

JANUARY 1-DECEMBER 31, 2017



Building a SMART, SAFE, SMOOTH future.

FINANCIAL STATEMENTS OF TELESTE CORPORATION 1 JANUARY TO 31 DECEMBER 2017

NET SALES AND RESULT DECREASED IN 2017, RECORD-LEVEL ORDER BACKLOG

Fourth quarter of 2017

- Net sales amounted to EUR 58.7 (68.6) million, a decrease of 14.4%
- Operating result stood at EUR 0.3 (4.3) million, a decrease of 94.1%. The operating result includes a personnel reduction-related restructuring provision of EUR 0.8 million.
- Undiluted earnings per share were EUR -0.01 (0.21), a decrease of 104.6
- Orders received totalled EUR 66.7 (64.6) million, an increase of 3.2%
- Cash flow from operations was EUR 6.4 (0.5) million, an increase of 1,309%

January–December 2017

- Net sales amounted to EUR 234.6 (259.5) million, a decrease of 9.6%

- Operating result stood at EUR -7.5 (15.6) million, a decrease of 148.3%. The operating result includes restructuring provisions and the goodwill impairment for the services business in Germany in total of EUR 10.1 million.

- Undiluted earnings per share were EUR -0.50 (0.65), a decrease of 177.0%.
- Orders received totalled EUR 262.9 (244.3) million, an increase of 7.6%.
- Cash flow from operations was EUR 19.3 (8.8) million, an increase of 119.7%

The Board of Directors proposes a dividend of EUR 0.10 (0.25) per outstanding share.

Outlook for 2018

Teleste expects the company's net sales to increase in 2018 compared with 2017 (EUR 234.6 million). Operating result is expected to be clearly positive. However, due to the ongoing investments, it will not yet reach the record level of 2016 (EUR 15.6 million).

Comments by CEO Jukka Rinnevaara:

'Orders received increased in the fourth quarter year-on-year. Order backlog increased, reaching the highest level in Teleste's history. Net sales were down year-on-year in both business areas. Operating result remained below the reference period level. This was mainly because of lower net sales in Video and Broadband Solutions and restructuring provisions related to reduction of personnel.

Orders received by Video and Broadband Solutions increased year-on-year for video security and information solutions, with France, Spain and Poland as the growth markets. Order backlog increased and reached the highest level in Teleste's history. However, one third of the deliveries will take place after 2018. Net sales decreased in access network products and, in particular, in video security and information solutions. However, new orders for video security and information solutions started to increase strongly during the year. In addition, we enhanced our offering by acquiring iqu Systems GmbH, the German company specialising in intelligent passenger information systems. Operating result decreased year-on-year, mainly because of lower net sales and the restructuring provision for decreasing labour costs. Teleste carried out co-determination negotiations in order to reduce costs and secure profitable growth. As a result of the negotiations, it was decided to reduce the number of employees in Finland by 24 persons. Despite the lower net sales, we continued our product development investments, as well as marketing investments in the US cable operator market.

Net sales of Network Services decreased in Germany and England as a result of changes in customer projects. The business area improved its operating result year-on-year, but it remained negative. The restructuring programme in Germany continued, progressing in stages. It will also continue in the first

half of 2018. Negotiations with a customer to renew an important frame agreement progressed. We aim to complete the negotiations during the first quarter of 2018. The outcome of the negotiations will have a significant effect on the profitability of our services business.

The year 2017 was exceptionally difficult for Teleste. Our main challenges were related to the low net sales in video security and information solutions and the low profitability of the services business in Germany. We were forced to reduce personnel in order to cut costs and improve the efficiency of our business. Business area trends and the market outlook are still favourable, which is why we will continue investing in new advanced video security and information solutions, product development in distributed access architecture and winning new clients in the US cable operator market. The objective of the restructuring of our services business in Germany is to achieve a positive operating result in 2018 and renew the most important frame agreements. We start the year 2018 with a considerably higher order backlog than a year ago, which provides a good foundation for achieving our annual targets.

The company has the following three main objectives for the next few years: Achieving positive performance in the services business in Germany, successful launch of sales in the US cable operator market and significant growth and improved performance in video security and information solutions. We expect these three areas to have a significant effect on the company's future development.'

Key figures (ME)	10-12/2017	10-12/2016	Change
Orders received	66.7	64.6	+3.2%
Net sales	58.7	68.6	-14.4%
EBIT	0.3	4.3	-94.1%
EBIT, %	0.4%	6.3%	
Result for the period	-0.2	3.7	-105.7%
Other important key figures			
, , ,			
Earnings per share, EUR	-0.01	0.21	-104.6%
Cash flow from operations, ME	6.4	0.5	+1,309%

Group Operations in October–December 2017

Orders received by the Group in the fourth quarter increased by 3.2% to EUR 66.7 (64.6) million. Order backlog increased during the quarter by 21.5% to EUR 57.4 (26.9) million, which is the highest order backlog in Teleste's history. Net sales decreased by 14.4% to EUR 58.7 (68.6) million.

Expenses for material and production services decreased by 16.8% to EUR 30.6 (36.8) million. Personnel expenses decreased by 7.1% and were EUR 17.8 (19.1) million. The 4.0 per cent reduction in personnel, the amount of performance-based bonuses paid out and the restructuring provision contributed to the change in personnel expenses. The cost effect of the restructuring provision was EUR 0.8 million. Depreciation, amortisation and other operating expenses increased by 3.0% to EUR 10.5 (10.2) million. Operating result decreased by 94.1% to EUR 0.3 (4.3) million, representing 0.4% (6.3%) of net sales. The result of the reference period was improved by a reversed provision of EUR 1.3 million for earn-out related to a prior acquisition, recognised in other income. Net financial expenses amounted to EUR 0.2 (0.0) million. Taxes were EUR 0.3 (0.6) million. Undiluted earnings per share were EUR -0.01 (0.21). Cash flow from operations was EUR 6.4 (0.5) million, an increase of 1,309% resulting from changes in net working capital.

Key figures (M€)	1-12/2017	1-12/2016	Change
Orders received	262.9	244.3	+7.6%
Net sales	234.6	259.5	-9.6%
EBIT	-7.5	15.6	-148.3%

Group Operations in January–December 2017

EBIT, %	-3.2%	6.0%	
Result for the period	-9.1	11.8	-177.4%
Other important key figures			
Earnings per share, EUR	-0.50	0.65	-177.0%
Cash flow from operations, ME	19.3	8.8	+119.7%
Net gearing, %	16.8%	25.0%	
Equity ratio, %	48.3%	52.5%	
Personnel at period-end	1,446	1,511	-4.3%

Orders received by the Group increased by 7.6% to EUR 262.9 (244.3) million, the highest level in Teleste's history. Net sales decreased by 9.6%, amounting to EUR 234.6 (259.5) million.

Operating result was in the red by EUR 7.5 million. Operating result in the reference period was EUR 15.6 million. Operating result represented -3.2% (6.0%) of net sales. A significant proportion of the decrease in result was generated by the goodwill impairment of EUR 7.7 million related to the services business in Germany and the restructuring provisions of EUR 2.4 million in Germany and Finland. The operating result was also decreased by the lower net sales in Video and Broadband Solutions. Expenses for material and production services decreased by 6.9% to EUR 127.7 (137.1) million. Personnel expenses decreased by 4.4% and were EUR 69.4 (72.6) million. The 1.4 per cent reduction in personnel, the amount of performance-based bonuses paid out and the restructuring expenses increased by 3.4% to EUR 38.9 (37.6) million. Taxes for the Group amounted to EUR 0.7 (3.0) million. Undiluted earnings per share were EUR -0.50 (0.65). Cash flow from operations was EUR 19.3 (8.8) million. Cash flow was improved by changes in the working capital and, particularly, by new, shorter payment terms for clients, obtained through a supplier financing programme.

EUR 1,000	10-12/2017	10-12/2016	Change
Orders received	43,424	39,548	+9.8%
Net sales	35,429	43,496	-18.5%
EBIT	480	5,309	-91.0%
Operating result, %	1.4%	12.2%	

Video and Broadband Solutions in October–December 2017

Orders received increased by 9.8% year-on-year to EUR 43.4 (39.5) million. Orders received increased the most in video security and information solutions. Order backlog increased during the quarter by 21.5% and was EUR 57.4 (26.9) million at quarter-end. Net sales decreased by 18.5% to EUR 35.4 (43.5) million. Operating result decreased by 91.0% and was EUR 0.5 (5.3) million, representing 1.4% (12.2%) of net sales. The operating result was decreased by the lower net sales in video security and information solutions and the EUR 0.8 million restructuring provision related to the reduction of personnel. The operating result for the reference period included EUR 1.3 million of other income resulting from reversed provision for earn-out related to a prior acquisition.

R&D expenses amounted to EUR 3.2 (3.0) million, representing 9.0% (7.0%) of net sales in the business area. Product development projects focused on network products designed for the US market, distributed access architecture, video security and information solutions, and customer-specific projects. Capitalised R&D expenses amounted to EUR 0.8 (0.9) million, and depreciation on capitalised R&D expenses to EUR 0.5 (0.3) million.

Video and Broadband Solutions in January–December 2017

EUR 1,000	1-12/2017	1-12/2016	Change
Orders received	170,359	149,011	+14.3%
Net sales	142,082	164,231	-13.5%
EBIT	4,888	16,482	-70.3%
EBIT, %	3.4%	10.0%	

Orders received increased by 14.3% year-on-year to EUR 170.4 (149.0) million. The increase in orders received was seen in video security and information solutions. Net sales decreased by 13.5% to EUR 142.1 (164.2) million. Net sales decreased the most in video security and information solutions. Operating result decreased by 70.3% and was EUR 4.9 (16.5) million, representing 3.4% (10.0%) of net sales. The operating result was decreased by the lower net sales and the EUR 0.8 million restructuring provision related to the reduction of personnel. The operating result for the reference period included EUR 2.3 million of other income resulting from reversed provision for earn-out related to a prior acquisition.

R&D expenses amounted to EUR 12.1 (11.1) million, representing 8.5% (6.8%) of net sales. Product development projects focused on distributed access architecture, network products complying with the DOCSIS 3.1 standard (including solutions designed for the US market), video security and information solutions, and customer-specific projects. Capitalised R&D expenses amounted to EUR 3.5 (2.5) million and depreciation on capitalised R&D expenses to EUR 1.5 (1.2) million.

EUR 1,000	10-12/2017	10-12/2016	Change
Orders received	23,273	25,066	-7.2%
Net sales	23,273	25,066	-7.2%
EBIT	-226	-975	
EBIT, %	-1.0%	-3.9%	

Network Services in October-December 2017

Orders received and net sales decreased by 7.2% year-on-year, amounting to EUR 23.3 (25.1) million. Net sales decreased the most in Germany and England. Operating result improved by EUR 0.7 million year-on-year but remained negative at EUR -0.2 million. Operating result represented -1.0% (-3.9%) of net sales. In Germany, the measures to improve profitability and the restructuring programme continued. They will continue to progress in stages also in the first half of 2018. Negotiations with a customer to renew an important frame agreement progressed. Deliveries for projects with new customers started.

EUR 1,000	1-12/2017	1-12/2016	Change
Orders received	92,507	95,297	-2.9%
Net sales	92,507	95,297	-2.9%
EBIT	-12.437	-847	
EBIT, %	-13.4%	-0.9%	

Network Services in January–December 2017

Orders received and net sales decreased by 2.9% to EUR 92.5 (95.3) million. Net sales decreased in Germany and England. Operating result was negative by EUR 12.4 million, while operating result in the reference period was negative by EUR 0.8 million. The principal reasons for the negative operating result were operational problems in Germany, the goodwill impairment of EUR 7.7 million related to the services business in Germany and the provision of EUR 1.6 million for a restructuring programme that is progressing in stages and which will continue in the first half of 2018.

Personnel and organisation in January–December 2017

In the period under review, the average number of people employed by the Group was 1,492 (1,514/2016, 1,485/2015); of these, 763 (747) were employed by Video and Broadband Solutions and 729 (767) by Network Services. At the end of the review period, the Group employed 1,446 people (1,511/2016, 1,506/2015), of whom 65% (66%/2016, 68%/2015) were stationed abroad. Approximately 2% of the Group's employees were working outside Europe.

Personnel expenses decreased by 4.4% year-on-year and were EUR 69.4 (72.6/2016, 70.5/2015) million. The decrease in personnel expenses was due to a lower number of personnel and lower amount of performance-based bonuses paid out. The average number of personnel decreased by 1.4%. The number of personnel decreased in the Network Services business area.

Investments in January–December 2017

Investments by the Group totalled EUR 7.5 (5.5) million, equal to 3.2% (2.1%) of net sales. Of the investments, EUR 3.5 (2.5) million were made in product development and EUR 2.1 (0.0) million in an acquisition. Other investments involved information systems, machinery and equipment. Of the investments, EUR 0.4 (0.6) million were carried out under financial lease arrangements.

Product development projects focused on distributed access architecture, network products complying with the DOCSIS 3.1 standard (including solutions designed for the US market), video security and information solutions, and customer-specific projects.

Financing and Capital Structure in January–December 2017

Cash flow from operations was EUR 19.3 (8.8) million. Cash flow was improved by decreased working capital and, particularly, by new, shorter payment terms for clients through a supplier financing programme.

In August, Teleste Corporation signed new credit and loan facilities with a total value of EUR 50.0 million. The new financing agreements replaced the previous ones. The financing agreements include a five-year loan of EUR 30.0 million and a three-year credit facility of EUR 20.0 million. The credit facility involves a 1+1-year extension option. At the end of the period under review, the amount of unused binding credit facilities was EUR 20.0 (19.0) million. On 31 December 2017, the Group's interest-bearing debt stood at EUR 33.2 (30.6) million.

The Group's equity ratio was 48.3% (52.5%) and net gearing 16.8% (25.0%).

Key Risks Faced by the Business Areas

Founded in 1954, Teleste is a technology and services company consisting of two business areas: Video and Broadband Solutions and Network Services. With Europe as the main market and business area, the company is also expanding its business outside Europe. Teleste's customers include cable operators, public transport operators, train manufacturers and specified organisations in the public sector.

In Video and Broadband Solutions, customer-specific and integrated deliveries of solutions create favourable conditions for growth. On the other hand, the allocation of resources to the deliveries and the technical implementation are demanding tasks, which is why there are also risks involved. Our operator customers' network investments vary according to the development of technology, customers' need to upgrade and their financial structure. End-to-end deliveries of video security and information solution systems may be large in size, setting high demands for the project quotation calculation and management and, consequently, involving risks. Increased competition created by the new service providers may undermine the cable operators' ability to invest. Correct technological choices, product development and their timing are vital to our success. Various technologies are used in our products and solutions, and the intellectual property rights associated with the application of these technologies can be interpreted in different ways by different parties. Such difficulties of interpretation may lead to costly investigations or court proceedings. Customers have very demanding requirements for the performance of products, their durability in challenging conditions and their compatibility with other components of integrated systems. Regardless of careful planning and guality assurance, complex products may fail in the customer's network and lead to expensive repair obligations. The consequences of natural phenomena or accidents, such as fire, may reduce the availability of components in the order-delivery chain of the electronics industry or suspend our own manufacturing operations. Many competitors in the business area come from the USA, which is why the exchange rate of the euro against the US dollar has an effect on our competitiveness. The development of the exchange rates of the US dollar and the Chinese renminbi against the euro influences our product costs. The company hedges against short-term currency exposure by means of forward exchange contracts.

Net sales of Network Services come mainly from a small number of large European customers. Therefore, a significant change in the demand for our services by any one of them is reflected in the actual deliveries and profitability. The improvement of customer satisfaction and productivity requires efficient service process management, as well as innovative process, product and logistics solutions to ensure the quality and cost-efficiency of services. The smooth functioning of cable networks requires efficient technical management of the networks and suitable equipment solutions in accordance with contractual obligations. This, in turn, requires continuous and goal-directed development of the skills and knowledge of our personnel and subcontractors. In addition, the sufficiency and usage rates of our personnel and subcontractor network influence the company's delivery capacity and profitability. Subcontractors' costs may increase faster than it is possible for Teleste to increase the prices of its services to its own customers. In larger projects with overall responsibility, tender calculation and project management are complex tasks that involve risks. Severe weather conditions may affect our ability to deliver services.

Teleste's strategy involves risks and uncertainties: new business opportunities may fail to be identified or successfully exploited. The business areas must take into account market movements, such as consolidations among our customers and competitors. Periods of technological transition, such as operators migrating to distributed access architecture, may significantly change the competitive positions of the current suppliers and attract new competitors to the market. Intensified competition may decrease the prices of products and solutions faster than we are able to reduce our products' manufacturing and delivery costs.

Various information systems are critical to the development, manufacture and supply of products to our customers. The maintenance of information systems and deployment of new systems involve risks that may affect our ability to deliver products and services. Information systems may also be exposed to external threats and we need to protect them. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

The Board of Directors annually reviews essential business risks and their management. Risk management constitutes an integral part of the strategic and operational activities of the business areas. Risks are reported to the Board on a regular basis.

On 23 December 2016, a competitor of Teleste filed two complaints against Teleste Limited, demanding damages from the company for the infringement of two patents. Teleste has denied the patent infringements. The litigation is still pending. According to the assessment by Teleste's management, the results of these litigations are not expected to have material effect on Teleste's financial position.

Group Structure

The parent company has branch offices in Australia and the Netherlands and subsidiaries in 14 countries outside Finland.

On 30 October 2017, Teleste acquired iqu Systems GmbH, the German company specialising in intelligent passenger information systems and software. Through the acquisition, Teleste will complement its offering of passenger information solutions for public transport, one of the company's key areas. Iqu Systems employs approximately 20 people. It has been included as part of Teleste's Video Security and Information business unit. Net sales of the acquired company from 30 October to 31 December 2017 amounted to EUR 0.7 million, and its balance sheet total was EUR 1.0 million. Teleste Group recognised a goodwill of EUR 1.5 million on the balance sheet.

Shares and Changes in Share Capital

On 31 December 2017, Tianta Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 6.51 (7.29) and the highest was EUR 9.62 (10.24). Closing price on 31 December 2017 stood at EUR 6.68 (8.86). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,618 (5,923). Foreign and nominee-registered holdings accounted for 6.6% (5.2%) of the holdings. The value of Teleste's shares traded on the Nasdaq Helsinki from 1 January to 31 December 2017 was EUR 16.8 (30.6) million. In the period under review, 2.0 (3.5) million Teleste shares were traded on the stock exchange. Teleste's share is quoted on Nasdaq Helsinki, the Mid-Cap segment.

On 31 December 2017, the Group held 863,953 of its own shares, all held by the parent company Teleste Corporation. At the end of the period, the Group's holding of the total number of shares amounted to 4.6% (4.6%).

On 31 December 2017, the company's registered share capital stood at EUR 6,966,932.80, divided into 18,985,588 shares.

Valid authorisations at the end of the review period:

- The Board of Directors may acquire 1,200,000 own shares of the company otherwise than in proportion to the holdings of the shareholders with unrestricted equity through trading on the regulated market organised by Nasdaq Helsinki at the market price of the time of the purchase.

- The Board of Directors may decide on issuing new shares and/or transferring the company's own shares held by the company, so that the maximum total number of shares issued and/or transferred is 2,000,000.

- The total number of new shares to subscribe for under the special rights granted by the Company and own shares held by the Company to be transferred may not exceed 1,000,000 shares, which number is included in the above maximum number concerning new shares and the Group's own shares held by the Company.

- These authorisations are valid until 6 October 2018.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) of Teleste Corporation held on 6 April 2017 adopted the financial statements for 2016 and discharged the Board of Directors and the CEO from liability for the financial period 2016. The AGM confirmed the dividend of EUR 0.25 per share as proposed by the Board. The dividend was paid on 19 April 2017 on shares other than own shares held by the Company.

The AGM decided that the Board of Directors shall consist of five members. Pertti Ervi, Jannica Fagerholm, Timo Miettinen, Timo Luukkainen and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors. Timo Miettinen was elected Chair of the Board in the organising meeting held on 6 April 2017 after the AGM. In its meeting held on 4 October 2017, Teleste's Board of Directors elected Pertti Ervi as the new Chair of the Board. Timo Miettinen continued as a member of the company's Board of Directors.

The AGM decided to choose one auditor for Teleste Corporation. Authorised public accountant firm KPMG Oy Ab was chosen as the company's auditor. The auditor has appointed Petri Kettunen, APA, as the auditor in charge.

The Annual General Meeting decided to authorise the Board to decide on the purchase of the company's own shares. According to the authorisation, the Board of Directors may acquire 1,200,000 own shares of the company otherwise than in proportion to the holdings of the shareholders with unrestricted equity through trading on the regulated market organised by Nasdaq Helsinki Ltd at the market price of the time of the purchase. This authorisation is valid for 18 months from the date of the AGM's decision. The authorisation overrides any previous authorisations to purchase the company's own shares.

The Annual General Meeting decided to authorise the Board of Directors to decide on issuing new shares and/or transferring the Company's own shares held by the Company and/or granting special rights referred to in Chapter 10, section 1 of the Limited Liability Companies Act in accordance with the Board's proposal. Under the authorisation, the Board of Directors has the right to decide on issuing new shares and/or transferring the Company's own shares held by the Company, so that the maximum total number of shares issued and/or transferred is 2,000,000. The total number of new shares to subscribe for under the special rights granted by the Company and own shares held by the Company to be transferred may not exceed 1,000,000 shares, which number is included in the above maximum number concerning new shares and the Group's own shares held by the Company.

The authorisations are valid for 18 months from the date of the AGM's decision.

Outlook for 2018

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe. In particular, investments in the North American market will continue in 2018.

Network capacity will continue to grow, with operators responding to consumers' new and expanding broadband and video service needs. Teleste's entire access network product portfolio has been renewed in accordance with the DOCSIS 3.1 standard, and our offering allows cable operators to increase their network capacity competitively. In 2018, two network upgrade projects will be completed that are significant on the European scale. Operators will launch new upgrade projects. However, there is uncertainty associated with the timing of these projects, as operators are already considering next-generation distributed access architecture solutions. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and, in particular, in North America in 2018. The change in access network technology also has an effect on suppliers' competitive position. Teleste continues investing in distributed access architecture technology and access network products that are suitable for new markets. In addition, the target of the subsidiary established in the US is to promote the sales of broadband network products to the cable network operators in North America. The objective of these investments is the long-term increase in sales. We estimate that net sales from access network products in 2018.

The improvement of safety in city environments, the increase of public transport services, and the increasing popularity of smart systems for a smoother life provide a foundation for new business opportunities. Demand for video security solutions for public spaces continues worldwide, but competition in the industry has increased considerably and price erosion in the traditional video security equipment market continues. Video security solutions are becoming increasingly smart, including pattern recognition and artificial intelligence. Furthermore, a need is arising in the market for more comprehensive situation awareness systems that include management of other censor-level data flows in addition to video image. New innovations and solutions are also changing the public transport passenger information solution business. Supply of real-time information for passengers is essential for safe and flexible public transport. It is necessary to improve the productivity and cost-efficiency of traditional business. The improvement of competitiveness requires R&D investments in new intelligent solutions. Although the orders received in 2017 for video security and information solutions increased, a significant portion of the deliveries is scheduled for the coming years. We estimate that net sales for 2018 will increase clearly from the previous year.

As to Network Services, our business objective is to further develop operational efficiency and increase the share of those services that provide our customers with higher added value. The programme to improve profitability of the services business in Germany will be continued in 2018, and we expect the measures taken to show results during the first half of 2018. In addition, we are engaging in negotiations to renew an important frame agreement with a customer. We estimate that net sales for 2018 will increase from the previous year.

Teleste expects the company's net sales to increase in 2018 compared with 2017 (EUR 234.6 million). Operating result is expected to be clearly positive. However, due to the ongoing investments, it will not yet reach the record level of 2016 (EUR 15.6 million).

7 February 2018

Teleste Corporation Board of Directors Jukka Rinnevaara President and CEO Teleste's Annual Report for 2017, which includes the audited financial statements, will be published no later than week 11 2018. The Company will issue a statement of its corporate governance as a separate report, which will be published together with the Annual Report, and will be simultaneously available on the Company's web site.

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 audited.

STATEMENT OF COMPREHENSIVE INCOME, 1000 euros				
	10-12/2017	10-12/2016	Change %	
Net sales	58,702	68,562	-14.4 %	
Other operating income	474	1,914	-75.3 %	
Raw material and consumables used	-30,626	-36,789	-16.8 %	
Employee benefits expense	-17,772	-19,138	-7.1 %	
Depreciations	-1,313	-1,294	1.5 %	
Other operating expenses	-9,210	-8,921	3.2 %	
Operating profit	254	4,334	-94.1 %	
Financial income	123	835	n/a	
Financial expenses	-331	-841	-60.7 %	
Profit before taxes	46	4,328	-98.9 %	
Taxes	-259	-598	-56.8 %	
Profit for the period	-213	3,729	-105.7 %	
Profit attributable to:				
Owners of the parent company	-173	3,729	-104.6 %	
Non-controlling interests	-40	0	0	
Non-conclouing interests	-213	3,729	-105.7 %	
Earnings per share for profit of the year attributable			104 C 0/	
Basic (expressed in euro per share)	-0.01	0.21	-104.6 %	
Diluted (expressed in euro per share)	-0.01	0.20	-104.6 %	
Total comprehensive income for the period, 1000 et				
Net profit	-213	3,729	-105.7 %	
Items that may be reclassified to profit or loss:		_		
Translation differences	-56	5	-1216.3 %	
Fair value reserve	58	71	-18.8 %	
Total comprehensive income for the period	-211	3,805	-105.5 %	
Total comprehensive income attributable to:				
Owners of the parent company	-133	3,805	-103.5 %	
Non-controlling interests	-78	0		
	-211	3,805	-105.5 %	
STATEMENT OF COMPREHENSIVE INCOME,	1 1 2 / 2 0 1 7	1 1 2 (201 6		
1000 euros	1-12/2017	1-12/2016	Change %	
Net sales	234,589	259,528	-9.6 %	
Other operating income	1,531	3,372	-54.6 %	
Raw material and consumables used	-127,673	-137,078	-6.9 %	
Employee benefits expense	-69,406	-72,566	-4.4 %	
	0,,100	, 2,500	1.1.70	

Depreciation Impairment on goodwill Other operating expenses Operating profit	-5,263 -7,705 -33,623 -7,549	-4,934 0 -32,687 15,635	6.7 % n/a 2.9 % -148.3 %
Financial income Financial expenses Profit before taxes	537 -1,458 -8,470	1,224 -2,038 14,821	-56.1 % -28.4 % -157.1 %
Taxes	-675	-3,001	-77.5 %
Profit for the period	-9,145	11,820	-177.4 %
Profit attributable to: Owners of the parent company Non-controlling interests	-9,106 -40 -9,145	11,820 0 11,820	-177.0 % 0.0 % -177.4 %
Earnings per share for profit of the year attributable t	o the equity holders o	f the parent	
Basic (expressed in euro per share) Diluted (expressed in euro per share)	-0.50 -0.50	0.65 0.65	-177.0 % -176.9 %
Total comprehensive income for the period (tEUR)			
Net profit Items that may be reclassified to profit or loss:	-9,145	11,820	-177.4 %
Translation differences	-423	-879	n/a
Fair value reserve	58	-135	n/a
Total comprehensive income for the period	-9,511	10,806	-188.0 %
Total comprehensive income attributable to:			
Owners of the parent company	-9,432	10,806	-187.3 %
Non-controlling interests	-78 -9,511	0 10,806	-188.0 %
	2,311	. 0,000	.00.0 /0

STATEMENT OF FINANCIAL POSITION, 1000 euros

	31.12.2017	31.12.2016	Change %
Non-current assets			
Property, plant and equipment	9,637	11,325	-14.9 %
Goodwill	30,814	37,374	-17.6 %
Other intangible assets	9,469	7,171	32.0 %
Available-for-sale investments	693	693	0.0 %
Deferred tax assets	2,061	1,833	12.5 %
Total	52,674	58,396	-9.8 %
Current assets			
Inventories	33,689	33,544	0.4 %
Trade and other receivables	45,520	60,269	-24.5 %
Income tax receivables	362	407	-11.1 %
Cash	21,230	9,496	123.6 %
Total	100,801	103,716	-2.8 %
Total assets	153,475	162,112	-5.3 %

Equity and liabilities Equity attributable to equity holders of the parent Share capital Share premium Translation differences Invested non restricted equity Retained profits Non-controlling interests Total	6,967 1,504 -1,404 3,062 60,593 630 71,352	6,967 1,504 -978 3,004 73,924 0 84,422	0.0 % 0.0 % 43.6 % 1.9 % -18.0 % n/a -15.5 %
Non-current liabilities Interest-bearing liabilities Other liabilities Deferred tax liabilities Provisions Total	28,394 1,159 1,429 619 31,601	28,036 135 1,630 1,081 30,882	1.3 % 755.6 % -12.3 % -42.8 % 2.3 %
Current liabilities Trade and other liabilities Current tax payable Provisions Interest-bearing liabilities Total	43,763 719 1,186 4,853 50,522	41,900 1,477 858 2,573 46,808	4.4 % -51.3 % 38.3 % 88.6 % 7.9 %
Total liabilities	82,123	77,691	5.7 %
Equity and liabilities total	153,475	162,112	-5.3 %

CONSOLIDATED CASH FLOW STATEMENT, 1000 euros

,,,,,,,	1.131.12. 2017	1.131.12. 2016	Change %
Cash flows from operating activities			
Profit for the period	-9,145	11,820	-177.4 %
Adjustments for:			
Non-cash transactions	13,233	2,924	352.6 %
Interest and other financial expenses	1,458	2,038	-28.4 %
Interest income and other financial income	727	-1,224	-159.4 %
Dividends	-6	-2	200.0 %
Taxes	675	3,001	-77.5 %
Change in working capital			
Increase/decrease in trade and other receivables	14,749	-110	-13509.2 %
Increase/decrease in inventories	-145	-884	-83.6 %
Increase/decrease in trade and other payables	260	-4,810	n/a
Increase/decrease in provisions	134	-24	n/a
Paid interests and other financial expenses	-1,458	-2,038	-28.4 %
Received interests and dividends	537	1,224	-56.1 %
Paid taxes	-1,765	-3,151	-44.0 %
Cash flow from operating activities	19,254	8,765	119.7 %
Cash flow from investing activities A conditional supplementary contract price for			
	0	-485	-100.0 %
	-1,975	-1,410	40.1 %
Proceeds from sales of PPE	210	43	388.4 %
Dividends Taxes Change in working capital Increase/decrease in trade and other receivables Increase/decrease in inventories Increase/decrease in trade and other payables Increase/decrease in provisions Paid interests and other financial expenses Received interests and dividends Paid taxes Cash flow from operating activities A conditional supplementary contract price for prior subsidiary acquisition Purchases of property, plant and equipment (PPE)	-6 675 14,749 -145 260 134 -1,458 537 -1,765 19,254 0 -1,975	-2 3,001 -110 -884 -4,810 -24 -2,038 1,224 -3,151 8,765 -485 -1,410	200.0 % -77.5 % -13509.2 % -83.6 % n/a -28.4 % -56.1 % -44.0 % 119.7 % -100.0 % 40.1 %

Purchases of intangible assets Acquisition of subsidiary, net of cash acquired Net cash used in investing activities	-3,123 -996 -5,884	-2,507 0 -4,359	24.6 % n/a 35.0 %
Cash flow from financing activities			
Proceeds from borrowings	4,000	4,170	-4.1 %
Payments of borrowings	-1,138	-6,099	-81.3 %
Payment of finance lease liabilities	-638	-611	4.4 %
Dividends paid	-4,530	-4,168	8.7 %
Capital investment by non-controlling interests	708	0	n/a
Net cash used in financing activities	-1,598	-6,708	n/a
Change in cash			
Cash and cash equivalents 1.1.	9,496	12,677	-25.1 %
Effect of currency changes	-38	-879	n/a
Cash and cash equivalents 31.12.	21,230	9,496	123.6 %

Consolidated statement of changes in equity,1000 euros Attributable to equity holders of the parent (tEUR)

A B C D E F G H	Share capital Share premiu Translation di Retained earr Invested free Other funds Total Share of non- Total equity	m ifferences nings capital			9					
I	rotarequity	А	В	С	D	E	F	G	Н	Ι
Total compi	/ 2.2016 rehensive le for the	6,967	1,504	-978	73,922	3,140	-135	84,420	0	84,422
perioc		0	0	-427	-9,065	0	58	-9,435	-77	-9,511
Divide	ends /-settled	0	0	0	-4,530	0	0	-4,530	0	-4,530
share- payme Chang owner intere subsid	-based ents ges in rship sts in diaries ges of non-				265			265	0	265
intere	sts without le in control	0	0	0		0		0	707	707
Equity		6,967	1,504	-1,404	60,592	3,140	-77	70,722	630	71,352

Business segments	2017, 1000 e	uros	Bro	deo and oadband Solutios	Netwo Servi		Group
External sales Services Goods External sales total Operating profit of s Financial items Profit before taxes	segments			7,567 134,515 142,082 4,888	92,5 92,5 -12,4	0 507	100,074 134,515 234,589 -7,549 -921 -8,470
Business segments External sales	2016, 1000 e	uros	Bro	deo and badband olutions	Netw Servi		Group
Services Goods External sales total Operating profits of Financial items Profit before taxes	the segments			6,813 157,418 164,231 16,482	95,2 95,2 -8	0	102,110 157,418 259,528 15,635 -814 14,821
Geographical segm euros Sales by origin Assets Capital expenditure		00	Nordic countries 28,634 154 80	EU 179	Other Finla Jrope Finla 9,884 13,2 5,398 43,8 3,101 4,1	296 12,774	Group 234,589 50,613 7,482
Geographical segme euros	ents 2016, 100		ordic countries		Other Jrope Finla	and Others	Group
Sales by origin Assets Capital expenditure	for the period		22,483 97 37	13	2,063 17,3 3,679 42,5 1,312 4,1	,	259,528 56,563 5,488
Information per quarter, 1000 euros	10-12/17	7-9/17	4-6/17	1-3/17	10-12/16	1-12/2017	1-12/2016
Video and Broadbar Order intake Net sales EBIT EBIT %	nd Solutions 43,424 35,429 480 1.4 %	36,264 34,469 1,534 4.5 %	42,555 36,782 2,057 5.6 %	48,116 35,403 817 2.3 %	39,548 43,496 5,309 12.2 %	170,359 142,082 4,888 3.4 %	149,011 164,231 16,482 10.0 %
Network Services Order intake Net sales EBIT EBIT %	23,273 23,273 -226 -1.0 %	21,779 21,779 -288 -1.3 %	21,924 21,924 -11,316 -51.6 %	25,531 25,531 -606 -2.4 %	25,066 25,066 -975 -3.9 %	92,507 92,507 -12,437 -13.4 %	95,297 95,297 -847 -0.9 %
Total Order intake Net sales	66,697 58,702	58,044 56,248	64,478 58,706	73,647 60,934	64,614 68,562	262,866 234,589	244,308 259,528

EBIT	254	1,246	-9,259	211	4,334	-7,549	15,635
EBIT %	0.4 %	2.2 %	-15.8 %	0.3 %	6.3 %	-3.2 %	6.0 %
Commitments and conti Rental liabilities Lease liabilities Value of underlying forw Market value of forward Interest rate swap Market value of interest Guarantees	vard contract			2017 3,699 4,656 23,169 -204 10,000 -78 4,479	201 3,97 5,17 22,55 33 10,00 -13 5,27	71 73 50 34 90 85	Change % -6.9 % -10.0 % 2.7 % n/a 0.0 % n/a -15.1 %
The number of employe following categories 31 Research and developm Production and material Sales and marketing Administration Total	.12. ent			2017 150 1,026 194 76 1,446	201 14 1,09 19 7 1,51	19 20 28 74	Change % 0.7 % -5.9 % -2.0 % 2.7 % -4.3 %
			IFRS	IFRS	IFRS	IFRS	IFRS
KEY FIGURES			2017	2016	2015	2014	2013
Profit and loss account,	balance she	et					
Net sales, Meur			234.6	259.5	247.8	197.2	192.8
Change %			-9.6 %	4.8 %	25.7 %	2.3 %	-0.6 %
Sales outside Finland, %	, D		94.3 %	93.3 %	95.1 %	92.5 %	93.2 %
Operating profit, Meur			-7.5	15.6	14.3	11.1	11.0
% of net sales			-3.2 %	6.0 %	5.8 %	5.6 %	5.7 %
Profit after financial iter	ns, Meur		-8.5	14.8	13.9	10.8	10.7
% of net sales			-3.6 %	5.7 %	5.6 %	5.5 %	5.5 %
Profit before taxes, Meu	JL		-8.5	14.8	13.9	10.8	10.7
% of net sales			-3.6 %	5.7 %	5.6 %	5.5 %	5.5 %
Profit for the financial p	eriod, Meur		-9.1	11.8	11.0	8.5	8.1
% of net sales			-3.9 %	4.6 %	4.4 %	4.3 %	4.2 %
R&D expenditure, Meur			12.1	11.1	11.0	10.3	10.0
% of net sales			5.1 %	4.3 %	4.4 %	5.2 %	5.2 %
Gross investments, Meu	JL		7.5	5.5	16.9	3.7	6.3
% of net sales			3.2 %	2.1 %	6.8 %	1.9 %	3.3 %
Interest bearing liabilitie	s, Meur		33.2	30.6	33.0	24.4	24.3
Shareholder's equity, Me	eur		71.4	84.4	77.5	70.7	65.6
Total assets, Meur			153.5	162.1	164.5	132.5	124.3
Personnel and orders							
Average personnel			1,492	1,514	1,485	1,302	1,306
Order backlog at year er	nd, Meur		57.4	26.9	42.2	15.2	13.1

Order backlog at year end, Meur	57.4	26.9	42.2	15.2	13.1
Orders received, Meur	262.9	244.3	251.3	199.3	188.9
Key metrics					
Return on equity, %	-11.7 %	14.6 %	14.9 %	12.5 %	12.9 %
Return on capital employed, %	-6.6 %	14.8 %	14.2 %	12.2 %	13.0 %
Equity ratio, %	48.3 %	52.5 %	48.3 %	53.4 %	52.7 %
Net gearing, %	16.8 %	25.0 %	26.3 %	9.5 %	13.8 %
Earnings per share, euro	-0.50	0.65	0.61	0.48	0.47
Earnings per share fully diluted, euro	-0.50	0.65	0.61	0.48	0.46
Shareholders equity per share, euro	3.94	4.66	4.28	3.94	3.73

Teleste share					
Highest price, euro	9.62	10.24	9.88	5.29	4.47
Lowest price, euro	6.51	7.29	5.32	4.25	3.78
Closing price, euro	6.68	8.86	9.80	5.27	4.25
Average price, euro	8.19	8.69	7.42	4.67	4.17
Price per earnings	-13.3	13.6	16.1	11.0	9.1
Market capitalization, Meur	126.8	160.6	177.6	98.7	79.6
Stock turnover, Meur	16.8	30.6	24.6	10.9	9.2
Turnover, number in millions	2.0	3.5	3.3	2.3	2.2
Turnover, % of share capital	10.8 %	18.5 %	17.5 %	12.5 %	11.7 %
Average number of shares	18985588	18985588	18985588	18918869	18743507
Number of shares at the year-end	18985588	18985588	18985588	18985588	18816691
Average number of shares, diluted w/o					
own shares	18202396	18169002	18036667	17729215	17513799
Number of shares at the year-end, diluted	10172250	1001000	1010100	17705024	17020500
w/o own shares	18172350	18216369	18121635	17795934	17838599
Paid dividend, Meur	1.8	4.5	4.2	3.6	3.3
Dividend per share, euro	0.10*	0.25	0.23	0.2	0.19
Dividend per net result, %	neg.	38.3 %	37.7 %	41.7 %	40.8 %
Effective dividend yield, %	1.5 %	2.8 %	2.3 %	3.8 %	4.5 %

* The Board's proposal to the AGM

	Number of		
Treasury shares	shares	% of shares	% of votes
Teleste companies own shares 31.12.2017	863,953	4.55%	4.55%

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
	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
	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

Major shareholders 31.12.2017	Number of shares	% of share capital
Tianta Oy Maadatum Lifa Jacumaga Composed Limitad	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,679,200	8.8
Ilmarinen Mutual Pension Insurance Company	1,084,475	5.7
Teleste Oyj	863,953	4.6
Kaleva Mutual Insurance Company	824,641	4.3
Varma Mutual Pension Insurance Company	521,150	2.7
The State Pension Fund	500,000	2.6
Sijoitusrahasto Taaleritehdas Mikro Markka	238,109	1.3
Ingman Finance Oy Ab	235,000	1.2
Mariatorp Oy	225,000	1.2

Shareholders by sector	Number of shareholders	% of Owners	Number of shares	% of shares
Households	5,267	93.8	4,572,771	24.1
Public sector institutions	4	0.1	2,115,725	11.1
Financial and insurance institutions	20	0.4	4,551,632	24.0
Corporations	259	4.6	7,545,734	39.7
Non-profit institutions	26	0.5	82,385	0.4
Foreign and nominee registered owners	42	0.7	117,341	0.6
Total	5,618	100.0	18,985,588	100.0
Of which nominee registered	9	0.2	1,137,630	6.0
Number of shares	Number of shareholders	% of share- holders	Number of shares	% of shares

Number of shares	shareholders	holders	shares	shares
1 - 100	1,509	26.9	91,554	0.5
101 - 500	2,400	42.7	643,713	3.4
501 – 1,000	766	13.6	616,911	3.2
1,001 – 5,000	756	13.5	1,660,943	8.7
5,001 – 10,000	83	1.5	604,724	3.2
10,001 – 50,000	74	1.3	1,476,509	7.8
50,001 – 100,000	9	0.2	657,755	3.5
100,001 – 500,000	13	0.2	2,750,333	14.5
500,001 -	8	0.1	10,483,146	55.2
Total	5,618	100.0	18,985,588	100.0
of which nominee registered	9	0.2	1,137,630	6.0

The following assets are liabilities were preliminary recognised in the acquisition iqu Systems GmbH:

1 000 €	Recognised fair values on acquisition
Fair values used in consolidation	
Trade marks (inc. in intangible assets)	82
Customer relationship (inc. in intangible assets)	146
Technology (inc. in intangible assets)	216
Inventories	267
Trade receivables	376
Book values used in consolidation	
Tangible assets	107

Intangible assets Other receivables	5
Cash and cash equivalents	4
Total assets	1,211
Book values used in consolidation	
Interest-bearing liabilities	243
Trade payables	271
Deferred tax liabilites	89
Other liabilities	17
Total liabilities	620
Net identifiable assets and liabilities	591
Total consideration	2,050
Goodwill on acquisition	1,459
Consideration paid in cash	-1,000
Cash and cash equivalents in acquired subsidiary	4
Total net cash outflow on the acquisition	-996

ADDITIONAL INFORMATION: CEO Jukka Rinnevaara, phone +358 2 2605 611

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