

# Half year financial report 1 January to 30 June 2017

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**We make your everyday life  
smart, safe and smooth.**

## Business areas



### **Video and Broadband Solutions**

Broadband networks and video security and information solutions



### **Network Services**

Comprehensive service solutions for cable networks

# Teleste Group

## Q2 2017 highlights



- Orders received decreased both year-on-year and quarter-on-quarter. Order backlog increased both on the reference period and quarter-on-quarter.
- Net sales decreased both year-on-year and quarter-on-quarter.
- Operating result was negative due to the restructuring provision and a goodwill impairment for the services business in Germany worth EUR 9.3 million.
- Cash flow from operations grew both year-on-year and quarter-on-quarter. Cash flow was improved by changes in the working capital and particularly by new, shorter payment terms for clients obtained with a supplier financing programme.

	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change
Orders received, M€	64,5	67,2	-4,0 %	73,6	-12,4 %
Net sales, M€	58,7	67,5	-13,0 %	60,9	-3,7 %
EBIT, M€	-9,3	3,9	-339,2 %	0,2	-4488,3 %
EBIT <sup>1)</sup> , M€	0,0	3,9	-98,8 %	0,2	-78,6 %
EBIT-%	-15,8 %	5,7 %		0,3 %	
Net profit, M€	-9,7	2,9	-437,9 %	0,1	-13769,9 %
Net profit <sup>1)</sup> , M€	-0,4	2,9	-114,0 %	0,1	-664,9 %
Operative cash flow, M€	14,1	0,5	3025,4 %	0,2	5669,0 %

<sup>1)</sup> Excluding goodwill impairment and restructuring provision

# Video and Broadband Solutions

## Q2 2017 highlights



- Orders received were at par year-on-year, but decreased quarter-on-quarter. Orders increased for access network products in Denmark, Switzerland and Germany, but decreased for video security and information solutions. Order backlog grew both year-on-year and quarter-on-quarter.
- Net sales decreased year-on-year, but increased quarter-on-quarter.
- Operating profit decreased year-on-year, but increased quarter-on-quarter. Operating profit decreased due to lower net sales and investments in growth in new market areas.

	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change
Orders received, M€	42,6	42,5	0,2 %	48,1	-11,6 %
Net sales, M€	36,8	42,8	-14,0 %	35,4	3,9 %
EBIT, M€	2,1	3,2	-35,3 %	0,8	151,7 %
EBIT-%	5,6 %	7,4 %		2,3 %	
Average personnel	777	748	3,8 %	751	3,5 %

# Network Services

## Q2 2017 highlights

- Net sales and orders received decreased both year-on-year and quarter-on-quarter. Net sales decreased in Germany and in the UK.
- Operating profit decreased both year-on-year and quarter-on-quarter. 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 restructuring provision of EUR 1.6 million for improving the profitability of the services business in Germany during the rest of the year.
- Other markets in services business performed well.

	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change
Orders received, M€	21,9	24,7	-11,3 %	25,5	-14,1 %
Net sales, M€	21,9	24,7	-11,3 %	25,5	-14,1 %
EBIT, M€	-11,3	0,7	-1 736 %	-0,6	
EBIT <sup>1)</sup> , M€	-2,0	0,7	-391 %	-0,6	
EBIT-%	-51,6 %	2,8 %		-2,4 %	
Average personnel	743	767	-3,2 %	756	-1,8 %

<sup>1)</sup> Excluding goodwill impairment and restructuring provision

# Teleste Group, January – June 2017

	1-6 2017	1-6 2016	YoY change
Orders received, M€	138,1	126,5	+9,2 %
Net sales, M€	119,6	128,1	-6,6 %
EBIT, M€	-9,0	6,5	-239,8 %
EBIT <sup>1)</sup> , M€	0,3	6,5	-96,0 %
EBIT-%	-7,6 %	5,1 %	
Net profit, M€	-9,6	4,5	-312,4 %
Net profit <sup>1)</sup> , M€	-0,3	4,5	-107,3 %
Operative cash flow, M€	14,3	2,0	+608,3 %

<sup>1)</sup> Excluding goodwill impairment and restructuring provision



## Video and Broadband Solutions, January – June 2017

	1-6 2017	1-6 2016	YoY change
Orders received, M€	90,7	78,9	+15,0 %
Net sales, M€	72,2	80,5	-10,3 %
EBIT, M€	2,9	5,6	-48,9 %
EBIT-%	4,0 %	7,0 %	
Average personnel	764	737	+3,7 %

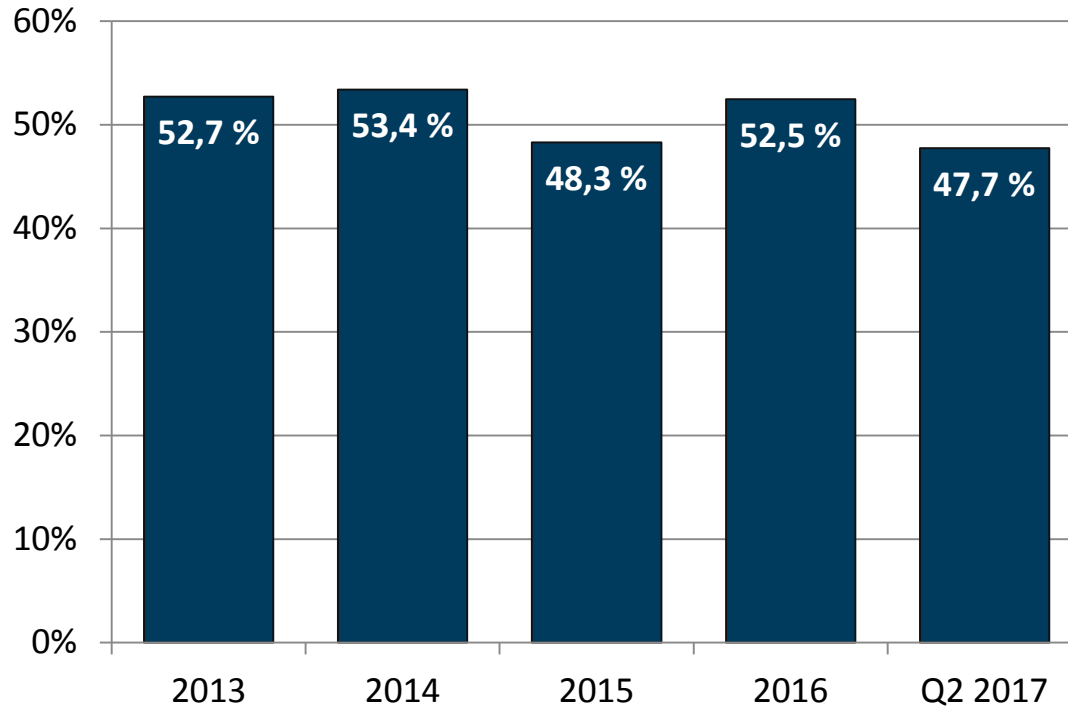
## Network Services, January – June 2017

	1-6 2017	1-6 2016	YoY change
Orders received, M€	47,5	47,6	-0,4 %
Net sales, M€	47,5	47,6	-0,4 %
EBIT, M€	-11,9	0,8	-1510,4 %
EBIT <sup>1)</sup> , M€	-2,6	0,8	-409,7 %
EBIT-%	-25,1 %	1,8 %	
Average personnel	749	770	-2,7 %

<sup>1)</sup> Excluding goodwill impairment and restructuring provision

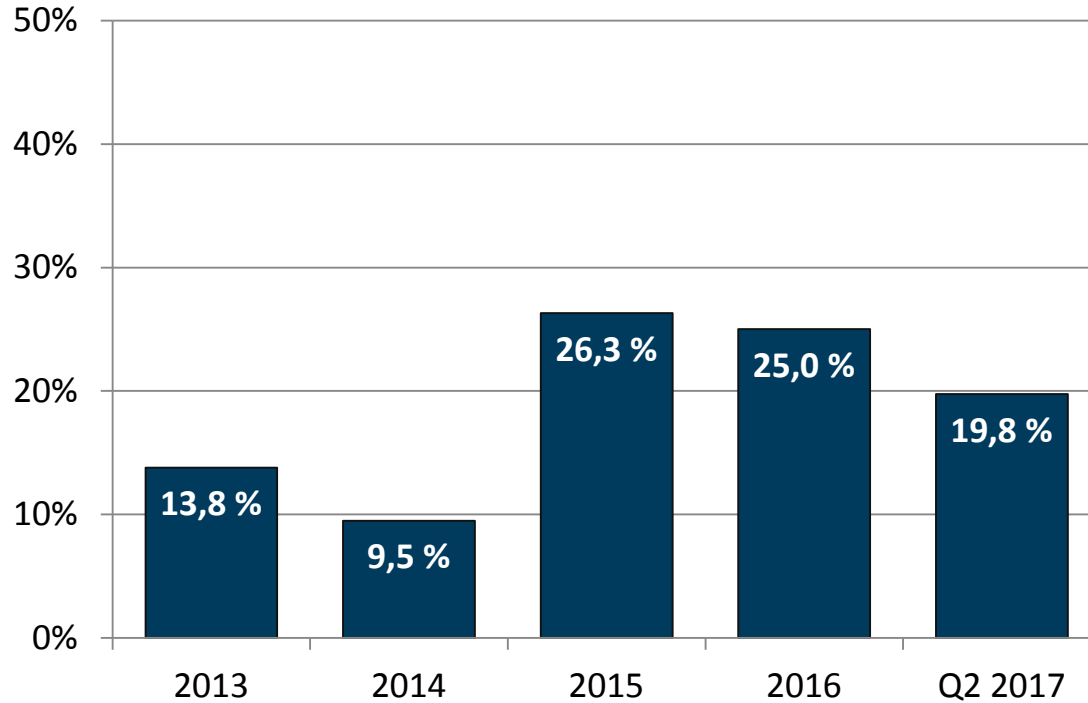
# Equity Ratio (at the end of period)

## Teleste Group



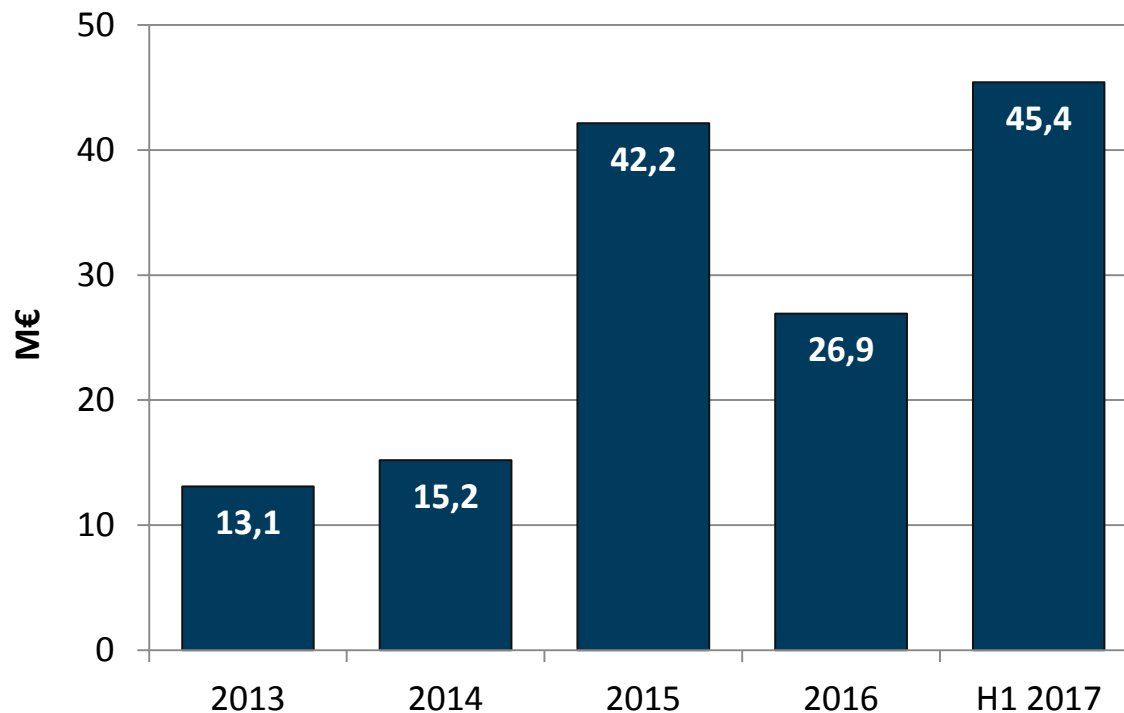
# Gearing

## Teleste Group



# Order Backlog (at the end of period)

## Teleste Group



# Outlook for 2017

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. The weight of net sales and operating profit of Video and Broadband Solutions will be on the second half of the year.

Network capacity will continue to grow, with operators responding to consumers' new and expanding broadband and video service needs. We estimate the demand for *access network products* in Europe to continue at par with 2016. Teleste's entire access network product portfolio has been renewed in accordance with the DOCSIS 3.1 standard, and our offering allows the cable operators to increase their network capacity competitively. Our clientele is becoming consolidated and our competitors are introducing their own DOCSIS 3.1 products in the market, resulting in pressure on the pricing of products. The American markets in particular are growing strongly, providing significant growth opportunities for Teleste's access network products. In 2017, we have invested in access network products suitable for new markets and also established a subsidiary to promote the sales of broadband network products to the cable network operators in North America. The objective of the investments is the long-term increase in sales.

Demand for *video security solutions* for public spaces continues worldwide, but some investment decisions may be delayed by the economic situation. Teleste's video security solution for public space introduced in Paris provides new opportunities for other major cities of the world. The added value in the ecosystem has increasingly shifted to software and intelligence, and price erosion in the traditional video security equipment market continues. New innovations and solutions are also changing the rail industry passenger information solution business. 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 the first half of 2017 for video security and information solutions clearly exceeded the previous year's level, the weight of deliveries is on the coming years.

As to **Network Services**, our business objective is to further develop the operational efficiency and increase the share of those services that provide our customers with higher added value. Subcontracting costs of the services business in Germany have risen significantly, contributing to the loss made by the business, while the results of the profitability improvement programme have been delayed. For these reasons, there was an impairment in the goodwill of the German services business, and restructuring efforts aimed at improving profitability were launched. We estimate the demand for all-inclusive network services in our key target markets to continue at least at the level of the previous year.

**We also estimate that net sales for 2017 will remain below the reference period and that the operating result for 2017 will remain clearly below the reference period level. The operating result of the second half of 2017 is expected to be considerably better than in the first half.**

# One Teleste

## Mission

We make your everyday life  
smart, safe, and smooth.

## Vision

Best partner for  
networked society