



INTERIM REPORT Q3 2019

JANUARY 1–SEPTEMBER 30, 2019

TELESTE

TELESTE CORPORATION INTERIM REPORT 1 JANUARY TO 30 SEPTEMBER 2019

NET SALES AND RESULT FOR THE THIRD QUARTER ON PAR YEAR-ON-YEAR

July-September 2019

- Net sales amounted to EUR 60.1 (59.4) million, an increase of 1.3%
- Adjusted operating result stood at EUR 3.2 (3.2) million, an increase of 1.4%
- Operating result stood at EUR 3.2 (3.2) million, an increase of 1.4%
- Adjusted earnings per share were EUR 0.14 (0.13), an increase of 12.0%
- Earnings per share were EUR 0.14 (0.13) per share, an increase of 12.0%
- Cash flow from operations was EUR 0.3 (4.2) million, a decrease of 91.9%
- Orders received totalled EUR 51.4 (56.2) million, a decrease of 8.6%
- Order backlog at period-end totalled EUR 67.5 (56.6) million, an increase of 19.3%

January-September 2019

- Net sales amounted to EUR 177.0 (183.8) million, a decrease of 3.7%
- Adjusted operating result stood at EUR 6.8 (7.5) million, a decrease of 8.8%
- Operating result stood at EUR -0.5 (7.5) million, a decrease of 106.3%
- Adjusted earnings per share were EUR 0.28 (0.29), a decrease of 5.9%
- Earnings per share were EUR -0.13 (0.29), a decrease of 143.0%
- Cash flow from operations was EUR -3.8 (10.4) million, a decrease of 136.6%
- Orders received totalled EUR 173.4 (183.0) million, a decrease of 5.2%

Outlook for 2019

Teleste expects the company's net sales to remain at the level of 2018 (EUR 250.3 million). Adjusted operating result is expected to increase compared with 2018 (EUR 9.7 million).

Comments by CEO Jukka Rinnevaara:

"Net sales and operating result for the third quarter were on par with the reference year. Orders received decreased year-on-year, but order backlog stayed at a clearly higher level than a year ago. Net sales and operating result increased in the Video and Broadband Solutions business area. On the other hand, the Network Services business area fell short of the reference period.

In the Video and Broadband Solutions business area, our strategic main objectives are, with regard to access network products, product development in distributed access architecture and the successful launch of sales in the US cable operator market as well as significant growth and improved performance in video security and information solutions.

With regard to access network products, the entire industry is in the middle of a technological transformation in which the next-generation distributed access architecture will provide the most competitive solution for increasing network capacity. As a result, operators have postponed their investments in existing network technology more than generally expected while preparing for the adoption of a distributed access architecture. Our product development has progressed in the development of distributed access architecture solutions as planned, and our product portfolio is competitive. Ensuring interoperability between different parties' systems has turned out to be more demanding than foreseen across the entire industry. Also in this area, we have made significant progress with select customers. During the third quarter, orders received and net sales for access network products decreased. The net sales of several listed technology providers in our industry have clearly decreased during the first nine months of the year. The negative impacts of the technology transformation have affected Teleste less than companies on average. According to our most recent estimate, operators' distributed access architecture deployment projects will commence next year, accelerating in the second half of the year.

With regard to video security and information solutions, we have proceeded in accordance with our set growth goals, and the robust order backlog lays down the foundations for continuing profitable growth going forward. The project volumes of public transport information systems are at a record-high level, and we will continue investments in quality assurance. We have also successfully expanded the customer base of video security solutions in the field of motorway network security solutions.

In the Network Services business area, the main focus is on sharpening the strategy and developing the operational activities. In the third quarter, orders received and net sales decreased. Net sales decreased in Germany and Finland but increased in England and Switzerland. In spite of the decrease in net sales, the Network Services business area reached a positive operating result for the third quarter. However, we did not reach our operational development targets. We will continue the development of our operational activities and focus on higher added value services. In Germany, we will replace subcontracting by strengthening our in-house resources. Our aim is enhanced cost efficiency. In England, we streamlined our service range during the third quarter. Going forward, we will focus increasingly on the growing fibre-optic network design services and other high added value services."

Group Operations, July–September 2019

Key figures (EUR million)	7-9/2019	7-9/2018	Change
Orders received	51.4	56.2	-8.6%
Net sales	60.1	59.4	+1.3%
Adjusted EBIT, EUR million ¹⁾	3.2	3.2	+1.4%
Adjusted EBIT, % ¹⁾	5.4%	5.4%	
EBIT	3.2	3.2	+1.4%
EBIT, %	5.4%	5.4%	
Result for the period	2.6	2.3	+14.3%
Adjusted earnings per share, EUR ¹⁾	0.14	0.13	+12.0%
Earnings per share, EUR	0.14	0.13	+12.0%
Cash flow from operations	0.3	4.2	-91.9%

Orders received by the Group in the third quarter totalled EUR 51.4 (56.2) million, a decrease of 8.6% on the reference period the previous year. Orders received decreased in access network products of Video and Broadband Solutions and following the end of major customer projects in the Network Services business area at the end of last year. The order backlog totalled EUR 67.5 (56.6) million, an increase of 19.3% compared with the end of the reference period. Order backlog increased in passenger information solutions of Video and Broadband Solutions. Net sales reached the level of the comparison period totalling EUR 60.1 (59.4) million. Net sales increased in Video and Broadband Solutions.

Expenses for material and manufacturing services decreased by 2.4% to EUR 31.8 (32.6) million. Personnel expenses amounted to EUR 15.3 (14.7) million, an increase of 4.0%. Other operating expenses increased by 1.8% to EUR 7.9 (7.8) million. Depreciation and amortisation amounted to EUR 2.4 (1.3) million, an increase of 77.2%. Depreciation recognised in accordance with IFRS 16, which was adopted on 1 January 2019, totalled EUR 1.1 million. The adoption of the new standard did not have a material effect on the operating result. The adjusted operating result and operating result reached the level of the comparison period and amounted to EUR 3.2 (3.2) million, representing 5.4% (5.4%) of net sales. Net financial items were EUR 0.2 (-0.2) million. Earnings per share amounted to EUR 0.14 (0.13), an increase of 12.0% year-on-year.

Cash flow from operations was EUR 0.3 (4.2) million. The decrease in cash flow from operations resulted from an increase in inventories and decreased advance payments from customers compared with the exceptionally high level.

Group Operations, January–September 2019

Key figures (EUR million)	1-9/2019	1-9/2018	Change	1-12/2018
Orders received	173.4	183.0	-5.2%	264.0
Net sales	177.0	183.8	-3.7%	250.3
Adjusted EBIT, EUR million ¹⁾	6.8	7.5	-8.8%	9.7

Adjusted EBIT, % ¹⁾	3.9 %	4.1 %		3.9 %
EBIT	-0.5	7.5	-106.3%	9.7
EBIT, %	-0.3%	4.1 %		3.9 %
Result for the period	-2.3	5.2	-145.0%	6.8
Adjusted earnings per share, EUR ¹⁾	0.28	0.29	-5.9%	0.38
Earnings per share, EUR	-0.13	0.29	-143.0%	0.38
Cash flow from operations	-3.8	10.4	-136.6%	15.0
Net gearing, %	39.6 %	9.3 %		5.9 %
Equity ratio, %	47.4 %	52.5 %		51.7 %
Personnel at period-end	1,359	1,353	+0.5%	1,353

Orders received by the Group decreased by 5.2% to EUR 173.4 (183.0) million. Orders received decreased in the Network Services business area. Net sales decreased by 3.7% to EUR 177.0 (183.8) million. Net sales decreased in the Network Services business area.

Expenses for material and manufacturing services decreased by 8.9% to EUR 92.7 (101.7) million. Personnel expenses amounted to EUR 49.0 (48.1) million, an increase of 2.0%. Other operating expenses amounted to EUR 30.4 (23.4) million. Other operating expenses included a provision totalling EUR 7.3 recognised in relation to the loss of assets due to a crime committed against a foreign subsidiary and the handling of the case. This provision lowers the operating result but has been eliminated from the adjusted operating result. The provision is reported as an item that is not allocated to the segments. Depreciation and amortisation amounted to EUR 7.0 (4.5) million, an increase of 57.0%. Depreciation recognised in accordance with IFRS 16, which was adopted on 1 January 2019, totalled EUR 3.2 million. The adoption of the new standard did not have a material effect on the operating result. The adjusted operating result decreased by 8.8% to EUR 6.8 (7.5) million, representing 3.9% (4.1%) of net sales. Net financial expenses were EUR 0.1 (0.6) million and the Group's direct taxes amounted to EUR 1.8 (1.7) million. Adjusted earnings per share were EUR 0.28 (0.29).

Cash flow from operations was EUR -3.8 (10.4) million. Cash flow from operations was reduced by the loss of assets due to a crime against a foreign subsidiary, an increase in inventories and a decrease in advance payments from customers compared with the exceptionally high level.

Video and Broadband Solutions July-September 2019

Key figures (EUR 1,000)	7-9/2019	7-9/2018	Change
Orders received	25,864	29,032	-10.9%
Net sales	34,641	32,191	+7.6%
EBIT	3,013	2,737	+10.1%
EBIT, %	8.7 %	8.5 %	

Orders received totalled EUR 25.9 (29.0) million, a decrease of 10.9% on the reference period. Orders received decreased in access network products. The order backlog totalled EUR 67.5 (56.6) million, an increase of 19.3% compared with the end of the reference period. The order backlog increased particularly in passenger information solutions. EUR 21.9 (20.9) million of the order backlog are associated with deliveries in 2019, EUR 23.6 (18.6) million with deliveries in 2020 and the rest with deliveries after 2020. Net sales increased by 7.6% to EUR 34.6 (32.2) million. Net sales increased in video security and information solutions but declined in access network products. Operating result increased by 10.1% to EUR 3.0 (2.7) million, representing 8.7% (8.5%) of net sales. Operating result improved as a result of increased net sales in video security and information solutions.

R&D expenses in the business area amounted to EUR 3.4 (3.5) million, representing 9.7% (10.7%) of 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 1.1 (1.1) million. Depreciation on R&D expenses was EUR 0.6 (0.5) million.

Video and Broadband Solutions January-September 2019

Key figures (EUR 1,000)	1-9/2019	1-9/2018	Change	1-12/2018
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Orders received	101,648	101,165	+0.5%	152,307
Net sales	105,209	101,986	+3.2%	138,677
EBIT	6,789	5,796	+17.1%	7,738
EBIT, %	6.5%	5.7 %		5.6 %

Orders received reached the level of the comparison period totalling EUR 101.6 (101.2) million. Orders received increased in video security and information systems and declined in access network products. Net sales increased by 3.2% to EUR 105.2 (102.0) million. Net sales increased in video security and information systems and declined in access network products. Operating result increased by 17.1% to EUR 6.8 (5.8) million, representing 6.5% (5.7%) of net sales. Operating result was improved by the net sales of video security and information systems, which increased year-on-year.

R&D expenses amounted to EUR 9.8 (9.2) million, representing 9.3% (9.0%) of 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 3.1 (3.6) million and depreciation on capitalised R&D expenses to EUR 1.9 (1.7) million.

Network Services July-September 2019

Key figures (EUR 1,000)	7-9/2019	7-9/2018	Change
Orders received	25,491	27,179	-6.2%
Net sales	25,491	27,179	-6.2%
EBIT	228	460	-50.4%
EBIT, %	0.9 %	1.7 %	

Orders received and net sales in the third quarter totalled EUR 25.5 (27.2) million, a decrease of 6.2% on the reference period. Net sales decreased in Germany and Finland but increased in England and Switzerland. The decrease in net sales in Germany was due to the end of a major customer project at the end of 2018. Operating result stood at EUR 0.2 (0.5) million, down by 50.4% year-on-year. The operating result represented 0.9% (1.7%) of net sales. The operating result decreased as a result of decreasing net sales.

Network Services January-September 2019

Key figures (EUR 1,000)	1-9/2019	1-9/2018	Change	1-12/2018
Orders received	71,766	81,840	-12.3%	111,669
Net sales	71,766	81,840	-12.3%	111,669
EBIT	42	1,692	-97.5%	1,983
EBIT, %	0.1 %	2.1 %		1.8 %

Orders received and net sales decreased by 12.3% year-on-year, amounting to EUR 71.8 (81.8) million. Net sales decreased in Germany and Finland but increased in England and Switzerland. The decrease in net sales in Germany was due to the end of a major customer project at the end of 2018. Operating result was EUR 0.0 (1.7) million, or 0.1% (2.1%) of net sales. The operating result decreased as a result of decreasing net sales.

Personnel and organisation January-September 2019

In the period under review, the average number of people employed by the Group was 1,370 (1-9/2018: 1,404; 1-9/2017: 1,506). Of these, 684 (708) were employed by Video and Broadband Solutions and 686 (696) by Network Services. At the end of the review period, the Group employed 1,359 people (2018: 1,353; 2017: 1,468). Of these, 686 (677) were employed by Video and Broadband Solutions and 674 (676) by Network Services. At the end of the review period, 65% (2018: 66%; 2017: 65%) of the employees were stationed abroad. Approximately 2% of the Group's employees were working outside Europe. Personnel expenses amounted to EUR 49.0 (2018: 48.1; 2017: 51.6) million.

Investments and product development January-September 2019

Investments by the Group totalled EUR 8.8 (5.0) million, representing 5.0% (2.7%) of net sales. Investments in product development amounted to EUR 3.1 (3.6) million. Other investments included EUR 2.1 million of investments in increasing service production capacity in Germany. New leases reported in accordance with IFRS 16, which was adopted on 1 January 2019, increased investments by EUR 2.8 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-September 2019

Cash flow from operations was EUR -3.8 (10.4) 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 and involves a 1+1-year extension option. The five-year loan facility of EUR 30.0 million will mature in August 2022. The loan is repaid in annual instalments of EUR 3.0 million. At the end of the period under review, the amount of unused binding credit facilities was EUR 17.8 (20.0) million.

On 30 September 2019, the Group's interest-bearing debt stood at EUR 35.9 (27.8) million. The Group's equity ratio was 47.4% (52.5%) and net gearing ratio 39.6% (9.3%). A total of EUR 7.8 million was recognised in interest-bearing debt in accordance with the IFRS 16 standard, which was adopted on 1 January 2019. IFRS 16 had the following effect on key figures at the end of the period under review: equity ratio -2.6 percentage points and net gearing ratio +10.9 percentage points.

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. 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, rolling stock 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 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. 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 USA, 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. The UK leaving the European Union without a withdrawal agreement in place could make deliveries to English customers more difficult. Teleste is preparing for this contingency by storing products locally.

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 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.

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. On 29 January 2019, the court issued its decision on one of the complaints. The decision was favourable for Teleste. The other litigation is still pending. According to the assessment of Teleste's management, the results of these litigations are not expected to have a material effect on Teleste's financial position.

Group structure

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

Shares and changes in share capital

On 30 September 2019, 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 5.20 (6.28) and the highest price was EUR 6.80 (7.58). The closing price on 30 September 2019 stood at EUR 5.54 (6.90). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,508 (5,491). Foreign and nominee-registered holdings accounted for 6.6% (7.0%) of the shares. The value of Teleste's shares traded on Nasdaq Helsinki from 1 January to 30 September 2019 was EUR 6.5 (9.8) million. In the period under review, 1.1 (1.4) million Teleste shares were traded on the stock exchange.

On 4 April 2019, Teleste Corporation's Board of Directors decided on a directed share issue without consideration, relating to the payment of the reward for the 2016-2018 performance period of Teleste Group's share-based incentive plan 2015. In the share issue, a total of 22,361 Teleste Corporation

shares in the possession of Teleste Corporation were conveyed without consideration to key persons included in the share-based incentive plan, in accordance with the terms of the plan. On 30 September 2019, 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 30 September 2019, 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 3 October 2020.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) of Teleste Corporation held on 4 April 2019 adopted the financial statements and consolidated financial statements for 2018 and discharged the members of the Board of Directors and the CEO from liability for the financial period 2018. The AGM confirmed the dividend of EUR 0.20 per share for the year 2018 as proposed by the Board. The dividend was paid on 15 April 2019 on shares other than own shares held by the company.

The AGM decided that the Board of Directors shall consist of seven members. Pertti Ervi, Jannica Fagerholm, Timo Luukkainen, Heikki Mäkijärvi and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors, and Jussi Himanen and Vesa Korpimies were elected as new Board members. Pertti Ervi was elected Chair of the Board in the organising meeting held after the AGM on 4 April 2019. Jannica Fagerholm was elected Chair of the Audit Committee, with Pertti Ervi and Vesa Korpimies elected 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 Annual General Meeting 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. 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. 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 Annual General Meeting. 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.

Outlook for 2019

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 Northern America.

Demand for broadband services by cable operators continues to grow. Household broadband services are estimated to grow by 30-40 per cent a year. 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 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. The transformation to the new access architecture requires careful preparation, and operators' investments in distributed access architecture have been delayed compared with previous schedule estimates. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and North America in 2020 and accelerate during the second half of the year. 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. We estimate that net sales from access network products in 2019 will be on par with the previous year, including the launch of distributed architecture product sales.

Ensuring safety in city environments, 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 must ensure smooth running of services and infrastructure as well as passenger safety. Supply of real-time information for passengers is essential for flexible public transport. The public transport information systems market as well as video security and situational awareness systems market are expected to grow in 2019. The prices of traditional video security systems have fallen and competition has increased considerably. 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. The order backlog for video security and information solutions has grown significantly. Characteristic for the business, a considerable proportion of deliveries will be distributed over several years. We estimate that net sales for video security and information solutions will continue to increase in 2019 from the previous year.

In Network Services, operators will increase their demand for various services as a result of changes in access architectures. 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. In our largest market area, Germany, we will continue to improve the efficiency of operations, strengthen the capabilities of the organisation and renew the subcontractor network. In addition, we will invest in the continuous improvement of customer satisfaction. In 2018, we completed an important delivery project in Germany, and the forecast for 2019 does not include a similar project. Therefore, we estimate that net sales of Network Services will decrease in 2019 compared with the previous year.

Teleste expects the company's net sales to remain at the level of 2018 (EUR 250.3 million). Adjusted operating result is expected to increase compared with 2018 (EUR 9.7 million).

30 October 2019

Teleste Corporation
Board of Directors

Jukka Rinnevaara
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, 2019. The data stated in this report is unaudited.

**STATEMENT OF COMPREHENSIVE
INCOME (tEUR)**

	7-9/2019	7-9/2018	Change %	1-12/2018
Net Sales	60,132	59,370	1.3 %	250,346
Other operating income	558	288	93.6 %	1,766
Materials and services	-31,812	-32,584	-2.4 %	-137,905
Personnel expenses	-15,327	-14,741	4.0 %	-66,014
Depreciation	-2,377	-1,342	77.2 %	-5,980
Other operating expenses	-7,933	-7,794	1.8 %	-32,492
Operating profit	3,241	3,197	1.4 %	9,721
Financial income	392	117	236.4 %	325
Financial expenses	-219	-294	-25.4 %	-986
Profit after financial items	3,414	3,020	13.0 %	9,060
Profit before taxes	3,414	3,020	13.0 %	9,060
Taxes	-782	-718	8.8 %	-2,219
Net profit	2,632	2,302	14.3 %	6,841
Attributable to:				
Equity holders of the parent	2,632	2,342	12.4 %	6,975
Non-controlling interests	0	-40	-98.9 %	-133
	2,632	2,302	14.3 %	6,841
Earnings per share for result of the year attributable to the equity holders of the parent (expressed in euro per share)				
Basic	0.14	0.13	12.0 %	0.38
Diluted	0.14	0.13	12.2 %	0.38
Total comprehensive income for the period (tEUR)				
Net profit	2,632	2,302	14.3 %	6,841
Possible items with future net profit effect				
Translation differences	-204	224	-191.4 %	-241
Cash flow hedges	11	18	-38.1 %	-3
Total comprehensive income for the period	2,438	2,543	-4.1 %	6,598
Attributable to:				
Equity holders of the parent	2,417	2,579	-6.3 %	6,705
Non-controlling interests	21	-36	-158.8 %	-108
	2,438	2,543	-4.1 %	6,598

**STATEMENT OF COMPREHENSIVE
INCOME (tEUR)**

	1-9/2019	1-9/2018	Change %	1-12/2018
Net Sales	176,976	183,827	-3.7 %	250,346
Other operating income	1,729	1,346	28.5 %	1,766
Materials and services	-92,682	-101,682	-8.9 %	-137,905
Personnel expenses	-49,033	-48,075	2.0 %	-66,014
Depreciation	-7,039	-4,483	57.0 %	-5,980
Other operating expenses	-30,419	-23,445	29.7 %	-32,492
Operating profit	-468	7,488	-106.3 %	9,721
Financial income	773	270	186.3 %	325
Financial expenses	-858	-827	3.8 %	-986
Profit after financial items	-553	6,931	-108.0 %	9,060
Profit before taxes	-553	6,931	-108.0 %	9,060
Taxes	-1,789	-1,725	3.7 %	-2,219
Net profit	-2,343	5,206	-145.0 %	6,841
Attributable to:				
Equity holders of the parent	-2,291	5,316	-143.1 %	6,975
Non-controlling interests	-52	-110	-52.5 %	-133
	-2,343	5,206	-145.0 %	6,841

**Earnings per share for result of the year attributable to the equity holders of the parent
(expressed in euro per share)**

Basic	-0.13	0.29	-143.0 %	0.38
Diluted	-0.13	0.29	-143.0 %	0.38
Total comprehensive income for the period (tEUR)				
Net profit	-2,343	5,206	-145.0 %	6,841
Possible items with future net profit effect				
Translation differences	-133	-116	14.7 %	-241
Cash flow hedges	4	9	-57.5 %	-3
Total comprehensive income for the period	-2,472	5,099	-148.5 %	6,598
Attributable to:				
Equity holders of the parent	-2,445	5,189	-147.1 %	6,705
Non-controlling interests	-27	-91	-70.2 %	-108
	-2,472	5,099	-148.5 %	6,598

**STATEMENT OF FINANCIAL POSITION
(tEUR)**

	30/09/2019	30/09/2018	Change %	31/12/2018
Non-current assets				
Intangible assets	12,151	10,800	12.5 %	11,268
Goodwill	30,469	30,646	-0.6 %	30,573
Property, plant, equipment	16,241	8,675	87.2 %	8,601
Other non-current financial assets	573	499	14.8 %	561

Deferred tax asset	2,025	2,421	-16.4 %	2,131
	61,459	53,041	15.9 %	53,135
Current assets				
Inventories	40,546	33,995	19.3 %	32,833
Trade and other receivables	46,410	46,023	0.8 %	50,500
Tax receivable, income tax	701	404	73.6 %	288
Cash and cash equivalents	7,594	20,705	-63.3 %	22,240
	95,251	101,126	-5.8 %	105,861
Total assets	156,710	154,167	1.6 %	158,996
Shareholder's equity and liabilities				
Share capital	6,967	6,967	0.0 %	6,967
Other equity	63,971	68,017	-5.9 %	69,674
Owners of the parent company	70,938	74,984	-5.4 %	76,641
Non-controlling interests	495	539	-8.2 %	522
Equity	71,433	75,523	-5.4 %	77,163
Non-current liabilities				
Deferred tax liability	1,815	1,538	18.1 %	1,607
Non-current liabilities, interest-bearing	26,245	23,063	13.8 %	22,590
Non-current interest-free liabilities	77	1,127	-93.1 %	81
Non-current provisions	266	633	-58.0 %	266
	28,403	26,361	7.7 %	24,545
Current liabilities				
Current interest-bearing liabilities	9,642	4,710	104.7 %	4,222
Trade payables and other liabilities	44,708	45,566	-1.9 %	51,089
Tax liability, income tax	1,231	1,231	0.0 %	966
Current provisions	1,294	776	66.7 %	1,012
	56,874	52,283	8.8 %	57,288
Total shareholder's equity and liabilities	156,710	154,167	1.6 %	158,996

CONSOLIDATED CASH FLOW STATEMENT (tEUR)

	1-9/2019	1-9/2018	Change %	1-12/2018
Cash flows from operating activities				
Profit for the period	-2,343	5,206	-145.0 %	6,841
Adjustments	9,131	7,034	29.8 %	9,707
Interest and other financial expenses and incomes	-50	-827	-94.0 %	-661
Paid Taxes	-1,573	-1,515	3.8 %	-1,796
Change in working capital	-8,961	469	-2010.8 %	917
Cash flow from operating activities	-3,796	10,368	-136.6 %	15,009
Cash flow from investing activities				
Purchase of tangible and intangible assets	-5,998	-3,575	67.8 %	-5,668
Proceeds from sales of PPE	188	181	4.1 %	166
Purchase of investments	0	-71	-100.0 %	-143
Acquisition of subsidiaries, net of cash acquired	-1,050	0	n/a	0
Net cash used in investing activities	-6,860	-3,465	98.0 %	-5,645
Cash flow from financing activities				

Proceeds from borrowings	3,900	4,087	-4.6 %	4,087
Payments of borrowings	-1,007	-9,152	-89.0 %	-10,009
Payment of leasing liabilities	-3,332	-559	496.1 %	-655
Dividends paid	-3,637	-1,816	100.3 %	-1,816
Net cash used in financing activities	-4,077	-7,441	-45.2 %	-8,393

Change in cash

Cash in the beginning	22,240	21,230	4.8 %	21,230
Effect of currency changes	88	13	573.8%	39
Change in cash during period	-14,733	-538	2638.1 %	971
Cash at the end	7,594	20,705	-63.3 %	22,240

KEY FIGURES

	1-9/2019	1-9/2018	Change %	1-12/2018
Earnings per share, EUR	-0.13	0.29	-143.0 %	0.38
Earnings per share fully diluted, EUR	-0.13	0.29	-143.0 %	0.38
Shareholders' equity per share, EUR	3.93	4.16	-5.5 %	4.25
Return on equity	-4.2 %	9.4 %	-144.5 %	9.2 %
Return on capital employed	0.3 %	9.6 %	-97.2 %	9.3 %
Equity ratio	47.4 %	52.5 %	-9.7 %	51.7 %
Gearing	39.6 %	9.3 %	324.1 %	5.9 %
Investments, tEUR	8,782	4,982	76.3 %	6,989
Investments % of net sales	5.0 %	2.7 %	83.1 %	2.8 %
Order backlog, tEUR	67,456	56,562	19.3 %	71,017
Personnel, average	1,370	1,404	-2.4 %	1,393
Number of shares (thousands) including own shares	18,986	18,986	0.0 %	18,986
Highest share price, EUR	6.80	7.58	-10.3 %	7.58
Lowest share price, EUR	5.20	6.28	-17.2 %	5.12
Average share price, EUR	5.84	7.06	-17.3 %	6.72
Turnover, in million shares	1.1	1.4	-18.8 %	2.0
Turnover, in MEUR	6.5	9.8	-33.0 %	13.3

ALTERNATIVE PERFORMANCE MEASURES

Adjusted operating profit	6,830	7,488	-8.8 %	9,721
Adjusted earnings per share, EUR	0.28	0.29	-5.9 %	0.38

BRIDGE OF CALCULATION

Operating profit	-468	7,488	-106.3 %	9,721
Cost item caused by a crime	7,298	0	n/a	0
Adjusted operating profit	6,830	7,488	-8.8 %	9,721
Net profit/loss to equity holder	-2,291	5,316	-143.1 %	6,975
Outstanding shares during the quarter	18,179	18,164	0.1 %	18,122
Earnings per share, basic	-0.13	0.29	-143.1 %	0.38
Net profit/loss to equity holder	-2,291	5,316	-143.1 %	6,975

Cost item caused by a crime	7,298	0	n/a	0
Outstanding shares during the quarter	18,179	18,164	0.1 %	18,122
Adjusted earnings per share, EUR	0.28	0.29	-5.9 %	0.38

Treasury shares

	Number of shares		% of shares	% of votes
Possession of company's own shares 30.9.2019	798,821		4.2%	4.2%

Contingent liabilities and pledged assets (tEUR)

Leasing and rent liabilities	809	7,261	-88.9 %	7,372
Derivative instruments (tEUR)				
Value of underlying forward contracts	21,885	19,788	10.6 %	20,674
Market value of forward contracts	451	-231	-295.1 %	227
Interest rate swap	10,000	10,000	0.0 %	10,000
Market value of interest swap	-96	-69	39.8 %	-81

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

OPERATING SEGMENTS (tEUR)	1-9/2019	1-9/2018	Change %	1-12/2018
Video and Broadband Solutions				
Orders received	101,648	101,165	0.5 %	152,307
Net sales	105,209	101,986	3.2 %	138,677
EBIT	6,789	5,796	17.1 %	7,738
EBIT%	6.5 %	5.7 %		5.6 %
Network Services				
Orders received	71,766	81,840	-12.3 %	111,669
Net sales	71,766	81,840	-12.3 %	111,669
EBIT	42	1,692	-97.5 %	1,983
EBIT%	0.1 %	2.1 %		1.8 %
Total segments				
Orders received	173,414	183,006	-5.2 %	263,976
Net sales	176,976	183,827	-3.7 %	250,346
EBIT	6,831	7,488	-8.8 %	9,721
EBIT%	3.9 %	4.1 %		3.9 %
Total group				
Unallocated item	-7,298	0	n/a	0
EBIT	-468	7,488	-106.2 %	9,721
EBIT%	-0.3 %	4.1 %		3.9 %
Financial items	-85	-557	-84.7 %	-661
Operating segments net profit before taxes	-553	6,931	-108.0 %	9,060

Total comprehensive income for the period				-2,291			-2,291	-52	-2,343
Paid dividend				-3,637			-3,637		-3,637
Equity-settled share-based payments				370			370		370
Translation differences			-118	-32			-149	25	-124
Cash flow hedges						4	4		4
Shareholder's equity 30.9.2019	6,967	1,504	-1,687	61,102	3,140	-88	70,938	495	71,433
Shareholder's equity 1.1.2018	6,967	1,504	-1,404	60,606	3,140	-78	70,735	630	71,365
New standards				166			166		166
Total comprehensive income for the period				5,316			5,316	-110	5,206
Paid dividend				-1,816			-1,816		-1,816
Equity-settled share-based payments				655			655		655
Translation differences			-82				-82	19	-63
Cash flow hedges						9	9		9
Shareholder's equity 30.9.2018	6,967	1,504	-1,486	64,927	3,140	-69	74,984	539	75,523

CALCULATION OF KEY FIGURES

Return on equity:	Profit/loss for the financial period ----- * 100 Shareholders' equity (average)
Return on capital employed:	Profit/loss for the period after financial items + financing charges ----- * 100 Total assets - non-interest-bearing liabilities (average)
Equity ratio:	Shareholders' equity ----- * 100 Total assets - advances received
Gearing:	Interest bearing liabilities - cash in hand and in bank - interest bearing assets ----- * 100 Shareholders' equity
Earnings per share:	Profit for the period attributable to equity holder of the parent ----- Weighted average number of ordinary shares outstanding during the period

Earnings per share, diluted:	Profit for the period attributable to equity holder of the parent (diluted)
	----- Average number of shares - own shares
	+ number of options at the period-end

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

New Standards

Teleste has adopted IFRS 16 Leases standard from 1. January 2019. This new standard replaces IAS 17 Leases. As a result of the new IFRS 16 "Leases" standard, the Group recognised non-cancellable leases on the balance sheet. The right-of-use assets increased the balance sheet with 6.9 million euro and the interest bearing liabilities with 6.9 million euro.

A simplified method has been used for the transition, and the comparison figures from the year preceding the transition have not been adjusted. The Group made use of an easement allowed in the standard according to which short-term leases or assets with minor value do not need to be recognised on the balance sheet.

The impact of the new standard is an increase of -3 230 thousand euro depreciation of right-of-use assets and a decrease of +3 449 thousand euro of rents in other operating expenses. Interest expenses increased by -126 thousand euro in finance expenses. Impact on operating profit is +219 thousand euro.

The investments for the period do not include the recognition of right-of-use assets of 6.9 million euro.


Major shareholders – September 30, 2019

	Number of shares	% of shares
Tianta Oy	4,409,712	23.2
Mandatum Life Insurance Company Limited	1,683,200	8.9
Ilmarinen Mutual Pension Insurance Company	899,475	4.7
Kaleva Mutual Insurance Company	824,641	4.3
Teleste Oyj	798,821	4.2
Varma Mutual Pension Insurance Company	521,150	2.7
The State Pension Fund	500,000	2.6
Wipunen varainhallinta Oy	400,000	2.1
Mariatorp Oy	361,845	1.9
OP-Finland Small Firms Fund	280,737	1.5

Shareholders by sector September 30, 2019	Nbr. of shareholders	% of Owners	Shares	% of shares
Households	5,167	93.8	4,734,640	24.9
Public sector institutions	4	0.1	1,930,725	10.2
Financial and insurance institutions	23	0.4	4,773,695	25.1
Corporations	255	4.6	7,398,019	39.0
Non-profit institutions	23	0.4	56,485	0.3
Foreign	36	0.7	92,024	0.5
Total	5,508	100.0	18,985,588	100.0
Of which nominee registered	10	0.2	1,156,072	6.1

Major shareholders by distribution of shares September 30, 2019

Number of shares	Nbr. of shareholders	% of shareholders	Nbr. of shares	% of shares
1-100	1,509	27.4	89,857	0.5
101-500	2,315	42.0	619,362	3.3
501-1,000	762	13.8	614,218	3.2
1,001-5,000	730	13.3	1,613,164	8.5
5,001-10,000	80	1.5	565,008	3.0
10,001-50,000	83	1.5	1,600,109	8.4
50,001-100,000	8	0.2	624,563	3.3
100,001-500,000	14	0.3	3,264,378	17.2
500,001-& above	7	0.1	9,994,929	52.6
Total	5,508	100.0	18,985,588	100.0
of which nominee registered	10	0.2	1,156,072	6.1



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