

Interim Report Q3 2019

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Corporate responsibility

Promoting ecological digital development

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Corporate responsibility is at the core of Teleste's work, and it is reflected in the company's mission, vision and strategy.

Teleste's **products and services promote** the use of public transport, the safety of public areas, the reception and sharing of information and entertainment as well as the general progress of digital development. Teleste's **influence on the surrounding society is positive** in many ways, and the carbon **footprint of its own operations is low**.

Teleste provides long-lasting products. Therefore, their energy consumption and maintainability are important factors when considering life cycle costs and environmental burden. We aim to reduce these impacts throughout the production process, ranging from design to production, distribution, use and recycling.

The sourcing of materials and components is governed by strict rules to ensure the quality of the final products and also the responsibility of sourcing.

As a company, we are large enough to have an impact on digitalisation and the development of networked society, yet small enough so that every individual can affect the company's development.

Teleste Group - Q3 2019



- Orders received decreased year-on-year and quarter-on-quarter.
- Compared with the end of the reference period, the order backlog increased by 19,3 % to 67.5 M€.
- Net sales reached the level of the comparison period and increased quarter-on-quarter. Net sales increased in Video and Broadband Solutions.
- Adjusted operating result reached the level of the reference period, and increased quarter-on-quarter. The growth was generated by Video and Broadband Solutions.
- Operative cash flow decreased from the reference period, but increased quarter-on-quarter.

| | Q3 2019 | Q3 2018 | YoY change | Q2 2019 | QoQ change |
|-------------------------|---------|---------|------------|---------|------------|
| Orders received, M€ | 51,4 | 56,2 | -8,6 % | 59,0 | -13,0 % |
| Net sales, M€ | 60,1 | 59,4 | 1,3 % | 58,2 | 3,2 % |
| Adjusted EBIT, M€ | 3,2 | 3,2 | 1,4 % | 2,3 | 42,0 % |
| Adjusted EBIT-% | 5,4 % | 5,4 % | | 3,9 % | |
| EBIT, M€ | 3,2 | 3,2 | 1,4 % | 2,3 | 42,0 % |
| Net profit, M€ | 2,6 | 2,3 | 14,3 % | 1,4 | 84,9 % |
| Adjusted EPS, € | 0,14 | 0,13 | 12,0 % | 0,08 | 83,4 % |
| EPS, € | 0,14 | 0,13 | 12,0 % | 0,08 | 83,4 % |
| Operative cash flow, M€ | 0,3 | 4,2 | -91,9 % | -3,2 | |

Business areas



Video and Broadband Solutions

Broadband networks and video security and information solutions



Network Services

Comprehensive service solutions for cable networks

Video and Broadband Solutions - Q3 2019



- Orders received decreased from the reference period, and quarter-on-quarter. Orders received decreased in access network products.
- Compared with the end of the reference period, the order backlog increased by 19.3 % to 67.5 M€. Approximately one third of the order backlog is scheduled for this year.
- Net sales increased from the reference period and was on par quarter-on-quarter. Net sales increased in video security and information solutions, but decreased in access network products.
- The operating result increased both from the reference period, and quarter-on-quarter.

| | Q3 2019 | Q3 2018 | YoY change | Q2 2019 | QoQ change |
|---------------------|---------|---------|------------|---------|------------|
| Orders received, M€ | 25,9 | 29,0 | -10,9 % | 36,1 | -28,3 % |
| Net sales, M€ | 34,6 | 32,2 | 7,6 % | 35,3 | -1,8 % |
| EBIT, M€ | 3,0 | 2,7 | 10,1 % | 1,6 | 92,0 % |
| EBIT-% | 8,7 % | 8,5 % | | 4,4 % | |
| Average personnel | 693 | 686 | 1,0 % | 688 | 0,7 % |

Network Services - Q3 2019

- Orders received and net sales decreased from the reference period, but increased quarter-on-quarter. Net sales decreased in Germany and Finland, but increased in England and Switzerland. In Germany, the decrease in net sales was resulting from completion of a major customer project at the end of last year.
- The operating result decreased both from the reference period and quarter-on-quarter. The operating result decreased as a result of decreasing net sales and the deliveries which were focused on lower-margin services.

| | Q3 2019 | Q3 2018 | YoY change | Q2 2019 | QoQ change |
|---------------------|---------|---------|------------|---------|------------|
| Orders received, M€ | 25,5 | 27,2 | -6,2 % | 23,0 | 11,1 % |
| Net sales, M€ | 25,5 | 27,2 | -6,2 % | 23,0 | 11,1 % |
| EBIT, M€ | 0,2 | 0,5 | -50,4 % | 0,7 | -68,1 % |
| EBIT-% | 0,9 % | 1,7 % | | 3,1 % | |
| Average personnel | 681 | 683 | -0,3 % | 679 | 0,2 % |

Teleste Group, January – September 2019

| | 1-9 2019 | 1-9 2018 | YoY change | 1-12 2018 |
|-------------------------|----------|----------|------------|-----------|
| Orders received, M€ | 173,4 | 183,0 | -5,3 % | 264,0 |
| Net sales, M€ | 177,0 | 183,8 | -3,7 % | 250,3 |
| Adjusted EBIT, M€ | 6,8 | 7,5 | -8,8 % | 9,7 |
| Adjusted EBIT, % | 3,9 % | 4,1 % | | 3,9 % |
| EBIT, M€ | -0,5 | 7,5 | -106,3 % | 9,7 |
| Net profit, M€ | -2,3 | 5,2 | -145,0 % | 6,8 |
| Operative cash flow, M€ | -3,8 | 10,4 | -136,6 % | 15,0 |

Video and Broadband Solutions, January – September 2019

| | 1-9 2019 | 1-9 2018 | YoY change | 1-12 2018 |
|---------------------|----------|----------|------------|-----------|
| Orders received, M€ | 101,6 | 101,2 | +0,5 % | 152,3 |
| Net sales, M€ | 105,2 | 102,0 | +3,2 % | 138,7 |
| EBIT, M€ | 6,8 | 5,8 | +17,1 % | 7,7 |
| EBIT, % | 6,5 % | 5,7 % | | 5,6 % |
| Average personnel | 684 | 708 | -3,3 % | 700 |

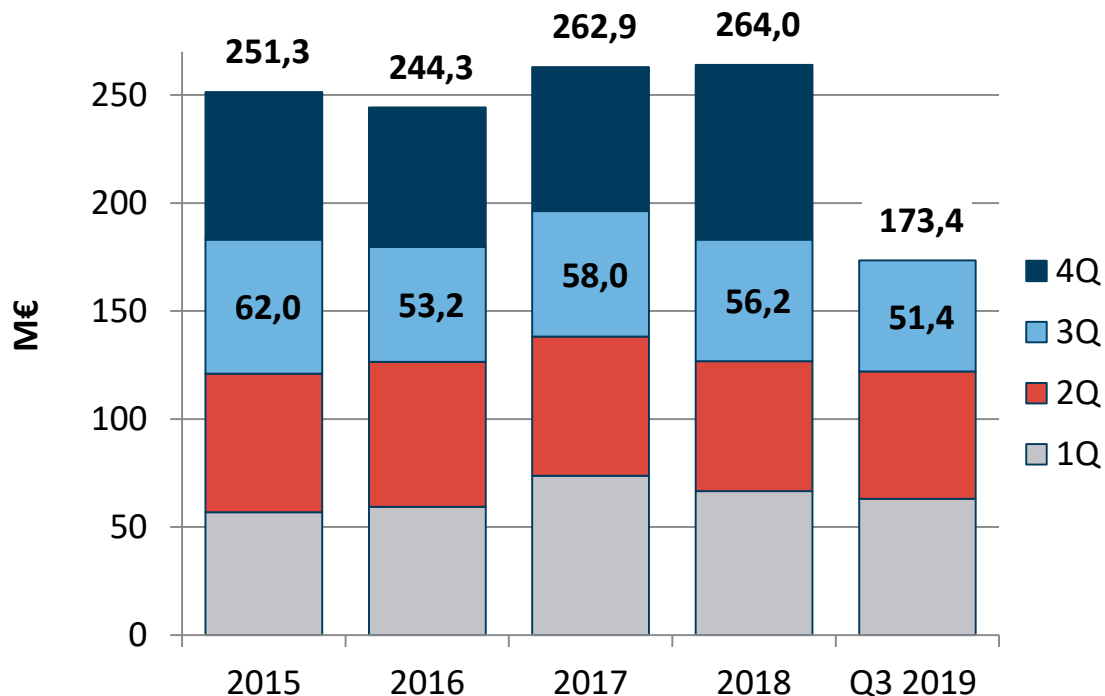
Network Services, January – September 2019

| | 1-9 2019 | 1-9 2018 | YoY change | 1-12 2018 |
|---------------------|----------|----------|------------|-----------|
| Orders received, M€ | 71,8 | 81,8 | -12,3 % | 111,7 |
| Net sales, M€ | 71,8 | 81,8 | -12,3 % | 111,7 |
| EBIT, M€ | 0,0 | 1,7 | -97,5 % | 2,0 |
| EBIT, % | 0,1 % | 2,1 % | | 1,8 % |
| Average personnel | 685 | 696 | -1,6 % | 693 |

Orders Received

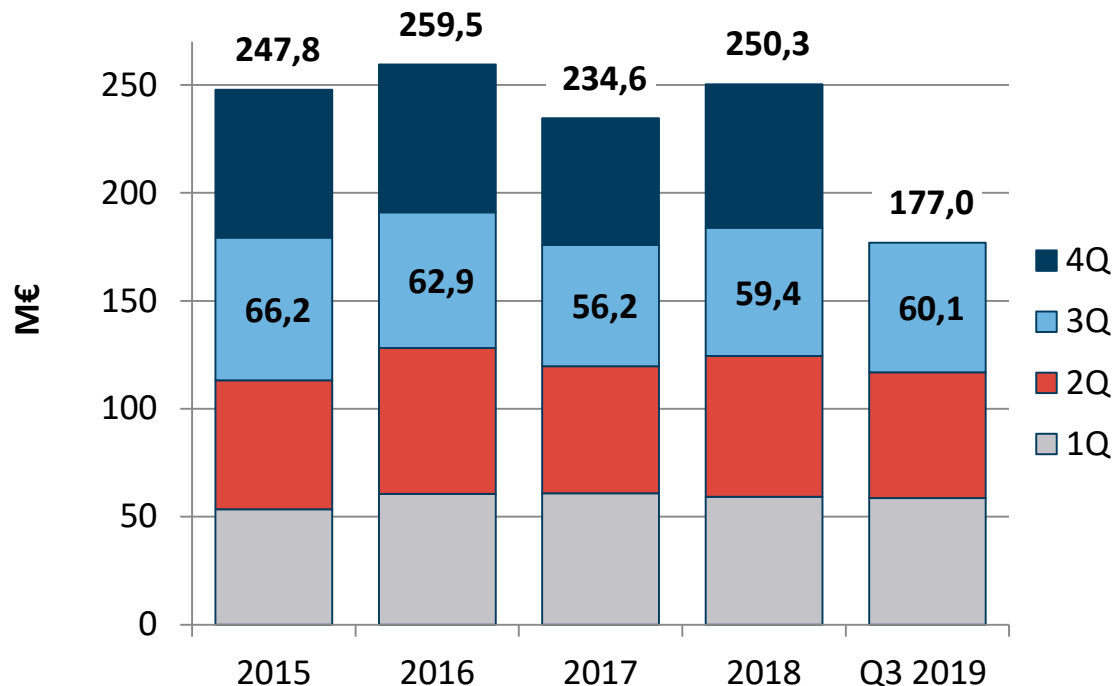
Teleste Group, M€

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Net Sales

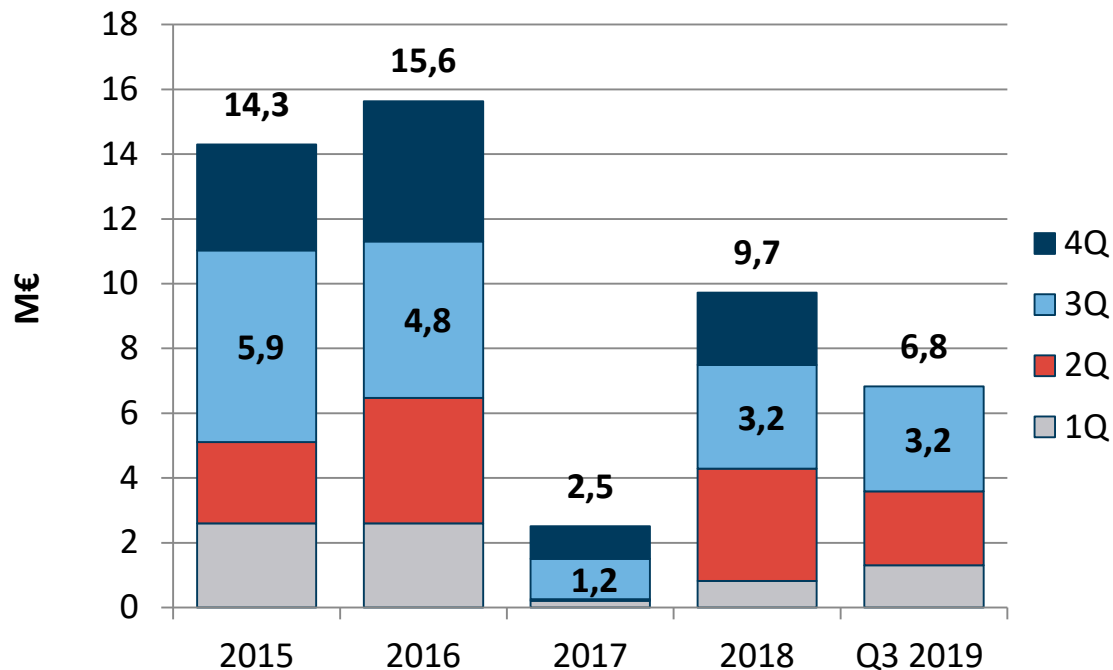
Teleste Group, M€



Adjusted Operating Profit

Teleste Group, M€

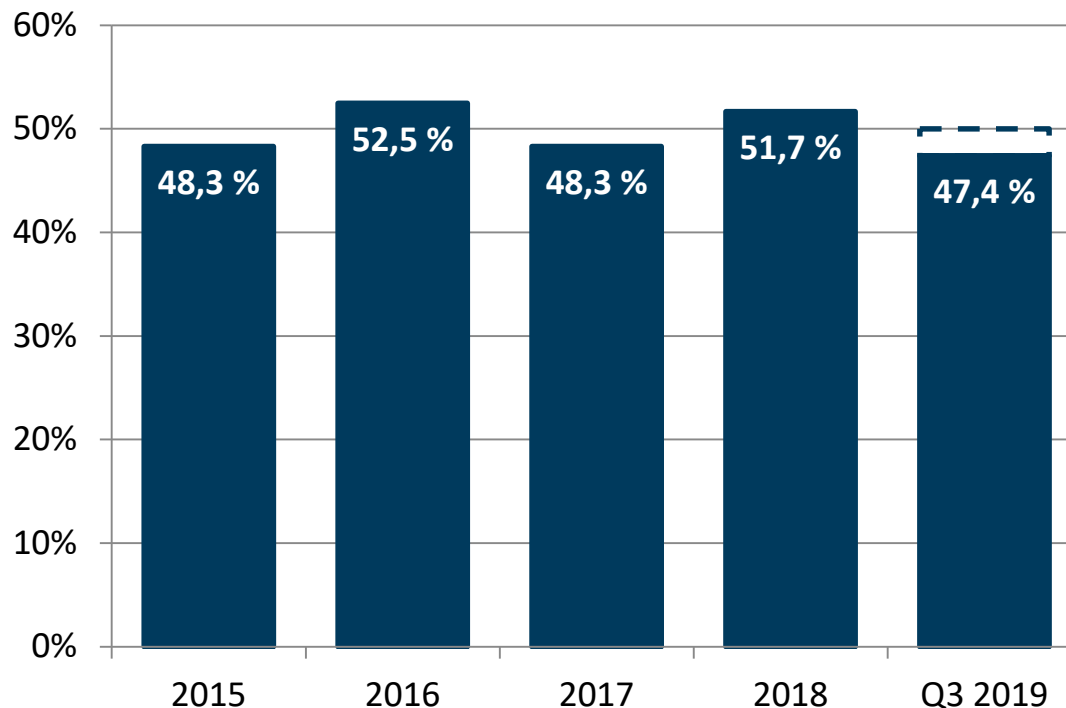
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Equity Ratio (at the end of period)

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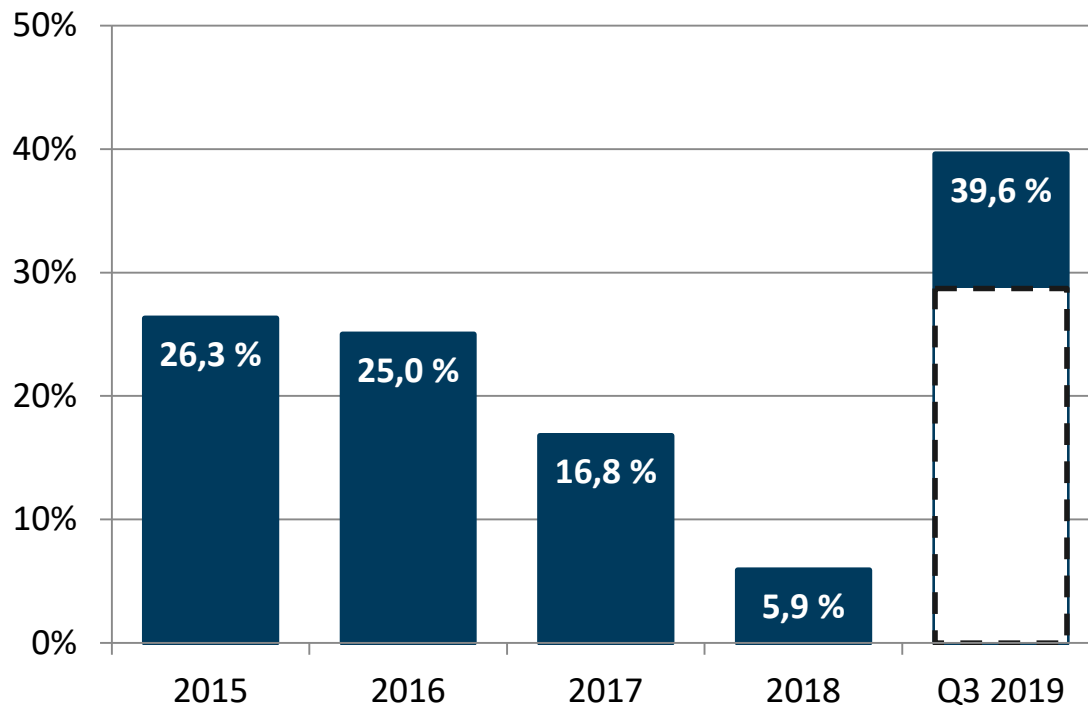


Adoption of IFRS 16
standard decreased equity
ratio by 2,6 ppt

Net gearing (at the end of period)

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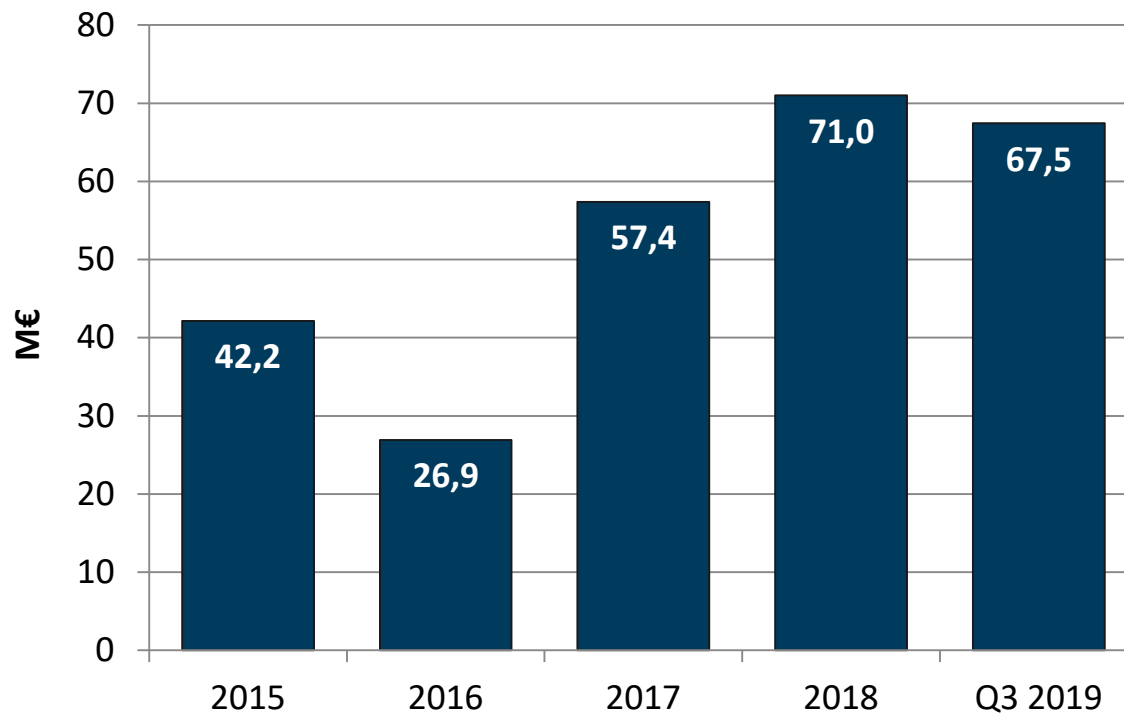


Adoption of IFRS 16 standard increased interest bearing debt by 7,8 M€ and increased net gearing by 10,9 ppt

Order Backlog (at the end of period)

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Market 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).

Motivated and competent Telestians stand for quality and lean processes



VISION 2022

Best partner for networked society

