

Interim report

1 January to 30 September 2017

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

Business areas



Video and Broadband Solutions

Broadband networks and video security and information solutions



Network Services

Comprehensive service solutions for cable networks

Teleste Group

Q3 2017 highlights

- Orders received increased year-on-year, but decreased quarter-on-quarter. Order backlog increased both on the reference period and quarter-on-quarter, but a significant proportion of video security and information solutions deliveries will take place over the coming financial periods.
- Net sales decreased both year-on-year and quarter-on-quarter.
- Operating result decreased year-on-year, but grew quarter-on-quarter. Operating result of Network Services was improved both year-on-year and quarter-on-quarter, but it remained negative.

	Q3 2017	Q3 2016	YoY change	Q2 2017	QoQ change
Orders received, M€	58,0	53,2	+9,1 %	64,5	-10,0 %
Net sales, M€	56,2	62,9	-10,5 %	58,7	-4,2 %
EBIT, M€	1,2	4,8	-74,2 %	-9,3	
EBIT ¹⁾ , M€	1,2	4,8	-74,2 %	0,0	+2661,3 %
EBIT-%	2,2 %	7,7 %		-15,8 %	
Net profit, M€	0,7	3,6	-80,3 %	-9,7	
Net profit ¹⁾ , M€	0,7	3,6	-80,3 %	-0,4	
Operative cash flow, M€	-1,4	6,3	-122,5 %	14,1	-110,1 %

¹⁾ Excluding goodwill impairment and restructuring provision

Video and Broadband Solutions

Q3 2017 highlights

- Orders received increased year-on-year, but decreased quarter-on-quarter. Demand for Video security and information solutions continued favourably, with France, Spain and Finland as the growth markets. The order backlog increased both year-on-year and quarter-on-quarter, but a significant proportion of video security and information solutions deliveries will take place over the coming years.
- Net sales decreased year-on-year and quarter-on-quarter. Net sales were down in both access network products and video security and information solutions.
- Operating profit decreased year-on-year, mainly because of lower net sales.

	Q3 2017	Q3 2016	YoY change	Q2 2017	QoQ change
Orders received, M€	36,3	30,6	18,5 %	42,6	-14,8 %
Net sales, M€	34,5	40,3	-14,4 %	36,8	-6,3 %
EBIT, M€	1,5	5,5	-72,3 %	2,1	-25,4 %
EBIT-%	4,5 %	13,8 %		5,6 %	
Average personnel	766	745	2,8 %	777	-1,4 %

Network Services

Q3 2017 highlights

- Net sales and orders received decreased year-on-year, but were at par quarter-on-quarter. Net sales decreased in the UK as a result of changes in customer projects.
- Operating profit increased both year-on-year and quarter-on-quarter, but it remained negative. Measures to improve profitability continued in Germany, and we launched a reorganisation process that will progress in stages and continue into 2018.
- Other markets in services business performed well.

	Q3 2017	Q3 2016	YoY change	Q2 2017	QoQ change
Orders received, M€	21,8	22,6	-3,6 %	21,9	-0,7 %
Net sales, M€	21,8	22,6	-3,6 %	21,9	-0,7 %
EBIT, M€	-0,3	-0,7		-11,3	
EBIT ¹⁾ , M€	-0,3	-0,7		-2,0	
EBIT-%	-1,3 %	-3,2 %		-51,6 %	
Average personnel	740	770	-3,9 %	743	-0,3 %

¹⁾ Excluding goodwill impairment and restructuring provision

Teleste Group, January – September 2017

	1-9 2017	1-9 2016	YoY change
Orders received, M€	196,2	179,7	+9,2 %
Net sales, M€	175,9	191,0	-7,9 %
EBIT, M€	-7,8	11,3	-169,0 %
EBIT ¹⁾ , M€	1,5	11,3	-86,7 %
EBIT-%	-4,4 %	5,9 %	
Net profit, M€	-8,9	8,1	-210,4 %
Net profit ¹⁾ , M€	0,4	8,1	-95,4 %
Operative cash flow, M€	12,9	8,3	+55,2 %

¹⁾ Excluding goodwill impairment and restructuring provision

Video and Broadband Solutions, January – September 2017

	1-9 2017	1-9 2016	YoY change
Orders received, M€	126,9	109,5	+16,0 %
Net sales, M€	106,7	120,7	-11,7 %
EBIT, M€	4,4	11,2	-60,5 %
EBIT-%	4,1 %	9,3 %	
Average personnel	767	745	+2,8 %

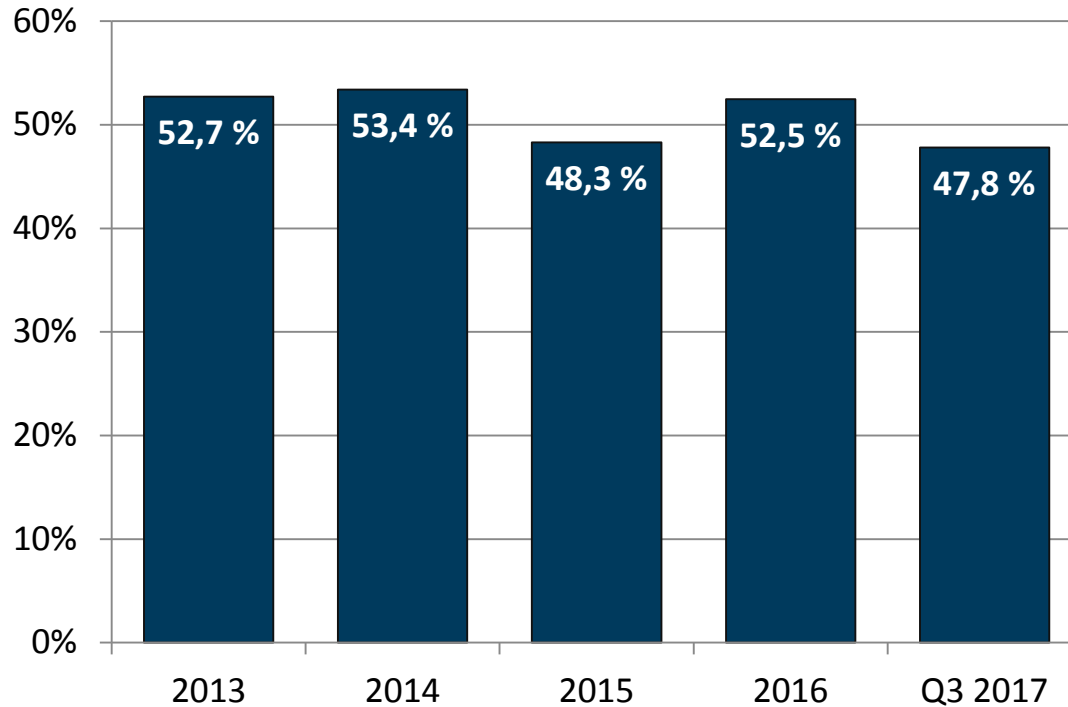
Network Services, January – September 2017

	1-9 2017	1-9 2016	YoY change
Orders received, M€	69,2	70,2	-1,4 %
Net sales, M€	69,2	70,2	-1,4 %
EBIT, M€	-12,2	0,1	-9613 %
EBIT ¹⁾ , M€	-2,9	0,1	-2364 %
EBIT-%	-17,6 %	0,2 %	
Average personnel	740	770	-3,9 %

¹⁾ Excluding goodwill impairment and restructuring provision

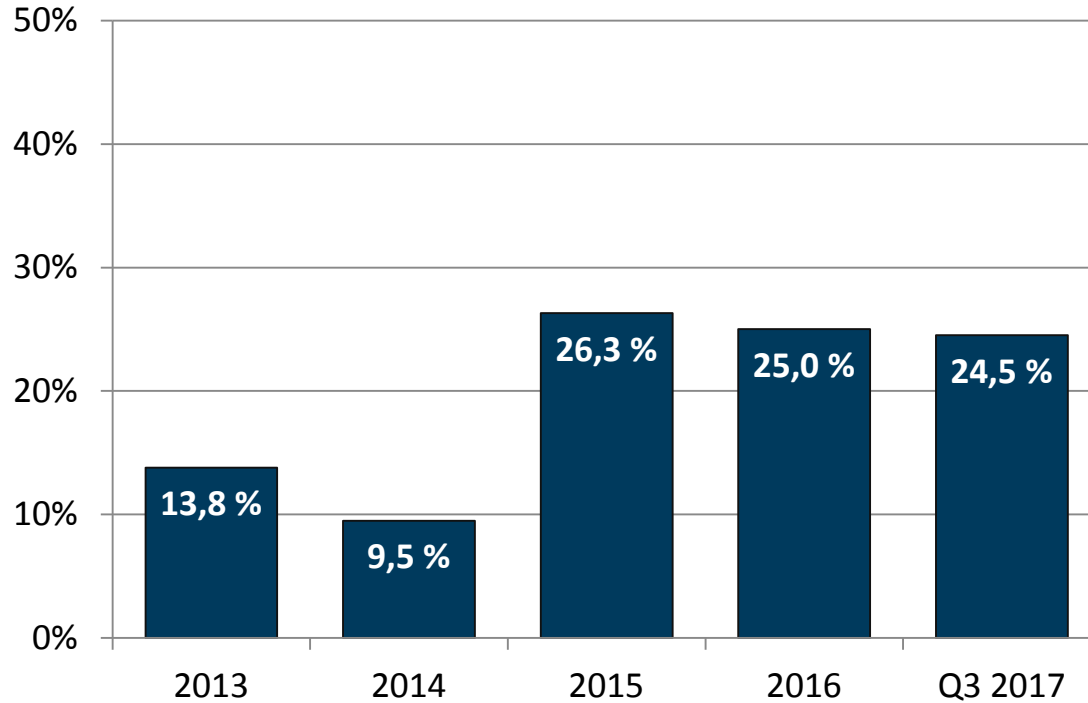
Equity Ratio (at the end of period)

Teleste Group



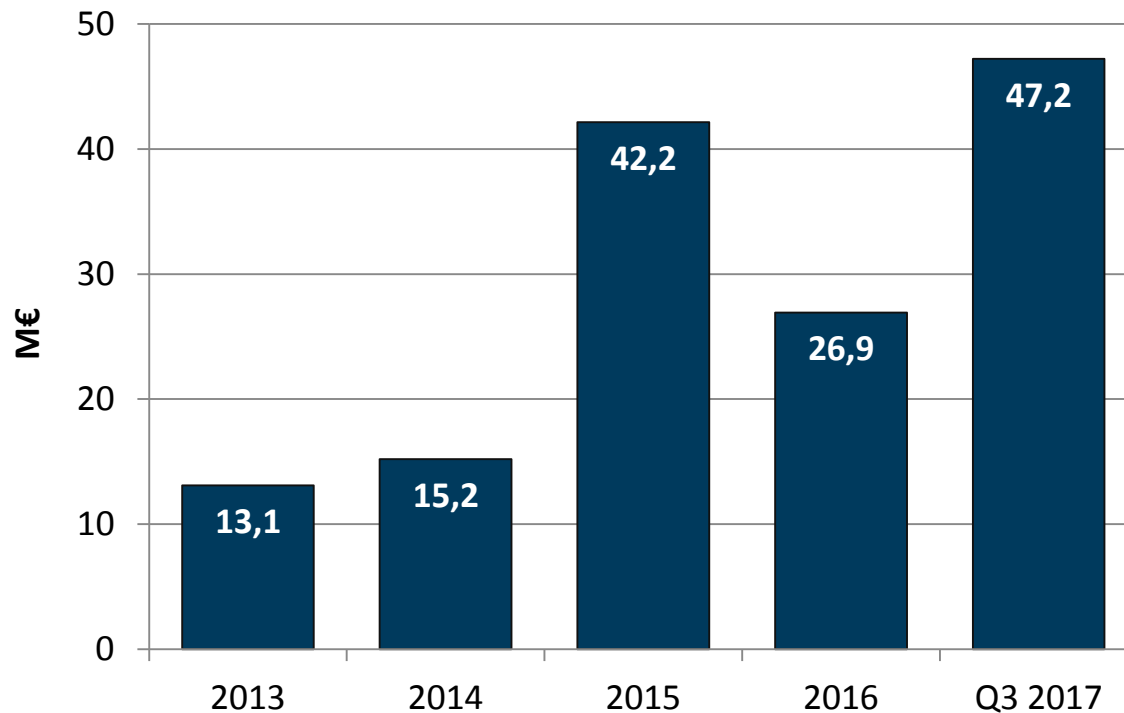
Gearing

Teleste Group



Order Backlog (at the end of period)

Teleste Group



Outlook for 2017

The business objective of **Video and Broadband Solutions** is to maintain its strong market position in Europe and to strengthen this market position in selected new markets outside Europe.

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

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

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

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

One Teleste

Mission

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

Vision

Best partner for
networked society