

Interim Report Q1 2018

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your everyday life smart, safe and smooth.**

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Business areas



Video and Broadband Solutions

Broadband networks and video security and information solutions



Network Services

Comprehensive service solutions for cable networks

Market area and personnel

TELESTE



**Teleste's expertise and competitive edge are based on the motivated and professional personnel.
Teleste employs over 1400 people.
Outside Finland worked 67 % of the personnel.**

Teleste Group - Q1 2018

- Orders received on par quarter-on-quarter but decreased year-on-year from the record level. Order backlog increased to record level of EUR 64.9 million.
- Net sales on par year-on-year and quarter-on-quarter.
- Operating result increased clearly year-on-year and quarter-on-quarter. Operating result was improved by the increased net sales in Network Services and the projects of a new customer in Germany. Also the profitability improvement measures with the main customer in Germany contributed to the result.
- Cash flow from operations grew year-on-year and decreased quarter-on-quarter.

	Q1 2018	Q1 2017	YoY change	Q4 2017	QoQ change
Orders received, M€	66,6	73,6	-9,5 %	66,7	-0,1 %
Net sales, M€	59,3	60,9	-2,7 %	58,7	1,0 %
EBIT, M€	0,8	0,2	289,3 %	0,3	223,4 %
EBIT ¹⁾ , M€	0,8	0,2	289,3 %	1,0	-18,4 %
EBIT-%	1,4 %	0,3 %		0,4 %	
Net profit, M€	0,6	0,1	686,7 %	-0,2	-362,5 %
EPS, €	0,03	0,00	712,8 %	-0,01	-433,6 %
Operative cash flow, M€	3,0	0,2	1148,8 %	6,4	-52,0 %

¹⁾ Excluding restructuring provision

Video and Broadband Solutions - Q1 2018

- Orders received decreased year-on-year and quarter-on-quarter. Video security and information solutions orders were at good level, but did not reach the record level of Q1 2017.
- Order backlog grew 63.8% from the reference period to EUR 64.9 million, being the highest level in Teleste's history. 60% of the order backlog is scheduled for 2018.
- Net sales decreased year-on-year and quarter-on-quarter mostly in video security and information solutions due to order backlog scheduled mainly for rest of the year.
- Operating result decreased year-on-year and quarter-on-quarter as a result of reduced net sales in video security and information solutions.

	Q1 2018	Q1 2017	YoY change	Q4 2017	QoQ change
Orders received, M€	39,9	48,1	-17,0 %	43,4	-8,0 %
Net sales, M€	32,6	35,4	-7,9 %	35,4	-8,0 %
EBIT, M€	0,4	0,8	-49,0 %	0,5	-13,1 %
EBIT-%	1,3 %	2,3 %		1,4 %	
EBIT ¹⁾ , M€	0,4	0,8	-49,0 %	1,2	-66,2 %
Average personnel	717	751	-4,6 %	752	-4,7 %

¹⁾ Excluding restructuring provision

Network Services - Q1 2018

- Net sales and orders received grew year-on-year and quarter-on-quarter. Growth achieved due to project deliveries to new customer in Germany.
- Operating result improved both year-on-year and quarter-on-quarter.
- The measures carried out with our German main customer to improve profitability also contributed to the result for the quarter. The negotiations to renew an important three-year frame agreement with a German customer entered the final stage.

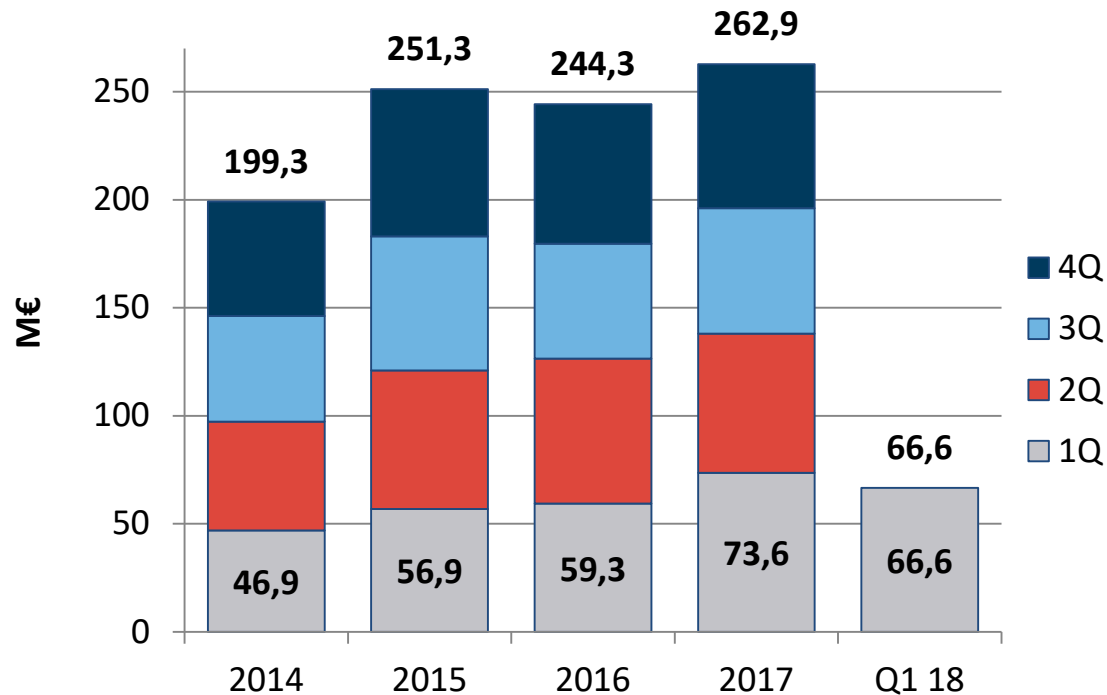
	Q1 2018	Q1 2017	YoY change	Q4 2017	QoQ change
Orders received, M€	26,7	25,5	4,6 %	23,3	14,7 %
Net sales, M€	26,7	25,5	4,6 %	23,3	14,7 %
EBIT, M€	0,4	-0,6		-0,2	
EBIT-%	1,5 %	-2,4 %		-1,0 %	
EBIT ¹⁾ , M€	0,4	-0,6		-0,2	
Average personnel	697	756	-7,8 %	698	-0,2 %

¹⁾ Excluding restructuring provision

Orders Received

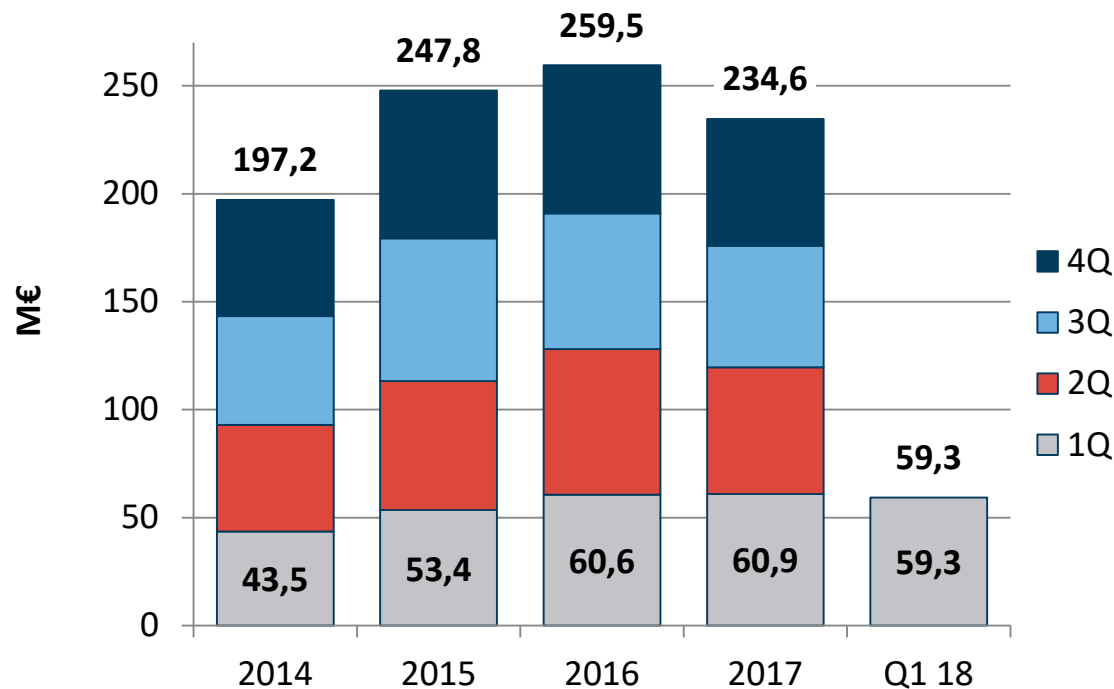
Teleste Group, M€

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Net Sales

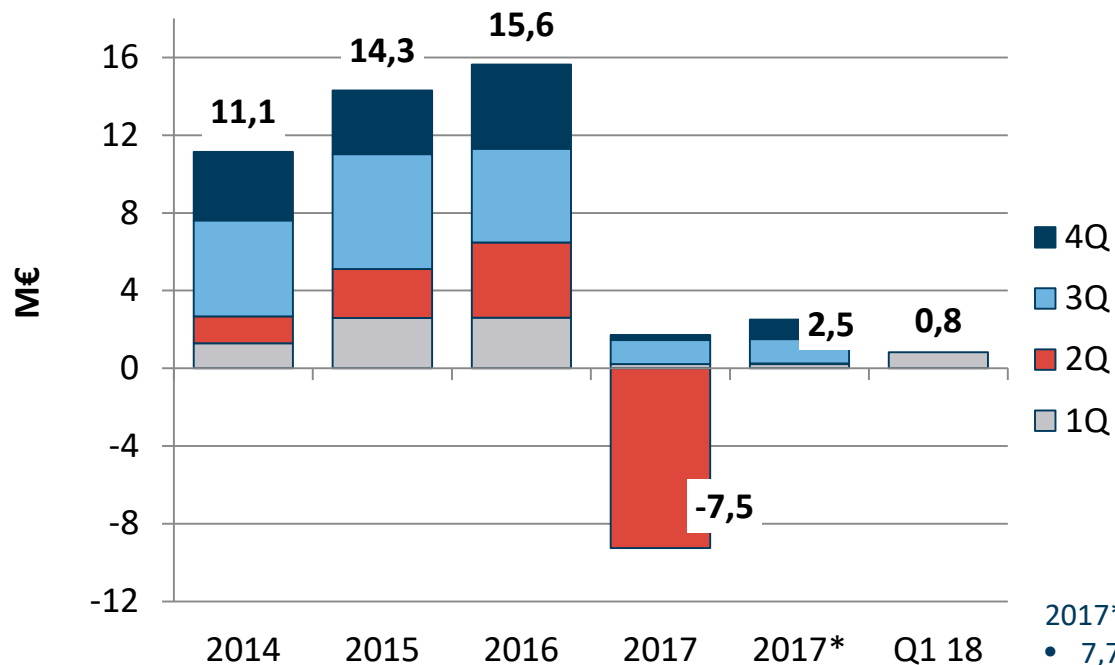
Teleste Group, M€



Operating Profit

Teleste Group, M€

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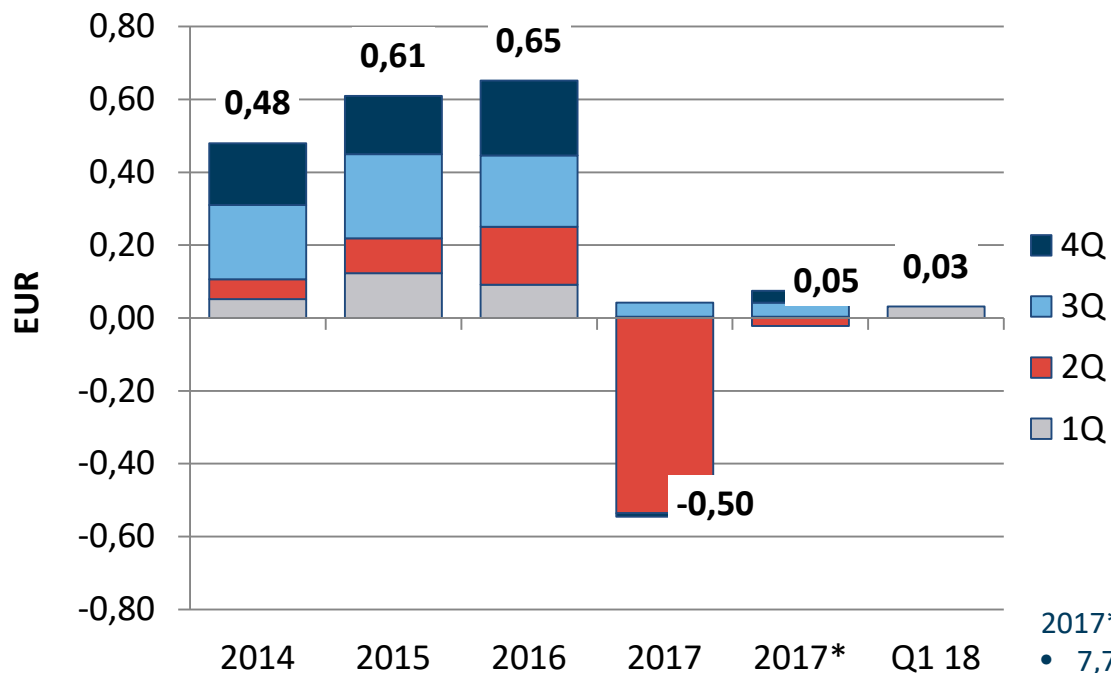
2017* excluding

- 7,7 M€ goodwill impairment
- 2,4 M€ restructuring provisions

Earnings Per Share

Teleste Group, EUR

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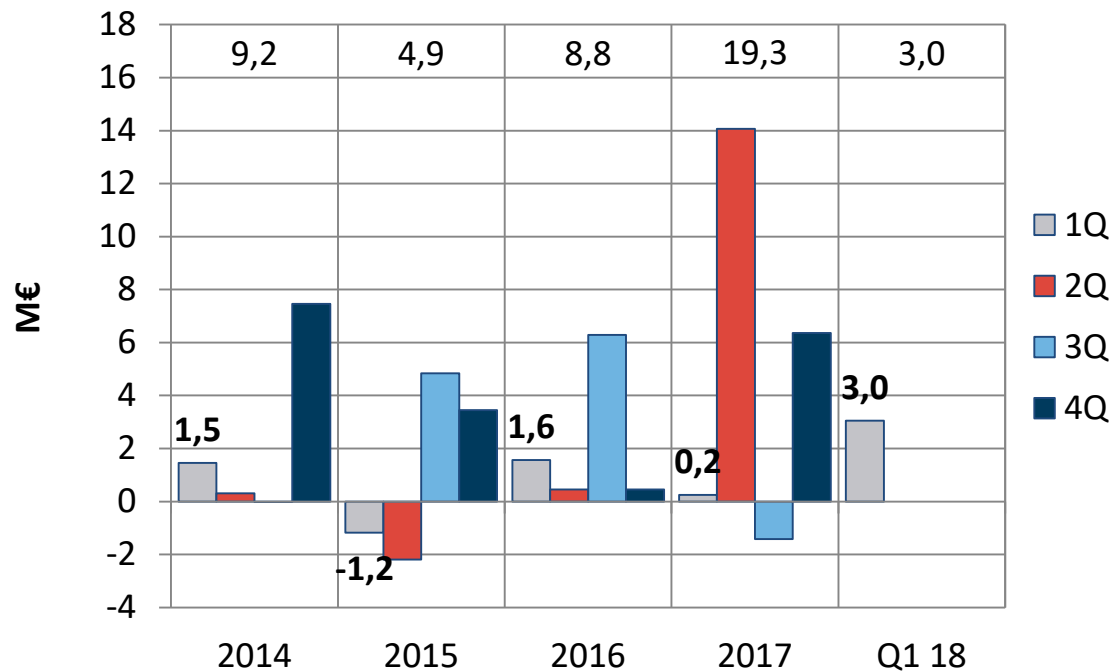
2017* excluding

- 7,7 M€ goodwill impairment
- 2,4 M€ restructuring provisions

Cash Flow From Operations

Teleste Group, M€

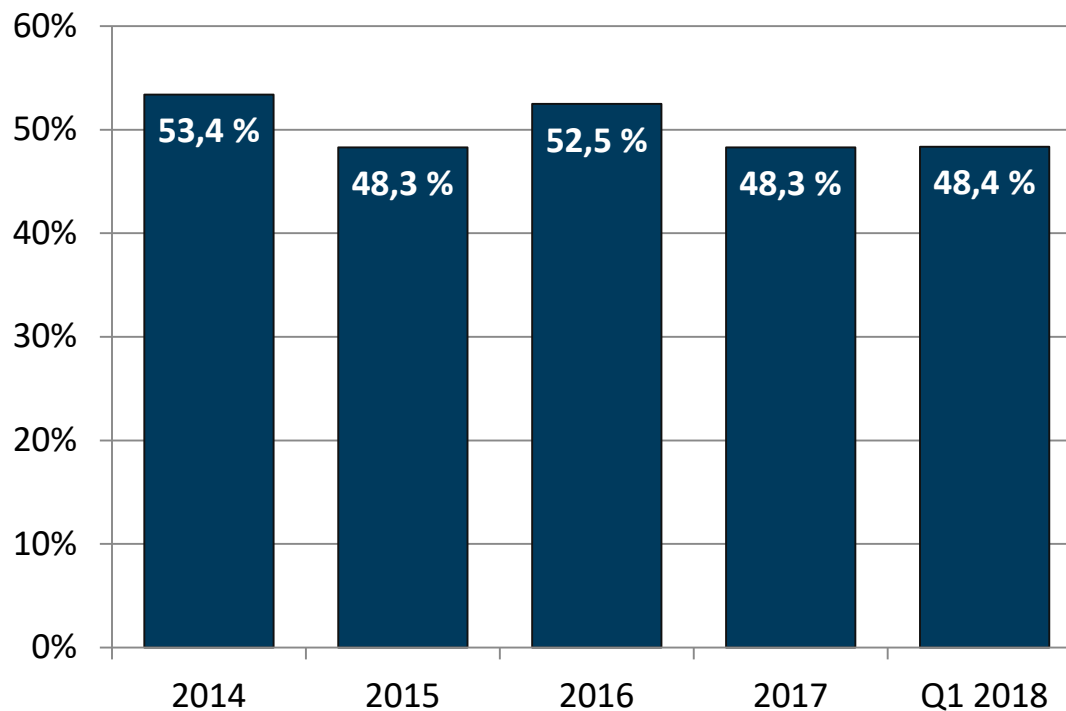
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Equity Ratio (at the end of period)

Teleste Group

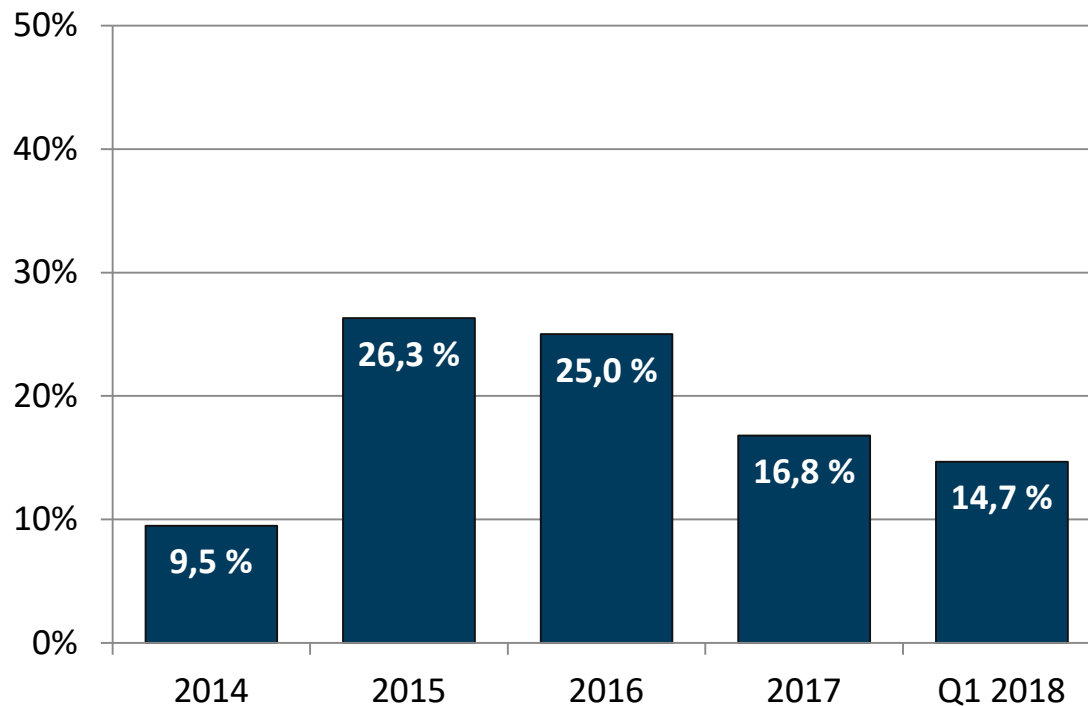
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Gearing

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Outlook for 2018

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

Network capacity will continue to grow, with operators responding to consumers' new and expanding broadband and video service needs. Teleste's entire access network product portfolio has been renewed in accordance with the DOCSIS 3.1 standard, and our offering allows cable operators to increase their network capacity competitively. In 2018, two network upgrade projects will be completed that are significant on the European scale. Operators will launch new upgrade projects. However, there is uncertainty associated with the timing of these projects, as operators are already considering next-generation distributed access architecture solutions. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and, in particular, in North America in 2018 and 2019. The change in access network technology also has an effect on suppliers' competitive position. Teleste continues investing in distributed access architecture technology and access network products that are suitable for new markets. In addition, the target of the subsidiary established in the US is to promote the sales of broadband network products to the cable network operators in North America. The objective of these investments is the long-term increase in sales. We estimate that net sales from access network products in 2018 will reach the level of 2017.

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

As to **Network Services**, our business objective is to further develop operational efficiency and increase the share of those services that provide our customers with higher added value. The negotiations to renew an important three-year frame agreement with a German customer have entered the final stage. The outcome of the negotiations will have a significant effect on the profitability of our services business. We estimate that net sales for 2018 will increase from the previous year.

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

Our Vision

Best partner for networked
society