



HALF YEAR
FINANCIAL
REPORT
H1 2018

JANUARY 1–JUNE 30, 2018

TELESTE



Building a
**SMART, SAFE,
SMOOTH**
future.

TELESTE CORPORATION HALF YEAR FINANCIAL REPORT 1 JANUARY TO 30 JUNE 2018

NET SALES AND RESULT INCREASED**April–June 2018**

- Net sales amounted to EUR 65.2 (58.7) million, an increase of 11.0%
- Operating result stood at EUR 3.5 (-9.3) million; the operating result for the reference period included the goodwill impairment and restructuring provision for the services business in Germany totalling EUR 9.3 million
- Undiluted earnings per share were EUR 0.13 (-0.54)
- Orders received totalled EUR 60.2 (64.5) million, a decrease of 6.7%
- Cash flow from operations was EUR 3.1 (14.1) million, a decrease of 78.1%
- Order backlog at period-end totalled EUR 59.7 (45.4) million, an increase of 31.5%

January–June 2018

- Net sales amounted to EUR 124.5 (119.6) million, an increase of 4.0%
- Operating result stood at EUR 4.3 (-9.0) million; the operating result for the reference period included the goodwill impairment and restructuring provision for the services business in Germany totalling EUR 9.3 million
- Undiluted earnings per share were EUR 0.16 (-0.53)
- Orders received totalled EUR 126.8 (138.1) million, a decrease of 8.2%
- Cash flow from operations was EUR 6.1 (14.3) million, a decrease of 57.2%

Outlook for 2018

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).

Comments by CEO Jukka Rinnevaara:

'In the second quarter, both business areas increased their net sales and clearly improved their operating result. Orders received decreased year-on-year, but our order backlog is clearly higher than a year ago. This creates opportunities for growth and improvement of profitability. We will continue to particularly focus on developing our business in three key areas: significant growth of net sales and improved performance in video security and information solutions, improved productivity in the services business in Germany and successful launch of sales in the US cable operator market.

Orders received by Video and Broadband Solutions decreased clearly in access network products compared with the reference period, which included orders on significant DOCSIS 3.1 network updates. We also estimate that business reorganisations carried out by operators have slowed down the inflow of orders and that some operators are already planning distributed access architecture solutions. Because of this, we believe that the net sales of access network products in 2018 will be lower than in the previous year. Investments in distributed access architecture will enable growth in the upcoming years. We won a number of significant on-board solution orders in France and England, among others. We have also succeeded well in filling in the order backlog for upcoming years. The share of these orders in the whole order backlog is now about 50%. In the second quarter, net sales increased in video security and information systems year-on-year, which also improved the operating result. Throughout the rest of the year, we will particularly focus on ensuring our delivery capacity for video security and information systems, developing distributed access architecture technology and expertise and winning new clients in the North American market.

Net sales of Network Services improved clearly year-on-year in Germany and England. In Germany, net sales were increased by deliveries for a large project and the service rates implemented according to the new frame agreement signed with our main customer. Operating result improved as a result of increased net sales and project deliveries. We will still have to take measures to improve the productivity of our services business in Germany.'

Group Operations, April–June 2018

| Key figures (EUR million) | 4–6/2018 | 4–6/2017 | Change, % |
|---------------------------|----------|----------|-----------|
| Orders received | 60.2 | 64.5 | -6.7% |
| Net sales | 65.2 | 58.7 | +11.0% |
| EBIT | 3.5 | -9.3 | |
| EBIT, % | 5.3% | -15.8% | |
| Result for the period | 2.3 | -9.7 | |
| | | | |
| Earnings per share, EUR | 0.13 | -0.54 | |
| Cash flow from operations | 3.1 | 14.1 | -78.1% |

Orders received by the Group in the second quarter totalled EUR 60.2 (64.5) million, a decrease of 6.7% on the reference period last year. Orders received decreased in Video and Broadband Solutions. Order backlog increased by 31.5% on the reference period to EUR 59.7 (45.4) million. Net sales grew by 11.0%, amounting to EUR 65.2 (58.7) million. Net sales improved particularly in Network Services.

Operating result stood at EUR 3.5 (-9.3) million. Operating result for the reference period was burdened by the goodwill impairment of EUR 7.7 million related to the services business in Germany as well as the restructuring provision of EUR 1.6 million. Operating result represented 5.3% (-15.8%) of net sales. Personnel expenses amounted to EUR 17.0 (18.8) million and were down by 9.6%. Expenses for material and manufacturing services increased by 11.9% to EUR 35.6 (31.8) million. Net financial expenses were EUR 0.3 (0.4) million, down by 13.7%. The result for the period stood at EUR 2.3 (-9.7) million. Undiluted result per share was EUR 0.13 (-0.54).

Cash flow from operations was EUR 3.1 (14.1) million. The decrease in cash flow from operations resulted from changes in working capital. In the reference period, cash flow from operations was improved by the introduction of the supplier financing programme.

Group Operations, January–June 2018

| Key figures (EUR million) | 1–6/2018 | 1–6/2017 | Change, % | 1–12/2017 |
|---------------------------|----------|----------|-----------|-----------|
| Orders received | 126.8 | 138.1 | -8.2% | 262.9 |
| Net sales | 124.5 | 119.6 | +4.0% | 234.6 |
| EBIT | 4.3 | -9.0 | | -7.5 |
| EBIT, % | 3.4% | -7.6% | | -3.2% |
| Result for the period | 2.9 | -9.6 | | -9.1 |
| | | | | |
| Earnings per share, EUR | 0.16 | -0.53 | | -0.50 |
| Cash flow from operations | 6.1 | 14.3 | -57.2% | 19.3 |
| Net gearing, % | 15.2% | 19.8% | | 16.8% |
| Equity ratio, % | 46.8% | 47.7% | | 48.3% |
| Personnel at period-end | 1,415 | 1,512 | -6.1% | 1,446 |

Orders received by the Group decreased by 8.2% to EUR 126.8 (138.1) million. Orders received decreased in Video and Broadband Solutions. Net sales increased by 4.0% to EUR 124.5 (119.6) million. Net sales improved in Network Services.

Operating result stood at EUR 4.3 (-9.0) million. Operating result for the reference period was burdened by the goodwill impairment of EUR 7.7 million related to the services business in Germany as well as the restructuring provision of EUR 1.6 million. Operating result represented 3.4% (-7.6%) of net sales. Personnel expenses amounted to EUR 33.3 (36.5) million, down by 8.6%. Expenses for material and manufacturing services increased by 5.1% to EUR 69.1 (65.8) million. Net financial expenses were EUR 0.4 (0.5) million, down by 18.9%. The Group's direct taxes stood at EUR 1.0 (0.1) million, and the effective tax rate was 25.7%. Undiluted result per share was EUR 0.16 (-0.53).

Cash flow from operations was EUR 6.1 (14.3) million. The decrease in cash flow from operations resulted from changes in working capital. In the reference period, cash flow from operations was improved by the introduction of the supplier financing programme.

Video and Broadband Solutions, April–June 2018

| Key figures (EUR 1,000) | 4–6/2018 | 4–6/2017 | Change, % |
|-------------------------|----------|----------|-----------|
| Orders received | 32,189 | 42,555 | -24.4% |
| Net sales | 37,199 | 36,782 | +1.1% |
| EBIT | 2,642 | 2,057 | +28.4% |
| EBIT, % | 7.1% | 5.6% | |

Orders received in the second quarter totalled EUR 32.2 (42.6) million, a decrease of 24.4% on the reference period. Orders received decreased in access network products. Order backlog totalled EUR 59.7 (45.4) million, an increase of 31.5% year-on-year. Net sales grew by 1.1%, amounting to EUR 37.2 (36.8) million. Net sales increased in video security and information solutions. Operating result increased by 28.4% to EUR 2.6 (2.1) million, representing 7.1% (5.6%) of net sales. Operating result was improved by the net sales of video security and information solutions, which increased year-on-year.

R&D expenses in the business area amounted to EUR 2.7 (2.9) million, representing 7.1% (8.0%) of net sales. Product development projects focused on distributed access architecture (including solutions designed for the US market), situation awareness and video security solutions, information systems for passenger transport and customer-specific projects. Capitalised R&D expenses amounted to EUR 1.7 (1.0) million. Depreciation on R&D expenses was EUR 0.6 (0.4) million.

Video and Broadband Solutions, January–June 2018

| Key figures (EUR 1,000) | 1–6/2018 | 1–6/2017 | Change, % | 1–12/2017 |
|-------------------------|----------|----------|-----------|-----------|
| Orders received | 72,134 | 90,671 | -20.4% | 170,359 |
| Net sales | 69,795 | 72,185 | -3.3% | 142,082 |
| EBIT | 3,058 | 2,874 | +6.4% | 4,888 |
| EBIT, % | 4.4% | 4.0% | | 3.4% |

Orders received totalled EUR 72.1 (90.7) million, a decrease of 20.4% on the reference period last year. Orders received decreased both in access network products and in video security and information systems. Net sales decreased by 3.3% to EUR 69.8 (72.2) million. Net sales decreased in access network products. Operating result increased by 6.4%, equalling EUR 3.1 (2.9) million. 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 5.7 (5.9) million, representing 8.2% (8.1%) of net sales. Product development projects focused on distributed access architecture, network products complying with the DOCSIS 3.1 standard (including solutions designed for the US market), video security and information solutions, and customer-specific projects. Capitalised R&D expenses amounted to EUR 2.6 (1.7) million. Depreciation on capitalised R&D expenses was EUR 1.2 (0.8) million.

Network Services, April–June 2018

| Key figures (EUR 1,000) | 4–6/2018 | 4–6/2017 | Change, % |
|-------------------------|----------|----------|-----------|
| Orders received | 27,963 | 21,924 | +27.5% |
| Net sales | 27,963 | 21,924 | +27.5% |
| EBIT | 828 | -11,316 | |
| EBIT, % | 3.0% | -51.6% | |

Net sales for the second quarter stood at EUR 28.0 (21.9) million, up by 27.5% on the reference period last year. Net sales increased in Germany and England. In Germany, net sales were increased by deliveries for a large project and the service rates implemented according to the new frame agreement signed with our main customer. Operating result was EUR 0.8 (-11.3) million, or 3.0% (-51.6%) of net sales. Operating

result for the reference period was burdened by the goodwill impairment of EUR 7.7 million related to the services business in Germany as well as the restructuring provision of EUR 1.6 million.

Network Services, January–June 2018

| Key figures (EUR 1,000) | 1–6/2018 | 1–6/2017 | Change, % | 1–12/2017 |
|-------------------------|----------|----------|-----------|-----------|
| Orders received | 54,661 | 47,455 | +15.2% | 92,507 |
| Net sales | 54,661 | 47,455 | +15.2% | 92,507 |
| EBIT | 1,232 | -11,923 | | -12,437 |
| EBIT, % | 2.3% | -25.1% | | -13.4% |

Net sales grew by 15.2% year-on-year, amounting to EUR 54.7 (47.5) million. Net sales increased in Germany as a result of deliveries for a large project and the implementation of service rates according to the new frame agreement signed with our main customer. Operating result stood at EUR 1.2 (-11.9) million. Operating result for the reference period was burdened by the goodwill impairment of EUR 7.7 million related to the services business in Germany as well as the restructuring provision of EUR 1.6 million.

Personnel and organisation, January–June 2018

In the period under review, the average number of people employed by the Group was 1,422 (1–6/2017: 1,513; 1–6/2016: 1,507). Of these, 719 (764) were employed by Video and Broadband Solutions and 703 (749) by Network Services. At the end of the review period, the Group employed 1,415 people (2017: 1,512; 2016: 1,538), of whom 65% (2017: 64%; 2016: 65%) worked abroad. Approximately 2% of the Group's employees were working outside Europe.

Personnel expenses amounted to EUR 33.3 million (1–6/2017: 36.5 million; 1–6/2016: 36.7 million).

Investments and product development, January–June 2018

Investments by the Group totalled EUR 3.6 (3.3) million, or 2.9% (2.8%) of net sales. Investments in product development amounted to EUR 2.6 (1.7) million and other investments to EUR 1.0 (1.6) million.

Product development projects focused on distributed access architecture, network products complying with the DOCSIS 3.1 standard (including solutions designed for the US market), situation awareness and video security solutions, information systems for passenger transport and customer-specific projects.

Financing and Capital Structure, January–June 2018

Cash flow from operations was EUR 6.1 (14.3) million. The decrease in cash flow from operations resulted from changes in working capital. In the reference period, cash flow from operations was improved by the introduction of the supplier financing programme.

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 20.0 (16.0) million.

At period-end, the Group's interest-bearing debt stood at EUR 33.4 (33.7) million. The Group's equity ratio was 46.8% (47.7%) and net gearing 15.2% (19.8%).

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. With Europe as the main market and business area, the company is also expanding its business outside Europe. Teleste's customers include cable operators, public transport operators, train 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. 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. 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.

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 and goal-directed 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 exploited. The business areas must take into account market movements, such as consolidations among our customers and competitors. Periods of technological transition, 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 may also be exposed to external threats and we need to protect them. 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 Board 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. The litigation is still pending. According to the assessment by Teleste's management, the results of these litigations are not expected to have material effect on Teleste's financial position.

Group Structure

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

Shares and Changes in Share Capital

On 30 June 2018, Tianta Oy was the largest single shareholder with a holding of 23.2%.

In the period under review, the lowest company share price was EUR 6.28 (8.21) and the highest was EUR 7.58 (9.62). Closing price on 30 June 2018 stood at EUR 7.18 (8.29). According to Euroclear Finland Ltd, the number of shareholders at the end of the period under review was 5,508 (5,743). Foreign and nominee-registered holdings accounted for 7.44% (6.1%) of the share capital. The value of Teleste shares traded on the Nasdaq Helsinki from 1 January to 30 June 2018 was EUR 7.0 (9.9) million. In the period under review, 1.0 (1.1) million Teleste shares were traded on the stock exchange.

On 5 April 2018, Teleste Corporation's Board of Directors decided on a directed share issue without consideration, relating to the payment of the reward for the 2015–2017 performance period of Teleste Group's share-based incentive plan 2015. In the share issue, a total of 42,771 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 June 2018, the Group held 821,182 (863,953) of its own shares, all held by the parent company Teleste Corporation. At the end of the period, the Group's holding of the total number of shares amounted to 4.3% (4.6%).

On 30 June 2018, 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 5 October 2019.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) of Teleste Corporation held on 5 April 2018 adopted the financial statements and consolidated financial statements for 2017 and discharged the Board of Directors and the CEO from liability for the financial period 2017. The AGM confirmed the dividend of EUR 0.10 per share as proposed by the Board. The dividend was paid on 16 April 2018 on shares other than own shares held by the Company.

The AGM decided that the Board of Directors shall consist of six members. Pertti Ervi, Jannica Fagerholm, Timo Miettinen, Timo Luukkainen and Kai Telanne were re-elected as members of Teleste Corporation's Board of Directors, and Heikki Mäkijärvi was elected as a new Board member. Pertti Ervi was elected Chair of the Board in the organising meeting held after the AGM. The Board of Directors decided to establish an audit committee. Jannica Fagerholm was elected Chair of the Audit Committee, and Pertti Ervi and Kai Telanne were elected as members.

The AGM decided to elect one auditor for Teleste Corporation. 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. 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. 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 18 months from the date of the AGM's decision. 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 2018

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 remain below 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 were concluded and the new agreement was signed at the beginning of May. The new agreement 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).

8 August 2018

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, 2018. The data stated in this report is unaudited.

STATEMENT OF COMPREHENSIVE INCOME (tEUR)

| | 4-6/2018 | 4-6/2017 | Change % | 1-12/2017 |
|---|-----------------|-----------------|-----------------|------------------|
| Net Sales | 65,163 | 58,706 | 11.0 % | 234,589 |
| Other operating income | 716 | 124 | 475.2 % | 1,531 |
| Materials and services | -35,608 | -31,824 | 11.9 % | -127,673 |
| Personnel expenses | -17,020 | -18,824 | -9.6 % | -69,406 |
| Depreciation | -1,600 | -1,332 | 20.1 % | -5,263 |
| Impairment on goodwill | 0 | -7,705 | -100.0 % | -7,705 |
| Other operating expenses | -8,182 | -8,404 | -2.6 % | -33,623 |
| Operating profit | 3,470 | -9,259 | -137.5 % | -7,549 |
| Financial income | 80 | 51 | 55.7 % | 537 |
| Financial expenses | -384 | -403 | -4.9 % | -1,458 |
| Profit after financial items | 3,166 | -9,611 | -132.9 % | -8,470 |
| Profit before taxes | 3,166 | -9,611 | -132.9 % | -8,470 |
| Taxes | -820 | -94 | 770.7 % | -675 |
| Net profit | 2,346 | -9,706 | -124.2 % | -9,145 |
| Attributable to: | | | | |
| Equity holders of the parent company | 2,398 | -9,706 | -124.7 % | -9,106 |
| Non-controlling interests | -51 | 0 | n/a | -40 |
| | 2,346 | -9,706 | -124.2 % | -9,145 |
| Earnings per share for result of the year attributable to the equity holders of the parent (expressed in € per share) | | | | |
| Basic | 0.13 | -0.54 | -124.7 % | -0.50 |
| Diluted | 0.13 | -0.53 | -124.8 % | -0.50 |
| Total comprehensive income for the period (tEUR) | | | | |
| Net profit | 2,346 | -9,706 | -124.2 % | -9,145 |
| Possible items with future net profit effect | | | | |
| Translation differences | -230 | -378 | -39.2 % | -423 |
| Fair value reserve | -7 | 17 | -140.6 % | 58 |
| Total comprehensive income for the period | 2,110 | -10,067 | -121.0 % | -9,511 |
| Attributable to: | | | | |
| Equity holders of the parent | 2,129 | -10,067 | -121.1 % | -9,432 |
| Non-controlling interests | -19 | 0 | n/a | -78 |
| | 2,110 | -10,067 | -121.0 % | -9,511 |

STATEMENT OF COMPREHENSIVE INCOME (tEUR)

| | 1-6/2018 | 1-6/2017 | Change % | 1-12/2017 |
|--|-----------------|-----------------|-----------------|------------------|
| Net Sales | 124,457 | 119,639 | 4.0 % | 234,589 |
| Other operating income | 1,057 | 557 | 89.7 % | 1,531 |
| Materials and services | -69,099 | -65,772 | 5.1 % | -127,673 |
| Personnel expenses | -33,334 | -36,452 | -8.6 % | -69,406 |
| Depreciation | -3,141 | -2,655 | 18.3 % | -5,263 |
| Impairment loss | 0 | -7,705 | -100.0 % | -7,705 |
| Other operating expenses | -15,650 | -16,661 | -6.1 % | -33,623 |
| Operating profit | 4,291 | -9,048 | -147.4 % | -7,549 |
| Financial income | 153 | 170 | -9.7 % | 537 |
| Financial expenses | -533 | -638 | -16.5 % | -1,458 |
| Profit after financial items | 3,911 | -9,517 | -141.1 % | -8,470 |
| Profit before taxes | 3,911 | -9,517 | -141.1 % | -8,470 |
| Taxes | -1,007 | -118 | 752.2 % | -675 |
| Net profit | 2,904 | -9,635 | -130.1 % | -9,145 |
| Attributable to: | | | | |
| Equity holders of the parent | 2,974 | -9,635 | -130.9 % | -9,106 |
| Non-controlling interests | -70 | 0 | n/a | -40 |
| | 2,904 | -9,635 | -130.1 % | -9,145 |
| Earnings per share for result of the year attributable to the equity holders of the parent (expressed in € per share) | | | | |
| Basic | 0.16 | -0.53 | -130.9 % | -0.50 |
| Diluted | 0.16 | -0.53 | -130.9 % | -0.50 |
| Total comprehensive income for the period (tEUR) | | | | |
| Net profit | 2,904 | -9,635 | -130.1 % | -9,145 |
| Possible items with future net profit effect | | | | |
| Translation differences | -340 | -17 | n/a | -423 |
| Fair value reserve | -9 | 52 | n/a | 58 |
| Total comprehensive income for the period | 2,556 | -9,600 | -126.6 % | -9,511 |
| Attributable to: | | | | |
| Equity holders of the parent | 2,610 | -9,600 | -127.2 % | -9,432 |
| Non-controlling interests | -54 | 0 | n/a | -78 |
| | 2,556 | -9,600 | -126.6 % | -9,511 |

STATEMENT OF FINANCIAL POSITION (tEUR)

| | 30/06/2018 | 30/06/2017 | Change % | 31/12/2017 |
|--------------------|-------------------|-------------------|-----------------|-------------------|
| Non-current assets | | | | |
| Intangible assets | 10,440 | 7,774 | 34.3 % | 9,469 |
| Goodwill | 30,581 | 29,508 | 3.6 % | 30,814 |
| Tangible assets | 9,031 | 10,973 | -17.7 % | 9,637 |

| | | | | |
|---|----------------|----------------|--------------|----------------|
| Deferred tax asset | 2,594 | 2,631 | -1.4 % | 2,061 |
| Available-for-sale investments | 498 | 693 | -28.2 % | 693 |
| | 53,144 | 51,580 | 3.0 % | 52,674 |
| Current assets | | | | |
| Inventories | 34,278 | 31,540 | 8.7 % | 33,689 |
| Trade and other receivables | 51,202 | 45,260 | 13.1 % | 45,520 |
| Tax receivable, income tax | 367 | 530 | -30.8 % | 362 |
| Cash and cash equivalents | 22,332 | 19,809 | 12.7 % | 21,230 |
| | 108,178 | 97,139 | 11.4 % | 100,801 |
| Total assets | 161,322 | 148,719 | 8.5 % | 153,475 |
| Shareholder's equity and liabilities | | | | |
| Share capital | 6,967 | 6,967 | 0.0 % | 6,967 |
| Other equity | 65,205 | 63,428 | 2.8 % | 63,755 |
| Owners of the parent company | 72,172 | 70,395 | 2.5 % | 70,723 |
| Non-controlling interests | 575 | 0 | n/a | 630 |
| Equity | 72,747 | 70,395 | 3.3 % | 71,352 |
| Non-current liabilities | | | | |
| Deferred tax liability | 1,600 | 1,352 | 18.3 % | 1,429 |
| Non-current liabilities, interest-bearing | 28,514 | 31,794 | -10.3 % | 28,394 |
| Non-current interest-free liabilities | 1,152 | 83 | 1290.3 % | 1,159 |
| Non-current provisions | 631 | 1,066 | -40.8 % | 619 |
| | 31,897 | 34,295 | -7.0 % | 31,601 |
| Current liabilities | | | | |
| Current interest-bearing liabilities | 4,918 | 1,937 | 153.9 % | 4,853 |
| Trade payables and other liabilities | 49,843 | 40,464 | 23.2 % | 43,763 |
| Tax liability, income tax | 919 | 840 | 9.4 % | 719 |
| Current provisions | 998 | 787 | 26.9 % | 1,186 |
| | 56,678 | 44,029 | 28.7 % | 50,522 |
| Total shareholder's equity and liabilities | 161,322 | 148,719 | 8.5 % | 153,475 |

CONSOLIDATED CASH FLOW STATEMENT (tEUR)

| | 1-6/2018 | 1-6/2017 | Change % | 1-12/2017 |
|---|-----------------|-----------------|-----------------|------------------|
| Cash flows from operating activities | | | | |
| Profit for the period | 2,904 | -9,635 | -130.1 % | -9,145 |
| Adjustments | 4,681 | 10,946 | -57.2 % | 16,087 |
| Interest and other financial expenses and incomes | -533 | -468 | 13.9 % | -921 |
| Paid taxes | -1,186 | -757 | 56.6 % | -1,765 |
| Change in working capital | 267 | 14,229 | -98.1 % | 14,998 |
| Cash flow from operating activities | 6,133 | 14,315 | -57.2 % | 19,254 |
| Cash flow from investing activities | | | | |
| Purchases of property, plant and equipment (PPE) | -842 | -550 | 53.1 % | -1,975 |
| Proceeds from sales of PPE | 108 | 11 | 881.8 % | 210 |
| Purchases of intangible assets | -2,552 | -1,722 | 48.2 % | -3,123 |
| Purchase of investments | -71 | 0 | n/a | 0 |
| Proceeds from sale of investments | 111 | 0 | n/a | 0 |

| | | | | |
|---|--------|--------|---------|--------|
| Acquisition of subsidiaries, net of cash acquired | 0 | 0 | n/a | -996 |
| Net cash used in investing activities | -3,246 | -2,261 | 43.6 % | -5,884 |
| Cash flow from financing activities | | | | |
| Proceeds from borrowings | 3,001 | 3,122 | -3.9 % | 4,000 |
| Payments of borrowings | -2,602 | 0 | n/a | -1,138 |
| Payment of leasing liabilities | -365 | -316 | 15.5 % | -638 |
| Dividends paid | -1,816 | -4,530 | -59.9 % | -4,530 |
| Capital investment by non-controlling interests | 0 | 0 | n/a | 708 |
| Net cash used in financing activities | -1,782 | -1,724 | 3.4 % | -1,598 |
| Change in cash | | | | |
| Cash in the beginning | 21,230 | 9,496 | 123.6 % | 9,496 |
| Change in cash during period | 1,105 | 10,330 | -89.3 % | 11,772 |
| Effect of currency changes | -3 | -17 | -82.4 % | -38 |
| Cash at the end | 22,332 | 19,809 | 12.7 % | 21,230 |

| KEY FIGURES | 1-6/2018 | 1-6/2017 | Change % | 1-12/2017 |
|---|-----------------|-----------------|-----------------|------------------|
| Earnings per share, EUR | 0.16 | -0.53 | -130.9 % | -0.50 |
| Earnings per share fully diluted, EUR | 0.16 | -0.53 | -130.9 % | -0.50 |
| Shareholders' equity per share, EUR | 4.00 | 3.88 | 3.1 % | 3.94 |
| Return on equity | 8.1 % | -24.9 % | -132.4 % | -11.7 % |
| Return on capital employed | 8.0 % | -16.2 % | -149.3 % | -6.6 % |
| Equity ratio | 46.8 % | 47.7 % | -1.9 % | 48.3 % |
| Gearing | 15.2 % | 19.8 % | -22.9 % | 16.8 % |
| Investments, tEUR | 3,620 | 3,331 | 8.7 % | 7,482 |
| Investments % of net sales | 2.9 % | 2.8 % | 4.5 % | 3.2 % |
| Order backlog, tEUR | 59,721 | 45,416 | 31.5 % | 57,383 |
| Personnel, average | 1,422 | 1,513 | -6.0 % | 1,492 |
| Number of shares (thousands) including own shares | 18,986 | 18,986 | 0.0 % | 18,986 |
| Highest share price, EUR | 7.58 | 9.62 | -21.2 % | 9.62 |
| Lowest share price, EUR | 6.28 | 8.21 | -23.5 % | 6.51 |
| Average share price, EUR | 7.08 | 8.69 | -18.5 % | 8.19 |
| Turnover, in million shares | 1.0 | 1.1 | -12.6 % | 2.0 |
| Turnover, in MEUR | 7.0 | 9.9 | -29.1 % | 16.8 |

Treasury shares

| | Number of shares | % of shares | % of votes | |
|--|------------------|-------------|------------|-------|
| Possession of company's own shares 30.6.2018 | 821,182 | 4.33 % | 4.33 % | |
| Contingent liabilities and pledged assets (tEUR) | 7,763 | 8,776 | -11.5 % | 8,355 |

Leasing and rent liabilities

Derivative instruments (tEUR)

| | | | | |
|---------------------------------------|--------|--------|--------|--------|
| Value of underlying forward contracts | 21,740 | 23,102 | -5.9 % | 23,169 |
| Market value of forward contracts | 281 | -562 | n/a | -204 |
| Interest rate swap | 10,000 | 10,000 | 0.0 % | 10,000 |
| Market value of interest swap | -86 | -83 | 4.1 % | -78 |

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

| OPERATING SEGMENTS (tEUR) | 1-6/2018 | 1-6/2017 | Change % | 1-12/2017 |
|--|-----------------|-----------------|-----------------|------------------|
| Video and Broadband Solutions | | | | |
| Orders received | 72,134 | 90,671 | -20.4 % | 170,359 |
| Net sales | 69,795 | 72,185 | -3.3 % | 142,082 |
| EBIT | 3,058 | 2,874 | 6.4 % | 4,888 |
| EBIT% | 4.4 % | 4.0 % | | 3.4 % |
| Network Services | | | | |
| Orders received | 54,661 | 47,455 | 15.2 % | 92,507 |
| Net sales | 54,661 | 47,455 | 15.2 % | 92,507 |
| EBIT | 1,232 | -11,923 | -110.3 % | -12,437 |
| EBIT% | 2.3 % | -25.1 % | | -13.4 % |
| Total | | | | |
| Orders received | 126,795 | 138,125 | -8.2 % | 262,866 |
| Net sales | 124,457 | 119,639 | 4.0 % | 234,589 |
| EBIT | 4,291 | -9,048 | -147.4 % | -7,549 |
| EBIT% | 3.4 % | -7.6 % | | -3.2 % |
| Financial items | -533 | -468 | 13.9 % | -921 |
| Operating segments net profit before taxes | 3,758 | -9,517 | -139.5 % | -8,470 |

| Information per quarter (tEUR) | 4-6/18 | 1-3/18 | 10-12/17 | 7-9/17 | 4-6/17 | 7/2017-6/2018 |
|---------------------------------------|---------------|---------------|-----------------|---------------|---------------|----------------------|
| Video and Broadband Solutions | | | | | | |
| Orders received | 32,189 | 39,945 | 43,424 | 36,264 | 42,555 | 151,822 |
| Net sales | 37,199 | 32,596 | 35,429 | 34,469 | 36,782 | 139,693 |
| EBIT | 2,642 | 417 | 480 | 1,534 | 2,057 | 5,072 |
| EBIT % | 7.1 % | 1.3 % | 1.4 % | 4.5 % | 5.6 % | 3.6 % |
| Network Services | | | | | | |
| Orders received | 27,963 | 26,698 | 23,273 | 21,779 | 21,924 | 99,714 |
| Net sales | 27,963 | 26,698 | 23,273 | 21,779 | 21,924 | 99,714 |
| EBIT | 828 | 404 | -226 | -288 | -11,316 | 718 |
| EBIT % | 3.0 % | 1.5 % | -1.0 % | -1.3 % | -51.6 % | 0.7 % |
| Total | | | | | | |
| Orders received | 60,152 | 66,643 | 66,697 | 58,044 | 64,478 | 251,536 |

| | | | | | | |
|-----------|--------|--------|--------|--------|---------|---------|
| Net sales | 65,163 | 59,294 | 58,702 | 56,248 | 58,706 | 239,407 |
| EBIT | 3,470 | 821 | 254 | 1,246 | -9,259 | 5,790 |
| EBIT % | 5.3 % | 1.4 % | 0.4 % | 2.2 % | -15.8 % | 2.4 % |

Attributable to equity holders of the parent (tEUR)

| | |
|---|-----------------------------|
| A | Share capital |
| B | Share premium |
| C | Translation differences |
| D | Retained earnings |
| E | Invested free capital |
| F | Other funds |
| G | Owner of the parent company |
| H | Non-controlling interests |
| I | Total equity |

| | A | B | C | D | E | F | G | H | I |
|---|-------|-------|--------|--------|-------|------|--------|-----|--------|
| Shareholder's equity | | | | | | | | | |
| 1.1.2018 | 6,967 | 1,504 | -1,404 | 60,606 | 3,140 | -78 | 70,735 | 630 | 71,365 |
| Restatement & 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 |
| Shareholder's equity 1.1.2017 | 6,967 | 1,504 | -978 | 73,922 | 3,140 | -135 | 84,420 | 0 | 84,418 |
| Total comprehensive income for the period | | | -17 | -9,635 | 0 | 52 | -9,600 | | -9,600 |
| Paid dividend | | | | -4,530 | | | -4,530 | | -4,530 |
| Equity-settled share-based payments | | | | 105 | | | 105 | | 105 |
| Shareholder's equity 30.6.2017 | 6,967 | 1,504 | -995 | 59,862 | 3,140 | -83 | 70,395 | 0 | 70,395 |

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 |

New Standards

Teleste has adopted IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. The cumulative effect of the new standard was recorded in the opening balance and it increased the equity with 73 thousand euro. All changes were allocated to VBS segment.

| | | | | | | |
|---------------------------|--------|--------|----------|--------|--------|--------|
| Disaggregation of revenue | 4-6/18 | 1-3/18 | 10-12/17 | 7-9/17 | 4-6/17 | 1-3/17 |
| Net sales by segment | | | | | | |
| VBS | 37 199 | 32 596 | 35 429 | 34 469 | 36 782 | 35 403 |
| NS | 27 963 | 26 698 | 23 273 | 21 779 | 21 924 | 25 531 |
| Total | 65 162 | 59 294 | 58 702 | 56 248 | 58 706 | 60 934 |
| Net sales by category | | | | | | |
| Goods | 35 480 | 31 394 | 33 123 | 33 080 | 35 275 | 32 745 |
| Service | 29 682 | 27 900 | 25 579 | 23 168 | 23 431 | 28 189 |
| Total | 65 162 | 59 294 | 58 702 | 56 248 | 58 706 | 60 934 |

Order backlog

Teleste is reporting order backlog for the VBS segment. The value of order backlog is open orders to be delivered in the future. At June 30, 2018 about 64.1 % of the order backlog will be delivered during the next 12 months. Teleste has not restated the order backlog for year 2017 as the effect IFRS 15 is not material.

| | | | | | | |
|---------------------------------|--------|--------|----------|--------|--------|--------|
| Thousand euro | 4-6/18 | 1-3/18 | 10-12/17 | 7-9/17 | 4-6/17 | 1-3/17 |
| VBS order backlog end of period | 59 721 | 64 918 | 57 383 | 47 211 | 45 416 | 39 643 |

Teleste on has adopted IFRS 9 Financial Instruments as of January 1, 2018. The cumulative effect of the new standard was recorded in the opening balance and it increased the equity with 22 thousand euro. The main effect of IFRS 9 concerns timing of expected credit losses.

Teleste has adopted amendment of IFRS 2 Share based payments as of January 1, 2018.

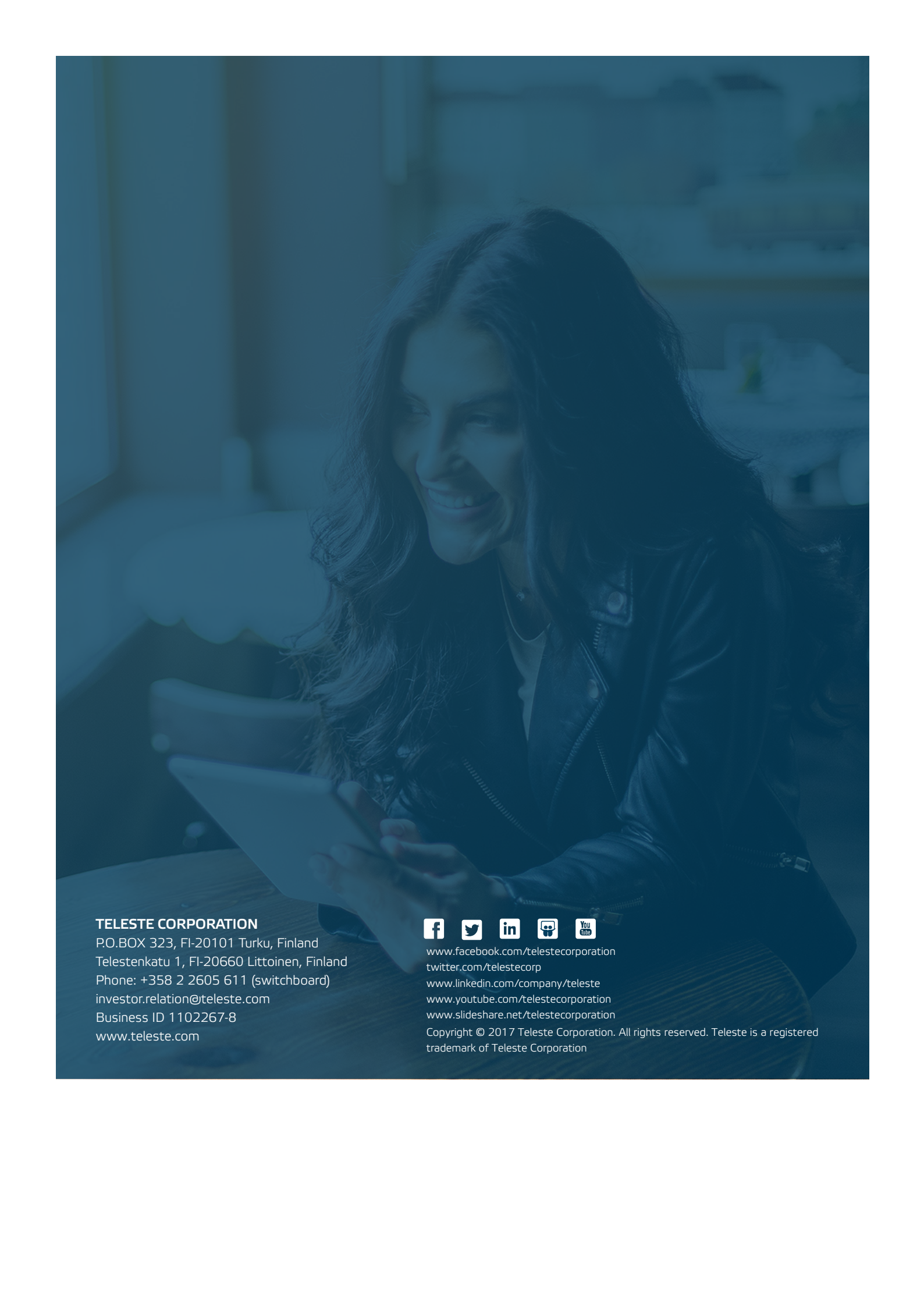
Major shareholders, as sorted by number of shares - June 30, 2018

| | Number of shares | % of shares |
|--|-------------------------|--------------------|
| Tianta Oy | 4,409,712 | 23.23 |
| Mandatum Life Insurance Company Limited | 1,679,200 | 8.84 |
| Ilmarinen Mutual Pension Insurance Company | 899,475 | 4.74 |
| Kaleva Mutual Insurance Company | 824,641 | 4.34 |
| Teleste Oyj | 821,182 | 4.33 |
| Varma Mutual Pension Insurance Company | 521,150 | 2.74 |
| The State Pension Fund | 500,000 | 2.63 |
| Mariatorp Oy | 275,000 | 1.45 |
| Wipunen varainhallinta Oy | 275,000 | 1.45 |
| Sijoitusrahasto Taaleritehdas Mikro Markka | 238,109 | 1.25 |

**Shareholders by sector
June 30, 2018**

| | Number of shareholders | % of Owners | Number of shares | % of shares |
|--------------------------------------|-----------------------------------|------------------------|-----------------------------|------------------------|
| Households | 5,146 | 93.43 | 4,497,179 | 23.69 |
| Public sector institutions | 4 | 0.07 | 1,930,725 | 10.17 |
| Financial and insurance institutions | 27 | 0.49 | 4,973,578 | 26.20 |
| Corporations | 264 | 4.79 | 7,367,518 | 38.81 |
| Non-profit institutions | 27 | 0.49 | 92,185 | 0.49 |
| Foreign | 40 | 0.73 | 124,403 | 0.66 |
| Total | 5,508 | 100.00 | 18,985,588 | 100.00 |
| Of which nominee registered | 10 | 0.18 | 1,287,851 | 6.78 |

| Major shareholders by distribution of shares June 30, 2018 | Number of shareholders | % of shareholders | Number of shares | % of shares |
|---|-------------------------------|--------------------------|-------------------------|--------------------|
| 1-100 | 1,457 | 26.45 | 87,794 | 0.46 |
| 101-500 | 2,380 | 43.21 | 640,934 | 3.38 |
| 501-1,000 | 749 | 13.60 | 603,576 | 3.18 |
| 1,001-5,000 | 729 | 13.24 | 1,585,761 | 8.35 |
| 5,001-10,000 | 87 | 1.58 | 629,149 | 3.31 |
| 10,001-50,000 | 75 | 1.36 | 1,501,559 | 7.91 |
| 50,001-100,000 | 9 | 0.16 | 657,729 | 3.46 |
| 100,001-500,000 | 14 | 0.25 | 2,871,387 | 15.12 |
| 500,001-& above | 8 | 0.15 | 10,407,699 | 54.82 |
| Total | 5,508 | 100.00 | 18,985,588 | 100.00 |
| of which nominee registered | 10 | 0.18 | 1,287,851 | 6.78 |



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