

**TELESTE – REMUNERATION REPORT
FOR THE COMPANY’S GOVERNING BODIES
2020**

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1. Introduction

This Remuneration Report follows the guidelines of the Corporate Governance Code 2020. The remuneration paid or due to the Board members and the CEO for the year 2020 is in line with the Remuneration Policy of the Governing Bodies of Teleste approved at the Annual General Meeting (“AGM”) 2020. The materialized remuneration of the Board members and the CEO in the year 2020 reflects the targets of remuneration principles which Teleste has set with its Remuneration Policy.

Remuneration paid or due to the Board members and the CEO for the year 2020 promotes the long-term financial performance and success of Teleste Oyj (“Teleste” or the “Company”) as described below.

The purpose of the total compensation of the Board members, consisting of annual remuneration and meeting fees, is to be sufficiently competitive to ensure that sufficiently qualified persons can be obtained to perform the responsibilities of the Board of Directors, which include also deciding on and monitoring the implementation of the company’s strategy, among other tasks. This enables the Board to set Teleste’s strategy and long-term targets and to monitor their implementation. By contributing to the achievement of Teleste’s strategic targets, the principles for Board remuneration contribute to Teleste’s long-term financial performance and success.

The CEO’s remuneration is based on Teleste’s remuneration principles. The key objectives of the remuneration for the CEO of Teleste is to encourage him in increasing the shareholder value by aligning his interests with the interests of Teleste’s shareholders. Both fixed and variable salary components are tied to the market situation, strategy and the Company’s success. Comparison of the development of the fees of the Board of Directors and the remuneration of the CEO to the development of the average remuneration of the employees and to the Company’s net sales and adjusted EBIT is illustrated and compared in the table below.

Development of remuneration and financial (EUR) development over the past five years

EUR	2020	2019	2018	2017	2016
Board of Directors¹	247 000	256 000	224 000	176 000	180 000
CEO²	396 908	534 516	489 996	464 871	578 821
Employees’ average remuneration³	44 808	45 331	44 924	44 842	45 722
Financial development:					
Net sales, continuing operations, EUR million	4 145.0			5 234.6	259.5
Adjusted EBIT, continuing operations, EUR million	5.1	235.5 7.7	250.3 9.7	1.8	15.6

¹ Values are excluding meeting fees

² Values are excluding additional pension payments

³ Average employee: total personnel expenses without social and pension costs divided by the average number of personnel during the year

⁴ Teleste divested its services business in Germany in 2020. Sold operations are excluded from continuing operations 2020.

⁵ Excluding goodwill impairment and a restructuring provision for the services business in Germany amounting to EUR 9.3 million.

2. Fees of the Board of Directors

Teleste's AGM 2020 decided the annual remunerations to be paid to the members of the Board of Directors to be as follows: EUR 66 000 per year for the Chairman and EUR 33 000 per year for each member. The annual remuneration of the Board member who acts as the Chairman of the Audit Committee is to be EUR 49 000 per year. Out of the annual remuneration to be paid to the Board members, 40 per cent of the total gross remuneration amount will be used to purchase Teleste Corporation's shares for the Board members through trading on the regulated market organized by Nasdaq Helsinki Ltd, and the rest will be paid in cash. In addition, EUR 400 per meeting is to be paid to the members of the Board of Directors' Audit Committee as a meeting fee. However, a separate meeting fee will not be paid to the chairman of the Audit Committee.

In addition, reasonable travel expenses shall be reimbursed to the members of the Board of Directors in accordance with the company practice applicable at the time, excluding daily allowance. The members of the Board of Directors are not employed by the company and are not covered by the company's incentive or pension schemes.

Remuneration and meeting fees of the Board of Directors paid in 2020 and in 2019

EUR	2020				2019			
	Annual remuneration				Annual remuneration			
	Share portion	Cash portion	Meeting fees ¹	Total	Share portion	Cash portion	Meeting fees ¹	Total
Timo Luukkainen, Chairman of the Board	26 400	39 600	0	66 000	12 800	19 200	0	32 000
Jussi Himanen	13 200	19 800	2400	35 400	12 800	19 200	0	32 000
Vesa Korpimies	13 200	19 800	2800	35 800	12 800	19 200	1200	33 200
Heikki Mäkijärvi	13 200	19 800	0	33 000	12 800	19 200	0	32 000
Kai Telanne	13 200	19 800	0	33 000	12 800	19 200	400	32 400
Mirel Leino-Haltia	19 600	29 400	0	49 000		0	0	0
Jannica Fagerholm	0	0	600	600	12 800	19 200	2400	34 400
Pertti Ervi (Former chairman of the Board)	0	0	400	400	25 600	38 400	1600	65 600
Total	98 800	148 200	6 200	253 200	102 400	25 600	5 600	261 600

¹ Meeting fees have been entered in the table on the year when they have been paid.

There is no remuneration due to be paid to the Board members based on the year 2020.

3. Remuneration of the CEO

The remuneration of the CEO consists of fixed and variable salary components: base salary, fringe benefits, short-term incentives ("STI"), long-term incentives ("LTI") and additional pension.

Remuneration of the CEO paid in 2020 and 2019

EUR	2020	2019
Base salary	359 441	377 559
Fringe benefits	14 440	14 227
Short-term incentives¹	0	109 295
Long-term incentives (share based)²	23 027	33 435
Total remuneration³	396 908	534 516
Share of fixed pay of total remuneration	94%	73%
Share of variable pay of total remuneration	6%	27%
Additional pension payment⁴	174 392	174 392

¹ Amounts have been entered in the table on the year when they have been paid and are based on the performance from the previous year.

² Paid on 23.4.2020 with a share-price of EUR 3.74. Paid on 5.4.2019 with a share-price of EUR 5.98.

³ Values are excluding additional pension payments

⁴ Group Pension payment of EUR 97 405 and capital redemption payment of EUR 76 987.

The contractual retirement age of the CEO is 60 years. The CEO contract includes a defined contribution supplementary pension. The CEO's pension plan is arranged through group pension insurance and a capital redemption policy. The payment level of the group pension is 25 per cent of base pay, excluding bonuses. Payment under the capital redemption policy is subject to the same adjustment procedure as the CEO's base pay excluding bonuses. The contract of the CEO specifies that his term of notice is six (6) months in case the CEO decides to withdraw, and eighteen (18) months should the contract be terminated by the company. Upon termination of the CEO's contract by the company, the CEO will be paid compensation corresponding to eighteen (18) months of service without benefits.

CEO's variable remuneration earning opportunity and performance measures

The CEO is included in the company's short-term incentive scheme which is part of the elements of Teleste's variable salary component. The objective of the short-term incentive scheme is to encourage the CEO to execute the business plan and to reward in accordance with that. The Board of Directors decides on the structure, objectives, target levels and prospects of earning of the CEO's scheme:

- In 2019 the earnings were based on the fulfilment of the group's financial business plan and strategic and operative objectives. The Board of Directors evaluates the fulfilment of the objectives at the end of the earnings period. The CEO's maximum earning opportunity annually is 58.3% of annual base salary (7 months base salary) excluding bonuses. In 2019 performance was below the minimum threshold and the CEO's STI 2019 payout was 0 euros.
- In 2020 the earnings were based on the fulfilment of the group's financial business plan and strategic and operative objectives. The Board of Directors evaluates the fulfilment of the objectives at the end of the earning period. The CEO's maximum earning opportunity annually is 58.3% from annual base salary (7 months base salary) excluding bonuses. In 2020 the minimum performance threshold was exceeded and the CEO's STI 2020 payout will be EUR 17 256 (4.6% of annual base salary). STI bonus will be paid out in March 2021.

The CEO is included in the company's long-term incentive scheme which is part of the elements of Teleste's variable salary component. The objective of the long-term incentive scheme is to encourage the CEO to execute the long-term strategy and to increase shareholder value and to reward in accordance with that.

- The share-based incentive payment for the CEO during the year 2020 was based on LTI 2015 (plan period 2017-2019). The elements in this programme were the matching share plan (ratio 1:1) and the performance share plan. Performance measure for the performance share plan was Absolute Total Shareholder Return in the measurement period of 2017-2019. The maximum combined earning opportunity for these two elements was 111.1% (EUR 421 583) of the CEO's 2017 annual base salary excluding bonuses. The CEO's LTI 2015 (2017-2019) payout based on a fixed matching element was 6% (EUR 23,027) of his 2017 annual base salary. There was no payout based on the performance matching element as the minimum performance threshold was not met.

The CEO is included in the following ongoing long-term incentive scheme

	Performance Matching Share Plan 2018-2020	Performance Matching Share Plan 2019-2021	Performance Matching Share Plan 2020-2022
Earning opportunity: fixed matching shares (matching ratio 2:1)	5 000 shares	5 450 shares	5 750 shares
Earning opportunity: performance shares	60 000 shares	65 400 shares	69 000 shares
Max earning opportunity (% of base pay)	119.8%	115.8%	105.4%
Performance measure (for performance shares)	Absolute Total Shareholder Return	Absolute Total Shareholder Return	Absolute Total Shareholder Return
Pay-out year	2021	2022	2023

Teleste adheres to a shareholding recommendation for the CEO as described in Teleste Remuneration Policy.