

TELESTE CORPORATION INTERIM REPORT 1 JANUARY TO 31 MARCH 2020

NET SALES AND ADJUSTED OPERATING RESULT DECLINED, ORDER BACKLOG INCREASED. TELESTE WILL FOCUS ON TECHNOLOGY BUSINESSES AND SUPPORTING HIGHER ADDED VALUE SERVICES AND WILL DIVEST ITS SERVICES BUSINESS IN GERMANY

On 14 May 2020, Teleste announced its new strategy, according to which the company will focus on technology business operations and the higher added-value services that support them. As a result, the company has decided to divest its services business in Germany. Teleste Corporation's Board of Directors has decided to classify the services business of the Germany-based Cableway companies as an asset held for sale pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations" and will report the business as a discontinued operation according to the standard starting from the first quarter. The business to be divested was previously reported under the Network Services business area. The income statement figures presented in this interim report only include continuing operations, except where otherwise noted. The figures in the statement of financial position and the cash flow statement include both continuing and discontinued operations.

First quarter of 2020, continuing operations

- Net sales amounted to EUR 36.6 (41.3) million, a decrease of 11.4%
- Adjusted operating result stood at EUR 1.4 (1.7) million, a decrease of 18.3%
- Operating result amounted to EUR 1.4 (-5.6) million, with the figure for the comparison period including losses and a provision totalling EUR 7.3 million arising from a crime against a foreign subsidiary
- Earnings per share were EUR 0.06 (-0.32)
- Earnings per share including discontinued operations amounted to EUR -0.07 (-0.35)
- Cash flow from operations, including discontinued operations, was EUR $0.1\ (-0.9)\ \text{million}$
- Orders received totalled EUR 45.9 (45.7) million, an increase of 0.4%
- Order backlog at period-end totalled EUR 82.6 (75.4) million, an increase of 9.5%

Outlook for 2020

Due to the COVID-19 pandemic, many European countries in Teleste's main market area have imposed strict and extensive restrictions on the daily functioning of society. Depending on the duration and extent of the measures taken, it is extremely difficult to estimate the negative impact on Teleste's net sales and operating result. Teleste will update its outlook and will give new guidance when the visibility is improved and the effects of the pandemic can be estimated reliably.

On 27 March, Teleste withdrew the financial guidance for 2020 previously issued by the company in connection with the financial statement release.

Comments by CEO Jukka Rinnevaara:

"Teleste revised its strategy, according to which the company will focus on the technology and product businesses as well as the higher added-value services that support them. Consequently, we will divest our cable network field service operations in Germany. The field service operations in Germany have had limited

synergies with Teleste's technology and product business operations. The operational development and extension of field services call for investments that do not support Teleste's technology and product business operations. Teleste engages in the services business in Germany through the Cableway companies, which have a leading position in cable network field services. Business development and growth investments are better suited to an owner for whom extensive telecommunications network field services are their core business. Teleste Corporation's Board of Directors has decided to classify the services business of the Germany-based Cableway companies in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". The primary aim is to sell the services business of the Germany-based Cableway companies within the next few months.

The COVID-19 pandemic began to affect Teleste's business in March. In response to the restrictive measures imposed by the authorities in various countries, operators reduced or suspended their broadband network construction, while certain customers in passenger information solutions were forced to close down their factories and delay projects in Italy, Germany and Poland, for example. The effects of the pandemic on Teleste's supply chain and component availability have been limited. Our personnel and our in-house production activities have remained operational. If the restrictions on movement were to stay in effect until the end of the second quarter, we expect that the negative impact on Teleste's net sales for the financial period 2020 would be significant. At this stage, however, it is very difficult to estimate the impact of the pandemic. We have initiated measures to achieve cost savings as well as ensure our delivery capacity and liquidity. We have adjusted our subcontracting in service production in response to changes in the demand from operators, we have reduced working hours and initiated temporary layoffs in April. We are reducing the use of external services and delaying non-critical projects and investments. If the pandemic were to be prolonged, we would have to implement additional cost saving measures. In these challenging circumstances, I want to thank our personnel for the flexibility they have demonstrated with respect to cost savings as well as the adoption of new working methods. Teleste's highest priorities are to ensure the safety of employees and ensure the continuity of business in order to satisfy customer needs.

Orders received in the first quarter were on par with the comparison period and the order backlog rose to an all-time high. Net sales and the adjusted operating result declined year-on-year due to the technological transformation in cable networks.

Orders received by Video and Broadband Solutions grew in the first quarter and the order backlog grew, reaching the highest level in Teleste's history. The order backlog increased in passenger information solutions. Just under 60% of the order backlog is associated with deliveries scheduled for this year, but the deliveries may be delayed due to the COVID-19 pandemic. Net sales decreased year-on-year in access network products as customers prepared for the deployment of distributed access architecture. As the net sales of HFC products decline, we are reducing production capacity and implementing cost savings at our factory. We estimate that we have maintained our market share during the technological transformation of access architecture. New distributed access architecture products are currently being tested together with customers in the USA and Europe, but the COVID-19 pandemic is slowing down the testing process to some extent.

The net sales of continuing operations in the Network Services business area declined in England, where the focus was on high-added-value design services, with lower-margin project services having been scaled back late last year. These changes led to an improvement in the operating result. Due to the COVID-19 pandemic, operator customers began to restrict installation work on their

networks in Switzerland, England and Finland in March. However, the financial effects were not significant during the first quarter.

Teleste will continue to develop its business especially in the following areas: profitable growth in video security and information solutions, product development in distributed access architecture and successful launch of sales in the United States."

Group Operations January-March 2020, continuing operations

Key figures	1-3/2020	1-3/2019	Change, %	1-12/2019
Net sales, EUR million	36.6	41.3	-11.4%	165.3
Adjusted EBIT, EUR million 1)	1.4	1.7	-18.3%	8.6
Adjusted EBIT, % 1)	3.9%	4.2%		5.2%
EBIT, EUR million	1.4	-5.6		1.6
EBIT, %	3.9%	-13.5%		1.0%
Result for the period, EUR million	1.2	-5.8		0.3
Earnings per share, EUR	0.06	-0.32		0.02
Earnings per share, EUR ²⁾	-0.07	-0.35		-0.07
Cash flow from operations, EUR million ²⁾	0.1	-0.9		4.1
Net gearing, % 2)	39.6%	20.6%		34.1%
Equity ratio, % 2)	46.9%	46.4%		49.5%
Orders received, EUR million	45.9	45.7	+0.4%	167.5
Order backlog, EUR million	82.6	75.4	+9.5%	73.2
Personnel at period-end	859	900	-4.6%	867

¹⁾ An alternative performance measure defined in the tables section of the report.

Orders received by the Group in the first quarter were on par with the comparison period and amounted to EUR 45.9 (45.7) million, an increase of 0.4%. The order backlog increased by 9.5% compared to the end of the reference period and totalled EUR 82.6 (75.4) million. Net sales were EUR 36.6 (41.3) million, down by 11.4% year-on-year. Net sales decreased in both business areas.

Expenses for material and manufacturing services were EUR 17.5 (21.2) million, a decrease of 17.6%. Personnel expenses increased by 2.0% to EUR 11.7 (11.5) million. Depreciation and amortisation amounted to EUR 1.7 (1.7) million, down by 1.1%. Other operating expenses amounted to EUR 4.9 (13.0) million. Other operating expenses in the comparison period included a provision totalling EUR 7.3 million recognised in relation to the loss of assets due to a crime committed against a foreign subsidiary and the handling of the case. The adjusted operating result decreased by 18.3% to EUR 1.4 (1.7) million, representing 3.9% (4.2%) of net sales. The adjusted operating result decreased due to the lower net sales of the Video and Broadband Solutions business area. The operating result was EUR 1.4 (-5.6) million. Net gains from financial items totalled EUR 0.3 (0.3) million. Direct taxes amounted to EUR 0.6 (0.5) million. The result for the period for continuing operations was EUR 1.2 (-5.8) million. Earnings per share for continuing operations amounted to EUR 0.06 (-0.32). Earnings per share including discontinued operations were EUR -0.07 (-0.35).

Cash flow from operations, including discontinued operations, was EUR 0.1 (-0.9) million.

²⁾ Including discontinued operations

Video and Broadband Solutions January-March 2020, continuing operations

EUR 1,000	1-3/2020	1-3/2019	Change	1-12/2019
Orders received	40,498	39,690	+2.0%	143,455
Net sales	31,203	35 , 277	-11.5%	141,351
EBIT	1,208	2,208	-45.3%	8 , 056
EBIT, %	3.9%	6.3%		5.7%

Orders received increased by 2.0% to EUR 40.5 (39.7) million. The order backlog increased by 9.5% compared to the end of the reference period and totalled EUR 82.6 (75.4) million. Net sales decreased by 11.5% to EUR 31.2 (35.3) million. Net sales decreased in access network products but increased in video security and information systems. EBIT decreased by 45.3% to EUR 1.2 (2.2) million, representing 3.9% (6.3%) of net sales. EBIT decreased due to the lower net sales of access network products.

R&D expenses amounted to EUR 3.2 (2.9) million, representing 10.3% (8.3%) of the business area's net sales. Product development projects focused on distributed access architecture (including solutions designed for the US market), situational awareness and video security solutions, passenger information systems and customer-specific projects. Capitalised R&D expenses amounted to EUR 1.2 (1.1) million. Depreciation on capitalised R&D expenses was EUR 0.6 (0.7) million.

Network Services January-March 2020, continuing operations

Teleste has revised its strategy according to which the company will focus on technology businesses and supporting higher added value service. In accordance with the new strategy, Teleste will divest its extensive cable network field service operations in Germany to focus on higher-added-value services in the future. Teleste Corporation's Board of Directors has decided to classify the services business of the Germany-based Cableway companies as an asset held for sale pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations" and will report it as a discontinued operation in accordance with the standard. Teleste will continue its higher-added-value services business in the UK, Switzerland, Finland, Poland and Belgium.

EUR 1,000	1-3/2020	1-3/2019	Change	1-12/2019
Orders received	5,359	5 , 978	-10.4%	23,996
Net sales	5,359	5 , 978	-10.4%	23,996
EBIT	215	-467		532
EBIT, %	4.0%	-7.8%		2.2%

Orders received and net sales for continuing operations decreased by 10.4% and amounted to EUR 5.4 (6.0) million. Net sales declined in England, where the focus was on high-added-value design services and the scaling down of lower-margin project services. EBIT improved to EUR 0.2 (-0.5) million. EBIT was 4.0% (-7.8%) of net sales. EBIT improved in England, where the focus was on high-added-value design services. Due to the COVID-19 pandemic, operator customers began to restrict installation work on their networks in Switzerland and Finland in March. However, the financial effects were not significant during the first quarter.

Discontinued operations

The net sales of the operations classified as an asset held for sale pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations" were EUR 70.1 million and the operating result EUR -0.9 million in 2019. The net sales represented 29.8% of the company's total consolidated net sales. The net assets of the business classified as an asset held for sale on the consolidated

balance sheet were EUR 15.0 million as at 31 March 2020. The valuation of the business classified as an asset held for sale will be assessed on the basis of different options aimed at divestment. By divesting its Germany-based services business operations, Teleste seeks to safeguard its financial position and its ability to invest in technology and services business growth areas. The business classified as an asset held for sale will no longer be reported under the figures of the Network Services business area as of the beginning of the first quarter, but will instead be reported under discontinued operations pursuant to IFRS 5.

Personnel and organisation January-March 2020

In the period under review, the average number of people employed by the Group was 860 (899). Of these, 667 (672) were employed by Video and Broadband Solutions and 194 (226) by Network Services. At the end of the review period, the Group employed 859 (900) people, of whom 45% (48%) worked abroad. Approximately 3% of the Group's employees were working outside Europe.

Personnel expenses increased by 2.0% year-on-year to EUR 11.7 (11.5) million. The change in personnel expenses was attributable to wage increases.

Investments and product development in January-March 2020, including discontinued operations

Investments by the Group totalled EUR 2.8 (2.5) million, representing 5.3% (4.2%) of net sales. Of the investments, EUR 1.0 (1.0) million were carried out under lease or financial lease arrangements.

Investments in product development amounted to EUR 1.2 (1.1) million. Product development projects focused on distributed access architecture (including solutions designed for the US market), situational awareness and video security solutions, passenger information systems and customer-specific projects.

Financing and capital structure January-March 2020, including discontinued operations

Cash flow from operations was EUR 0.1 (-0.9) million.

Teleste Corporation has credit and loan facilities with a combined total value of EUR 50.0 million. The EUR 20.0 million credit facility will run until the end of August 2020. Teleste Corporation signed an agreement on 1 April 2020 on the renewal of the EUR 20 million credit limit until the end of August 2021. The agreement includes an option to extend the credit limit by one year. The loan facility of EUR 30.0 million will mature in August 2022. The loan is repaid in annual instalments of EUR 3.0 million. The remaining loan principal amounted to EUR 24.0 million on 31 March 2020. At the end of the period under review, the amount of unused binding credit facilities was EUR 18.8 (20.0) million.

On 31 March 2020, the Group's interest-bearing debt stood at EUR 34.1 (32.7) million. The Group's equity ratio was 46.9% (46.4%) and net gearing was 39.6% (20.6%).

Key risks faced by the business areas

Teleste is a technology and services company consisting of two business areas: Video and Broadband Solutions and Network Services. Europe is the main market and business area, but the company aims to expand its business, particularly in North America. 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 quality assurance, complex products may fail in the customer's network and lead to expensive repair obligations. The consequences of natural phenomena and global disruptions, such as an epidemic, or accidents, such as a fire, may reduce the availability of components in the order-delivery chain of the electronics industry or suspend our own manufacturing operations. Customs levies imposed by major powers in the world economy and other trade war measures may have a negative effect on component supply chains and, in particular, the profitability of products exported to the United States. Many competitors in the business area come from the United States, which is why the exchange rate of the euro against the US dollar has an effect on our competitiveness. In particular, 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. Future treaties between the UK and the European Union could make deliveries to English customers more difficult.

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 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 used. The business areas must take into account market movements, such as consolidations among our customers and competitors. Periods of technological transformation, 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 are also exposed to external threats and we strive to protect ourselves from these threats through technical solutions and by increasing the security competence of our personnel. Teleste Group may also be targeted by illegal activities and fraud attempts that could have a significant effect on the financial result. The Group strives to minimise these risks by continuing to develop good governance practices and increasing the security competence of its personnel. Recruiting and maintaining skilled personnel requires encouragement, development and recruitment efforts, which can fail.

The COVID-19 pandemic presents risks to Teleste's supply chain, the company's own operating capacity, the operating capacity of customers and the demand for Teleste's products and services. Thus far, in response to the restrictive measures imposed by the authorities in various countries, operators have reduced or suspended their broadband network construction, while certain customers in passenger information solutions have been forced to close down their factories and delay projects in Italy, Germany and Poland, for example. The effects of the pandemic on Teleste's supply chain and component availability have been limited. Our personnel and our in-house production activities have remained operational. If the restrictions on movement in society imposed by the authorities in various countries were to stay in effect until the end of the second quarter, we expect that the negative impact on Teleste's net sales for the financial period 2020 would be significant. The company initiated measures in the first quarter to ensure its liquidity and financial position.

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 Audit Committee on a regular basis.

In the period under review, no such legal proceedings or judicial procedures were pending that would have had any essential significance for the Group operation.

Group structure, including discontinued operations

The parent company has a branch office in the Netherlands and subsidiaries in 14 countries outside Finland.

Shares and changes in share capital

On 31 March 2020, Tianta Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest price of the company's share was EUR 3.51~(5.26) and the highest price was EUR 5.78~(6.80). The closing price on 31 March 2020 was EUR 3.75~(5.90). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,474~(5,550). Foreign and nominee-registered holdings accounted for 5.5%~(6.8%) of the shares. From 1 January to 31 March 2020, a total of 0.8~(0.6) million Teleste shares were traded on Nasdaq Helsinki, and the value of the shares traded was EUR 3.9~(3.4) million.

On 31 March 2020, the Group held 798,821 (821,182) of its own shares, all held by the parent company Teleste Corporation. At the end of the review period, the Group's holding of the total number of shares amounted to 4.2% (4.3%).

On 31 March 2020, the company's registered share capital stood at EUR 6,966,932.80, divided into 18,985,588 shares.

Valid authorisations on 31 March 2020:

- 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.
- The authorisations were valid until 3 October 2020.
- The new authorisations resolved upon by the Annual General Meeting of 22 April 2020 overrode the previous authorisations.

Events after the end of the review period

COVID-19 pandemic

Co-determination negotiations aimed at the implementation of adaptation measures required by the COVID-19 pandemic were completed in Teleste's Finnish companies on 3 April 2020. The outcome of the negotiations was an agreement on temporary layoffs of a maximum of 90 days concerning the Group's personnel in Finland. The temporary layoffs began in April. The temporary layoffs are primarily implemented by shifting to a four-day work week until the end of September 2020. Similar reductions in hours and temporary layoffs also began to be implemented in the Group's foreign subsidiaries. The other adaptation measures initiated by the Group include reductions in subcontracting in production, the reduced use of external services and the delaying of non-critical projects, investments and recruitment. As part of the cost saving measures, Teleste's management group cut its salaries by 20 per cent effective from 1 April 2020.

Renewal of credit limit

Teleste Corporation signed an agreement on the renewal of the EUR 20 million credit limit until the end of August 2021. The agreement includes an option to extend the credit limit by one year.

Reducing the production capacity of HFC products

Teleste Corporation completed co-determination negotiations on reducing the production capacity of HFC products and the personnel of HFC customer support functions by 20 persons. The reason for the adjustments is the ongoing technological transformation in the Network Products business area that has led to decreased demand for traditional access network products, as stated in the 2019 financial statement release. This change decreases the related capacity need in production and supporting functions. According to the company's estimate, the deliveries of distributed access architecture products will commence at the beginning of 2021. The company expects that the production of new distributed access architecture products does not require the production capacity that is being reduced.

Directed share issue

On 22 April 2020, Teleste Corporation's Board of Directors decided on a directed share issue without consideration, relating to the reward payment for the performance period 2017-2019 of Teleste Group's share-based incentive plan 2015. In the share issue, 22,402 Teleste Corporation shares held by the company were conveyed without consideration to the key employees participating in the share-based incentive plan in accordance with the terms and conditions of the plan.

General Meeting

The Annual General Meeting (AGM) of Teleste Corporation held on 22 April 2020 adopted the financial statements and consolidated financial statements for 2019 and discharged the members of the Board of Directors and the CEO from liability for the financial period 2019. The AGM resolved to authorise the Board of Directors to resolve, at its discretion, on the distribution of a maximum of EUR 0.10 per share as dividend from the retained earnings and/or as repayment of capital from the fund for invested unrestricted equity in one or more instalments. The authorisation is valid until the opening of the next AGM. The company will announce each Board resolution on the distribution of funds separately and confirm the relevant record and payment dates in such announcements.

The AGM decided that the Board of Directors shall consist of six members. The annual remuneration to be paid to the members of the Board of Directors were resolved on as follows: EUR 66,000 per year for the chairman and EUR 33,000 per year for each member. The annual remuneration of the Board member who acts as the chairman of the Audit Committee shall be EUR 49,000 per year. Of the annual remuneration to be paid to the Board members, 40% of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on a regulated market organised by Nasdaq Helsinki Ltd and the rest will be paid in cash. In addition, EUR 400 per meeting shall be paid to the members of the Board of Directors' Audit Committee as a meeting fee. However, a separate meeting fee shall not be paid to the chairman of the Audit Committee.

Jussi Himanen, Vesa Korpimies, Mirel Leino, Timo Luukkainen, Heikki Mäkijärvi and Kai Telanne were elected as members of Teleste Corporation's Board of Directors.

In its organisational meeting held after the AGM on 22 April 2020, the Board of Directors elected Timo Luukkainen as its Chairman. Mirel Leino was elected chair of the Audit Committee, with Jussi Himanen and Vesa Korpimies as members.

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

The AGM decided to authorise the Board of Directors to decide on the purchase of the company's own shares in accordance with the proposal of the Board. 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.

The AGM 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. The new shares may be issued and the company's own shares held by the company may be conveyed either against payment or for free. New shares may be issued and the company's own shares held by the company may be conveyed to the company's shareholders in proportion to their current shareholdings in the company, or by waiving the shareholder's pre-emption right, through a directed share issue if the company has a weighty financial reason to do so. The new shares may also be issued in a free share issue to the company itself.

Under the authorisation, the Board of Directors has the right to decide on issuances of 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 eighteen (18) months from the resolution of the AGM. The authorisations override any previous authorisations to decide on issuances of new shares and on granting stock option rights or other special rights entitling to shares.

The authorisations are valid for eighteen (18) months from the resolution of the AGM. The authorisations override any previous authorisations to decide on issuances of new shares and on granting stock option rights or other special rights entitling to shares.

The AGM resolved, in accordance with the proposal of the Board of Directors, to establish a shareholders' nomination board that prepares matters concerning the appointment and remuneration of the Board of Directors. Further, the AGM adopted the charter of the nomination board according to the proposal of the Board of Directors. The AGM also approved the proposal by the Board of Directors for the remuneration policy of the governing bodies of the company.

Operating environment in 2020

The business objective of Video and Broadband Solutions is to maintain its strong market position in Europe and to strengthen this market position particularly in North America.

The demand for broadband services by cable operators continues to grow. Household broadband traffic is estimated to grow at an annual rate of 30-40% in the next few years. Broadband traffic has increased sharply during the COVID-19 pandemic due to the growth of remote work and remote education and the higher consumption of streaming services. It is possible that part of the growth created by the pandemic will remain a permanent phenomenon, which could accelerate network investments when the restrictions imposed due to the pandemic are lifted. European cable operators have been able to competitively respond to the increasing demand by investing in DOCSIS 3.1 standard-compliant 1.2 GHz frequency range network upgrades. Investments in expansion of the traditional HFC network infrastructure frequency range continue, but with a lower volume. Operators are already planning investment in next-generation distributed access architecture network solutions. For years now, the cable industry, including Teleste, has been preparing for the next technology wave with which investment in cable network infrastructure can be competitively continued also in the years to come. Teleste will continue to invest in the development of expertise and new technology as well as customer projects. Operators' investments in distributed access architecture have been delayed compared with previous schedule estimates and the COVID-19 pandemic is likely to cause further delays, with field testing by operators having to be postponed to the second half of 2020. We estimate that operators' distributed access architecture deployment projects will commence at the beginning of 2021. Transformation to distributed architecture provides Teleste with growth opportunities, but it also involves risks. Growth is enabled by the increased value of access network optical products as well as the possibility to use the technological transformation to expand business into the North American markets. Achieving interoperability with the cable network central systems is the most significant risk. The COVID-19 pandemic makes it difficult to predict the development of the full-year net sales of access network products in 2020, but the slowing down of operators' network upgrades during the pandemic is likely to have a negative effect on net sales in the second and third quarter.

Ensuring safety in city environments, the increase of public transport services and the increasing popularity of smart digital systems for a smoother life provide a foundation for growing business. Public transport operators and other authorities must ensure smooth operation of services and infrastructure as well as the safety of people. The growth of the public transport information systems

market as well as the video security and situational awareness systems market will be slowed down in 2020 by delays in investments and projects caused by the COVID-19 pandemic. Public transport information systems are continuously developing to be increasingly smart and real-time. Video security solutions are becoming increasingly smart, including pattern recognition and artificial intelligence. Furthermore, a need is arising in the market for comprehensive situational awareness systems that include management of other sensor-level data flows in addition to video image and automate operating processes in exceptional situations. Ensuring competitiveness requires Teleste to continuously make R&D investments in new intelligent solutions. In addition, it is necessary to improve the productivity and cost-efficiency of business. Teleste increased its market share in video security and information solutions in 2019 and the order backlog continued to grow in the first guarter of 2020. Characteristic for the business, a considerable proportion of deliveries will be distributed over several years. The COVID-19 pandemic will delay several projects and deliveries in 2020. For this reason, we estimate that the net sales of video security and information solutions in 2020 will be approximately on par with the previous year, but this estimate involves uncertainty.

In the Network Services business area, operators' network investments are expected to also increase the demand for services in the long term. Teleste's aim is to focus on high-added-value services and increase the operational efficiency of the services business. In line with the new strategy, the company will divest its extensive field service operations in Germany. The services business in Germany has been classified as an asset held for sale and the company reports it as a discontinued operation in accordance with IFRS 5. In our continuing services business operations, we see growth opportunities particularly in network design services. Due to the COVID-19 pandemic, operator customers began to restrict upgrades on their networks starting from March. Estimating the effect of the pandemic on net sales for the remainder of the year is difficult at this stage.

Outlook for 2020

On 27 March, Teleste withdrew the financial guidance for 2020 previously issued by the company in connection with the financial statement release.

Due to the COVID-19 pandemic, many European countries in Teleste's main market area have imposed strict and extensive restrictions on the daily functioning of society. Depending on the duration and extent of the measures taken, it is extremely difficult to estimate the negative impact on Teleste's net sales and operating result. Teleste will update its outlook and will give new guidance when the visibility is improved and the effects can be estimated reliably.

14 May 2020

Teleste Corporation

Board of Directors

President and CE Board of Directors

President and 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. Teleste has prepared this interim report applying the same accounting principles as those described in detail in its the consolidated financial statements except for the adoption of new standards and amendments effective as of January 1, 2020. The data stated in this report is unaudited.

STATEMENT OF COMPREHENSIVE INCOME (tEUR)	1-3/2020	1-3/2019	Change	% 1-12/2019
Continued operations				
Net Sales Other operating income Materials and services	36,562 542 -17,451	565	-11.4 -4.1 -17.6	% 2,210
Personnel expenses Depreciation Other operating expenses	-11,687 -1,670 -4,874	-11,459 -1,689	2.0 -1.1	% -46,049 % -6,747
Operating profit	1,423			
Financial income Financial expenses Profit after financial items	340 -25 1,738	-25	1.2	% -418
Profit before taxes	1,738	-5,264	-133.0	% 2 , 265
Taxes	-560	- 522		
Net profit of continued operations	1,178	-5 , 786	-120.4	% 278
Discontinued operations Net profit of discontinued	0.500	510	000 4	
operations Net profit	-2,590 -1,412		323.1 -77.9	•
Attributable to:	1,412	0,330	77.9	. 1,000
Equity holders of the parent Non-controlling interests	-1,353 -59			
	-1,412			
Earnings per share for result at (expressed in euro per share)	tributable to	the equity h	nolders of t	the parent
Basic Diluted	-0.07 -0.07			
Earnings per share for result of holders of the parent (expressed			ributable to	the equity
Basic Diluted	0.06 0.06	-0.32		
Earnings per share for result of equity holders of the parent (ex				e to the
Basic Diluted	-0.14 -0.14	-0.03	322.6 323.4	

Total comprehensive income for the Net profit	e period (tEU -1,412	JR) -6,398	-77.9 %	-1 , 653
Possible items with future net profit effect	1,412	0,330	77.5	1,055
Translation differences	-1,167	210	-654.8 %	299
Cash flow hedges	11	2	402.6 %	
Total comprehensive income for				
the period	-2 , 567	-6,186	-58.5 %	-1,335
Attributable to:				
Equity holders of the parent	-2,513	-6,155	-59.2 %	-1,019
Non-controlling interests	-54			-
Equity holders of the parent	-2,567	-6,185	-58.5 %	-1 , 335
STATEMENT OF FINANCIAL POSITION				
(tEUR)	31/03/2020	31/03/2019	Change %	31/12/2019
Non-current assets				
Intangible assets	13,229		14.3 %	·
Goodwill	30,109			·
Property, plant, equipment Other non-current financial	10,010	15 , 371		,
assets	650			
Deferred tax asset	1,014			
	55,011	60,451	-9.0 %	63,182
Current assets	00 607	27 410	20 4 0	27 400
Inventories	22,687			*
Trade and other receivables Tax Receivable, income tax	38 , 134 657	47 , 670 341		*
Cash and cash equivalents	6 , 080			
cash and cash equivalents	67 , 558			·
Assets reported in				
discontinued operations	27,957			
aloconolinaca epolaciono	21,331			
Total assets	150,526	163,894	-8.2 %	149,634
Shareholder's equity and liabilities				
Share capital	6 , 967	6 , 967	0.0 %	6 , 967
Other equity	63,239	63,696	-0.7 %	65,606
Owners of the parent company	70,205		-0.6 %	*
Non-controlling interests	152		-69.1 %	
EQUITY	70,356	71,154	-1.1 %	72 , 779
Non-current liabilities				
Deferred tax liability	1,611	1,618	-0.4 %	1,603
Non-current liabilities,				
interest-bearing	25 , 250	26,016	-2.9 %	26,501
Non-current interest-free liabilities	73	79	-6.7 %	79
Non-current provisions	6			
Non current provisions	26,941			
Current liabilities	20,011	2,,501	J. 7 6	20,270
Current interest-bearing				
liabilities	5,900	6,671	-11.6 %	6,531
Trade Payables and Other				
Liabilities	31,869			
Tax liability, income tax	1,122	975	15.1 %	1,283

Current provisions	1,337 40,228	1,728 64,759	-22.6 % -37.9 %	1,528 48,579
Liabilities reported in discontinued operations	13,001			
Total shareholder's equity and liabilities	150,526	163,894	-8.2 %	149,634
CONSOLIDATED CASH FLOW STATEMENT (tEUR), including discontinued	1 2/0000	1 2/0010	Q1 0	1 10/0010
operations Cash flows from operating activities	1-3/2020	1-3/2019	Change %	1-12/2019
Profit for the period	-1,412	-6,398	- 77 . 9 %	-1,653
Adjustments	3,545	2,854	24.2 %	12,405
Interest and other financial	3,313	2,001	21.2	12,100
expenses and incomes	315	117	169.3 %	-380
Paid Taxes	-518	-686	-24.6 %	
Change in working capital	-1,863	3,200	-158.2 %	-4,589
Cash flow from operating activities	67	-913	-107.4 %	4,057
Cash flow from investing	0 /	-913	-107.4 %	4,007
activities				
Purchase of tangible and				
intangible assets	-2,129	-1,553	37.1 %	-8,749
Proceeds from sales of PPE	16	123	-87.1 %	475
Acquisition of subsidiaries,				
net of cash acquired	0	0	n/a	-1 , 050
Purchase of investments	101	0	n/a	-77
Net cash used in investing				
activities	-2,012	-1,430	40.7 %	-9,401
Cash flow from financing activities				
Proceeds from borrowings	1,158	0	n/a	0
Payments of borrowings	0	-876	-100.0 %	-489
Payment of leasing liabilities	-1,224	-1,087	12.6 %	-4,499
Dividends paid	0	0	n/a	-3 , 630
Net cash used in financing				
activities	-67	-1,963	-96.6 %	-8,618
Change in cash	_			
Cash in the beginning	8,249			
Effect of currency changes	21	88		
Change	-2,011			
Cash at the end	6 , 258	18,021	-65.3 %	8,249
KEY FIGURES	1-3/2020	1-3/2019	Change %	1-12/2019
Operating profit, continued			·	
operations		-5 , 557		
Earnings per share, EUR	-0.07	-0.35	- 78.7 %	-0.07
Earnings per share fully	0 07	0 25	70 7 0	0 07
diluted, EUR	-0.07	-0.35	-78.7 %	-0.07
Shareholders' equity per share, EUR	3.71	3.92	-5.4 %	4.00
Share, Box	J • / ±	3.72	J. 7 0	٦.00
Return on equity	-7.9 %	-34.5 %	-77.1 %	-2.2 %

Return on capital employed	0.9 %	-21.9 %	-103.9 %	1.6 %
Equity ratio	46.9 %	46.4 %	1.0 %	
Gearing	39.6 %	20.6 %	92.6 %	34.1 %
Investments, tEUR Investments % of net sales,	2,846	2,451	16.1 %	12,981
including discontinued operations	5.3 %	4.2 %	86.1 %	7.9 %
Order backlog, tEUR	82 , 558	75 , 429	9.5 %	73,223
Personnel, average	1,327	1,369	-3.1 %	1,363
Number of shares (thousands) including own shares	18,986	18,986	0.0 %	18,986
Highest share price, EUR	5.78	6.80	-15.3 %	6.80
Lowest share price, EUR	3.51	5.26	-31.7 %	5.04
Average share price, EUR	4.79	6.09	-21.3 %	5.72
Turnover, in million shares	0.8	0.6	38.8 %	1.6
Turnover, in MEUR	3.7	3.4	9.2 %	9.2
ALTERNATIVE PERFORMANCE MEASURES				
Adjusted operating profit, continued operations	1,423	1,741	-18.3 %	8,588
Adjusted earning per share, EUR	-0.07	0.05	-243.9 %	0.31
	0.07	0.00	210.3	0.01
BRIDGE OF CALCULATION				
Operating profit, continued operations	1,423	-5,557	- 125.6 %	1,646
Cost item caused by a crime	1,423	-3 , 337		6,942
Adjusted operating profit,	Ŭ	7/230	100.0	0,312
continued operations	1,423	1,741	-18.3 %	8,588
Net profit/loss to equity				
holder	-1, 353	- 6,358	- 78.7 %	-1, 327
Outstanding shares during the	10 164	10 164	0 0 0	10 101
quarter Earnings per share, basic	18,164 -0.07		0.0 % -78.7 %	18,181 -0.07
	-0.07	-0.33	- / O • / · · o	-0.07
Net profit/loss to equity	1 252	6 250	70 7 0	1 207
holder Cost item caused by a crime	-1,353 0	-6,358 7,298	-78.7 % -100.0 %	-1,327 6,942
Outstanding shares during the	O	7,290	-100.0 %	0,942
quarter Adjusted earnings per share,	18,164	18,164	0.0 %	18,181
EUR	-0.07	0.05	-243.9 %	0.31
Treasury shares				
	Number		% of	% of
	of shares		shares	votes
Possession of company's own shares 31.3.2020	798 , 821		4.21%	4.21%
Contingent liabilities and pledged assets (tEUR)				
Leasing and rent liabilities	903	853	5.9 %	886

Derivative instruments (tEUR)				
Value of underlying forward				
contracts	17,390	20,490	-15.1 %	21,146
Market value of forward				
contracts	409	239	71.1 %	-48
Interest rate swap	10,000	10,000	0.0 %	10,000
Market value of interest swap	-50	-98	-49.0 %	-65

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

OPERATING SEGMENTS (tEUR)	1-3/2020	1-3/2019	Change %	1-12/2019
Video and Broadband	Solutions	5			
Orders received		40,498	39,690	2.0 %	143,455
Net sales		31,203	35 , 277	-11.5 %	
EBIT		1,208	2,208	-45.3 %	
EBIT%		3.9 %	6.3 %		5.7 %
Network Services					
Orders received		5 , 359	5 , 978	-10.4 %	23,996
Net sales		5,359	5,978	-10.4 %	23,996
EBIT		215	-467		
EBIT%		4.0 %	-7.8 %		2.2 %
Total Segments					
Orders received		45,857	45,668	0.4 %	167,451
Net sales		36,562	41,256	-11.4 %	165,348
EBIT		1,423	1,741	-18.3 %	8,588
EBIT%		3.9 %	4.2 %		5.2 %
Total Group					
Unallocated item		0	-7 , 298	-100.0 %	-6,942
EBIT		1,423	-5 , 557	-125.6 %	1,646
EBIT%		3.9 %	- 13.5 %		1.0 %
Financial items		315	293	7.5 %	618
Operating segments	net				
profit before taxe		1,738	-5,264	-133.0 %	2,265
Net sales by categ	ory	1-3/2020	1-3/2019	Change %	1-12/2019
Goods		30,215	34,411	-12.19%	
Service		6,347	6,844		
Total		36,562	41,256	-11.38%	
IOCAI		30,302	41,230	-11.30%	100,340
		1-3/2020	1-3/2019	Change %	1-12/2019
VBS Order backlog,	tEUR	82 , 558	75 , 429	9.5 %	73,223
Information per					4/2019-
quarter (tEUR)	1-3/20	10-12/19	7-9/19	4-6/19	1-3/19 3/2020
Video and Broadband So	lutions				
Orders received	40,498	41,807	25,864	36,094	39,690 144,263
Net sales	31,203	36,142	34,641	35,291	35,277 137,277
EBIT	1,208	1,266	3,013	1,569	2,208 7,056
EBIT %	3.9 %	3.5 %	8.7 %	4.4 %	6.3 % 5.1 %

Network Services						
Orders received	5 , 359	5,419	5 , 605	6 , 994	5 , 978	23,377
Net sales	5 , 359	5,419	5 , 605	6 , 994	5 , 978	23,377
EBIT	215	492	-56	581	-467	1,214
EBIT %	4.0 %	9.1 %	-1.0 %	8.3 %	-7.8 %	5.2 %
Total segments						
Orders received	45,857	47,226	31,469	43,088	45 , 668	167,640
Net sales	36,562	41,561	40,246	42,285	41,256	160,654
EBIT	1,423	1,758	2,957	2,150	1,741	8,270
EBIT %	3.9 %	4.2 %	7.3 %	5.1 %	4.2 %	5.1 %
Total group						
Unallocated item	0	356	0	0	-7 , 298	356
EBIT	1,423	2,115	2 , 957	2,150	-5 , 557	8 , 626
EBIT %	3.9 %	5.1 %	7.3 %	5.1 %	- 13.5 %	5.4 %

Consolidated	statemer	nt of ch	nanges ir	equity	1000 😜	uros			
Attributable			_						
A	_	capital	218 01 61	ic parein	c (CDOI	,			
В		premium							
C	-	-	ifference	2.5					
D		ed earni							
E			capital						
F	Other		σαρτσατ						
G	Total	2 011 010							
Н		of non-	controlli	na inter	rest				
I	Total								
	A	В	С	D	E	F	G	Н	I
Shareholder's									
equity									
1.1.2020	6 , 967	1,504	-1,594	62,616	3,140	-62	72 , 573	206	72 , 779
Total									
comprehensive income for									
the period				-1,353			-1.353	-59	-1,412
Equity-				1,333			1,000	33	1,112
settled									
share-based									
payments				146			146		146
Translation			F 0 7	665			1 1 7 1	_	1 167
differences Cash flow			-507	-665			-1,171	5	-1,167
hedges						11	11		11
Shareholder's									
equity									
31.3.2020	6 , 967	1,504	-2,101	60,744	3,140	-50	70,204	152	70,356
Shareholder's									
equity 1.1.2019	6 967	1 504	-1,570	66 601	3 1/10	-92	76,640	522	77,162
Total	0,907	1,304	-1,370	00,091	3,140	-92	70,040	322	11,102
comprehensive									
income for									
the period				-6,358			-6 , 358	-40	-6,398
				177			177	0	177

Equity- settled				
share-based				
payments				
Translation				
differences	35	166		201
Cash flow				
hedges			2	2
Shareholder's				

CALCULATION OF KEY FIGURES

equity

31.3.2019

Return on equity: Profit/loss for the financial period * 100

Shareholders' equity (average)

6,967 1,504 -1,534 60,676 3,140 -90 70,663 492 71,154

Return on capital employed: Profit/loss for the period after financial items +

financing charges

---- * 100 Total assets - non-interest-bearing

9

210

2

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

ALTERNATIVE PERFORMANCE MEASURES

Effective from the beginning of 2019, Teleste has started to report non-IFRS alternative performance measures. The calculation of the alternative performance measures does not take into account income or expense items affecting comparability that are non-recurring or infrequently occurring and not part of the ordinary course of business. The purpose of presenting the alternative performance measures is to improve comparability, and they do not replace the performance measures and key

figures presented in accordance with IFRS. The alternative performance measures reported by the Group are adjusted operating result and adjusted earnings per share. Adjusted operating result and adjusted earnings per share exclude material items affecting comparability that are not part of the ordinary course of business. The adjusted items are recognised in the income statement within the corresponding income or expense group.

Adjusted operating profit
Operating profit is adjusted with items which are

non-recurring or infrequently.

Adjusted earnings per share: Adjusted Profit for the period attributable to

equity holder of the parent

Weighted average number of ordinary shares

outstanding during the period $% \left(1\right) =\left(1\right) \left(1\right) \left($

Major shareholders, as sorted by number of shares - March 31, 2020

Tianta Oy Mandatum Life Insurance Company Limited Ilmarinen Mutual Pension Insurance Company Kaleva Mutual Insurance Company Teleste Oyj Varma Mutual Pension Insurance Company The State Pension Fund Mariatorp Oy		Number of shares % of sha 4,409,712 1,683,200 899,475 824,641 798,821 521,150 500,000 499,791		23.2 8.9 4.7 4.3 4.2 2.8 2.6 2.6
Wipunen varainhallinta Oy		425,000		2.2
OP-Finland Small Firms Fund		260,408		1.4
Shareholders by sector March 31, 2020 Households Public sector institutions Financial and insurance institutions Corporations	Nbr. of shareholders 5,144 3		4,797,586 1,920,625 4,500,845	10.1
<u>-</u>	251	0.4		
Non-profit institutions			,	
Foreign Total	32 5,474	100.00		0.5
Of which nominee				
registered	11	0.18	963,478	5.1

Major shareholders by distribution of shares March 31, 2020

% of	Nbr. of	% of	Nbr. of	
shares	shares	shareholders	shareholders	Number of shares
0.5	88,782	27.9	1,528	1-100
3.2	603,059	41.0	2,245	101-500
3.2	609,462	13.9	758	501-1,000
8.8	1,670,431	13.9	758	1,001-5,000

5,001-10,000	76	1.4	525 , 771	2.8
10,001-50,000	79	1.4	1,584,004	8.3
50,001-100,000	7	0.1	514,282	2.7
100,001-500,000	16	0.3	3,498,838	18.4
500,001-& above	7	0.1	9,902,094	52.2
Total of which nominee	5,474	100.0	18,985,588	100.0
registered	11	0.2	963,478	5.1

