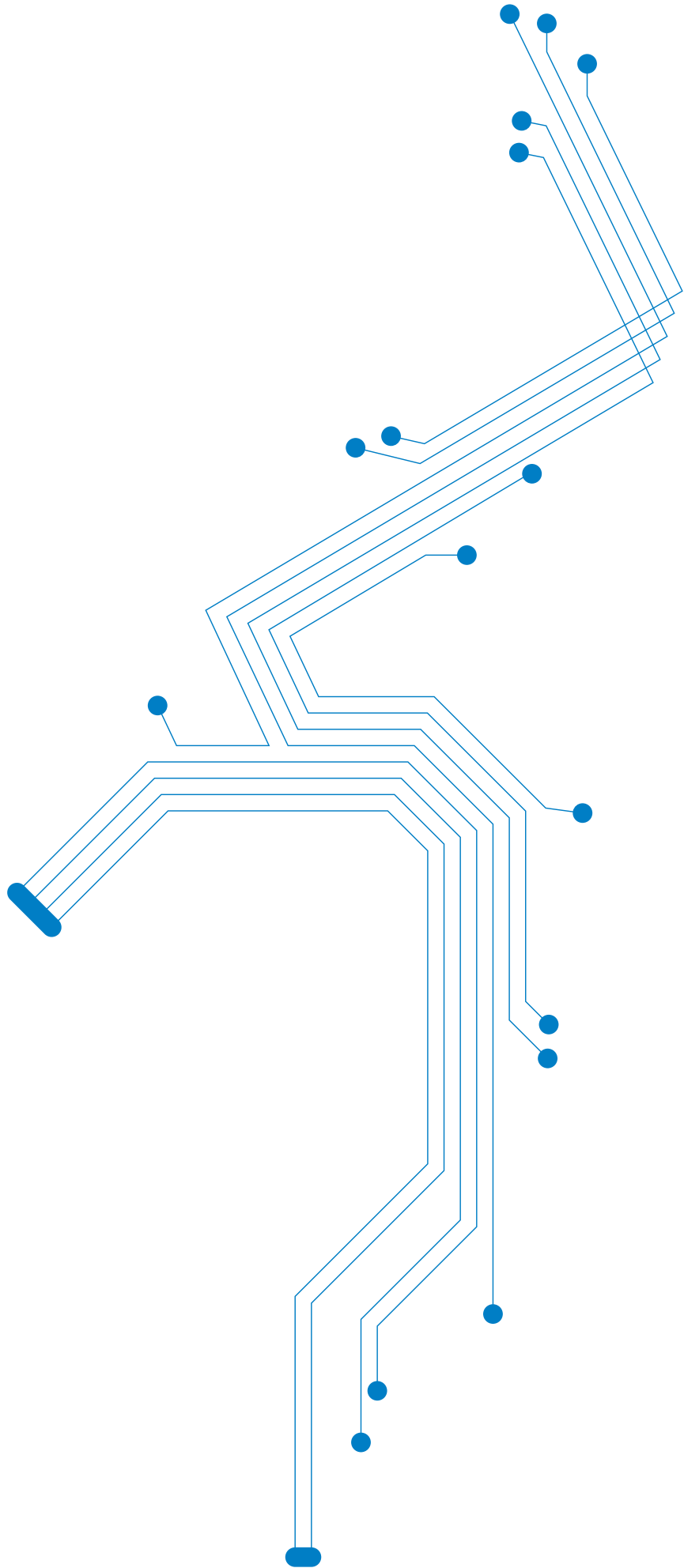


Interim Report Q1





TELESTE CORPORATION INTERIM REPORT 1 JANUARY TO 31 MARCH 2011**First quarter of 2011**

- Net sales grew by 5.7% amounting to EUR 41.3 (39.1) million
- Operating profit fell by 34.4% equaling EUR 0.5 (0.8) million
- Undiluted result per share equaled EUR 0.02 (EUR 0.03)
- Orders received improved by 7.3% standing at EUR 40.2 (37.5) million
- Orders received by Video and Broadband Solutions decreased by 5.9% over the period of comparison (Q1/2010) and stood at EUR 17.5 (18.6) million
- Orders received by Network Services increased by 20.2% over the period of comparison and amounted to EUR 22.8 (18.9) million
- Operating cash flow stood at EUR -1.0 (2.4) million.

Outlook for 2011

We estimate net sales for the entire 2011 to increase slightly and the operating profit to improve somewhat over the 2010 level. Improvement in the operating profit depends on the scheduled execution of the development program for the German services operations.

Comments on Q1 by CEO Jukka Rinnevaara:

Net sales of Video and Broadband Solutions and the operating profit fell slightly, as expected, over the period of comparison Q1/2010 due to postponement by a few main customers in cable network upgrades and video surveillance project deliveries. We estimate that the cable operator market will pick up in the second half of this year.

Deliveries by Network Services business area grew by 13.6% over the period of comparison. Profitability was impaired by larger-than-expected investments made in the development of German services operations, the cold early winter and the limited availability of subcontractor resources. Network design services in the UK were on the increase. We expect the ongoing development programs, such as the resource management and the development of labor productivity, to improve the business area's profitability in the second half.

The decrease over the period of comparison of EUR 3.5 million in the cash flow from the Group operations was caused by a change in a payment term carried out by the German main customer of the Network Services business area in late 2010.

Market situation and net sales in the first quarter of 2011

Orders received in Q1 stood at EUR 40.2 (37.5) million, an increase of 7.3% over the reference period. This growth in orders received was due to improved demand for services by Network Services in Germany. Orders received by Video and Broadband Solutions fell from the period of comparison due to delays in network upgrades by a few main customers.

The net sales in Q1 of 2011 equaled EUR 41.3 (39.1) million, which is 5.7% above the figure for the period of comparison.

The Group's order backlog amounted to EUR 15.0 (31.2) million. The order backlog of the reference period includes an order received from India of EUR 12.0 million, which was written off from the backlog in Q2 of 2010.

Financial position and result in the first quarter of 2011

Operating profit stood at EUR 0.5 (0.8) million making 1.3% (2.1%) of the net sales. Undiluted result per share for Q1 was EUR 0.02 (0.03).

Operating cash flow stood at EUR -1.0 (2.4) million. At the end of the period under review, the amount of unused binding stand-by credits amounted to EUR 13.5 (18.5) million. The current binding stand-by credits of EUR 40.0 million run till November 2013. The Group's equity ratio equaled 43.9% (44.5%) and net gearing 30.6% (18.6%). Interest bearing debt on 31 March 2011 stood at EUR 27.6 (23.2) million.

Video and Broadband Solutions in Q1

Net sales amounted to EUR 18.6 (19.1) million, a decrease of 2.7% over the period of comparison. The primary reason for this fall in net sales was postponements in network upgrades by some of our main clients. Deliveries of Luminato video headend exceeded those of the reference period.

Operating profit stood at EUR 0.4 (0.6) million making 2.2% (2.9%) of the net sales. This drop in the operating profit can be attributed to decreased net sales.

Orders received totaled EUR 17.5 (18.6) million. Order backlog stood at EUR 15.0 (comparable figure 16.3) million.

R&D expenses for the business area amounted to EUR 2.8 (2.6) million making 15.2% (13.6%) of the area's net sales. Some 60% (60%) of product development expenses involved further development and maintenance of product platforms currently in production as well as customer-specific product applications. Capitalized development expenses amounted to EUR 0.5 (0.3) million, involving Luminato video processing system, video surveillance transfer system compliant with H.264 standard as well as network devices enabling cost-effective segmentation of HFC networks. Depreciation on activated R&D expenses amounted to EUR 0.5 (0.6) million.

Network Services in Q1

Net sales amounted to EUR 22.8 (20.0) million, an increase of 13.6% over the reference period. Deliveries to our key customer in Germany were about 5% higher than in the period of comparison.

Operating profit stood at EUR 0.1 (0.3) million making 0.6% (1.3%) of the net sales. In Germany, the ongoing efficiency measures, cold early winter and the limited availability of subcontracting capacity led to the operating result ending up below the reference period.

Orders received in Q1 stood at EUR 22.8 (18.9) million. Deliveries by the business area are carried out mainly on the basis of frame agreements, so there is no backlog.

Investments

Investments by the Group for the period under review totaled EUR 1.6 (0.8) million accounting for 4.0% (1.9%) of net sales. Out of these investments EUR 0.7 (0.3) million was attributable to the extension of premises in Finland. Product development investments totaled EUR 0.5 (0.3) million. Other investments involved equipment and information systems for the services business. As to investments for the period, EUR 0.1 (0.1) million was carried out by means of financial leasing.

Personnel and Organisation

In the period under review, the Group employed on average 1,252 persons (1,221/2010, 1,001/2009), out of which 558 (563) worked for Video and Broadband Solutions and 694 (658) for Network Services. At the end of the review period, the figure totaled 1,266 (1,223/2010, 1,001/2009) out of which 70% (68%/2010, 55%/2009) were stationed overseas. Employees stationed outside Europe accounted for less than 5% of the Group's personnel. Expenditure on employee benefits amounted to EUR 12.5 (12.3/January-March 2010, 10.0/January-March 2009) million. In the reference period, wages and salaries were affected by the rotating layoff of the Finland-based personnel.

Essential Operational Risks of the Business Areas

Founded in 1954, Teleste is a technology and service provider consisting of two business areas: Video and Broadband Solutions and Network Services. With Europe as the main market area, our most significant clients include European cable operators and specified organizations in the public sector.

Concerning Video and Broadband Solutions, integrated deliveries of solutions create favorable conditions for growth, even if the involved resource allocation and technical implementation pose a challenge involving, therefore, also reasonable risks. The still ongoing difficult market situation may delay the implementation of investment plans among our clientele. Network investments carried out by the clients vary based on their need for upgrading and their capital structure. Much of Teleste's competition comes from the USA so the exchange rate of euro up against the US dollar affects our competitiveness. Teleste hedges against short-term currency exposure by means of forward contracts. Correct technological choices and their timing are vital for our success.

Net sales for Network Services comes, for the most part, from a small number of large European customers, so a change in the demand for services by any one of them is reflected in the actual deliveries. The services provided by this business area include planning, new construction and maintenance of cable networks. Implementation and scope of the relevant services vary by client ranging from standalone applications to integrated turnkey deliveries. Most deliveries are based on frame agreements. The services also include Teleste's own product solutions. Our know-how in services covers all the sectors related to the cable network technology from installation and maintenance of headends to upgrading of house networks. Services will also be implemented through a network of subcontracting, so the sufficiency of our subcontractor network capacity may limit our ability to deliver. To ensure quality of services and cost-efficiency, along with an efficient services process management, customer satisfaction requires innovative solutions in terms of processes, products and logistics. As far as technical management of the networks and functional product solutions are concerned, ensuring smooth operation of the cable operators' networks requires constant focus on the development of qualifications of Teleste's own and its suppliers' personnel.

For our business areas it is equally important to take into account any developments in the market such as consolidations taking place among the clientele and competition. Weather conditions in our target markets affect the delivery conditions of products and services of our business areas.

The Board of Directors annually reviews any essential risks related to Teleste's operations and the management thereof. Risk management has been integrated into the strategic and operative practices of our business areas. Risks and their probability are reported to the Board with regular monthly reports. The company has covered risks involving damage to operative functions of the business areas mainly by means of insurance policies. These insurances do not include credit loss risks. In the period under review, no such risks materialized, and no legal proceedings or judicial procedures were pending that would have had any essential significance for the Group operation.

Group Structure

Parent company Teleste has branch offices in Australia, the Netherlands, China and Denmark with subsidiaries in 12 countries outside Finland. Teleste Management Oy, founded in March 2010, has been consolidated in the Teleste Group figures on account of financial arrangements.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) of Teleste Corporation on 8 April 2011 confirmed the financial statements for 2010 and discharged the Board of Directors and the CEO from liability for the financial period. The AGM confirmed the Board's proposed dividend of EUR 0.12 per share. The dividend was paid out on 20 April 2011.

The AGM elected Marjo Miettinen, Pertti Ervi, Tero Laaksonen, Pertti Raatikainen, Kai Telanne and Petteri Walldén members of the Board. Marjo Miettinen was elected Chair of the Board in the organizational meeting held immediately after the AGM.

Authorised Public Accountants KPMG Oy Ab continue as the auditor until the next AGM. Accountant authorised by the Central Chamber of Commerce of Finland Esa Kailiala was chosen auditor-in-charge.

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 1,779,985 company's own shares. The AGM also authorised the company Board to issue 5,000,000 new shares. Pursuant to the special rights provided by the company, the maximum number of significant shares is 2,500,000; these special rights are included in the authorisation to issue 5,000,000 new shares.

Shares and Changes in Share Capital

On 31 March 2011, EM Group Oy was the largest single shareholder with a holding of 21.02%.

In the period under review, the lowest company share price was EUR 4.02 (3.63) and the highest was EUR 4.82 (4.90). On 31 March 2011, the closing price stood at EUR 4.41 (4.75). According to the Finnish Central Security Depository, the number of shareholders at the end of the period under review was 5,232 (5,441). Foreign ownership accounted for 8.1% (9.3%). From 1 January to 31 March 2011, trading with Teleste share at NASDAQ OMX Helsinki amounted to EUR 2.2 (4.7) million. In the period under review, 0.7 (1.2) million Teleste shares were traded on the stock exchange.

At the end of March 2011, the number of own shares in the Group possession stood at 760,985 (760,985) out of which parent company Teleste Corporation had none (0) while other Group or controlled companies had 760,985 shares, respectively. At the end of the period, the Group's holding of the total amount of shares amounted to 4.18% (4.18%).

On 31 March 2011, the registered share capital of Teleste stood at EUR 6,966,932.80 divided in 18,186,590 shares.

Outlook

In 2011, deliveries of equipment and solutions by Video and Broadband Solutions to its customer base of operators in our target markets will at least achieve the level of 2010. European telecom operators are about to launch their investments into the TV distribution infrastructure, and we believe that our video headend and optical network products will be competitive in this new emerging market. Deliveries related to security and traffic control may remain at the reference year's level due to postponements in a number of medium-sized projects.

On the annual basis, demand by our current clientele for the services provided by Network Services will remain relatively stable. We expect that in Germany, the main market, profitability will improve from the 2010 level with the gradual introduction of the development program. In our estimation, most of the improvement in profitability will be seen on the second half of the year.

We estimate net sales for the entire 2011 to increase slightly and the operating profit to improve somewhat over the 2010 level. Improvement in the operating profit depends on the scheduled execution of the development program for the German services operations.

26 April 2011

Teleste Corporation
Board of Directors

Jukka Rinnevaara
CEO

This interim report has been compiled in compliance with IAS 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.

STATEMENT OF COMPREHENSIVE INCOME (TEUR)	1-3/2011	1-3/2010	Change %	1-12/2010
Net Sales	41,310	39,094	5.7 %	167,836
Other operating income	412	357	15.4 %	1,460
Materials and services	-21,791	-19,412	12.3 %	-82,054
Personnel expenses	-12,486	-12,279	1.7 %	-50,824
Other operating expenses	-5,555	-5,419	2.5 %	-23,090
Depreciation	-1,348	-1,515	-11.0 %	-5,896
Operating profit	542	826	-34.4 %	7,432
Financial income and expenses	-155	-148	4.7 %	-689
Profit after financial items	387	678	-42.9 %	6,743
Profit before taxes	387	678	-42.9 %	6,743
Taxes	-108	-183	-40.9 %	-1,959
Net profit	279	495	-43.7 %	4,784
Attributable to:				
Equity holders of the parent	279	495	-43.7 %	4,784
Earnings per share for result of the year attributable to the equity holders of the parent (expressed in € per share)				
Basic	0.02	0.03	-43.7 %	0.27
Diluted	0.02	0.03	-43.7 %	0.27
Total comprehensive income for the period (tEUR)				
Net profit	279	495	-43.7 %	4,784
Translation differences	-84	180	n/a	277
Fair value reserve	108	-92	n/a	-70
Total comprehensive income for the period	303	583	-48.0 %	4,991
Attributable to:				
Equity holders of the parent	303	583	-48.0%	4,991
STATEMENT OF FINANCIAL POSITION (tEUR)	31.03.2011	31.03.2010	Change %	31.12.2010
Non-current assets				
Property, plant, equipment	9,512	9,770	-2.6 %	8,836
Goodwill	30,959	31,657	-2.2 %	30,959
Intangible assets	6,301	6,898	-8.7 %	6,709
Investments	713	894	-20.2 %	713
	47,485	49,219	-3.5 %	47,217

Current assets				
Inventories	19,170	21,420	-10.5 %	21,000
Other current assets	37,579	24,853	51.2 %	32,819
Liquid funds	12,023	14,376	-16.4 %	15,203
	68,772	60,649	13.4 %	69,022
Total assets	116,257	109,868	5.8 %	116,239
Shareholder's equity and liabilities				
Share capital	6,967	6,967	0.0 %	6,967
Other equity	43,500	40,398	7.7 %	43,143
Non-controlling interest	292	289	1.0 %	292
	50,759	47,654	6.5 %	50,402
Non-current liabilities				
Provisions	511	513	-0.4 %	511
Non interest bearing liabilities	4,436	7,073	-37.3 %	4,522
Interest bearing liabilities	11,847	12,237	-3.2 %	11,847
	16,794	19,823	-15.3 %	16,880
Short-term liabilities				
Trade payables and other s-t liabilities	31,686	30,359	4.4 %	31,401
Provisions	1,313	1,042	26.0 %	1,313
S-t interest bearing liabilities	15,705	10,990	42.9 %	16,243
	48,704	42,391	14.9 %	48,957
Total shareholder's equity and liabilities	116,257	109,868	5.8 %	116,239

CONSOLIDATED CASH FLOW STATEMENT (tEUR)

	1-3/2011	1-3/2010	Change %	1-12/2010
Cash flows from operating activities				
Profit for the period	279	495	-43.7 %	4,784
Adjustments	1,665	1,959	-15.0 %	6,143
Interest and other financial expenses and incomes	-155	-148	4.7 %	-481
Paid Taxes	-1,050	0	n/a	-786
Change in working capital	-1,755	140	n/a	-4,248
Cash flow from operating activities	-1,016	2,446	n/a	5,412
Cash flow from investing activities				
Acquisition of subsidiary, net of cash acquired	0	0	n/a	-3,643
Purchases of property, plant and equipment (PPE)	-991	-673	47.3 %	-716
Purchases of intangible assets	-551	-145	280.0 %	-1,499
Net cash used in investing activities	-1,542	-818	88.5 %	-5,858
Cash flow from financing activities				
Proceeds from borrowings	0	0	n/a	5,520
Payments of borrowings	-538	-239	125.1 %	-1,562
Dividends paid	0	0	n/a	-1,394
Proceeds from issuance of ordinary shares	0	289	n/a	289
Net cash used in financing activities	-538	50	n/a	2,853

Change in cash				
Cash in the beginning	15,203	12,518	21.4 %	12,518
Effect of currency changes	-84	180	n/a	277
Cash at the end	12,023	14,376	-16.4 %	15,203

KEY FIGURES	1-3/2011	1-3/2010	Change %	1-12/2010
Earnings per share, EUR	0.02	0.03	-43.7 %	0.27
Earnings per share fully diluted, EUR	0.02	0.03	-43.7 %	0.27
Shareholders' equity per share, EUR	2.91	2.73	6.7 %	2.90
Return on equity	2.2 %	4.2 %	-47.6 %	9.9 %
Return on capital employed	2.8 %	4.9 %	-43.9 %	10.2 %
Equity ratio	43.9 %	44.5 %	-1.4 %	43.6 %
Gearing	30.6 %	18.6 %	64.5 %	25.5 %
Investments, tEUR	1,643	756	117.3 %	3,765
Investments % of net sales	4.0 %	1.9 %	105.7 %	2.2 %
Order backlog, tEUR	15,009	31,210	-51.9 %	17,000
Personnel, average	1,252	1,221	2.5 %	1,215
Number of shares (thousands) including own shares	18,187	17,810	2.1 %	18,094
Highest share price, EUR	4.82	4.90	-1.6 %	5.33
Lowest share price, EUR	4.02	3.63	10.7 %	3.64
Average share price, EUR	4.54	4.02	12.9 %	4.49
Turnover, in million shares	0.5	1.2	-59.1 %	3.2
Turnover, in MEUR	2.2	4.7	-53.8 %	14.2

Treasury shares				
	Number of shares		% of shares	% of votes
Teleste companies own shares 31.3.2011	760,985		4.18 %	4.18 %

Contingent liabilities and pledged assets (tEUR)

For own debt

Other securities	640	120	433.3 %	640
Leasing and rent liabilities	6,949	5,839	19.0 %	6,481
	7,589	5,959	27.4 %	7,121

Derivative instruments (tEUR)

Value of underlying forward contracts	4,709	7,152	-34.2 %	8,283
Market value of forward contracts	-239	-356	-32.9 %	-293
Interest rate swap	11,500	11,500	0.0 %	11,500
Market value of interest swap	-116	-282	-58.9 %	-256

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

OPERATING SEGMENTS (TEUR)	1-3/2011	1-3/2010	Change %	1-12/2010
Video and Broadband Solutions				
Order intake	17,473	18,578	-5.9 %	86,530
Net sales	18,554	19,062	-2.7 %	82,007
EBIT	406	562	-27.8 %	6,345
EBIT%	2.2 %	2.9 %	-25.8 %	7.7 %
Network Services				
Order intake	22,756	18,926	20.2 %	80,675
Net sales	22,756	20,032	13.6 %	85,829
EBIT	136	264	-48.5 %	1,087
EBIT%	0.6 %	1.3 %	-54.7 %	1.3 %
Total				
Order intake	40,229	37,504	7.3 %	167,205
Net sales	41,310	39,094	5.7 %	167,836
EBIT	542	826	-34.4 %	7,432
EBIT%	1.3 %	2.1 %	-37.9 %	4.4 %
Financial items	-155	-148	4.7 %	-689
Operating segments net profit before taxes	387	678	-42.9 %	6,743

Information per quarter (tEUR)	1-3/11	10-12/10	7-9/10	4-6/10	1-3/10	4/2010-3/2011
Video and Broadband Solutions						
Order intake	17,473	27,080	21,170	19,702	18,578	85,425
Net sales	18,554	22,882	19,915	20,148	19,062	81,499
EBIT	406	2,365	1,955	1,463	562	6,189
EBIT %	2.2 %	10.3 %	9.8 %	7.3 %	2.9 %	7.6 %
Network Services						
Order intake	22,756	23,761	18,710	19,278	18,926	84,505
Net sales	22,756	23,761	18,710	23,326	20,032	88,553
EBIT	136	603	28	192	264	959
EBIT %	0.6 %	2.5 %	0.2 %	0.8 %	1.3 %	1.1 %
Total						
Order intake	40,229	50,841	39,880	38,980	37,504	169,930
Net sales	41,310	46,643	38,625	43,474	39,094	170,052
EBIT	542	2,968	1,984	1,655	826	7,149
EBIT %	1.3 %	6.4 %	5.1 %	3.8 %	2.1 %	4.2 %

Attributable to equity holders of the parent (tEUR)

	Share capital	Share premium	Translation differences	Retained earnings	Invested free capital	Other funds	Total	Share of non-controlling interest	Total equity
Shareholder's equity 1.1.2011	6,967	1,504	-95	39,183	2,737	-186	50,110	292	50,402
Total comprehensive income for the period			-84	279		108	303	0	303
Equity-settled share-based payments				54	0	0	54	0	54
Shareholder's equity 31.3.2011	6,967	1,504	-179	39,516	2,737	-78	50,467	292	50,759
Shareholder's equity 1.1.2010	6,967	1,504	-372	35,949	2,737	-116	46,669	0	46,669
Profit of the period			180	495		-92	583	0	583
Share issue								289	289
Equity-settled share-based payments				113	0	0	113	0	113
Shareholder's equity 31.3.2010	6,967	1,504	-192	36,557	2,737	-208	47,365	289	47,654

CALCULATION OF KEY FIGURES

Return on equity:	$\frac{\text{Profit/loss for the financial period}}{\text{Shareholders' equity (average)}} \times 100$
Return on capital employed:	$\frac{\text{Profit/loss for the period after financial items + financing charges}}{\text{Total assets - non-interest-bearing liabilities (average)}} \times 100$
Equity ratio:	$\frac{\text{Shareholders' equity}}{\text{Total assets - advances received}} \times 100$
Gearing:	$\frac{\text{Interest bearing liabilities - cash in hand and in bank - interest bearing assets}}{\text{Shareholders' equity}} \times 100$

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

MAJOR SHAREHOLDERS 31.3.2011

	Shares	%
EM Group Oy	3,822,813	21.02
Mandatum Life	1,679,200	9.23
Ilmarinen Mutual Pension Insurance Company	936,776	5.15
Kaleva Mutual Pension Insurance Company	824,641	4.53
Op-Suomi Small Cap	545,925	3.00
Varma Mutual Pension Insurance Company	521,150	2.87
State Pension Fund	500,000	2.75
Aktia Capital Mutual Fund	450,000	2.47
Skagen Vekst Verdipapierfond	437,000	2.40
Teleste Management Oy	381,000	2.09

SECTOR DISPERSION 31.3.2011

	Shares	%
Corporations	5,830,998	32.06
Financial and insurance corporations	3,768,250	20.71
Public institutions	2,326,976	12.79
Non-profit institutions	385,111	2.11
Households	4,402,997	24.21
Foreign countries and nominee registered	1,472,258	8.09
Total	18,186,590	100.00

HOLDING DISPERSION 31.3.2011

Number of shares	Shareholders	%	Shares	%
0 - 100	1,151	21.99	79,910	0.43
101 - 1 000	3,079	58.84	1,285,724	7.06
1 001 - 10 000	908	17.35	2,539,535	13.96
10 001 - 100 000	75	1.43	1,836,775	10.09
100 001 - 1 000 000	17	0.32	6,942,633	38.17
1 000 001 -	2	0.03	5,502,013	30.25
Total	5,232	100.00	18,186,590	100.00