



HALF YEAR  
FINANCIAL  
REPORT  
**H1 2019**

TELESTE  
ANNIVERSARY **65**

JANUARY 1 – JUNE 30, 2019

**TELESTE**

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ANNIVERSARY

65

**TELESTE CORPORATION HALF YEAR FINANCIAL REPORT 1 JANUARY TO 30 JUNE 2019:  
NET SALES AND RESULT DECREASED, RECORD-HIGH ORDER BACKLOG****April-June 2019**

- Net sales amounted to EUR 58.2 (65.2) million, a decrease of 10.6%
- Adjusted operating result stood at EUR 2.3 (3.5) million, a decrease of 34.2%
- Operating result amounted to EUR 2.3 (3.5) million, a decrease of 34.2%
- Adjusted earnings per share were EUR 0.08 (0.13) per share, a decrease of 40.3%
- Earnings per share were EUR 0.08 (0.13), a decrease of 40.3%
- Orders received totalled EUR 59.0 (60.2) million, a decrease of 1.8%
- Cash flow from operations was EUR -3.2 (3.1) million, a decrease of 204.6%
- Order backlog at period-end totalled EUR 76.2 (59.7) million, an increase of 27.6%

**January-June 2019**

- Net sales amounted to EUR 116.8 (124.5) million, a decrease of 6.1%
- Adjusted operating result stood at EUR 3.6 (4.3) million, a decrease of 16.3%
- Operating result amounted to EUR -3.7 (4.3) million, including losses and a provision totalling EUR 7.3 million arising from a crime against a foreign subsidiary
- Adjusted earnings per share were EUR 0.13 (0.16) per share, a decrease of 20.2%
- Earnings per share were EUR -0.27 (0.16), a decrease of 265.0%
- Orders received totalled EUR 122.1 (126.8) million, a decrease of 3.7%
- Cash flow from operations was EUR -4.1 (6.1) million, a decrease of 167.5%

**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:**

"The Group's net sales and operating result for Q2 decreased from the strong reference period of the previous year, as expected. Orders received were on par with the reference period and the order backlog grew, reaching the highest level in Teleste's history.

In the Video and Broadband Solutions business area, our strategic main objectives are significant growth and improved performance in video security and information solutions, product development in distributed access architecture and the successful launch of sales in the US cable operator market. With regard to video security and information solutions, we have proceeded in accordance with our set goals, and the record-high order backlog lays down the foundations for continuing profitable growth going forward. Approximately 50 per cent of the order backlog will be delivered in the years to come. In response to the continued growth of the order backlog of public transport information systems, we will continue investments in improving our delivery capability and ensuring quality. The first phase of the customer delivery of the new smart S-AWARE® situational awareness system has proceeded as planned, and we will continue to develop the system further.

With regard to access network products, we are 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 while preparing for the adoption of a distributed access architecture in both Europe and North America. Our product development has progressed in the development of distributed access architecture solutions as planned, but ensuring interoperability between different parties' systems has turned out to be more demanding than foreseen across the entire industry. Orders received for access network products increased during the second quarter, but due to the technological transformation, net sales fell short of the reference period. As a result of decreasing net sales, also operating result decreased year-on-year. Nevertheless, we have maintained our strong market position in Europe. The need for increasing network capacity continues to exist. The launching of operator investments in new network technology requires the interoperability of products to reach a high level of reliability.

In the Network Services business area, the main focus is on sharpening the strategy and developing the operational activities. In the second quarter, orders received and net sales decreased. Net sales decreased in Germany and Finland but increased in England. In Germany, the decrease in net sales was due to the completion of a significant project at the end of last year and the decrease in a key customer's demand for services. In spite of the decrease in net sales, the Network Services business area reached a positive operating result for the second quarter. However, we did not reach all of 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 will continue measures to secure growth in fibre-optic network design services and other high added value services."

#### Group Operations April-June 2019

Key figures (EUR million)	4-6/2019	4-6/2018	Change, %
Orders received	59.0	60.2	-1.8 %
Net sales	58.2	65.2	-10.6%
Adjusted EBIT, EUR million <sup>1)</sup>	2.3	3.5	-34.2%
Adjusted EBIT, % <sup>1)</sup>	3.9 %	5.3 %	
EBIT	2.3	3.5	-34.2%
EBIT, %	3.9 %	5.3 %	
Result for the period	1.4	2.3	-39.3%
Adjusted earnings per share, EUR	0.08	0.13	-40.3%
Earnings per share, EUR	0.08	0.13	-40.3%
Cash flow from operations	-3.2	3.1	-204.6%

<sup>1)</sup> An alternative performance measure defined in the tables section of the report.

Orders received by the Group in the second quarter totalled EUR 59.0 (60.2) million, a decrease of 1.8% on the reference period last year. Orders received decreased in the Network Services business area. Orders received increased in the Video and Broadband Solutions business area and the order backlog increased by 27.6% on the reference period to EUR 76.2 (59.7) million. Net sales decreased by 10.6% to EUR 58.2 (65.2) million. Net sales decreased particularly in the Network Services business area.

Personnel expenses amounted to EUR 17.1 (17.0) million, an increase of 0.3%. Expenses for material and manufacturing services amounted to EUR 29.5 (35.6) million, a decrease of 17.2%. Depreciation and amortisation amounted to EUR 2.3 (1.6) million, an increase of 45.1%. 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 amounted to EUR 2.3 (3.5) million, representing 3.9% (5.3%) of net sales. Net financial expenses were EUR 0.4 (0.3) million. The result for the period stood at EUR 1.4 (2.3) million. Adjusted earnings per share were EUR 0.08 (0.13).

Cash flow from operations was EUR -3.2 (3.1) million. The decrease in cash flow from operations resulted from changes in working capital.

#### Group Operations, January-June 2019

Key figures (EUR million)	1-6/2019	1-6/2018	Change, %	1-12/2018
Orders received	122.1	126.8	-3.7%	264.0
Net sales	116.8	124.5	-6.1%	250.3
Adjusted EBIT, EUR million <sup>1)</sup>	3.6	4.3	-16.3%	9.7
Adjusted EBIT, % <sup>1)</sup>	3.1 %	3.4 %		3.9 %
EBIT	-3.7	4.3	-186.4%	9.7
EBIT, %	-3.2 %	3.4 %		3.9 %
Result for the period	-5.0	2.9	-271.3%	6.8
Adjusted earnings per share, EUR <sup>1)</sup>	0.13	0.16	-20.2 %	0.38
Earnings per share, EUR	-0.27	0.16	-265.0%	0.38
Cash flow from operations	-4.1	6.1	-167.5%	15.0
Net gearing, %	36.5 %	15.2%		5.9 %
Equity ratio, %	47.7%	46.8%		51.7 %

Personnel at period-end	1,367	1,415		1,353
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<sup>1)</sup> An alternative performance measure defined in the tables section of the report.

Orders received by the Group decreased by 3.7% to EUR 122.1 (126.8) million. Orders received decreased in the Network Services business area. Net sales decreased by 6.1%, amounting to EUR 116.8 (124.5) million. Net sales decreased in the Network Services business area.

Personnel expenses amounted to EUR 33.7 (33.3) million, an increase of 1.1%. Expenses for material and manufacturing services amounted to EUR 60.9 (69.1) million, a decrease of 11.9%. Depreciation and amortisation amounted to EUR 4.7 (3.1) million, an increase of 48.4%. Depreciation recognised in accordance with IFRS 16, which was adopted on 1 January 2019, totalled EUR 2.2 million. The adoption of the new standard did not have a material effect on the operating result. Other operating expenses amounted to EUR 22.5 (15.7) 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. The adjusted operating result decreased by 16.3% to EUR 3.6 (4.3) million, representing 3.1% (3.4%) of net sales. Net financial expenses were EUR 0.3 (0.4) million and the Group's direct taxes amounted to EUR 1.0 (1.0) million. Adjusted earnings per share were EUR 0.13 (0.16).

Cash flow from operations was EUR -4.1 (6.1) 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 trade payables.

#### Video and Broadband Solutions April-June 2019

Key figures (EUR 1,000)	4-6/2019	4-6/2018	Change, %
Orders received	36,094	32,189	+12.1%
Net sales	35,291	37,199	-5.1%
EBIT	1,569	2,642	-40.6%
EBIT, %	4.4 %	7.1 %	

Orders received in the second quarter totalled EUR 36.1 (32.2) million, an increase of 12.1% on the reference period. Orders increased particularly in video security and information solutions, but also in access network products. The order backlog totalled EUR 76.2 (59.7) million, an increase of 27.6%. Net sales decreased by 5.1% to EUR 35.3 (37.2) million. Net sales decreased in access network products. Operating result decreased by 40.6% to EUR 1.6 (2.6) million, representing 4.4% (7.1%) of net sales. The operating result decreased due to the net sales of access network products being lower than in the reference period.

R&D expenses in the business area amounted to EUR 3.2 (2.7) million, representing 9.1% (7.1%) 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 1.0 (1.7) million. Depreciation on R&D expenses was EUR 0.6 (0.6) million.

#### Video and Broadband Solutions January-June 2019

Key figures (EUR 1,000)	1-6/2019	1-6/2018	Change, %	1-12/2018
Orders received	75,784	72,134	+5.1%	152,307
Net sales	70,568	69,795	+1.1%	138,677
EBIT	3,777	3,058	+23.5%	7,738
EBIT, %	5.4 %	4.4 %		5.6 %

Orders received totalled EUR 75.8 (72.1) million, an increase of 5.1% on the reference period. Orders increased in video security and information systems. Net sales increased by 1.1% to EUR 70.6 (69.8) million. Net sales increased in video security and information systems but declined in access network products. Operating result increased by 23.5%, amounting to EUR 3.8 (3.1) million. The operating result represented 5.4% (4.4%) 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 6.2 (5.7) million, representing 8.7% (8.2%) 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 2.0 (2.6) million. Depreciation on capitalised R&D expenses was EUR 1.2 (1.2) million.

#### Network Services April-June 2019

Key figures (EUR 1,000)	4-6/2019	4-6/2018	Change, %
Orders received	22,952	27,963	-17.9%
Net sales	22,952	27,963	-17.9%
EBIT	715	828	-13.7%
EBIT, %	3.1 %	3.0 %	

In the second quarter, orders received and net sales decreased by 17.9% and amounted to EUR 23.0 (28.0) million. Net sales decreased in Germany and Finland but increased in England. In Germany, the decrease in net sales was due to the completion of a significant project at the end of last year. Operating result decreased by 13.7% to EUR 0.7 (0.8) million, representing 3.1% (3.0%) of net sales. The operating result was nearly on par with the reference period as deliveries were focused on higher-margin services.

#### Network Services January-June 2019

Key figures (EUR 1,000)	1-6/2019	1-6/2018	Change, %	1-12/2018
Orders received	46,275	54,661	-15.3%	111,669
Net sales	46,275	54,661	-15.3%	111,669
EBIT	-186	1,232	-115.1%	1,983
EBIT, %	-0.4 %	2.3 %		1.8 %

Orders received and net sales decreased by 15.3% year-on-year, amounting to EUR 46.3 (54.7) million. Net sales decreased in Germany and Finland but increased in England. In Germany, the decrease in net sales was due to the completion of a significant project at the end of last year. In England, net sales increased due to growth in the demand for network design services. Operating result amounted to EUR -0.2 (1.2) million. The negative operating result was attributable to lower net sales and the winter conditions during the first months of the year, which complicated installation services in Germany.

#### Personnel and organisation January-June 2019

In the period under review, the average number of people employed by the Group was 1,368 (1-6/2018: 1,422; 1-6/2017: 1,513). Of these, 680 (719) were employed by Video and Broadband Solutions and 688 (703) by Network Services. At the end of the review period, the Group employed 1,367 people (2018: 1,415; 2017: 1,512), of whom 64% (2018: 65%; 2017: 64%) worked abroad. Approximately 2% of the Group's employees were working outside Europe.

Personnel expenses amounted to EUR 33.7 (33.3) million.

#### Investments and product development January-June 2019

Investments by the Group totalled EUR 5.1 (3.6) million, representing 4.3% (2.9%) of net sales. Investments in product development amounted to EUR 2.0 (2.6) million and other investments to EUR 3.1 (1.0) 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-June 2019

Cash flow from operations was EUR -4.1 (6.1) 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 trade payables.

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. The remaining loan principal amounted to EUR 24.0 million on 30 June 2019. At the end of the period under review, the amount of unused binding credit facilities was EUR 20.0 (20.0) million.

At period-end, the Group's interest-bearing debt stood at EUR 31.9 (33.4) million. The Group's equity ratio was 47.7% (46.8%) and net gearing ratio 36.5% (15.2%). A total of EUR 7.4 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 +10.7 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 a branch office in the Netherlands and subsidiaries in 14 countries outside Finland.

### **Shares and changes in share capital**

On 30 June 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 5.26 (6.28) and the highest price was EUR 6.80 (7.58). The closing price on 30 June 2019 stood at EUR 5.90 (7.18). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,544 (5,508). Foreign and nominee-registered holdings accounted for 6.5% (7.4%) of the share capital. The value of Teleste shares traded on Nasdaq Helsinki from 1 January to 30 June 2019 was EUR 5.7 (7.0) million. In the period under review, 1.0 (1.0) 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.

At the end of June, 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 June 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. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and North America in 2019. The transformation to the new access architecture requires careful preparation, and we expect that upgrade projects will increase and more and more operators will launch distributed architecture investment projects in 2020. 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).

14 August 2019

Teleste Corporation  
Board of Directors

Jukka Rinnevaara  
President and CEO

This half year financial 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 report applying the same accounting principles as those described in detail in its the consolidated financial statements 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)**

	<b>4-6/2019</b>	<b>4-6/2018</b>	<b>Change %</b>	<b>1-12/2018</b>
Net Sales	58,243	65,163	-10.6 %	250,346
Other operating income	576	716	-19.6 %	1,766
Materials and services	-29,475	-35,608	-17.2 %	-137,905
Personnel expenses	-17,078	-17,020	0.3 %	-66,014
Depreciation	-2,321	-1,600	45.1 %	-5,980
Other operating expenses	-7,663	-8,182	-6.4 %	-32,492
Operating profit	2,282	3,470	-34.2 %	9,721
Financial income	62	80	-21.8 %	325
Financial expenses	-438	-384	14.2 %	-986
Profit after financial items	1,907	3,166	-39.8 %	9,060
Profit before taxes	1,907	3,166	-39.8 %	9,060
Taxes	-484	-820	-41.0 %	-2,219
Net profit	1,423	2,346	-39.3 %	6,841
Attributable to:				
Equity holders of the parent	1,436	2,398	-40.1 %	6,975
Non-controlling interests	-12	-51	-76.3 %	-133
	1,423	2,346	-39.3 %	6,841
Earnings per share for result of the year attributable to the equity holders of the parent (expressed in euro per share)				
Basic	0.08	0.13	-40.3 %	0.38
Diluted	0.08	0.13	-40.3 %	0.38
Total comprehensive income for the period (tEUR)				
Net profit	1,423	2,346	-39.3 %	6,841
Possible items with future net profit effect				
Translation differences	-139	-230	-39.3 %	-241
Cash flow hedges	-9	-7	35.2 %	-3
Total comprehensive income for the period	1,275	2,110	-39.6 %	6,598
Attributable to:				
Equity holders of the parent	1,293	2,129	-39.3 %	6,705
Non-controlling interests	-18	-19	-4.6 %	-108
	1,275	2,110	-39.6 %	6,598

**STATEMENT OF COMPREHENSIVE INCOME (tEUR)**

	1-6/2019	1-6/2018	Change %	1-12/2018
Net Sales	116,844	124,457	-6.1 %	250,346
Other operating income	1,171	1,057	10.7 %	1,766
Materials and services	-60,871	-69,099	-11.9 %	-137,905
Personnel expenses	-33,705	-33,334	1.1 %	-66,014
Depreciation	-4,662	-3,141	48.4 %	-5,980
Other operating expenses	-22,486	-15,650	43.7 %	-32,492
Operating profit	-3,709	4,291	-186.4 %	9,721
Financial income	380	153	148.2 %	325
Financial expenses	-639	-533	19.9 %	-986
Profit after financial items	-3,967	3,911	-201.4 %	9,060
Profit before taxes	-3,967	3,911	-201.4 %	9,060
Taxes	-1,007	-1,007	0.0 %	-2,219
Net profit	-4,975	2,904	-271.3 %	6,841
Attributable to:				
Equity holders of the parent	-4,923	2,974	-265.5 %	6,975
Non-controlling interests	-52	-70	-26.0 %	-133
	-4,975	2,904	-271.3 %	6,841

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

Basic	-0.27	0.16	-265.0 %	0.38
Diluted	-0.27	0.16	-265.2 %	0.38

**Total comprehensive income for the period (tEUR)**

Net profit	-4,975	2,904	-271.3 %	6,841
Possible items with future net profit effect				
Translation differences	71	-340	-120.9 %	-241
Cash flow hedges	-7	-9	-17.8 %	-3
Total comprehensive income for the period	-4,911	2,556	-292.2 %	6,598

**Attributable to:**

Equity holders of the parent	-4,862	2,610	-286.3 %	6,705
Non-controlling interests	-48	-54	-10.9 %	-108
	-4,911	2,556	-292.1 %	6,598

**STATEMENT OF FINANCIAL POSITION (tEUR)**

	30/6/2019	30/6/2018	Change %	31/12/2018
Non-current assets				
Intangible assets	11,851	10,440	13.5 %	11,268
Goodwill	30,537	30,581	-0.1 %	30,573
Property, plant, equipment	15,320	9,031	69.6 %	8,601
Other non-current financial assets	570	498	14.5 %	561

Deferred tax asset	2,090	2,594	-19.4 %	2,131
	60,368	53,144	13.6 %	53,135
Current assets				
Inventories	39,600	34,278	15.5 %	32,833
Trade and other receivables	46,470	51,202	-9.2 %	50,500
Tax Receivable, income tax	526	367	43.3 %	288
Cash and cash equivalents	6,773	22,332	-69.7 %	22,240
	93,368	108,178	-13.7 %	105,861
Total assets	153,736	161,322	-4.7 %	158,996
Shareholder's equity and liabilities				
Share capital	6,967	6,967	0.0 %	6,967
Other equity	61,408	65,205	-5.8 %	69,674
Owners of the parent company	68,374	72,172	-5.3 %	76,641
Non-controlling interests	474	575	-17.7 %	522
Equity	68,848	72,747	-5.4 %	77,163
Non-current liabilities				
Deferred tax liability	1,627	1,600	1.7 %	1,607
Non-current liabilities, interest-bearing	25,455	28,514	-10.7 %	22,590
Non-current interest-free liabilities	88	1,152	-92.4 %	81
Non-current provisions	267	631	-57.8 %	266
	27,436	31,897	-14.0 %	24,545
Current liabilities				
Current interest-bearing liabilities	6,473	4,918	31.6 %	4,222
Trade Payables and Other Liabilities	48,716	49,843	-2.3 %	51,089
Tax liability, income tax	1,049	919	14.2 %	966
Current provisions	1,214	998	21.6 %	1,012
	57,452	56,678	1.4 %	57,288
Total shareholder's equity and liabilities	153,736	161,322	-4.7 %	158,996

#### **CONSOLIDATED CASH FLOW STATEMENT (tEUR)**

	<b>1-6/2019</b>	<b>1-6/2018</b>	<b>Change %</b>	<b>1-12/2018</b>
Cash flows from operating activities				
Profit for the period	-4,975	2,904	-271.3 %	6,841
Adjustments	6,274	4,681	34.0 %	9,707
Interest and other financial expenses and incomes	-240	-533	-55.0 %	-661
Paid Taxes	-1,071	-1,186	-9.7 %	-1,796
Change in working capital	-4,130	267	-1646.7 %	917
Cash flow from operating activities	-4,141	6,133	-167.5 %	15,009
Cash flow from investing activities				
Purchase of tangible and intangible assets	-3,865	-3,283	17.7 %	-5,668
Proceeds from sales of PPE	177	108	64.3 %	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	-4,737	-3,246	45.9 %	-5,645
Cash flow from financing activities				

Proceeds from borrowings	202	3,001	-93.3 %	4,087
Payments of borrowings	-996	-2,602	-61.7 %	-10,009
Payment of leasing liabilities	-2,184	-365	498.3 %	-655
Dividends paid	-3,637	-1,816	100.3 %	-1,816
Net cash used in financing activities	-6,616	-1,782	271.3 %	-8,393
Change in cash				
Cash in the beginning	22,240	21,230	4.8 %	21,230
Effect of currency changes	27	-3	-1004.9 %	39
Change in cash during period	-15,494	1,105	-1502.2 %	971
Cash at the end	6,773	22,332	-69.7 %	22,240

#### KEY FIGURES

	1-6/2019	1-6/2018	Change %	1-12/2018
Earnings per share, EUR	-0.27	0.16	-265.0 %	0.38
Earnings per share fully diluted, EUR	-0.27	0.16	-265.2 %	0.38
Shareholders' equity per share, EUR	3.79	4.00	-5.5 %	4.25
Return on equity	-13.6 %	8.1 %	-269.2 %	9.2 %
Return on capital employed	-6.6 %	8.0 %	-182.9 %	9.3 %
Equity ratio	47.7 %	46.8 %	1.8 %	51.7 %
Gearing	36.5 %	15.2 %	139.7 %	5.9 %
Investments, tEUR	5,070	3,620	40.1 %	6,989
Investments % of net sales	4.3 %	2.9 %	49.2 %	2.8 %
Order backlog, tEUR	76,233	59,721	27.6 %	71,017
Personnel, average	1,368	1,422	-3.8 %	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	5.26	6.28	-16.2 %	5.12
Average share price, EUR	5.88	7.08	-16.9 %	6.72
Turnover, in million shares	1.0	1.0	-3.1 %	2.0
Turnover, in MEUR	5.7	7.0	-19.0 %	13.3

#### ALTERNATIVE PERFORMANCE MEASURES

Adjusted operating profit	3,589	4,291	-16.3 %	9,721
Adjusted earnings per share, EUR	0.13	0.16	-20.2 %	0.38

#### BRIDGE OF CALCULATION

Operating profit	-3,709	4,291	-186.4 %	9,721
Cost item caused by a crime	7,298	0	n/a	0
Adjusted operating profit	3,589	4,291	-16.3 %	9,721
Net profit/loss to equity holder	-4,923	2,974	-265.5 %	6,975
Outstanding shares during the quarter	18,176	18,164	0.1 %	18,122
Earnings per share, basic	-0.27	0.16	-265.4 %	0.38
Net profit/loss to equity holder	-4,923	2,974	-265.5 %	6,975

Cost item caused by a crime	7,298	0	n/a	0
Outstanding shares during the quarter	18,176	18,164	0.1 %	18,122
Adjusted earnings per share, EUR	0.13	0.16	-20.2 %	0.38

#### Treasury shares

	Number of shares		% of shares	% of votes
Possession of company's own shares 30.6.2019	798,821		4.2 %	4.2 %
Contingent liabilities and pledged assets (tEUR)				
Leasing and rent liabilities	836	7,763	-89.2 %	7,372
Derivative instruments (tEUR)				
Value of underlying forward contracts	24,369	21,740	12.1 %	20,674
Market value of forward contracts	86	281	-69.6 %	227
Interest rate swap	10,000	10,000	0.0 %	10,000
Market value of interest swap	-110	-86	27.5 %	-81

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

<b>OPERATING SEGMENTS (tEUR)</b>	<b>1-6/2019</b>	<b>1-6/2018</b>	<b>Change %</b>	<b>1-12/2018</b>
Video and Broadband Solutions				
Orders received	75,784	72,134	5.1 %	152,307
Net sales	70,568	69,795	1.1 %	138,677
EBIT	3,777	3,058	23.5 %	7,738
EBIT%	5.4 %	4.4 %		5.6 %
Network Services				
Orders received	46,275	54,661	-15.3 %	111,669
Net sales	46,275	54,661	-15.3 %	111,669
EBIT	-186	1,232	-115.1 %	1,983
EBIT%	-0.4 %	2.3 %		1.8 %
Total Segments				
Orders received	122,059	126,795	-3.7 %	263,976
Net sales	116,843	124,457	-6.1 %	250,346
EBIT	3,591	4,291	-16.3 %	9,721
EBIT%	3.1 %	3.4 %		3.9 %
Total Group				
Unallocated item	-7,298	0	n/a	0
EBIT	-3,709	4,291	-186.4 %	9,721
EBIT%	-3.2 %	3.4 %	0.0 %	3.9 %
Financial items	-258	-533	-51.5 %	-661
Operating segments net profit before taxes	-3,967	3,758	-205.6 %	9,060
<b>Net sales by category</b>	<b>1-6/2019</b>	<b>1-6/2018</b>	<b>Change %</b>	<b>1-12/2018</b>

Goods	68,647	66,875	2.6 %	133,990
Service	48,197	57,582	-16.3 %	116,356
Total	116,844	124,457	-6.1 %	250,346
Order backlog	1-6/2019	1-6/2018	Change %	1-12/2018
VBS Order backlog, tEUR	76,233	59,721	27.6 %	71,017

<b>Information per quarter (tEUR)</b>	<b>4-6/19</b>	<b>1-3/19</b>	<b>10-12/18</b>	<b>7-9/18</b>	<b>4-6/18</b>	<b>7/2018- 6/2019</b>
Video and Broadband Solutions						
Orders received	36,094	39,690	51,142	29,032	32,189	155,957
Net sales	35,291	35,277	36,691	32,191	37,199	139,450
EBIT	1,569	2,208	1,942	2,737	2,642	8,456
EBIT %	4.4 %	6.3 %	5.3 %	8.5 %	7.1 %	6.1 %
Network Services						
Orders received	22,952	23,323	29,829	27,179	27,963	103,283
Net sales	22,952	23,323	29,829	27,179	27,963	103,283
EBIT	715	-901	291	460	828	565
EBIT %	3.1 %	-3.9 %	1.0 %	1.7 %	3.0 %	0.5 %
Total segments						
Orders received	59,046	63,013	80,970	56,211	60,152	259,240
Net sales	58,243	58,600	66,519	59,370	65,163	242,733
EBIT	2,284	1,307	2,233	3,197	3,470	9,021
EBIT %	3.9 %	2.2 %	3.4 %	5.4 %	5.3 %	3.7 %
Total group						
Unallocated item	0	-7,298	0	0	0	-7,298
EBIT	2,282	-5,991	2,233	3,197	3,470	1,721
EBIT %	3.9 %	-10.2 %	3.4 %	5.4 %	5.3 %	0.7 %

### Consolidated statement of changes in equity, 1000 euros

#### Attributable to equity holders of the parent (tEUR)

	A	B	C	D	E	F	G	H	I
A									
B									
C									
D									
E									
F									
G									
H									
I									
Shareholder's equity 1.1.2019	6,967	1,504	-1,570	66,691	3,140	-92	76,640	522	77,162
New standards				0			0		0
Total comprehensive				-4,923			-4,923	-52	-4,975



income for the period									
Paid dividend				-3,637			-3,637		-3,637
Equity-settled share-based payments				233			233		233
Translation differences			-44	112			68	4	72
Cash flow hedges						-7	-7		-7
Shareholder's equity 30.6.2019	6,967	1,504	-1,614	58,476	3,140	-99	68,374	474	68,848
Shareholder's equity 1.1.2018	6,967	1,504	-1,404	60,606	3,140	-78	70,735	630	71,365
New standards				173			173		173
Total comprehensive income for the period				2,974			2,974	-70	2,904
Paid dividend				-1,816			-1,816		-1,816
Equity-settled share-based payments				469			469		469
Translation differences			-147	-209			-356	16	-340
Cash flow hedges						-9	-9		-9
Shareholder's equity 30.6.2018	6,967	1,504	-1,551	62,197	3,140	-87	72,171	576	72,747

## 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 a 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 of assets with minor value do not need to be recognised on the balance sheet.

The impact of the new standard is an increase of -2 172 thousand euro depreciation of right-to-use assets and a decrease of the same amount of rents in other operating expenses. Interest expenses increased by -84 thousand euro in finance expenses. Impact on operating profit is minor.

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

## Major shareholders, as sorted by number of shares - June 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	350,000	1.8
OP-Finland Small Firms Fund	280,737	1.5

Shareholders by sector June 30, 2019	Nbr. of shareholders	% of Owners	Shares	% of shares
Households	5,195	93.7	4,739,406	25.0
Public sector institutions	4	0.1	1,930,725	10.2
Financial and insurance institutions	24	0.4	4,779,085	25.2
Corporations	258	4.7	7,382,970	38.9
Non-profit institutions	24	0.4	56,785	0.3
Foreign	39	0.7	96,617	0.5
Total	5,544	100.0	18,985,588	100.0
Of which nominee registered	11	0.2	1,143,909	6.0

## Major shareholders by distribution of shares June 30, 2019

Number of shares	Nbr. of shareholders	% of shareholders	Nbr. of shares	% of shares
1-100	1,508	27.2	89,043	0.5
101-500	2,354	42.5	629,419	3.3
501-1,000	756	13.6	610,103	3.2
1,001-5,000	733	13.2	1,621,256	8.5
5,001-10,000	81	1.5	574,417	3.0
10,001-50,000	83	1.5	1,606,283	8.5
50,001-100,000	7	0.1	521,288	2.7
100,001-500,000	15	0.3	3,346,956	17.6
500,001-& above	7	0.1	9,986,823	52.6
Total	5,544	100.0	18,985,588	100.0
of which nominee registered	11	0.2	1,143,909	6.0



**TELESTE CORPORATION**

P.O.BOX 323, FI-20101 Turku, Finland  
Telestenkatu 1, FI-20660 Littoinen, Finland  
Phone: +358 2 2605 611 (switchboard)  
investor.relation@teleste.com  
Business ID 1102267-8  
www.teleste.com



[www.facebook.com/telestecorporation](http://www.facebook.com/telestecorporation)  
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